

*Manager's Advisory Committee Meeting
(January 20, 2016)*

SUMMARY

MAC Present

Chris Baumgartner-KEM
Tim Sullivan-Wright-Hennepin Cooperative
Mike Easley-PRECorp
Dave Eide-Codington-Clark Electric
Tom Boyko-East River Electric
Tom Meland-Central Power
Wayne Martian-North Central Electric
Brad Nebergall-Tri-State
Ken Kuyper-Corn Belt
Craig Codner-Butler
Claire Vigesaa-Upper Missouri
Jerry King-Burke Divide Electric
Doug Hardy-Central Montana
Tim Stephens-Park Electric
Curt Dieren-L&O
Matt Washburn- NIPCO
John Euchner-Nishnabotna Valley REC
Vic Simmons-Rushmore
Wayne Sterkel-Lacreek Electric

Others Present

Steve VerMolm - NIPCO
John Skurupey - McKenzie
Lars Nygren - Capital Electric
Michael Hoy - McCone Electric
Jeremy Mahowald - Upper Missouri
Bruce Carlson - Verendrye REC
Don Franklund - Mor-Gran-Sou
Mike Kossan - Central Power
Martin Dahl - McLean Electric Coop
Walker Witt - Blacks Hills Electric
John Lee - Butte
Terry Keller - Cam Wal
Dick Johnson - West River
Steve Reed - West Central
Rick Knick - Sheridan Electric
Jason Brothen - LYREC
John Sokoloski - Goldenwest
Timothy Grablander - Cherry Todd Electric
Kevin Mikkelsen - Rosebud Electric
Ryan Hentges - MVEC
Tim Mergen - Meeker Coop
Kory Johnson - Agralite Electric
Bill McKim-Midland Power
Rick Olesen - Iowa Lakes Electric
Tim McCarthy - Sioux Valley Energy

Basin Electric

Paul Sukut
Dave Raatz
Becky Kern
Lisa Carney
John Jacobs
Mark Kinzler
Steve Johnson
Sue Sorenson
Dave Rudolph

Mike Risan
Ken Rutter
Sharon Lipetzky
Dave Sauer
Mike Eggl
Steve Tomac
Mark Foss
Matt Greek
Dale Niezwaag

MAC Absent

Ross Loomans

General Manager's Report

Paul updated Members on the austerity measures Basin Electric has implemented and concern that the rating agencies may downgrade Basin Electric.

Year End Financial Update - Steve Johnson, Senior Vice President, Financial Services updated the members on the pre-tax margin (Soft close numbers) and how the commodity prices are affecting the numbers.

Commodity Price Impacts - Ken Rutter, Vice President Marketing/Asset Management updated the members on the status of commodities (natural gas, power, fertilizers, and oil prices) and how they are at a fourteen year low.

2016 Member Revenue Change - David Raatz, Vice President, Cooperative Planning discussed member load levels and what areas are up and what areas are down. Our new 2016 Load Forecast is forecasting about half of the growth, over the next 20 years as compared to the 2015 Load Forecast.

2016 Austerity Measures/Target Budgets - Sue Sorensen, Vice President and Treasurer discussed the financial impact of the declined commodity prices on Basin Electric and its subsidiaries and Basin Electric's plan to minimize the financial impact.

Dave Sauer reviewed a number of alternate DGC operating scenarios which were considered, to maximize DGC margin levels.

Question: Ken Kuyper asked if it is beneficial to shut the plant down

Answer: More benefit to keep plant up and running. Sue advises the committee on the Shut Down Analysis that was done.

Question: Are there severance packages for all employees in the event of a plant shutdown?

Answer: Yes.

Question: Is Basin Electric providing a guarantee for financing.

Answer: Yes.

Question: Is Basin looking at projections to 2025 assuming LOS is running coal?

Answer: Yes.

Question: Are the Rating agencies potential impacts included in financial forecast estimates?

Answer: Not at this time.

Steve Johnson followed up with the committee answering additional questions on Basin Electric's credit rating and steps that need to be taken in the future.

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(January 21, 2016)*

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Tom Boyko - East River Electric
Tom Meland - Central Power
Wayne Martian - North Central Electric
Brad Nebergall - Tri-State
Ken Kuyper - Corn Belt
Craig Codner - Butler Electric
Claire Vigesaa - Upper Missouri
Jerry King - Burke Divide Electric
Doug Hardy - Central Montana
Tim Stephens - Park Electric
Curt Dieren - L&O
Matt Washburn - NIPCO
John Euchner - Nishnabotna Valley REC
Vic Simmons - Rushmore
Wayne Sterkel - Lacreek Electric

Others Present

Walker Witt-Black Hills Electric
John Lee - Butte
Steve Reed - West Central
Dick Johnson - West River Electric
Terry Keller - Cam-Wal
Timothy Grablander-Cherry Todd Electric
Melissa Maher - Mor - Gran - Sou
Kevin Mikkelsen - Rosebud Electric Coop
Bruce Garber - Dakota Valley
Ryan Hentges - MVEC
Tim Mergen - Meeker Coop
Kory Johnson - Agralite Electric
Bill McKim - Midland Power
Rick Olesen - Iowa Lakes Electric Coop
Tim McCarthy - Sioux Valley Energy
Steve VerMulm - NIPCO
Jeremy Mahowald - Upper Missouri
Rick Knick - Sheridan Electric
Don Franklund - Slope
Martin Dahl - McLean Electric
Michael Hoy - McCone Electric
John Skurupey - McKenzie
John Sokoloski - Goldenwest
Jason Brothen - Lower Yellowstone
Jim Bagley - RVEC

Basin Electric

Paul Sukut
Dave Raatz
Becky Kern
Lisa Carney
John Jacobs
Mark Kinzler
Steve Johnson
Sue Sorenson
Dave Rudolph
Val Weigel
Zane Zuther
Dale Niezwaag
Mike Risan
Ken Rutter
Sharon Lipetzky
Dave Sauer
Mike Eggl
Steve Tomac
Mark Foss
Matt Greek
Jay Lundstrom
Robert Frank
Jean Schaefer
Mark Kinzler

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

Garrett Schilling

Matt Stoltz

MAC Absent

Ross Loomans

Tim Lindahl

Member Manager Report

Rushmore - Vic Simmons reported things are steady.

NIPCO - Matt Washburn reported he is in process of transitioning into his new position of general manager.

L&O - Curt Dieren reported they are still evaluating some SPP options and Federated named a new manager as Rick Burud recently retired.

Central MT - Doug Hardy reported the State is debating what is more important, jobs for solar or rates for consumers.

Upper Missouri - Claire Vigesaa reported they are seeing a slowdown from the Bakken. Right now they are still in a catch up mode however. One good thing, rents are coming down which is good for the locals.

Corn Belt - Ken Kuyper reported they are fighting a couple different battles with FERC and are working with SPP.

Tri-State - Brad Nebergall reported they grew last year and are fighting all the fronts on the coal side.

Central Power - Tom Meland reported two longtime managers retiring in April and May. Busy with SPP appeal, have some facilities that qualify for MISO.

East River Electric - Tom Boyko reported three new managers, going through SPP processing, have a new ethanol plant coming on by 2017.

PRECorp - Mike Easley reported they are focusing on Risk Management as it relates to customers. Overall system is down from 2015, coal mines are down, working on a rate case for 2017.

KEM - Chris Baumgartner, reported business as usual. Loads are holding steady. New Service requests are down over the last years.

Dave Raatz, Vice President Cooperative Planning, addressed the MAC about market opportunities that municipals have if their contracts with the Coops are expiring. In follow-up to the Rate Subcommittee discussion on the previous day, Mr. Raatz asked if the MAC wanted to endorse a market rate, to be used for member's load that have true market opportunities.

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Following considerable discussion Rushmore expressed concerns on a special rate for this purpose based upon past processes.

Action: Basin staff to write up a draft rate schedule and to provide it to the MAC for review. The MAC was also re-requested to advise Basin Electric if they support or disagree with the development and implementation of a special rate for loads with market options. This topic will be added to our March meeting agenda. There was a Motion to Table discussion and write it up. Ken Kuyper moved and Tom Meland seconded; Motion passes.

SPP Operations

Val Weigel, Manager Marketing Financial Analytics, addressed the MAC on SPP Operations.

Mike Risan, Senior Vice-President Transmission, summarized the activities around the ATRR Settlement Process. A flurry of activity has taken place to get this through the FERC process. Basin Electric's settlement conference is coming up.

2016 Load Forecast

Jay Lundstrom, Lead Load Forecast Analyst, updated the MAC on the results of the new 2016 Load Forecast. For this update, we welcomed three new distribution members; removed Keystone XL Pipeline; factored in additional power supply for some of the fixing members; and looked at oil, gas and 111(d) impacts. Annual Energy needs keep growing due to strength and stability in the residential sector. The oil industry forecast was lowered, and reality indicates it might go even lower. Williston Basin operations is becoming lean, doing more with less. They are pushing more pipelines.

MAC members commented on the effects of lower oil prices, i.e., equity of homes, store fronts closing, and families leaving. Commodity prices all affect load levels.

Resource Planning

Becky Kern, Director of Utility Planning, summarized on a high level, how the new 2016 load forecast affects Resource Planning. Staff continues to work on our surplus deficit situation in the difference planning areas. We are planning on releasing a request for proposal to see what is available on the market and compare the proposals to the other self-build opportunities we have for meeting our obligation.

Ms. Kern discussed Basin Electric's current Wind projects. At this time, Campbell County is commercial as of December 31, 2015; Sunflower Wind project is scheduled to be online by the end of 2016; Lindahl Wind project - aiming to be online in March 2017; Brady I project - to be online by the end of 2016; Antelope Hills - contract to be commercial June 2016, though we have encountered significant amount of problems and they have canceled all construction activities; Basin Electric has encountered several issues with Sun Edison, if they do not meet the June 2016 milestone in the contract, Basin Electric will seek to collect Delay Damages per the contract.

Ms. Kern discussed the Nemadji Trio Energy Center (NTEC) project. A non-binding term sheet was executed by the 3 CEO's that identified the different arrangements/terms that would be written in to the Project Agreements and it is expected that authorization to execute Project Agreement will occur in March.

Clean Power Plan

Beat the Rule

Mark Foss, Senior Vice-President General Counsel, advised the MAC that the Rule was published in Federal Register on October 23rd, Basin Electric's response was filed on the 29th. The final rule issued by EPA is on more solid ground, but remains vulnerable on many different respects. There are three principal legal issues in this litigation. 1) Can't regulate under § 111 if subject to regulation under § 112; 2) firm performance standard versus issuing a guideline document; and 3) the regulatory outside-the-fence issue. Many discrepancies conflicting between Senate and House versions.

Mr. Foss summarized the second issue to the MAC; how far can EPA go without usurping the State's role in establishing standards of performance? Mark then touched on Performance Standards, the final issue, which is "beyond the fence issue."

Other key issues were talked about.

Achievability of Performance Standards - EPA admits that no coal and gas unit can achieve the final performance standards for existing sources, in fact the new standards are less restrictive than for existing facilities.

Achievability of CPP - the CPP is not achievable for Basin Electric in the states of ND and WY within the timeframe required.

Mr. Foss discussed under the current timeline ND and WY assumingly would request extensions by September 2016, state implantation plans would be filed by September 2016, EPA provide it will review and approved, or disapprove each SIP within one year of submittal, interim goal must be met by 2022, and Basin Electric would have as little as two years to achieve interim goals. Mark discussed a timeline example using MATS Rule. Basin Electric filed for stay, not granted. Under §111(d) if you're not granted a stay what can steps can you take to comply? You can require a State Implementation Plan and second, EPA must approve a State Implementation Plan.

Basin Electric filed for Administrative Stay with EPA in October 2015, they filed a Motion for Stay with DC Circuit Court of Appeals in November 2015, EPA responded in December 2015, Briefs of Interveners on behalf of EPA were filed in December 2015. Mr. Foss stated he felt Stay implementation are very good for compliance by 2022. If there is one thing he could say, Basin Electric has left an excellent administrative record and hopefully this reflects well in Washington.

Basin Electric filed a Petition for Reconsideration with EPA in December 2015, the Petition serves as opportunity to comment on changes from proposed to final rule for which there was no previous opportunity to comment, and a means of preserving issues Basin Electric raised in comments on the proposed rule. Mark addressed Basin Electric's basic position. Several aspects of the Final Rule are either not logical outgrowths of the proposed rule or otherwise could not have been raised during public comment period depriving Basin Electric and others the opportunity to comment. Basin Electric did not have an opportunity to comment so we would like EPA to reconsider Final Rule; and Stay Final Rules compliance dates.

Mark mentioned State emission rate goals in the Proposed Rule were based exclusively on a state-by-state analysis of what could reasonably be achieved. The Final Rule uses analysis of three regional interconnected systems to calculate a set of national emission standards. This Final Rule ignores key comments by NERC & RTO's. Basin Electric does have until January 2016 to file with the EPA our comments on the proposed FIP/Model Rule. Written comments

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

to ND Health Department should develop a SIP, no present need for legislation, find a way to convert credits and allowances, cover concerns over increasing cost of electricity, suggest conducting hearings in low-income communities, including Indian Reservations. Looking ahead at potential related litigation, Basin Electric will likely appeal EPA's denial of our administrative Petition for Reconsideration, appeal State Implementation Plan, and appeal EPA disapproval of State Implementation Plan and issuance of a Federal Implementation Plan.

Change the Rule -

Mike Eggl, Senior Vice President Communication & Administration. Clean Power started back in 1992 when President Bush start the climate change. We won the legislative issue, but we knew something was coming on the regulatory basis because of the Supreme Court lay out. It will be affected by who is elected, it will put us in a lawsuit status for some time. We won't see any underlining change from congress. End result we will be living in a carbon free environment from now on. We will not see a lot of support anytime soon. We are now in the natural gas environment which isn't a big factor, it is the price of gasoline. We ended up here through politic decisions, (bilateral) because most of these decisions are made on a regional basis. We have more coal reserves than anyone else in the world and are seeing the effect more so.

Basin Electric is left with two options, Litigation (we are heavily involved and heavily promoting) and Laying a regional groundwork for a future solution, "hoping that everyone buys into this so when the next administration comes in it won't matter as much." We need more states to join in the plan to be in the right position legally. Right now we need to work with states on State Implementation Plans and continue to develop political strategy. Conclusion, region got hit too hard, rule is too much, political powers to be next to fix it!

Meet the Rule

Becky Kern, Director of Utility Planning, advised the MAC, on Basin Electric's preliminary analysis, which includes hiring a consultant as well as our internal analysis on the Clean Power Plan as currently written. These two components are going to be utilized in our long-term planning analysis and at some point a plan would be developed.

Matt Greek, Senior Vice President of Engineering & Construction, addressed the MAC as to what is required to support the plants? New wind and natural gas capacity is what is required.

Basin Electric has developed a mock plan and have implemented the project plan and our next step will be the execution of the plan. When that happens we will be looking for right ways, preliminary engineering that supports the process. We need to be at some point of compliance in 2022. Because of the size of the work Basin Electric would need to contract out (sight selection), etc.

Compliance issues we are looking at are major equipment commitments, it is a challenge but want to keep the options open. A list of project schedules list wind farms, simple cycle, reciprocating engine, combined cycle.

Question: Is there enough product in the pipeline to meet fuel supply requirements?

Answer: Good question; that is why we plan ahead.

Question: What happens if we don't comply?

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Answer: we are fined (FIP), there is scenario for failure to comply. Changing the venue so that we can be in the best defense we can be in.

Member Contract Update/New Member Updates

Dave Raatz, Vice President Cooperative Planning, updated the MAC on those members that extended their contracts. Mr. Raatz touched on new members in Montana, as well as the ongoing discussions with Wyoming Municipal Power Agency (WMPA) and Minnkota.

MAC Recommendations

Dave Raatz, Vice President Cooperative Planning, reviewed both the Diversity Policy and the Renewable Resource Policy and indicated they have been recommended by the Rate Subcommittee.

Following discussion Claire Vigesaa moved to adopt both policies; Tom Boyko seconded; Motion carried.

2016 Cooperative Plan

Mike Eggl, Senior Vice President Communication & Administration, updated the MAC on how Basin Electric is evaluating all board policies. Some ways Basin Electric is reaching out to its members is asking, how are we communicating the vision across the cooperative? Mr. Eggl shared how apparent it was of significant overlapping and that is what initiated the board in re-evaluating the Board policies. Reviewed the 2016 Cooperative Plan with the MAC.

Question: Where is it reflecting the membership?

Answer: We will address it.

Question: Where are the Board policies located on the Member website?

Answer: They are not but will be sure to implement this in the future.

Other

Dave Raatz, Vice President Cooperative Planning, informed the MAC on Basin Electric's current Strategic Planning process. Dave indicated there is an internal group of senior staff members who are tasked to define goals to present to the whole senior staff.

Doug Hardy from Central, MT expressed his appreciation to Basin Electric employees for their dedication to present the information at the MAC.

Adjourned: 1:15 p.m.