MISSOURI RIVER ENERGY SERVICES®

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June 30, 2010

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

RE: MRES Renewable Energy Objective Progress Report

Dear Ms. Van Gerpen:

Missouri River Energy Services (MRES) submits this Renewable, Recycled and Conserved Energy Objective (RRCEO) Progress Report on behalf of its twelve South Dakota municipal utility members, pursuant to SDCL 49-34A-101 and 49-34A-105. This report covers the twelve month period from January 1, 2009 through December 31, 2009. This report is filed on behalf of the following MRES members in South Dakota: Beresford, Big Stone City, Brookings, Burke, Faith, Flandreau, Fort Pierre, Pickstown, Pierre, Vermillion, Watertown and Winner.

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

Sincerely,

Mrg Simon

Mrg Simon, Attorney at Law
Director, Legal

Copy:

Jay Nordquist, Beresford Municipal Utilities
Duane Henderson, Big Stone City Municipal Utilities
Steve Meyer, Brookings Municipal Utilities
Jerry Jones, Burke Municipal Utilities
Debbie Brown, Faith Municipal Utilities
Don Johnston, Flandreau Municipal Utilities
Brad Lawrence, Fort Pierre Municipal Utilities
James W. Sellers, City of Pickstown
Leon Schochenmaier, Pierre Municipal Utilities
John Prescott, City of Vermillion
Steve Lehner, Watertown Municipal Utilities Department
Jack Day, Jr., Winner Municipal Utilities
Tom Marvin, SD Municipal Electric Association

Missouri River Energy Services
South Dakota
Renewable, Recycled and Conserved 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 South Dakota Legislature has adopted a voluntary Renewable, Recycled and Conserved Energy Objective (RRCEO) which provides that "...ten percent of all electricity sold at retail within the state by the year 2015 be obtained from renewable, recycled, and conserved energy sources," and allows municipal utilities to aggregate their RRCEO through their municipal power agency. SDCL 49-34A-101 (2009). The objective is measured by qualifying megawatt hours delivered at retail[1] or by certificates representing credits purchased and retired to offset non-qualifying retail sales. Additionally, in 2009, the legislature amended SDCL 49-34A-101 to include recycled or conserved energy as a renewable resource for RRCEO compliance. Id.

The RRCEO also requires that reports be filed with the Public Utilities Commission (Commission) that detail energy sales during the previous twelve-month period, and efforts to meet the RRCEO goal through 2015. SDCL 49-34A-105. As with the RRCEO itself, municipal utilities are permitted to aggregate their reporting requirements through their municipal power agency. SDCL 49-34A-105 was also amended by the legislature in 2009, requiring that the reporting occur annually on July 1, 2009, for information regarding the previous calendar year.

Given the power supply relationship between MRES and its members, MRES has assumed responsibility for the REO and the associated reporting requirements on behalf of all of its South Dakota member communities. The following twelve South Dakota municipal utilities are members of MRES:

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[1] Calculation of the amount of electricity sold excludes from the baseline of retail sales that portion of MRES SD member sales supplied by WAPA pursuant to each member's hydropower allocation. SDCL 49-34A-103. 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.

- Beresford
- Big Stone City
- Brookings
- Burke
- Faith
- Flandreau
- Fort Pierre
- Pickstown
- Pierre
- Vermillion
- Watertown
- Winner

In order to meet the South Dakota REO, MRES has integrated the South Dakota objective into its resource planning in conjunction with similar requirements in Minnesota and North 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 Project, 18.7 MW
- Odin (MN) Wind Project, 20.0 MW
- Rugby (ND) Wind Project, 40.0 MW

MRES purchases the full output of these units, 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

[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. North Dakota's REO is nearly identical to that of South Dakota, in that it imposes a voluntary goal of 10% by 2015. NDCC 49-02-28. 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 required by Minn. Stat. Ann. §216B.169 (West 2007). 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 RiverWinds℠ 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.

utilizing the contracted wind generation, associated renewable attributes, and conserved/recycled energy to meet the MRES SD REO benchmark for each year.

The following Table 1 identifies the projections of MRES relating to compliance with the South 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 South Dakota municipal utility members.

Table 1: Projected MRES SD RRCEO Goals

Year[1]	MRES SD S-1 Sales[2] (MWh)	SD RRCEO annual benchmark (%)	MRES SD RRCEO (MWh)
2009	581,031	1	5,810
2010	621,464	2	12,429
2011	646,499	3	19,395
2012	660,847	4	26,434
2013	676,922	6	40,615
2014	692,806	8	55,424
2015	708,280	10	70,828

Note 1 12 month period ending December 31
Note 2 Town gate sales

MRES established an M-RETS REO retirement subaccount to demonstrate compliance with the RRCEO requirements of SDCL 49-34A-101. In order to comply with those requirements, MRES transferred 5,811 RECs to its 2009 South Dakota REO subaccount.

MRES continues to evaluate opportunities for additional renewable resources to ensure continuing compliance with the REO 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.

In addition, MRES has expanded the Bright Energy Solutions® program which offers commercial, industrial and residential energy efficiency programs to MRES member communities. The Bright Energy Solutions programs are being implemented in South Dakota with the results for 2009 of MRES South Dakota members described in Table 2.

Table 2: 2009 MRES SD
Recycled/Conserved Energy Savings

Savings (MWh)	Savings (MW)	Incentives to Customers
3,560	.812	$340,868.50

MRES will also evaluate other renewable and recycled energy generation opportunities as they arise.

Obstacles to meeting the RRCEO

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 South 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 South Dakota Renewable, Recycled and Conserved 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 SD RRCEO 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

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EXHIBIT A, MRES SD RRCEO PROGRESS REPORT JUNE 30 2010, Calendar Year 2009

Please provide a value in each of the boxes below with an "X" in it.

Company:

Missouri River Energy Services on behalf of MRES municipal electric utility members in South Dakota: Beresford, Big Stone City, Brookings, Burke, Faith, Flandreau, Fort Pierre, Pickstown, Pierre, Vermillion, Watertown and Winner

Calendar Year 2009 RRCEO Report	Value	Comments
Retail Sales		
Total - All States (MWh)	1,956,330	(MRES portion only. Does not include WAPA.)
SD (MWh)	581,031	(MRES portion only. Does not include WAPA.)
Generation Capacity Owned		
Total - All States (MW)	625.5	Laramie River Station (281), Exira Iowa Peaking (138.9), Watertown Power Plant (49.2), Wind (includes Worthington MN--owned by WMMPA/MRES; Odin MN--PPA, and Marshall MN--PPA) (42.4), Municipal member generation (114). This does not include WAPA Power.
SD (MW)	55.2	Watertown Power Plant and municipal member generation
Renewable Generation Capacity Owned		
Total - All States (MW)		
Wind	82.4	Wind (includes Worthington MN--owned by WMMPA/MRES; Odin MN--PPA, Marshall MN--PPA and Rugby ND--PPA)
Solar	0	
New Hydro	0	
Old Hydro	339	Per request of the SD PUC, MRES is reporting here the approximate MW received by our MRES members. MRES/WMMPA does not own the hydro-electric allocation rights. Also, per statute, WAPA power is not considered part of the baseline calculations for determining REO compliance.
Hydrogen	0	
Biomass	0	
Geothermal	0	
Recycled	3.762	
Total - All States (MW)	**425.162**	
SD (MW)		
Wind	0	
Solar	0	
New Hydro	0	
Old Hydro	100	Per request of the SD PUC, MRES is reporting here the approximate MW received by our MRES members. MRES/WMMPA does not own the hydro-electric allocation rights. Also, per statute, WAPA power is not considered part of the baseline calculations for determining REO compliance.
Hydrogen	0	
Biomass	0	
Geothermal	0	
Recycled	0.812	
Total SD (MW)	**100.812**	
Renewable Energy Credits Retired for SD		
Total - Generated In All States (MWh)		
Wind	5,811	SD REO
Solar	0	
New Hydro	0	
Old Hydro	0	
Hydrogen	0	
Biomass	0	
Geothermal	0	
Recycled	0	
Total - All States (MWh)	**5811**	
Generated in SD (MWh)		
Wind	0	
Solar	0	
New Hydro	0	
Old Hydro	0	
Hydrogen	0	
Biomass	0	
Geothermal	0	
Recycled	0	
Total SD (MWh)	**0**	
Renewable Energy Credits Retired for Other States		
Total - Generated In All States (MWh)		
Wind	12,070	Minnesota REO (10,135), ND REO (705) and Green Pricing in all states (1,230)
Solar	0	
New Hydro	0	
Old Hydro	0	
Hydrogen	0	
Biomass	0	
Geothermal	0	
Recycled	0	
Total - All States (MWh)	**12070**	
Generated In SD (MWh)		
Wind	0	
Solar	0	
New Hydro	0	
Old Hydro	0	
Hydrogen	0	
Biomass	0	
Geothermal	0	
Recycled	0	
Total SD (MWh)	**0**	
Conserved Energy & Capacity		
Conserved Energy (MWh)		
Total - All States	16,737 MWh	
SD	3,560 MWh	
Conserved Capacity (MW)		
Total - All States	3.762 MW	
SD	0.812 MW	