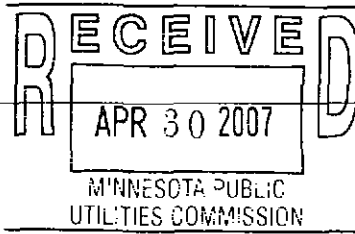




Power System
Engineering, Inc.



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12301 Central Avenue, N.E., Suite 250
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April 27, 2007

Dr. Burl W. Haar, Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, Minnesota 55101

***Re: Dakota Electric Association Comments in the Matter of the Commission's
Investigation into the Appropriateness of Continuing to Permit Electric
Energy Cost Adjustments
Docket No. E-999/CI-03-802***

Dear Dr. Haar:

On March 30, 2007, the Minnesota Public Utilities Commission issued a Notice for continuing comments relating to the Commission investigation into whether the fuel clause adjustment (FCA) continues to be a useful regulatory tool. Enclosed for filing are Dakota Electric Association's (Dakota Electric) comments in this matter.

If you or your staff have any questions regarding these comments, please contact me anytime at (763) 755-5122.

Sincerely,

Douglas R. Larson
Vice President
Power System Engineering, Inc.
on behalf of
Dakota Electric Association
4300 220th Street West
Farmington, MN 55024

MN0650701/mmc

Enclosure

STATE OF MINNESOTA

SS

COUNTY OF ANOKA

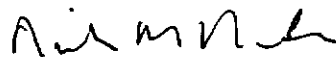
AFFIDAVIT OF SERVICE

I, Nicholas M. Nelson, being first duly sworn, deposes and says:

That on the 27th day of April 2007 I served the attached Comments on behalf of Dakota Electric Association:

- X by depositing in the United States Mail at the City of Blaine, a true and correct copy thereof, properly enveloped with postage prepaid
- by personal service
- by delivery service
- by express mail

to all persons indicated on the attached service list:

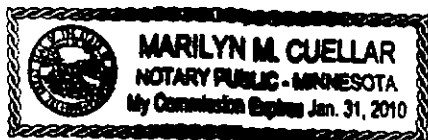


Nicholas M. Nelson

Subscribed and sworn to before me
this 27th of April 2007.



Marilyn M. Cuellar



E999/CI-03-802

In the Matter of an Investigation into
the Appropriateness of Continuing to
Permit Electric Energy Cost Adjustments

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E999/CI-03-802

In the Matter of an Investigation into
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**STATE OF MINNESOTA
BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION**

**LeRoy Koppendrayer
Marshall Johnson
Kenneth Nickolai
Thomas Pugh
Phyllis Reha**

**Chair
Commissioner
Commissioner
Commissioner
Commissioner**

In the Matter of the Commission's
Investigation into the Appropriateness
of Continuing to Permit Electric Energy
Cost Adjustments

Docket No. E-999/CI-03-802

April 30, 2007

COMMENTS OF DAKOTA ELECTRIC ASSOCIATION

On December 19, 2003, the Minnesota Public Utilities Commission (Commission or MPUC) issued an Order Determining Scope and Setting Procedural Framework in the Matter of the Commission's Investigation into the Appropriateness of Continuing to Permit Electric Energy Cost Adjustments (Docket No. E-999/CI-03-802). Page 6 of this Order indicates that:

Initially the investigation shall focus on whether the Fuel Clause Adjustment (FCA) continues to be an appropriate tool for use in the current regulatory environment. The investigation shall begin with a review of the original purpose, structure, and rationale of the current FCA, current operation of the FCA, and relevance to the current regulatory environment. If the Commission finds that the investigation demonstrates a continuing need for the FCA, the Commission may expand the investigation's scope to address related issues.

On February 19, 2004, Dakota Electric Association (Dakota Electric) submitted initial comments in this matter. Dakota Electric's comments included the following:

- Background information on Dakota Electric;
- Review of Minnesota Rules regarding electric energy adjustments; and
- Explanation of Dakota Electric's Resource and Tax Adjustment that incorporates changes in Dakota Electric's wholesale power costs.

Dakota Electric continues to support these February 19, 2004 comments.

On March 30, 2007, the Commission issued a notice for continuing comments regarding this investigation into whether the fuel clause adjustment (FCA) continues to be a useful regulatory tool. This notice provides an opportunity for parties to update the record in this matter. Specific issues that Dakota Electric will address in these continuing comments include incentives for controlling costs passed through its automatic adjustment mechanism, price signals, and adequacy of reporting requirements.

Dakota Electric Comments

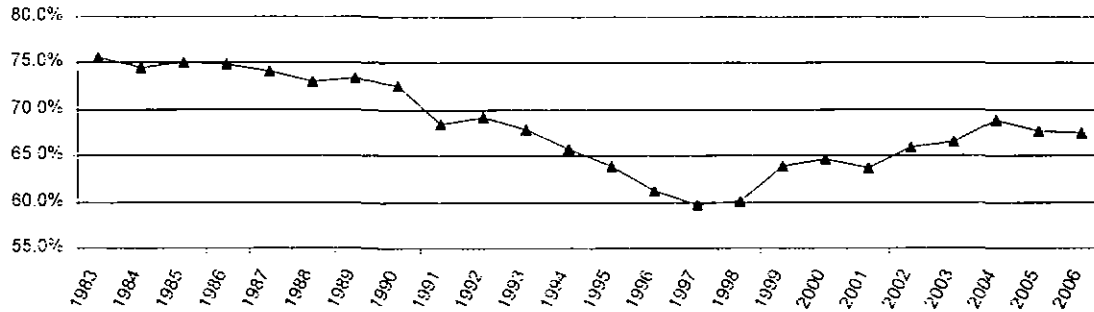
Dakota Electric's Resource and Tax Adjustment (RTA) incorporates three factors including:

1. Changes in purchased power cost;
2. Conservation spending; and
3. Changes in net property taxes.

Dakota Electric's annualized RTA is calculated based on a projected calendar year. This calendar year coincides with the annual adjustment of wholesale energy and demand rates by Dakota Electric's wholesale power supplier, Great River Energy. The difference between the projected cost of power and Dakota Electric's approved base cost of power is the purchased power adjustment credit or charge that is reflected on customers' bills.

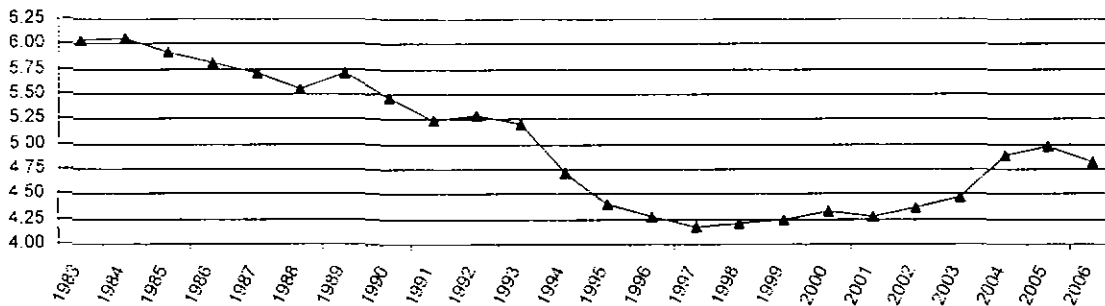
Purchased power costs represent a large percentage of Dakota Electric's overall cost of providing service to customers. The following chart depicts power costs as a percent of total Cooperative revenue for the past 23 years. This chart shows that power costs range from about 60 percent to 75 percent of Dakota Electric's total cost of providing service.

Power Cost as % of Total Revenue



During the years from 1983 to 1998, Dakota Electric experienced declining wholesale power costs on a per kWh basis. The following chart depicts these power costs declining from about 6¢/kWh to just over 4¢/kWh.

Power Cost per kWh Sold
Cents / kWh



During this time of overall declining power costs, Dakota Electric's Resource and Tax Adjustment mechanism provided a vehicle for our members to directly benefit from such declining costs. These reduced wholesale power costs flow through directly to members in the form of a monthly credit on customer bills.

While customers have seen a direct benefit of reduced costs in the past, Dakota Electric expects to see wholesale power costs increasing during future years. This is shown by the trend over recent years. The Resource and Tax Adjustment provides an appropriate mechanism for Dakota

Electric to pass through such increasing costs on customer bills. These adjustments provide a more accurate price signal to our members regarding the cost of providing electric service and reduce the need for Dakota Electric to file frequent general rate cases to adjust revenue solely based on changing power costs.

Dakota Electric believes that there are significant incentives for controlling wholesale power costs passed through its Resource and Tax Adjustment. Specifically, Dakota Electric purchases its wholesale power from GRE, which is owned by 28 distribution cooperatives. These distribution cooperative owners exert substantial oversight and pressure on GRE to control costs, while ensuring adequate and reliable wholesale power.

Dakota Electric further believes that existing data reporting provides more than adequate regulatory oversight for our wholesale power automatic adjustment mechanism. Specifically, Dakota Electric submits an annual calculation, with supporting documentation, of wholesale power costs. This filing includes a summary and trueup of actual costs incurred during the prior calendar year. In addition to this annual Dakota Electric specific filing, we also submit an annual automatic adjustment report on September 1 of each year. This report provides an opportunity for the Department of Commerce (Department) and Commission staff to review and make recommendations regarding Dakota Electric's implementation of this Resource and Tax Adjustment. Over the years, the Department has found that Dakota Electric's recovery of power costs is reasonable, with minimal fluctuations in over and under recovery of costs despite the fact that our adjustment mechanism includes both energy and capacity costs.

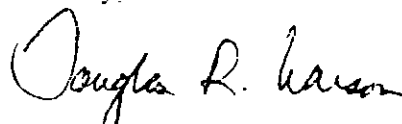
Dakota Electric believes that the three factors generally recognized when electric energy adjustments were first established are still relevant today. Specifically, Dakota Electric has noticed increased volatility in wholesale power costs and wholesale automatic adjustment charges imposed from GRE. Since Dakota Electric purchases all of its energy and capacity requirements, these costs are beyond our direct control. Finally, the wholesale rates of GRE are submitted to and reviewed by the Rural Development Utilities Program. In this regard, the wholesale costs incurred by Dakota Electric are reviewed by a federal agency in addition to the

internal scrutiny provided by 28 distribution member owners and their representation on the GRE board of directors.

Conclusion

Dakota Electric appreciates the opportunity to submit these continuing comments in this important matter. Through these comments, Dakota Electric has shown that wholesale power costs represent an important cost of providing service to our members; and the original reasons for implementing automatic energy adjustments are just as valid today as they were when the electric energy adjustment rules were originally established. Based on these comments, Dakota Electric requests a Commission finding that our continued application of the Resource and Tax Adjustment is appropriate and in the best interest of our member-owners. If the Commission staff has any questions regarding Dakota Electric's comments, they may contact me at 763-755-5122.

Sincerely,



Douglas R. Larson
Vice President
Power System Engineering, Inc.
on behalf of
Dakota Electric Association
4300 220th Street West
Farmington, Minnesota 55024

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