

*Manager's Advisory Committee Meeting
July 22, 2015*

SUMMARY

Rates-MAC Present

Tom Boyko - East River Electric
Curt Dieren - L&O
Rick Burud - Federated REA
Tom Meland - Central Power
Kent Pauling - NIPCO
John Euchner - Nishnabotna Valley
Tim Lindahl - Wheat Belt Public Power District
Doug Hardy - Central Montana
Tim Stephens - Park Electric
Vic Simmons - Rushmore
Wayne Sterkel - Lacreek Electric
Claire Vigesaa - Upper Missouri
Rick Knick - Sheridan
Chris Baumgartner - KEM
Don Franklund -
Mike Easley - PRECorp
Ken Kuyper - Corn Belt
Craig Codner - Butler County Rural Electric
Mike Easley - PRECorp

Others Present

Basin Electric

Paul Sukut	Mike Eggl
Dave Raatz	Dale Neizwaag
Mike Risan	Jean Schafer
Ken Rutter	Jen Holen
Valerie Weigel	Greg Wheeler
Becky Kern	Kurt Capouch
Sharon Lipetzky	Eric Carufel
Matt Greek	Matthew Stoltz
John Jacobs	
Heather Schlenker	
Andy Buntrock	
Steve Johnson	

General Manager's Report

Mr. Paul Sukut, CEO and General Manager started the meeting by welcoming all parties and the pledge of Allegiance. An Executive Session was held for Basin Electric Members and staff.

Member Power Requirements & Resource Development

Becky Kern, Director of Utility Planning presented the results of the member's latest load forecast. The forecast included another year of actuals load information, updated distribution member sales models, shifted Keystone XL project to a 2 year delay, additional power supply for fixing Members and a detailed energy sector analysis for oil and gas. Ms. Kern walked through all individual contributing pieces and outlined Districts expected load growth. Ms. Kern also outlined a recovery scenario with anticipated oil prices beginning to rise by 2017. The scenario outlines the slow addition of rigs post 2017, does not reach a baseline assumption on the rig count and does not include the Keystone XL project.

Dave Raatz, Vice President of Cooperative Planning discussed resource development strategy and the time line. The strategy is to buy in the market as long as that's the lowest cost option. Mr. Raatz explained the timing of getting units built emphasizing the need based on current forecast and the proactive planning and options approach recognizing it takes 3-5 years to construct new resources. Mr. Raatz discussed the annual planning process. Mr. Raatz reviewed the results of recent requested for proposal (RFP) and the effects.

Mr. Raatz discussed the value of Minnkota highlighting the potential value of delivery optimization. Noting, if there is the possibility to pull the deal together, combined resources would be a way to bring power back and forth between MISO and SPP.

Marketing and Asset Management

Valerie Weigel, Manager of Marketing and Financial Analytics, gave an overview the responsibilities and purpose of the Marketing and Assets group providing a brief summary of their responsibilities and goals. The goals are to provide the membership with stable commodity pricing, return on assets, transparency and accountability.

Summary of the department and responsibilities.

Ms. Weigel outlined the product Marketing and Assets manage for DGC and Basin Electric and reviewed short term purchased power financial performance from budgeted against actuals discussing the offsetting variables.

Ms. Weigel discussed the 2015 YTD product revenue. Looking forward to the fall season of ammonia, sales are a balancing act of agreed upon policies as it relates to pre-sales. The ending of a CO2 contract for DGC was a big hit, but they have negotiated a new contract with an interruptible rate with the same company and they have the ability to hedge some certainty now.

Ms. Weigel discussed how we hedge to gain certainty for DGC and walked through the various products that we hedge. The concept with hedging is to review financial forecast (volumes and prices), determine potential volatility and determine how much revenue/expenses we are willing to be exposed to, establish an outlook and plan to establish goals. We see favorable Mark to Market for hedging for DGC.

Ken Rutter, Vice President of Marketing and Assets Management, gave an explanation of the ARR interim auction. Ms. Weigel explained the detailed process of ARR (from nominations) then having the option to participate in the monthly rights or hold to offset congestion seen in the market.

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

The Marketing and Asset Management group prepares a weekly Member report that covers various functions done in the department. As Basin Electric moves into SPP and the market, the report will be revamped to include prudent information.

RTO Update and Transmission Policy Change

Mike Risan, Senior Vice President of Transmission reviewed the NERC regions map, outlining areas. Basin Electric is not a transmission operator which puts us on a 6 year audit cycle. The next WECC audit is scheduled for the 10th of August. The audit will be held off site. Basin Electric feels they are in pretty good shape. On the RTO side, an audit is expecting audit next year. However, the process will be converting to a quarterly cycle.

Mr. Risan shared a diagram on the Western Interconnection noting there is a lot of interest and activity on the west.

Mr. Risan discussed the original need for Midcontinent Area Power Pool (MAPP) and gave an overview of the history. With the shrinking footprint over the years as more join SPP the viable function of MAPP is diminished and the organization is in the process of dissolving of October 1, 2015. The organization has worked out an opportunity with HDR for employment opportunities for the MAPP staff and will be hosting an appreciation event on September 16.

Mr. Risan discussed a map of the Williston Basin pocket and a graph showing even with declining oil production there is still showing growth in the area. As a result of the growth, there is a need for the AVS to Neset interconnection project. AVS to Charlie Creek is authorized for cost sharing in SPP. Phase 2, the North Killdeer loop has not received authorization for cost sharing yet, however they are in the process of justifying cost sharing. In addition, other systems Improvements Basin Electric staff are working on include: Timber Creek / mobile caps, Dry Creek Substation, Lonesome Creek Interconnection (working with McKenzie electric), Minot Area, Stegall DC Tie Replacement and Belden Area. Projects are not big ticket items,

Matthew Stoltz, Manager of Transmission Services, discussed the SPP Attachment AQ process. This process which transmission customers can have SPP & TO assess additions, modifications, or abandonments of local physical delivery point facilities under the SPP Tariff. Attachment AQ applies when there are new delivery points, abandoned delivery points or modified delivery points. Other entities will submit AQ requests to the Transmission Owner (TO) and to SPP. Members take the forms (application) and give back to Basin Electric and Basin Electric will submit on behalf of the Members. WAPA will no longer be the Tariff administrator. Mr. Stoltz reviewed the process to submit a request and the process and timeline for variable associated parts outlining the importance of any member that is going to be a Basin TO need to be familiar with the websites and processes.

Mr. Rutter gave an update on the SPP Integration processes and all the various areas that were impacted with the go forward plan efforts.

Mr. Rutter outlined the beginning of a new relationship between Western, Basin Electric and SPP and benefits expected. With the market place we will still have a daily relationship with Western.

Mr. Rutter highlight items that we still need to develop on the Market Trials Scorecard. A lot of different process have been impacted, and are adjusting to accommodate the changes. Market

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results revealed prices were higher than anticipated, generation and Energy awards came in as expected. Energy awards came in as expected.

Mr. Risan gave a Settlement update on external items of interest related to the entry into SPP. He provided an update of Missouri River Energy Services. (MRES) protest of Basin Electric's filing to join SPP, and a number of other protesters and interveners. He then noted that Basin Electric has reached an agreement with Montana-Dakota Utilities Co (MDU) and negotiations with Ottertail are not going anywhere. Central Power Electric Cooperative has provided notice of termination of its sub transmission agreement with Ottertail. A last settlement conference has been scheduled for August 19, after which a hearing will be scheduled. This will not affect the October 1, 2015 SPP integration date.

When the Joint Transmission System was converted to the IS, Basin Electric executed a make-whole agreement with Western to preserve Western's revenues. This was capped at \$10,250,000 per year. Joining SPP will create unintended consequences for Western, so Western is interested in replacing the make-whole agreement to protect itself from the cost exposure due to Basin Electric's members putting their facilities into SPP. The concept of the agreement is to make a payment to Western equal to Basin Electric's member-owned facilities times Western's annual load share of the UMZ rate zone. This would apply only to facilities existing at the time of inclusion and would phase-out over a 10-year period on a member-by-member basis. The effective date will be October 1, 2015 or when Western becomes an SPP transmission-owning member. Basin Electric's annual cost is about \$66 Million.

Mr. Raatz reviewed the Transmission Service Policy that was passed July 2014 by the Basin Electric Board of Directors and how the delivery point changes would look conceptually. Draft Member power contracts have been updated to reflect the change. During the time of updating the member contracts to address new delivery points it has also been determined it may be time to extend the member all-required agreement which could allow Basin Electric to extend the depreciation lives of its facilities. This depreciation period change could reduce costs by \$37 Million / year. If all members do not extend their contracts any unexecuted for depreciation of savings will all be allocated back the memberships which extend their contracts.

MOTION: Vic Simmons made a motion, seconded by Doug Hardy regarding a concept where if a Member does not have a RTO or Open Access Tariff participation option Basin Electric should compensate the Member for a load ratio share of their annual transmission facility costs which would have qualified under SPP Transmission Tariff Criteria.

Motion passed with all in favor - 1 abstention.

Abstainers to the vote:
PRECorp - Mike Easley.

Financial Forecast

Steve Johnson, Senior Vice President and CFO, discussed the 10-year financial forecast presenting the impacts of the projected rates on the financial metrics of the Cooperative using the methodology used by Moody's Investors Service to develop its bond ratings.

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Mr. Rutter discussed the RTO forecast assumptions will be somewhat different with new revenue and expense categories for 2016 as a result of SPP Purchased Energy, SPP Energy Sales and Congestion Charges.

2016-2025 Basin Electric Financial Forecast

Ms. Kern highlighted the recovery load forecast scenario and gave an overview of all the components comprised in Financial Forecast. When we look at the net transmission wheeling related to the forecast, there is a \$60 Million increase which is about a \$2.40 / mwh rate increase. The increases are due to the Transmission Service Policy, increased expense in the SPP UMZ, lost revenue in the SPP UMZ and a make-whole to WAPA if our members are bringing facilities under the SPP tariff below 100kV.

Andy Buntrock, Manager of Financial Planning and Forecasting, reported that assumptions included a general inflation rate of 2.5%, a 3% margin requirement for 2016, holding a revenue deferral on the balance sheet, the Rural Utilities Service (RUS) buyout, extended depreciable lives, no capital credit retirement and no dividends from subsidiaries. Mr. Buntrock reviewed the commodity price assumptions.

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Brad Nebergall - Tri-state
Tim Lindahl - Wheat Belt Public Power District
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2016 Class A Rates

Sharon Lipetzky, Manager of Rates and Revenue, discussed the proposed rates for 2016 outlining two sets of rates, one prior to the depreciation extension credit, and rates after the extension credit for members with signed wholesale power contracts through 2075.

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components based on the Financial Forecast. Ms. Lipetzky outlined the rates and the Managers Advisory Committee made the following motions.

MOTION: Vic Simmons made a motion, seconded by Tom Meland for Load Data Incentive Rates to be changed: \$.035MWh be raise to \$.050/MWH with 90% Accuracy and \$.07/MWh raise to \$.10%/MWH with 95% Accuracy.

Motion passed - All in favor

MOTION: Vic Simmons made a recommendation, seconded by Claire Vigessa from Membership to General Manager and CEO to approve the structure of the rates.

Motion passed - All in favor

Mr. Raatz discussed Member Diversity related to the Montana Coops. Mid Yellowstone made recommendation to join Upper Missouri and is contiguous. Fergus Electric is proposing to join PRECorp. Open discussion was held among the Members on the current policy, results of making exceptions and cost shifts resulting in the following motion:

MOTION: Ken Kuyper made a motion, seconded by Don Franklund. A recommendation to the Basin Electric Board to satisfy PRECorp's request for Fergus Electric to join PRECorp, foregoing their (PRECorp) Diversity share.

All in Favor - 4

All Opposed - 11

Motion Failed

Abstainers to the vote:

PRECorp - Mike Easley.

Central Montana - Doug Hardy

Upper Missouri - Claire Vigessa

Scott Sweeny - Fergus Electric, spoke pleased to be working towards joining the Basin Electric family again. PRECorp has reached out and developed a good relationship with Fergus and Tongue River. PRECorp has reached out and spoke highly of the Basin Electric family.

Mr. Raatz discussed the 2016 Member Rate Impact.

Legislative Update

Mike Eggl, Senior Vice President of Communications, touched on major issues Basin Electric is dealing with.

Basin Electric is in a regulatory battle for EPA; legal; NRECA others to position against the rule as best we can.

LRS Regional Haze - Worked with state under state of limitation plan to come up with a solution. Wanted to bring in selective catalytic converters. Worked to get a stay. Want as many opportunities as possible to keep the plant running.

Rail - First major rail bill approved in 20 years put through by Senator Thune.

2015 Energy bill - Appropriations; following some issues.

Waters of the US - on a rider working with Wayne Stenehjem to support due to the relation to support the Membership.

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Tribal Utilities - In the long run, there is no silver bullet for this problem, it will get larger.

North Killdeer loop - decided to take a longer loop. Working to leverage basin electric we are resisting.

Touchstone Energy update on governances. Because of change in leadership the question of who actually owns touchstone and the logos is under discussion. Further vote in September. Would we worthwhile for Members to start thinking about how we'd like to see Touchstone develop. Corn Belt - If giving votes, should be equalized how much everyone pays.

Operations Update

John Jacobs, Vice President of Operations, gave an update on Plant operations. Making Dart cases we have incurred this year have been twisted ankles, knee pops, walking down the stairs. Mr. Jacobs covered the generation spread between the facilities and actual Generation thru June, due at an extended outage at AVS for a rotor issue, slightly below forecast.

DGC 2015 EOY Update

Mr. Johnson discussed the DGC 2015 End of the Year projected margin update briefly noting the presentation will be posted to the Members website.

Budget \$9.1million, end of year projection (deficit of \$58.7 million). Change is due primarily to falling commodity prices, i.e. crude oil, natural gas.

Mr. Buntrock covered the DGC benefits to Basin study and the impact to the Membership.

Engineering Update

Matt Greek, Senior Vice President of Engineering and Construction, gave an update on Engineering Services projects. Engineering Services is managing 80+ projects.

Land and Right-of-Way was recently recognized by the International Right-of-Way Association (IRWA) as the IRWA 2014 Employer of the Year for right-of-way staffs of 20 or less people.

Mr. Greek gave an update on the UREA project noting at the time of bids, staff made a reasonable assumption, when we got to the market, the prices weren't available. Overall given the new numbers, still looks to be a financially attractive project.

STB Case

The STB Case was discussed in closing.

MOTION: Vic Simmons made a motion, seconded by Tom Meland regarding the \$8 million out of the STB money that Basin Electric kept. The Membership would rather see the \$8 Million allocated based on 2014 percentages.
All in favor - Passed.

Tom Meland, Central Power commented he has been working very closely with Mike Risan and Dave Raatz on the OTP Settlement Case and commend them and their staff for all the hard work and efforts.

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Discussions concluded and Mr. Sukut adjourned the Meeting.