

*Manager’s Advisory Committee Meeting
January 24, 2018*

SUMMARY

Rates-MAC Present

- Tom Boyko – East River Electric (WebEx)
- Tim McCarthy - Sioux Valley Electric
- Curt Dieren – L&O (WebEx)
- Joe Farley - (WebEx)
- Tom Meland – Central Power
- Martin Dahl - McLean Electric
- Colle Nash - Grand Electric
- Kevin Mikkelsen - Rosebud Electric
- Brad Nebergall - Tri-State
- Paul Erickson - Sangre de Cristo Electric
- Doug Hardy – Central Montana
- Tim Stephens - Park Electric
- Vic Simmons – Rushmore
- Walker Witt - Black Hills Electric
- Claire Vigesaa – Upper Missouri
- Jack Hamblin - Southeast Electric Co-op
- Mike Easley - PRECorp
- Scott Sweeney - Fergus Electric
- Ken Kuyper - Corn Belt (WebEx)
- Rick Olesen - Iowa Lakes Electric Co-op
- Matt Washburn - NIPCO (WebEx)

Others Present

- Don Franklund - IEA
- Ross Loomans - WebEx
- Jerry King - Burke Divide Electric Co-op
- Travis Kupper - Innovative Energy Co-op
- Randy Hauck - Verendrye Electric
- Matt Klein - Union County Electric
- John Skurupy - McKenzie Electric
- Wayne Martian - North Central Electric Co-op
- Jeremy Mahowald - Upper Missouri
- Michael Hoy - McCone Electric Co-op
- Paul Fitterer - Capital Electric
- Steve Reed - WLEC
- Scott Moore - FEM Electric
- John Lee - Butte Electric
- Jason Brothan - Mid-Yellowstone
- Kory Opp - Sheridan Electric Co-op
- Dick Johnson - West River Electric
- Rick Knick - Sheridan Electric Co-op
- Kory Johnson - Agralite Electric
- John Sokoloski - Goldenwest
- Bruce Kraemer - Crow Wing Power
- Pat Carruth - MVCLPA
- Tim Sullivan - Wright-Hennepin
- Dale Haugen - Mountrail - Williams Electric
- Bruce Garber - Dakota Valley & Northern Plains

Basin Electric

- Shawn Diesz
- Kelly Cozby
- Chad Reisenauer
- Jay Lundstrom
- Becky Kern
- Lisa Carney
- Mike Risan
- Dave Raatz
- Paul Sukut
- Ken Rutter
- Tom Radenz
- Elizabeth Erhardt
- John Jacobs
- Dave Sauer
- Tom Christensen
- Matt Greek
- Ken Rutter
- Steve Johnson

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

General Manager's Report

The meeting started with a few housekeeping items and a short discussion on a one day meeting versus a two day MAC meeting. CEO and General Manager, Paul Sukut, passed around a sample of UREA from the plant which is up and running with a positive outlook going into spring planting.

2017 Year-End Financials - Senior Vice President & CFO, Steve Johnson, briefed the committee that staff is continuing to work on closing the December 2017 books. Therefore, any numbers shown are preliminary and unaudited. Currently, we're projecting a before tax consolidated margin of \$72.1 mm. This, however, is after the deferral of \$170 mm of surplus sales revenue.

The recent corporate tax rate change from 35% to 21% means we'll have to revalue our deferred tax assets and liabilities. The financial statement impact is recorded in the period the bill is enacted into law. In this case, December 2017 as that's when the President signed the legislation.

Other items of the Tax Cuts and Jobs Act of 2017 that will affect the Cooperative including its subsidiaries are:

1. Modifications to Net Operating Loss Carryforwards
2. Limitation on the Deductibility of Interest Expense
3. Repeal of Corporate AMT

Questions from committee members answered by Basin Electric staff.

An open discussion between Basin Electric staff and committee member on the potential impairment of DGC assets and the use of deferred revenue ensued.

Strategic Planning Update/2018 Cooperative Planning - Senior VP of Member Services & Administration Chris Baumgartner, reflected on staff's plan to meet on a regular basis with Basin Electric Board on strategic planning approximately every two to three months. This will allow staff to share and involve the membership and managers at a greater level as to where Basin Electric is at in the process.

Member Manager Reports

Central Montana - Doug Hardy reported they continue to work on pricing and rates for the members.

Tri-State - Brad Nebergall passed.

Sangre de Cristo Electric - Paul Erickson - The winter has been very mild. Legislature session has kicked off with a bill asking for 100% renewable energy in Colorado.

Central Power - Tom Meland - finally settled long standing dispute with Otter Tail.

Rushmore Electric - Vic Simmons - Finished the year by seating a new director. Finished the year with good margins.

Upper Missouri - Claire Vigesaa - Some potential with TransCanada and another OneOK pipeline with renewed competition and gas drives. Uncertainty on what you're going to serve in the future is a reality.

Tri-State - Mike Easley - Coal in WY has been stale. PreCorp loads have been relatively flat. Fegus Electric has been working on a new copper mine.

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

East River Electric - Tom Boyko - Manager of Dakota Energy indicated they are bidding on a new Ethanol plant

NIPCO - Matt Washburn - Pass

L&O Power - Curt Dieren - Pass

Corn Belt - Ken Kuyper - Pass

DGC Topics

Senior VP of Engineering and Construction Matt Greek discussed progress on the urea addition at DGC since the project was last reviewed with the MAC in January 2017. In doing so, he discussed some of the challenges faced over the last year while reviewing a series of progress photos from the project. Matt then shared with the committee members a video displaying a general site view of the UREA plant taken in October, 2017 showing the urea expansion in its nearly complete state.

Continuing his presentation, Matt discussed post construction activities following the project's mechanical completion in December 2017. At that time, the project was turned over to the commissioning and start up team under Dave Sauer. Following Matt, Sr. Vice President & COO Dave Sauer confirmed commissioning the project and discussed further steps that were instrumental in the beginning stages of the startup on January 6, 2018.

Senior VP of Marketing Ken Rutter, covered fertilizer joint marketing arrangements on the DGC side. Indicating a spike in natural gas, and other factors like pipeline optimization and storage from the ground played into January and February turning out to be beneficial for us. In addition to that, the prices in tar oil find marketing staff attempting to take as much advantage as possible. Looking at the fertilizer side in the market, staff is starting to see the prices creep up for the first quarter in 2018.

Ken touched on the consultant analysis on how staff conducts its fertilizer marketing. Some recommendations from the study addressed how to most effectively compete, the set up for long term options, and have to potentially achieve to a larger market share. Staff then discussed different forms of joint share venture or joint marketing arrangement.

Analysis results indicated that DGC would have better results doing joint marketing with other producers and would see a better rationalization in the market with our logistics and provide better partnerships opportunities into the future.

Committee member questions answered by Basin Electric staff.

Operations Report

John Jacobs, Senior VP of Operations gave an overview on each coal plant year-to-date and the goals set for each plant, actual generation from solid fuel, oil/gas plants, wind, and fleet. He continued his presentation examining the year to date costs for operating and maintaining the plants.

Several slides from the plants were displayed depicting a variety of damages and processes taken to correct each problem were reviewed.

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At the conclusion of his presentation, a video of the ITC plant site was played for committee members.

Marketing Update

Ken Rutter covered assets relating to the Basin Electric side. Two strategic areas discussed are the coal assets and future for these assets, the other was a recent spike in natural gas in December and whether or not staff wants to look at a change in strategy. Ken outlined different events in December that played a role in the spike and how staff managed through them. During his discussion, Ken indicated right now we are in a different market environment, but given a more certain level of market exposure we could see some benefits even when there's events like in December.

In total, the events that took place in December were good for Basin Electric and staff continues to work with the Board are strategic planning directions.

Question from committee member answered by Basin Electric staff.

Discussing Plant P&L's, Ken shared several slides outlining forecast models using Incremental Market Margins and All-in measurements for December. Information was discussed with the committee for purposes of comparing Incremental Margins versus the All-in Margins.

The take away is staff needs to continue looking at all plants the same way to continue the culture change toward profitability of the plants versus availability. The staff continues to work on cost reduction with the plants, and going forward, staff is seeing a trend where prices are being driven further down due to the growth in wind resources.

Question from committee member answered by Basin Electric staff.

Long Term Power Supply

2018 Load Forecast - Jay Lundstrom, lead load forecast analyst gave a historical summary of the last couple of months starting with past load patterns from January as to where member demand sales stand now.

Jay then moved onto the projected forecasts explaining the process staff uses by looking at all equations, demographic data, and no approvals needed. With the updated models, he identified changes staff noticed from 2016 with power supply obligations. Initially it was thought our forecast would be a simple single forecast until talks of the Keystone XL pipeline commenced and consumer alternatives is now giving us a bandwidth forecast.

Jay then shared slides showing the impacts resulting from the 2017 and 2018 load forecasts including updated low and high impacts. Looking at the growth there does not seem to be one sector dominating our load growth going forward.

Reviewing each District, Jay identified what impacts the forecasts on load growth and load loss. When looking at supplying our Members power needs, approximately 79% of that came from Basin Electric in 2016. When you take off supplemental power suppliers, Basin Electric is expecting about 51MW per year of growth on average over the forecast period. A slide

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displaying the distribution of 1,429MW of load growth was shared with the committee identifying each Members growth.

Loads at Risk - Dave Raatz, Senior VP of Resource Planning discussed loads at risk with some losses being reflected in our financial forecast. Back in 2016 discussions with the Member Advisory Committee on a survey staff conducting with each member on what they found as load at risk. From this analysis, approximately 1000 MW's were found to be at risk, with self-generation being the largest factor to the potential loss. Staff also hired a consultant to work with staff on an economic tipping point. From this analysis, staff was looking for what electric price would a consumer move forward with another option rather than going with electric.

From the consultant's report, preliminary conclusions indicate consumers are considering using gas to drive the compression at the site rather than using gas to create their own electricity. A short payback period for the consumer of one to three years is required for the consumer to put capital dollars at risk.

Committee member questions answered by Basin Electric staff.

Continuing discussions, Dave displays a graph outlining Oil processing and Ethanol plants. Starting with ethanol plants, there are categories evaluated. One is excess steam and the other would be additional steam required. It shows there are fewer plants with excess steam capability. When looking at the ethanol plants with unused steam, no additional fuel would be needed to convert into gas compressors, the price would be lower for a tipping point. The price would need to drop significantly to maintain this type of a load and this is not an option for Basin Electric.

Taking a look at a plant where additional steam is required, we would need to ask how much natural gas firing is needed. Economics show firing 40% of steam to achieve excess heat, this wouldn't even be a ten year payback. Looking at the results from the members systems, a small number of the Member's plants are in the excess steam area.

Moving to oil processing, this becomes a function of gas prices. Staff is seeing the tipping point here around 65 MW.

Questions from committee members answered by Basin Electric staff.

Rick Olesen asked staff to strive to preserve our competitiveness and to leverage our hedging in the market.

Ken Kuyper asked staff to assess the number of MW's of water heaters that are related to electric heat.

Prevailing Winds - Becky Kern, Director of utility planning informed the group on the Prevailing Winds project in eastern South Dakota and the timeline of discussions and recent steps taken to continue developing this project. A single contract was agreed to with negotiations and fully executed earlier in the week. The project is scheduled to be in service the end of 2019, it is PTC qualified and located in Charles Mix County, SD.

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Becky continued by displaying a map that identified the project that had been proposed with a legally enforceable obligation under PURPA to the nine distribution coops in eastern South Dakota and 13 LLC companies that were formed to have each project less than or equal to 20 MW to qualify under PURPA. Becky showed a graph on how the project pricing had changed throughout the process, from the original PURPA qualifying facility route, to a response under the RFP and the final negotiated price based.

Giving some additional background information on the wind portfolio, Becky shared how Basin Electric has progressed from 2002 when the first wind project came into our system. As of today, there are about 1360 MW's within the system with two additional projects coming online in 2019 to make the total 1760 MW.

Resource considerations/Open Energy Position - Becky then went onto discuss Resource considerations/Open Energy Position. As we look at the bandwidth load forecast that has been developed, there are differences because of the gas compression load and the Keystone XL pipeline. Staff is using the low case for the time being but will continue to watch activities on Keystone XL pipeline.

Upon completion of the new load forecast it is then broken into the four power supply planning areas to begin analysis of our power supply situation. Using the low case, staff can see the difference from the 2017 forecast (last year's planning forecast) to the 2018 forecast.

Becky then shared a slide from a year ago used for the December Board and January MAC that was part of the strategic planning process for when decisions needed to be made within all the power supply planning areas that Basin Electric operates in. She then briefly discussed some updates to this timing based on some additional information related to the AVS2 Lease.

Questions from committee member answered by Basin Electric staff.

Mountain West Transmission Group

Mike Risan, Senior VP of transmission shared the recent results from discussion on Mountain West Transmission Group and SPP staff. From these discussions, there was a request sent to four entities (SPP, MISO, PGM, CA ISO), once the proposals were received and evaluated, it was decided to explore the SPP option. Basin Electric has been working with SPP staff for their feedback on policy recommendations and the additional moving parts in negotiating within the MW group.

The next steps will be to send a proposal to SPP followed by a Board/Members meeting at the end of January, the regulatory review at both federal and state level, internal approvals, and then go live possibly by mid-summer.

UMZ Coordination Committee

Tom Christensen, Director of transmission, shared information on the UMZ Coordination Committee and current filings, voting (governances), and quorum requirements.

The question of why are the Transmission Owners' (TO's) doing this, some is to attempt to resolve issues before meeting with FERC. Some steps taken to achieve this is to look at a

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definition of various criteria to address issues or provide adequate clarity on criteria prior to formation. The group would be limited to TO's with ATRR, keeping in mind there are other entities that have requirements within the zone but are transmission customers and not owners.

Tom concluded his presentation touching on the concept of the criteria on governance/voting structure for participants to the committee members.

Question from committee member answered by Basin Electric staff.

Staff moves to proceed with UMZ Coordinating Group. East River and Corn Belt support staff requests.

Transmission Service Mitigation Projects

Jason Doerr, RTO manager, gave a quick on background on the transmission service mitigation projects and what the benefits to Basin Electric are. To relieve a MISO transmission service cost, a member can buildout from and still have a benefit to Basin Electric. Currently Basin Electric has members that this does impact and if the member did buildout their system, they wouldn't qualify for tariff inclusion, but would provide a path for the member and a benefit to Basin Electric.

Last year a transmission service project was presented to the MAC, at that time Basin Electric staff wondered if we were building redundant facilities and if this would lead to some unanticipated consequences. It was recommended that any projects would be brought to the MAC for discussion and recommendations. In 2017 the MAC endorsed and Basin Electric Board approved a buildout project for Central Power/Blue Flint Coal. Today staff is reviewing eight new projects from Central Power Electric that they have brought to Basin Electric. The overall value is to pay our members to buildout their systems rather than paying a third-party.

Jason showed several slides demonstrating a break down on how the economics and the payback would work for a project.

Questions from committee members answered by Basin Electric staff.

Basin Electric staff moved for recommendation from the Manager Advisory Committee to recommend moving forward in bringing Central Power Electric's seven projects to the Basin Electric Board of Directors for approval. Claire Vigesaa moved to recommend to Basin Electric Board of Directors, Mike Easley seconded motion.

Doug Hardy moved to amend the motion contingent upon recommendation of Rate Subcommittee scheduled to meet on February 6th; Tom Boyko seconded the motion; motion passed.

Committee members voted to amend the initial motion by Claire Vigesaa to accept the project.

Mike Easley opposed to the process of deferring to the Rate Subcommittee.

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Rate Subcommittee Topics

Elizabeth Erhardt, rate and load analyst began her presentation by reviewing the past Rate Utilization. She started her presentation by demonstrating the Demand Period Waiver by displaying a slide reflecting the time of peaks for the members and when they were utilized. Sharing one of the members peak through a graph, Elizabeth ran through the results for when the load management was turned off. The benefit to the member was the demand period waiver lowered hours of management for this customer.

Question from committee member answered by Basin Electric staff.

Moving onto Special Purpose Rates Elizabeth summarized each:

Electric Heat Rate - about 300 MW's hours per month and utilized by all members with the exception of Flathead and Tri-State. Results show 16% of Basin Electric's monthly sales are used by electric heat rate; average is 9% is total energy sales.

Interruptible Rate Credit - this rate is utilized by four members. The members control for seven months and Basin Electric is not building resources for this.

Renewable Delivery Rate - Currently no one is under this rate.

MISO Wind Resource - this maintains the territorial integrity act for our member subsidiaries. Under this, the generator needs to be located in MISO and we currently have two projects under this rate.

Standby Rate - this was implemented this year, currently there are no one under this rate but predict there will be two to three ethanol plants in 2018 and beyond.

Purchase Rates

Load Management- this rate is for 1MW or larger loads. Basin Electric does have the right to call up to 180 hours per season, we have two projects under this.

Generation Purchase - this is a new rate recently incorporated. It is an alternative to Standby Rate for the larger projects and we currently have no one under this rate.

Other Rates

Renewable projects under 150kW - in total there are 600 projects under these rates and utilized by only ten members.

Load Data Incentive Rate - currently we have 13 members under this rate.

Environmental Attributes Purchase Rate - this serves as a contractual path to the members associated Basin Electric's obligation to the members.

Next Meeting

- May 3-4