

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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Chair
Commissioner
Commissioner
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In the Matter of Southern Minnesota
Municipal Power Agency's 2006-2021
Resource Plan

ISSUE DATE: July 11, 2007

DOCKET NO. ET-9/RP-06-605

ORDER APPROVING AGREEMENT
REGARDING RESOURCE PLAN AND
RENEWABLE ENERGY OPTIONS

PROCEDURAL HISTORY

On June 20, 2006, Southern Minnesota Municipal Power Agency (SMMPA) filed its 2006-2021 Resource Plan pursuant to Minn. Stat. § 216B.2422 and Minn. Rules, Part 7843.0400, subparts 1-4. The proposed Resource Plan also details SMMPA's efforts relating to Renewable Energy Objectives (REO) under Minn. Stat. § 216B.1691.

On February 23, 2007, the Minnesota Department of Commerce (the Department) filed comments.

On February 27, 2007, Minnesota Center for Environmental Advocacy (MCEA) filed comments.

On March 16, 2007, SMMPA responded to the comments of the Department and MCEA.

The Commission met on June 14, 2007 to consider this matter.

FINDINGS AND CONCLUSIONS

I. SMMPA's Resource Profile

SMMPA is a collectively owned electric generation and transmission agency with 18 member municipalities. SMMPA's main source of electricity is its 41 percent share of the 884 megawatt (MW) Sherco 3 generating unit located near Becker, Minnesota. SMMPA also relies on the array of intermediate and peaking units of its members as key elements in the Agency's energy mix. In 2005, SMMPA projected retail sales of 2.8 million MWh to more than 107,000 customers and had a peak demand of 528 MW in August 2005.

II. The Department's Comments and Recommendations

The Department evaluated SMMPA's Resource Plan according to the following six criteria: 1) planning approach; 2) energy and demand forecast; 3) supply-side resources (including transmission resources); 4) demand-side resources; 5) compliance with the renewable energy objectives (REO); and 6) environmental issues.

The Department's evaluation of SMMPA's Resource Plan was that SMMPA's planning approach was reasonable, its forecasting (with a few changes) was reasonable, its modeling (except for the treatment of Big Stone II (BSII) and Demand Side Management (DSM) resources) was reasonable, and its analysis of demand-side resources (with a few changes) was reasonable. The Department recommended changes for the utility's next resource plan and that SMMPA should provide further information in reply comments or the next resource plan. Regarding the Minnesota Renewable Energy Objectives (REO), the Department stated that SMMPA is on track to comply with its current REO by 2015.

The Department concluded that there was insufficient information available for it to render a final recommendation. Recognizing that the resource planning process is an ongoing activity, however, the Department is willing to work with SMMPA to improve future filings.

III. MCEA's Comments

MCEA argued that the Commission should reject the proposed resource plan. MCEA noted that SMMPA, like all of the other utilities participating in the Big Stone II project, does not allow its capacity expansion model to consider the costs of future regulatory restrictions on emissions of carbon dioxide. According to MCEA, SMMPA inappropriately assumes the existence of the Big Stone II facility at an obsolete price, underestimates the costs of generic pulverized coal facilities modeled to satisfy SMMPA's future resource needs, and ignores carbon regulatory risk. MCEA added that the failure to examine resource selections under carbon-constrained regulatory scenarios completely undermines and invalidates the resource planning effort. MCEA stated that SMMPA utterly fails to "limit the risk of adverse effects on the utility and its customers from financial, social and technological factors that the utility cannot control."

IV. SMMPA's Reply to the Department and MCEA

SMMPA did not oppose any of the Department's recommendations.

Regarding the issues raised by MCEA, SMMPA argued that it used the Commission's established costs for carbon externalities at the time of filing the resource plan. SMMPA indicated that it would utilize any Commission approved updates to CO₂ externalities in future filings.

Regarding MCEA's proposal that SMMPA be required to raise its renewable energy targets, SMMPA noted that the Department, too, indicated that SMMPA should adjust the required renewable energy resources to reflect the recently enacted Renewable Energy Standard but recommended that it do so in SMMPA's next resource plan filing. SMMPA agreed that it would incorporate such changes in its next resource plan.

Finally, as to MCEA's critique that SMMPA has not shown that it has exhausted cost effective Demand Side Management (DSM), SMMPA responded that it hoped that its efforts are perceived as ambitious and that MCEA would conclude that SMMPA is not ignoring potential energy savings.

V. The Parties' Agreement

At the hearing, the Department and SMMPA proposed the following agreement. MCEA did not object to the terms of this agreement.

I. Action on Resource Plan

Acceptance or rejection of Southern Minnesota Municipal Power Agency's (SMMPA's) overall Resource Plan would be deferred until the Commission decides the issues in the Big Stone II proceeding (Docket No. E-017, et al./CN-05-619).

II. Renewable Energy Objectives (REO) and Environmental Options

A. Commission Decisions on REO

1. The Commission would find that SMMPA has made a good faith effort to meet its REO over the planning period.
2. The Commission would indicate that the Commission will continue to monitor future compliance with the new renewable energy standard (RES) through compliance filings, updates and future resource plan filings.
3. The Commission would clarify that since all of SMMPA's load is in Minnesota, the allocation method is not an issue for SMMPA. However, for consistency with other Commission decisions, the Commission would note that the preferred method is the vintage-based allocation approach with a fixed allocation factor, in case the facts surrounding SMMPA's load change in the future.
4. The Commission would find that SMMPA has made a good faith effort to meet the biomass objective and is in compliance with the biomass REO over the planning period.
5. The Commission would indicate that the findings in the preceding paragraphs do not imply any finding that particular generation projects are countable under the renewable energy objectives statute; they are general findings that the plan filed by SMMPA demonstrates compliance, subject to confirmation of individual project eligibility through normal regulatory processes.

B. Commission Decisions on Environmental Issues

1. The Commission would encourage SMMPA to cooperate with other utilities, including Xcel Energy, to develop information and be prepared to participate in any Commission sponsored technical issues workshops on the following subjects:
 - a. Wind energy Storage research and development.
 - b. The cost of implementing various mitigation strategies and control technologies for the costs of SO₂, NO_x, and CO₂, including cost estimates, the technology needed to capture and ship CO₂ from an integrated gasification combined cycle plant to another appropriate location, and the cost of the various regulatory strategies under consideration for reduction of those emissions.
 - c. With respect to the distributed generation of heat and power, what the components of a more comprehensive distributed generation strategy might entail: a technical evaluation of opportunities, technical potential and economics of distributed generation within SMMPA's system, including:
 1. Evaluation of large customer sites to determine appropriateness and willingness to consider distributed generation, including possible combined heat and power initiatives with the ethanol industry and other industries.
 2. Determination of total technical distributed generation potential.
 3. Calculation of grid benefits of distributed generation.
 4. Economic screening to determine the total economic impact of distributed generation, under either utility ownership or customer ownership of distributed generation.

III. Filings for the Next Resource Plan or Other Time Periods

- A. The Commission would accept the agreement of SMMPA and the Department to discuss the data collection time lag in a timely manner prior to SMMPA's next resource plan.

- B. SMMPA should inform the Commission by July 1, 2007 how it intends to comply with the new REO reliability standards, including Standard MOD-017-0.¹
- C. The Commission would encourage SMMPA to work with the Department and any other interested parties to discuss how SMMPA will meet the RES prior to SMMPA's next IRP.
- D. The Commission would advise SMMPA to include an update in its next resource plan on progress toward developing a unit retirement strategy.
- E. The Commission would accept SMMPA's commitment to include any Commission-approved update to CO₂ costs in its future evaluations of CO₂-emitting resources;
- F. The Commission would accept SMMPA's agreement to provide the following in its next resource plan:
 - 1. SMMPA's compliance strategy for the Austin Northeast unit to comply with SO₂ emission reductions from the Clean Air Interstate Rule (CAIR);
 - 2. SMMPA's compliance strategy for the Sherco 3 and Austin Northeast units to comply with NO_x emission reductions from CAIR;
 - 3. SMMPA's Clean Air Mercury Rule (CAMR) compliance reduction strategy for Sherco 3 and Austin Northeast;
 - 4. SMMPA's and Xcel's compliance plan for Sherco 3 for the Minnesota Mercury Reduction Act of 2005; and
 - 5. SMMPA's strategies to reduce carbon dioxide emissions.

IV. Due Date for the Next Resource Plan

The due date for SMMPA's next resource plan would be on or before July 1, 2009.

VI. Commission Analysis and Action

The Commission has reviewed the proposed agreement, which is supported by all parties. The Commission finds that the parties' agreement is appropriate. It is supported by substantial evidence in the record and is in the public interest. Regarding its principal point, for example, deferral of final Commission action on SMMPA's Resource Plan until the Commission decides the issues in

¹ On June 26, 2007, SMMPA filed a statement informing the Commission how it will comply with the new FERC reliability Standard MOD-017-0.

the Big Stone II proceeding, the Commission finds that deferral is reasonable under the circumstances. As pointed out by MCEA, the reasonableness of SMMPA's reliance on Big Stone II generation at a certain price for a substantial portion of its demand will depend in large part on the outcome of the Big Stone II proceeding.

Accordingly, the Commission will approve the parties' agreement, make the findings and clarifications requested by the parties, and direct compliance with all its provisions, as set forth specifically in the Order Paragraphs of this Order.

ORDER

1. The Commission approves the parties' agreement presented at the hearing, as set forth above. The parties shall abide by the terms of this agreement. In addition and consistent with that agreement, the Commission makes the following findings and clarifications.
2. Regarding the REO, the Commission
 - a) finds that SMMPA has made a good faith effort to meet its REO over the planning period;
 - b) will continue to monitor future compliance with the new renewable energy standard (RES) through compliance filings, updates and future resource plan filings.
 - c) clarifies that since all of SMMPA's load is in Minnesota, the allocation method is not an issue for SMMPA;
 - d) for consistency with other Commission decisions, notes that the preferred method is the vintage-based allocation approach with a fixed allocation factor, in case the facts surrounding SMMPA's load change in the future;
 - e) finds that SMMPA has made a good faith effort to meet the biomass objective and is in compliance with the biomass REO over the planning period;
 - f) clarifies that the findings in the preceding paragraphs do not imply any finding that particular generation projects are countable under the renewable energy objectives statute; clarifies that these are general findings that the plan filed by SMMPA demonstrates compliance, subject to confirmation of individual project eligibility through normal regulatory processes.
3. Regarding environmental issues, the Commission encourages SMMPA to cooperate with other utilities, including Xcel Energy, to develop information and to be prepared to participate in any Commission sponsored technical issues workshops on the following subjects:
 - a) wind energy Storage research and development;

- b) the cost of implementing various mitigation strategies and control technologies for the costs of SO₂, NO_x, and CO₂, including cost estimates, the technology needed to capture and ship CO₂ from an integrated gasification combined cycle plant to another appropriate location, and the cost of the various regulatory strategies under consideration for reduction of those emissions;
 - c) with respect to the distributed generation of heat and power, what the components of a more comprehensive distributed generation strategy might entail: a technical evaluation of opportunities, technical potential and economics of distributed generation within SMMPA's system, including:
 - 1. evaluation of large customer sites to determine appropriateness and willingness to consider distributed generation, including possible combined heat and power initiatives with the ethanol industry and other industries;
 - 2. determination of total technical distributed generation potential;
 - 3. calculation of grid benefits of distributed generation.
 - 4. economic screening to determine the total economic impact of distributed generation, under either utility ownership or customer ownership of distributed generation.
4. Regarding filings for the next resource plan or other time periods, the Commission
- a) accepts the agreement of SMMPA and the Department to discuss the data collection time lag in a timely manner prior to SMMPA's next resource plan.
 - b) encourages SMMPA to work with the Department and any other interested parties to discuss how SMMPA will meet the RES prior to SMMPA's next IRP.
 - c) advises SMMPA to include an update in its next resource plan on progress toward developing a unit retirement strategy;
 - d) accepts SMMPA's commitment to include any Commission-approved update to CO₂ costs in its future evaluations of CO₂-emitting resources;
 - e) accepts SMMPA's agreement to provide the following in its next resource plan:
 - 1. SMMPA's compliance strategy for the Austin Northeast unit to comply with SO₂ emission reductions from the Clean Air Interstate Rule (CAIR);
 - 2. SMMPA's compliance strategy for the Sherco 3 and Austin Northeast units to comply with NO_x emission reductions from CAIR;
 - 3. SMMPA's Clean Air Mercury Rule (CAMR) compliance reduction strategy for Sherco 3 and Austin Northeast;

4. SMMPA's and Xcel's compliance plan for Sherco 3 for the Minnesota Mercury Reduction Act of 2005; and
5. SMMPA's strategies to reduce carbon dioxide emissions.
5. The due date for SMMPA's next resource plan shall be on or before July 1, 2009.
6. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

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