

December 21, 2016

PUBLIC DOCUMENT

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

RE: **PUBLIC Comments of the Minnesota Department of Commerce,
Division of Energy Resources**
Docket No. E011/M-16-774

Dear Mr. Wolf:

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

Dakota Electric Association Petition to Implement a Member Specific Discount Rider.

The petition was filed on September 20, 2016 by:

Douglas R. Larson
Vice President of Regulatory Services
Dakota Electric Association
4300 220th Street West
Farmington, MN 55024

The Department recommends **approval, with modifications**, and is available to answer any questions the Minnesota Public Utilities Commission may have.

Sincerely,

/s/ Craig Addonizio
Financial Analyst

CA/ja
Attachment

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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

DOCKET No. E011/M-16-774

I. SUMMARY OF PROPOSAL

On September 20, 2016, Dakota Electric Association (Dakota Electric, or the Association), filed a petition (Petition) with the Minnesota Public Utilities Commission (Commission) requesting approval to implement a Member Specific Discount (MSD) Rider. The proposed MSD Rider is intended to facilitate a pass-through of targeted wholesale capacity rate discounts offered by Dakota Electric's wholesale power supplier to specific members receiving retail service from the Association.

II. BACKGROUND AND DETAILS OF PROPOSAL

A. GREAT RIVER ENERGY'S CAPACITY RATE DISCOUNT

Dakota Electric purchases wholesale power from Great River Energy (GRE), under the terms and conditions of GRE's wholesale rate structure that includes charges for transmission, capacity, and energy services. GRE has also established special rate riders to facilitate programs such as load management for a variety of end-uses, options to acquire renewable energy, and mechanisms to coordinate service to distributed generation and qualifying facilities.

Among GRE's various rate rider offerings is its Special Rate Rider N – Customer Specific Rates, under which [TRADE SECRET DATA HAS BEEN EXCISED]¹ Special Rate Rider N includes [TRADE SECRET DATA HAS BEEN EXCISED] Dakota Electric is proposing to make [TRADE SECRET DATA HAS BEEN EXCISED] available to its customer-members via its proposed MSD Rider. As described in Dakota's Petition, the eligibility criteria for GRE's capacity rate discount include:²

¹ See Department Attachment 1.

² Additional eligibility criteria that have been marked trade secret are listed in Department Attachment 1.

- available to new retail load with monthly coincident billing peak demand greater than or equal to 750 kW.
- monthly non-coincident load factor must be greater than or equal to 40 percent.
- GRE must supply all (100 percent) of the retail load's electric requirements. On-site generation is not allowed.
- a single-term agreement up to five consecutive years in length for firm service.
- load will be ineligible for Interruptible Commercial and Industrial Service during the term of the agreement and, upon expiration, for an additional three years.
- in each month that metered coincident billing peak demand of the qualifying load is greater than or equal to 750 kW, a discount to the prevailing wholesale capacity rate will be applied to the demand of the qualifying load as specified in GRE's special rate rider. The discount [TRADE SECRET DATA HAS BEEN EXCISED]³
- no discount will be applied to the prevailing capacity rate for the demand of the retail load in a month where the metered coincident billing peak demand of the retail load is less than 750 kW.

B. DAKOTA ELECTRIC'S PROPOSED MSD RIDER

Dakota Electric's proposed MSD Rider is largely intended to pass through GRE's capacity rate discount to the Association's eligible retail customers. As such, Dakota Electric's proposed MSD Rider will be available to Commercial and Industrial members receiving service under Rate Schedules 46 (General Service) and 54 (General Service Optional Time-of-Day Rate), and that have electric loads that qualify for GRE's capacity rate discount. Terms and Conditions of Service (Terms and Conditions) items 2-7 of the proposed MSD Rider tariff sheet are consistent with the qualifying criteria listed in GRE's Special Rate Rider N.

Dakota Electric's proposed MSD Rider imposes two additional eligibility requirements, beyond what GRE requires. First, the Association's MSD Rider will only be offered as a complement to incentives for new load as provided by local and state government.⁴

³ See Department Attachment 1.

⁴ See Terms and Conditions, item 1, in the proposed Member Specific Discount Rider tariff sheet, which is attached to Dakota Electric's Petition.

Second, the MSD Rider may not be offered to a member in whom the Association has a financial interest greater than 50 percent.⁵

Under item 9 of the Terms and Conditions of Dakota Electric's proposed MSD Rider, members seeking to take the proposed MSD must provide evidence that they will qualify for GRE's capacity rate discount, and must also sign an electric service agreement (ESA) as described in item 10 of the proposed Terms and Conditions. In its response to Department Information Request (IR) No. 3, Dakota Electric explained that in addition to the ESA between the Association and the customer taking service under the proposed MSD Rider (MSD customer), there will be a second, separate agreement between Dakota Electric and GRE.⁶ Dakota Electric will report to GRE whether the MSD customer has met the minimum load and load factor requirements every month, and GRE will apply its capacity rate discount to Dakota Electric's wholesale power bill each month as applicable.⁷

In its response to Department IR No. 5, Dakota Electric stated that:

There will be no risk that the credit applied by GRE to Dakota Electric will differ from the credit applied by Dakota Electric to the retail member for the proposed MSD Rider since the monthly discount will be applied after it is provided on the wholesale power bill by GRE. This timing is necessary since the capacity discount will not be known until the beginning of the following month when 1) the GRE coincident billing peak is known and 2) the retail member's applicable demand is determined.⁸

Based on this response, it is the Department's understanding that there will be a one-month lag in the application of the MSD to the MSD customer's bill, and that this lag will ensure that the Association receives its wholesale power bill from GRE, which includes the amount of the discount to be applied, before it applies the MSD to the MSD customer's bill.

Item 11 of the Terms and Conditions describes specifically how Dakota Electric will track and apply the discount. It states that:

The Association will track the wholesale power cost credits associated with each Member Specific Discount and include the credits in the "Power Cost Correction Recovery Mechanism" [sic] as applicable in the Resource and Tax Adjustment filings to the Minnesota Public Utilities Commission. This will ensure that

⁵ See Terms and Conditions, item 8.

⁶ See Department Attachment 2.

⁷ See Department Attachment 3.

⁸ See Department Attachment No. 4.

the credits Dakota Electric receives from its wholesale power supplier are not double-counted.

III. DEPARTMENT ANALYSIS

A. STANDARD OF REVIEW

Dakota Electric is an electric cooperative organized under Minn. Stat. § 308.05. While cooperatives are generally exempt from rate regulation under Minn. Stat. § 216B.02, subd. 4, Dakota Electric has elected, under Minn. Stat. § 216B.026, to be subject to rate regulation by the Commission pursuant to Minn. Stat. § 216B.03 and Minn. Stat. § 216B.23.

Although no rates are being set in this Docket, rates may eventually be set as part of an electric service agreement signed pursuant to Dakota Electric's proposed MSD Rider. Minn. Stat. § 216B.03 states:

Every rate made, demanded, or received by any public utility, or by any two or more public utilities jointly, shall be just and reasonable. *Rates shall not be unreasonably preferential, unreasonably prejudicial, or discriminatory, but shall be sufficient, equitable, and consistent in application to a class of consumers.* To the maximum reasonable extent, the commission shall set rates to encourage energy conservation and renewable energy use and to further the goals of sections 216B.164, 216B.241, and 216C.05. Any doubt as to reasonableness should be resolved in favor of the consumer. For rate-making purposes a public utility may treat two or more municipalities served by it as a single class wherever the populations are comparable in size or the conditions of service are similar. (emphasis added)

Additionally, in rate cases, the Department bases its rate design recommendations on the following four goals:

1. rates should be designed to provide the utility a reasonable opportunity to recover all prudently incurred costs, including the cost of capital;
2. rates should be designed to promote an efficient use of resources;
3. rates should be understandable and easy to administer; and
4. rate changes should be gradual in order to limit rate shock to consumers.

In addition to Minn. Stat. § 216B.03 and these four rate-design goals, the Department also considered the Commission's standard of review for electric service agreements (ESAs) in its

review of Dakota Electric's proposed MSD Rider, as members taking electric service under the proposed MSD Rider will be required to sign an ESA. Minn. Stat. § 216B.05, Subd. 2a requires ESAs be filed for Commission approval. As articulated in the Commission's May 6, 2014 Order in Docket No. E015/M-14-130, the standard of review to be applied for ESAs is:

1. Are the terms and conditions of the ESA consistent with the public interest?
2. Are the terms and conditions of the ESA not discriminatory?

Generally, the terms and conditions of an ESA are consistent with the public interest if no parties are harmed by them. The terms and conditions of an ESA are not discriminatory if they are available to similarly situated customers in the same rate class.

B. DEPARTMENT ANALYSIS OF PROPOSED MSD RIDER

1. The Four Rate-Design Goals

Dakota Electric's current tariffed rates were designed, in its most recent rate case, to allow the Association to recover its prudently incurred costs.⁹ The proposed MSD Rider is intended to pass through to Dakota Electric's qualifying retail members a capacity discount offered by GRE on a dollar-for-dollar basis. In other words, the reduction in revenue that the proposed MSD Rider will cause will be exactly equal to the reduction in costs the rider will cause. Thus, the Department concludes that rates pursuant to the proposed MSD Rider will allow the Association a reasonable opportunity to recover its costs of providing electric service.

With respect to the second rate-design goal, rates will promote an efficient use of resources if they are set near the embedded cost to serve each customer class, and thus send appropriate price signals to customers by reflecting the cost of serving them. Again, because the impact of the proposed MSD Rider will be to reduce rates for specific customers by an amount exactly equal to the cost of serving those customers, the Department concludes that the price signals sent by the Association's tariffed rates will be preserved.

With respect to the third goal listed above, the Department concludes that Dakota Electric's proposed MSD Rider is understandable and will be easy to administer.

Lastly, the proposed MSD Rider does not raise any concerns related to rate shock, as customers taking service under it will pay one of the Association's tariffed rates, less a well-defined, predictable capacity discount.

⁹ See Docket No. E111/GR-14-482.

2. *Standard of Review for ESAs*

Customers wishing to receive the proposed MSD must sign an ESA with Dakota Electric as described in item 11 of the proposed MSD Rider's Terms and Conditions, and that ESA must be approved by the Commission in order to take effect. For the Commission to approve an ESA, it must find that the terms and conditions are consistent with the public interest and are not discriminatory. Thus, the Department analyzed whether the specific terms and conditions related to the MSD that would be a part of any ESA signed pursuant to the proposed MSD Rider would meet the Commission's standard of review for ESAs. The Department notes that if an ESA submitted to the Commission pursuant to the proposed MSD Rider contains other terms and conditions not specifically identified in the proposed MSD Rider, those terms and conditions will have to be reviewed separately.

a. *Consistent with the Public Interest*

As noted above, the terms and conditions of ESAs signed pursuant to Dakota Electric's proposed MSD Rider will be consistent with the public interest if no party is harmed by them. The parties that may be harmed by an ESA are Dakota Electric, the customer that signs the ESA, and Dakota Electric's other customers. Because both Dakota Electric and any customer that signs an ESA can be assumed to act in their own best interests, it can also be assumed that neither will be worse off as a result of the ESA.

Dakota Electric's other customers could be harmed by an MSD Rider ESA if the ESA results in higher rates for them. The Association's other customers may be forced to bear higher costs if the revenue pursuant to the ESA is not sufficient to cover the costs associated with providing electric service to the ESA customer, and the excess costs are shifted onto the other ratepayers. However, because the discount being offered through the proposed MSD Rider is a pass-through of a discount offered by GRE, the proposed MSD will not result in a shifting of costs from ESA customers to Dakota Electric's other customers. In other words, the reduction in revenue associated with the proposed MSD Rider will be exactly equal to the reduction in costs associated with providing electric service to MSD customers. Absent other terms and conditions not specifically related to the proposed MSD Rider, MSD customers will be taking service under tariffed rates, and will be subject to Dakota Electric's tariffed service extension policies, which are designed to help ensure that customers reasonably pay for the costs that they cause.

Another general mechanism by which an ESA with one customer could raise costs for a utility's other customers is by forcing the utility to add new, expensive resources to its system to meet the increased load. The cost of the new resources would be allocated across all customers, and thus raise average costs, and rates, for all ratepayers. If a utility is short capacity and energy, and would be required to add resources to meet the needs of a new large customer, an ESA including a rate discount would be of particular concern.

This concern, however, does not apply directly to Dakota Electric, as the Association is a distribution cooperative that relies on GRE for its power needs. The proposed MSD Rider, and GRE's capacity rate discount more generally, may require GRE to add resources to its system, and thus indirectly cause rate increases for the Association's members. However, because GRE's capacity rate discount is available to all of 20 of its all-requirements customers, denial of Dakota Electric's Petition is unlikely to prevent any such resource additions. Additionally, the Department notes that even with the announced retirement of Stanton Station, GRE has excess capacity and likely will for the next several years.

The Department concludes that the terms of an ESA that are directly related to the proposed MSD Rider, as described in the Petition, will be consistent with the public interest. The Department reiterates, however, that each ESA signed pursuant to the proposed ESA rider will require Commission approval, and the Commission must find that all of the terms and conditions of the ESA, including any that are not specifically related to the MSD Rider, are consistent with the public interest.

b. Non-Discriminatory

As described above, the proposed MSD Rider would be available only to new loads greater than 750 kW that are also receiving some sort of incentive from local or state government. It would not be available to all customers taking service under Rate Schedules 46 and 54. Additionally, the Department notes that GRE's capacity rate discount does not require a customer to be receiving an incentive from state or local government.

Discounted rates for particular customers or groups of customers are permitted in certain circumstances. For example, Minn. Stat. § 216B.162 permits regulated electric utilities to establish competitive electric rate schedules for individual customers or groups of customers that have the ability to obtain their energy requirements from energy suppliers that are not regulated by the Commission (i.e. the regulated electric utility is subject to effective competition). Similarly, Minn. Stat. § 216B.163 permits flexible tariffs for the provision of gas service to customers that are capable of switching to alternative fuel sources that are not regulated by the Commission.

Dakota Electric's proposed MSD Rider, however, is not being proposed pursuant to any particular statute permitting discounted rates, and does not require any showing of effective competition. Thus the Association's Petition raises concerns that the rates charged pursuant to the MSD Rider may be unreasonably preferential or discriminatory, and inequitable and inconsistent in application to a class of consumers, in contravention of Minn. Stat. § 216B.03 and the standard of review for ESAs.

In its response to Department IR No. 11, the Association explained it believes that the MSD Rider is an appropriate pass-through of a limited term wholesale power discount provided to all other GRE distribution systems.¹⁰

The Department agrees that it is not discriminatory for the Association to pass through to new, individual customers a discount offered by its wholesale power supplier whose goal is to attract new large loads. Dakota Electric is a price-taker in this context, and from the Association's perspective, the discount offered by GRE creates a known, measurable, and directly assignable difference in the cost of serving those customers, and thus it is reasonable for those customers to pay different, lower rates.

The Department does, however, question whether Dakota Electric's choice to impose the additional eligibility requirement of the receipt of a state or local government incentive is discriminatory. The Association is, in other words, proposing to voluntarily neither take nor offer discounts for which it and its customers may be eligible. This may provide an advantage to one of two similarly situated customers, operating in the same industry, which happens to receive some sort of government subsidy.

In its responses to Department IR Nos. 6 and 11, Dakota Electric explained its reasoning behind the government incentive eligibility requirement.¹¹ Specifically, the Association explained that the existence of a state or local government incentive indicates that a project is in the public interest, and that offering the MSD Rider only as a complement to such incentives would ensure that the application and use of the MSD Rider would be consistent with the public interest.

While the Department appreciates Dakota Electric's intention, to ensure that the proposed MSD Rider is consistent with the public interest, the Department concludes that the Association's proposal to limit eligibility to only customers receiving state or local government incentives is discriminatory and unreasonably preferential. The existence of local or state government incentives is not necessary to ensure that the proposed MSD Rider is consistent with the public interest. As discussed above, the Department concludes that the proposed MSD is consistent with the public interest because no parties would be harmed by it. Imposing this extra eligibility requirement, which GRE does not impose, could potentially provide an unreasonable cost advantage to a customer that happens to receive a government incentive, relative to an otherwise similarly situated customer that does not.

The Department recommends that the Commission require Dakota Electric to remove item 1 of the proposed Terms and Conditions, which states that the MSD will only be offered as a complement to incentives for new load as provided by local and state government.

¹⁰ See Department Attachment 5.

¹¹ See Department Attachments 5 and 6.

3. *Billing Mechanics*

As noted above, item 11 of the Terms and Conditions of the proposed MSD Rider states that Dakota Electric will track the wholesale power cost credits associated with each “Member Specific Discount” and include the credits in the “Power Cost Correction Recovery Mechanism” in its annual Resource and Tax Adjustment (RTA) filings in order to ensure that the credits its receives from its GRE are not double-counted.

Dakota Electric’s “Power Cost Correction Recovery Mechanism” was implemented to prevent double crediting of savings associated with demand side management (DSM) programs, such as the Association’s Cycled Air air conditioning program.¹² Because the proposed MSD Rider is not a DSM program and will not create savings in the same way that a DSM program would, there is no need to use the Power Cost Correction Recovery Mechanism. In its response to Department IR No. 7, Dakota Electric clarified:

Dakota Electric proposes that, similar to the present Wellspring and Standby services, any discounts or credits that Dakota Electric receives from GRE will be directly passed along to members participating in the MSD Rider and *will not impact either the base cost of power or the power cost adjustment component within the RTA*. If any capacity discounts provided under the MSD Rider were included in the overall calculation of wholesale power costs, then Dakota Electric would be in a position of passing the discount along twice – once to the qualifying retail consumer as a bill credit and then a second time to all members as a reduction in wholesale power costs. The proposed treatment avoids such double-counting of the capacity credits. (emphasis added)¹³

It is the Department’s understanding that in Dakota Electric’s most recent rate case, the base cost of power was calculated as if the Wellspring and Standby services do not exist. It is also the Department’s understanding that in Dakota Electric’s RTA filings, the power cost adjustment charges are calculated as if the Wellspring and Standby services do not exist, and that charges related to Wellspring and Standby are handled outside of the base cost of power and RTA processes.

It is also the Department’s understanding that Dakota Electric is proposing to treat credits associated with its proposed MSD Rider in the same manner as it currently treats charges associated with Wellspring and Standby services, which is to say outside of the base cost of power and RTA processes. The Department agrees with this treatment, as described in the response to Department IR 7.

¹² See Docket No. E111/M-99-1396.

¹³ See Department Attachment No. 7.

Based on this understanding, however, the Department concludes that the language in item 11 of the Terms and Conditions does not accurately reflect the proposed treatment of the capacity credits from GRE, as the Power Cost Correction Recovery Mechanism will not be used in any way related to the credits. The Department recommends that item 11 be modified as follows:

The Association will track the wholesale power cost credits associated with each Member Specific Discount and ~~include the credits in the “Power Cost Correction Recovery Mechanism” as applicable~~ exclude them from both the calculation of the base cost of power in future rate cases and the calculation of the Power Cost Adjustment Charges in the Resource and Tax Adjustment filings to the Minnesota Public Utilities Commission. This will ensure that the credits Dakota Electric receives from its wholesale power supplier are not double-counted.

IV. CONCLUSION

Based on its review of Dakota Electric’s proposed MSD Rider, the Department concludes that the proposed eligibility requirement that a potential customer must also be receiving incentives from local or state government is discriminatory. The Department also concludes that the language in the rider regarding the tracking of associated wholesale power cost credits should be modified as described above to better reflect the actual tracking and billing process the Association intends to use. With these two modifications, the Department concludes that Dakota Electric’s proposed MSD Rider is reasonable.

The Department recommends that the Commission:

- approve Dakota Electric’s Petition, with following two modifications;
- require Dakota Electric to delete item 1 of the proposed Member Specific Discount Rider’s Terms and Conditions of Service, which states “The Member Specific Discount will only be offered as a complement to incentives for new load as provided by local and state government.”
- require Dakota Electric to modify item 11 of the proposed Member Specific Discount Rider’s Terms and Conditions of Service as follows:

The Association will track the wholesale power cost credits associated with each Member Specific Discount and ~~include the credits in the “Power Cost Correction Recovery Mechanism” as applicable~~ exclude them from both the calculation of the base cost of power in future rate cases and the calculation of the

Power Cost Adjustment Charges in the Resource and Tax Adjustment filings to the Minnesota Public Utilities Commission. This will ensure that the credits Dakota Electric receives from its wholesale power supplier are not double-counted.

/ja

Dakota Electric Association

Response to

Minnesota Department of Commerce

Utility Information Request

Docket Number: E-111/M-16-774
Request Number: 1
Requested By: Craig Addonizio
Date of Request: November 14, 2016
Response Prepared By: Doug Larson
Dakota Electric Association
651-463-6258
Date of Response: November 23, 2016

Question 1

Reference: Great River Energy's Capacity Rate Discount

Please provide a copy of the relevant GRE rate rider under which the Capacity Rate Discount is offered.

Answer

The Great River Energy (Great River or GRE) Capacity Rate Discount that would be passed along to qualifying Dakota Electric retail members through the proposed Member Specific Discount is contained in GRE's "Special Rate Rider N – Customer Specific Rates." Special Rate Rider N is marked CONFIDENTIAL by Great River. Accordingly, this confidential GRE document is designated as TRADE SECRET and is only attached to the TRADE SECRET response to this Information Request.

TRADE SECRET RESPONSE BEGINS

[REDACTED]

TRADE SECRET RESPONSE ENDS

Dakota Electric Association

Response to

Minnesota Department of Commerce

Utility Information Request

Docket Number: *E-111/M-16-774*
Request Number: *3*
Requested By: *Craig Addonizio*
Date of Request: *November 14, 2016*
Response Prepared By: *Doug Larson*
Dakota Electric Association
651-463-6258
Date of Response: *November 23, 2016*

Question 3

Reference: Great River Energy's Capacity Rate Discount

Dakota Electric's Petition lists one of the eligibility criteria for GRE's Capacity Rate Discount as "a single term agreement up to five consecutive years in length for firm service."

Will the referenced agreement be between (a) Dakota Electric and GRE, (b) the retail customer and GRE, (c) Dakota Electric, GRE, and the retail customer, or (d) a different group of parties? If it will be between a different group of parties, please identify them.

Answer

There will be two agreements. One agreement will be between Dakota Electric and GRE. The other agreement will be between Dakota Electric and the retail member.

TRADE SECRET RESPONSE BEGINS

[REDACTED]

TRADE SECRET RESPONSE ENDS

Dakota Electric Association

Response to

Minnesota Department of Commerce

Utility Information Request

Docket Number: *E-111/M-16-774*
Request Number: *4*
Requested By: *Craig Addonizio*
Date of Request: *November 14, 2016*
Response Prepared By: *Doug Larson*
Dakota Electric Association
651-463-6258
Date of Response: *November 23, 2016*

Question 4

Reference: Great River Energy's Capacity Rate Discount

Please explain whether GRE will be able to directly monitor the load of the qualifying customer, or if GRE will rely on Dakota Electric to report whether the customer has met the minimum load and load factor requirements every month?

Answer

It is anticipated that Dakota Electric will report to GRE whether the customer has met the minimum load and load factor requirements every month. The metering for these accounts will be recording demand meters, similar to the metering in place for C&I Interruptible accounts. For such accounts, Dakota Electric provides monthly reporting to GRE for wholesale billing purposes – with such electronic metering information available for verification by GRE.

Dakota Electric Association

Response to

Minnesota Department of Commerce

Utility Information Request

Docket Number: E-111/M-16-774
Request Number: 5
Requested By: Craig Addonizio
Date of Request: November 14, 2016
Response Prepared By: Doug Larson
Dakota Electric Association
651-463-6258
Date of Response: November 23, 2016

Question 5

Reference: Rates charged pursuant to Proposed Member Specific Discount Rider,

Please explain whether there is any risk that, in a given month, the credit applied by GRE to Dakota Electric pursuant to GRE's CRD will differ from the credit applied by Dakota to its retail customer pursuant to the proposed MSD Rider. If there is a risk, please explain whether there will be any type of true-up mechanism available to make up the differences later.

Answer

There will be no risk that the credit applied by GRE to Dakota Electric will differ from the credit applied by Dakota Electric to the retail member for the proposed MSD Rider since the monthly discount will be applied after it is provided on the wholesale power bill by GRE. This timing is necessary since the capacity discount will not be known until the beginning of the following month when 1) the GRE coincident billing peak is known and 2) the retail member's applicable demand is determined.

Dakota Electric Association

Response to

Minnesota Department of Commerce

Utility Information Request

Docket Number: *E-111/M-16-774*
Request Number: *11*
Requested By: *Craig Addonizio*
Date of Request: *November 14, 2016*
Response Prepared By: *Doug Larson*
Dakota Electric Association
651-463-6258
Date of Response: *November 23, 2016*

Question 11

Reference: Proposed Member Specific Discount Rider, Terms and Conditions of Service, Item No. 10

Customers who will take service under the propose MSD Rider will be required to execute an electric service agreement (ESA) with the Association. The standard of review, as articulated in the Commission's May 6, 2014 Order in Docket No. E015/M-14-130, to be applied by the MPUC for ESAs is:

- (1) Are the terms and conditions of the ESA consistent with the public interest?**
- (2) Are the terms and conditions of the ESA not discriminatory?**

- a. Please explain whether ESAs executed pursuant to the proposed MSD rider will be consistent with the public interest, particularly given that a discount is being offered to induce new loads that may ultimately cause rates to rise in the future.**
- b. Please explain whether ESAs executed pursuant to the proposed MSD rider will be discriminatory, particularly given that the credit offered under the rider will not be available to all members of the relevant customer classes.**

Answer

- a. Electric service agreements executed pursuant to the proposed MSD Rider are consistent with the public interest for the following reasons:**
 - The MSD Rider will support development in the Dakota Electric service area. A core principle of electric cooperatives is to support the communities we serve.**
 - The MSD Rider is designed to complement efforts of local and state government. By definition, the actions of local and state government are in the public interest.**

- Dakota Electric's annual energy sales have been essentially flat since 2007. At the same time, we have continuing needs to maintain the distribution infrastructure and install new facilities to serve new loads. Sales to new loads, like those who would qualify for the MSD Rider, tend to relieve the upward pressure on distribution rates.
 - Impacts on wholesale power costs were described in the response to IR #9.
- b. Minnesota Statute 216B.03 specifies that rates "shall not be unreasonably preferential, unreasonably prejudicial, or discriminatory." The matter of rate fairness is an on-going balance of competing goals and considerations. A clear example is the setting of monthly fixed charges in a general rate case. Dakota Electric would also point to qualifying criteria established in various conservation improvement programs. While all members pay for such programs through rates, some members may not be eligible to participate in programs due to the lack of specified electric end-uses. Dakota Electric believes that the MSD Rider is an appropriate pass-through of a limited term wholesale power discount provided to all other GRE distribution systems. It supports local and state government actions.

Dakota Electric Association

Response to

Minnesota Department of Commerce

Utility Information Request

Docket Number: E-111/M-16-774
Request Number: 6
Requested By: Craig Addonizio
Date of Request: November 14, 2016
Response Prepared By: Doug Larson
Dakota Electric Association
651-463-6258
Date of Response: November 23, 2016

Question 6

Reference: Proposed Member Specific Discount Rider, Terms and Conditions of Service, Item No. 1

Item No. 1 of the Terms and Conditions of Service in the Dakota Electric's proposed Member Specific Discount Rider states that the Member Specific Discount will only be offered as a complement to incentives for new load as provided by local and state government.

- a. Please explain whether GRE's Capacity Rate Discount rider imposes a similar requirement related to government incentives.
- b. Please explain why Dakota Electric is proposing to impose this requirement.
- c. Please fully explain what types of government incentives Dakota Electric expects qualifying customers to receive.
- d. If there are any existing incentive programs offered by local and state government, please identify and describe them.

Answer

- a. No, GRE does not impose a similar requirement.
- b. Dakota Electric is proposing this requirement for two primary reasons. First, Dakota Electric desires to support the development efforts of local and state government. As an electric cooperative owned by those we serve, we strive to support the communities where we provide electric service. The proposed MSD Rider is a vehicle to support and partner with local and state government efforts. Second, we believe that complementing the development efforts of local and state government supports the public interest.
- c. The type of business development project, and its potential impact on a community and the state, will determine the types of government incentives

- qualifying customers may receive. At the local level, cities have access to state authorized tax increment financing, tax abatement, and local financing a city may choose to offer. At the state level, business loans, grants, job training, and tax exemptions are among the incentives available. Often, these local and state programs are administered in a coordinated manner, to assure that the sought-after business investment occurs.
- d. As noted above, local governments have specific incentive tools, primarily tax increment financing and tax abatement, which are authorized under state law to support business investment, job creation, and growth of local tax base. At the state level, companion programs administered by the Department of Employment and Economic Development (DEED) include the Minnesota Investment Fund (loans for business financing), Job Creation Fund (grants to reward performance of job creation goals), Job Skills Training Partnership (grants to training institutions for company-specific customized training), Data Center Incentives (sales and use tax exemptions and rebates for specific equipment and electricity), and other programs which the Legislature may assign to DEED for specific purposes.

Dakota Electric Association

Response to

Minnesota Department of Commerce

Utility Information Request

Docket Number: *E-111/M-16-774*
Request Number: *7*
Requested By: *Craig Addonizio*
Date of Request: *November 14, 2016*
Response Prepared By: *Doug Larson*
Dakota Electric Association
651-463-6258
Date of Response: *November 23, 2016*

Question 7

Reference: Proposed Member Specific Discount Rider, Terms and Conditions of Service, Item No. 11

Item No. 11 of the Terms and Conditions of Service in Dakota Electric’s proposed Member Specific Discount Rider states that the wholesale power credits associated with each Member Specific Discount will be tracked and included in the “Power Cost Correction Recovery Mechanism” in Dakota Electric’s Resource and Tax Adjustment Filings in order to avoid double-counting the capacity credits. Please explain why this is necessary.

Answer

Any wholesale power discount or credit that Dakota Electric receives that is related to service under the MSD Rider would be treated as a wholesale pass-through. Dakota Electric’s power cost base amounts applicable to the RTA were most recently set in our last general rate case. These base calculations were shown in Exhibit DEA-12 of the rate case and are included for reference in each annual RTA filing. These calculations are attached. Page 2 of this document shows that power costs associated with Wellspring and wholesale standby service are both handled as a wholesale pass-through. What that means is the costs for these two wholesale rates are passed on directly to participating members. Members participating in Wellspring pay for the wholesale cost of Wellspring and members receiving standby service pay for the wholesale cost of standby service. Neither of these programs/rates affects the base cost of power for other members – or the annual calculation of the power cost adjustment component within the RTA.

Dakota Electric proposes that, similar to the present Wellspring and Standby services, any discounts or credits that Dakota Electric receives from GRE will be directly passed along to members participating in the MSD Rider and will not impact either the base cost of power or the power cost adjustment component within the RTA. If any capacity discounts provided under the MSD Rider were included in the overall calculation of wholesale power costs, then Dakota Electric would be in a position of passing the discount along twice – once to the qualifying retail consumer as a bill credit and then a second time to all members as a reduction in wholesale power costs. The proposed treatment avoids such double-counting of the capacity credits.

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Exhibit__(DEA-12)
Page 1 of 3

Dakota Electric Association
Base Calculation for Resource & Tax Adjustment Components

Energy Cost Adjustment (ECA)

| | | |
|---------------------------------------|-----------|-------------------|
| Average Wholesale Energy Cost per kWh | \$ | 0.0497 |
| Rate 70 & 71 Energy Sales | | 434,725,200 |
| Rate 36 Interruptible Energy Sales | | 10,342,800 |
| Interruptible Wholesale Energy Cost | = \$ | <u>22,109,131</u> |
| ECA Base per kWh Sold | \$ | 0.0497 |

Load Management Rates

Rate 51

| | | |
|--|------|----------------|
| GRE Wholesale Cost - ETS Water Heating | \$ | 0.0200 |
| Rate 51 - ETS Water Heating Sales | x | 7,887,594 |
| Rate 51 - ETS Water Heating Power Cost | = \$ | <u>157,752</u> |

| | | |
|--|------|---------------|
| GRE Wholesale Cost - ETS Space Heating | \$ | 0.0200 |
| Rate 51 - ETS Space Heating Sales | x | 1,605,105 |
| Rate 51 - ETS Space Heating Power Cost | = \$ | <u>32,102</u> |

| | | |
|---|------|------------|
| GRE Wholesale Cost - ETS Electric Vehicle | \$ | 0.0200 |
| Rate 51 - ETS Electric Vehicle Sales | x | 36,981 |
| Rate 51 - ETS Electric Vehicle Power Cost | = \$ | <u>740</u> |

| | | |
|--|------|----------------------|
| Rate 51 Power Costs | \$ | 190,594 |
| Rate 51 Energy Sales | ÷ | 9,529,680 |
| Rate 51 Weighted Power Cost Base per kWh Sold | = \$ | <u>0.0200</u> |

Rate 52

| | | |
|---|------|----------------|
| GRE Wholesale Cost - Peak Shave Water Heating | \$ | 0.0285 |
| Rate 52 - Peak Shave Water Heating Sales | x | 25,884,516 |
| Rate 52 - Peak Shave Water Heating Power Cost | = \$ | <u>737,709</u> |

| | | |
|--|------|----------------|
| GRE Wholesale Cost - Dual Fuel Space Heating | \$ | 0.0330 |
| Rate 52 - Dual Fuel Space Heating Sales | x | 20,943,996 |
| Rate 52 - Dual Fuel Space Heating Power Cost | = \$ | <u>691,152</u> |

| | | |
|--|------|----------------------|
| Rate 52 Power Costs | \$ | 1,428,861 |
| Rate 52 Energy Sales | ÷ | 46,828,512 |
| Rate 52 Weighted Power Cost Base per kWh Sold | = \$ | <u>0.0305</u> |

Dakota Electric Association
Base Calculation for Resource & Tax Adjustment Components

Geothermal

Rate 49

| | | |
|-----------------------------------|------|---------|
| GRE Wholesale Cost - Geothermal | \$ | 0.0775 |
| Rate 49 - Geothermal Energy Sales | x | 387,300 |
| Rate 49 - Geothermal Power Cost | = \$ | 30,016 |

Rate 49 Power Cost Base per kWh Sold \$ **0.0775**

Power Cost Adjustment (PCA)

| | | |
|---|------|--------------------------|
| Total Wholesale Power Cost | \$ | 149,982,061 ^A |
| ECA Power Cost | - | 22,109,131 |
| Rate 51 Power Cost | - | 190,594 |
| Rate 52 Power Cost | - | 1,428,861 |
| Rate 49 Power Cost | - | 30,016 |
| Wellspring (wholesale pass-through) | - | 39,427 |
| Standby (wholesale pass-through) | - | 21,630 |
| Firm Wholesale Power Cost | = | 126,162,402 |
| Firm kWh Energy Sales | ÷ | 1,396,393,368 |
| PCA Power Cost Base per kWh Sold | = \$ | 0.0903 |

| | | |
|---|------|----------------------------|
| Total Wholesale Power Cost | \$ | 149,982,061 |
| Total Energy Sales | ÷ | 1,898,206,860 ^B |
| Total System Power Cost per kWh Sold | = \$ | 0.0790 |

Notes:

- A See Exhibit__(DEA-1), page 20 of 20.
- B See Exhibit__(DEA-1), page 12 of 20.

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Exhibit__(DEA-12)
Page 3 of 3

Dakota Electric Association
Base Calculation for Resource & Tax Adjustment Components

Conservation & DSM Spending Base Calculation

| | | |
|--|-----------|------------------------|
| 2014 Budget Conservation & DSM Spending | \$ | 2,251,473 ^C |
| Test Year MWh Sales | | 1,898,207 |
| Conservation & DSM Base per kWh | \$ | 0.0012 |

Property Tax Recovery Base Calculation

| | | |
|---|-----------|------------------------|
| Test Year Real & Personal Property Taxes | \$ | 3,700,450 ^D |
| Test Year MWh Sales | | 1,898,207 |
| Property & R/E Tax Recovery Base per kWh | \$ | 0.0019 |

| Allocation to Rate Classes Using Cost of Service Method | | |
|---|--|----------------|
| Class & Rate | Property & Real Estate Taxes in Rate Base ^E | % of Taxes |
| Residential & Farm Service | \$ 2,668,288 | 72.11% |
| 31 Residential | | |
| 32 Res'l Demand Control | | |
| 53 Res'l Time of Day | | |
| Irrigation - 36 | 27,096 | 0.73% |
| Small General Service - 41 | 157,509 | 4.26% |
| General Service - 46 | 444,762 | 12.02% |
| 46 - General Service | | |
| 49 - Geothermal | | |
| 54 - General Service Time of Day | | |
| Interruptible Service - 70 & 71 | 318,376 | 8.60% |
| Lighting - 44, 44-1, 44-2, 44-3 | 84,419 | 2.28% |
| TOTAL | \$ 3,700,450 | 100.00% |

Notes:

^C See Workpaper #9

^D Per Summary of Test Year Adjustments, Exhibit__(DEA_1) Page 2 of 20.

^E Per Allocation of Revenue Requirements to Rate Classes, Exhibit__(DEA-3).

CERTIFICATE OF SERVICE

I, Linda Chavez, hereby certify that I have this day served copies of the following document on the attached list of persons by electronic filing, 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 – COMMENTS

Docket Nos. **E111/M-16-774**

Dated this **21th** day of **December, 2016**.

/s/Linda Chavez

| 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 | Yes | OFF_SL_16-774_M-16-774 |
| 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_16-774_M-16-774 |
| Corey | Hintz | chintz@dakotaelectric.com | Dakota Electric Association | 4300 220th Street Farmington, MN 550249583 | Electronic Service | Yes | OFF_SL_16-774_M-16-774 |
| Douglas | Larson | dlarson@dakotaelectric.com | Dakota Electric Association | 4300 220th St W Farmington, MN 55024 | Electronic Service | Yes | OFF_SL_16-774_M-16-774 |
| John | Lindell | john.lindell@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_16-774_M-16-774 |
| Pam | Marshall | pam@energycents.org | Energy CENTS Coalition | 823 7th St E St. Paul, MN 55106 | Electronic Service | No | OFF_SL_16-774_M-16-774 |
| David | Moeller | dmoeller@allete.com | Minnesota Power | 30 W Superior St Duluth, MN 558022093 | Electronic Service | No | OFF_SL_16-774_M-16-774 |
| Ron | Spangler, Jr. | rlspangler@otpc.com | Otter Tail Power Company | 215 So. Cascade St. PO Box 496 Fergus Falls, MN 565380496 | Electronic Service | No | OFF_SL_16-774_M-16-774 |
| Eric | Swanson | eswanson@winthrop.com | Winthrop Weinstine | 225 S 6th St Ste 3500 Capella Tower Minneapolis, MN 554024629 | Electronic Service | No | OFF_SL_16-774_M-16-774 |
| 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_16-774_M-16-774 |