

STRENGTH UNITY

President and General Manager's Report



Several months ago a Basin Electric board member said, “The world has changed.” This changed world is causing economic reverberations even in our region. Businesses are cautious on implementing their business development plans, and people are paying greater attention to the outflow from their wallets, delaying purchases and vacations. People are actually saving money, which is good in the long term; however, all of this may mean a slower economic recovery for the nation as a whole.

Something that hasn't changed is our “Strength in Unity” – a belief that served as the foundation as Basin Electric was formed almost 50 years ago.

That unity was built on joining together for a common purpose to build a power supply system the membership could own and control.

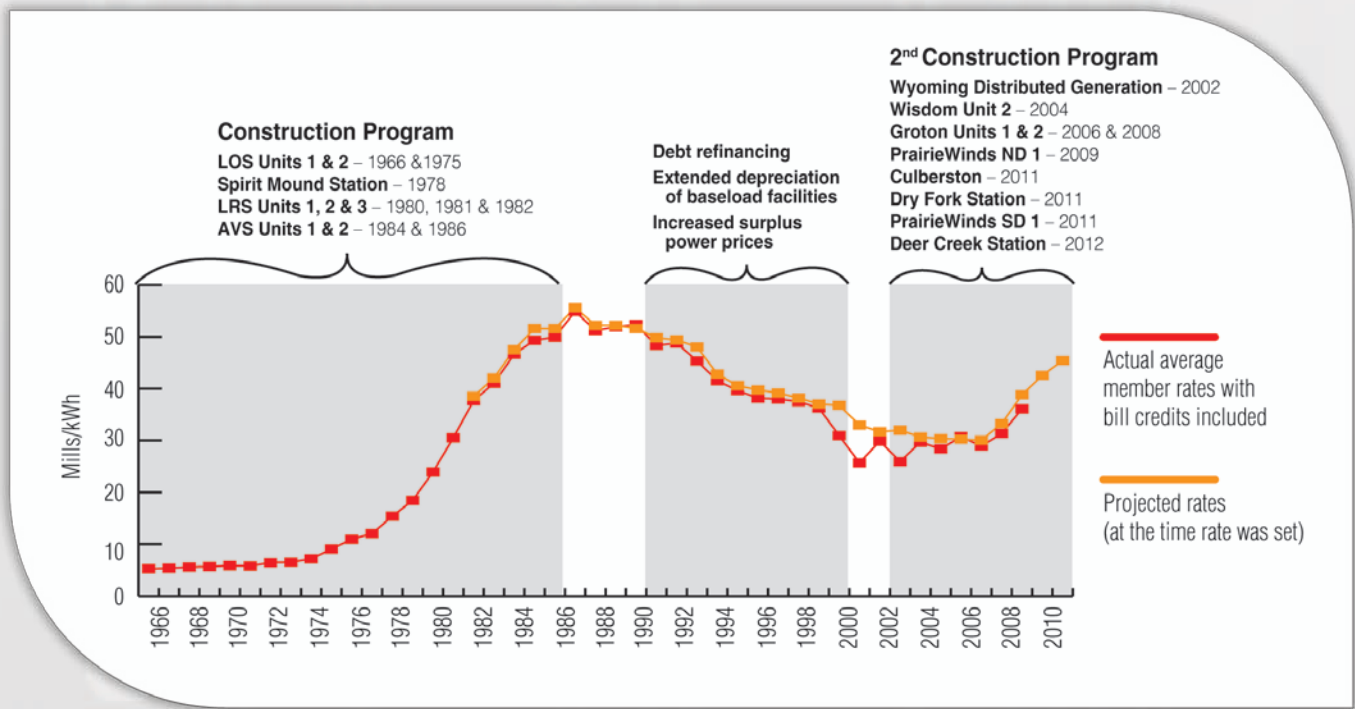
That unity was built on trust, fostered by honest, forthright communication.

That unity was built on regionalism and a sharing of the risk, so no co-op had to go it alone.

Unity and our foundation of cooperative principles, our personal integrity, and our ideals and objectives will continue to move us forward. By listening to each other and working together, we will continue to play an integral role in our region.

Construction program winding down

The nation is slowly recovering from this economic downturn, the largest in the history of Basin Electric. For the first time, the nation's electricity use has declined for two years in a row, but not in our region. Electric use has continued to grow in the membership's service territories because of the strength of the energy and agricultural industries, but not at the rate of growth earlier projected. This will cause some temporary hardship to you in the form of higher rates as new resources are completed and come into the rate base before the loads fully develop.



In addition to the economic slowdown, part of the increase is just the natural cycle of electric utility rates when new generation resources are needed and built (see chart). When new resources are added, the cost of electricity is going to increase, and some surplus is almost always built into the plans. What we didn't and couldn't count on this fall was the tremendous amount of new water in the Missouri Basin reservoirs, and from that came increased hydro power that is depressing surplus power prices. We don't remember it ever being so green in the northern Great Plains as it was this August and September.

To deal with this, we are working with our long-term partner, the Western Area Power Administration, and constantly evaluating the electricity markets to manage the resources in the most cost-effective manner.

The positive news is we are on the downhill side of our construction program. We have all of the financing for these projects in place and when complete, we believe your power requirements will be satisfied until 2019. In 2002, Basin

Electric had \$2.2 billion in assets. At the end of 2010, Basin Electric will be a \$5.3-billion cooperative, and even with all this activity our bond rating has remained stable.

While there is much construction work left to do, Dry Fork Station near Gillette, WY, will be completed in 2011. The PrairieWinds SD 1 project in south-central South Dakota is expected to be completed in early 2011, and the last generation committed to – Deer Creek Station near White, SD – will be completed in 2012. The 230-kilovolt Williston-to-Tioga transmission line should be in service by Jan. 1, 2011.

Major components of the construction program completed include:

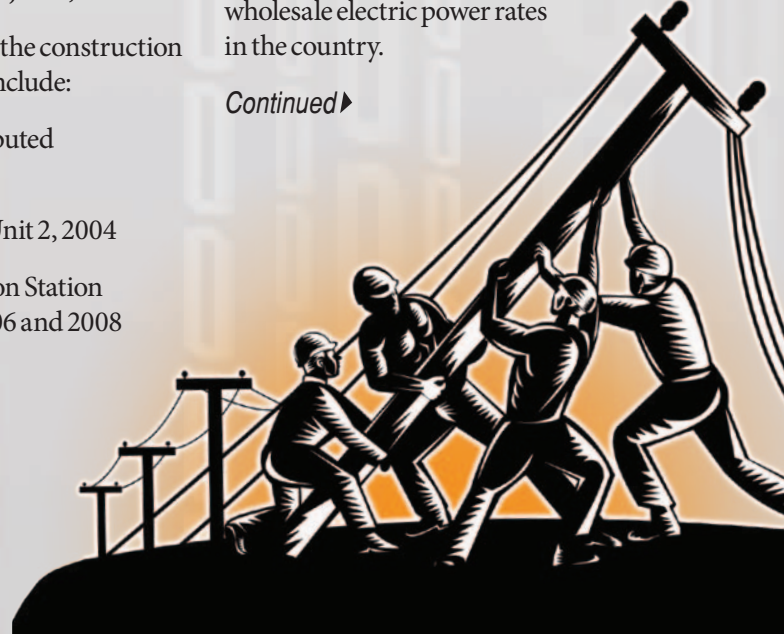
- Wyoming Distributed Generation, 2002
- Earl F. Wisdom Unit 2, 2004
- Groton Generation Station Units 1 and 2, 2006 and 2008

- PrairieWinds 1 and Minot Wind, 2009
- Hughes Transmission Project, 2010
- Belfield-to-Rhame Transmission Project, 2010
- Culbertson Generation Station, 2011 (commercial operation)

Forecasted 2011 rate

The 2011 forecasted average member rate is 45.42 mills per kilowatt-hour, a 2.92-mill increase from the 2010 forecasted average member rate. This continues to be one of the lowest wholesale electric power rates in the country.

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Energy policy gridlock

For nearly a decade we have been looking for a clear and concise energy policy from Congress. Unfortunately, the congressional process is broken.

In the last several years we have seen many different proposals for climate and energy bills, both together and separate. As a country, we have no long-term energy strategy. While some are content with no forward movement, no decision is a decision for the future of coal.

No decision means the Environmental Protection Agency will move forward with not only further greenhouse gas regulations, but also a wide range of other regulations that will impact energy development and put coal's future into question. This will be done without international agreements on climate change in place. This will mean no measurable decrease in worldwide greenhouse gas emissions while domestic energy development declines.

No decision means we will not have a path for domestic energy development. There will be no substantial effort toward clean coal development with so much uncertainty. Utilities will follow the path of least resistance, which seems to be a movement toward natural gas. While nuclear generation is again being discussed and appears to be a promising option, there hasn't been a nuclear facility built in this country in decades. In addition, the storage of spent nuclear fuel must be addressed.

While we believe nuclear generation could be a major part of the nation's energy future, it will take years to deploy this type of generation.

No decision means we will proceed with new generation incrementally; only smaller projects will move forward.

We, as a nation, are expending far too much time grappling with an uncertain energy policy. We should be concerned with providing affordable, reliable and secure energy for you. This must include a diversified portfolio of resources, which Basin Electric has advanced. However, without a viable path for clean coal, our future is much less certain. Our goal must be to continue to provide leadership in shaping a clear energy policy.

Dakota Gasification Company

Sustained low natural gas prices have continued to challenge the operation of the Great Plains Synfuels Plant.

To meet this challenge, Dakota Gas continues to pursue its goal to maintain a cost of production of \$5 per dekatherm or less into the future. One of our strategies to assist in this effort was

to install a second phenosolvan extraction unit to provide process redundancy for a more reliable plant.

The final revenue sharing payment from Dakota Gas to the U.S. Department of Energy (DOE) was recently tried up, and the total payment for 2009 was more than \$9.25 million. The total revenue-

sharing payments, which were part of the agreement for the purchase of the Synfuels Plant in 1988, now exceed \$390 million. Through these payments, the \$85-million original purchase price, and foregone production tax credits of approximately \$754 million, the United States government has recovered \$1,229,986,683 of its original investment of about \$1.5-billion in the facility through its sale to Basin Electric. This shows not only our ability to keep a commitment, but the expertise possessed by those who managed, operated and maintained the Synfuels Plant over the years.

Strength in Unity

"Strength in Unity" has everything to do with why Basin Electric Power Cooperative exists and continues to be successful. As we look forward to the 50th anniversary of its incorporation on May 5, 2011, we can unequivocally state that regional unity and grassroots activism have been its protective armor against forces and circumstances that would weaken our power supply system. That unity was built on trust, fostered by transparent two-way communication. In simple terms: the strength of the cooperative is the member, and the strength of the member is the cooperative.



Cliff G. Gjellstad
Basin Electric president



Ron Harper
CEO and general manager

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