BASIN ELECTRIC POWER COOPERATIVE

A Touchstone Energy® Cooperative

Basin Electric is in stable financial condition. Dakota Gas has provided tremendous benefit to the membership in the past and now faces commodity price challenges that minimize that net benefit.

Dakota Gas and Where Did We Come From

Dakota Gasification Company, a wholly-owned subsidiary of Basin Electric Power Cooperative, was created in 1988 to operate the Synfuels Plant. The relationship began long before that when in the late 1970s, plans were made to build an energy complex, which included the Antelope Valley Station, the Freedom Mine, and the Synfuels Plant. In 1988, the purchase for $85 million was made based on a unanimous vote by the membership to make an offer to the Department of Energy. Many would consider this purchase a defensive move to help maintain lower costs of coal and to ensure load levels were maintained during a time when membership loads were far less than previously forecasted.

The plant was originally designed to produce synthetic natural gas from coal, but is now diversified into 13 marketable products to help mitigate the fluctuations of the natural gas market. From 1988-2014, Dakota Gas invested $845 million in capital improvements. All of these investments were funded with self-generated cash. When purchased, over 95% of the revenue from Dakota Gas was from the sale of natural gas produced by the plant from a coal gasification process. Today, natural gas makes up less than 30% of the revenue at Dakota Gas. The capital investment of the urea plant, which went operational in 2018, is helping to offset the losses from historically low natural gas prices and put a source of fertilizer production in the heart of the membership's territory.

In the past, Dakota Gas has helped keep rates low for the membership and has paid $213 million in dividends back to Basin Electric. Over $85 million of the cash from these dividends was used to fund the construction of the Dry Fork Station, Basin Electric's newest coal generation plant.

As recently as 2008 and 2011, Basin Electric also relied on Dakota Gas to avoid a mid-year rate increase that would have otherwise been required to avoid default on debt covenants at the Basin Electric level. Because of Dakota Gas' ability to dividend to Basin Electric, the membership was not called on to provide additional revenue to Basin Electric through increased rates.

Dakota Gas was purchased for the synergies it has with Basin Electric's generation fleet. In essence, these synergies are the cost savings to the membership of operating the plant. These synergies equate to a benefit to Basin Electric of about $71 million every year and are highlighted below based on the five-year average from the approved financial forecast.

- Coal – $38 million (57%) Dakota Gas, Antelope Valley Station, and Leland Olds Station all share mine costs creating economies of scale
- Shared facilities – $3.5 million (4.5%) Antelope Valley Station was constructed next to Dakota Gas so common facilities such as water treatment facilities, storm ponds, ditches, and rail and coal handling could be shared
- Allocations – $15 million (21%) Dakota Gas shares in the burden of overhead costs such as accounting, legal, engineering, marketing, communications, and information technology
- Interest Income – $10 million (13%) Basin Electric borrows cheaper and lends back to Dakota Gas at a higher rate
- Procurement – $1.5 million (1.5%) Tangible negotiating power and discounts
- Power supply – $3 million (3%)

Through 2020, Dakota Gas has provided over $800 million of benefit to the Basin Electric membership. These benefits have served the membership through lower rates and bill credits.

Dakota Gas Losses and the Future

As many of our members have experienced on their farms and ranches, commodity prices have fluctuated greatly in recent years. These fluctuations and changes in oil fracking technology have also impacted Dakota Gas.

Basin Electric has taken serious actions to minimize financial losses to include a 23% reduction in employees, slashed capital costs at Dakota Gas to bare bones levels, and trimmed costs by over $170 million at Dakota Gas from 2016 to 2020. Amongst all of these efforts, it still isn't enough to overcome the losses.

Since 2015, Dakota Gas has posted an operating loss; however, this loss has been offset by the operating synergies that Dakota Gas brings to the electric generation fleet. Recently those losses have surpassed the benefits. **In 2020, those losses impacted the average residential member with a 1500 kWh/month usage, by $1.40 per month. Those impacts resulted in $0.15 cents per month in 2019.**

While shedding environmental and financial investment responsibilities is not an option, Basin Electric's Board of Directors and Management are concerned about the current situation and have taken significant strategic steps to pursue an avenue for Dakota Gas that will minimize impacts to the membership. An immediate shutdown of the plant is not feasible and would lead to a large negative financial impact to the membership, which was discussed in detail at the member-only meetings in 2018, 2019, and 2020. This concern has focused efforts to repurpose the plant to potentially use a portion of it to generate electricity, position parts of the plant for independent operation, or market it for sale. Recently, discussions have led to the option of adding a primary reformer on the fertilizer plant, with the potential to shut down the coal gasification side of the plant and eliminate losses. **The ultimate goal is to wall off the membership from rate impacts as much as possible and to preserve rate stability.** Options to move forward with Dakota Gas without impacting member rates are achievable while continuing to provide reliable service to the membership.

The future is bright for Basin Electric and its members. Basin Electric decreased its average member rate in 2020 to 61.5 mills ($.0615 kWh) and has forecasted to hold that rate steady through the next 10 years. As Basin Electric and the membership together move forward as a Cooperative family, we focus on the areas that you, the membership, told us were most important: affordability and reliability. Together we can accomplish these goals and continue on a spirit of cooperation that sprouted in 1961.