



3724 West Avera Drive
PO Box 88920
Sioux Falls, SD 57109-8920
Telephone: 605.338.4042
Fax: 605.978.9360
www.mrenergy.com

November 26, 2013

Ms. Patricia Van Gerpen, Executive Secretary
South Dakota Public Utilities Commission
Capitol Building, 1st floor
500 East Capitol Avenue
Pierre, SD 57501-5070

RE: In the Matter of the Consideration of Standards to Govern Avoided Cost Determinations
Docket No. RM13-002

Dear Ms. Van Gerpen:

Missouri Basin Municipal Power Agency, d/b/a Missouri River Energy Services (MRES), provides the enclosed comments in response to the South Dakota Public Utilities Commission's Order to Proceed and Request for Comments from Interested Persons, dated October 16, 2013.

If you have any questions regarding these comments, please contact me at 605-338-4042 or derek.bertsch@mrenergy.com.

Sincerely,

A handwritten signature in blue ink that reads "Derek Bertsch".

Derek Bertsch
Staff Attorney, Legal

**COMMENTS OF MISSOURI RIVER ENERGY SERVICES
ON THE CONSIDERATION OF STANDARDS TO GOVERN
AVOIDED COST DETERMINATIONS**

November 26, 2013

Missouri River Energy Services (MRES) appreciates this opportunity to provide comments in response to the South Dakota Public Utilities Commission's Request for Comments as to whether rules should be promulgated governing avoided cost determinations in South Dakota.

MRES is a not-for-profit municipal power agency comprised of 61 member communities located in Iowa, Minnesota, North Dakota and South Dakota. Twelve MRES member communities are located in South Dakota.¹ Fifty-nine of 61 MRES members receive a fixed allocation of hydroelectric power and energy from the Western Area Power Administration (WAPA), and purchase their supplemental power from MRES to meet their needs over and above their WAPA allocations.

MRES and its members are not rate-regulated and are considered non-regulated electric utilities within the meaning of the Public Utility Regulatory Policy Act of 1978 (PURPA). Because MRES is a non-regulated utility under PURPA, MRES must implement any rules that the Federal Energy Regulatory Commission (FERC) issues under PURPA Section 210, including its own avoided cost rate. Although MRES may not be subject to State regulatory authority for purposes of PURPA avoided cost determinations, it may be helpful to the Commission to have an understanding of the actions MRES has taken in regard to PURPA Section 210 and the setting of avoided cost rates for wholesale sales by Qualifying Facilities (QFs).

MRES and its members have certain obligations with respect to buying power from, and selling power to, QFs. MRES and its members have taken several actions to clarify which party is responsible to carry out these obligations. In 1994, MRES and 52 of its members petitioned FERC for a waiver of the members' obligation, as individual electric utilities, to purchase power directly from QFs. In granting the Petition for Waiver, FERC recognized that MRES, as the entity that evaluates and acquires bulk power resources to meet load, is in the best position to purchase power from QFs located within an MRES member's service territory, while its members, which provide electric service at retail, are in a better position to provide the interconnection and retail service required by QFs.²

A condition of the Waiver requires MRES and its members to abide by a set of FERC Rules for Compliance pursuant to which MRES and its member municipal utilities carry out their respective and distinct obligations to purchase from, and to provide service to, a QF. Subject to the Rules for Compliance and Sections 201 and 210 of PURPA, MRES must purchase any

¹ The South Dakota communities that are members of MRES include Beresford, Big Stone City, Brookings, Burke, Faith, Flandreau, Fort Pierre, Pickstown, Pierre, Vermillion, Watertown and Winner.

² *Missouri Basin Municipal Power Agency (Missouri Basin)*, 69 FERC ¶ 62,250 (1994). The FERC subsequently granted these same waivers to MRES and five of its members in 2009 and one member in 2013. *Missouri Basin*, Docket No. EL09-13-000 (Feb. 6, 2009) (delegated letter order); *Missouri Basin*, Docket No. EL13-80-000 (Oct. 9, 2013) (delegated letter order).

electric energy and capacity that is made available from a QF. MRES must pay a QF a rate for purchases that (i) must be just and reasonable to the electric consumer of the electric utility and in the public interest; and (ii) must not discriminate against QFs. This rate must be based upon avoided cost, subject to adjustments as permitted by statute and the Rules for Compliance.

MRES has adopted a policy setting forth a method for calculating avoided costs. For QFs less than 100 kW, the MRES Board of Directors annually adopts a PURPA standard rate for purchases of electricity. For larger QFs, the MRES avoided cost calculation applies a formula to account for the actual avoided energy cost for the QF generation during each hour of generation. Any QF will receive the same hourly price that MRES would pay for its energy supply from the market. In addition, the avoided cost methodology ensures fair pricing for the capacity value to MRES of any QF regardless of the type of generation.

The avoided cost methodology utilized by MRES applies with respect to QFs located within the Integrated Transmission System (IS) administered by WAPA and QFs up to 20 MW located within the footprint of the Midcontinent Independent System Operator, Inc. (MISO). Eleven of the MRES South Dakota members are located within the WAPA footprint. One MRES South Dakota member, Big Stone City, is located within the MISO footprint.

On October 9, 2013, FERC granted the petition of MRES to terminate its PURPA purchase obligation within MISO with respect to QFs greater than 20 MW.³ As a result of FERC's action, MRES and its members within MISO are not required to enter into new contracts or obligations to purchase electric energy and capacity from any QF with a net capacity in excess of 20 MW in the MRES members' service territories within MISO or interconnected to the MRES transmission system under the control of MISO.

The MRES avoided cost calculation will be updated each year, and it is likely that the methodology will be updated in the near future. MRES is in the process of becoming a market participant in the Southwest Power Pool (SPP). When that process is complete, the existing avoided cost calculation methodology will be revised to reflect the SPP marketplace.

As the entity responsible for purchasing power from QFs that its members would otherwise be required to purchase, MRES has taken steps to ensure that its avoided cost rate is just and reasonable, in the public interest, and does not discriminate against QFs. MRES will update its avoided cost methodology as future circumstances occur that justify revisions to the current method. MRES appreciates the opportunity to provide these comments to the Commission and looks forward to participating in any further discussion on this important issue.

³ *Missouri River Energy Services*, Docket No. QM13-3-000 (Oct. 9, 2013) (delegated letter order).

Dated: November 26, 2013

Respectfully submitted,

MISSOURI BASIN MUNICIPAL POWER AGENCY
d/b/a MISSOURI RIVER ENERGY SERVICES

A handwritten signature in blue ink, appearing to read "Derek Bertsch", is written over a horizontal line.

Derek Bertsch
Staff Attorney
Missouri River Energy Services
P.O. Box 88920
Sioux Falls, SD 57109-8920