

Questions on these minutes should be referred to your G&T.

*Manager’s Advisory Committee Meeting
January 18, 2017*

SUMMARY

Rates-MAC Present

Tom Boyko – East River Electric
Dave Eide - Codington-Clark Electric
Ken Kuyper - Corn Belt Power Coop
Rick Olesen - Iowa Lakes Electric
Ross Loomans - Lyon REC
Tim McCarthy - Sioux Valley Energy
Tom Meland – Central Power
Paul Fitterer - Capital Electric
Matthew Washburn - NIPCO
Joe Farley - Harrison County Rural Electric
Brad Nebergall – Tri-State
Ryan Hentges - MN Valley Coop
Tim Sullivan - Wright-Hennepin Coop
Doug Hardy – Central Montana
Tim Stephens - Park Electric
Vic Simmons – Rushmore
John Lee - Butte Electric Coop
Claire Vigesaa – Upper Missouri
Jerry King - Burke-Divide Electric Coop
Mike Easley – PRECorp
Scott Sweeney - Fergus Electric Cooper

Others Present

Pat Carruth - MVCL&P
Jason Brothen - Lower Yellowstone
Don Franklund - Roughrider Electric
Colle Nash - Grand Electric
Jeremy Mahowald - Upper Missouri
John Skurupey - McKenzie Electric
Martin Dahl - McLean Electric
Scott Westlund - Sheridan Electric
Steve Reed - WLEC
Scott Moore - FEM Electric
Daniel Webster - DEC
Darick Eisenbraun - Butte Electric
Randy Hauck - Verendrye
Bruce Garber - Dakota Valley & Northern Plains
Wayne Martin - North Central Electric
Kevin Mikkelsen - Rosebud Electric
Steve VerMulm - NIPCO
Michael Hoy - McCone Electric
Bill McKim - Midland Power Coop
Chris Baumgartner - KEM Electric

Basin Electric

Paul Sukut
Dave Raatz
Matt Greek
Becky Kern
Dave Rudolph
Alex Hermes
Kimberly Miller
Mike Eggl
Elizabeth Erhardt
Steve Tomac
Steve Johnson
Chad Reisenauer
Dave Sauer
Ken Rutter
Greg Wheeler
Susan Sorensen
Dave Raatz
Mike Risan
Lisa Carney

General Manager's Report

Paul Sukut, CEO and general manager, addressed current UREA project issues, some of which are the contractor, making changes on handling the project, some bad engineering, bad weather, and some mistakes made along the way. It is very sound, we are hoping to get a 5-6

Year-end Margin Estimates

Steve Johnson, senior vice president & CFO delivered preliminary numbers to the committee based on a soft close. He talked about where we are on a global basis and what the numbers will possibly look like on a consolidated basis.

Questions from members answered by Basin Electric staff.

Continuing with his presentation, Steve commented that staff will start working on a new 10 year forecast in the next couple of weeks, which will then be brought to the Board for review in July and in August. He stated that austerity measures remain in place and there are things we can continue to do to cut costs. In response to this, members expressed more predictability and stability from the Cooperative in its forecasting efforts. It was stated that staff continues to work on continuous improvement on the financial forecast and within a year we should be a lot closer to our goal of virtual forecasting. We want to reach a point where our forecasting is evolutionary.

Question from members answered by Basin Electric staff.

Members voiced they are looking for consistency from Basin Electric on Bill Credits.

Minnkota Analysis

Dave Raatz, senior vice president of cooperative planning touched on Minnkota Analysis. He went through the key items Basin Electric has had with Minnkota and the directional decision Basin Electric is looking toward in the near future. If the decision is to move forward it could lead to joint operations sometime in the summer of 2018. In February Basin Electric staff is looking at going to the Board with proposal economics and then will share the results with the MAC. Dave commented that there are meetings scheduled within the next couple of weeks with Minnkota to go through the economics, at this time there are no numbers to share; this is a work in progress. He outlined some of the values of an arrangement to Basin Electric and Minnkota. At this time, staff does not have a recommendation.

Question from Members answered by Basin Electric staff.

Member Managers Report

Ken Kuyper of Corn Belt passed.

Matt Washburn of NIPCO passed.

Tom Meland of Central Power, commented on the process of working with MISO and the frustration they are encountering.

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Ross Loomans of Lyon REC passed.

Doug Hardy of Central MT Electric shared that in December they had some record sales in load factor.

Vic Simmons - Rushmore Electric, they had one management change in the family, Wayne Sterkel has retired.

Claire Vigesaa - Upper MO, passes.

Jerry King - Burke Divide, several members pushing snow and loads were off.

Mike Easley - Members 1st, nothing to announce but this is Members 1st first MAC meeting.

Mountain West RTO Update

Mike Risan, senior vice president transmission, reported the PowerPoint presentation loaded on the member's website is the official presentation used by Mountain West and he would not run through the details unless there were questions. Mike reported that at the last Mountain West meeting, there was unanimous support for a Mountain West letter of understanding which authorized the group to proceed with a press-release announcing and disclosing that we have unanimously reached a decision to pursue additional conversations with SPP. It seems we have everyone going in the right direction and this is a great development.

Dave Rudolph, director of transmission compliance, touched base on the status of the NERC compliance program for Basin Electric and its Members. January marked a new period for the NERC program, he advised letters had been sent out to six members that own the most bulk electric system, they comprise of 80% of the member owned equipment. The letters included instructions on how to move forward with the new program, also termination letters were sent for those in preparation into transition into the new program. Basic premise, if you own bulk electric systems facilities you are responsible for the NERC compliance for those facilities. There are options if you own one piece of equipment and you don't want to be involved or don't have the staff you can explore the options to not be involved with NERC compliance, you can try and assign the compliance to another registered entity or transferring ownership of that piece of equipment to another entity. Ultimately, the responsibility is your organizations for the bulk electric systems facilities. The remaining notices will be sent out shortly, the goal is to complete this by April 1st of this year.

DGC Topics

Steve Johnson, senior vice president & CFO, stated a scope of work was recently signed with RBC Capital Markets (RBC CM) in an effort to determine the monetary value of DGC. The services of RBC CM shall consist of the following:

- Analyze Basin Electric's internally built discounted cash flow model using Basin Electric's assumptions, source material and stress scenarios.
- Build a third-party, independent discounted cash flow model to check and validate Basin Electric's model.

The analysis is to be completed by the end of March. We would then plan to go through the analysis and discuss it with both the Board and the MAC in April.

Questions asked by Members answered by Basin Electric staff.

Susan Sorensen, vice president and treasurer of finance ran through the history of questions Basin Electric staff received, i.e., DGC benefits analysis and what that impact is to the membership, how we are coming up to the net impact to the membership. At this time, she walked through the slides to discuss her message to the members. Starting with when Basin Electric purchased the plant the reasons we wanted to operate the plant are the same as they are today; they haven't changed. Sue discussed the historical value of DGC Operations to Basin Electrics and the member rate levels.

Question from Members answered by Basin Electric staff.

Zeroing in on 2017, gross benefit is 90mm, the value of one mill based on our financial forecast is \$24.7mm. So if DGC would make zero income or loss, the gross mill impact built into your rate is \$3.7/MWh. If one would look at what the numbers depict, they show DGC is expected to be profitable in 2021 through the end of the financial forecast. Steve Johnson briefly discussed the profitability of each of DGC's products and byproducts. He informed the members that staff needs to continue to review and analyze ways to diversify DGC as DGC continues to lose money in the production and sale of SNG in the currently depressed commodities' markets.

Questions from Members answered by Basin Electric staff.

Urea Project Review

Alex Hermes, engineer at DGC gave the members a quick process overview of each step of the plant and the amount of products used each day. Alex took the members through each section, High Pressure Synthesis, Rectification/Recycle, Evaporation, Granulation, and the Pool Reactor. Through these steps a granulated UREA product is created and stored in a storage barn that holds 53,000 tons. At the end of Rectification process a standard purity of UREA will then be sold to a distributor where it will then be blended into a product wanted by the consumer.

Question from Members answered by Basin Electric staff.

Executive Summary

Matt Greek, senior vice president of engineering addressed the Members with an Executive summary of the urea project to date. Basin Electric has faced and mitigated a number of challenges along the way. These challenges have included such things as: turnover of key senior executives within our project partners organizations and the rapid interest in new chemicals projects after two decades of dormancy. Matt ran through comparable projects and the status of these projects. Of the projects discussed, only two are headed to completion including DGC's. All of the projects have faced substantial cost and schedule pressures similar to those experienced by DGC.

Question from Members answered by Basin Electric staff.

DGC Long-term Strategy

Dave Sauer, senior vice president DGC, took a look back five years from when the projects were first put together. Starting in 2012, a team was created to review all options and assess what this meant to Basin Electric and consider all the options. The options considered were from shut down the plant, what is the benefit to Basin Electric of the coal, mothballing the plant and wait for better market conditions, status quo and operate with existing products we have, sell the plant “as is”, or develop new products.

The option explored the most; was developing more products. A look was taken across the plant and approximately, sixty different options were reviewed and the two positive potential products were Urea and Methanol. What we believed to be our appetite was the Urea project, it had a little less return but right in the heart of fertilizer country. Based on these facts, Basin Electric moved forward for the FEED study on the UREA plant.

Question from Members answered by Basin Electric staff.

UREA Project Overview

Matt Greek identified the major players in the project and the role they each played in the project. To provide some understanding as to cost estimates and risks, a normal progression of cost estimates was discussed. As might be expected, the range of cost uncertainty is greatest in the beginning stages of a project. As the project matures through design, procurement, construction and start-up the risks underlying these uncertainties are reduced resulting in more accurate and reliable cost forecasts.

Questions from Members answered by Basin Electric staff.

There are a number of factors that played into the Urea project estimate uncertainties. Those factors include: no major U.S. chemicals projects had taken place in the last 20 years, two separate FEED studies were added together but not integrated prior to Board approval which created its own inadequacies; site was known to have expansive soils that was known, but FEED work failed to adequately take that into account. The DGC engineering specifications/standards were out of date and needed to be reviewed and updated delaying detailed engineering completion, the level of engineering required was underestimated by 50%. Finally vendor data deviated significantly from FEED to detailed design. This is a challenge we are seeing across the industry.

Engineering

Matt Greek acknowledged that there were early challenges. A couple of engineering firms had been looked at, the group selected was out of Kvaerner’s Houston office. That office did primarily LNG work and some Syngas. The FEED study assumed the Board would approve the UREA project in November 2013, the actual approval did not come until January 2014. Much of the project team left in December 2013 absent the November approval that was anticipated. Half the team at DGC left and pretty much the entire IHI team was reassigned to another project.

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Matt then moved into IHI challenges, some examples are late vendor data; management of change process inadequate; Millcreek integration with IHI challenging; engineering cost and schedule forecast risk was under-estimated. He then ran through some of the project austerity measures that were taken to help the project and procurement process. After seeking Board approval, two large contracts were signed; one for project engineering with IHI and one for the primary process equipment with Stamicarbon. Right off the bat, staff found themselves faced with several challenges. IHI engineering schedule did not progress according to the contract; IHI started to provide procurement for the project but the delays in their execution ultimately led Basin Electric to replace them with Basin Electric staff; IHI maintained expediting services, mostly utilizing displaced procurement staff.

Construction management was bid out about the same time as the General Construction bids, Worley Parsons was selected for Construction Management while AECOM/Rust was selected for the General Construction work based on separate competitive bidding processes. One early challenge included: AECOM's construction plan to build one floor at a time and to complete closing in the process buildings prior to the winter of 2015/2016 was not supported by the level of engineering and procurement completed at the time. Similarly, AECOM was unable to deliver a level of productivity that supported the planned project progress effectively limiting the amount of productive work which could be accomplished during winter of 15-16. The project team worked to address these productivity issues by holding release of the piping work until Worley Parsons and AECOM agreed and could demonstrate that the level of planning and preparation for this work was sufficient to support productive work going forward. This was ultimately ineffective as low productivity continued after this work was complete. When the GC contract was awarded to AECOM the project plan was to award additional work to AECOM as engineering and procurement efforts matured and opened up additional work fronts on the project. Unfortunately, AECOM's proposals for additional work were consistently uncompetitive.

After all these challenges, there were several measures we took to resolve some of the issues. These included personnel changes, the start of direct monthly performance review meetings with AECOM, reduction in AECOM force on site starting in November 2016, eliminating the night shift work, and assigning project DGC personnel to manage and execute construction, commissioning and start up.

Questions from Members addressed by Basin Electric staff.

UREA Economics

Kimberly Miller, senior business analyst covered the Urea Economics by looking back in time at the original justification vs an updated study. Originally when the project was in its infant stage to now, the capital expenditures have been updated from \$402MM to \$740MM, pricing has changed, as well as anticipated annual expenses. Anticipated pricing from what we originally forecasted during the FEED study is lower on average by about \$40/ton throughout the financial forecast period. She reviewed additional

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changes from the original model including lower annual costs, depreciable life and ammonia pricing.

Questions from Members addressed by Basin Electric staff.

Kimberly continued with discussing the methodology used with the scenarios. She reviewed two different scenarios, one was the design sensitivities and the other was alternative pricing based on historical annual price change. In the 110% Analysis, all factors in the models remained consistent other than increased production from the urea plant; providing a return of between 10.6%-11.7%. The other sensitivity scenario stressed pricing which showed a rate of return of about 5.1%.

Questions from Members addressed by Basin Electric staff.

Steve Johnson, followed by summarizing the options Basin Electric has with a project that is 60% complete, over budget with a delay in the commercial operation date all in an environment where Urea prices are on the decline. Basically, the options are to abandon the project or to proceed with the completion of the project. Mr. Johnson stated that given the financial impact of abandonment, completion of the project is the only feasible option.

Questions from Members addressed by Basin Electric staff.

Matt Greek concluded the discussions on the Urea Project by discussing the path moving forward.

Contract Extension Credit

Dave Raatz, senior vice president of cooperative planning discussed a proposed 2018 rate pricing concept for the 2050 contract term members. Under the discussed concept 2050 and 2075 contract term members pay their proportionate share of Basin Electric's resource cost as it goes through the rates.

Questions from Members answered by Basin Electric staff.

MAC moves to table a decision on this issue.

PURPA Update

Becky Kern, director of utility planning addressed members on the status of the PURPA waiver assignment process. Public Notice went out to most publications in mid-November, with several publications not getting the notice published until January 2017. Basin Electric has received five requests for the proposed implementation plan that was developed, the receipt of one comment, and no request for public hearings. She stated, if no other comments are received, Basin Electric staff plans to make FERC filing in the next week or two.

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Darrek Eisenbraun - Butte Electric
Daniel Webster - DEC
Scott Moore - FEM Electric
Steve Reed - WCEC
Bruce Garber - Dakota Valley

Basin Electric

Paul Sukut
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Lynn Beiswanger
Elizabeth Erhardt
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Chad Reisenauer
Dave Sauer
Jason Doerr
Mike Egg
Steve Tomac

Rate Subcommittee discussion update

Elizabeth Erhardt, rate and load analyst covered topics discussed at the recent Rate Subcommittee meeting on January 9th. The Renewable Pass Through Rate will be maintained through calendar year 2017. Basin Electric will also continue to honor all previously accepted applications under the 2016 Renewable Energy Purchase Rate through the term of the accepted applications.

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Elizabeth covered the actions items that came out of the January 9th Rate Subcommittee meeting.

Standby Rate Modification

Elizabeth Erhardt, commented that draft proposals were sent out and at this time no comments have been received. Basin Electric's staff is proposing to have two options for the Standby Rate. The first option is what is currently in the Rate Schedule, the second option eliminates the meter requirement on the load using Standby Service. Basin Electric staff will be seeking approval from Basin Electric's Board in February for the new change.

Future Rate Philosophy discussions

Dave Raatz, senior vice president of Cooperative Planning asked if members have any general thoughts as to what the philosophy should be heading down this road.

Action Item: Basin Electric staff will provide a history on our rate structure design.

Action Item: Basin Electric staff to visit with a Consultant on what other utility companies are doing and why, and what Basin Electric can do better.

Power Supply Topics

2017 Load Forecast

Jay Lundstrom, lead load forecast analyst started out on how the load forecast is the sum of 89 distribution members forecasts summed up to the 8 different Class A members. These are then summed to Basin Electric total. The load forecast is developed annually and the recently adopted quarterly forecast process.

Jay moved into economic conditions. Looking at the big picture, Basin Electric's service territory employment is looking good compared to the national average. National unemployment is trending down since about 2010. National economy is improving, but in the local economies, you will find a recent uptick in unemployment. The changes have taken place because of recently changing oil prices, the energy industry is under attack and agricultural prices have softened.

Reviewing the 2017 oil related load forecast, during periods of lower prices, companies have become more efficient; they have done more with less. At this time we are not seeing anything that is wildly optimistic, we are not forecasting any new natural gas processing plants being developed. Looking at the oil prices we used in the forecast, we find it tops out at 80 dollars in ten years.

Growth trends from the load forecast is approximately 1% annually.

Question from committee members answered by Basin Electric staff.

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Power Supply Studies

Becky Kern, director of utility planning discussed actions taken in 2016 related to market purchases and the resource options considered in the power supply planning process

One aspect we were recently tasked with, was when would Basin Electric need to make the next resource decisions? Last year, Basin Electric expected additional power supply would be needed in MISO by 2023, SPP by 2024, and MT by 2026.

Becky walked through how staff is working to delay new resource decisions by taking advantage of lower market price options.

Question from member answered by Basin Electric staff.

Transmission Service Mitigation

Jason Doerr, RTO&Delivery Services Manager addressed the committee on Transmission Service Mitigation projects. At this time, Basin Electric has identified one in Central Power Electric Cooperative's system known as Blue Flint/Coal Creek build out. This project was previously presented at the October MAC with a request for additional detailed information. Transmission mitigation projects are member transmission projects which do not qualify for transmission tariff cost recovery by provide benefits to the Member and Basin Electric.

Question from member answered by Basin Electric staff.

Jason then discussed details of the Blue Flint/Coal Creek build out project and indicated the estimated project cost is approximately a \$3.1 investment plus an extension to the Blue Flint ethanol service contract.

If moving forward with this project, Basin Electric economics would reflect a \$326,000 annual transmission savings which allows Basin Electric to invest up to \$2.8 million in the project with an 8% return on investment over a 15 year period. Investing in the project, Basin Electric would require an extension to Member Load contracted service, enter into an agreement with Central Power providing aid to construction and retaining a hundred percent of the capacity rights in the project. The member, Central Power Electric, would be responsible for the investment associated with the project above Basin Electric's investment. Basin Electric staff will present this to the Board in February, at this time we are looking for a MAC endorsement before going to the Board.

Questions from members answered by Basin Electric staff.

A Motion to support Central Power Electric project, seconded. Motion passes.

Marketing Updates

Ken Rutter, senior vice president of Marketing started off with market pricing and what is going on with some of the commodities, SPP information related to wind, and then close out on how we did with hedge fund last year. He began with natural gas has been such a driver for Basin Electric and Dakota Gasification. We are starting to see some relief in the natural gas prices versus last year, the challenge is the market is not giving a whole lot of faith for improvement. Ken reviews some improvements in the gulf coast prices, another positive note, the staff developed a broader customer base, with a different type of discount range.

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Ken moved on to discuss SPP items and how we are getting dispatched and results in the market place. He covered wind to load penetration levels combined with gas prices. There is still a lot of wind to be added to the market place and that is something that will need to be watched.

Ken finished his presentation by discussing Basin Electric's Hedge Plans performance. Each year during the December timeframe we work with the middle office and set an execution plan for the next year. He reviews what the recent plans were and results.

Question from member answered by Basin Electric staff.

Strategic Objectives

Chad Reisenauer, director of strategic planning and member support discussed Basin Electric's recent history of strategic planning activities and indicated we developed a very detailed plan. We have created a smaller plan going forward limiting it down to eight objectives that the board approved and senior staff identified specific goals and action plans. All the goals and action steps that were listed in the plan were accomplished for 2016. In 2017, the plan kept all eight objectives, and we refined our 2017, 2018, 2022 and 2027.

Question from member answered by Basin Electric staff.

Chad ran through all eight objectives and statements with the members. He stated Basin Electric's staff next steps will be to use these objectives for 2017, quarterly updates with team leads, and semi-annual update with board of directors.

Question from member answered by Basin Electric staff.

2017 Cooperative Plan

Mike Eggl, senior vice president of communications covered the plan Basin Electric was going to undertake for the long-term in the next ten years. He commented this year Basin Electric has made a change that we hope we can further on by working with the membership more closely. Mike then proceeded to describe the process on how Basin Electric staff started out and how the questions that came out of board, senior staff, etc. and passed them around the Class A managers to receive their feedback. We take what you're saying we will synthesize this and bring it back to the membership. Our next steps are to take the objectives and plan to utilize this with your membership.

Mike then introduced the new member's website that will be rolling out shortly and the new features it will offer. Users will have access from smartphone, iPhone; security features are more enhanced and we hope to see an increased user engagement.

Building Cooperative Connections

Lynn Beiswanger, director of human resources, briefly covered Building Cooperative Connections. What was discovered after visiting with managers, employees didn't understand how Basin Electric was connected all the way down to the member at the end of the line. We took a real grassroots look at the operation. The purpose was to provide education and build a connection between the two entities. We took a look at the cooperative roles, some commonalities, understanding our history, relationship building, and with the focus on people.

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Lynn shared the team's different experiences and extended an invitation to the MAC and their Class C members for Basin Electric team to visit their cooperatives in the future.

October MAC Timing Conflict

Dave Raatz, senior vice president of Cooperative Planning addressed the schedule conflict for October's MAC and if there was a possibility of moving it to the proposed dates. Discussion amongst the members and they concurred for October 19th all day, concluding the morning of the 20th.

Upcoming Meetings

- May 3-4 (Bismarck, ND)
- July 18-20 (Deadwood, SD)
- October 19-20 (Sioux Falls, SD)