

*Rate Subcommittee/MAC Meeting
March 7, 2016
SUMMARY*

Members Present

Tom Boyko - East River Electric
Ken Kuyper - Corn Belt
Curt Dieren - L&O
Doug Hardy - Central Montana
Tom Meland - Central Power
Mike Easley - PRECorp
Matthew Washburn - NIPCO
Brad Nebergall - Tri-State
Vic Simmons - Rushmore
Claire Vigesaa - Upper Missouri
Bruce Kraemer - Crow Wing Power

Others Present

Tim Mergen - Meeker Light & Power
Rick Olesen - Iowa Lakes Electric
Jason Brothen - Lower Yellowstone REA
Terry Keller - Cam Wal Electric Coop
Chris Baumgartner - KEM
Jeff Bean - Western Iowa Power Coop
Ted Smith - Sioux Valley Energy
Pat Engebretson - East River
Jack Hamblin - Southeast Electric Coop
Gerry Mareok - MVEC
Dave Eide - Codington-Clark Electric
Walker Witt - Black Hills Electric
Randy Hauck - Verendrye

Basin Electric

Paul Sukut
Dave Raatz
Becky Kern
Sharon Lipetzky
Lisa Carney
Ken Rutter
Steve Johnson
Mike Risan
John Jacobs

Others Present

Lars Nygren - Capital Electric
Pat Carruth - MVCLPA
Don Franklund - Mor-Gran-Sou
Craig Codner - Butler
Martin Dahl - McLean Electric Coop
Bruce Carlson - Verendrye Electric
Jeremy Mahowald - Upper Missouri
Steve VerMolm - NIPCO
John Skurupey - McKenzie
Michael Hoy - McCone Electric
Jerry King - Burke Divide Electric
Tim Stephens - Park Electric
Wayne Martian - North Central Electric
Kory Johnson - Agralite Electric
John Sokoloski - Goldenwest
Rick Knick - Sheridan Electric Coop
John Lee - Butte Electric Coop
Bill McKim - Midland Power
Jeff TenNapel - Osceola Electric Cooperative
Chris Studer - East River
Scott Moore - FEM Electric Assn
Tim Sullivan - Wright-Hennepin Coop
Melissa Maher - Mor-Gran-Sou
Joe Farley - Harrison County
Ross Loomans - Lyon REC
Scott Westlund - Sheridan Electric
Paul Fitterer - Capital Electric
Colgan Huber - Grand Electric

Garrett Schilling
Dave Sauer
Tom Leingang
Mark Kinzler
Susan Sorensen
Ryan Hentges
Tom Christensen
Mike Eggl
Dale Niezwaag

General Manager's Report

Paul Sukut, CEO and General Manager advised the committee members on the latest action items covered by Basin Electric staff. It was suggested and agreed to cancel April's MAC meeting and hold a one day meeting sometime in May.

Sue Sorensen, Vice President and Treasurer refreshed the committee on where she left off from January's meeting. Sue walked the committee through revised budgets since the original budget approved by the Board in December was outdated by the time it was taken to the Board; a net loss still showing. Sue discussed different areas within the company, i.e., reduction in number of employees budgeted; minimizing travel/training; shifting pay increases from spring to fall; the delaying or canceling contract services; finance took a thorough look at them all which ended up showing a reduction of 3.3 million dollars.

Several follow-up questions from committee members were fielded by Sue, Steve Johnson, and Paul.

Sue continued her presentation to the committee touching on LOS and AVS running expenses and impact areas. There were questions from committee members as to plants going down for two weeks or more, several scenarios were discussed of the plants shutting down and the impact of such. The Look Forward for Basin Electric is to request approval at the August Board meeting. Discussion on ratings amongst the committee. The load forecast utilized in the 2016 budget was midway between the 2015 recovery case load forecast and the new 2016 load forecast that was board approved in January 2016.

Member Manger Reports

Corn Belt - Ken Kuyper had nothing to report.

PRECorp - Mike Easley commented things are tough. Discussed with employees no topic is off the table anymore, i.e., wages, number of employees, members, etc.

Central Power Electric - Tom Meland had nothing to report.

Tri-State - Brand Nebergall passed.

L&O Power - Curt Dieren passed.

NIPCO - Matthew Washburn passed.

East River Electric - Tom Boyko commented they had a lot of desire to look at _____

Crow Wing - Bruce Kraemer passed.

Central Montana - Claire Vigesaa - Commented things have slowed down.

Rushmore - Vic Simmons commented levels are back the 2006 levels.

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

Central MT - Doug Hardy commented in February they didn't see a lot of load.

General Rate Structure

Dave Raatz, Vice President of Cooperative Planning summarized actions items handled by Basin Electric staff from the last Rate Subcommittee meeting on November 16, 2015.

Becky Kern, Director of Utility Planning highlighted to the committee action items from January 20th Rate Subcommittee meeting and the status on them.

Power Pool Time of Capacity Requirement - Becky Kern reviewed Power Pool Time of Capacity Requirement, touching on SPP (currently seasonal at time of BEPC peak, likely going to change to summer season only and still at time of BEPC peak); MISO (currently summer season only at time of MISO peak, likely going to change to seasonal); WECC-RMRG (at time of BEPC peak for all seasons); and WECC-NWPP (at time of BEPC peak for all seasons). She reviewed 2015 Diversity by resource planning areas of SPP, MISO, WECC-RMRG and WECC-NWPP. Historically we have looked at the last 10 years of historical diversity by east and west side, and then we plan for the worse.

Question: Any changes needed in the future?

Answer: Yes, historically we have always looked at east and west side. We will be looking at diversity by resource planning area as we move forward. As we start tracking this we can start planning for a more appropriate amount of delivery.

Efficiency of Member Load Management - Becky Kern discussed the members load management capabilities. Using data from three of the members (East River, Central Power, and NIPCO), she shared with the committee what load management the members had available for 2015. Basin Electric calculated the load management by looking at days of control per month, average number of control hours by month and hourly average of load management of control each month. We also looked at the amount of control that was happening during the Basin Electric coincident peak in SPP (July or August), this is also where the majority of the load management value occurs to Basin Electric, and during 2015 there was approximately 20-50 MW of load management capability that was not operating during the Basin Electric peak in SPP. It was concluded, that a change in billing peaks is unwarranted, as there was no significant reduction to resource adequacy need.

Questions from committee members were addressed by both Dave Raatz and Becky Kern.

Committee supported the Staff recommendations.

Waived Billing Demand Period - Becky Kern commented how the objective was to limit load management hours, improve member off peak marketing opportunities, maintain capacity benefit of load management, provide opportunity for increased energy market optimization, and minimize demand billing cost shifts. Profiles for each planning area were reviewed and staff asked the question, if one looked at monthly operations, could a change in rate demand billing change Load Management operations and create a new peak for power supply planning?

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

It was concluded that potentially changing load management operations could create a different peak for power supply planning during December, January, July and August.

Questions from the committee were handled by Dave Raatz and Becky Kern.

Sharon Lipetzky, Manager of Rates & Revenue continued the discussion by sharing with the committee the different hourly peaks throughout several months in 2015 and the initial goal on what was shown throughout the graphs. Sharon discussed the patterns and the available load management for each month. The discussion of a Waive the Demand and how the hours varied throughout the year. A one year study showed ten of the twelve months waiving the demand might be feasible. The concept of a 2017 test period was reviewed with the committee.

| | Monthly Operation | Daily Operation (10pm-6am) | Free Demand Period Conclusion |
|------|-------------------|----------------------------|-------------------------------|
| Oct | - | - | OK - 10pm to 6am |
| Nov | - | - | OK - 10pm to 6am |
| Dec | YES | YES | NO |
| Jan | YES | YES | NO |
| Feb | - | - | OK - 10pm to 6am |
| Mar | - | - | OK - 10pm to 6am |
| Apr | - | - | OK - 10pm to 6am |
| May | - | - | OK - 10pm to 6am |
| June | - | - | OK - 10pm to 10am |
| Jul | YES | YES | OK - 12am to 10am |
| Aug | YES | YES | OK - 12am to 10am |
| Sep | - | - | OK - 10pm to 10am |

Objectives for this study are limit Load Management hours; improve member off peak marketing opportunities; maintain capacity benefit of load management; provide opportunity for increased energy market optimization; minimize demand billing cost shifts. Basin Electric would also look at eliminating Member Power Cost Cap in 2017 via Rate Schedule.

Questions from committee members were addressed by Dave Raatz and Sharon Lipetzky.

Committee agrees with the implementation of a Waived Billing Demand period for 2017 as a test with intent of carrying it forward based on the time periods identified in the presentation. The committee also agreed, in conjunction with the Waived Billing Demand Period, to eliminate the Member Power Cost Cap in 2017.

BEPC Cost of Service - Becky Kern followed up on the January Cost of Service discussion. Bringing forth two years of history as split between fixed and variable costs. We then expanded the discussion to look at a "Rate Base" Cost of Service which incorporates the Non-Member Revenue into the analysis. Utilizing the "Rate Base" Cost of Service calculation, which is more in-line to the 50/50 split on Demand and Energy, we concluded to leave our Base Rate at a 50/50, and maintain a Fixed CROD at 56/44 demand /energy split for 2017.

Questions from Committee members were addressed by Dave Raatz.

Committee endorses staff recommendations.

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Dave Sauer
Tom Leingang
Mark Kinzler

Roll call taken.

Committee member Claire Vigesaa requested two actions from Basin Electric.

- a. Forecasted Budget Range
- b. An independent third party analysis (LOS value) and (DGC value)

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

Dave Raatz addressed bringing this to the group in April, at this time there is no information to offer to the committee. Ken Rutter added that a low, high, mid-range and a clean power plan are all being used in the analysis. Paul voiced hesitation on bringing a third-party analysis for now, by May he feels a lot more should be known for everyone. It was proposed to have a MAC meeting in April and hold one in May. It was addressed to allow Web-ex access so as to allow members the access to follow along.

Committee endorses staff recommendations.

Existing Sale/Purchase Rates - Sharon Lipetzky visited on electric and dual heat rates. Sharon shared with the committee the Interruptible Rate, proposing to maintain unless some would like to modify. Sharon continued with the Purchase Rates: Distributed Generation Purchase Rate, Consumer Energy Purchase Rate and Renewable Energy Purchase Rate - Currently applications are at 8.1 mw.

Sharon touched on Solar Pass-through Rate, currently Basin Electric has two applications but the projects have not started up yet. Lastly, Load Management Rate started the first of year and we have no one on the rate at this time.

2017 Rate Design Discussion - Dave Raatz, Vice President of Cooperative Planning discussed two topics, Load Retention Rate and Reduce Base Demand Rate and opened up a discussion on the establishment of a larger fixed charge. Dave touched on the economics of oil and gas processing, what will oil industry start to do with natural gas they have available. Member input at this time indicated minimum support for a larger fixed charge.

The other topic Dave visited on was for the development of a special load retention rate. At this time, staff has not gone through and calculated a rate schedule to do that. A model was presented to the committee for demonstration purposes only. Member input at this time indicates minimal support for a special rate for loads with market options.

Action Item: Committee members ask for more analysis on market rate on energy. Paul polls the Committee on their vote; six members opposed and five members in favor. At this time there will be no further review of the topic. Discussions continued and it was agreed more work on what the effect will be down the road is needed.

Energy Market Load Management - Ken Rutter, Vice President of Marketing and Asset Management addressed Basin Electric's goal. With entry into SPP, Marketing & Asset Management will be working with three to four members to determine the potential benefit of a new load management program. The goal is to introduce a new value add program that does not deteriorate existing value or require modifications to the general rate structure. Ken stated Marketing will complete analysis by May showing potential benefit or financial impact to End of the line customer; Basin Member; and Basin.

Discussion with the committee took place on Potential Method for Benefit Sharing - two different approaches were thrown out for feedback from the members. (Fixed benefit or Sharing) or keep track of the amount of control between members and Basin Electric.

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

Action Item: Load management to have calculation (70/30 or 60/40 sharing) by May's meeting.

Ken reviewed the Proposed Next step - Continue tests with other interested members and hope to start as early as July to see what benefit for this year.

Ken Rutter addressed committee member's questions.

Solar Generation - Becky Kern reviewed current solar project economics with the committee. She anticipates getting various proposals that afternoon or the next day on solar through the Request for Proposal that has been out on the street over the last month. It was presented by Basin Electric staff to the Board in February whether solar would be beneficial to have more solar generation in our generation portfolio. The Board did not see the value to Basin Electric at this time, due to the premium for solar generation. At this time we are not pursuing solar generation additions.

Comments from committee members.

PURPA - Becky continued discussion with the committee on the PURPA Assignment that we will be going to the board for action to take on the PURPA assignment responsibility for QFs larger than 150kW.

Clean Power Plan Update - Mark Foss, Senior Vice President & General Counsel, covered an update of the Clean Power Plan litigation. Mark reviewed filing timeframe with a draft of the final plan with the committee. At the time the emergency petition to Supreme Court, Basin Electric was named industry petitioner on behalf of the Industry. The nice part of this we were able to tailor our brief to the conservative justices and Justice Kennedy. The stay was granted by the Supreme Court on February 9, 2016. With the passing of Justice Scalia a few days later it is most people's thinking our chance of success has dropped and we are now looking at an uphill battle. Mark updated the committee on briefing timeline and scheduled oral arguments date (June 2nd).

Mark addressed questions as to timeline on Stay and other EPA questions.

Mike Eggl, Senior Vice President Communications and Administration presented the question how Basin Electric will address this overall. Should Basin Electric advocate to keep the option open of Rate versus Mass?

Rate versus Mass was discussed. Should Basin Electric advocate to keep the option open? It is felt the stay should affect all timeframes of the rule. Would a new president take executive action to get rid of the Clean Power Plan, which then legal action would take place? It would require something to regulate CO2. Rate States can only trade credits with rate States. Under the rule no one is obligated to trade. It is hoped that the two, Rate and Mass, disappear all-together.

Next Meeting

Next meeting May 31st.