

COMMENTS OF THE ELECTRIC UTILITY GROUP

DOCKET NO. E999/CI-01-1023

RE: HOW THE IRP PROCESS WORKS AND COMMENTS ON THE DG RATE GROUP MEETING NOTES

Following are the consolidated comments of Minnesota Power, Alliant Energy, Xcel Energy, Otter Tail Power and Dakota Electric (the “Electric Utility Group”) providing comments on how the IRP (Integrated Resource Planning) process works and proposed changes to the DG RATE GROUP TARIFF MEETINGS, written by the Department of Commerce, dated December 11, 2002.

The Department requested in the December 11th meeting, that each utility provide a discussion of how the IRP process works, in particular how small are the increments for capacity, and how the utility meets short-term capacity needs prior to a significant addition of capacity. We believe these consolidated comments provide a general overview of the IRP process at each of the regulated utilities in Minnesota.

Basics of the IRP Process

- Process is outlined in MN Statute 216B.2422
- Includes 15-year forecast of utility resource needs with a 5-year action plan of how these needs will be met (see MN Rules 7843.0400 sub part 3, c. <http://www.revisor.leg.state.mn.us/arule/7843/0400.html>)
- Filed every 2 years (variances are allowed)
- Reviewed by the DOC and other interested parties
- Approved by the Commission

Reasons for large incremental changes in the IRP Process

- Utility load growth may be in large blocks, e.g., 8000MW at 2% annual growth requires 160MW resource addition per year
- Resource availability may change in large blocks, e.g., purchase power agreement expires, unit retirements
- Customer demand changes may have a significant impact on the utility, e.g., large paper mill shuts down

How small are the increments for needed capacity in the IRP Process

- No lower limit
- Practical application of the IRP requires rounding to the nearest 1MW

How the utility meets short-term capacity needs

- Short-term capacity purchases account for the uncertainty in the committed resource plans
- Short-term needs within the first 5 years of the IRP are generally met through short-term committed resources at short-term prices, e.g., 50MW seasonal capacity purchase
- Short-term is defined as a period of time covering one season up to 5 years (MAPP/MAIN seasons are 6-months long).

Changes to Avoided Capacity Cost Discussion

1. The need for capacity is established in the utility's most recently approved integrated resource plan (IRP).
2. "Need" is defined as an established capacity requirement in the 5-year action plan of a utility's 15-year IRP planning period. Need is further defined as the difference between the forecasted customer demand plus reserves and utility committed resources.
3. Capacity payments will only be made when the following requirements are met:
 - Utility has an established need for capacity as described in 1 & 2 above.
 - DG capacity must be accredited by MAPP/MAIN. (This accreditation includes URGE testing of the unit and dispatchability arrangements.)
4. Full capacity payment is based on the estimated cost of incremental capacity purchases or unit construction as contained in the IRP.
5. Adjustments to full capacity payments for length of contract and timing of utility's need for capacity will be made based on the formula proposed by the DOC on 12/4/02.