

September 29, 2014

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

RE: **Response Comments of the Minnesota Department of Commerce, Division of Energy Resources**  
Docket No. ET6133/RP-13-1165

Dear Dr. Haar:

Attached are the response comments of the Minnesota Department of Commerce, Division of Energy Resources (the Department) in the following matter:

Minnesota Municipal Power Agency (MMPA) Application for Integrated Resource Plan Approval, 2014-2028.

The Department provides these comments to help clarify the record and update our recommendations.

The Department recommends that **the Commission accept MMPA's Integrated Resource Plan as filed.**

The Department's team of John Kundert, Susan Peirce, Zac Ruzicky and Chris Davis is available to answer any questions the Commission may have.

Sincerely,

/s/ CHRISTOPHER T. DAVIS  
Rates Analyst

CTD/ja  
Attachment

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

COMMENTS OF THE  
MINNESOTA DEPARTMENT OF COMMERCE,  
DIVISION OF ENERGY RESOURCES

ON

MINNESOTA MUNICIPAL POWER ASSOCIATION'S  
2014-2028 INTEGRATED RESOURCE PLAN

DOCKET No. ET6133/RP-13-1165

**I. INTRODUCTION**

In its June 23, 2014 Reply Comments, the Minnesota Municipal Power Agency (MMPA or the Agency) discussed areas where it disagreed with the analysis and recommendations provided in the Department of Commerce (DOC or the Department) April 21, 2014 Comments and provided additional information in response to the Department's comments. The Department responds to two areas of dispute (revenue per MWh analysis and comments concerning size of generation installation blocks). The Department also assessed the additional information that MMPA provided concerning distributed generation cost estimates and compliance with environmental regulations.

**II. DEPARTMENT RESPONSE**

**A. *REVENUE PER MWH ANALYSIS***

In its reply comments, MMPA stated that the Department's retail rate analysis was incorrect and overly simplistic in that it provided a comparison of the revenue per megawatt hour (MWh) that MMPA's members collect from their citizen/ratepayers and compared that average revenue collected per MWh to the average revenue collected per MWh by four Investor Owned Utilities (IOUs) located in Minnesota. MMPA also stated that the Department's analysis did not compare the wholesale rate that MMPA charges its member distribution utilities with the comparable average statewide IOU "wholesale" rate. MMPA then listed four important rate comparison attributes that the Agency stated the Department's analysis failed to consider and identified a computational error that was

included in the Department's analysis. Finally, MMPA stated that the Department did not provide the source of data used by the Department in response to MMPA's Information Request No. 1.

### *Department Response*

Overall, as noted in our comments, the Commission's role relative to MMPA's IRP is advisory; MMPA and its members retain the authority to determine rate levels and select generation options. The Department's discussion about current rates and the impact that the Agency's proposed expansion plan may have on those rates was intended to be advisory only, for MMPA to use or not use as may be appropriate. The Department discussed this issue with MMPA, which correctly noted that the figures in the Minnesota Utility Data Book include the distribution rates that MMPA's members charge to their residents/ratepayers. The Department's intention was to focus on rate impacts for retail ratepayers, but acknowledges that, since MMPA does not control the rates that its municipal members charge, including that component of the rates charged to retail ratepayers reflects more than the issues in the current proceeding.

Further, the Department should have been more precise in its language in this section. Revenue per MWh is not the same as rate revenue. We apologize for that oversight. However, the Department is hopeful that this exchange can provide the beginning of a more general discussion of energy policy in the State.

More specifically in response to MMPA's statement regarding the Department's failure to provide the source data used in the analysis, the Department provided the information used in the Department's analysis in our response to MMPA IR No. 1. The information was extracted from the Department Minnesota Utility Database. After reviewing MMPA's reply comments, the Department also e-mailed a copy of the most recent (2010) "Minnesota Utility Data Book" to MMPA's representative – Avant Energy. That document should allow Avant Energy staff to reconcile the information from 2002 to 2010 included in the analysis. (The information from 2011 - 2013 has not been published yet.)

Below, the Department addresses MMPA's four rate comparison attributes:

- 1) The Department's analysis fails to recognize the definition of classes used by each utility.

### *Response*

MMPA is correct that a certain amount of consolidation does occur to present the information provided in a consistent format. The information collected in the Minnesota Utility Database is provided by the State's utilities. That said the

definitional differences would have to be substantial to influence the revenue per MWh information the Department used in its analysis.

- 2) The Department's analysis fails to consider load factor. The inclusion of high load factor customers reduced the average rate the Department calculated for IOUs.

*Response*

The Department agrees with MMPA's statement. At the same time, the Department did not intend for the analysis to recognize only similarly situated customers. Rather it was included as a reminder to MMPA's member/owners that the amount of revenue they collect from their commercial and industrial customers per MWh, on average, is apparently higher than those charged, on average, by the state's IOUs.

- 3) The Department's analysis ignored delivery voltage.

*Response*

The Department agrees with MMPA's statement. However, the impact of those voltage differences, given the amount of revenue under consideration, would probably not be significant.

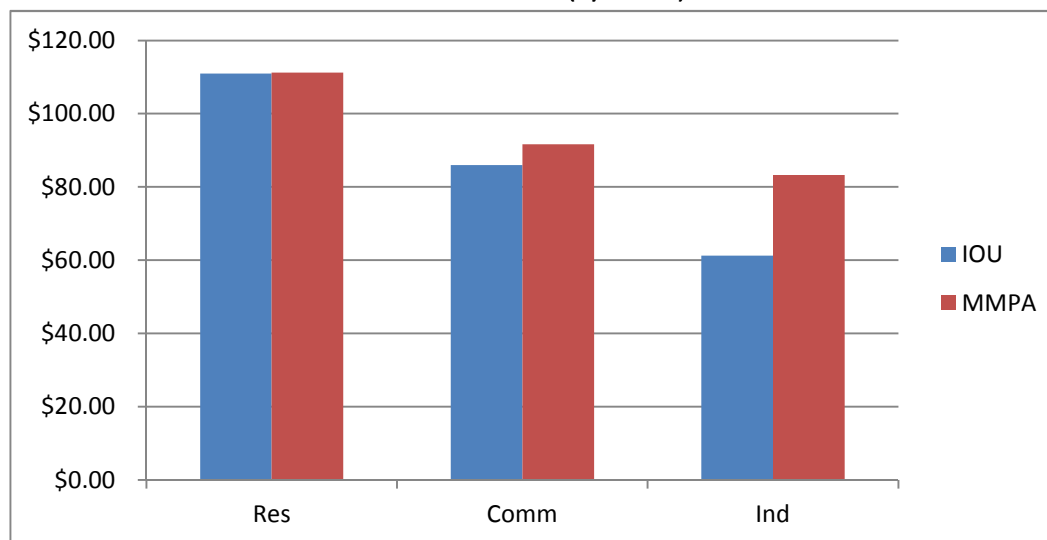
- 4) The Department's analysis ignored franchise fees.

*Response*

The Department agrees. In our reply comments, the Department referenced the potential for the inclusion of different types of costs in the revenue per MWh included in the Minnesota Utility Data Book.

Avant Energy staff identified an error in the Department's calculation of the average revenue per megawatt hour for the commercial class for the Investor Owned Utilities for 2012. The Department reviewed its analysis and identified the error. In our Comments we estimated the average revenue per MWh for the IOU commercial class to be \$60.86/MWh for 2012. The correct number is \$85.94/MWh. The Department's statement on page 19 should be changed to: "For those two classes, MMPA's **member's** revenue per MWh is **6.2** and 28 percent higher than the amount of revenue collected on average by Minnesota-based IOUs respectively." In addition, Figure 3 should be updated in the following manner.

**Figure 3: Comparison of Revenue per MWh for MMPA and Minnesota Based IOUs (\$/MWh) for 2012**



The Department apologizes for this error and again hopes that this information is helpful for future discussions.

**B. SIZE OF DISTRIBUTION GENERATION FACILITIES.**

In our Comments, the Department recommended that MMPA provide an example of the costs and benefits of installing generation in 2 MW blocks versus a larger installation like that of the Southern Minnesota Municipal Power Agency (SMMPA). SMMPA responded that it proposed distributed generation installations of 5-25 MW, and had no plan to install 2 MW installations.

The Department appreciates MMPA's response to the DOC's recommendation concerning MMPA's supposed installation of 2 megawatt distributed generation facilities. The Department reviewed its source material for this recommendation and found no support for the 2 MW estimate included in this recommendation. Thus, the Department withdraws this recommendation.

**C. DISTRIBUTED GENERATION COST ESTIMATES**

The Department asked MMPA to explain the difference between the Agency and SMMPA's estimates of distributed generation. MMPA stated that the SMMPA costs cited by the Department in its comments are actually installed costs, while the costs that MMPA included in its IRP were overnight capital costs. This difference apparently explains the lower

estimated capital cost that MMPA included in its filing. The Department appreciates MMPA's explanation of the difference.

**D. ENVIRONMENTAL REGULATION.**

The Department recommended that MMPA provide information in its reply comments on the environmental regulations to which it is subject as well as information on whether it will need to purchase emissions allowances. In reply, MMPA provided two tables outlining the various regulations impacting its generation units, as well as a number of regulations that may impact its generation resources in the future. The Agency indicates that it has purchased a limited number of SO<sub>2</sub> allowances for its Faribault Energy Park and Minnesota River Station generation units for compliance with acid rain requirements. The Department concludes that MMPA is appropriately tracking the various environmental regulations affecting its generation units.

**III. DEPARTMENT RECOMMENDATIONS**

**A. RECOMMENDATIONS FOR MMPA'S INSTANT IRP**

The Department recommends that the Commission accept MMPA's IRP as filed.

**B. RECOMMENDATIONS FOR MMPA'S NEXT IRP**

**1. Forecasting**

The Department encourages MMPA to continue working with all interested parties on an alternate, statistically valid methodology to project the utility peak demand coincident with MISO's peak.

/ja

## **CERTIFICATE OF SERVICE**

I, Sharon Ferguson, 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 St. Paul, Minnesota.

**Minnesota Department of Commerce  
Response Comments**

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

Dated this 29<sup>th</sup> day of September 2014

/s/Sharon Ferguson

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