

May 16, 1995

DOCKET NO. ET-7/RP-94-467

ORDER ACCEPTING RESOURCE PLAN FILING AND ESTABLISHING REQUIREMENTS  
FOR 1996 FILING

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Don Storm	Chair
Tom Burton	Commissioner
Joel Jacobs	Commissioner
Marshall Johnson	Commissioner
Dee Knaak	Commissioner

In the Matter of United Power Association's  
1994 Biennial Resource Plan Filing

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FILING AND ESTABLISHING  
REQUIREMENTS FOR 1996 FILING

**PROCEDURAL HISTORY**

**I. The Filing at Issue**

On June 24, 1994 United Power Association (UPA or the utility) filed an integrated resource plan under Minn. Stat. § 216B.2422. UPA is a wholesale generation and transmission cooperative owned by 15 independent local distribution cooperatives.

On September 14, 1994 the Izaak Walton League of America filed a petition to intervene, which was granted. On October 17 Minnesotans for an Energy Efficient Economy (ME3) filed a petition to intervene, also granted. On October 28 the Department of Public Service (the Department) intervened as of right.

On December 1, 1994 Anthony V. Chessick, who lives near Pine City and receives service from a distribution cooperative served by UPA, filed comments. He did not seek intervenor status.

On December 1, 1994 the Department filed initial comments. On December 2 the Izaak Walton League and ME3 filed joint initial comments. On February 1, 1995 the Department and UPA filed reply comments.

On April 13, 1995 UPA's filing came before the Commission.

## FINDINGS AND CONCLUSIONS

### **II. Factual Background**

#### **A. The Resource Planning Process**

In 1990 the Commission promulgated rules requiring rate-regulated electric utilities to file integrated resource plans for Commission review every two years. Minn. Rules, parts 7843.0100 to 7843.0600. The rules are detailed, but basically require utilities to file biennial reports on the projected energy needs of their service areas over the next 15 years, their plans for meeting projected need, the analytical process they used to develop their plans, and their reasons for adopting the specific resource mix proposed.

The rules are designed to strengthen utilities' long term planning processes by providing input from the public, other regulatory agencies, and the Commission. They are also intended to ensure that utilities making resource decisions give adequate consideration to factors whose public policy importance has grown in recent years, such as the environmental and socioeconomic impact of different resource mixes.

The original rules did not apply to municipal utilities, cooperatives, or wholesalers. On August 1, 1993, however, the Legislature amended the Public Utilities Act to require any entity serving 10,000 customers and capable of generating 100,000 kilowatts of electricity to file a plan.<sup>1</sup> Minn. Stat. § 216B.2422, subd. 1. UPA, with 245,000 ultimate customers and 765 megawatts of generating capacity, clearly qualifies and has therefore filed its first resource plan.

#### **B. The Plan**

UPA projected no significant need for new capacity until the summer of 2001; it expected to meet minor capacity deficits until then with purchased power. It did, however, project a 190 megawatt deficit in the summer of 2001, and deficits from 370 to 858 megawatts by the end of the 15-year planning period. The plan said the utility was examining all possible strategies for meeting long term resource needs, including demand side management, power purchases, joint and solo construction of new generating facilities, and purchase of ownership interests in existing generating facilities.

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<sup>1</sup> The statute exempts federal power agencies.

While final decisions cannot be made until demand takes shape, the resource planning process requires utilities to make rough judgments about how they would meet capacity needs under different scenarios throughout the 15-year forecast period. UPA's baseline 15-year plan calls for maximizing energy savings through demand side management and adding capacity under the following schedule:

- 1998 -- four 50 megawatt gas-fired peaking units
- 1998 -- one 2 megawatt fuel cell
- 1999 -- one 50 megawatt gas-fired peaking unit
- 2000 -- one 100 megawatt intermediate load plant
- 2009 -- one 100 megawatt base load plant

All facilities listed above would be UPA-owned.

### **III. The Parties' Comments**

#### **A. The Department**

The Department thoroughly reviewed UPA's plan and filed extensive comments. While the Department considered the plan a creditable first effort, the agency also asked the Commission to issue over 30 specific directives on what UPA should include in its next resource plan filing.

The Department also expressed concern that acceptance of this plan not be construed as prima facie evidence of the need for any facility for which UPA might request a certificate of need before its next resource plan filing. (The statute provides that findings and conclusions in resource plan Orders shall be prima facie evidence, rebuttable by substantial evidence, in all other proceedings.)

UPA agreed that no Order issued in this docket should be construed to be prima facie evidence of the need for any facility for which it might seek a certificate of need before its next resource plan filing.

The utility also agreed to accept all the Department's recommendations for its next resource plan, with two exceptions: (1) it opposed providing a detailed analysis of how it would deal with the loss of a member cooperative; and (2) it opposed providing an analysis of the effect of a tax on carbon dioxide emissions.

#### **B. Izaak Walton League/Minnesotans for an Energy Efficient Economy**

The Izaak Walton League and Minnesotans for an Energy Efficient Economy filed joint comments, focusing on environmental, conservation, and renewable energy issues. They made six recommendations:

- (1) Investigate the effect on UPA of Cooperative Power's plan to expand Coal Creek, a generating facility it owns jointly with UPA;
- (2) Require UPA to include in its next resource plan a contingency analysis of the effect

of a \$50/ton carbon dioxide tax;

(3) Require UPA to include in its next resource plan a detailed evaluation of its costs to comply with Phase 2 of the Clean Air Act;

(4) Require UPA to analyze the cogeneration potential of smaller applications, as well as the potential for using cogeneration technology with methane as a fuel source;

(5) Require UPA to consider becoming a Utility Ally in the Landfill Methane Outreach Program operated by the federal Environmental Protection Agency and to investigate working with its customers to develop generation using livestock manure;

(6) Require UPA to rely more heavily on conservation, as opposed to load management, in developing its demand side management strategies.

The first recommendation was mooted by Cooperative Power's reversal of its decision to expand Coal Creek. UPA accepted the other recommendations, except the one requiring an analysis of the effect of a carbon dioxide tax.

### **C. Anthony V. Chessick**

Mr. Chessick filed comments emphasizing that natural gas, increasingly used to fuel generating plants, is an expensive and finite resource. He urged UPA to develop wind generation in its service area. He maintained that wind development would substantially benefit the area's environment and its economy.

UPA responded that it shared Mr. Chessick's commitment to the environmental and economic vitality of its service area and would be receptive to any technology likely to contribute to the area's well-being. At the same time, it believed its main responsibility was to provide the most affordable electricity possible, consistent with prevailing standards of environmental and social responsibility. The utility was also open to collaborating with other utilities, under the auspices of the Department of Public Service, to explore the potential of wind resources throughout the region.

## **IV. Commission Action**

The Commission will accept the utility's filing, clarify that the filing contains nothing approaching the level of evidence necessary to demonstrate need for any new facility, and set guidelines for the utility's next resource plan filing.

## **A. Filing Accepted**

UPA's resource plan filing is a worthy first effort and a solid foundation for future efforts; it will be accepted.

## **B. Certificate of Need Issue**

The Commission agrees with the Department that UPA's filing does not contain anything approaching the level of detail necessary to establish need for a peaking facility or any other facility for which UPA might request a certificate of need before it files its next resource plan. The Commission notes UPA concurs with this view and states it does not intend this filing to serve as a certificate of need filing.

## **C. Guidelines for Next Resource Plan Filing**

One of the goals of integrated resource planning is to create opportunities for utilities to rethink traditional approaches to resource selection by bringing outside players into the process. UPA accepted nearly all the intervenors' recommendations for its next resource plan filing. The Commission lauds UPA's willingness to collaborate with outside players, certain that it will ultimately benefit the utility, its ratepayers, and the public.

The Commission will incorporate the recommendations UPA accepted as guidelines for its next resource plan filing. The recommendations that UPA did not accept will be rejected, for the reasons set forth below.

### **1. Loss of member load**

The Department recommended requiring UPA to include in its next resource plan filing a detailed analysis of how losing a member cooperative would affect UPA. The Department believed Minnesota Power's low wholesale rates could induce a member cooperative to leave UPA.

UPA opposed this requirement, claiming the issue was too complicated for analysis to yield anything other than rank speculation. UPA's member co-ops have full-requirements contracts through the year 2020. Any attempt to break one of these contracts would involve lengthy negotiations, if not protracted litigation.

Furthermore, UPA and the member co-op would not be the only parties in interest. The acquiring utility and the Rural Utilities Service (formerly the Rural Electrification Administration) would also be involved, and perhaps other lenders as well. Any serious analysis of the lost member contingency would require making an educated guess on what the positions of these parties would be.

The Commission agrees with UPA that the difficulty and unreliability of this exercise outweigh its usefulness and will not require it.

## 2. Carbon Dioxide Tax

The Izaak Walton League and Minnesotans for an Energy Efficient Economy concurred in the Department's recommendation that UPA be required to analyze the effects of a tax on carbon dioxide emissions, and recommended using a tax rate of \$50/ton. UPA opposed the request.

UPA argued that properly analyzing the effects of a carbon dioxide tax would require global economic modeling, since the collateral effects of the tax might well exceed direct effects. Since such a tax appears unlikely at present, UPA was loath to invest the resources necessary to conduct the analysis.

Finally, the utility argued that the proceeding to quantify environmental externalities<sup>2</sup> meets the same need, and that resources should not be diverted from that project to the more speculative one of analyzing the effect of a carbon dioxide tax.

The Commission agrees with UPA that at this point the benefits of analyzing the effects of a carbon dioxide tax do not justify the costs and will not require it.

### ORDER

1. United Power Association's 1994 resource plan filing is accepted.
2. United Power Association's 1996 resource plan filing shall include the items recommended by the intervenors to which United Power has agreed.
3. United Power Association's 1994 resource plan filing does not include the level of detail necessary to demonstrate need for a peaking plant or any other facility for which the utility might seek a certificate of need before its next resource plan filing.
4. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar  
Executive Secretary

(S E A L)

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<sup>2</sup> In the Matter of the Quantification of Environmental Costs Pursuant to Laws of Minnesota 1993, Chapter 356, Section 3, Docket No. E-999/CI-93-583.