



**BASIN ELECTRIC
POWER COOPERATIVE**

A Touchstone Energy® Cooperative 

Financial Services

Member Managers Conference

Steve Johnson, Sr. Vice President & CFO
January 23, 2019

Accounting for Impairment and Regulatory Actions

Write-off and Entries



Board Directives, Accounting & Loan Contract Requirements

- ❖ \$299 MM impairment of **Gasification** Assets at **DGC** in 2018
- ❖ **\$75 MM** held in deferred revenue for margin stabilization
- ❖ **\$70-75 MM consolidated net margin** achieved in 2018 & future periods
- ❖ **\$118 MM** revenue deferral amortized into income in 2018
- ❖ Loss on Investment in DGC **expense deferral ESTIMATE** of \$140-150 MM
- ❖ Loss on Investment in DGC **expense deferral** to be amortized over **20** years
- ❖ Maintain DGC equity balance > **\$50 MM**

Recognition of Impairment

- ❖ Historical Accounting Treatment of Subsidiary Earnings & Losses on Basin Electric's stand-alone (utility) financial statements

As of December 31, 2017:

Assets:

Investment in DGC - Stock	\$	16,136
Investment in DGC - Paid in Capital	\$	19,520,971
Investment in DGC - Retained Earnings	\$	175,752,776
Investment in DGC - Revolver/Note Receivable	\$	420,895,323

Equity:

Retained Earnings of Subsidiaries - DGC	\$	(175,752,776)
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Recognition of Impairment

- ❖ Historical Accounting Treatment of Subsidiary Earnings & Losses on Basin Electric's stand-alone (utility) financial statements

As June 30, 2018:

Assets:

Investment in DGC - Stock	\$	16,136
Investment in DGC - Paid in Capital	\$	19,520,971
Investment in DGC - Retained Earnings	\$	118,422,672
Investment in DGC - Revolver/Note Receivable	\$	491,727,726

Equity:

Retained Earnings of Subsidiaries - DGC	\$	(118,422,672)
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Recognition of Impairment

- ❖ Historical Accounting Treatment of Subsidiary Earnings & Losses on Basin Electric's stand-alone (utility) financial statements

As July 31, 2018:

Assets:

Investment in DGC - Stock	\$	16,136
Investment in DGC - Paid in Capital	\$	169,520,971
Investment in DGC - Retained Earnings	\$	96,192,115
Investment in DGC - Revolver/Note Receivable	\$	359,727,726

Equity:

Retained Earnings of Subsidiaries - DGC	\$	(96,192,115)
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Recognition of Impairment

- ❖ Historical Accounting Treatment of Subsidiary Earnings & Losses on Basin Electric's stand-alone (utility) financial statements

ESTIMATED as December 31, 2018 **BEFORE** Impairment Entries:

Assets:

Investment in DGC - Stock	\$	16,136
Investment in DGC - Paid in Capital	\$	169,520,971
Investment in DGC - Retained Earnings	→ \$	50,000,000
Investment in DGC - Revolver/Note Receivable	\$	423,227,726

Equity:

		<\$0 ?
Retained Earnings of Subsidiaries - DGC	→ \$	(50,000,000)

Impairment & Regulatory Entries

Step 1: DGC Writes Down Assets - \$298.8M

DGC Impact

Balance Sheet

Fixed Assets

Beg. Bal = \$1,096
(\$299)

End. Bal = \$797

Total Equity

Beg. Bal = \$255
(\$299)

End. Bal = **(\$44)**

Net Loss

Net Loss before Impairment Entries = (\$119)
(\$299)

Net Loss = (\$418)

Basin Impact

Balance Sheet

Investment in DGC

Beg. Bal = \$643
(\$299)

End. Bal = \$344

Patronage Capital

Beg. Bal = \$1,058
(\$249)

End. Bal = \$809

Net Margin

Margin before Impairment Entries = \$240
(\$249)

Net Margin = **(\$9)**



Impairment & Regulatory Entries

Step 2: Record DGC Debt to Equity Conversion

DGC Impact

Balance Sheet

BEPC Revolver

Beg. Bal = \$423

(\$125)

End. Bal = \$298

Total Equity

Beg. Bal = \$255

(\$299)

\$125

End. Bal = \$81

Net Loss

Net Loss before Impairment Entries = (\$119)

(\$299)

Net Loss = (\$418)

Basin Impact

Balance Sheet

Investment in DGC

Beg. Bal = \$643

(\$299)

(\$125)

\$125

End. Bal = \$344

Patronage Capital

Beg. Bal = \$1,058

(\$249)

End. Bal = \$809

Net Margin

Margin before Impairment Entries = \$240

(\$249)

Net Margin = (\$9)

NO CHANGE



Impairment & Regulatory Entries

Step 3: Record Basin Regulatory Actions

DGC Impact

Balance Sheet

BEPC Revolver

Beg. Bal = \$423

(\$125)

End. Bal = \$298

Total Equity

Beg. Bal = \$255

(\$299)

\$125

End. Bal = \$81

Basin Impact

Balance Sheet

Deferred Charges

Beg. Bal = \$12

(\$12)

\$140

End. Bal = \$140

Deferred Revenue

Beg. Bal = \$193

(\$118)

End. Bal = \$75

Patronage Capital

Beg. Bal = \$1,058

(\$249)

\$118

(\$12)

\$140

End. Bal = \$1,055

Net Loss

Net Loss before Impairment Entries = (\$119)

(\$299)

Net Loss = (\$418)

Net Margin

Margin before Impairment Entries = \$240

(\$249)

\$118

(\$12)

\$140

Net Margin = \$237



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NO CHANGE

ESTIMATED

Consolidated Net Margin & Earnings

(In Millions)

Basin Electric/ BSC	\$ 237
Dakota Gasification Company	(418)
Dakota Coal Company	9
Elimination of DGC Loss recorded by Basin Electric	<u>249</u>
ESTIMATED Consolidated Net Margin & Earnings	<u><u>\$ 77</u></u>

Financial Forecast Scenarios



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Financial Forecast Scenarios

- Sale of the fertilizer assets, continued operation of the gas assets with the sale of syngas over the fence...**March, 2019**
- Sale of the fertilizer assets, shutdown of the gas assets and a sale of the CO2 pipeline...**April, 2019**
- Sale of the fertilizer assets, DGC gas assets shutdown, total LOS shutdown, AVS has 20% of its fuel source being natural gas and build an 1,100 MW gas fired resource at the DGC plant site...**July/August, 2019**

Questions?



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