

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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Chair  
Commissioner  
Commissioner  
Commissioner  
Commissioner

In the Matter of the Dairyland Power  
Cooperative Integrated Resource Plan for  
2004-2019

ISSUE DATE: April 14, 2006

DOCKET NO. ET3/RP-05-184

ORDER ACCEPTING RESOURCE PLAN,  
REQUESTING INFORMATION IN NEXT  
FILING, AND SETTING FILING DATE

**PROCEDURAL HISTORY**

On January 27, 2005, Dairyland Power Cooperative (Dairyland or the Company) filed its Integrated Resource Plan (IRP) for 2004-2019.

On March 24, 2005, the Department of Commerce (the Department) filed a completeness review of the IRP.

On May 27, 2005, the Department filed its comments on Dairyland's IRP.

On August 22, 2005, Dairyland filed reply comments.

On March 30, 2006, the filing came before the Commission.

**FINDINGS AND CONCLUSIONS**

**I. The Issues**

1. Should the Commission accept Dairyland Power Cooperative's Integrated Resource Plan for 2004-2019?
2. What allocation method should be used to allocate Dairyland's renewable resources across its operating jurisdictions?

3. Is Dairyland meeting its renewable energy and biomass objectives as prescribed by Minn. Stat. § 216B.1691, subd. 2?
4. When should Dairyland's next resource plan be filed?

## **II. Factual Background**

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

Minn. Stat. § 216B.2422 requires utilities to file periodic reports on:

1. The projected energy needs of their service areas over the next 15 years;
2. Their plans for meeting projected need;
3. The analytical process used to develop their plans for meeting projected need; and
4. Their reasons for adopting the specific resource mix proposed.

Resource planning requirements, which, as applied to Dairyland are advisory in nature,<sup>1</sup> are designed to strengthen utilities' long term planning processes. They provide input from the public, other regulatory agencies and the Commission.

### **B. Dairyland Power Cooperative**

Dairyland Power Cooperative is a member-owned generation and transmission utility headquartered in LaCrosse, Wisconsin. With its subsidiary, GEN-SYS Energy, it provides wholesale power to nearly 235,000 accounts in four states<sup>2</sup> through its 25 member electric distribution cooperatives.

Dairyland serves three Minnesota-based cooperatives and four Minnesota municipal utilities:

- Freeborn-Mower Cooperative Services
- People's Cooperative Services
- Tri-County Electric Cooperative

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<sup>1</sup> Originally, resource planning requirements applied only to rate-regulated utilities. In 1993 the Legislature amended the statute to require resource plans from all entities serving 10,000 customers and capable of generating 100,000 kilowatts of electricity, directly or indirectly. This includes Dairyland.

<sup>2</sup> The service territory of Dairyland's member distribution cooperatives covers approximately one-half the land area of Wisconsin and portions of northeastern Iowa, southeastern Minnesota, and northwestern Illinois.

- Lanesboro Public Utilities
- City of Rushford
- Southern Minnesota Municipal Power Agency
- St. Charles Light and Water

Dairyland provides power directly to fourteen municipal systems and to five municipal systems that are members of GEN-SYS. The Cooperative, through its members, serves approximately 247,000 member meters and 575,000 people.

### **III. Should the Commission Accept the IRP?**

#### **A. Positions of the Parties**

The Department recommended that the Commission accept the utility's resource plan for reliability purposes. The agency also urged the Commission to clarify that the plan does not meet Minnesota certificate of need requirements. Finally, the Department recommended that Dairyland take the following steps to improve its next IRP:

1. provide a discussion of its forecasting process, including how Dairyland incorporates Demand Side Management (DSM) impacts in its energy and peak demand forecasts;
2. provide upon request all information, data and explanation sufficient to replicate Dairyland's energy and peak demand forecasts;
3. discuss the potential for capacity degradation and unit decommissioning during the resource plan time frame; and
4. provide a discussion of the planning process used to integrate Dairyland's transmission plan with all existing regional and planning platforms required by industry practice or Minnesota law, i.e., Mid-Continent Area Power Pool, Midwest Independent System Operator, and Minnesota's State Transmission Plan requirements, or other initiatives undertaken by Minnesota transmission owners that address aggregated transmission system needs.

In its August 22, 2006, reply comments, Dairyland stated that it likely would have difficulty complying with the Department's second recommendation. Dairyland further stated that its forecasts are constructed of class-by-class forecasts for each of its 25 member cooperatives. Dairyland explained that each of its cooperatives owns its own data, and as 22 of its members are not located in Minnesota, so not subject to its regulatory process, it would not be certain that all of the cooperatives would acquiesce in providing the information requested.

## **B. Commission Action**

The Commission agrees with the Department that Dairyland's resource plan meets statutory and rule requirements and should be accepted.<sup>3</sup> At hearing Dairyland stated that it has contracts for additional, reserve generation that were not addressed or described in its resource plan, but which had previously been orally disclosed to the Department. This omission should be remedied, and the Commission will require a compliance filing describing those contracts and their role in maintaining reliability.

The Commission concurs with the Department that Dairyland's next resource plan filing should address the four topics identified in Department comments. The Commission appreciates the difficulties Dairyland might face in documenting the reasonableness of its energy and peak demand forecasts, given its multi-state operations and the relative autonomy of its member cooperatives. Understanding a utility's forecasting process and evaluating the reasonableness of that process are critical to meaningful review of any resource plan, however, and the Commission is confident that Dairyland, working with the Department, can develop methods and strategies that permit replication of its forecasting process.

## **IV. Renewable Energy and Biomass Objectives**

In 2001, the Minnesota Legislature passed Minn. Stat. § 216B.1691, setting renewable energy objectives for Minnesota investor-owned electric utilities, generation and transmission cooperatives, and municipal power agencies. The statute requires these utilities to make good faith efforts to generate or otherwise secure enough electricity from qualifying renewable energy technologies to represent 10% of total retail electric sales by the year 2015.

As part of the Department's review of a utility's IRP, the Department evaluates the utility's good faith efforts to meet its renewable energy and biomass objectives, as defined by statute and related Commission Orders, over the resource plan period.<sup>4</sup>

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<sup>3</sup> Since Minnesota's resource planning statute permits utilities to combine certificate of need applications with their resource plans, the Commission wishes to clarify that Dairyland's resource plan filing may not meet certificate of need requirements and that accepting the plan does not indicate Commission support or approval of any future facility discussed therein.

<sup>4</sup> *See, e.g.*, INITIAL ORDER DETAILING CRITERIA AND STANDARDS FOR DETERMINING COMPLIANCE WITH MINNESOTA STATUTES, Docket No. E-999/CI-02-869 (June 1, 2004).

In its October 19, 2004, Order implementing renewable energy objectives,<sup>5</sup> the Commission commented on the allocation process to be used to ensure that renewable energy units are properly allocated. The Commission recognized that allocation issues are often complex and fact-specific, and that neither the Commission nor the stakeholders had as yet enough experience to set firm rules for allocating renewable resources between jurisdictions or across wholesale/retail boundaries.

In the October 2004 Order, the Commission determined that the best means by which to reach fair and reasonable allocations was to resolve allocation issues in company-specific resource plans or renewable energy objective filings:

Company-specific filings will permit careful evaluation of each utility's unique network and load characteristics, as well as its renewable energy obligations in other states. The Commission will therefore set utility-specific allocation factors for renewable resources in utility-specific filings.<sup>6</sup>

#### **A. Positions of the Parties**

The Department examined Dairyland's good faith efforts to meet the renewable energy and biomass objectives under three alternate allocation standards: 1) full allocation; 2) system allocation; and 3) vintage-based allocation.

The full allocation method includes all eligible renewable resources on a 100% basis, and assumes that all facilities contribute to a power pool with generation within the pool available for dispatch anywhere.

The system allocation method includes all eligible renewable generation regardless of vintage using an allocation determined by Minnesota energy sales as a percentage of total system sales. All generation is system and no resources are specifically allocated to the Minnesota renewable energy objectives.

The vintage-based method presumes that all generation resources are system resources, but also allows for the fact that some renewable resources have been developed specifically to assist the utility to meet its renewable energy objectives. As such, these resources should be allocated on a 100% basis to the renewable energy objectives. The vintage demarcation is 2001, the year the renewable energy objectives legislation was enacted.

The Department concluded that while reasonable arguments could be made for Dairyland's use of

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<sup>5</sup> See, SECOND ORDER IMPLEMENTING MINN. STAT. § 216B.1691, OPENING DOCKET TO INVESTIGATE MULTI-STATE PROGRAM FOR TRACKING AND TRADING RENEWABLE CREDITS, AND REQUESTING PERIODIC UPDATES FROM STAKEHOLDER GROUP, Docket No. E-999/CI-04-1616 (October 19, 2004).

<sup>6</sup> Id. at 10.

any of the three allocation methods, the vintage-based method appeared to provide a reasonable middle-ground that considered the nature of system resources and assigned appropriate credit to resources developed subsequent to passage of the renewable energy objectives.

The Department therefore recommended that the Commission find that Dairyland had met its good faith efforts to meet its renewable energy objectives, using the vintage-based methodology.

The Department also ascertained that Dairyland had met the biomass component of the renewable energy objectives, finding that expected generation from existing and planned eligible biomass resources would be sufficient to meet its biomass obligations.

At hearing, the Company expressed no objection to the use of the vintage-based allocation methodology in assessing whether the Company had met its good faith efforts to meet the renewable energy objectives, so long as the Department and the Commission recognize that it might be necessary to amend the recommended methodology in the future. Dairyland recommended that the Commission utilize, but not specifically adopt, the vintage-based allocation methodology for purposes of assessing whether it had met its good faith efforts.

The Department also considered two alternate methods for determining an allocation factor for Minnesota sales relative to total system sales: 1) a variable allocation factor, and 2) a fixed allocation factor. The Department recommended a fixed allocation factor for Minnesota sales relative to total system sales. This method determines the total Minnesota energy sales relative to Dairyland's total system sales for the allocation of facilities to the Minnesota jurisdiction. Dairyland did not object to use of the fixed allocation factor.

## **B. Commission Action**

The Commission will, for the present, defer a specific determination regarding the appropriate allocation methodology for Dairyland. The Commission is aware of the proverbial "chicken and egg" issue presented herein, where a company must select an allocation method before the Commission can determine whether it has been met in order to meet the requirements of the Commission's June and October 2004 renewable energy objectives orders. In that regard, however, the Commission wishes to emphasize that the selection of an allocation method does not prevent the Company and the Commission from selecting a different method in the next IRP, as further information is developed.

Thus, for purposes of this docket, the Commission will utilize the Department's recommendation of the vintage-based methodology in reaching its assessment that Dairyland has met its good faith efforts under the renewable energy and biomass objectives. The Commission recognizes that assessment of a good faith effort is an ongoing, continually evolving evaluation.

The Commission will apply a fixed allocation factor to determine Dairyland's total Minnesota energy sales relative to total system sales, in meeting its renewable energy objectives under Minn. Stat. § 216B.1691. Finally, the Commission will require the Company to continue discussion with the Department regarding allocation methodologies in future renewable energy objectives filings.

## **V. Filing Date**

Minn. Stat. § 216B.2422 does not specify how frequently resource plans should be filed,<sup>7</sup> leaving that to Commission discretion. The Commission's rules specify biennial filings, but as resource issues have become more complex and planning horizons longer, companies have been granted variances from rigid two-year filing schedules.

The Commission may vary the rule to provide more than a two-year interval between filings if it concludes that the following three conditions are met:

1. Enforcement of the rule would impose excessive burden upon the applicant or others affected by the rule;
2. Granting the variance would not adversely affect the public interest; and
3. Granting the variance would not conflict with standards imposed by law.

Minn. Rules, part 7843.0300, subp. 2. The Commission will grant Dairyland a variance. The Company filed the instant resource plan on January 27, 2005. The Commission will require Dairyland to file its information for the legislative report on October 1, 2006, providing an update on renewable energy objectives. The Commission will require Dairyland to file its next IRP on June 1, 2008.

### **ORDER**

1. The Commission hereby accepts the 2004-2019 resource plan filed by Dairyland Power Cooperative.
2. Dairyland Power Cooperative shall file its next resource plan on or before June 1, 2008.
3. Dairyland's next resource plan filing shall include the information set forth below:
  - A. A discussion of Dairyland's forecasting process, including how it incorporates demand-side management impacts in its energy and peak demand forecasts.
  - B. A discussion of the potential for capacity degradation and unit decommissioning during the resource plan time frame.
  - C. A discussion of the planning process used to integrate Dairyland's transmission plan with all existing regional and state planning platforms established by industry practice or Minnesota law, including those of the Mid-Continent Area Power Pool, the Midwest Independent System Operator, the state transmission plan established at Minn. Stat. § 216B.2425, and any other initiative undertaken by Minnesota transmission owners that address aggregated transmission system needs.

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<sup>7</sup> The statute requires that utilities file "periodically."

4. As part of its next resource plan process, Dairyland shall provide to Department and Commission staff upon request all information, data, and explanation required to replicate Dairyland's energy and peak demand forecasts.
5. Dairyland shall promptly file information regarding its contracts for additional supply, which were disclosed orally to the Department and on which Dairyland relies for purposes of reliability.
6. In meeting its renewable energy objectives under Minn. Stat. § 216B.1691, Dairyland shall apply a fixed allocation factor to determine its total Minnesota energy sales relative to total system sales.
7. The Commission finds that Dairyland's resource plan filing demonstrates a good-faith effort to meet its renewable energy objectives under Minn. Stat. § 216B.1691, including the biomass objectives.
8. Dairyland shall continue working with the Department to evaluate alternative methods for allocating renewable resources between its operating jurisdictions and shall report on these discussions in future filings.
9. On or before October 1, 2006, Dairyland shall file an update on its efforts to meet its renewable energy objectives.
10. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar  
Executive Secretary

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