BASIN ELECTRIC
POWER COOPERATIVE
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January 13, 2014

CERTIFIED MAIL

Mr. Robert Gerald Lorge
501 West Willow Street
Post Office Box 47
Bear Creek, Wisconsin 54922

Dear Mr. Lorge:

Thank you for your letter dated November 25, 2012 (2013) to Moreau-Grand Electric Cooperative (Moreau-Grand) regarding the rate for energy and capacity that Moreau-Grand pays Rushmore Electric Power Cooperative (Rushmore). Thank you for your letter dated December 14, 2013 to Butte Electric Cooperative (Butte) regarding the rate for energy and capacity that Butte pays Rushmore. Thank you also for your November 21, 2012 (2013) letter to Rosebud Electric Cooperative (Rosebud) regarding the rate for energy and capacity that Rosebud pays Basin Electric. Thank you also for your November 25, 2012 (2013) letter to Grand Electric Cooperative (Grand) regarding the rate for energy and capacity that Grand pays Basin Electric. I understand that none of the cooperatives received a hard copy letter but rather that each of these letters were forwarded by email by your client, Prelude, to the respective cooperatives at dates later than indicated on your letterhead.

Basin Electric is a regional generation and transmission rural electric cooperative headquartered in Bismarck, North Dakota. Basin Electric has all-requirements power supply contracts with 19 cooperatives on both the eastern and western interconnections of the United States, many of whom in turn have all-requirements contracts with distribution rural electric cooperatives. Grand, Rushmore and Rosebud have all-requirements contracts with Basin Electric. Moreau-Grand and Butte have all-requirements contracts with Rushmore.

The Public Utilities Regulatory Policy Act (PURPA) requires electric utilities to purchase power from qualifying facilities. For the purposes of PURPA, rural electric cooperatives are electric utilities. Qualifying facilities include co-generation facilities and/or small power production facilities.

The Federal Energy Regulatory Commission (FERC) has established rules under PURPA for the purchase and sale obligations of electric utilities and the basis for the rates of purchase from qualifying facilities. FERC has determined that electric utilities have an obligation to purchase qualifying facility capacity and energy at "avoided cost." The FERC has defined avoided cost as

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the incremental cost to electric utilities of electric energy or capacity which, but for the purchase from qualifying facilities, such utilities would generate itself or purchase from another source.

FERC precedent makes it clear that the avoided cost of an all-requirements customer is the avoided cost of its all-requirements supplier because it is the supplier that avoids generation costs when the all-requirements customer uses QF output. FERC first made this determination in Order No. 69, which implemented section 210 of PURPA,[1] and has consistently followed this determination in its case law.[3] Since Grand, Rushmore and Rosebud are all-requirements customers of Basin Electric, and Moreau-Grand and Butte are all-requirements customers of Rushmore, the avoided cost rates for each of these cooperatives are Basin Electric's avoided cost rate.

You and your client have requested to interconnect with Basin Electric's member cooperatives on the eastern interconnection of the United States. Therefore, in response to your request, we are providing Basin Electric's avoided cost information for the eastern interconnection.

Basin Electric's current long-term avoided cost rate on the eastern interconnection is $23.00 to $25.00 per megawatt-hour for capacity and associated energy. Basin Electric has determined its long-term avoided cost based on its June 2013 request for proposal (RFP) for power supply proposals to be factored into its power supply planning process. The RFP generated 73 responses from various entities with a total MW capacity of over 10,600 MW. The proposed electric capacity included wind, solar, gas and potential capacity sales from utilities with an existing mix of surplus capacity.

As a result of the RFP, Basin Electric received thousands of proposals for wind generation (including Prelude LLC) and short-listed more than 600 MW of proposals for further analysis and discussion. Basin Electric selected proposals from the short list that range from approximately $23.00 to $25.00 per megawatt-hour for fixed 25-year to 30-year terms. These proposals represent "all-in costs" energy (including qualifying capacity) delivered to the high-voltage transmission system with performance guarantees and all renewable attributes.

Basin Electric's short-term (less than five years) avoided cost rate in 2014 is $21.60 per megawatt-hour for capacity and energy. Basin Electric determined its short-term avoided cost

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[1] *Small Power Production and Cogeneration Facilities; Regulations Implementing Section 210 of the Public Utility Regulatory Policies Act of 1978,* Order No. 69, FERC Stats. & Regs. ¶ 30,128 at 30,871, *order on reh'g sub nom.* Order No. 69-A, FERC Stats. & Regs. ¶30,160 (1980), *aff'd in par and vacated in part, American Electric Power Service Corp. v. FERC, 675 F.2d 1226 (D.C. Cir. 1982), rev'd in part sub nom. American Paper Institute, Inc. v. American Electric Power Service Corp.,* 461 U.S. 402 (1983).

[3] *See, e.g., Western Farmers Electric Cooperative, 115 FERC ¶ 61,323, at P 27 (2006); Wahl v. Allamakee-Clayton Elec. Coop., 115 FERC ¶ 61,318, at P 10 (2006); City of Longmont, 39 FERC ¶ 61,301 at p. 61,974 (1987)*

based on a comprehensive study of the highest cost sources of energy which Basin Electric is able to avoid by purchases from qualifying facilities. On Basin Electric's eastern system, this represents the Leland Olds Station avoided expenses consisting of fuel, fuel handling, variable scrubber costs, high voltage transmission line losses, and the North Dakota coal conversion tax.

Please feel free to contact me if you have any further questions regarding the content of this letter or Basin Electric's avoided cost rate determination.

Sincerely,

Deborah Levchak

Deborah Fohr Levchak
Senior Staff Counsel

dfl/mw

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