



**DAKOTA  
GASIFICATION  
COMPANY**

*A BASIN ELECTRIC POWER  
COOPERATIVE SUBSIDIARY*

# **DGC Strategic Options**

Susan Sorensen

# POWER OF OPTIONS

- 1) **Negotiating Strength**
- 2) **Economic Benefit**
- 3) **Flexibility**
- 4) **Parallel Paths\Positioning**



**Fertilizer Plant**



**Coal/Gas Plant**

**Scenario**

**1**

**Sell**

**Operate**

**Scenario**

**2**

**Sell**

**Shutdown**

**Scenario**

**3**

**Operate**

**Shutdown**



- 1) Build cash reserves**
- 2) Fulfill contracts**
- 3) Step away from coal**



**Fertilizer Plant**



**Coal/Gas Plant**

**Scenario**

**4**

**Operate**

**Operate**

- ✓ **Build Cash Reserves**
- ✓ **Fulfill Contracts**
- ✓ **Step Away from Coal**

**Scenario**

**5**

**Operate**

**Shutdown**

# Scenario 1



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# FF Scenario Matrix

2019 FF Scenario Matrix	Fertilizer			Coal/Gas - DGC			CO2 Pipeline			LOS		New Generation Resource		Base	Results			
	Operate	Sell	Install Primary Reformer	Operate	Shutdown	45Q	Algon	Operate / Extend Contracts	Sell	Convert to Bakken Gas	U1 Accelerated Deprec.	U2 Accelerated Deprec.	45 MW - LCS	850 MW N of Lake	Financial Forecast	Uneconomical	Economical	
Scenario 1 March Delivery Effective Jan. 2021		X	X					X							2019-2028	X		
Scenario 2 June Delivery Effective Jan. 2021		X	X (2021)		X (2021)				X						2019-2028	X		
Scenario 3 September Delivery Effective Jan. 2021	X		X (2021)		X (2021)			X		X (2021)					2019-2028	X		
Scenario 4 January Delivery (10 years only)	X					X (2023 - 2033)	X	X		X (2027)	X (2026)	X (2031)	X (2021)	X (2024)	2.0			
Scenario 5 Oct 2020 Delivery (27 years/DGC End of Life)	X		X (2034)		X (2034)	X (2023 - 2033)	X	X		X (2027)	X (2026)	X (2031)	X (2021)	X (2024)	2021-2030			

Updated 1/08/20

# Lessons Learned

- ❖ Must watch **lost revenue** in comparison to decreased **fixed costs**
- ❖ Bleak gas price future increases need to **pivot further away from natural gas**
- ❖ **Not disrupting coal** and benefits is an overall positive
- ❖ Continuing to run and operate the plant **eliminates immediate cash call**
- ❖ Sale of fertilizer assets triggers early termination of debt and associated penalty (**make whole**)



# Scenario 2



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# Lessons Learned

- ❖ Must watch **lost revenue** in comparison to **decreased fixed costs**
- ❖ Bleak gas price future increases need to **pivot further away from natural gas**
- ❖ **Not disrupting coal** and benefits is an overall positive
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Scenario 1 March Delivery Effective Jan. 2021		X		X				X							2019-2028	X		
Scenario 2 June Delivery Effective Jan. 2021		X	X (2021)		X (2021)				X						2019-2028	X		
Scenario 3 September Delivery Effective Jan. 2021	X		X (2021)		X (2021)			X		X (2021)					2019-2028	X		
Scenario 4 January Delivery (10 years only)	X					X (2023 - 2033)	X	X		X (2027)	X (2026)	X (2031)	X (2021)	X (2024)	2.0			
Scenario 5 Oct 2020 Delivery (27 years/DGC End of Life)	X		X (2034)		X (2034)	X (2023 - 2033)	X	X		X (2027)	X (2026)	X (2031)	X (2021)	X (2024)	2021-2030			

Updated 1/08/20

# Lessons Learned

- ❖ Shutting down the coal/gas plant creates immediate **cash** problem
- ❖ **Joint operation** of plant, even temporarily, is not realistic
- ❖ Would be better served to **gradually step away from coal** to allow absorption of costs and adjustment of operations
- ❖ DGC is **“chipping away”** at fixed costs
- ❖ More economically beneficial for installation of a Primary Reformer by DGC rather than a buyer
- ❖ Sale of fertilizer assets triggers early termination of debt and associated penalty (**make whole**)
- ❖ Fulfilling CO2 contracts to **avoid termination penalty** helps economics

# Scenario 3



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# Lessons Learned

- ❖ Must watch **lost revenue** in comparison to **decreased fixed costs**
- ❖ Bleak gas price future increases need to **pivot further away from natural gas**
- ❖ **Not disrupting coal** and benefits is an overall positive
- ❖ Continuing to run and operate the plant **eliminates immediate cash call**
- ❖ **Joint operation** of plant, even temporarily, is not realistic
- ❖ Would be better served to **gradually step away from coal** to allow absorption of costs and adjustment of operations
- ❖ More economically beneficial for installation of a Primary Reformer by DGC rather than a buyer
- ❖ Selling fertilizer plant results in **prepayment penalty on debt**
- ❖ Fulfilling CO2 contracts to **avoid termination penalty** helps economics

# FF Scenario Matrix

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	Operate	Sell	Install Primary Reformer	Operate	Shutdown	45Q	Argon	Operate / Extend Contracts	Sell	Convert to Bakken Gas	U1 Accelerated Deprec.	U2 Accelerated Deprec.	45 MW - LCS	850 MW N of Lake	Financial Forecast	Uneconomical	Economical
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Scenario 3 September Delivery Effective Jan. 2021	X		X (2021)		X (2021)			X		X (2021)					2019-2028	X	
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Updated 1/08/20

# Lessons Learned

- ❖ Continued ownership stake in DGC eliminates immediate cash impact
- ❖ Large additional **CapEx cannot be supported** by existing revenue
  - No increase in revenue
- ❖ CO2 pipeline capacity (200k/day) greater than need (40k/day)
  - Additional firm transport expensive due to bottleneck at Glen Ullin
- ❖ Would be better served to **gradually step away from coal** to allow absorption of costs and adjustment of operations
- ❖ Closing gas plant prior to 2026 results in CO2 contract penalty



# Scenario 4



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# Lessons Learned

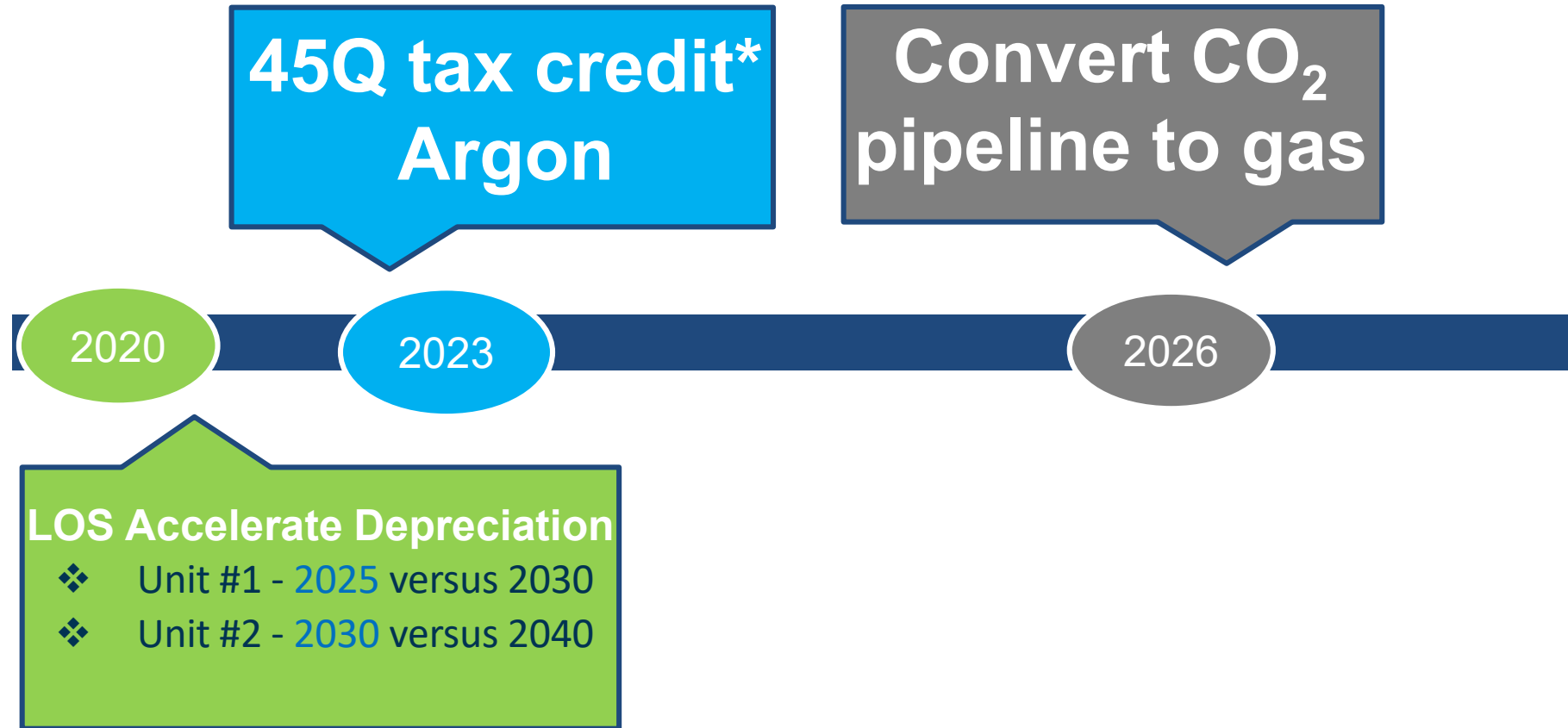
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- ❖ **Joint operation** of plant, even temporarily, is not realistic
- ❖ Would be better served to **gradually step away from coal** to allow absorption of costs and adjustment of operations
- ❖ DGC is **“chipping away”** at fixed costs
- ❖ More economically beneficial for installation of a Primary Reformer by DGC rather than a buyer
- ❖ CapEx needs to be supported by an **increase in revenue**
- ❖ Fulfilling CO2 contracts to **avoid penalty** is economically beneficial

# FF Scenario Matrix

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Scenario 3 September Delivery Effective Jan. 2021	X		X (2021)		X (2021)			X		X (2021)					2019-2028	X	
Scenario 4 January Delivery (10 years only)	X					X (2023 - 2033)	X	X		X (2027)	X (2026)	X (2031)	X (2021)	X (2024)	2.0		
Scenario 5 Oct 2020 Delivery (27 years/DGC End of Life)	X		X (2034)		X (2034)	X (2023 - 2033)	X	X		X (2027)	X (2026)	X (2031)	X (2021)	X (2024)	2021-2030		

Updated 1/08/20

# Scenario 4 Timeline



\* Run Scenario 4 with and without 45Q

# Conclusion

## 1) Build cash reserves

Additional Revenue Streams on DGC

Offset non-cash accelerated depreciation expense with excess margin

## 2) Fulfill contracts

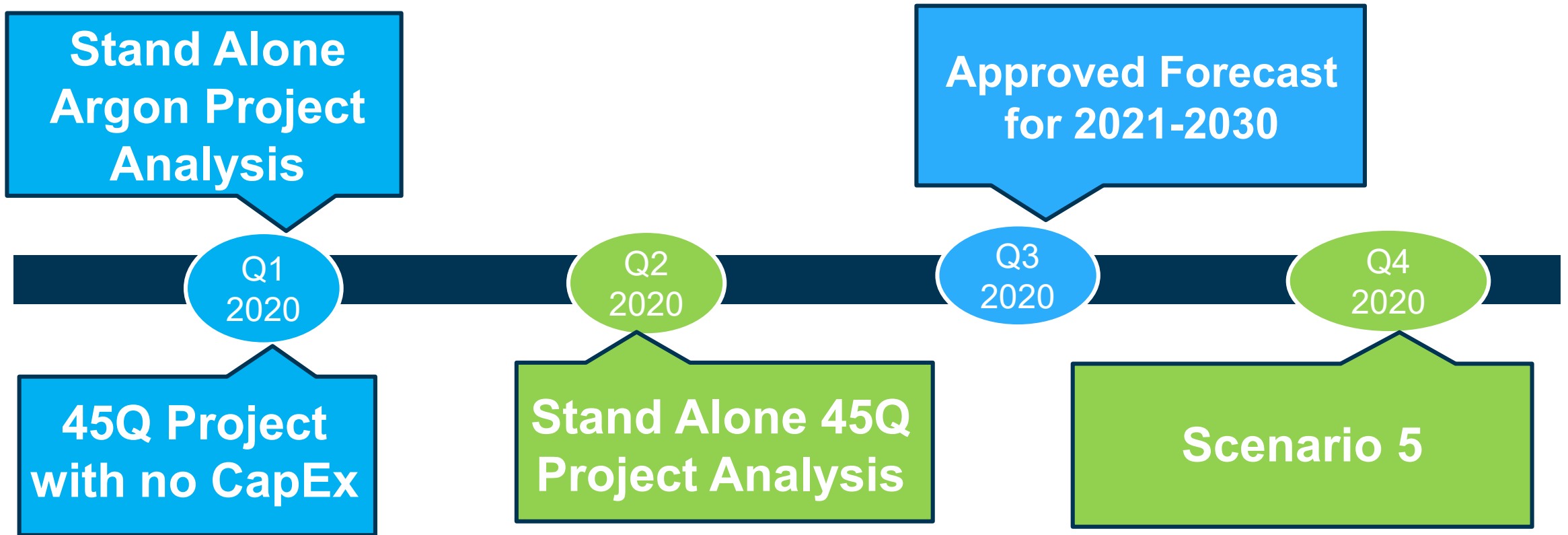
Avoid \$130MM CO<sub>2</sub> early termination penalty

## 3) Step away from coal

Continue to run LOS; however fully depreciated asset as of 12/31/30

# Next Steps

# Next Steps Timeline



# DGC: Dual paths forward

## TODAY



Build margin

CONTINUE  
REDUCE COSTS

## 2021-2022



LOS DEPRECIATION  
ACCELERATED

## OPERATE

- Enact 45Q
- Argon skid
- PetCo

Since 2017:

- Reduction in Force
- \$455M savings
- Write-down coal assets \$300M+

- 45Q tax incentive
- Argon gas pre-study
- PetCo evaluation

BUILD CASH

BUILD CASH

Revenue deferral  
balance



\$150M



\$200M

- Build cash only

**SELL/  
SHUTDOWN**



# 2026



## Bakken gen?

- AVOID \$130M CO<sub>2</sub> CONTRACT PENALTY
- DGC DEBT PAID DOWN

CASH BUILT





## \$800M

OPERATE

Membership  
input

SELL/  
SHUTDOWN

## Timeline changers

- Member bill credit levels
- Commodity prices  or 
- 2020 election
- 45Q incentives
- Carbon tax
- Fracking regulations
- Generation buildout needs
- Flaring regulations

## WALL OFF MEMBERS FROM RATE INCREASES

# Discussion