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June 23, 2014

**VIA E-FILING**

Burl W. Haar  
Executive Secretary  
Minnesota Public Utilities Commission  
121 7<sup>th</sup> Place East, Suite 350  
St. Paul, MN 55101-2147

RE: Reply Comments of Minnesota Municipal Power Agency  
DOCKET NO: ET6133/RP-13-1165

Dear Dr. Haar:

Minnesota Municipal Power Agency's (MMPA) reply comments are submitted electronically in response to the comments of the Minnesota Department of Commerce, Division of Energy Resources (DOC) filed April 21, 2014. MMPA disagrees with a number of DOC's comments and MMPA's reply comments sets forth its position on each of the issues raised by DOC.

Please contact me at (612) 252-6542 if you have any questions.

Very truly yours,

**Avant Energy, Inc.**  
Agent for MMPA

/s/ Oncu Er  
Oncu Er  
Vice President Planning

Enc.  
Cc: Service list

STATE OF MINNESOTA  
BEFORE THE  
MINNESOTA PUBLIC UTILITIES COMMISSION

Beverly Jones Heydinger	Chair
David C. Boyd	Commissioner
Nancy Lange	Commissioner
Dan Lipschultz	Commissioner
Betsy Wergin	Commissioner

IN THE MATTER OF THE APPLICATION  
OF MINNESOTA MUNICIPAL POWER  
AGENCY'S 2014-2028 INTEGRATED  
RESOURCE PLAN

DOCKET NO. ET6133/RP-13-1165

**REPLY COMMENTS OF MINNESOTA MUNICIPAL POWER AGENCY**

The Minnesota Municipal Power Agency (MMPA or the Agency) hereby submits these reply comments to address the analyses and recommendations of the Minnesota Department of Commerce, Division of Energy Resources (DOC). MMPA respectfully disagrees with some of the DOC comments, including what MMPA believes are erroneous analyses and inappropriate comparisons. MMPA's position with respect to each issue is set forth in these reply comments.

**I. INTRODUCTION**

On December 20, 2013, MMPA submitted its 2013 Integrated Resource Plan (IRP or the Plan) to the Minnesota Public Utilities Commission (PUC or the Commission) for consideration. The planning period covered in MMPA's 2013 IRP is 2014-2028. As a municipal power agency, the Commission's order in this proceeding is advisory; however, MMPA endeavors to prepare a comprehensive plan that will ensure a safe, reliable, and efficient system into the future.

This is MMPA's third IRP. The Commission accepted MMPA's 2008 and 2011 IRPs and found MMPA to be in compliance with its Renewable Energy Standards obligations. MMPA incorporated into its current IRP the recommendations made by the PUC in approving MMPA's 2011 IRP.

On April 21, 2014, DOC filed its comments regarding MMPA's IRP. In its comments, DOC requested MMPA provide certain additional information in its reply comments. DOC requested that MMPA (at p 32):

- explain the basis for its cost estimates regarding its proposed distributed generation technology;

- provide an example of the costs and benefits of installing generation in 2 MW blocks versus a larger installation akin to SMMPA's;
- include an explanation of the basis for its cost estimates regarding distributed generation technology *vis-à-vis* the installed cost per kW SMMPA incurred at its Fairmont generating facility; and
- provide information in reply on the environmental regulations to which it is subject, and its ability to comply with those regulations, including whether it will need to purchase emissions allowances.

No other parties submitted comments in this matter. MMPA addresses the DOC comments herein.

## **II. REVENUE PER MEGAWATT HOUR ANALYSIS**

The DOC's comments on pages 19 and 20 present an incorrect retail rate comparison of what the DOC represents as MMPA's retail rates and Minnesota IOU's retail rates. This is wrong because MMPA does not have retail rates. It sells only at wholesale.

In addition to being an inappropriate comparison, the retail comparison is wrong and overly simplistic. The source for the data the DOC stated it used has not been published and the DOC did not provide the source in response to MMPA's Information Request No. 1. The commercial class average rate contains a significant error that, when corrected, would increase the DOC's computed IOU average commercial rate by 41%.

The comparison also ignores four important rate comparison attributes:

- It ignores definition of classes used by each utility.
- It ignores load factor. The IOUs in the DOC comparison includes customers with very high load factors which would reduce the average rate for IOUs.
- It ignores delivery voltage. MMPA's members do not serve customers at transmission voltage while some IOU customers may be served at transmission voltage.
- It ignores franchise fees. More than 60% of the retail load of MMPA's members is subject to a franchise fee. The Agency's members report this franchise fee as rate revenue. At least two investor owned utilities do not report franchise fees collected from customers as rate revenue.

### **III. REPLY**

#### **A. Distributed Generation Cost Estimates**

*DOC recommended that MMPA explain the basis for its cost estimates regarding its proposed distributed generation technology.*

*See MMPA's response to DOC Information Request 8.a.ii, which is attached.*

*DOC recommended that MMPA include an explanation of the basis for its cost estimates regarding distributed generation technology vis-à-vis the installed costs per kW SMMPA incurred at its Fairmont generating facility.*

A comparison of MMPA's *estimated* costs and SMMPA's purported *actual* installed costs is inappropriate because SMMPA's project is complete whereas MMPA is still in the planning and development stages of its distributed generation (DG) program.

DOC acknowledged that it relied on information posted on SMMPA's website to estimate the installed costs for SMMPA's Fairmont Generation Station (*see* DOC response to Information Request No. 2). MMPA's cost estimates are based upon its 2011 IRP distributed generation cost estimates, escalated for inflation and with the cost of Selective Catalytic Reduction added (*see* MMPA's response to DOC Information Request 8.a.ii, which is attached).

SMMPA's costs are purported *actual* installed costs whereas MMPA's costs are *estimated* costs. Presumably, SMMPA's *actual* installed costs include development costs, interest during construction and interconnection costs. MMPA's *estimated* costs are overnight capital costs, which do not include development costs, interest during construction, or interconnection costs. As a completed project, SMMPA's technology is known whereas MMPA is still in the process of selecting its technology. Most importantly, SMMPA's installed costs are site specific whereas MMPA's site studies are still in progress.

#### **B. Generation Installation Blocks**

*DOC recommended that MMPA provide an example of the costs and benefits of installing generation in 2 MW blocks versus larger installation akin to SMMPA's.*

MMPA is puzzled by the Department's statement on MMPA's purported proposal to add 2 MW blocks of generation. MMPA does not have a proposal to add 2 MW blocks of generation. MMPA proposed generation additions of 5 – 25 MW. *See* MMPA's IRP at p 39 (Planning Approach and Resource Prospects), p 49 (Short Range Action Plan) and p 52 (Long Range Action Plan). Since MMPA did not propose installation in 2 MW generation blocks and since DOC's comments appear skeptical that the benefits of installing 2 MW generation blocks would outweigh the costs, MMPA does not believe providing such an analysis here would benefit the Commission's review of MMPA's IRP.

### C. Environmental Regulations

*DOC recommended that MMPA provide information on the environmental regulations to which it is subject, and its ability to comply with those regulations, including whether it will need to purchase emissions allowance.*

MMPA operates and develops electrical energy production facilities. The following table summarizes the environmental regulations, which MMPA is subject to for operations:

<b>OPERATIONAL ENVIRONMENTAL REGULATIONS</b>		
<b>Regulation/ Requirement</b>	<b>Regulatory Authority</b>	<b>Notes</b>
<i>Clean Air Act</i>		
<b>Title V Air Emission Permit</b>	United States Environmental Protection Agency (USEPA)/Minnesota Pollution Control Agency (MPCA)	In 2011, FEP obtained permit modification enabling installation of Air Attenuation System equipment
<b>Title IV Acid Rain Permit</b>	USEPA/MPCA	Purchase SO <sub>x</sub> credits as required for Faribault Energy Park and Minnesota River Station
<b>Clean Air Interstate Rule (CAIR)</b>	USEPA/MPCA	CAIR rule was eliminated and the CAIR permit application returned to the facility. NOTE: CSAPR replaces CAIR; however requirements of CAIR remain in place until CSAPR rule is final.
<b>Green House Gas Reporting</b>		Submitted first GHG Report in September 2011 for CY 2010
<b>Cross State Air Pollution Rule (CSAPR)</b>	USEPA/MPCA	On April 29, 2014, the US Supreme Court reversed an appellate court decision vacating CSAPR; USEPA states that at this time, CAIR remains in place and no immediate action from States or affected sources is expected; MMPA will take appropriate action as necessary; see additional explanation below
<b>Mercury and Air Toxics Standards</b>	USEPA/MPCA	
<i>Clean Water Act</i>		
<b>NPDES/SDS</b>	USEPA/MPCA	In 2007, MPCA terminated FEP permit because discharge authorization no longer required
<b>Industrial Stormwater General permit</b>	USEPA/MPCA	In 2011, FEP obtained "No Exposure Exclusion"
<b>SPCC Plan</b>	USEPA/MPCA	

<b>SWPPP</b>	USEPA/MPCA	
<b><i>Faribault Industrial Wastewater Discharge Contract</i></b>	City of Faribault	
<b><i>Wetland Mitigation</i></b>	US Army Corps of Engineers (USACOE)/Rice and Steele County Soil and Water Conservation Agency	
<b><i>Resource Conservation and Recovery Act Hazardous Waste Generator License</i></b>	USEPA/MPCA/County Environmental Services Department	
<b><i>Water Appropriation Permit</i></b>	Minnesota Department of Natural Resources (MDNR)	In 2010, FEP added additional ground water piezometers (on and off site) to gather additional ground water table data for Water Appropriation Permit modification.
<b><i>Aboveground Tank Regulations</i></b>	MPCA	

MMPA complies with these regulations by employing expert staff, utilizing compliance management systems and by conducting periodic audits. In addition, MMPA facilities are periodically inspected by state and local regulators to ensure compliance with regulations, permit conditions and contractual agreements.

The following table summarizes the environmental regulations, which the MMPA is subject to for project development:

<b>PROJECT DEVELOPMENT ENVIRONMENTAL REGULATIONS</b>	
<b>Regulation/ Requirement</b>	<b>Regulatory Authority</b>
<b>Clean Water Act Section 404 Permit</b>	USACOE
<b>Threatened &amp; Endangered Species Consultation</b>	US Fish & Wildlife Service/ MDNR
<b>Certificate of Need</b>	Minnesota Public Utilities Commission (MPUC)
<b>Site Permit</b>	MPUC
<b>Transmission Route</b>	MPUC
<b>Pipeline Route</b>	MPUC
<b>Title V Permit Modifications</b>	MPCA
<b>General NPDES Permit for Stormwater Discharges during construction</b>	MPCA
<b>Section 401 Water Quality Certification</b>	MPCA
<b>License for crossing public lands and waters</b>	MDNR

<b>Public Waters Work Permit</b>	MDNR
<b>Water Appropriations Permit</b>	MDNR
<b>Conditional Use Permit</b>	City or County
<b>Wetland Conservation Act Compliance</b>	County Soil & Water Conservation District

MMPA complies with the regulations related to development of new projects by employing expert in-house staff and supplements in-house resources by hiring consultants with subject area expertise.

There are a number of proposed and pending USEPA rules that may impact MMPA and its generation resources. These include the Cross State Air Pollution Rule now that the US Supreme Court has issued its decision on the Rule, the Coal Combustion Residuals (coal ash) Rule, the Reciprocating Internal Combustion Engines Rule, the New Source Performance Standards Rule, and the Clean Power Plan Rule. MMPA will follow the proceedings in these rulemaking processes to determine whether the final rules will impact MMPA's generation and respond accordingly to bring MMPA into compliance with the final rules as necessary.

MMPA purchased a limited number of SO<sub>2</sub> allowances for Faribault Energy Park and Minnesota River Station.

#### **IV. CONCLUSION**

MMPA appreciates the opportunity to provide comments in this proceeding and respectfully requests the Commission accept MMPA's 2013 IRP.

Dated: June 23, 2014

Respectfully submitted,

**Avant Energy, Inc.**  
Agent for MMPA

/s/ Oncu Er  
Oncu Er  
VP Planning

## **CERTIFICATE OF SERVICE**

I, Bethany Pribila, hereby certify that I have this day, served copies of the following document on the attached list of persons by electronic filing, certified mail, e-mail, or by depositing a true and correct copy thereof properly enveloped with postage paid in the United States mail at Minneapolis, Minnesota.

**Reply Comments of  
Minnesota Municipal Power Agency**

**Docket No. ET6133/RP-13-1165**

Dated this 23<sup>rd</sup> day of **June 2014**

*/s/ Bethany Pribila*



First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Julia	Anderson	Julia.Anderson@ag.state.mn.us	Office of the Attorney General-DOC	1800 BRM Tower 445 Minnesota St St. Paul, MN 551012134	Electronic Service	No	SPL_SL_13-1165_Special list
Ed	Ehlinger	Ed.Ehlinger@state.mn.us	Minnesota Department of Health	P.O. Box 64975 St. Paul, MN 55164-0975	Electronic Service	No	SPL_SL_13-1165_Special list
Oncu	Er	oncu.er@avantenergy.com	Avant Energy, Agent for MMPA	220 S. Sixth St. Ste. 1300 Minneapolis, MN 55402	Electronic Service	No	SPL_SL_13-1165_Special list
Sharon	Ferguson	sharon.ferguson@state.mn.us	Department of Commerce	85 7th Place E Ste 500 Saint Paul, MN 551012198	Electronic Service	No	SPL_SL_13-1165_Special list
Dave	Frederickson	Dave.Frederickson@state.mn.us	MN Department of Agriculture	625 North Robert Street St. Paul, MN 551552538	Electronic Service	No	SPL_SL_13-1165_Special list
Burl W.	Haar	burl.haar@state.mn.us	Public Utilities Commission	Suite 350 121 7th Place East St. Paul, MN 551012147	Electronic Service	Yes	SPL_SL_13-1165_Special list
Thomas	Landwehr	tom.landwehr@state.mn.us	Department of Natural Resources	Box 37, 500 Lafayette Rd St. Paul, Minnesota 55155	Electronic Service	No	SPL_SL_13-1165_Special list
James D.	Larson	james.larson@avantenergy.com	Avant Energy Services	220 S 6th St Ste 1300 Minneapolis, MN 55402	Electronic Service	No	SPL_SL_13-1165_Special list
John	Lindell	agorud.ecf@ag.state.mn.us	Office of the Attorney General-RUD	1400 BRM Tower 445 Minnesota St St. Paul, MN 551012130	Electronic Service	No	SPL_SL_13-1165_Special list
Brian	Napstad	bnapstad@yahoo.com	Board of Water and Soil Resources	51227 Long Point Place McGregor, MN 55780	Paper Service	No	SPL_SL_13-1165_Special list
Charles	Zelle	charlie.zelle@state.mn.us	Department of Transportation	MN Dept of Transportation 395 John Ireland Blvd St. Paul, MN 55155	Electronic Service	No	SPL_SL_13-1165_Special list

**State of Minnesota**  
**DEPARTMENT OF COMMERCE**  
**DIVISION OF ENERGY RESOURCES**

**Utility Information Request**

**PUBLIC DOCUMENT**

Docket Number: ET6133/RP-13-1165

Date of Request: January 16, 2014

Requested From: Oncu Er, Minnesota Municipal Power Agency

Response Due: January 29, 2014

Analyst Requesting Information: John Kundert

Type of Inquiry:    ☐.....Financial                      ☐.....Rate of Return                      ☐.....Rate Design  
                         ☐.....Engineering                      ☐.....Forecasting                      ☐.....Conservation  
                         ☐.....Cost of Service                      ☐.....CIP                      ☒.....Other: Planning

*If you feel your responses are trade secret or privileged, please indicate this on your response.*

Request No.	
8	<p><b>References: MMPA 2011 IRP filing – pages 26 and 27, MMPA 2013 IRP filing – pages 40 and 41</b></p> <p><b>a. Trade Secret Attachment A contains a comparison of capital and fuel costs for different generation technologies provided in the Agency’s two filings.</b></p> <p><b>i. Please provide the information that supports the increases in capital costs for combined cycle and simple cycle that average approximately 41 % between 2011 and 2013.</b></p> <p><b>[TRADE SECRET DATA BEGINS</b></p>

Response by: Oncu Er

List sources of information:

Title: VP Planning

Department: Planing

Telephone: (612) 252-6542

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**TRADE SECRET DATA ENDS]**

- ii. Please provide the information that supports the increases in capital costs for distributed generation that average approximately 31 % between 2011 and 2013.

**[TRADE SECRET DATA BEGINS**

**TRADE SECRET DATA ENDS]**

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Response by: Oncu Er

List sources of information:

Title: VP Planning

Department: Planing

Telephone: (612) 252-6542

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- iii. **Please provide the information that supports the decreases in fuel costs for combined cycle and simple cycle that average approximately 17% between 2011 and 2013.**

Fuel costs for combined cycle and simple cycle are lower in 2013 compared to 2011 because natural gas prices are lower.

The natural gas price used to calculate base case fuel costs in 2011 IRP was \$5.10/MMBtu (including transportation) with a range of \$3.83/MMBtu for “Low” and “\$7.65/ MMBtu” for “High” cases. EIA’s 2010 Annual Energy Outlook projected natural gas prices to be about \$6.00 by 2025 in 2009 dollars which is in the middle of the range of prices that we used for the 2011 IRP.

The natural gas price used to calculate base case fuel costs in 2013 IRP was \$4.24/MMBtu (including transportation) with a range of \$3.18/MMBtu for “Low” and “\$6.36/ MMBtu” for “High” cases. EIA’s 2013 Annual Energy Outlook projected natural gas prices to be about \$5.20/MMBtu by 2028 in 2011 dollars which is in the middle of the range of prices that we used for the 2013 IRP.

- iv. **Please provide the information that supports the decreases in fuel costs for distributed generation that average approximately 27% between 2011 and 2013.**

Fuel costs for distributed generation are lower in 2013 compared to 2011 because natural gas prices are lower, as discussed above in (iii).

**[TRADE SECRET DATA BEGINS**

**TRADE SECRET DATA ENDS]**

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Response by: Oncu Er

List sources of information:

Title: VP Planning

Department: Planing

Telephone: (612) 252-6542

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