

June 17, 2015

Daniel P. Wolf
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, Minnesota 55101-2147

RE: **Supplemental Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. ET2/RP-14-813

Dear Mr. Wolf:

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

Great River Energy's (GRE) 2014 Resource Plan.

The petition was filed on October 31, 2014 by:

Laureen L. Ross McCalib
Manager, Resource Planning
Great River Energy
12300 Elm Creek Blvd.
Maple Grove, MN 55369-4718

The Department recommends that the Commission **accept GRE's 2014 Resource Plan and encourage the Cooperative to implement the modifications recommended by the Department.** The Department's team of Craig Addonizio, Zac Ruzycki, Susan Peirce, and Christopher Davis is available to answer any questions the Commission may have.

Sincerely,

/s/ CHRISTOPHER T. DAVIS
Rates Analyst

CTD/lt
Attachment

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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

DOCKET NO. ET2/RP-14-813

I. INTRODUCTION

In its March 2, 2015 Comments (Initial Comments) in this Docket, the Department expressed concern with GRE's cost assumptions for the potential hydro resource available in its capacity expansion modeling. GRE assumed a price of zero for the capacity of the hydro product in all 31 of the cases in which hydro was made available as a potential resource. Of those 31 cases, two assumed that the hydro resource's energy would be priced \$0.05 per MWh above assumed market prices, and 29 assumed the energy would be priced \$0.05 per MWh below assumed market prices.¹ The Department was, and is, concerned that the range of cost assumptions considered by GRE is both too narrow and too low, and the Department recommended that GRE provide a discussion in Reply Comments justifying its capacity cost assumption of zero.

Beginning on page 10 of its May 1, 2015 Reply Comments, GRE addressed the Department's concerns, and stated that it has not yet identified the type of hydro product it may end up purchasing, and therefore it has not yet identified its costs. GRE stated that the hydro product could be energy only, a diversity exchange agreement, a combined capacity and energy product, or any combination of these.

II. DEPARTMENT ANALYSIS

The Department understands and appreciates the uncertainty utilities face in long-term resource planning. However, when faced with a high level of uncertainty regarding a potential resource addition, utilities should consider a wide range of assumptions when modeling the potential resource in order to draw robust conclusions. Without explicitly

¹ The Department notes that in its Initial Comments, its description of GRE's hydro cost assumptions was incorrect. The Department stated that GRE used its forecast of market prices as the assumed cost of energy from the potential hydro resource, and modeled one case in which hydro energy was priced at \$0.05 per MWh above market prices, and one case in which it was priced at \$0.05 per MWh below market prices. Despite this error, the Department's concerns about GRE's cost assumptions remain unchanged.

stating so, GRE essentially modeled the potential hydro resource as a diversity exchange agreement, and ignored the other possible forms the hydro resource could take.² GRE's modeling does not provide any support for a combined capacity and energy product, as the capacity in such an agreement would not be free. And although it may be possible to interpret some of GRE's modeling results as supporting an energy-only agreement, as described in the Department's Initial Comments, doing so is problematic because the hydro's capacity is necessary to meet reserve requirements in some of GRE's cases, and the results of those cases might be different if the hydro's capacity was priced higher than zero.

In addition to being too narrow, the range of assumed costs for the hydro's energy may be too low. While it may be possible for GRE to negotiate a deal with Manitoba Hydro with a variable energy price set at or very near spot market prices, the Department notes that long-term energy purchases are often priced at a premium over expected market prices to reflect the additional value derived from the purchase by the buyer (e.g., the value associated with the environmental attributes of the energy being purchased).

Despite these shortcomings, the Department recommends that the Commission approve GRE's modeling, with the understanding that the potential hydro addition has been shown to be cost effective only under the narrow parameters modeled by GRE. The Department emphasizes that GRE's modeling in this IRP supports the addition of a hydro resource with 200 MW of free capacity and energy priced within \$0.05 per MWh of market prices. If the final deal GRE negotiates with Manitoba Hydro falls outside of these very narrow parameters, GRE should not rely on its modeling in this IRP to support the addition of the new hydro resource.

The Department's recommendation that the Commission accept GRE's modeling is largely based on the fact that GRE's analysis indicates that it will be able to reliably serve its load with or without the hydro resource, which is the Department's main concern in assessing GRE's IRP. As noted in the Department's Initial Comments, in many of the cases GRE modeled, the capacity from the hydro resource is not needed for GRE to meet its required reserve margin, and in the cases in which the hydro capacity is needed, it is not needed until very late in the planning period. Whether the hydro is cost-effective will depend on the final terms of the agreement GRE is able to negotiate with Manitoba Hydro.

III. DEPARTMENT RECOMMENDATIONS

A. FUTURE RESOURCE PLANS

In future resource plans, the Department recommends that GRE:

- continue to use an appropriate capacity expansion model;
- continue to apply the Commission-approved externality costs and CO₂ regulatory costs in its reference case;

² In a diversity exchange agreement, GRE would, in effect, buy capacity during some months of the year, and pay for that capacity not with cash but by providing Manitoba Hydro with capacity during the other months.

- continue to evaluate cost-effective retirement of its coal plants;
- use a broader range of cost assumptions for potential hydro resources, and
- evaluate cases in which market sales are prohibited (or priced at zero).

B. THIS RESOURCE PLAN

For this resource plan, the Department recommends that the Commission accept GRE's resource plan, with a modified energy savings goal of 137,546 MWh annually.

/lt

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
Supplemental Comments**

Docket No. ET2/RP-14-813

Dated this 17th day of June 2015

/s/Sharon Ferguson

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
David	Aafedt	daafedt@winthrop.com	Winthrop & Weinstine, P.A.	Suite 3500, 225 South Sixth Street Minneapolis, MN 554024629	Electronic Service	No	OFF_SL_14-813_Official
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	Yes	OFF_SL_14-813_Official
William A.	Blazar	bblazar@mnchamber.com	Minnesota Chamber Of Commerce	Suite 1500 400 Robert Street North St. Paul, MN 55101	Electronic Service	No	OFF_SL_14-813_Official
Michael	Bradley	mike.bradley@lawmoss.com	Moss & Barnett	150 S. 5th Street, #1200 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_14-813_Official
Jon	Brekke	jbrekke@greenergy.com	Great River Energy	12300 Elm Creek Boulevard Maple Grove, MN 553694718	Electronic Service	No	OFF_SL_14-813_Official
B. Andrew	Brown	brown.andrew@dorsey.com	Dorsey & Whitney LLP	Suite 1500 50 South Sixth Street Minneapolis, MN 554021498	Electronic Service	No	OFF_SL_14-813_Official
Leigh	Currie	lcurrie@mncenter.org	Minnesota Center for Environmental Advocacy	26 E. Exchange St., Suite 206 St. Paul, Minnesota 55101	Electronic Service	No	OFF_SL_14-813_Official
Ian	Dobson	ian.dobson@ag.state.mn.us	Office of the Attorney General-RUD	Antitrust and Utilities Division 445 Minnesota Street, BRM Tower St. Paul, MN 55101	Electronic Service	No	OFF_SL_14-813_Official
Ed	Ehlinger	Ed.Ehlinger@state.mn.us	Minnesota Department of Health	P.O. Box 64975 St. Paul, MN 55164-0975	Electronic Service	No	OFF_SL_14-813_Official
Sharon	Ferguson	sharon.ferguson@state.mn.us	Department of Commerce	85 7th Place E Ste 500 Saint Paul, MN 551012198	Electronic Service	No	OFF_SL_14-813_Official

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Dave	Frederickson	Dave.Frederickson@state.mn.us	MN Department of Agriculture	625 North Robert Street St. Paul, MN 551552538	Electronic Service	No	OFF_SL_14-813_Official
Edward	Garvey	garveyed@aol.com	Residence	32 Lawton St Saint Paul, MN 55102	Electronic Service	No	OFF_SL_14-813_Official
John	Gasal	N/A	Connexus Energy	14601 Ramsey Boulevard Ramsey, MN 55303	Paper Service	No	OFF_SL_14-813_Official
Thomas	Landwehr	tom.landwehr@state.mn.us	Department of Natural Resources	Box 37, 500 Lafayette Rd St. Paul, Minnesota 55155	Electronic Service	No	OFF_SL_14-813_Official
Douglas	Larson	dlarson@dakotaelectric.com	Dakota Electric Association	4300 220th St W Farmington, MN 55024	Electronic Service	No	OFF_SL_14-813_Official
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	Yes	OFF_SL_14-813_Official
Matthew	McBride	mmcbride@winthrop.com	Winthrop & Weinstine, P.A.	3500 Capella Tower 225 S. Sixth Street Minneapolis, MN 55402	Electronic Service	No	OFF_SL_14-813_Official
David	Moeller	dmoeller@allete.com	Minnesota Power	30 W Superior St Duluth, MN 558022093	Electronic Service	No	OFF_SL_14-813_Official
Carl	Nelson	cnelson@mncee.org	Center for Energy and Environment	212 3rd Ave N Ste 560 Minneapolis, MN 55401	Electronic Service	No	OFF_SL_14-813_Official
Bob	Patton	bob.patton@state.mn.us	MN Department of Agriculture	625 Robert St N Saint Paul, MN 55155-2538	Electronic Service	No	OFF_SL_14-813_Official

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Laureen	Ross McCalib	lrossmccalib@greenergy.com	Great River Energy	12300 Elm Creek Boulevard Maple Grove, MN 55369-4718	Electronic Service	No	OFF_SL_14-813_Official
Stan	Selander	sselander@greenergy.com	Great River Energy	12300 Elm Creek Boulevard Maple Grove, MN 553694718	Electronic Service	No	OFF_SL_14-813_Official
Donna	Stephenson	dstephenson@greenergy.com	Great River Energy	12300 Elm Creek Boulevard Maple Grove, MN 55369	Electronic Service	No	OFF_SL_14-813_Official
John Linc	Stine	john.stine@state.mn.us	MN Pollution Control Agency	520 Lafayette Rd Saint Paul, MN 55155	Electronic Service	No	OFF_SL_14-813_Official
Eric	Swanson	eswanson@winthrop.com	Winthrop Weinstine	225 S 6th St Ste 3500 Capella Tower Minneapolis, MN 554024629	Electronic Service	No	OFF_SL_14-813_Official
Joseph	Windler	jwindler@winthrop.com	Winthrop & Weinstine	225 South Sixth Street, Suite 3500 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_14-813_Official
Daniel P	Wolf	dan.wolf@state.mn.us	Public Utilities Commission	121 7th Place East Suite 350 St. Paul, MN 551012147	Electronic Service	Yes	OFF_SL_14-813_Official
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	OFF_SL_14-813_Official