

June 30, 2010

Darrell Nitschke, Executive Secretary
North Dakota Public Service Commission
600 E. Boulevard, Dept. 408
Bismarck, ND 58505-0480

RE: MRES Renewable and Recycled Energy Objective Progress Report

Dear Mr. Nitschke:

Missouri River Energy Services (MRES) submits this Renewable and Recycled Energy Objective (RREO) Progress Report on behalf of its six North Dakota municipal utility members, pursuant to NDCC 49-02-28 thru 49-02-34. This progress report covers the twelve month period from January 1, 2009 through December 31, 2009.

This report is filed on behalf of the following MRES member municipal electric utilities in North Dakota: Cavalier, Hillsboro, Lakota, Northwood, Riverdale and Valley City.

If you have any questions regarding this report, please contact me at 605-338-4042 or mrgsimon@mrenergy.com.

Sincerely,



Mrg Simon, Attorney at Law
Director, Legal

Copy:

Ken Wolf, Cavalier Municipal Utilities
Lesley Connelly, Hillsboro Municipal Utilities
Norris Severtson, Lakota Municipal Light Plant
Marcy Douglas, Northwood Municipal Utilities
Nancy Elliott, City of Riverdale
Wayne Nelson, Valley City Public Works

Missouri River Energy Services North Dakota Renewable and Recycled Energy Progress Report

June 30, 2010

Missouri Basin Municipal Power Agency d/b/a Missouri River Energy Services (MRES) is a body politic and corporate and a public agency organized under the laws of the State of Iowa and existing under the intergovernmental cooperation statutes of the States of Iowa, Minnesota, North Dakota and South Dakota. MRES is a multi-state, member-based joint-action agency, headquartered in Sioux Falls, South Dakota. Its members receive a fixed allocation of hydroelectric power and energy from the Western Area Power Administration (WAPA), and purchase their supplemental power from MRES, a not-for-profit agency, to meet their needs over and above their WAPA allocations. As part of that responsibility, MRES provides its members with a balanced power supply portfolio, including renewable generation. MRES has included wind energy in its power supply program since 2002, which has been used primarily to meet Minnesota's Renewable Energy Objective (REO).

The 2007 North Dakota Legislature passed a voluntary REO which provides that "...ten percent of all electricity sold at retail within the state by the year 2015 be obtained from renewable energy and recycled energy sources," and allows municipal utilities to aggregate their REO through their municipal power agency. NDCC 49-02-28. The objective is measured by qualifying megawatt hours delivered at retail¹ or by certificates representing credits purchased and retired to offset non-qualifying retail sales. The REO also requires that reports be filed with the Public Service Commission (Commission) that detail energy sales during the previous twelve-month period, and efforts to meet the REO goal through 2015. NDCC 49-02-34. As with the REO itself, municipal utilities are permitted to aggregate their reporting requirements through their municipal power agency.

Given the power supply relationship between MRES and its members, MRES has assumed responsibility for the renewable and recycled energy objective and the associated reporting requirements on behalf of all of its North Dakota member communities. The following six North Dakota municipal electric utilities are members of MRES:

- Cavalier
- Hillsboro
- Lakota
- Northwood
- Riverdale
- Valley City

¹ Calculation of the amount of electricity sold excludes from the baseline of retail sales that portion of MRES ND member sales supplied by WAPA pursuant to each member's hydropower allocation. NDCC 49-02-30. Calculations used in this report are based on the total MRES energy sales at the town gate, pursuant to the supplemental power supply obligations of the Power Supply Agreement (S-1) contract between MRES and its members.

In order to meet the North Dakota REO, MRES integrates the North Dakota objective into its resource planning in conjunction with similar requirements in Minnesota and South Dakota.² MRES allocates its renewable energy generation and renewable energy credits (RECs) based on S-1 energy sales by state.

MRES Renewable Energy Resources

MRES acquires renewable energy resources through its exclusive power supply arrangement with Western Minnesota Municipal Power Agency (Western Minnesota), and through power purchase agreements with independent developers. At the present time, all MRES renewable resources are based on wind generation. Currently, MRES contracts for the output of the following wind generating resources:³

- Worthington (MN) Wind Project, 3.7 MW
- Marshall (MN) Wind Farm, 18.7 MW
- Odin (MN) Wind Farm, 20 MW
- Rugby (ND) Wind Project, 40 MW

MRES purchases the full nameplate output of the units in each of these wind projects, and owns all of the environmental attributes associated with such generation. These resources total 82.4 MW of nameplate capacity, most of which is dedicated to meeting the various state REOs.⁴ MRES intends to meet its REO goals by utilizing the contracted wind generation and associated renewable attributes to meet the MRES ND RREO benchmark for each year.

The following Table 1 identifies the projections of MRES relating to compliance with the North Dakota REO goal. Specifically, the table identifies the benchmarks that MRES will use in its efforts to progressively ramp up its renewable resources in the state to meet the statutory goal of 10% by 2015 for its North Dakota municipal utility members.

² Minnesota's REO goal is 1% by 2005 and 7% by 2010. Minn Stat. 216B.1691, Subd. 2. Beginning in 2012, Minnesota's voluntary REO becomes a mandated Renewable Energy Standard (RES) of 12%, which increases to 17% in 2016, 20% in 2020, and ultimately 25% by 2025. Minn Stat. 216B.1691, Subd. 2a. South Dakota's REO is nearly identical to that of North Dakota, imposing a voluntary goal of 10% by 2015. SDCL 49-34A-101. South Dakota's definition of "renewable" energy for compliance is slightly different than that of North Dakota. SDCL 49-34A-101. Iowa does not presently have a renewable energy objective or mandate.

³ MRES also purchases the output of two 750 kW turbines owned by member Moorhead Public Service (MPS) and located in Moorhead, Minnesota. The output of the MPS turbines is sold back to MPS, and MPS uses that renewable energy to supply its Capture the Wind[®] green pricing program. This transaction results in a net zero purchase to MRES, and thus, MPS generation is not used by MRES for REO compliance purposes.

⁴ Minnesota's green pricing statute, which previously required distribution utilities to offer customers the option to purchase renewable and high-efficiency energy at the utility's cost of acquiring the resources, is now a voluntary program, and MRES continues to provide its members in all states with this option through the MRES RiverWindsSM program. See Minn. Stat. §216B.169. The renewable energy generation that MRES supplies through its RiverWinds program is excluded from the generation available to meet other renewable energy program requirements such as the REO.

Table 1: Projected MRES ND REO Goals

Year₁	MRES ND S-1 Sales₂ (MWh)	ND REO annual benchmark (%)	MRES ND REO (MWh)
2009	70,482	1	705
2010	73,250	2	1,465
2011	80,125	3	2,404
2012	82,190	4	3,288
2013	84,445	6	5,067
2014	86,693	8	6,935
2015	88,846	10	8,885

Note 1 Calendar year period

Note 2 Town gate sales

MRES established a Midwest Renewable Energy Tracking System (M-RETS) REO retirement subaccount to demonstrate compliance with the RREO requirements of NDCC 49-02-28. In order to comply with the RREO requirements, MRES transferred 705 RECs to its 2009 North Dakota REO subaccount.

MRES continues to evaluate opportunities for additional renewable resources to ensure continuing compliance with the RREO goals of Minnesota, North Dakota, and South Dakota, and the future requirements of the Minnesota RES. In 2010 and beyond, MRES will evaluate its renewable energy portfolio and the energy market to determine cost-effective purchases or the acquisition of such resources. MRES seeks out projects that meet its needs as well as the needs of its members as part of our continuing commitment to expand the role of renewable energy used to serve our member communities. MRES will also evaluate other renewable and recycled energy generation opportunities as they arise.

Obstacles to meeting the RREO

While MRES has expanded its renewable portfolio, and continues to pursue opportunities for additional resources, known obstacles to development continue to exist and new challenges often arise. MRES has experienced several challenges in obtaining additional renewable energy generation to serve its member municipal utilities. In the efforts of MRES to meet North Dakota's renewable good faith effort over the past several years, the following major obstacles to additional development of renewable resources have been identified:

- a) Economic barriers. The additional, pancaked transmission cost imposed to deliver wind generated outside of the Midwest Independent Transmission System Operator (MISO) market footprint across the seam and into the MISO market creates a major economic barrier to development of the excellent wind resources located in North Dakota and South Dakota.
- b) Lack of transmission. The region continues to lack the transmission infrastructure necessary to support new generation, particularly intermittent wind generation. The cost to construct such facilities in relation to the typical size of renewable energy projects makes construction of needed facilities on a project-by-project basis cost prohibitive. Furthermore, uncertainty remains around expansion of the high voltage transmission system as a result of regulatory barriers in other states.
- c) Lack of incentives. Public Power entities face difficult financial challenges in owning renewable resources. The fact that the federal Production Tax Credit (PTC), Investment Tax Credit (ITC), and accelerated depreciation are not available to Public Power entities provides other utilities and developers advantages that are not available to MRES.

Efforts to Overcome Obstacles

MRES is employing alternatives to overcome some of the obstacles described above. To mitigate some of the economic barriers, MRES has executed power purchase agreements with developers for wind generation as one way to overcome the financial disincentive created by the unavailability of the federal PTC to Public Power entities. For example, MRES added 40 megawatts of clean, renewable wind energy when the Rugby Wind Project near Rugby, N.D., began commercial operation in December 2009. MRES will continue to research and implement future increments of renewable energy projects that provide value to our members.

MRES continues to address transmission limitations by analyzing the best location in the region to construct or acquire additional wind resources, coordinating both transmission needs and wind resources in relation to MRES member needs. MRES has sought to reduce transmission barriers by working on multiple fronts to address the need for additional transmission capacity and to eliminate artificial economic barriers. MRES is actively involved in the CapX 2020 project to expand transmission infrastructure in the region. In addition, MRES continually assesses market conditions that have the potential to affect our members' interests in order to fulfill our commitment to delivering reliable and affordable electricity to MRES members. This includes actively advocating for transmission policies that will address the existing transmission barriers, both with those who operate the transmission systems (e.g. MISO, WAPA, etc.), and before state and federal policymakers (e.g. Federal Energy Regulatory Commission, state legislatures, Congress, state utility commissions, Midwest Governor's Association, etc.).

Conclusion

MRES has developed a plan to meet the North Dakota Renewable, Recycled Energy Objective goal of 10% by 2015 as part of its overall renewable energy goals for members in Minnesota, North Dakota, and South Dakota. The ND RREO has been integrated into the MRES resource planning process, and MRES has committed to continue to pursue renewable energy as part of its balanced portfolio to supply its member communities with reliable and cost-effective power supply.

Respectfully submitted this 30th day of June, 2010.

MISSOURI RIVER ENERGY SERVICES

A handwritten signature in blue ink that reads "Mrg Simon". The signature is written in a cursive style and is positioned above a horizontal line.

Mrg Simon, Director

Legal

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