

## Expanded Summary of Board of Directors Meeting

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April 14, 2020

Via WebEx

1. There were no Basin Electric committee meetings this month.
2. Dakota Gasification Company
  - Dale Johnson, vice president and Synfuels Plant manager, said the flue gas desulfurization turnaround was completed within permit limitations. To address the COVID-19 pandemic, multiple measures have been taken for social distancing and sanitizing, administrative staff is working remotely, day maintenance is aligned to two shifts, and there is a minimized contractor presence on site.
    - Production (see slides below)
  - Dan Gallagher, Basin Electric manager of commodity sales and trading, and Val Weigel, Basin Electric director of asset management and commodity strategy, gave an overview of the commodity markets. Commodity demand is being hit by three key factors: government COVID-19 containment strategy, radically changed consumer behavior, and a significantly weakened economic outlook. Also, the supply of oil is being affected by OPEC production strategy which is creating an unprecedented and growing surplus of crude oil. Global oil demand is down 12%, the steepest decline ever in a quarter. By early March, prices had fallen by 30% since the start of 2020. Saudi Arabia ramped up production from 9.7 million barrels/day to 13 million barrels/day, and then reversed its production forecast recently due to an OPEC+ agreement. Despite that, Saudi production appears far less important than the pandemic's destruction of oil demand so far. For natural gas, production is declining in response to lower prices, and expected to fall to 89.8 billion cubic feet/day (bcf/day) by the end of 2020 from 95.5 bcf/day in November 2019. There will likely be a price adjustment to stabilize natural gas prices to balance supply and demand moving into summer 2021, and prices could double current prices (to \$3.25 mmbtu, from current price of \$1.80 mmbtu). Gas production in the Bakken is expected to decline. The North Dakota Industrial Commission has reinstated a program that allows oil and gas operators to keep wells in "not completed" or "inactive" status to prevent production during an oil collapse. There are 420 drilled but uncompleted wells in North Dakota. Whiting Petroleum Corp., a major Bakken producer, filed for bankruptcy Apr. 1. The price of gasoline is having impacts on the price of ethanol. Gasoline is now cheaper than ethanol, and higher ethanol prices will discourage fuel vendors from blending more than the 10% that is necessary to meet government biofuel mandates. Some ethanol producers are trying to sell into the hand sanitizer market, but there is not enough demand to fill the capacity gap. In Basin Electric's service area, 3 ethanol plants have temporarily shut down and most plants are operating at reduced output levels, which affects Basin Electric member load levels. In the United States, half of all corn consumption goes to ethanol. COVID-19 has more people working from home, which also impacts hourly load patterns. Basin Electric is losing the evening demand peak, and the morning peak is elongated and shifts to a bit later in the

morning and spreads into early afternoon. For Dakota Gas, there is considerable deterioration in commodity prices. Demand is company specific: some customers are cancelling orders, some are pulling forward demand. For pipeline carbon dioxide, demand will largely depend on oil prices above or below approximately \$35/barrel. Diesel exhaust fluid sales are reduced, but demand for liquid carbon dioxide is up, as ethanol plants are a key supplier of carbon dioxide. Proactive risk management by staff includes the sale of tar oil and natural gas, financially; execute summer 2020 natural gas hedges during volatile upward movement in prices; switch from tar oil to natural gas for fuel in April; partially close out of high sulfur fuel oil position to lock in gains; and execute opportunity and arbitrage transactions. For tar oil, executed Dakota Gas' hardship clause for April deliveries. A study done by Purdue Center for Commercial Agriculture shows 74% percent of farmers are very worried or fairly worried about their farm's profitability this year. Estimate for corn acres is up 8%, which bodes well for nitrogen application. Customers continue to show strong demand for spring urea tons, but there is concern about spring logistics with trucks.

### 3. Dakota Coal Company

- Dean Bray, manager of Dakota Coal and Montana Limestone, said the Leland Olds Station coal stockpiles (both Power River Basin coal and lignite coal) have now been combined. At Laramie River Station, the coal stockpile is at just under 90 days of burn due to units being on economic shutdown (target is 34.6 days of burn).
- ACTION: Dakota Coal directors authorized an amendment to the 2020 Capital Commitment Budget, to allow for purchase of a front-end loader.

### 4. Basin Electric

- Mark Foss, senior vice president and general counsel
  - Minnesota Power and Dairyland filed for approval of Nemadji Trail Energy Center in Wisconsin. The Wisconsin Public Utilities Commission and Department of Natural Resources approved the project; environmental groups opposed. The Minnesota Appeals Court ruled that the Minnesota Public Utilities Commission could not approve the project without an environmental review, even though the plant is to be built in Wisconsin. Minnesota Power appealed to the Minnesota Supreme Court.
  - FERC approved Tri-State G&T's re-filing and rate filing. Of interest, FERC found that bylaws preclude a buyout unless the member has satisfied all contractual obligations to Tri-State; also, Tri-State's assessment of an exit charge may be viewed as a rule or a practice that directly affects Tri-State's wholesale rates, and thus is a matter subject to FERC jurisdiction. However, Tri-State did not file its exit fee methodology with FERC, and the issue was beyond the scope of the proceeding.
  - Basin Electric filed with FERC for MBR authority in MISO and SPP, and is ready to file OATT for MBPP transmission rights, and rate schedules and wholesale power contracts.

- Due to COVID-19, the hearing is moved to July 9, 2020, in Watford City on the McKenzie Electric lawsuit.
- Due to COVID-19, the deadline to submit final briefs on the ACE Rule is extended to July 16, 2020.
- Dale Niezwaag, vice president of government relations
  - Status of legislative sessions in the service area
    - North Dakota: All meetings cancelled until May. Approved Department of Health spending increases for COVID-19.
    - South Dakota: Met by teleconference on March 30. Passed emergency spending requested by Gov. Kristi Noem.
    - Iowa: Session suspended until April 30. Emergency spending authority given to Gov. Reynolds.
    - Minnesota: Recessed until April 14.
    - Wyoming: Planning a special session, probably in May.
    - Montana: March committee meetings cancelled, but expecting full May agendas.
  - Coronavirus Aid, Relief, and Economic Security Act is a \$2.3 trillion stimulus package signed into law March 27. Payments to individuals, extends unemployment benefits, paycheck protection program, broadband grants, FEMA disaster relief, and additional tax relief and financial assistance to employers and health care providers, money made available to the Federal Reserve to improve liquidity.
    - Sens. Cramer, Barrasso, Daines, Rounds, Hoeven, Ernst, and Enzi signed a letter asking that coal, oil, and gas, and other industries not be excluded by BlackRock Financial's ESG (environmental, social, and governance) factors as BlackRock conducts portfolio management and corporate debt purchasing for the Federal Reserve.
  - There is potential for a Phase 4 stimulus package. Government relations staff is working with several partner associations on potential additions to stimulus packages to move several legislative initiatives including changes to 45Q and 48a tax incentives. The House and Senate are in recess until April 20.
  - James Danly was sworn in as FERC's 4<sup>th</sup> commissioner.
- John Jacobs, senior vice president of Operations
  - Actual Generation (see slide below)
  - Major outages at Antelope Valley Station Unit 1, Leland Olds Station Units 1 and 2, and Laramie River Station Unit 3 have been cancelled or postponed.
  - Proactive approaches taken to prevent the spread of COVID-19 include weekly conference calls with business managers, plant managers, and

human resources; temporary work plan in place; increased cleaning and social distancing in plant and administrative areas; quarantine time paid for those employees who travelled out of country or to hot spots prior to March 12; and recommended minimization of public outings. There have also been weekly calls with industry peers, including Great River Energy, Minnkota, Ottertail, and Minnesota Power.

- To date, one Dry Fork Station employee tested positive for COVID-19. Five individuals that had contact with that employee were quarantined and have returned to work.
- Leland Olds Station Unit 2 was experiencing heavy cyclone slagging. A shipment of coal received prior to March scheduled outage was high ash, low BTU. Explosives were typically used to break the slag for removal, but the ash was soft enough to water lane with high pressure and remove.
- A lightning strike caused a transmission line trip on March 31 near the Great Plains Synfuels Plant.
- ACTION: Basin Electric directors approved the Labor Agreement with the Dry Fork Station International Brotherhood of Electrical Workers Local 415.
- Kevin Tschosik, manager of distributed generation
  - ACTION: Basin Electric directors authorized the replacement of the Culbertson Generation Station Intermediate Pressure Turbine.
  - ACTION: Basin Electric directors authorized the replacement of the Groton Generation Station Units 1 and 2 Intermediate Pressure Turbine.
- Diane Paul, senior vice president of Human Resources
  - A 19% drop in employees at Basin Electric from Jan. 2017-April 2020 and a 30% drop in employees at Dakota Gas during the same timeframe was reported.
  - Due to COVID-19 effects, a hiring freeze is in place, and a review is ongoing on the number of contractors and the number of temps.
  - 199 employees were directed to self-isolate due to travel and close contact concerns over COVID-19. 196 employees have returned to work. Two employees tested positive for COVID-19: at DFS and HDQ.
  - To mitigate COVID-19, business and personal travel has been restricted; visitors at facilities have been restricted; on-site fitness centers are closed; non-essential employees are working from home; Medical Services staff is available days, evenings, and weekends; employees or employees with family members with confirmed diagnosis of COVID-19 are given time off with pay; FMLA Paternity/Maternity leave is extended to time off before expected due date of child; letters were sent to all essential employees per government guidelines; and employees are allowed to go into an 80-

hour sick leave/vacation negative balance, and bank over 320 vacation hours during this time.

- Two provisions of the CARES Act relating to minimum distributions from retirement plans and deferral of 401(k) loan payments were presented.
- Union side agreements for Basin Electric and Dakota Gas have been agreed upon.
- ACTION: Basin Electric directors approved a resolution to publicly recognize the exemplary services of employees of Basin Electric and its subsidiaries during COVID-19.
- Dave Raatz, senior vice president of Asset Management, Resource Planning, and Rates
  - FERC Rate Schedule A refiling to be filed mid-April. Conformed Wholesale Power Contracts to be filed concurrently. MISO/SPP market based rate authority refiling done Apr. 7. The west balancing areas refiling expected in late April/May.
  - Load forecast changing due to jobless claims skyrocketing, COVID-19 shutting down the world economy, stock market at lowest level in 15 years, oil prices at around \$20/barrel, and a wet fall causing crops to go unharvested. Work is being done to adjust the load forecast, likely showing a “lost year” of growth in 2020-2021.
  - No longer anticipate need for new generation resource to be online by 2023, due to COVID-19 effects.
  - Regarding the Bakken Midstream Project, further commitments to the project will be delayed until May board.
  - There will be a Class A District Meeting on April 23. Agenda items include: FERC filing update, commodity price update, load forecast/power supply planning update, rates for 2021, and more.
- Becky Kern, director of long-term utility planning
  - Update given on potential impacts of Wyoming Municipal Power Agency becoming a member of Basin Electric. The board gave a thumbs-up to continue research.
- Val Weigel, director of asset management and commodity strategy
  - April is the windiest month of the year.
  - There has been a 4-6% reduction in load in Southwest Power Pool due to COVID-19.
  - Percentage of electricity from coal-based power plants in the United States fell from 38.6% in 2014 to 23.4% in 2019, and is predicted to drop to less than 10% in 2025.

- Tom Christensen, senior vice president of Transmission, Engineering, and Construction
  - Large Capital Projects (see slide below)
  - Southwest Power Pool is conducting no in-person meetings, no traffic between their headquarters and operations centers, parallel operations between their operations center and an alternate center with separate staff to mitigate COVID-19. No employees have tested positive as of April 8. There was a third operations center operationally ready by April 3.
  - For the Western Energy Imbalance Service, Val Weigel was named chair of the Western Markets Working Group.
  - Pius Fischer, vice president of transmission
    - On the Tande-to-Northshore project, Southwest Power Pool is still evaluating.
  - Gavin McCollam, vice president of engineering and construction
    - Lonesome Creek Station Unit 6 work continues. The team is assessing alternatives in the event of a project delay.
    - The Bakken Generation team is assessing logistics/capture of project information in the event of a long-term project delay. Consultation is ongoing with the Process Assessment Team.
    - ACTION: Basin Electric directors authorized the Chapelle Creek switchyard general contractor contract with Great South Western.
- Chris Baumgartner, senior vice president of Member Services and Administration
  - Annual Report is at the printer and will be in mailboxes by early May.
  - Regarding COVID-19 and Security and Response Services, two co-ops are using the service 24/7. There is a plan in place and technology to work from home if needed.
  - Procurement is working with contractors on postponed outages. There is a questionnaire in place for any contractors working on-site.
- Steve Johnson, chief financial officer and senior vice president
  - COVID-19 is having a negative effect on the economy.
  - ACTION: Basin Electric directors authorized the CEO and General Manager to execute two lease supplements with U.S. Bank National Association, as owner trustee, extending two facility leases dated Nov. 1, 1985, of the two undivided interests in and to Antelope Valley Station Unit 2 not owned by the Cooperative for two consecutive 5-year fair market renewal terms, the first ending on Dec. 30, 2025, and the second ending on Dec. 30, 2030.

- ACTION: Basin Electric directors authorized the retirement of patronage capital credits in the amount of \$18.6 million associated with year 2003 business.

## Generation

Total energy available for sale in March was estimated to be 2.8 million megawatt hours (MWh). (Note: This line used to signify total generation from Basin Electric's resource portfolio. This number now includes purchases in the Southwest Power Pool.)

Electricity sold to member systems during March was estimated at 2.3 million MWh compared to the forecast of 2.3 million MWh. Surplus sales were estimated at 533,700 MWh, compared to the forecast of 496,800 MWh.

At the Great Plains Synfuels Plant, deliveries to the pipeline averaged 95.5 million standard cubic feet per day of natural gas produced from coal. The plant operated at 94.4 percent of capacity during the month.

Total tons of saleable fertilizer produced was 43,165 tons. That includes anhydrous ammonia, granular urea, urea content in diesel exhaust fluid, and ammonium sulfate.

## Synfuels Plant production, shipment, and storage

Production, shipment, and storage data for March 2020 for selected products at the Great Plains Synfuels Plant were as follows:

Anhydrous ammonia – 26,767 tons produced; 2,967 tons were shipped.

Urea - 22,937 tons produced; 13,284 tons shipped.

Dak Sul 45 (ammonium sulfate) – 6,129 tons produced; 11,423 tons were shipped.

Carbon dioxide – About 2,729 million standard cubic feet were delivered during the month.

## Financial data

NET INCOME AFTER TAX						
UNAUDITED						
March 2020						
(in millions)	Monthly Actuals	Monthly Budget	Over/(Under) Budget	YTD Actuals	YTD Budget	Over/(Under) Budget
Basin Electric	\$ 12.5	\$ 13.5	\$ (1.0)	\$ 43.4	\$ 38.8	\$ 4.6
Dakota Gasification Company	(7.8)	(1.3)	(6.5)	(24.3)	(8.0)	(16.3)
Dakota Coal Company	(0.8)	1.0	(1.8)	(1.6)	4.8	(6.4)
Interco. Eliminations & Other*	7.8	1.3	6.5	24.3	8.0	16.3
<b>Consolidated Net Income/(Loss) After Tax</b>	<b>\$ 11.7</b>	<b>\$ 14.5</b>	<b>\$ (2.8)</b>	<b>\$ 41.8</b>	<b>\$ 43.6</b>	<b>\$ (1.8)</b>

\* Includes elimination of income/loss on investment in DGC.

### Basin Electric

For the month of March, Basin Electric reported an after-tax margin of \$12.5 million compared to a budgeted after-tax margin of \$13.5 million.

- Member revenue was lower than budget largely due to lower average rates; an unfavorable variance of \$7.1 million.
- Surplus sales were under budget mainly due to lower prices; an unfavorable variance of \$2.1 million.

- Operating and maintenance expenses were lower than budget; a favorable variance of \$12.1 million.
  - Mainly due to lower purchased power, higher wheeling revenue, lower fuel costs, and lower production expenses.

### Dakota Gas

For the month of March, Dakota Gasification reported an after-tax net loss of \$7.8 million compared to a budgeted loss of \$1.3 million.

- Synthetic natural gas revenue was lower than budget largely due to lower prices; an unfavorable variance of \$3.0 million.
- By-product and co-product sales were lower than budget, an unfavorable variance of \$10.4 million.
  - Urea revenue was down \$6.6 million, ammonia revenue was down \$1.0 million and phenol/cresylic revenue was down \$0.6 million, largely due to lower volumes. Tar oil revenue was down \$1.5 million as a result of lower prices and volumes. Sulfate revenue was up \$0.3 million as a result of higher volumes.
- Operating expenses were lower than budget; a favorable variance of \$4.4 million.
- The income tax benefit for the month was \$2.1 million more than budgeted.

### Dakota Coal

For the month of March, Dakota Coal Company reported after-tax net loss of \$0.8 million, compared to a budgeted net income of \$1.0 million.

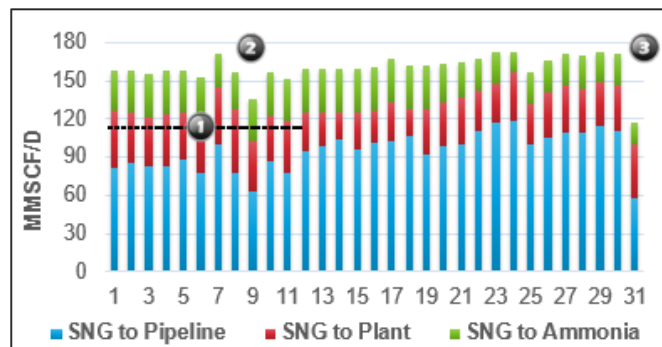
- Unrealized losses of \$5.5 million were recorded on mine closing fund investments.
- Operating expenses were lower than budget, a favorable variance of \$3.4 million.
  - This is largely due to lower coal purchase expense.

## Slides of interest:

### Dakota Gas Production

# Synthetic Natural Gas (SNG)

Actual Capacity Factor	94.4%
Budgeted Capacity Factor	91.2%
YTD Actual Capacity Factor	88.9%
YTD Budget Capacity Factor	93.9%
Availability	99.9%
Utilization	93.2%
Actual Production (dts)	2,926,862
Budget (dts)	2,966,235
YTD Actual Production (dts)	7,284,923
YTD Budget (dts)	9,090,315
Delivery Average (MMSCF/D)	95.51

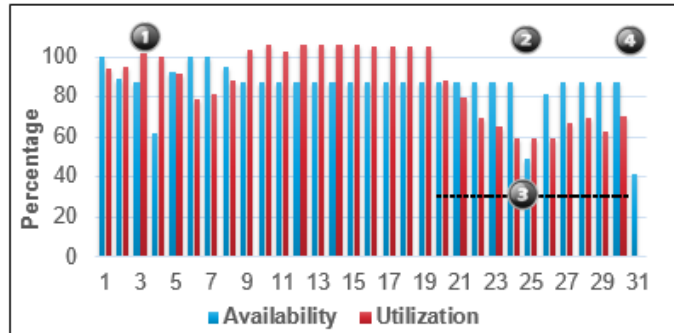


Production Impacts (MMSCF)	
① Phenosolvan operation - gas liquor levels	5.22
② Coal belt pulley repairs	19.37
③ Electrical interruption resulting in partial plant trip	37.24



# Ammonia

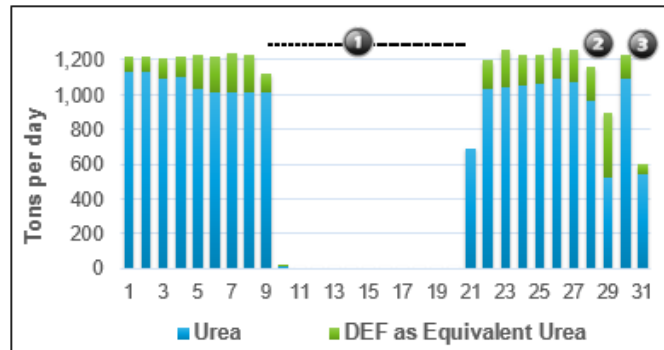
Average Capacity Factor	78.5%
YTD Capacity Factor	83.1%
Ammonia Production (tons)	26,767
Ammonia Budget (tons)	30,690
YTD Actual Production (tons)	83,208
YTD Budget (tons)	90,090
Shipments (tons)	2,967
Trucks	129
Railcars	0



Production Impacts (tons)		
1	Syngas compressor governor repairs	296
2	B-Riley boiler trip, resulting in shutting down <u>synloop</u>	650
3	Rates reduced due to high tank inventories	3,194
4	Electrical interruption resulting in ammonia plant trip	572

Average Capacity Factor	67.3%
YTD Capacity Factor	90.4%
Urea Independent Capacity Factor	67.7%
Actual Equivalent Production (tons)	22,937
DEF as Equivalent Urea (tons)	3,214
Budget (tons)	32,240
YTD Actual Equivalent Production (tons)	90,638
YTD Budget (tons)	94,640
Ammonia Consumed (tons)	12,668
YTD Ammonia Consumed (tons)	49,314
Shipments (tons)	13,284
Trucks	263
Railcars	54

# Urea



Production Impacts (tons)		
1	CO2 compressor repairs	11,777
2	Evaporator steam check valve failure	145
3	Power interruption resulting in partial plant trip	443

# Diesel Exhaust Fluid (DEF)

Total Actual Production (gal)	1,351,674
Budget (gal)	1,691,174
YTD Actual Production (gal)	5,248,461
YTD Budget (gal)	4,964,414

50% Total Shipments (gal)	596,759
32.5% Total Shipments (gal)	995,467

Production Impacts (gal)	
Reduced production to balance inventory with sales	44,409
CO2 compressor repairs	662,986
Power interruption resulting in partial plant trip	31,213



# Ammonium Sulfate (Dak Sul 45®)

Actual Production (tons)	6,129
Budget (tons)	10,509
YTD Actual Production (tons)	20,875
YTD Budget (tons)	31,611

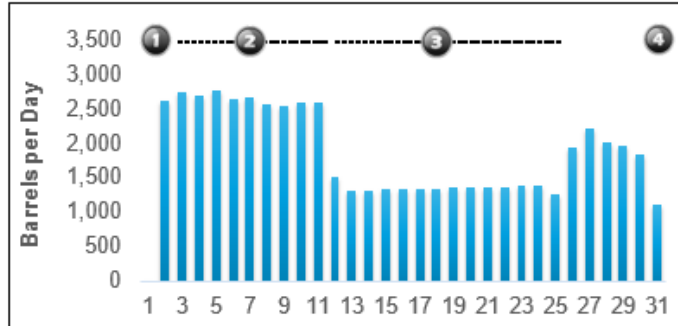
Shipments (tons)	11,423
Trucks	238
Railcars	30

Production Impacts (tons)	
Various mechanical outages within the unit	759
Turnaround	3,660



# Fuel Grade Tar Oil

Actual Production (bbl)	59,290
Budget (bbl)	84,692
YTD Actual Production (bbl)	210,050
YTD Budget (bbl)	256,052
Shipments (bbl)	36,405



Production Impacts (bbl)		
1	Prep for carbon black run	2,826
2	Reduced gas path rate due to phenosolvan issues	695
3	Business decision - low oil prices	22,754
4	Power interruption resulting in partial plant trip	1,606

# Co-Products

	CO <sub>2</sub>	Naphtha	Phenol	Cresylic Acid	Krypton Xenon	Liquid CO <sub>2</sub>	Nitrogen
	MMSCF	gallons	gallons	gallons	liters	tons	gallons
<b>Actual Production</b>	2,729	687,595	285,816	216,595	218,758	0	17,643
<b>Budget</b>	2,945	711,047	304,606	285,138	288,300	4,650	93,000
<b>YTD Actual Production</b>	8,776	1,978,787	668,973	518,191	645,545	634	92,201
<b>YTD Budget</b>	8,645	2,149,427	920,806	861,918	871,500	6,970	273,000
<b>Shipments</b>	2,729	581,146	328,478	163,423	482,031	0	16,463

Production Impacts
Naphtha, phenol, and cresylic acid were below budget as a result of reduced gas path rate early in the month Krypton-xenon remains below budget due to leaking valves

## Actual Generation

### Actual Generation\*

Facilities	2020 March		%	2020 Year-to-Date		%
Solid Fuel Plants	Budgeted MW's	2,156,410	-17.8	Budgeted MW's	6,624,784	-17.4
	Actual MW's	1,772,660		Actual MW's	5,471,924	
	Difference	-383,750		Difference	-1,152,860	
Oil/Gas Plants	Budgeted MW's	132,863	102.0	Budgeted MW's	347,566	109.2
	Actual MW's	268,350		Actual MW's	727,008	
	Difference	135,487		Difference	379,442	
Wind	Budgeted MW's	89,610	2.9	Budgeted MW's	290,522	-6.9
	Actual MW's	92,200		Actual MW's	270,348	
	Difference	2,590		Difference	-20,174	
Fleet	Budgeted MW's	2,378,883	-10.3	Budgeted MW's	7,262,873	-10.9
	Actual MW's	2,133,210		Actual MW's	6,469,280	
	Difference	-245,673		Difference	-793,593	



\*Solid Fuel Plants includes 100% of DFS and LRS / Wind, Oil and Gas include only Basin Electric Owned/Operated Facilities

6

## Large Capital Projects

### Large Capital Projects

Project Name	Approved Budget (M)	Total Committed (M)	Forecast at Completion (M)	Completion Date
LRS SCR	\$337.1	\$201.2	\$201.5	July 2020
LOS Bottom Ash Dewatering/Pond Closure/Coal Pond Expansion	\$81.6	\$72.8	\$74.2	June 2020
Chapelle Creek Switchyard	\$22.5	\$8.7	\$20.0	October 2020
Dickinson Second Transformer	\$12.6	\$4.0	\$9.6	April 2021
Lonesome Creek 6	\$63.7	\$20.8	\$55.6	December 2021
LRS U3 480V Switchgear Upgrade	\$13.5	\$7.1	\$12.0	June 2023

