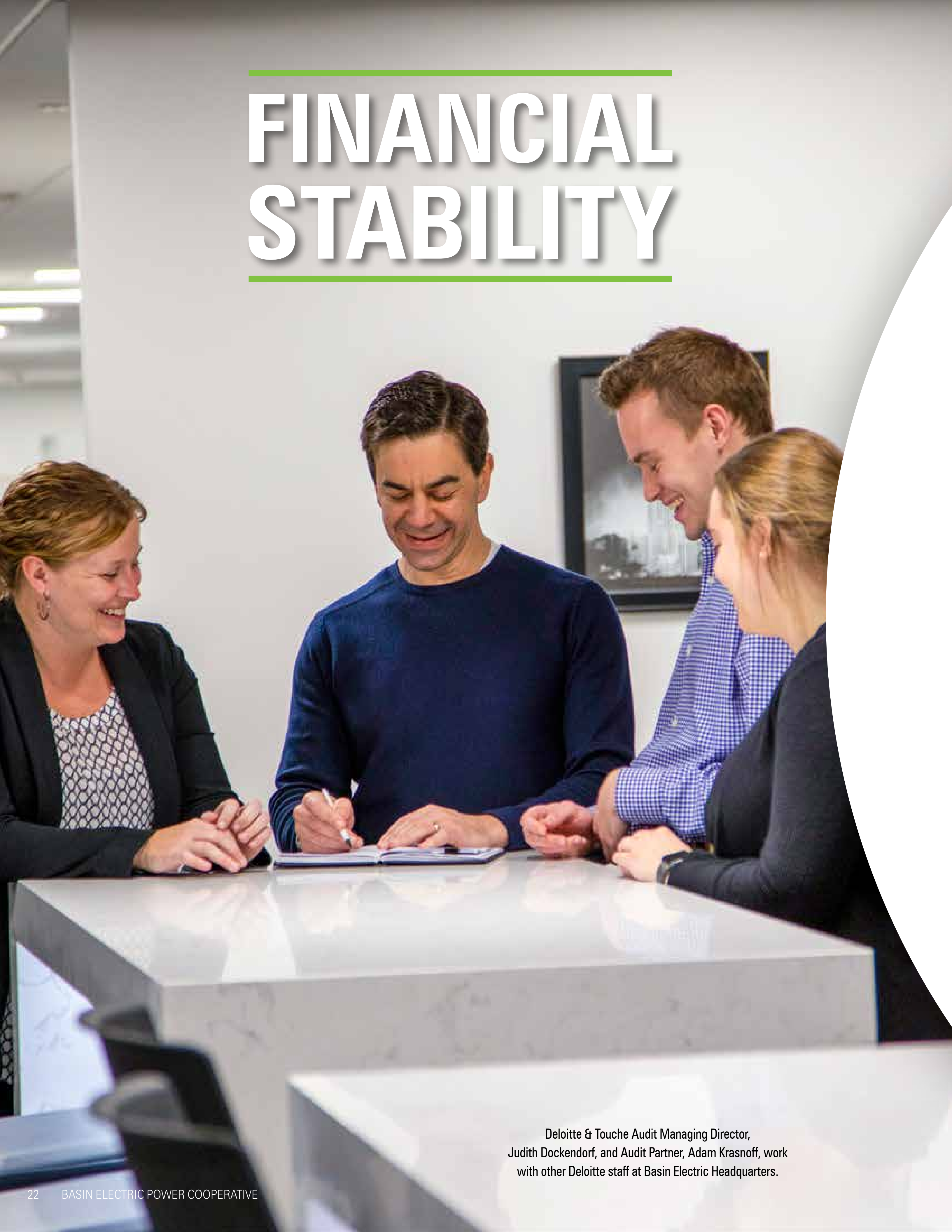
FINANCIAL STABILITY



Deloitte & Touche Audit Managing Director, Judith Dockendorf, and Audit Partner, Adam Krasnoff, work with other Deloitte staff at Basin Electric Headquarters.

Basin Electric is a stronger cooperative today than even one year ago. The challenges of 2018 have pulled the cooperative family closer together — throught collaboration, employees are finding new ways to do their jobs efficiently, effectively, and flexibly, acting proactively to changing market conditions, keeping pace with technological advancements, and investigating new ways to address the need for power and how it's delivered.

Cost reductions at Basin Electric since 2016 now total $461 million; including $160 million attributable to Dakota Gas. Those are remarkable numbers. The savings allowed Basin Electric directors to authorize a 1 mill per kilowatt hour average rate decrease, to 61.5 mills in 2020. The rate decrease results in a revenue reduction of approximately $30 million.

The 2020 rate is projected to be held steady for the remainder of the 2020-2029 financial forecast.

Today, together with membership, Basin Electric is focused on continuing to strengthen the cooperative's financial condition to meet challenges Basin Electric may face in the future. Obviously, the membership plays a hand in this work, as well. The membership's authorization to build deferred revenue gives Basin Electric a reserve to use in the event Basin Electric needs to offset unanticipated costs, or a loss of projected revenue.

The ratings agencies Fitch Ratings and S&P strengthened their outlook on Basin Electric's rating to stable in 2019. An intra-year rate increase in 2016 and the substantial reduction in expenses (including the 2018 reduction in force) were two factors that the ratings agencies cited when detailing their decision to improve their view of Basin Electric's credit outlook.

Basin Electric saw the impact of strong credit ratings in the form of lower interest rates in May when the cooperative refinanced $150 million of tax-exempt debt associated with the solid waste facilities at the Dry Fork Station, a coal-based power plant located near Gillette, Wyoming. The bonds, which were originally issued in 2009, carried an initial interest rate of 5.75 percent. The refinanced bonds now have an interest rate of 3.625 percent. The reduction in the interest rate will result in interest expense savings of more than $60 million over the course of the remaining 20-year term of the bonds.

While Basin Electric has lots of good news to share, numerous insurance companies and financial institutions have made the decision to limit or even completely discontinue lending to or insuring companies with exposure to coal. As Basin Electric strategically works to mitigate the effect this could have, the cooperative also must recognize many partners in both the insurance and financial markets.

RATINGS IMPROVEMENTS

Fitch Ratings and S&P changed their outlook on Basin Electric's rating to stable in May 2019. The agencies had changed the cooperative's outlook to negative in 2016. Tough decisions, including a rate increase and reduction in force, played a part in the move to a stable outlook. "It's very gratifying that the ratings agencies recognize that we took drastic steps and we are stronger for it," said Steve Johnson, Basin Electric chief financial officer and senior vice president.

CO-OP 100

Basin Electric was ranked among the nation's top cooperatives by the National Cooperative Bank in its annual NCB Co-op 100 list, which highlights the economic impact of co-ops across the country. The cooperative was ranked #16 overall, and was ranked #1 in the energy sector.

2019 FINANCIAL SERVICES ACTIVITIES

ELECTRIC RATES – During 2019, Basin Electric's average Class A rate was 62.5 mills per kilowatt-hour.

SENIOR SECURED BOND RATINGS – Moody's Investors Service affirmed its A3 rating with a stable outlook, while Fitch Ratings and Standard & Poor's Rating Services affirmed their A ratings and changed their outlooks to stable.

SHORT-TERM RATINGS – Basin Electric's short-term ratings are F1+ from Fitch, A1 from S&P and P-2 from Moody's. Basin Electric uses short-term commercial paper for short-term operating needs and as a source of bridge financing until it can secure long-term financing.

LIQUIDITY – On Dec. 31, 2019, cash and cash equivalents and short-term investments, including restricted and designated cash, totaled $419.6 million. Basin Electric had additional liquidity of $891.0 million in unused lines of credit, for total available liquidity in excess of $1.3 billion.

OPERATING RESULTS

CONSOLIDATED RESULTS – Basin Electric's financial statements are consolidated with those of its subsidiaries. For the year ending Dec. 31, 2019, the consolidated net margin and earnings was $76.6 million. This is $12.1 million more than the 2018 consolidated net margin and earnings of $64.5 million.

ELECTRIC – Basin Electric's total utility operating revenue for 2019 was $1.8 billion, a decrease of $158 million from 2018. Revenue from member systems totaled $1.7 billion in 2019, an increase of $70.9 million from 2018. Revenue from non-member sales totaled $48.5 million in 2019. Actual sales to non-members totaled $128.5 million, however, $80 million was deferred for recognition in the future. The 2019 non-member sales were $37.4 million less than the 2018 nonmember sales before revenue deferral activity. The 2019 sales were $37.4 million less than the 2018 sales before revenue deferral activity. Total utility operating expenses plus interest and other charges before income taxes for 2019 were $1.7 billion, which is $170.5 million more than in 2018. Basin Electric's margin before income taxes, combined with Basin Cooperative Services' net operating results, yielded a combined margin of $59.5 million to be allocated to members.

SUBSIDIARY RESULTS – Dakota Gas had a net loss of $70.5 million during 2019, and Dakota Coal had net income of $15.5 million.

FINANCIAL POSITION

ASSETS – The total assets of Basin Electric and its subsidiaries as of Dec. 31, 2019, were $7.5 billion, an increase of $71.5 million from a year earlier.

MEMBER INVESTMENT PROGRAM – Basin Electric's Member Investment Program ended the year with $273.5 million, however the program reached an all-time high of $356.7 million on Nov. 27, 2019. The program offers members an additional investment source at a competitive rate of return while providing Basin Electric with an additional source of liquidity.

UTILITY DEBT – As of Dec. 31, 2019, Basin Electric had approximately $4.49 billion of debt outstanding including Member Investment Program obligations, at a weighted average interest rate of 4.5 percent.

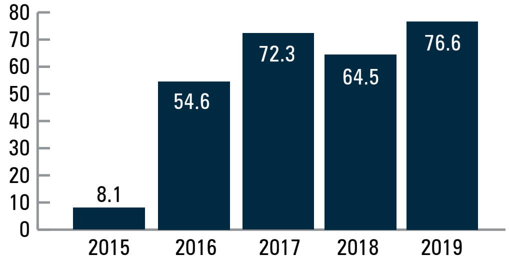
EQUITY POSITION – At year-end 2019, Basin Electric had total equity of $1.5 billion, an increase of $36.8 million from 2018. At the end of 2019, equity represented 25.4 percent of Basin Electric's total capitalization. As of Dec. 31, 2019, Basin Electric had an equity-to-asset ratio of 19.9 percent.

CAPITAL CREDIT ALLOCATIONS AND RETIREMENTS – In March 2019, Basin Electric allocated $230.4 million to its patrons. Since 1966, Basin Electric has allocated almost $1.4 billion in patronage capital credits to its members. In December 2019, Basin Electric returned $31.7 million of previously allocated capital credits to its members. Basin Electric has retired $311.3 million of allocated patronage capital credits over the history of the cooperative.

RETURN OF CASH TO MEMBERS – Since 2000, Basin Electric has returned nearly $720.1 million to the membership through patronage capital retirements, bill credits, and power cost adjustments.

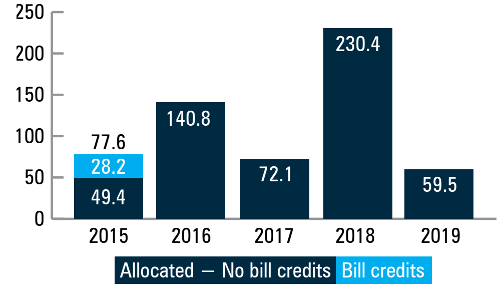
CONSOLIDATED NET MARGIN & EARNINGS

In millions of dollars – for the years ended



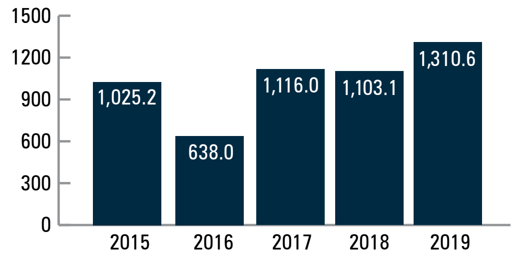
BASIN ELECTRIC STAND-ALONE MARGIN DISPOSITION

In millions of dollars – for the years ended



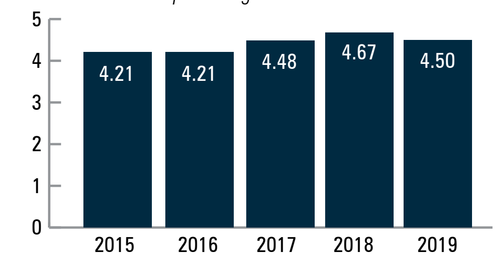
CONSOLIDATED LIQUIDITY

In millions of dollars – at year end



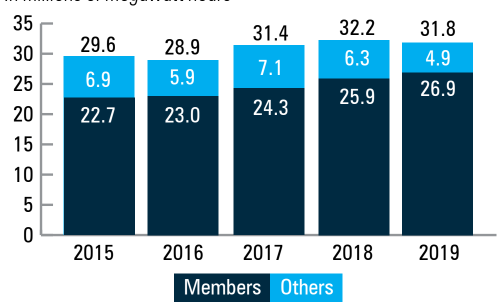
AVERAGE INTEREST RATE ON UTILITY DEBT

As of Dec. 31 – as a percentage



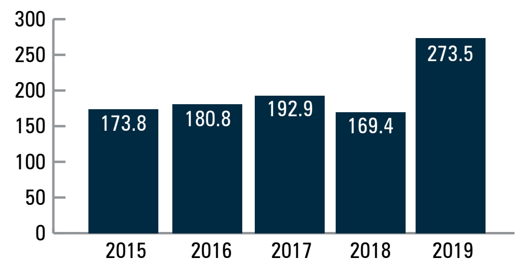
TOTAL ELECTRIC SALES TO MEMBER SYSTEMS & OTHERS

In millions of megawatt hours



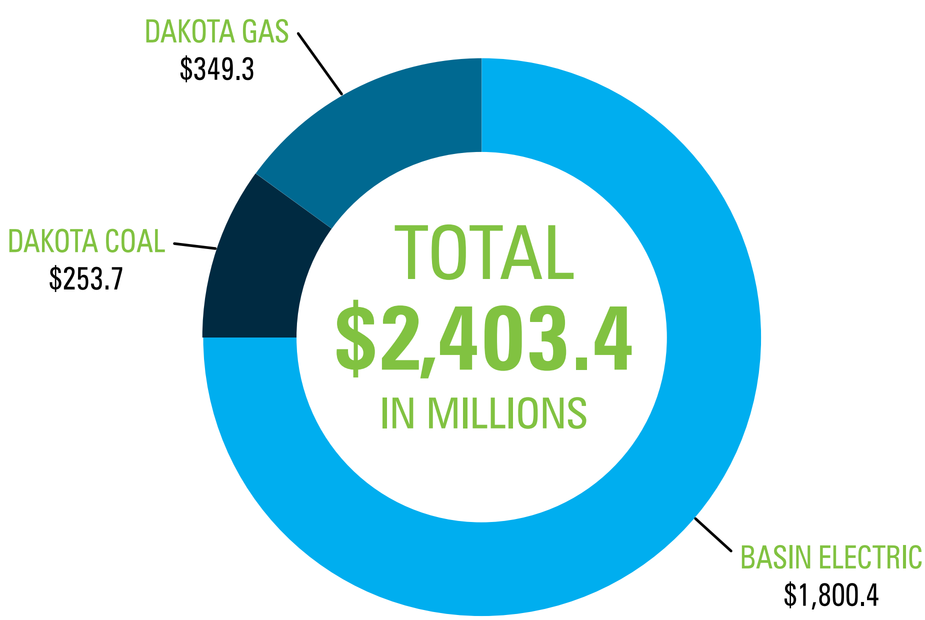
MEMBER INVESTMENT PROGRAM BALANCE

In millions of dollars – at year end



CONSOLIDATED GROSS REVENUE AND OTHER INCOME

Before intercompany eliminations
For the year ended Dec. 31, 2019



BASIN ELECTRIC POWER COOPERATIVE AND SUBSIDIARIES

FIVE-YEAR CONSOLIDATED FINANCIAL SUMMARY

for the years ended Dec. 31, (dollars in thousands)

	2019	2018	2017	2016	2015
Utility operations:					
Operating revenue:					
Sales of electricity for resale	$ 1,734,812	$ 1,891,237	$ 1,567,242	$ 1,531,257	$ 1,419,862
Other electric revenue	21,706	23,069	23,381	30,321	25,755
Total utility operating revenue	1,756,518	1,914,306	1,590,623	1,561,578	1,445,617
Operating expenses:					
Operation	1,124,145	1,097,857	1,060,167	1,001,114	948,317
Maintenance	149,350	145,692	165,556	149,357	160,348
Depreciation and amortization	154,510	147,449	135,438	125,287	154,151
Taxes other than income	2,901	2,936	2,798	2,762	2,773
Total utility operating expenses	1,430,906	1,393,934	1,363,959	1,278,520	1,265,589
Interest and other charges:					
Interest on long-term debt	198,982	198,354	190,648	167,192	156,903
Interest on short-term debt	12,361	10,366	7,657	4,718	1,568
Other, net of regulatory expense deferral	27,881	(103,010)	9,566	9,370	11,148
Total interest and other charges	239,224	105,710	207,871	181,280	169,619
Operating margin	86,388	414,662	18,793	101,778	10,409
Nonoperating margin:					
Interest and other income	38,513	38,163	47,579	35,039	34,894
Patronage allocations from other cooperatives	5,064	5,817	5,262	3,979	4,105
Total nonoperating margin	43,577	43,980	52,841	39,018	38,999
Utility margin before income taxes	129,965	458,642	71,634	140,796	49,408
Nonutility loss before income taxes	(73,443)	(431,788)	(107,350)	(153,150)	(57,614)
Benefit from income taxes	(20,044)	(37,684)	(108,056)	(66,921)	(16,281)
Net margin and earnings	$ 76,566	$ 64,538	$ 72,340	$ 54,567	$ 8,075
Electric sales information:					
Electric energy sales (in thousands of MWh)					
Members	26,966	25,913	24,337	23,000	22,664
Others	4,870	6,239	7,113	5,899	6,890
Total	31,836	32,152	31,450	28,899	29,554

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Members of
Basin Electric Power Cooperative
Bismarck, North Dakota

We have audited the accompanying consolidated financial statements of Basin Electric Power Cooperative and its subsidiaries (the "Cooperative") (a North Dakota cooperative corporation), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of operations, comprehensive income, changes in equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Cooperative's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Cooperative as of December 31, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

March 10, 2020

BASIN ELECTRIC POWER COOPERATIVE AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

as of December 31, (dollars in thousands)

	2019	2018
Assets		
Utility plant (Note 5):		
Electric plant in service	$ 7,201,074	$ 7,028,059
Construction work in progress, net of contribution in aid of construction	(18,153)	140,373
Total electric plant	7,182,921	7,168,432
Less: accumulated provision for depreciation and amortization	(2,667,398)	(2,544,450)
	4,515,523	4,623,982
Nonutility property (Note 5):		
Property, plant and equipment	1,534,028	1,554,013
Construction work in progress	1,174	6,481
Total nonutility property	1,535,202	1,560,494
Less: accumulated provision for depreciation and depletion	(502,405)	(485,582)
	1,032,797	1,074,912
Other property, investments and deferred charges:		
Mine related assets (Note 8)	117,727	102,008
Investments in associated companies	38,280	37,457
Restricted and designated investments (Note 6)	35,454	28,860
Other investments (Note 7)	194,419	159,670
Special funds	58,548	56,056
Regulatory assets (Note 10)	522,617	488,806
Other deferred charges	4,700	5,877
	971,745	878,734
Current assets:		
Cash and cash equivalents	154,636	168,941
Restricted and designated cash and investments (Note 6)	185,696	107,488
Short-term investments (Note 7)	79,303	100
Customer accounts receivable	174,779	162,411
Other receivables	87,119	126,046
Coal stock, materials and supplies (Note 2)	225,086	203,675
Prepayments and other current assets	53,377	62,286
	959,996	830,947
	$ 7,480,061	$ 7,408,575
Capitalization and Liabilities		
Capitalization:		
Equity:		
Memberships	$ 21	$ 21
Patronage capital	1,063,045	1,033,457
Retained earnings of subsidiaries	94,444	65,253
Other equity (Note 11)	343,080	343,303
Accumulated other comprehensive income (loss) (Note 11)	(10,217)	10,688
	1,490,373	1,452,722
Noncontrolling interest	1,535	2,352
	1,491,908	1,455,074
Long-term debt, net of current portion (Note 12)	4,376,911	4,476,695
Capital lease obligations, net of current portion (Note 4)	3,818	4,459
	5,872,637	5,936,228
Regulatory liabilities (Note 10)	163,272	81,787
Other deferred credits, taxes and other liabilities (Note 17)	476,679	433,476
	639,951	515,263
Commitments and contingencies (Notes 18)		
Current liabilities:		
Current portion of long-term debt (Note 12)	99,466	99,923
Current portion of capital lease obligations (Note 4)	1,180	1,335
Accounts payable	164,118	177,046
Notes payable – affiliates	272,501	167,861
Notes payable (Note 12)	339,014	403,389
Taxes and other current liabilities	91,194	107,530
	967,473	957,084
	$ 7,480,061	$ 7,408,575

The accompanying notes are an integral part of these consolidated financial statements.

BASIN ELECTRIC POWER COOPERATIVE AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

for the years ended December 31, (dollars in thousands)

	2019	2018
Utility operations:		
Operating revenue:		
Sales of electricity for resale:		
Members	$ 1,686,356	$ 1,615,422
Others	48,456	275,815
	1,734,812	1,891,237
Other electric revenue	21,706	23,069
	1,756,518	1,914,306
Operating expenses:		
Operation	1,124,145	1,097,857
Maintenance	149,350	145,692
Depreciation and amortization	154,510	147,449
Taxes other than income	2,901	2,936
	1,430,906	1,393,934
Interest and other charges (credits):		
Interest on long-term debt	198,982	198,354
Interest on short-term debt	12,361	10,366
Other, net of regulatory expense deferral	27,881	(103,101)
	239,224	105,710
Operating margin	86,388	414,662
Nonoperating margin:		
Interest and other income	38,513	38,163
Patronage allocations from other cooperatives	5,064	5,817
	43,577	43,980
Utility margin before income taxes	129,965	458,642
Nonutility operations:		
Operating revenue:		
Synthetic natural gas	129,096	150,241
Byproducts, coproduct and other	240,675	255,049
Lignite coal	127,243	117,080
	497,014	522,370
Operating expenses:		
Impairment of assets, net	1,665	298,839
Other operating expenses (includes $17,908 and $18,713 of net income attributed to noncontrolling interest)	586,522	662,305
	588,187	961,144
Operating loss	(91,173)	(438,774)
Interest and other income	17,730	6,986
Nonutility loss before income taxes	(73,443)	(431,788)
Margin before income taxes	56,522	26,854
Benefit from income taxes	(20,044)	(37,684)
Net margin and earnings	$ 76,566	$ 64,538

The accompanying notes are an integral part of these consolidated financial statements.

BASIN ELECTRIC POWER COOPERATIVE AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

for the years ended December 31, (dollars in thousands)

	2019	2018
Net income	$ 76,566	$ 64,538
Other comprehensive income (loss):		
Adjustment to post employment liability (net of tax of $(661) and $(555), respectively)	(3,950)	2,770
Unrealized gain (loss) on securities (net of tax of $842 and $(1,612), respectively)	3,166	(6,038)
Reclassification of net realized (gain) loss on securities, (net of tax of $175 and $544, respectively)	(217)	2,049
Unrealized gain (loss) on cash flow hedges (net of tax of $914 and $187, respectively)	3,439	(251)
Reclassification of net realized (gain) loss on cash flow hedges, (net of tax of $(1,081) and $2,610, respectively)	(4,066)	9,817
Total other comprehensive income (loss)	(1,628)	8,347
Comprehensive income	$ 74,938	$ 72,885

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

for the years ended December 31, 2019 and 2018 (dollars in thousands)

	Memberships	Patronage Capital	Retained Earnings of Subsidiaries	Other Equity	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interest	Total
Balance, December 31, 2017	$ 21	$ 884,606	$ 231,253	$ 291,616	$ 2,341	$ 2,324	$ 1,412,161
Comprehensive income (loss)	-	230,538	(166,000)	-	8,347	-	72,885
Transfers to other equity	-	(51,687)	-	51,687	-	-	-
Retirement of patronage capital	-	(30,000)	-	-	-	-	(30,000)
Noncontrolling interest in net margin and earnings	-	-	-	-	-	18,713	18,713
Dividends paid to noncontrolling interest	-	-	-	-	-	(18,685)	(18,685)
Balance, December 31, 2018	21	1,033,457	65,253	343,303	10,688	2,352	1,455,074
Comprehensive income (loss)	-	61,111	15,455	-	(1,628)	-	74,938
Transfers to other equity	-	152	-	(152)	-	-	-
Retirement of patronage capital	-	(31,675)	-	-	-	-	(31,675)
Adoption of new accounting standard (ASU 2016-01)	-	-	13,736	(71)	(19,277)	-	(5,612)
Noncontrolling interest in net margin and earnings	-	-	-	-	-	17,908	17,908
Dividends paid to noncontrolling interest	-	-	-	-	-	(18,725)	(18,725)
Balance, December 31, 2019	$ 21	$ 1,063,045	$ 94,444	$ 343,080	$ (10,217)	$ 1,535	$ 1,491,908

The accompanying notes are an integral part of these consolidated financial statements.

BASIN ELECTRIC POWER COOPERATIVE AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

for the years ended December 31, (dollars in thousands)

	2019	2018
Operating activities:		
Net margin and earnings	$ 76,566	$ 64,538
Adjustments to reconcile net margin and earnings to net cash from operating activities:		
Depreciation and amortization of property, plant and equipment	210,368	217,075
Deferred income taxes	(18,775)	(37,874)
Changes in regulatory assets and liabilities	99,617	(220,678)
Unrealized gain on investments	(11,040)	-
Patronage capital	(8,703)	(8,831)
Changes in collateral	(17,301)	29,033
Other amortization	4,279	12,635
Impairment of assets, net	1,665	298,839
Income attributable to noncontrolling interest	17,908	18,713
Changes in other operating elements:		
Customer accounts receivable	(12,368)	4,995
Other receivables	40,063	(11,828)
Coal stock, materials and supplies	(21,419)	1,429
Prepayments and other current assets	6,001	(811)
Accounts payable	(3,630)	(4,765)
Taxes and other current liabilities	(23,107)	8,169
Other operating activities, net	2,160	5,980
Net cash provided by operating activities	342,284	376,619
Investing activities:		
Acquisition of electric plant	(48,469)	(168,617)
Acquisition of nonutility property	(21,994)	(48,104)
Proceeds from sales of property	3,045	2,798
Purchase of investments	(116,147)	(55,472)
Sale of investments	22,425	26,389
Sale of other assets and prepayments received on notes receivable	6,089	5,994
Purchase of other assets and issuance of notes receivable	(10,639)	(9,550)
Net cash used in investing activities	(165,690)	(246,562)
Financing activities:		
Proceeds of long-term debt	150,000	-
Principal payments of long-term debt	(249,190)	(68,082)
Payment of debt issue costs	(1,455)	(2,571)
Proceeds of notes payable - affiliates	2,382,099	1,869,859
Payments of notes payable - affiliates	(2,277,981)	(1,893,397)
Proceeds of notes payable	1,311,775	1,770,673
Payments of notes payable	(1,376,150)	(1,845,931)
Payments under capital lease obligations	(1,389)	(1,514)
Retirement of patronage capital	(31,675)	(30,000)
Dividends paid to noncontrolling interest	(18,725)	(18,685)
Net cash used in financing activities	(112,691)	(219,648)
Net increase (decrease) in cash and cash equivalents and designated cash and equivalents	63,903	(89,591)
Cash and cash equivalents and restricted and designated cash and equivalents, beginning of period	276,429	366,020
Cash and cash equivalents and restricted and designated cash and equivalents, end of period	$ 340,332	$ 276,429

The accompanying notes are an integral part of these consolidated financial statements.

BASIN ELECTRIC POWER COOPERATIVE AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, (dollars in thousands)

1. ORGANIZATION

Basin Electric Power Cooperative (Basin Electric) is an electric generation and transmission cooperative corporation, organized and existing under the laws of the State of North Dakota. It serves member electric service needs in a nine-state region of North Dakota, South Dakota, Montana, Wyoming, New Mexico, Colorado, Nebraska, Minnesota and Iowa. Basin Electric's power supply resources are composed of its own generating facilities and contractual power purchase arrangements. Basin Electric owns and operates transmission assets, some of which are a part of the Southwest Power Pool and others which are jointly owned.

Basin Electric's accounting records are maintained in accordance with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC). The rates charged to its members for electric service are established by Basin Electric's Board of Directors.

Basin Electric has two wholly owned for-profit subsidiaries, Dakota Gasification Company (Dakota Gas), and Dakota Coal Company (Dakota Coal). Basin Electric also has one wholly owned not-for-profit subsidiary, Basin Cooperative Services (BCS). Dakota Gas has a wholly owned for-profit subsidiary, Souris Valley Pipeline Limited (SVPL). Dakota Coal has a wholly owned for-profit subsidiary, Montana Limestone Company (MLC). Dakota Gas owns and operates the Great Plains Synfuels Plant (Synfuels Plant) which converts lignite coal into pipeline-quality synthetic gas and produces a number of other products including anhydrous ammonia, urea, carbon dioxide (CO2), tar oil and chemical products. The Synfuels Plant is located adjacent to Basin Electric's Antelope Valley Station (AVS) electric generating plant. These plants share certain facilities, and coal and water supplies. Basin Electric also supplies the Synfuels Plant with electric capacity and energy, and Dakota Gas supplies various Basin Electric gas generating stations and AVS with synthetic gas. SVPL owns and operates a CO2 pipeline in Saskatchewan, Canada. Dakota Coal purchases lignite coal from the Freedom Mine, a coal mine in North Dakota that is owned and operated by The Coteau Properties Company (Coteau), a wholly owned subsidiary of The North American Coal Corporation (NACoal). NACoal is a wholly owned subsidiary of NACCO Industries, Inc. (NACCO). Coteau is a variable interest entity of Dakota Coal. Pursuant to the coal purchase agreement, Dakota Coal is obligated to provide financing for and has certain rights with respect to the operation of the coal mine. The lignite coal is used in Basin Electric's Leland Olds Station (LOS), AVS, and Dakota Gas' Synfuels Plant. Dakota Coal coordinates procurement and rail delivery of Powder River Basin coal to the Laramie River Station (LRS), the Dry Fork Station (DFS) and LOS. Dakota Coal also owns a lime plant that sells lime to AVS, the Laramie River Station (LRS) and others. MLC operates a limestone quarry and owns and operates a fine grind plant, both in Montana, and sells limestone to Dakota Coal's lime plant, LOS and others. BCS provides certain nonutility property management services to Basin Electric. Basin Electric is a 42.27 percent owner of the Missouri Basin Power Project (MBPP) and acts as the operating agent for the 1,700 megawatt LRS generating plant in Wyoming, associated transmission facilities and the Grayrocks Dam and Reservoir. Basin Electric is a 92.9 percent owner of the DFS generating plant in Wyoming and acts as the operating agent for the 385 megawatt plant.

N-7 LLC (N-7) is a Delaware limited liability company formed by OCI Iowa, Inc. and Dakota Gas on May 18, 2018. N-7 was formed to market OCI's, Dakota Gas' and potentially other companies' fertilizer production.

2. SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION — The consolidated financial statements include the accounts of Basin Electric, its wholly owned subsidiaries and its variable interest entity (VIE), Coteau. All intercompany investments, debt, and receivable and payable accounts have been eliminated in consolidation. Charges from BCS, Dakota Gas, Dakota Coal, MLC and Coteau to Basin Electric and charges from Basin Electric to BCS, Dakota Gas, Dakota Coal, MLC and Coteau are not eliminated as Basin Electric includes the results of these activities in the determination of rates charged to its members (Note 19).

N-7 is considered a VIE of Dakota Gas for which Dakota Gas is not the primary beneficiary and, therefore, Dakota Gas is not required to consolidate N-7. However, Dakota Gas has the ability to exercise significant influence over N-7. Therefore, Dakota Gas' share of N-7 net income is recorded in the consolidated financial statements using the equity method of accounting. The investment in N-7 is included in Other investments on the Consolidated Balance Sheets and Dakota Gas' share of N-7 net income is presented in Nonutility interest and other income of the Consolidated Statements of Operations.

USE OF ESTIMATES — The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Estimates are used for items such as plant depreciable lives, actuarially determined benefit costs, valuation of derivatives, asset retirement obligations, cash flows used in asset impairment evaluations and benefit from income taxes. Ultimate results could differ from those estimates.

CASH AND CASH EQUIVALENTS — Basin Electric considers all investments purchased with an original maturity of three months or less to be cash equivalents. The fair value of cash equivalents approximates their carrying values due to their short-term maturity.

RESTRICTED AND DESIGNATED CASH AND INVESTMENTS — Basin Electric has certain restricted cash and investments for MBPP operating funds. Other restricted investments are held in trust by a financial institution for SVPL asset retirement obligations. Basin Electric's Board of Directors designates additional cash and investments for deferred revenue purposes and for other asset retirement obligations.

INVESTMENTS — Investments include equity securities, corporate bonds, government obligations and bond market funds as well as the cash surrender value of life insurance policies. Investments in equity securities are measured at fair value with unrealized gains and losses recorded on the Consolidated Statements of Operations. Basin Electric classifies its debt securities as either available-for-sale or held-to-maturity. Available-for-sale debt securities are measured at fair value and unrealized gains and losses are recorded in Accumulated other comprehensive income (loss). Held-to-maturity debt securities are measured at amortized cost. If any of Basin Electric's other investments experience a decline in value that is believed to be other than temporary, a loss is recognized in Interest and other income in the Consolidated Statements of Operations. For more information, see Note 7.

COAL STOCK, MATERIALS AND SUPPLIES — Dakota Gas products available for sale and MLC limestone inventories are stated at the lower of average cost or net realizable value, and fuel stock, and materials and supplies inventories are stated at average cost, which approximates market. Inventories were as follows at December 31:

	2019	2018
Materials and supplies	$ 156,757	$ 147,531
Coal and fuel oil	39,592	31,555
Lime and limestone inventory	8,959	8,185
Natural gas held in storage	2,926	3,150
Ammonia	6,962	5,508
Urea	3,935	3,132
Ammonium sulfate	2,142	1,501
Other products	2,864	2,687
Process inventory	949	426
	$ 225,086	$ 203,675

PATRONAGE CAPITAL — At the discretion of Basin Electric's Board of Directors, utility margins are allocated to members on a patronage basis or may be offset in whole or in part against current or prior losses. Basin Electric may not retire patronage capital if, after the distribution, an event of default would exist or Basin Electric's equity would be less than 20 percent of total long-term debt and equity. Cumulative patronage capital retired at December 31, 2019 was $311,301.

REVENUE RECOGNITION — Revenue is recognized when a performance obligation is satisfied which occurs when the control of the promised goods or services is transferred to customers. Revenue is measured based on the transaction price identified in the contract with a customer. The transaction price in a contract reflects the amount of consideration to which an entity expects to be entitled to in exchange for goods or services transferred. Payment terms vary by contract. Generally, payment is due within 30 days.

Revenue is derived primarily from utility operations and nonutility operations.

Utility operations mainly consist of wholesale electricity sales to members pursuant to long-term wholesale electric service contracts and the sale of excess energy and ancillary services transacted through regional transmission organizations (RTOs) and short-term wholesale power agreements by Basin Electric.

- Member wholesale electricity sales - The delivery of energy under member wholesale power agreements is considered one single performance obligation as providing the electric power commodity and the transmission of the electricity is fulfilling a single promise to the customer. The terms of the wholesale power agreements specify the rate schedules applicable and other pricing provisions. The member rate schedules are approved by the Basin Electric Board of Directors. The satisfaction of the performance obligation is measured over time as the customer simultaneously receives and consumes the benefits provided. The output method is used where revenue is recognized based on the metered quantity and as energy is delivered.
- Non-member wholesale electricity sales - The sale of excess energy to non-members is considered a single performance obligation. The terms of either the bilateral power sales contract or the RTO market protocols determine the pricing terms. The satisfaction of the performance obligation is measured over time as the customer simultaneously receives and consumes the benefits provided. The output method is used where revenue is recognized as energy is delivered. Transactions are netted on an hourly basis and are recorded as either sales or purchases.
- Other electric utility revenue - Other electric utility revenue primarily consists of refined coal equipment hosting fees, miscellaneous services provided and miscellaneous sales of equipment. Generally, a single performance obligation exists in the generation of other revenue and the performance obligation is satisfied at a point in time. The contract specifies the price, and revenue is recognized as delivery occurs or services are rendered.

Nonutility operations mainly consists of the sale of synthetic natural gas, fertilizer products and other byproducts such as CO2, tar oil and chemical products which are produced at Dakota Gas' Synfuels Plant and the sale of lignite coal that Dakota Coal purchases from Coteau from the Freedom Mine for use at AVS, LOS and Dakota Gas' Synfuels Plant.

- Synthetic natural gas, certain other byproducts and lignite coal - The sale and delivery of synthetic natural gas, certain other byproducts exclusive of fertilizer products and lignite coal is considered one single performance obligation as providing the commodity and the delivery of it is fulfilling a single promise to the customer as control transfers to the customer upon delivery. The performance obligation is satisfied at a point in time. The sales contracts and coal supply contracts specify the price, and revenue is recognized as delivery occurs.
- Fertilizer products - For the sale of fertilizer products, control transfers at the exit gate of the plant, therefore, the shipping of the product is not included in the performance obligation. The performance obligation is satisfied at a point in time. The marketing agreement with N-7 specifies the price, and revenue is recognized as products exit the plant.
- Other nonutility revenue - Other nonutility revenue largely consists of sales of lime from Dakota Coal's lime plant and sales of limestone from MLC's limestone quarry and fine grind plant. The sale and delivery of lime and limestone is considered one single performance obligation as providing the lime and limestone and the delivery of it is fulfilling a single promise to the customer as control transfers to the customer upon delivery. The performance obligation is satisfied at a point in time. The sales contracts specify the price, and revenue is recognized as delivery occurs.

ELECTRIC PLANT AND NONUTILITY PROPERTY — Electric plant and nonutility property are stated at cost, including contract work, direct labor and materials, allocable overheads and allowance for funds used during construction. Repairs and maintenance are charged to operations as incurred. When an electric plant is retired, sold, or otherwise disposed of, the original cost plus the cost of removal less salvage value is charged to accumulated depreciation and the corresponding gain or loss is amortized over the remaining life of the plant. When nonutility property is retired or sold, the cost and the related accumulated depreciation are eliminated and any gain or loss is reflected in nonutility operations. For more information, see Note 5.

DEPRECIATION AND AMORTIZATION — Electric plant and nonutility property at Dakota Gas is depreciated using a straight-line method over a remaining estimated useful life. For nonutility property at Dakota Coal, depreciation and depletion are provided for using the straight-line method based on the estimated useful lives or the units-of-production method based on estimated recoverable tonnage. For more information, see Note 5.

RECOVERABILITY OF LONG-LIVED ASSETS — Basin Electric accounts for the impairment or disposal of long-lived assets in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 360, *Property, Plant, and Equipment*, which requires long-lived assets, such as property and equipment, to be evaluated for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. An impairment has occurred when estimated undiscounted cash flows expected to result from the use of the asset plus net proceeds expected from disposition of the asset (if any) are less than the carrying value of the asset. If an impairment has occurred, the carrying amount of the asset is reduced to its estimated fair value based on quoted market prices or other valuation techniques.

In December 2018, management determined that an impairment of certain coal gasification assets occurred as a result of current and projected operating and cash flow losses, mainly due to low natural gas prices. A $298.8 million estimated impairment loss was recorded. The estimated fair value of the assets was determined using an income approach utilizing estimated discounted cash flows. The impairment was recorded in Impairment of assets on the Consolidated Statements of Operations. The net impairment loss of $1.7 million in 2019 consists of $6.8 million of coal gasification additions made in the current year that were impaired upon purchase, partially offset by an adjustment to reduce the 2018 impairment charge by $5.1 million.

REGULATORY ASSETS AND LIABILITIES — Basin Electric is subject to the provisions of ASC 980, *Regulated Operations*. Regulatory assets represent probable future revenue to Basin Electric associated with certain costs which will be recovered from customers through the ratemaking process. Regulatory liabilities represent probable future reductions in revenue associated with amounts that are to be credited to customers through the ratemaking process. For more information, see Note 10.

DERIVATIVE FINANCIAL INSTRUMENTS — All derivatives are measured at fair value and recognized as either assets or liabilities on the Consolidated Balance Sheets, except for derivative contracts that qualify for and are elected under the normal purchase and normal sales exception under the requirements of ASC 815, *Derivatives and Hedging*. Basin Electric, Dakota Gas and Dakota Coal evaluates all purchase and sale contracts when executed to determine if they are derivatives and, if so, if they meet the normal purchase normal sale exception requirements under ASC 815. The derivative instruments that do not meet the normal purchase and normal sales exception are designated as cash flow hedges of forecasted sales and purchases of commodities. Basin Electric also utilizes interest rate swap agreements to reduce exposure to interest rate fluctuations associated with floating rate debt obligations and anticipated debt refinancing.

Under ASC 980, Basin Electric's Board of Directors defers changes in the fair value of certain derivative activity as a regulatory item to be recovered through rates in the future. Only current settlements of these derivative transactions are included in earnings. See Note 9 for more information

COLLATERAL — Certain derivative instruments and certain agreements of Basin Electric and Dakota Gas contain contract provisions that require collateral to be posted if the credit ratings of Basin Electric fall below certain levels or if the counterparty exposure to Basin Electric or Dakota Gas exceeds a certain level.

Collateral posted is related to derivative liabilities and agreements that contain credit-related contingent features and is included in the Consolidated Balance Sheets as follows:

	2019	2018
Other investments	$ 88,206	$ 68,956
Prepayments and other current assets	19,308	21,236
Cash and cash equivalents	3,559	5,580
	$ 111,073	$ 95,772

ASSETS AND LIABILITIES MEASURED AT FAIR VALUE — ASC 820, *Fair Value Measurements*, defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The standard applies to reported balances that are required or permitted to be measured at fair value.

ASC 820 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, ASC 820 establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy). For more information, see Note 15.

SUBSEQUENT EVENTS — Basin Electric considered events for recognition or disclosure in the consolidated financial statements that occurred subsequent to December 31, 2019 through March 10, 2020, the date the consolidated financial statements were available for issuance. Management is not aware of any material subsequent events that would require recognition or disclosure in the 2019 consolidated financial statements.

3. NEW ACCOUNTING PRONOUNCEMENTS

ACCOUNTING STANDARD UPDATES ADOPTED

Accounting Standards Update (ASU) 2014-09 Revenue from Contracts with Customers - In May 2014, the FASB issued accounting guidance on the recognition of revenue from contracts with customers, which supersedes nearly all existing revenue recognition guidance under GAAP. Under the new standard, entities will recognize revenue to depict the transfer of goods and services to customers in amounts that reflect the payment to which the entity expects to be entitled in exchange for those goods or services. The guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows from an entity's contracts with customers. The new guidance was adopted by Basin Electric in 2019 and the modified retrospective implementation method was elected. Implementation did not have a material impact on the consolidated financial statements. The additional disclosures required by ASU 2014-09 are included in Note 2 and Note 13.

ASU 2016-01 Recognition and Measurement of Financial Assets and Liabilities - In January 2016, the FASB issued new accounting guidance that requires equity investments (excluding equity method investments and investments that are consolidated) to be measured at fair value with changes in fair value recognized in net income. Equity investments that do not have a readily determinable fair value may be measured at cost, adjusted for impairment and observable price changes. This ASU also included guidance related to the impairment assessment of equity investments and made changes to certain financial statement disclosure requirements. Basin Electric adopted the new guidance in 2019. A cumulative-effect adjustment as of January 1, 2019 resulted in $13,736 of unrealized gains being reclassified from Accumulated other comprehensive income (loss) to Retained earnings of subsidiaries, $71 of unrealized losses being reclassified from Accumulated other comprehensive income (loss) to Other equity, $3,607 of unrealized gains being reclassified from Accumulated other comprehensive income (loss) to Other deferred credits, taxes and other liabilities and $2,005 of unrealized gains being reclassified from Accumulated other comprehensive income (loss) to Regulatory liabilities. Changes in the fair value of equity securities held at Dakota Coal and Dakota Gas are now recorded in the Consolidated Statements of Operations.

ASU 2017-07 Compensation-Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost - In March 2017, the FASB issued new accounting guidance to improve the presentation of net periodic pension cost and net periodic postretirement benefit cost in financial statements. The new guidance requires components of net periodic pension cost and net periodic postretirement benefit costs that are currently aggregated and reported as part of compensation expense to be disaggregated and reported separately. Only the service cost component may be reported as part of compensation expense, be included in income from operations and be eligible for capitalization. The other cost components must be reported separately in the statement of operations. The new guidance was adopted on a retrospective basis by Basin Electric in 2019, but because it did not have a material impact on the consolidated financial statements, the prior year amounts were not restated.

ASU 2016-15 Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments - In August 2016, the FASB issued new accounting guidance for classification of certain cash receipts and cash payments on the statement of cash flows. The new guidance increases transparency and comparability among organizations by providing specific guidance on eight issues. The new guidance was adopted by Basin Electric in 2019 and did not have a material impact on the consolidated financial statements.

ASU 2016-18 Statement of Cash Flows: Restricted Cash - In November 2016, the FASB issued new accounting guidance for classification of restricted cash on the statement of cash flows. The new guidance reduces diversity in practice by providing specific guidance on the presentation of restricted cash and restricted cash equivalents in the statement of cash flows. This ASU requires amounts generally described as restricted cash and restricted cash equivalents to be included with cash and cash equivalents when reconciling beginning-of-period and end-of-period total amounts on the statements of cash flows. The new guidance was adopted by Basin Electric in 2019 retrospective to January 1, 2018. The adoption did not have a material impact on the consolidated financial statements. Restricted and designated cash and equivalents are now included in the beginning and end of period balances on the Consolidated Statements of Cash Flows. There was a total change of $116,170 in Restricted and designated cash and equivalents in the prior year with $117,884 previously included in operating activities and $(1,714) previously included in investing activities on the Consolidated Statements of Cash Flows.

RECENTLY ISSUED ACCOUNTING STANDARD UPDATES

ASU 2016-02 Leases - In February 2016, the FASB issued new accounting guidance for leases. The new guidance increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. In January 2018, the FASB issued additional accounting guidance on leases, amending the guidance issued in 2016, to simplify the transition to the new guidance for land easements. In July 2018, the FASB issued additional accounting guidance on leases, amending the guidance issued in 2016 to make certain corrections and clarifications, include an additional (and optional) transition method to adopt the new lease guidance and provide lessors with a practical expedient related to separating components of a contract. In December 2018, the FASB issued additional accounting guidance on leases, amending the guidance issued in 2016, to permit lessors to account for certain costs as if they were lessee costs and exclude them as consideration of the contract and require that the reimbursement of these costs by the lessee be recorded as revenue by the lessor. In November 2019, the FASB issued additional guidance that deferred the effective date of the ASU for private companies to fiscal years beginning after December 15, 2020. The new guidance will be effective for Basin Electric in 2021. Early adoption of the accounting guidance is permitted and must be applied using one of the two prescribed methods. Management is currently evaluating the impact of adoption of this new guidance on the consolidated financial statements and disclosures.

ASU 2016-13 Measurement of Credit Losses on Financial Instruments - In June 2016, the FASB issued new accounting guidance on the measurement of credit losses on certain financial instruments. The new guidance introduces the use of a current expected credit loss (CECL) model for the measurement of credit losses on financial instruments within the scope of this guidance, which includes certain investments in debt securities, trade accounts receivable and other financial assets. The CECL model requires an entity to measure credit losses using historical information, current information and reasonable and supportable forecasts of future events, rather than the model required under current GAAP. The new guidance will be effective for Basin Electric in 2023. Management is currently evaluating the impact of adoption of this new guidance on the consolidated financial statements and disclosures.

ASU 2017-12 Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities - In August 2017, the FASB issued new accounting guidance with the objective of improving the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements and to make improvements to simplify the application of the hedge accounting guidance. The amendments provided in the new guidance will better align an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The amendments also expand and refine hedge accounting for both nonfinancial and financial risk components and align the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. In November 2019, the FASB issued additional guidance that deferred the effective date of the ASU for private companies to fiscal years beginning after December 15, 2020. The new guidance will be effective for Basin Electric in 2021. Early adoption of the accounting guidance is permitted and the effect of the adoption should be reflected as of the beginning of the fiscal year of adoption. Management believes the adoption of this new guidance will not have a material impact on the consolidated financial statements and disclosures.

ASU 2018-15 Intangibles - Goodwill and Other - Internal Use Software: Customer's accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract - In August 2018, the FASB issued new accounting guidance to align the requirements for capitalizing implementation costs incurred in a software hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The new guidance also requires the entity to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. The new guidance will be effective for Basin Electric in 2021. Early adoption of the accounting guidance is permitted and may be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. Management believes the adoption of this new guidance will not have a material impact on the consolidated financial statements and disclosures.

4. LEASES

CAPITAL LEASES — Basin Electric, Dakota Gas, and Dakota Coal are the lessees of certain substation, office equipment, mining equipment, and railcars under capital leases expiring from 2020 to 2050. The assets and liabilities under capital leases are recorded at the lesser of the present value of the minimum lease payments or the fair value of the asset. Property under capital leases as of December 31, 2019 included various substation, office equipment, mining equipment, and railcars with an original cost of $13,805. The assets are amortized over the lesser of their related lease terms or their estimated productive lives. Other equipment is purchased by Dakota Coal and leased to Coteau. These are recorded as direct financing leases and eliminated in consolidation.

Minimum future lease payments under capital leases as of December 31, 2019 for each of the next five years and in the aggregate are:

Year	Amount
2020	$ 1,357
2021	1,833
2022	503
2023	237
2024	137
Thereafter	2,723
Total minimum lease payments	6,790
Less: Amount representing interest	(1,792)
Present value of net minimum lease payments	$ 4,998

Interest rates on capitalized leases vary from 2.29 percent to 5.14 percent and are imputed based on the lessor's implicit rate of return.

LEASING ARRANGEMENTS AS LESSEE — Basin Electric leases certain electric plant facilities, mining and related equipment and other operational assets under noncancelable operating leases with initial terms up to 60 years.

Minimum future lease payments under noncancelable operating leases for each of the next five years and in aggregate are:

Year	Amount
2020	$ 29,201
2021	12,717
2022	3,661
2023	1,572
2024	934
Thereafter	13,507
Total	$ 61,592

Rental payments charged to expense were $43,964 and $45,227 in 2019 and 2018.

5. PROPERTY, PLANT AND EQUIPMENT AND JOINTLY OWNED FACILITIES

Significant components of property, plant and equipment were as follows at December 31:

	Depreciable Lives	2019	2018
Utility property:			
Electric plant in service:			
Generation	20-60 years	$ 5,656,644	$ 5,522,700
Transmission	20-60 years	1,261,677	1,226,536
General plant	3-20 years	282,753	278,823
Construction work in progress		18,551	147,068
Contribution in aid of construction		(36,704)	(6,695)
Total utility property		7,182,921	7,168,432
Less: accumulated provision for depreciation and amortization		(2,667,398)	(2,544,450)
		$ 4,515,523	$ 4,623,982
Nonutility property:			
Dakota Gasification Company:			
Fertilizer plant	40 years	$ 904,250	$ 911,498
Pipelines	35 years	30,172	30,172
Other property	3-20 years	60,443	61,858
Dakota Coal Company:			
Mining	10-20 years	475,225	488,047
Lime and limestone	10-20 years	48,158	47,803
Other property	3-20 years	10,744	9,599
Other		5,036	5,036
Construction work in progress		1,174	6,481
Total utility property		1,535,202	1,560,494
Less: accumulated provision for depreciation and depletion		(502,405)	(485,582)
		$ 1,032,797	$ 1,074,912

Construction work in progress includes $3,858 and $11,874 as of December 31, 2019 and 2018, respectively, of interest charged and capitalized to construction. Annual electric plant depreciation and amortization expense totaled $155,639 and $148,774 for 2019 and 2018. Annual nonutility depreciation, depletion and amortization expense totaled $57,551 and $69,062 for 2019 and 2018.

Basin Electric's investment in the jointly owned MBPP electric plant included in Utility property above was as follows at December 31:

	2019	2018
Electric plant	$ 916,343	$ 818,306
Less accumulated provision for depreciation and amortization	(539,296)	(526,763)
	$ 377,047	$ 291,543

6. RESTRICTED AND DESIGNATED CASH AND INVESTMENTS

Cash, cash equivalents, and restricted and designated cash reported within the Consolidated Balance Sheets and included in the Consolidated Statement of Cash Flows are as follows at December 31:

	2019	2018
Cash and cash equivalents	$ 154,636	$ 168,941
Restricted and designated cash and equivalents:		
MBPP operating funds	30,696	32,488
Deferred revenue	155,000	75,000
	185,696	107,488
Total cash, cash equivalents and restricted and designated cash and equivalents included in the Consolidated Statements of Cash Flows	$ 340,332	$ 276,429

Restricted and designated investments reported within the Consolidated Balance Sheets are as follows at December 31:

	2019	2018
Funds held in trust for an asset retirement obligation by Bank of Montreal as trustee for SVPL	$ 2,840	$ 2,157
Asset retirement obligations	32,614	26,703
	$ 35,454	$ 28,860

Restricted cash and investments include funds held by a financial institution, as trustee, at December 31. Designated cash and investments includes amounts designated by the Basin Electric Board of Directors.

7. INVESTMENTS

Investments in equity securities and available-for-sale debt securities are included in Mine related assets, Restricted and designated investments and Other investments on the Consolidated Balance Sheets. Upon the adoption of ASU 2016-01 in 2019, equity securities are no longer classified as available-for-sale. However, in 2018, the equity securities held by Basin Electric were classified as available-for-sale. The cost, unrealized holding gains and losses, and fair value of equity and debt securities were as follows at December 31, 2019:

		Gross Unrealized Holding		
	Cost	Gains	Losses	Fair Value
Available-for-sale debt securities:				
Corporate and government bonds	$ 42,061	$ 786	$ -	$ 42,847
Agency bonds	10,000	-	-	10,000
	52,061	786	-	52,847
Equity securities:				
Equities and equity funds	37,178	41,625	-	78,803
Bond market funds	43,426	1,748	-	45,174
	80,604	43,373	-	123,977
Other	61	-	-	61
	$ 132,726	$ 44,159	$ -	$ 176,885

During 2019, sales proceeds on debt securities classified as available-for-sale were $16,543. The cost of securities sold is based on the specific identification method.

The cost, unrealized holding gains and losses, and fair value of available-for-sale equity and debt securities were as follows at December 31, 2018:

		Gross Unrealized Holding		
	Cost	Gains	Losses	Fair Value
Equities and equity funds	$ 34,952	$ 24,936	$ -	$ 59,888
Bond and bond market funds	76,847	-	(324)	76,523
Investment funds	-	-	-	-
Other	801	-	-	801
	$ 112,600	$ 24,936	$ (324)	$ 137,212

During 2018, sales proceeds on equity and debt securities classified as available-for-sale were $3,331.

The fair value of available-for-sale debt securities by contracted maturity date at December 31, 2019 was as follows:

	2019
Due through one year	$ 13,155
Due after one year through five years	39,081
Due after five years	611
	$ 52,847

Held-to-maturity debt securities are included in Cash and cash equivalents, Restricted and designated cash and equivalents and Short-term investments on the Consolidated Balance Sheets. The amortized costs were as follows:

	2019	2018
Money market	$ 198,135	$ 200,440
Corporate commercial paper	208,224	57,740
US Treasuries	-	5,000
Other	-	100
	$ 406,359	$ 263,280

All held-to-maturity securities have contracted maturity dates of three months or less.

Included in Other investments on the Consolidated Balance Sheets is the cash surrender value of life insurance policies of $2,254 and $3,558, as of December 31, 2019 and 2018.

The MBPP provides financing to Western Fuels Association (Western Fuels) and Western Fuels-Wyoming, Inc. (WFW), a wholly owned subsidiary of Western Fuels, for mine development costs associated with coal deliveries to LRS. Basin Electric provides financing to Western Fuels and WFW for mine development costs associated with coal deliveries to DFS.

Notes receivable from WFW of $27,819 and $25,408 as of December 31, 2019 and 2018 are included in Other investments, Investments in associated companies and Other receivables on the Consolidated Balance Sheets. Maturities range from November 2020 through May 2043, and the weighted average interest rate is 5.13 percent. The estimated fair value of these notes receivable at December 31, 2019 and 2018 was $34,526 and $31,256, respectively, based on the future cash flows discounted using the yield on a treasury note with a similar maturity.

8. MINE RELATED ASSETS

Assets associated with the properties that supply coal for AVS, LOS and Dakota Gas' Synfuels Plant are classified as Mine related assets and were as follows at December 31:

	2019	2018
Mine closing fund investments	$ 89,736	$ 73,603
Prepaid coal royalties	26,023	28,376
Notes receivable and mine financing costs	1,968	29
	$ 117,727	$ 102,008

9. DERIVATIVE FINANCIAL INSTRUMENTS

Normal operations expose Basin Electric to risks associated with changes in the market price of certain commodities. Basin Electric entered into derivative financial instruments for the purpose of mitigating the risks associated with market price volatility of synthetic natural gas, tar oil, electricity and diesel. Any changes in cash flows from the underlying purchases and sales that are indexed to certain prices are offset by corresponding changes in the cash flows from the derivatives. Basin Electric maintains a Commodity Risk Management Manual (Manual) as directed by a Basin Electric Board of Director's policy to monitor risk and establish an internal control framework. In offsetting market risk, Basin Electric, is exposed to other forms of incremental risk such as credit or liquidity risk.

The following table presents the outstanding hedged forecasted transactions as of December 31, 2019:

Hedged Transaction	Term	Contracted Monthly Volumes of Forecasted Transactions	Price
Natural gas sales	Through October 2020	18% to 66%	$2.08 - $3.36 per dekatherm
Natural gas purchases	Through December 2021	31% to 40%	$2.69 - $4.21 per dekatherm
Electricity purchases	Through December 2022	0% to 19%	$17.30 - $27.00 per MWh
Diesel purchases	Through December 2021	27% to 100%	$1.96 - $3.04 per gallon

Basin Electric is also exposed to interest rate risk. To mitigate this risk, Basin Electric entered into various interest rate swap agreements to reduce the impact of changes in interest rates on certain variable rate long-term bonds. The following table presents the outstanding swap agreements on variable rate bonds as of December 31, 2019:

Notional Amount	Due	Effective Interest Rate
$ 100,000	2032	6.18%
$ 50,000	2032	4.95%
$ 50,000	2030	5.33%

The fair value and classification of the asset and liability portion of the derivative instruments in the Consolidated Balance Sheets is as follows at December 31:

Balance Sheet Location	2019 Fair Value of Asset Derivatives	2019 Fair Value of Liability Derivatives	2018 Fair Value of Asset Derivatives	2018 Fair Value of Liability Derivatives
Derivatives designated as cash flow hedges:				
Commodity derivatives:				
Prepayments and other current assets	$ 5,058	$ -	$ 7,688	$ -
Other investments	-	-	(17)	-
Taxes and other current liabilities	-	(484)	-	(870)
Other deferred credits, taxes and other liabilities	-	(157)	-	(1,809)
Total derivatives designated as cash flow hedges	$ 5,058	$ (641)	$ 7,671	$ (2,679)
Derivatives not designated as cash flow hedges:				
Commodity derivatives:				
Prepayments and other current assets	$ 3,215	$ -	$ 1,100	$ -
Other investments	-	-	2,576	-
Taxes and other current liabilities	-	(11,036)	-	(3,476)
Other deferred credits, taxes and other liabilities	-	(29,120)	-	(9,451)
Interest rate derivatives:				
Other deferred credits, taxes and other liabilities	-	(83,425)	-	(71,567)
Total derivatives not designated as cash flow hedges	$ 3,215	$ (123,581)	$ 3,676	$ (84,494)
	$ 8,273	$ (124,222)	$ 11,347	$ (87,173)

For derivative instruments that are designated and qualify as a cash flow hedge under ASC 815, the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income and reclassified into net earnings in the same period or periods during which the hedged transaction affects net earnings and is presented in the same line item on the Consolidated Statements of Operations as the net earnings effect of the hedged item. Gains and losses from changes in market value on the derivative instrument representing hedge ineffectiveness are recognized in current net earnings and are presented in the same line on the Consolidated Statements of Operations expected for the hedged item. Basin Electric evaluates and quantifies any hedge ineffectiveness on a quarterly basis. There was no ineffectiveness on cash flow hedges in 2019 and 2018.

The following table summarizes Dakota Gas and Dakota Coal gains and losses and financial statement classification of the derivatives designated as cash flow hedges. This does not reflect the expected gains or losses arising from the underlying physical transactions; therefore it is not indicative of the economic gross profit or loss realized when the underlying physical and financial transactions were settled.

Location of Reclassifications from Accumulated Other Comprehensive Income (Loss) into Net Margins and Earnings	2019 Reclassified Gain (Loss)	2018 Reclassified Gain (Loss)
Derivatives designated as cash flow hedges:		
Commodity derivatives:		
Synthetic natural gas	$ 6,581	$ (6,817)
Byproducts, coproduct and other	(2,018)	(7,353)
Other operating expenses	584	1,743
Total	$ 5,147	$ (12,427)

Under ASC 980, Basin Electric's Board of Directors defers changes in the fair value of certain derivative instruments as regulatory assets or liabilities. Current settlements of derivatives, including interest rate swaps and commodity derivatives, resulted in charges to the Consolidated Statements of Operations for the years ended December 31, 2019 and 2018 of $11,694 and $3,870, which is reclassified from regulatory assets and liabilities.

The following table summarizes the gains and losses arising from hedging transaction that were recognized as a component of other comprehensive income (loss) for the years ended December 31, 2019 and 2018.

	2019	2018
Increase (decrease) in fair value of commodity derivatives	$ 4,353	$ (64)
Recognition of (gains) losses on commodity derivatives in earnings due to settlements	(5,147)	12,427
Total other comprehensive income (loss) from hedging	$ (794)	$ 12,363

Based on December 31, 2019 prices, a $4,354 gain would be realized, reported in pre-tax earnings and reclassified from Accumulated other comprehensive income (loss) during the next 12 months. As market prices fluctuate, estimated and actual realized gains or losses will change during future periods.

For commodity derivatives that do not meet the criteria for hedge accounting under ASC 815, gains or losses are recorded in the Consolidated Statements of Operations. The following table summarizes the impact of commodity derivatives that do not meet the criteria. This does not reflect the expected gains or losses arising from the underlying physical transactions; therefore it is not indicative of the economic gross profit or loss realized when the underlying physical and financial transactions were settled.

Location of Gain (Loss) on Derivatives Recognized in Net Margin and Earnings	2019 Recognized Gain (Loss)	2018 Recognized Gain (Loss)
Derivatives not designated as cash flow hedges:		
Commodity derivatives:		
Synthetic natural gas	$ 4,980	$ (10,216)
Byproducts, coproduct and other	(2,923)	378
Other operating expenses	930	1,324
Total	$ 2,987	$ (8,514)

The change in fair value of derivatives deferred as a regulatory item for the year ended December 31, 2019 resulted in a deferred loss of $(31,397) and a deferred gain of $7,428 for the year ended December 31, 2018.

10. REGULATORY ASSETS AND LIABILITIES

Regulatory assets and liabilities were as follows at December 31:

	Remaining Recovery Period	2019	2018
Regulatory assets:			
Deferred income taxes	Over Plant lives	$ 146,726	$ 136,744
Refinancing fees	Up to 30 years	117,168	123,343
Deferral of loss on investment in Dakota Gas	Up to 19 years	96,540	113,374
Unrealized loss on interest rate swaps	Up to 13 years	82,460	70,602
Unrealized loss on purchase power contracts	Up to 6 years	25,097	-
Interest on coal royalties and other costs	Up to 21 years	17,875	19,566
Unrealized loss on commodity derivatives	Up to 2 years	13,088	8,088
Other	Up to 20 years	23,663	17,089
		$ 522,617	$ 488,806
Regulatory liabilities:			
Deferred revenue		(155,000)	(75,000)
Unrealized gain on equity investments		(7,015)	-
Post-retirement medical obligation		(1,257)	(6,787)
		(163,272)	(81,787)
Net regulatory assets		$ 359,345	$ 407,019

If all or a separable portion of Basin Electric's operations no longer are subject to the provisions of ASC 980, a write-off of related regulatory assets would be required, unless some form of transition recovery (refund) continues through rates established and collected for Basin Electric's remaining regulated operations. In addition, Basin Electric would be required to determine any impairment to the carrying costs of deregulated plant and inventory assets.

11. EQUITY

ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) — The following table includes the changes in the balances of the components of Accumulated other comprehensive income (loss) on the Consolidated Balance Sheets:

	Post Employment Benefit Plans	Unrealized Gain on Securities	Unrealized Gain (Loss) on Cash Flow Hedges	Total
Balance, December 31, 2017	$ (12,973)	$ 20,936	$ (5,622)	$ 2,341
Comprehensive income (loss)	2,770	(3,989)	9,566	8,347
Balance, December 31, 2018	(10,203)	16,947	3,944	10,688
Comprehensive income (loss)	(3,950)	2,949	(627)	(1,628)
Reclassification due to adoption of new accounting standard (ASU 2016-01)	-	(19,277)	-	(19,277)
Balance, December 31, 2019	$ (14,153)	$ 619	$ 3,317	$ (10,217)

OTHER EQUITY — From November 1981 through August 1983, Basin Electric sold approximately $894,000 of electric plant under sale and leaseback agreements in exchange for $310,000 in cash and $584,000 in notes. Annual lease payments are equal to the payments the purchaser is required to make on its notes to Basin Electric. The sale and lease transactions have not been recognized for financial reporting purposes, as such transactions were entered into solely for tax purposes under the Economic Recovery Tax Act of 1981 and the Tax Equity and Fiscal Responsibility Act of 1982 and do not affect Basin Electric's rights with respect to the property. The $310,000, net of expenses of $28,000, was reserved in Other equity.

Beginning in March 2001, Basin Electric allocated its before tax margin to members and recorded any provision for or benefit from income taxes in Other equity. As of December 31, 2019, $69,790 of net income tax benefit was closed into Other equity.

12. LONG-TERM DEBT AND OTHER FINANCING

Outstanding debt was as follows at December 31:

	Due Date	Weighted Average Interest Rate at December 31, 2019	December 31, 2019	December 31, 2018
Basin Electric Power Cooperative				
First Mortgage Bonds				
2006 Series	June 2041	6.13%	$ 200,000	$ 200,000
2017 Series	April 2047	4.75%	500,000	500,000
			700,000	700,000
First Mortgage Obligations				
2005 Series	Dec. 2028-May 2030	5.85%	90,000	90,000
2007 Series	Sept. 2042	5.68%	262,620	269,350
2008 Series	Dec. 2028-Dec. 2038	5.80%	509,056	525,000
2009 Series	Oct. 2027-April 2040	5.28%	198,889	210,000
2011 Series	Oct. 2031-Oct. 2049	4.38%	293,495	305,875
2012 Series	Nov. 2044	4.07%	87,762	89,757
2015 Series	June 2027-June 2044	4.44%	1,500,000	1,500,000
2016 CoBank Note	April 2046	4.48%	88,333	91,667
2016 CFC Note	April 2046	3.74%	66,176	68,697
Wells Fargo Note	June 2027-Dec. 2028	5.13%	16,750	18,750
			3,113,081	3,169,096
Wyoming Infrastructure Authority Note	Sept. 2025	4.84%	16,810	19,172
2009 Solid Waste Facilities Revenue Bonds	July 2039	5.75%	-	150,000
2019 Solid Waste Facilities Revenue Bonds	July 2039	3.63%	150,000	-
Notes payable to affiliates	Dec. 2021	2.98%	1,016	1,492
			167,826	170,664
Dakota Coal				
Equipment notes	March 2020-April 2032	3.95%	74,325	87,227
Dakota Gasification Company				
Senior Secured Notes 2015 Series	May 2030-May 2045	4.11%	433,585	461,195
Other		Various	16,655	18,081
			524,565	566,503
			4,505,472	4,606,263
Less:				
Current Portion			(99,466)	(99,923)
Unamortized debt issue costs			(29,095)	(29,645)
			$ 4,376,911	$ 4,476,695

The estimated fair value of debt at December 31, 2019 and 2018 was $5,059,517 and $4,741,004, based on cash flows discounted at interest rates for similar issues or at the current rates offered to Basin Electric for debt of comparable maturities.

The scheduled maturities of long-term debt for the next five years at December 31, 2019 are as follows:

	2020	2021	2022	2023	2024
Long-term debt	$ 99,466	$ 99,648	$ 95,986	$ 74,038	$ 167,800

All of Basin Electric's long-term debt is secured under the Amended and Restated Indenture dated May 5, 2015 (the "Indenture"), between Basin Electric and U.S. Bank National Association, as trustee. Pursuant to the Indenture, Basin Electric created a first lien on substantially all of its tangible and certain of its intangible assets in favor of the Indenture trustee to secure certain long-term debt on a pro-rata basis.

Basin Electric's and its subsidiaries' debt agreements contain various restrictive financial and non-financial covenants which, among other matters, require Basin Electric to maintain a defined margins for interest ratio. Dakota Gas is also required to maintain a minimum equity balance. As of December 31, 2019 Basin Electric and its subsidiaries are in compliance with all financial covenants related to the debt agreements.

All of Dakota Coal's long-term debt is secured under the Master Loan Agreement dated as of December 15, 2017 between Dakota Coal and CoBank, ACB.

All of Dakota Gas' long-term debt is secured under an Indenture dated as of May 1, 2015 between Dakota Gas and U.S. Bank, N.A., as trustee. Dakota Gas' long-term debt is also backed by an unsecured Guarantee dated as of May 8, 2015 by Basin Electric, its parent, in favor of U.S. Bank National Association, as Trustee.

LINES OF CREDIT — Basin Electric and Dakota Gas have entered into lines of credit which are included in Notes payable on the Consolidated Balance Sheets as follows:

Lender	Maturity	Total Availability	Outstanding Advances as of December 31, 2019
CFC	03-16-23	$ 130,000	$ 100,000
Syndicate of Thirteen Banks	08-28-23	$ 500,000	139,714
Syndicate of Twelve Banks	12-12-22	$ 500,000	-
Royal Bank of Canada	06-30-20	$ 100,000	99,300
			$ 339,014

As of December 31, 2019, the effective interest rate of the outstanding advances is 2.18%.

13. REVENUE

The following table disaggregates revenue by major source for the year ended December 31.

	2019	
	Utility Operations	Nonutility Operations
Member wholesale electricity sales	$ 1,686,356	$ -
Nonmember wholesale electricity sales	130,758	-
Synthetic natural gas	-	117,535
Fertilizer products	-	153,001
Other byproducts	-	66,584
Lignite coal	-	215,934
Other	21,706	26,085
Intercompany revenue	-	(88,745)
Revenue from contracts with customers	1,838,820	490,394
Regulatory deferred revenue	(80,000)	-
Other revenue (expense)	(2,302)	6,620
Total operating revenue	$ 1,756,518	$ 497,014

DEFERRED REVENUE AND OTHER REVENUE (EXPENSE) — Revenue of $80,000 was deferred in 2019 by Basin Electric's Board of Directors, in its capacity as regulator. This revenue is accounted for under ASC 980. Other revenue (expense) includes derivative revenue from hedging activities for synthetic natural gas, tar oil, and electricity sales which is accounted for under ASC 815.

CONTRACT BALANCES — At times, Basin Electric and its subsidiaries will receive payment in advance of performing an obligation under a contract. Unearned revenue, a contract liability, is recognized when this occurs. At December 31, 2019 and December 31, 2018 the unearned revenue balance (included in Taxes and other current liabilities on the Consolidated Balance Sheets) was $2,107 and $90. There were no contract assets at December 31, 2019. The balances in Customer accounts receivable and other receivables on the Consolidated Balance Sheets represent the unconditional right to consideration from customers.

14. INCOME TAXES

Basin Electric is a nonexempt cooperative subject to federal and state income taxation, but as a cooperative is allowed to exclude from income margins allocated as patronage capital. Basin Electric and its subsidiaries (the Consolidated Group) file a consolidated income tax return and have entered into tax-sharing agreements. Income taxes are allocated among members of the Consolidated Group based on a systematic, rational and consistent method under which such taxes approximate the amount that would have been computed on a separate company basis, subject to limitations on the Consolidated Group.

The components of Basin Electric's Benefit from income taxes were as follows for the years ended December 31:

	2019	2018
Current tax expense (benefit)	$ (1,269)	$ 190
Deferred tax benefit	(18,775)	(37,874)
Benefit from income taxes	$ (20,044)	$ (37,684)

Basin Electric accounts for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that were included in the consolidated financial statements. Under this method, deferred tax assets and liabilities are determined on the basis of the differences between the financial statement and tax bases of assets and liabilities by using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

The tax effect of significant temporary differences representing deferred tax assets and liabilities were as follows at December 31:

	2019	2018
Deferred tax liabilities:		
Depreciation and property	$ 205,336	$ 196,603
Deferred expenses	20,273	23,808
RUS refinancing expense	19,684	20,758
Direct financing leases	20,833	20,233
Other deferred tax liabilities	8,124	5,238
Unrealized gains	4,816	6,000
Total deferred tax liability	279,066	272,640
Deferred tax assets:		
Tax benefit transfer leases	(23,344)	(28,514)
Deferred revenue	(32,550)	(15,750)
Deferred credits	(12,978)	(9,870)
Tax credits available	(21,539)	(21,555)
Interest expense carryover	(17,894)	(8,957)
Mine related	(8,899)	(7,063)
Patronage loss carryforward	(23,247)	(63,257)
Net operating loss carryforward	(108,179)	(83,237)
Other deferred tax assets	(9,598)	(11,513)
Valuation allowance	65,978	72,917
Total deferred tax assets	(192,250)	(176,799)
Net deferred tax liability	$ 86,816	$ 95,841

Deferred taxes have been provided for temporary income tax differences associated with utility operations with an offsetting amount recorded as a regulatory asset as such amounts are expected to be recovered through rates charged to members at such time as the Board of Directors, in its capacity as regulator, deems appropriate.

Income taxes differ from the Benefit from income taxes computed using the statutory rate for the years ended December 31 as follows:

	2019	2018
Computed income tax at statutory rate	$ 11,870	$ 5,639
Permanent differences:		
Patronage capital allocated	(12,489)	(48,388)
Other, net	(311)	(183)
Change in regulatory asset associated with deferred taxes net of patron net operating loss	(15,908)	(47,489)
Valuation allowance for subsidiaries	(3,373)	54,581
Other	213	391
State income taxes	(46)	(2,235)
Benefit from income taxes	$ (20,044)	$ (37,684)

Basin Electric had available federal and state research tax credit carryforwards of approximately $21,539 and charitable contribution carryforwards of approximately $3,252 at December 31, 2019. The research tax credits expire in varying amounts from 2020 through 2039 and the charitable contribution carryforwards expire in varying amounts from 2020 through 2024. Basin Electric has a consolidated net operating loss carryforward as of December 31, 2019 of $515,142. The pre 2018 net operating losses of $268,562 expire in varying amounts from 2035 through 2037. The post 2017 losses are carried forward indefinitely.

It is more likely than not that the benefit from certain federal and state net operating losses, federal and state tax credits and federal charitable contribution carryforwards will not be realized. In recognition of this risk, Basin Electric recorded a valuation allowance on the related deferred tax assets.

Basin Electric has a patron federal net operating loss carryforward of approximately $110,698. The pre-2018 patron net operating losses of $99,329 expire in varying amounts from 2035 through 2037. The post 2017 losses are carried forward indefinitely. It is more likely than not that the benefit from the patron federal net operating losses will be realized.

Basin Electric has a federal interest expense carryforward of $85,215 as of December 31, 2019. The interest expense is carried forward indefinitely. It is more likely than not the benefit from the interest expense carryforward will be realized.

In accordance with the provisions of ASC 740, *Income Taxes*, Basin Electric records a liability for unrecognized tax benefits. A reconciliation of the beginning and ending amount of the liability for unrecognized tax benefits is as follows:

	2019	2018
Balance at January 1	$ 6,459	$ 5,684
Addition for tax positions of current period	455	630
Addition for tax positions of prior periods	-	145
Reduction for tax positions of prior periods	(1,438)	-
Balance at December 31	$ 5,476	$ 6,459

Basin Electric recognizes interest and penalties related to unrecognized tax benefits (if any) in the respective interest and penalties expense accounts and not in the Benefit from income taxes on the Consolidated Statements of Operations. There are no amounts of unrecognized tax benefits that are expected to significantly change within the next 12 months.

Basin Electric completed examinations by the Internal Revenue Service (IRS) through 2010. Management does not believe future settlements with the IRS will be material to Basin Electric's financial position.

15. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

Level 1 inputs utilize observable market data in active markets for identical assets or liabilities. Level 2 inputs consist of observable market data, other than that included in Level 1, that is either directly or indirectly observable. Level 3 inputs consist of unobservable market data which are typically based on an entity's own assumptions of what a market participant would use in pricing an asset or liability as there is little, if any, related market activity. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. Basin Electric's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

On December 31, 2019 and 2018, Basin Electric had government obligations, equity securities, bond market funds and corporate bonds included in Short-term investments, Mine related assets and Other investments, recorded at a fair value, using quoted prices in active markets for identical assets as the fair value measurement (Level 1).

On December 31, 2019, Basin Electric recorded derivative financial instruments including commodity contracts and interest rate swaps using significant other observable inputs as the fair value measurement (Level 2). On December 31, 2018, Basin Electric recorded guaranteed investment certificates, interest rate swaps and commodity derivatives at fair value using significant other observable inputs as the fair value measurement (Level 2). The fair value for commodity contracts is determined by comparing the difference between the net present value of the cash flows for the commodity contracts at their initial price and the current market price. The initial price is quoted in the commodity contract and the current market price is corroborated by observable market data. The fair value for interest rate swap contracts is determined by comparing the difference between the net present value of the cash flows for the swaps at their initial fixed rate and the current market interest rate. The initial fixed rate is quoted in the swap agreement and the current market interest rate is corroborated by observable market data. The fair value for the guaranteed investment certificates is determined by the insurance company by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the creditworthiness of the issuer.

The following table summarizes assets and liabilities measured at fair value on a recurring basis as of December 31, 2019, aggregated by the level in the fair value hierarchy within which those measurements fall:

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Investments:				
Equity funds	$ 78,803	$ 78,803	$ -	$ -
Government securities	24,441	24,441	-	-
Bond market funds	45,174	45,174	-	-
U.S. corporate bonds	25,951	25,951	-	-
Foreign corporate bonds	2,455	2,455	-	-
	176,824	176,824	-	-
Commodity derivatives	8,273	-	8,273	-
Less amounts classified as current assets	(8,273)	-	(8,273)	-
	$ 176,824	$ 176,824	$ -	$ -
Liabilities:				
Interest rate swaps	$ 83,425	$ -	$ 83,425	$ -
Commodity derivatives	40,797	-	40,797	-
Less amounts classified as current liabilities	(11,520)	-	(11,520)	-
	$ 112,702	$ -	$ 112,702	$ -

The following table summarizes assets and liabilities measured at fair value on a recurring basis as of December 31, 2018, aggregated by the level in the fair value hierarchy within which those measurements fall:

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Investments:				
Money market	$ 200,440	$ 200,440	$ -	$ -
Corporate commercial paper	57,740	57,740	-	-
Equity funds	59,888	59,888	-	-
Government securities	31,380	31,380	-	-
Bond market funds	35,131	35,131	-	-
U.S. corporate bonds	11,361	11,361	-	-
Foreign corporate bonds	3,651	3,651	-	-
Other	901	754	147	-
	400,492	400,345	147	-
Commodity derivatives	11,347	-	11,347	-
Less amounts classified as current assets	(272,608)	(263,280)	(8,788)	-
	$ 139,771	$ 137,065	$ 2,706	$ -
Liabilities:				
Interest rate swaps	$ 71,567	$ -	$ 71,567	$ -
Commodity derivatives	15,606	-	15,606	-
Less amounts classified as current liabilities	(4,346)	-	(4,346)	-
	$ 82,827	$ -	$ 82,827	$ -

16. EMPLOYEE BENEFIT PLANS

POSTRETIREMENT BENEFITS — Employees of Basin Electric, Dakota Gas, and MLC retiring at or after attaining age 55 and completing five years of service may elect to continue medical and dental benefits by paying premiums to Basin Electric, Dakota Gas or MLC for participating in the current employee plan, subject to deductible, coinsurance and copayment provisions. Eligible dependents of retired employees continue to receive benefits after the death of the former employee, with certain limitations. Participation in Basin Electric's, Dakota Gas' or MLC's medical plan can continue until the retiree or spouse becomes eligible for Medicare. Once a retiree becomes eligible for Medicare, the spouse may continue under each of the plans until the spouse becomes eligible for Medicare. Basin Electric, Dakota Gas, and MLC reserve the right to change or terminate these benefits at any time. In 2018, employees over age 60 who chose to participate in an enhanced voluntary separation plan will receive the benefit of two years of a Medicare supplement plan when reaching age 65.

Basin Electric, Dakota Gas and MLC fund postretirement medical benefits from general funds, and in 2019 and 2018 funding was $4,821 and $3,640.

Coteau also maintains medical care and life insurance plans which provide benefits to eligible retired employees.

Net periodic postretirement benefit expense (income) for the years ended December 31, 2019 and 2018 for Basin Electric and subsidiaries was $3,940 and $4,178, and for Coteau was $(771) and $486.

	Basin Electric and Subsidiaries		Coteau	
	2019	2018	2019	2018
Other changes recognized in Other comprehensive income (loss):				
Prior service credit arising during period	$ -	$ -	$ -	$ (1,047)
Net loss (gain) arising during the period	8,538	3,176	82	(4,834)
Amortization of prior service credit	100	283	227	3
Amortization of gain (loss)	190	(337)	796	-
Total recognized in Other comprehensive income (loss)	$ 8,828	$ 3,122	$ 1,105	$ (5,878)

Assumptions used to determine net periodic postretirement benefit expense were as follows for the years ended December 31:

	Basin Electric and Subsidiaries		Coteau	
	2019	2018	2019	2018
Weighted-average discount rates	4.27%	3.57%	3.80%	3.10%
Health care cost trend rate assumed	6.16%	6.47%	6.50%	6.75%
Ultimate health care cost trend	4.50%	4.50%	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	2038	2038	2025	2025

The following sets forth the changes in accumulated postretirement benefit liability and plan assets during the year, and reconciles the funded status of the plans to the accrued liability which is included in Deferred credits, taxes and other liabilities and Taxes and other current liabilities on the Consolidated Balance Sheets, as of December 31:

	Basin Electric and Subsidiaries		Coteau	
	2019	2018	2019	2018
Change in accumulated postretirement benefit liability:				
Balance at January 1	$ 39,460	$ 35,799	$ 5,416	$ 10,936
Service cost	2,439	2,726	55	160
Interest cost	1,791	1,398	196	329
Actuarial loss (gain)	5,346	5,938	82	(4,834)
Assumption changes	3,192	(2,762)	-	(1,047)
Benefit payments	(8,811)	(7,097)	(678)	(128)
Plan participant contributions	3,990	3,458	-	-
Balance at December 31	$ 47,407	$ 39,460	$ 5,071	$ 5,416
Change in plan assets:				
Fair value of plan assets at beginning of year	$ -	$ -	$ -	$ -
Employer contributions	4,821	3,639	678	128
Plan participant contributions	3,990	3,458	-	-
Benefit payments	(8,811)	(7,097)	(678)	(128)
Fair value of plan assets at end of year	$ -	$ -	$ -	$ -
As of December 31, the funded status of the plan was:				
Accumulated postretirement benefit liability	$ 47,407	$ 39,460	$ 5,071	$ 5,416
Fair value of plan assets	-	-	-	-
Funded status at end of year	$ 47,407	$ 39,460	$ 5,071	$ 5,416
Amounts recognized in the balance sheets are:				
Current liabilities	$ 3,679	$ 3,314	$ 668	$ 626
Noncurrent liabilities	43,728	36,146	4,403	4,790
Net amount recognized	$ 47,407	$ 39,460	$ 5,071	$ 5,416
Amounts not yet reflected in net periodic postretirement benefit expense and included in Accumulated other comprehensive income: (loss)				
Prior service credit (cost)	$ (1,241)	$ (1,141)	$ 820	$ 1,047
Actuarial gain	2,830	11,558	3,958	4,836
Accumulated other comprehensive income (loss)	$ 1,589	$ 10,417	$ 4,778	$ 5,883

Assumptions used in accounting for the postretirement benefit plans obligation were as follows for the years ended December 31:

	Basin Electric and Subsidiaries		Coteau	
	2019	2018	2019	2018
Weighted-average discount rates	3.19%	4.27%	2.65%	3.80%
Initial health care cost trend	7.50%	6.16%	6.25%	6.50%
Ultimate health care cost trend rate	4.50%	4.50%	4.50%	5.00%
Year that the rate reaches the ultimate trend rate	2038	2038	2027	2025

Basin Electric and its subsidiaries and Coteau expect to make contributions of $3,679 and $668 in 2020 to their postretirement medical plans.

The following are the expected future benefits to be paid:

	Basin Electric and Subsidiaries	Coteau
2020	$ 3,679	$ 668
2021	$ 3,738	$ 641
2022	$ 3,943	$ 670
2023	$ 3,888	$ 661
2024	$ 3,597	$ 627
2025-2029	$ 16,520	$ 1,847

DEFINED BENEFIT PLANS

NRECA RS PLAN – Pension benefits for substantially all Basin Electric and Dakota Gas employees are provided through participation in the National Rural Electric Cooperative Association (NRECA) Retirement Security Plan (RS Plan) which is a defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue code. It is a multiemployer plan under GAAP.

A unique characteristic of a multiemployer plan compared to a single employer plan is that all plan assets are available to pay benefits of any plan participant. Separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer may be used to provide benefits to employees of other participating employers.

Basin Electric and Dakota Gas contributions to the RS Plan in 2019 and in 2018 represented less than 5 percent of the total contributions made to the RS Plan by all participating employers. In 2018, Basin Electric and Dakota Gas allowed employees to opt out of the NRECA RS Plan and participate in the 401K defined contribution plan at a higher percentage employer match. Additionally, in 2018, Basin Electric employees were offered an enhanced voluntary separation plan which resulted in a reduction in the number of NRECA RS Plan participants. Pension costs charged to expense during 2019 and 2018 were $37,301 and $44,340.

In the RS Plan, a "zone status" determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the RS Plan was over 80 percent funded at January 1, 2019 and 2018 based on the PPA funding target and PPA actuarial value of assets on those dates.

Because the provisions of the PPA do not apply to the RS Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

EBR PLAN – Certain of Basin Electric's employees participate in an Executive Benefit Restoration (EBR) Plan. The EBR Plan is a noncontributory defined benefit plan sponsored by Basin Electric. Benefits under the EBR plan are based on the difference between amounts without IRS qualified pension plan limits on compensation and benefits and those with such limits as determined under the provisions of the NRECA RS Plan.

Net periodic pension expense of Basin Electric associated with the EBR for the years ended December 31, 2019 and 2018 was $495 and $536.

	2019	2018
Other changes recognized in Other comprehensive income (loss):		
Net loss (gain) arising during the period	$ 1,801	$ (496)
Prior service cost arising during the period	-	686
Amortization of prior service cost	(312)	(312)
Amortization of actuarial loss	-	(28)
Total recognized in Other comprehensive income (loss)	$ 1,498	$ (150)

The assumptions used to determine net periodic pension expense were as follows for the years ended December 31:

	2019	2018
Weighted average discount rate	4.34%	3.69%
Rate of increase in compensation levels	3.00%	3.00%

The following sets forth the changes in the pension benefit obligation based on the actuary's analysis as of December 31:

	2019	2018
Change in pension benefit obligation:		
Projected benefit obligation at January 1	$ 2,295	$ 1,909
Service cost	83	96
Interest cost	100	100
Plan amendments	-	686
Actuarial loss (gain)	1,801	(496)
Projected pension benefit obligation at end of year	$ 4,279	$ 2,295
As of December 31, the funded status of the plan was:		
Projected benefit obligation	$ 4,279	$ 2,295
Fair value of plan assets	-	-
Funded status at end of year	$ 4,279	$ 2,295
Amounts recognized in the balance sheets are:		
Noncurrent liabilities	$ 4,279	$ 2,295
Amounts not yet reflected in net periodic pension expense and included in Accumulated other comprehensive income (loss):		
Prior service cost	$ (1,008)	$ (1,320)
Actuarial (loss) gain	(1,594)	207
Accumulated other comprehensive income (loss)	$ (2,602)	$ (1,113)

The projected pension benefit obligation included in the table above represents the actuarial present value of benefits attributable to employee service rendered to date, including the effects of estimated future pay increases.

Assumptions used to account for the pension benefit obligation were as follows for the years ended December 31:

	2019	2018
Weighted average discount rate	3.13%	4.34%
Rate of increase in compensation levels	3.00%	3.00%

Basin Electric expects to make contributions of $2,259 to the EBR Plan in 2020.

At December 31, 2019, Basin Electric expects to pay benefits for the next five years and thereafter as follows:

2020	2021	2022	2023	2024	Thereafter
$ 2,259	$ -	$ -	$ 1,459	$ -	$ 2,577

BCS AND COTEAU PLANS – BCS's former United Mine Workers of America employees are covered under a defined benefit plan which is funded by BCS. Plan assets are invested in common stocks, long-term corporate bonds and money market funds. BCS uses a December 31 measurement date.

Substantially all of Coteau's salaried employees hired prior to January 1, 2000, participate in the Coteau Pension Plan (the Plan), a noncontributory defined benefit plan sponsored by NACoal. Benefits under the defined benefit pension plan are based on years of service and average compensation during certain periods. The Plan benefits were frozen effective December 31, 2013. Employees whose benefits were frozen subsequently receive retirement benefits under defined contribution plans.

Net periodic pension expense (income) for the years ended December 31, 2019 and 2018 for BCS was $93 and $17 and for Coteau was $(2,494) and $(2,600).

	BCS		Coteau	
	2019	2018	2019	2018
Other changes recognized in Other comprehensive income (loss):				
Net loss (gain) arising during the period	$ (39)	$ 145	$ 529	$ 3,187
Amortization of actuarial loss	(113)	(102)	(169)	(357)
Total recognized in Other comprehensive income (loss)	$ (152)	$ 43	$ 360	$ 2,830

The assumptions used to determine net periodic pension expense were as follows for the years ended December 31:

	BCS		Coteau	
	2019	2018	2019	2018
Weighted average discount rate	3.93%	3.27%	4.25%	3.60%
Expected long-term return on plan assets	5.50%	6.25%	7.50%	7.50%

The following sets forth the changes in the pension benefit obligation and plan assets allocated based on the actuary's analysis as of December 31:

	BCS		Coteau	
	2019	2018	2019	2018
Change in pension benefit obligation:				
Projected benefit obligation at beginning of year	$ 4,021	$ 4,443	$ 86,616	$ 94,703
Interest cost	151	140	3,589	3,341
Actuarial loss (gain)	297	(219)	10,422	(7,228)
Benefits payments	(339)	(343)	(4,553)	(4,200)
Projected pension benefit obligation at end of year	$ 4,130	$ 4,021	$ 96,074	$ 86,616
Change in plan assets:				
Fair value of plan assets at beginning of year	$ 3,282	$ 3,764	$ 80,842	$ 89,160
Actual return on plan assets	508	(139)	16,145	(4,118)
Benefits payments	(339)	(343)	(4,553)	(4,200)
Fair value of plan assets at end of year	$ 3,451	$ 3,282	$ 92,434	$ 80,842
As of December 31, the funded status of the plan was:				
Projected pension obligation	$ 4,130	$ 4,021	$ 96,074	$ 86,616
Fair value of plan assets	3,451	3,282	92,434	80,842
Funded status at end of year	$ 679	$ 739	$ 3,640	$ 5,774
Amounts recognized in the balance sheets are:				
Noncurrent liabilities	$ 679	$ 739	$ 3,640	$ 5,774
Amounts not yet reflected in net periodic pension expense and included in Accumulated other comprehensive income (loss):				
Actuarial loss	$ (1,882)	$ (2,034)	$ (17,357)	$ (16,997)

The projected pension benefit obligation included in the table above represents the actuarial present value of benefits attributable to employee service rendered to date, including the effects of estimated future pay increases.

Assumptions used to account for the pension benefit obligation were as follows for the years ended December 31:

	BCS		Coteau	
	2019	2018	2019	2018
Weighted average discount rate	2.82%	3.93%	3.25%	4.25%

BCS and Coteau do not expect to make any contributions in 2020 to their defined benefit plans.The following are the expected future benefit payments for the BCS Plan and the Coteau Pension Plan:

	BCS	Coteau
2020	$ 326	$ 4,847
2021	$ 317	$ 4,968
2022	$ 307	$ 5,019
2023	$ 298	$ 5,110
2024	$ 288	$ 5,246
2025-2029	$ 1,298	$ 27,207

The expected long-term rate of return on the Plan assets reflects the expectations of NACCO with respect to long-term rates of return on funds invested to provide for benefits included in the projected benefit obligations. NACCO has established the expected long-term rate of return assumption for the Plan assets by considering historical rates of return over a period of time that is consistent with the long-term nature of the underlying obligations of the Plan. The historical rates of return for each of the asset classes used to determine its estimated rate of return assumption were based upon the rates of return earned by investments in the equivalent benchmark market indices for each of the asset classes.

The Plan maintains an investment policy that, among other things, establishes a portfolio asset allocation methodology with percentage allocation bands for individual asset classes. The investment policy further divides investments in equity securities among U.S. and non-U.S. companies. The investment policy provides that investments are reallocated between asset classes as balances exceed or fall below the appropriate allocation bands.

The following is the actual and target allocation percentages for the Plan and BCS Plan assets at December 31, 2019:

	BCS		Coteau	
	Actual Allocation	Target Allocation	Actual Allocation	Target Allocation
Equity securities	39.2%	37.0%	66.1%	52.0% – 78.0%
Fixed income securities	55.8%	60.0%	33.5%	30.0% – 40.0%
Other	5.0%	3.0%	0.4%	0.0% – 10.0%
	100.0%		100.0%	

BCS Plan assets are invested with a trust that is responsible for maintaining an appropriate investment ratio in common stocks, long-term corporate bonds and money market funds.

DEFINED CONTRIBUTION PLANS — Basin Electric, Dakota Gas and MLC have qualified tax deferred savings plans for eligible employees. Eligible participants of the tax deferred savings plans may make pre-tax and post-tax contributions, as defined, with Basin Electric, Dakota Gas and MLC matching various percentages of the participants' annual compensation. Contributions to these plans by Basin Electric, Dakota Gas, and MLC were $11,746 and $12,697 for 2019 and 2018.

For employees hired after December 31, 1999, Coteau established a defined contribution plan which requires Coteau to make retirement contributions based on a formula using age and salary as components of the calculation. Employees are vested at a rate of 20 percent for each year of service and are 100 percent vested after five years of employment. Coteau recorded contribution expense of approximately $2,981 and $2,738 related to this plan in 2019 and 2018.

Substantially all of Coteau's salaried employees also participate in a defined contribution plan sponsored by NACoal. Employee contributions are matched by Coteau up to a limit of 5 percent of the employee's salary. Coteau's contributions to this plan were approximately $2,391 and $2,348 in 2019 and 2018.

Under the provisions of the lignite sales agreement between Dakota Coal and Coteau, retirement related costs will be recovered as a cost of coal as tonnage is sold.

17. OTHER DEFERRED CREDITS, TAXES AND OTHER LIABILITIES

Other deferred credits, taxes and other liabilities were as follows at December 31:

	2019	2018
Asset retirement obligations	$ 131,393	$ 121,264
Long-term derivative liability	112,702	82,827
Non-current deferred income tax liability, net	86,816	95,841
Pension and benefit obligations	79,701	71,167
MBPP operating advances	40,207	40,207
Other	25,860	22,170
	$ 476,679	$ 433,476

ASSET RETIREMENT OBLIGATIONS — An asset retirement obligation is the result of legal or contractual obligations associated with the retirement of a tangible long-lived asset that results from the acquisition, construction, or development and/or the normal operation of a long-lived asset. Basin Electric and Coteau determine these obligations based on an estimated asset retirement cost adjusted for inflation and projected to the estimated settlement dates, and discounted using a credit-adjusted risk-free interest rate.

A reconciliation of the beginning and ending aggregate carrying amount of the asset retirement obligation included in Other deferred credits, taxes and other liabilities on the Consolidated Balance Sheets is as follows:

	2019	2018
Balance, January 1	$ 121,264	$ 105,713
Liabilities settled during the period	(1,175)	(1,152)
Accretion expense	5,893	5,077
Additions for utility obligations	5,411	11,626
Balance, December 31	$ 131,393	$ 121,264

18. COMMITMENTS AND CONTINGENCIES

POWER PURCHASE COMMITMENTS — BBasin Electric entered into various power purchase contracts with various terms ranging from one to 56 years. The estimated commitments under these contracts as of December 31, 2019 were $366,348 in 2020, $311,602 in 2021, $306,746 in 2022, $318,817 in 2023, $323,780 in 2024, and $5,272,275 thereafter. Amounts purchased under the contracts totaled $360,450 in 2019 and $364,813 in 2018.

Basin Electric entered into various power purchase agreements with its Class A member, Corn Belt Power Cooperative (Corn Belt), under which Basin Electric buys substantially all of the output from Corn Belt's generation resources at cost, which approximates market, through December 2075. Basin Electric also entered into a transmission lease agreement with Corn Belt which expires in December 2075. ASC 810, *Consolidation*, requires that certain of Corn Belt's generation assets and liabilities associated with the power purchase agreements be consolidated in Basin Electric's Consolidated Balance Sheets. At December 31, 2019 and 2018, the assets and liabilities of Corn Belt included in the Consolidated Balance Sheets totaled $14,898 and $15,966. Basin Electric accounts for the costs associated with these assets and liabilities as operation, maintenance, interest and depreciation expense, rather than purchased power expense.

CONTRACT COMMITMENTS — Basin Electric has outstanding contractual commitments for pipeline transportation totaling $30,714 as of December 31, 2019. Basin Electric also has various other outstanding contractual commitments totaling $33,437 as of December 31, 2019, for various equipment purchases, supplies, and for miscellaneous services to be provided.

Coteau has outstanding commitments of $287 to purchase equipment and $1,266 committed under various diesel fuel contracts through June 2021.

MINE CLOSING COSTS AND COAL PURCHASE COMMITMENTS — Under the terms of the Coteau Lignite Sales Agreement (Agreement) between Dakota Coal and Coteau, Dakota Coal is obligated to purchase all of its lignite requirements for AVS, the Synfuels Plant and LOS from Coteau, and Coteau is obligated to sell and deliver the required coal to Dakota Coal from contractually defined dedicated coal reserves. The coal purchase price includes all costs incurred by Coteau for development and operation of the dedicated coal reserves and may include costs to be incurred in connection with the Freedom Mine closing. During 2019 and 2018, Dakota Coal paid $206,356 and $205,085 to Coteau for coal purchased under the lignite sales agreement. As a result of applying ASC 810, *Consolidation*, Coteau is consolidated with Dakota Coal and coal purchases from Coteau are eliminated within the consolidated financial statements.

Under certain federal and state regulations, Coteau is required to reclaim land disturbed as a result of mining. Reclamation of disturbed land is a continuous process throughout the term of the Agreement. Costs of ongoing reclamation are charged to expense in the period incurred and are being recovered as a cost of coal as tonnage is sold to Dakota Coal. Costs to complete reclamation after mining has been completed in a specific mine area are reimbursed under the Agreement as costs of reclamation are actually incurred.

Coteau accounts for its asset retirement obligations under ASC 410, *Asset Retirement and Environmental Obligations*, which provides accounting requirements for retirement obligations associated with tangible long-lived assets and requires that an asset's retirement cost be capitalized as part of the cost of the related long-lived asset and subsequently allocated to expense using a systematic and rational method.

Coteau's annual costs related to amortization of the asset and accretion of the liability totaled $5,333 and $5,138 in 2019 and 2018.

Dakota Coal has established designated funds for mine closing costs. The Agreement includes provisions whereby, upon expiration of the agreement, Dakota Coal has the option to purchase the outstanding common stock of Coteau for its book value from NACoal. Dakota Coal may exercise this option only if Coteau has not exercised its right to extend the Agreement. NACoal has the option to require Dakota Coal to purchase the outstanding stock of Coteau for its book value in the event all of the plants Dakota Coal presently sells lignite coal to are closed or if lignite coal may no longer be legally mined in North Dakota and Dakota Coal exercises its right to terminate the Agreement with Coteau.

COAL PURCHASE AND FINANCING COMMITMENTS — Basin Electric, on behalf of the MBPP, has executed an agreement with Western Fuels requiring coal purchases of approximately 5,900,000 tons per year through 2034, with an option to extend the contract with approval by both parties. The average price of coal under this agreement during 2019 and 2018 was approximately $18.21 and $17.69 per ton.

Basin Electric executed an agreement with Western Fuels requiring coal purchases of approximately 1,800,000 tons per year beginning in 2011 through the life of the DFS, with an option to extend the contract with approval by both parties. Coal purchased under this agreement is used at the DFS. The average price of coal purchased under this agreement during 2019 and 2018 was approximately $11.42 and $11.69 per ton.

COAL SALES & PURCHASE COMMITMENT — In 2013, Basin Electric entered into agreements with three unrelated companies to supply "refined coal" to AVS, LOS and LRS. The refined coal is produced by chemically treating lignite or sub-bituminous coal to produce a fuel stock which reduces air emissions during combustion of the treated coal. Basin Electric sells untreated coal to the refined coal supplier and then purchases refined coal from the supplier after it has been refined. The supplier pays Basin Electric for rent and services provided by Basin Electric in connection with the supplier's production of refined coal. The estimated net benefit to Basin Electric for the refined coal projects through 2019 exceeds $15,000 per year. The refined coal suppliers own the coal treatment facilities, which were installed on the AVS, LOS and LRS plant sites and pay all associated operating costs. The refined coal suppliers qualify for certain federal tax credits for each ton of refined coal sold to Basin Electric with the reasonable expectation that it will be used for the purpose of producing steam and results in required emission reductions. Basin Electric has an option to purchase the coal treatment facilities (or similar assets) at each plant site after the eligible federal tax credit period ends in 2021. The agreements between the refined coal suppliers and Basin Electric allow for either party to terminate the agreement at any time, which would require the removal of the equipment at the refined coal supplier's cost.

RECLAMATION GUARANTEES — Basin Electric provides guarantees of certain reclamation obligations of Coteau. These guarantees cover the reclamation of mined areas as required by the State of North Dakota's Public Service Commission (PSC). The bonds are released by the PSC after a period of time (generally ten years after final reclamation is completed) when it has been determined that the mined area has been returned to its original condition. As of December 31, 2019, the aggregated value of these guarantees is $146,000.

Basin Electric guarantees certain reclamation obligations of WFW. Those guarantees cover the reclamation of mined areas as approved by the Wyoming Department of Environmental Quality (WDEQ) under its self-bonding program. The bonds are released by the WDEQ after a period of time (generally ten years after final reclamation is completed) when it has been determined that the mined area has been returned to its approved post-mining use. As of December 31, 2019, the aggregated value of these guarantees is $15,735.

DISMANTLEMENT COSTS — The county zoning permit requires Dakota Gas to dismantle the Synfuels Plant at such time that operations or other alternative uses approved by the Board of County Commissioners are terminated. Although Dakota Gas presently intends to operate the Synfuels Plant indefinitely, in accordance with ASC 410, *Asset Retirement and Environmental Obligations*, Dakota Gas accrues an obligation for the eventual dismantlement and discontinuation of use of the Synfuels Plant.

LEASE INDEMNIFICATIONS — In general, under the terms of Basin Electric's sale and leaseback agreements discussed in Note 11, the lessors are indemnified should certain disqualifying events occur resulting in the recapture of tax credits, accelerated cost recovery deductions and interest deductions. Management believes that if indemnification occurs, there will not be a material adverse effect on Basin Electric's financial position, results of operations or cash flows.

CO_2 SALES COMMITMENTS — Dakota Gas has two contracts involving commitments for the sale of CO2. One of these contracts is to sell and deliver CO2 from the Synfuels Plant to oil fields located near Weyburn, Saskatchewan. The Weyburn agreement was for a 15-year term ended April 2016, which may be extended by the buyer with at least 120 days prior written notice for up to ten one-year renewals. The buyer has elected to extend the agreement for a fifth one-year renewal to April 2021. If the buyer, over the course of a contract year, fails to take an average stated volume, Dakota Gas has the right to terminate this agreement 30 days following such contract year unless the buyer provides written notice to extend the agreement and pays Dakota Gas a penalty fee for each month the average stated volume was not taken.

The second CO2 agreement is to sell and deliver CO2 from the Synfuels Plant to oil fields located near Midale, Saskatchewan for a 20-year period ending in 2025, and required that this buyer pay a certain portion of Dakota Gas' additional capital requirements up front, reducing Dakota Gas' capitalized equipment cost. This buyer can terminate this agreement without penalty by giving 120 days prior written notice. If the initial Weyburn agreement is terminated, Dakota Gas has the right to terminate this Midale agreement by giving the buyer 120 days prior written notice.

CARBON POLLUTION EMISSION GUIDELINES FOR EXISTING STATIONARY SOURCES — In October 2015, the Environmental Protection Agency (EPA) published the Carbon Pollution Emission Guidelines for Existing Stationary Sources: Electric Utility Generating Units; Final Rule (the Clean Power Plan). The Clean Power Plan established guidelines for states to develop plans to reduce CO2 emissions from fossil fuel-fired electric generating units. In those states where Basin Electric owns and operates a substantial amount of fossil fuel-fired generation (North Dakota and Wyoming), the required reductions to be achieved by 2030 were substantial (45% and 44%, respectively).

Twenty-seven states and a number of trade organizations and utilities, including Basin Electric, filed petitions for review with the United States Court of Appeals for the D.C. Circuit (D.C. Circuit) challenging the EPA's legal authority to issue the Clean Power Plan and applications to the United States Supreme Court to stay the Clean Power Plan. The Supreme Court issued a stay of the Clean Power Plan on February 9, 2016. Oral arguments were held on September 27, 2016.

On July 8, 2019, the EPA promulgated a final rule to repeal and replace the Clean Power Plan, substituting a plan called the Affordable Clean Energy Rule (ACE Rule). Because of the publication of the final ACE Rule, the D.C. Circuit dismissed the CPP litigation as moot on September 17, 2019. Also on September 17, 2019, petitions for review of the ACE rule were filed in the D.C. Circuit. Basin Electric has joined the litigation as an industry intervenor. The petitioners' brief is due March 27, 2020, and the industry intervenors' brief in support of EPA is due June 25, 2020. The final briefs are due July 30, 2020, which means the case will likely be argued sometime in the fall of 2020. While the ACE Rule appears to be less costly to implement than the Clean Power Plan, it is difficult or impossible to provide an accurate estimate of the cost of compliance if the ACE Rule survives judicial scrutiny.

LARAMIE RIVER STATION BART FOR REGIONAL HAZE — The Regional Haze provisions of the CAA require that facilities that commenced construction between 1962 and 1977 identify and apply Best Available Retrofit Technology (BART) to control sulfur dioxide (SO2) and nitrous oxide (NOx) emissions if their emission rates for those pollutants exceed certain threshold levels. All three LRS units exceed the presumptive levels for NOx under the BART guidelines promulgated by the EPA in 2005. Basin Electric engaged in negotiations with the Wyoming Department of Environmental Quality (DEQ) from 2007 to 2009 relating to the NOx emission levels for all three LRS units and the associated emission controls to operate LRS within the designated levels. The DEQ issued its BART determination in 2009. Under the Wyoming State Implementation Plan (SIP), LRS was required to install over-fire air technology to reduce NOx emissions below the presumptive level for Unit 1 in 2009, Unit 2 in 2010 and Unit 3 in 2011 and to also install new "Low-NOx burners" for Unit 1 in 2012, Unit 2 in 2013 and Unit 3 in 2014. These controls were installed at LRS in accordance with the schedule outlined in the Wyoming SIP.

The EPA published its final rule on January 30, 2014, disapproving the Wyoming SIP for NOx controls at LRS. The EPA's Federal Implementation Plan (FIP) instead required installation of Selective Catalytic Reduction (SCR) equipment on all three LRS units by March 2019 in order to meet a NOx emission limit of 0.07 pounds per million British thermal units (BTU) on a thirty day rolling average.

On March 31, 2014, Basin Electric filed a Petition for Review with the 10th Circuit Court of Appeals (10th Circuit) of the EPA's NOx determination requiring the installation of three SCRs at LRS. The 10th Circuit granted a stay on September 9, 2014 that extended the time to comply for the duration of the litigation.

Through the 10th Circuit Mediation Office, Basin Electric and the EPA negotiated a tentative settlement, published in the *Federal Register* on December 30, 2016. The technology package included SCR equipment on Unit 1, operational by July 31, 2019; and selective non-catalytic reduction equipment (SNCR) on Unit 2 and Unit 3, that became operational on December 31, 2018. The technology package is now installed and operational.

On May 20, 2019, the EPA revised its 2014 Wyoming FIP to incorporate the terms of the settlement between EPA, Basin Electric, and the State of Wyoming. No third party challenged the FIP revision and on July 22, 2019, the 10th Circuit dismissed Basin Electric from the abated litigation. This matter is now closed.

CCR PROPOSED RULE — The 2015 Coal Combustion Residuals Proposed Rule (Rule) mandated closure of unlined surface impoundments upon a specified triggering event. If after multiple levels of monitoring and an alternate source demonstration, a statistically significant level of contamination could not be attributed to another source, a company was required to retrofit or close a surface impoundment.

On August 21, 2018, the D.C. Circuit Court of Appeals vacated provisions of the Rule that allowed for continued operation of clay-lined and unlined coal ash impoundments (USWAG Case). The EPA promulgated a new rule incorporating the ruling in the USWAG Case on December 2, 2019. The deadline to initiate closure under the Rule had been October 31, 2020 but after USWAG, EPA expedited the timelines for closure. Basin Electric is in the process of developing a long-term compliance plan to accommodate the accelerated schedule to close and/or retrofit the surface impoundments by the end of 2020. The cost to close and retrofit the five impoundments at LRS is estimated at $35.9 million.

LITIGATION — On November 7, 2019, McKenzie Electric Cooperative, Inc., a Class C member of Basin Electric, filed a lawsuit against both Basin Electric and Upper Missouri G&T Electric Cooperative, Inc. (Upper Missouri), a Class A member of Basin Electric. The complaint seeks relief based upon an alleged breach of Basin Electric's articles of incorporation, a provision of the statute pursuant to which Basin Electric was incorporated, the implied covenant of good faith and fair dealing, and a three tier contract that McKenzie Electric alleges exists between McKenzie, Basin Electric and Upper Missouri.

On December 11, 2019, Basin Electric and Upper Missouri both filed motions to dismiss all of the McKenzie claims. McKenzie's response was filed on January 10, 2020, and the Basin Electric and Upper Missouri reply briefs were filed by January 31, 2020. A hearing on the motions has been scheduled for April 28, 2020.

FERC REGULATION — Effective November 1, 2019, Basin Electric met certain criteria making the cooperative subject to the jurisdiction of the FERC. On September 30, 2019, Basin Electric made all filings required for compliance with FERC regulations; however, on November 26, 2019, the FERC issued an order rejecting without prejudice the majority of our filings, including the cooperative's rate schedules. FERC did approve Basin Electric's application for blanket authorization to issue securities. Basin Electric plans to refile with additional supporting documentation in late March 2020. Management believes the FERC's future orders related to our 2019 rate filings will not have a material impact on the consolidated financial statements.

19. RELATED PARTY TRANSACTIONS

Other receivables include $907 and $1,869 at December 31, 2019 and 2018, for amounts Basin Electric, as operating agent, and its subsidiaries, have billed to MBPP. Included in Special funds on the Consolidated Balance Sheets is Basin Electric's advance to MBPP of approximately $16,995 at December 31, 2019 and 2018.

CONTRACTUAL COMMITMENTS — Basin Electric provides and receives power, various materials, supplies and services to and from affiliates which are under the following agreements through 2020, except as noted below:

- POWER SUPPLY — Basin Electric provides all electric capacity, energy and transmission service needed to meet Dakota Gas' Synfuels Plant requirements under an agreement that extends through 2050.
- SCREENED COAL — Dakota Gas' Synfuels Plant provides screened coal to Basin Electric under an agreement that extends through 2037.
- COAL SUPPLY — Dakota Coal provides all coal requirements of Dakota Gas' Synfuels Plant and Basin Electric's AVS. It also supplies a majority of LOS's coal requirements. This agreement extends through 2037.
- ADMINISTRATIVE SERVICES — Basin Electric provides various administrative and financial services to Dakota Gas, Dakota Coal, MLC and BCS.
- LIME SALES — Dakota Coal provides lime to Basin Electric's AVS and LRS.
- LIMESTONE SALES — Dakota Coal provides limestone to Basin Electric's LOS.
- WATER SUPPLY — Basin Electric provides water supply facilities for use by Dakota Gas' Synfuels Plant.
- SALE OF NATURAL GAS — Dakota Gas sells natural gas to Basin Electric for operation of utility gas generating plants and AVS (includes pipeline related costs).
- USE OF TRANSMISSION ASSETS — Basin Electric uses certain Dakota Gas transmission assets for a fee under an agreement that extends through 2047.
- PROJECT SERVICES — Basin Electric provides the use of operational assets to Dakota Gas' Synfuels Plant.

Related party amounts that were not eliminated in consolidation in accordance with ASC 980, *Regulated Operations*, were billed as follows for the years ended December 31:

	2019	2018
Power supply from Basin Electric to Dakota Gas	$ 39,392	$ 43,164
Screened coal sales from Dakota Gas to Basin Electric	$ 55,320	$ 58,950
Coal supply sales from Dakota Coal to Basin Electric	$ 71,890	$ 58,212
Administrative services by Basin Electric to Dakota Gas	$ 20,850	$ 24,713
Administrative services by Basin Electric to Dakota Coal	$ 1,978	$ 2,402
Lime sales from Dakota Coal to Basin Electric	$ 13,163	$ 12,397
Limestone sales from Dakota Coal to Basin Electric	$ 3,244	$ 3,148
Water supply from Basin Electric to Dakota Gas	$ 2,146	$ 2,827
Natural gas sales from Dakota Gas to Basin Electric	$ 19,248	$ 23,544
Transmission service from Dakota Gas to Basin Electric	$ 1,039	$ 896
Project services from Basin Electric to Dakota Gas	$ 214	$ 344

Various other intercompany management, administrative and financial services were performed, which were not significant.

20. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	2019	2018
Cash paid (refunded) for interest and income taxes:		
Cash paid for interest	$ 237,915	$ 235,559
Cash paid (refunded) for income taxes	$ 101	$ (9,673)
Non-cash investing and financing activity:		
Acquisition of electric plant and nonutility property through short term financing	$ 7,758	$ 19,983