WINTHROP & WEINSTINE

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May 1, 2015

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VIA E-FILING

Mr. Daniel Wolf
Executive Secretary
Minnesota Public Utilities Commission
121 Seventh Place East, Suite 350
St. Paul, MN 55101

Re: In the Matter of Great River Energy's 2014 Integrated Resource Plan (IRP)
MPUC Docket No. ET2/RP-14-813

Dear Mr. Wolf:

Enclosed please find Al-Corn Clean Fuel and Heartland Corn Products' Reply Comments in the above-referenced docket. These documents have been filed with the E-Docket system and served on the attached service list. Also enclosed is our Affidavit of Service.

Very truly yours,

WINTHROP & WEINSTINE, P.A.

/s/ Joseph M. Windler

Joseph M. Windler

Enclosures

cc: Service List

10330067v1

FOR THE MINNESOTA PUBLIC UTILITIES COMMISSION
121 Seventh Place East, Suite 350
St. Paul, Minnesota 55101-2147

In the Matter of Great River Energy's 2014 Integrated Resource Plan

MPUC Docket No. ET2/RP-14-813

AFFIDAVIT OF SERVICE

STATE OF MINNESOTA)
) ss.
COUNTY OF HENNEPIN)

Gaosheng M. Yang, of the City of Minneapolis, County of Hennepin, the State of Minnesota, being first duly sworn, deposes and says that on the 1st day of May, 2015, she served the attached **Al-Corn Clean Fuel and Heartland Corn Products' Reply Comments** to all said persons on the attached Service List, true and correct copies thereof, by E-Filing and/or by depositing the same enclosed in an envelope, postage prepaid in the United States Mail in the post office at Minneapolis, Minnesota.

/s/ Gaosheng M. Yang

Subscribed and sworn to before me
this 1st day of May, 2015.

/s/ Jennifer Gordon
Notary Public

My Commission Expires: January 31, 2016

10330158v1

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BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION
121 Seventh Place East, Suite 350
St. Paul, Minnesota 55101-2147

Beverly Jones Heydinger	Chair
Nancy Lange	Commissioner
Dan Lipschultz	Commissioner
John Tuma	Commissioner
Betsy L. Wergin	Vice Chair

In the Matter of Great River Energy's 2014 Integrated Resource Plan (IRP)

MPUC Docket No. ET2 / RP-14-813

AL-CORN CLEAN FUEL AND
HEARTLAND CORN PRODUCTS' REPLY COMMENTS

I. Introduction.

GRE is a generation and transmission cooperative that is owned by 28-member cooperatives. GRE's 28 owners serve approximately 645,000 members in Minnesota and a small membership in Wisconsin.

Al-Corn is a farmer-owned ethanol production cooperative in Claremont, Minnesota. Al-Corn's 525 members invest in the company financially and agree to deliver a quantity of corn to the plant determined by their investment. Al-Corn grinds 17.5 million bushels of corn and produces 50 million gallons of ethanol annually. In addition, the plant produces 132,000 tons of high protein livestock feed and 12 million pounds of corn oil. Al-Corn also captures 70,000 tons of beverage grade carbon dioxide, all of which are resold.

Al-Corn is a significant industrial customer of Steele-Waseca Distribution Cooperative ("Steele-Waseca") located in Claremont, Minnesota. Steele-Waseca is one of the 28-member distribution cooperatives that make up GRE. Steele-Waseca is 1 of 20 all-requirements members of GRE, while the remaining 8 are fixed-obligation customers. On an annual basis, Al-Corn uses over 37 million kilowatt hours with a peak load of approximately 4800 kilowatts and an average monthly peak demand of 4700 kilowatts.

Heartland is a farmer-owned ethanol production cooperative in Winthrop, Minnesota. Heartland produces over 100 million gallons of ethanol annually, in addition to other products, such as corn oil for use in bio-diesel applications. Heartland is a significant industrial customer of Brown County Rural Electrical Association ("Brown County") and McLeod Cooperative Power Association ("McLeod"). Brown County and McLeod are two of the 28-member distribution cooperatives that make up GRE. Both Brown County and McLeod are all-requirements members of GRE.

On December 2, 2014, Al-Corn Clean Fuel and Heartland Corn Products (collectively, "C&I Customers"), two large industrial end-users of GRE's energy, submitted a petition to intervene in GRE's IRP docket.

On February 24, 2015, and after GRE took the rare step of objecting to the C&I Customers' intervention, the Commission granted the C&I Customers' petition to intervene. Thus, the C&I Customers are proper intervenors in this IRP proceeding.

The C&I Customers appreciate this opportunity to comment. The C&I Customers respectfully submit that GRE has failed to meet its burden in showing that its Resource Plan complies with Minnesota law. Given this failure, the C&I Customers respectfully submit that GRE's IRP should be rejected.

II. Comments.

A. Statutory Background.

Resource plans are governed by Minnesota Statutes section 216B.2422 and Chapter 7843 of the Minnesota Rules. GRE is required to propose a list of resource options the utility could use to meet its customers' needs during the next fifteen years and explain the supply and demand circumstances that each resource option was developed to address.[1]

When a utility's resources are inadequate to meet projected service needs, the utility's resource plan should consider resource expansion.[2] On the other hand, when a utility's resources no longer serve customer needs or otherwise not needed, a utility must "discuss plans to reduce existing resources through sales, leases, deratings or retirements."[3]

The Commission must scrutinize GRE's Resource Plan closely, and must make factual findings and draw conclusions. As part of this process, the Commission should fully scrutinize GRE's forecasting process and whether GRE's decisions are in the public, including GRE's ratepayers' interest.[4] The Commission is then obligated to review the record, which includes both the plan itself and the utility's responses to information requests, and "approve, reject, or modify" the plan "consistent with the public interest."[5]

As stated in the C&I Customers Initial Comments, GRE's IRP fails to describe how GRE: (1) intends to keep its customers' and end-users' rates as low as practicable; (2) enhances its ability to respond to changes in the financial, social, and technological factors affecting its operations; and (3) limits the risk of adverse effects on GRE and its customers from financial, social, and technological factors that GRE cannot control, as required by Minnesota law.[6] Rather than address these issues, GRE has refused to engage in a productive dialogue regarding its IRP and has further refused to meaningfully respond to important information requests. GRE has failed to meet its burden and its IRP should be rejected.

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[1] *See* Minn. R. 7843.0400, subp. 2 and 7843.0100, subps. 6 & 9.
[2] Minn. R. 7843.0400, subp. 3.
[3] Minn. R. 7843.0400, subp. 2.
[4] Minn. Stat. § 216B.2422.
[5] *Id.*
[6] Minn. R. 7843.0500, subp. 3.

B. Analysis.

As more fully described in the C&I Customers' Initial Comments, from approximately 2007 through 2012, GRE constructed a number of unneeded facilities to increase capacity. Specifically, GRE expanded by building the Cambridge 2 Substation in 2007, the Elk River Peaker in 2009, and the Spiritwood Substation in 2012.

These unneeded expansion activities cost GRE, and ultimately its ratepayers, hundreds of millions of dollars. At the same time that GRE was expending hundreds of millions of dollars on unneeded projects, GRE increased its wholesale rates by over 50% between 2006 and 2012.[7] As wholesale rates make up approximately 75% of a member's retail rates,[8] GRE's dramatic increase in wholesale rates based on the need to recover the cost of its expansion projects resulted in a corresponding large increase to ratepayers.[9] During the same time period, GRE enjoyed record profits and beat its budgeted margin by approximately $11 million.[10]

The aforementioned projects were based on overly optimistic projections of need and future sales. Now that GRE's overly optimistic projections of need have proven to be wrong, GRE does not forecast needing any additional generation during the fifteen years that are the

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[7] Minneapolis Star-Tribune, *Electric co-op Great River plans another rate increase* (Nov. 8, 2012) (available online at http://www.startribune.com/business/178025181.html?refer=y) (reporting past rate increase percentages).

[8] Interestingly, GRE has refused to provide any information related to any proposed rates or recommended markups it provides its distribution cooperative members. GRE's Response to the C&I Customers' Information Request No. 15.

[9] Minneapolis Star-Tribune, *Electric co-op Great River plans another rate increase* (Nov. 8, 2012) (available online at http://www.startribune.com/business/178025181.html?refer=y) (reporting past rate increase percentages). Seventy-five percent figure attributed to Mike Bash, Chief Financial Officer of Connexus Energy, a GRE member cooperative that serves Anoka County.

[10] GRE Annual Report, p. 22 (available online at http://www.greatriverenergy.com/aboutus/financial/).

subject of its IRP. Rather, GRE has, and will continue to have, excess generation capacity.[11] As a result of GRE's poor decisions and expensive, unneeded projects, GRE's ratepayers will be forced to incur continued rate increases to pay for this unneeded capacity. In the case of Spiritwood, GRE has spent approximately $500 million constructing, mothballing, and maintaining the facility. This total includes $437 million constructing the facility and $30 million in annual expenses to maintain the facility and cover interest on bonds and some depreciation, not to mention a construction cost overrun of approximately $160 million.[12] As a result of the cost overruns and "mothballing" of Spiritwood, in part, Moody's downgraded GRE's credit rating.[13]

GRE's IRP fails to adequately discuss retirement of generation resources. Rather than admit that it made a mistake and retire or sell unneeded generation resources, GRE has "doubled down" on Spiritwood by taking it "live." GRE appears to claim that a rebounded energy market – namely the construction of the Dakota Spirit ethanol plant - justified taking Spiritwood "live." However GRE failed to disclose in its IRP that GRE created Dakota Spirit (the customer for Spiritwood's steam) for the express purpose of generating a need for Spiritwood to be operational. In other words, rather than discussing plans for Spiritwood's retirement or how Spiritwood can be economically viable on its own, GRE created a customer so that it would appear that Spiritwood is actually needed and productive. The reality is that Spiritwood is not

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[11] IRP, p. 86 (explaining that GRE currently has over .5 GW of excess capacity and that it does not need new generation resources to meet its obligations at all during the 15-year forecast period.)

[12] Minneapolis Star-Tribune, *Brand New Power Plant is Idled by the Economy* (January 9, 2012((available online at http://www.startribune.com/business/134647533.html)

[13] Moody's Investor Services, *Moody's downgrades Great River Energy's senior secured rating to Baa1 from A3; outlook stable*, (May 18, 2012) (available online at https://www.moodys.com/research/Moodys-downgrades-Great-River-Energys-senior-secured-rating-to-Baa1--PR_245853)

self-sustaining but for GRE's creation (and financing) of a customer. In other words, GRE has even more of a generation surplus than reported in its IRP.

Moreover, GRE has refused to provide any information regarding whether Spiritwood or Dakota Spirit are profitable or, in the alternative, are being operated at a loss which is ultimately passed on to ratepayers.[14] Based on GRE's refusal to respond to these straight-forward, relevant information requests, it can only be assumed that GRE is operating Spiritwood at a loss. This is especially so when GRE itself admitted in 2012 that "[w]e could run Spiritwood, and lose money half the time."[15] Further, GRE's IRP fails to establish the legitimate need for Spiritwood's operation, as opposed to retirement or sales of energy to a legitimate, third-party purchaser that is not financed (albeit unwillingly) from GRE's ratepayers. The C&I Customers respectfully submit that the Commission should dismiss GRE's claim that Spiritwood's operation is in ratepayers' best interest and is designed to keep rates as low as practicable when GRE has refused to provide support for its position.

As explained more fully in the C&I Customers' Initial Comments, GRE's decision to "double-down" and spend hundreds of millions of dollars in building an ethanol plant could not have been at a worse time.[16] Dakota Spirit was the first ethanol plant to be built in the United States since 2007.[17] Indeed, Greg Ridderbusch, GRE's Vice President of Business Development

[14] GRE's Response to Environmental Intervenors' Information Request Nos. 36-37; GRE's Response to the C&I Customers' Information Request No. 8.
[15] Minneapolis Star-Tribune, *Brand New Power Plant is Idled by the Economy* (January 9, 2012) (available online at http://www.startribune.com/business/134647533.html)
[16] GRE has also spent millions of dollars forming, owning, and operating Blue Flint Ethanol, LLC ("Blue Flint"), an ethanol facility that was designed to purchase the steam from the Coal Creak Substation. http://www.greatriverenergy.com/aboutus/pressroom/pdoc257708.html; GRE's 2013 Annual Report, pp. 34-35.
[17] Midwest Energy News, *Prospects turning around for embattled Spiritwood coal plant* (May 13, 2014) (available online at http://www.midwestenergynews.com/2014/05/13/prospects-turning-around-for-embattled-spiritwood-coal-plant/)

and Strategy, stated in 2009 that in connection with Dakota Spirit, "We don't believe a corn-based ethanol plant will work."[18]

GRE's IRP fails to address how the continued operation of Spiritwood, as well as GRE's investment in Dakota Spirit and Blue Flint, assists GRE in keeping its customers' bills and its rates as low as practicable or limits the risk of adverse effects on GRE and its customers from financial, social and technological factors that GRE cannot control, as opposed to simply requiring GRE's customers and ratepayers to cover for GRE's continued wasteful spending. As GRE has failed to meet its burden, its IRP should be rejected.

The C&I Customers also adopt the Environmental Intervenors criticism of GRE's IRP to the extent that GRE's excess capacity position and increasing costs are significant risk factors, as stated in the Environmental Intervenors' Initial Comments at pages 12-13. As the Environmental Intervenors stated, relying on sales to nonmembers in order for GRE to cover its operating costs is an unnecessary risk to GRE's members and rate payers and should not be supported by the Commission. To the extent that GRE's modeling relies on sales to nonmembers, they are flawed and should not be supported.

Next, GRE's over-the-top claim that it involves its members in the IRP planning process does not withstand scrutiny. First, GRE failed to provide any responsive documents other than few dozen pages relating to their purported meetings and conversations with members and interested parties.[19] Tellingly, GRE did not invite the C&I Customers to participate in any meeting or discussion.[20] Moreover, after a number of GRE's distribution cooperatives filed

[18] The Jamestown Sun, *JSDC Oks Grant To GRE* (April 14, 2009) (available online at http://www.ndbusiness.mobi/news/news-releases/detail.asp?newsID=372)
[19] GRE's Responses to the C&I Customers' Information Request Nos. 4, 20, 21, & 24.
[20] GRE's Response to the C&I Customers' Information Request. No. 21.

initial comments,[21] the C&I Customers' issued an information request that requested all communications and documents exchanged between GRE, on the one hand, and the distribution cooperatives, on the other. Rather than state that responsive information does not exist and that the distribution cooperatives drafted and filed their comments on their own initiative, GRE refused to produce any responsive information on the basis that responsive information was somehow intended to be kept confidential by GRE.[22] GRE's refusal to provide responsive, non-privileged information is telling and the Commission should dismiss the distribution cooperatives' comments and GRE's claim that its distribution cooperatives not only support the IRP, but were involved in the planning process.

Based on the foregoing, GRE's IRP fails to meet its burden and establish how "use" of the Spiritwood facility, as well as its decision to finance, build, and operate the Dakota Spirit facility serves to:

- keep GRE's customers' bills and the utility's rates as low as practicable;
- enhance GRE's ability to respond to changes in the financial, social, and technological factors affecting its operations; and
- limit the risk of adverse effects on GRE and its customers from financial, social, and technological factors that the utility cannot control.

Lastly, GRE's IRP, as well as GRE's responses to the C&I Customers' information requests, fail to explain how GRE's wasteful spending decisions in the form of installing solar panels on GRE's facilities or GRE's Electric Vehicle Program address the factors listed in Minnesota Rule 7843.0500.

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[21] Interestingly, only 22 of GRE's 28 distribution cooperatives submitted comments. The C&I Customers' distribution cooperatives (Steele-Waseca, McLeod, and Brown County) did not issue comments supporting GRE's IRP.

[22] GRE's Response to the C&I Customers' Information Request No. 24.

III. Conclusion.

GRE's lack of cooperation and transparency has prevented a thorough and meaningful analysis of its current resource plan. Moreover, if left unchecked, GRE's approach to this proceeding threatens the integrity of the resource planning process. In order to achieve results consistent with the public interest, resource planning dockets cannot be reduced to the utility telling the Commission and stakeholders, including the largest end user ratepayers on the GRE system, "Don't worry. Trust us. We are doing a really good job." GRE has failed to meet its burden of demonstrating that its IRP is in the public's (not just GRE's) best interest. As a result, the C&I Customers respectfully request that the Commission issue an order rejecting GRE's 2014 IRP.

Respectfully submitted,

Dated: May 1, 2015

WINTHROP & WEINSTINE, P.A.

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