BIG STONE II
PARTNERS IN GENERATION

Applicants' Witness Stephen Thompson

Chief Operating Officer and Acting President
Central Minnesota Municipal Power Agency (CMMPA)

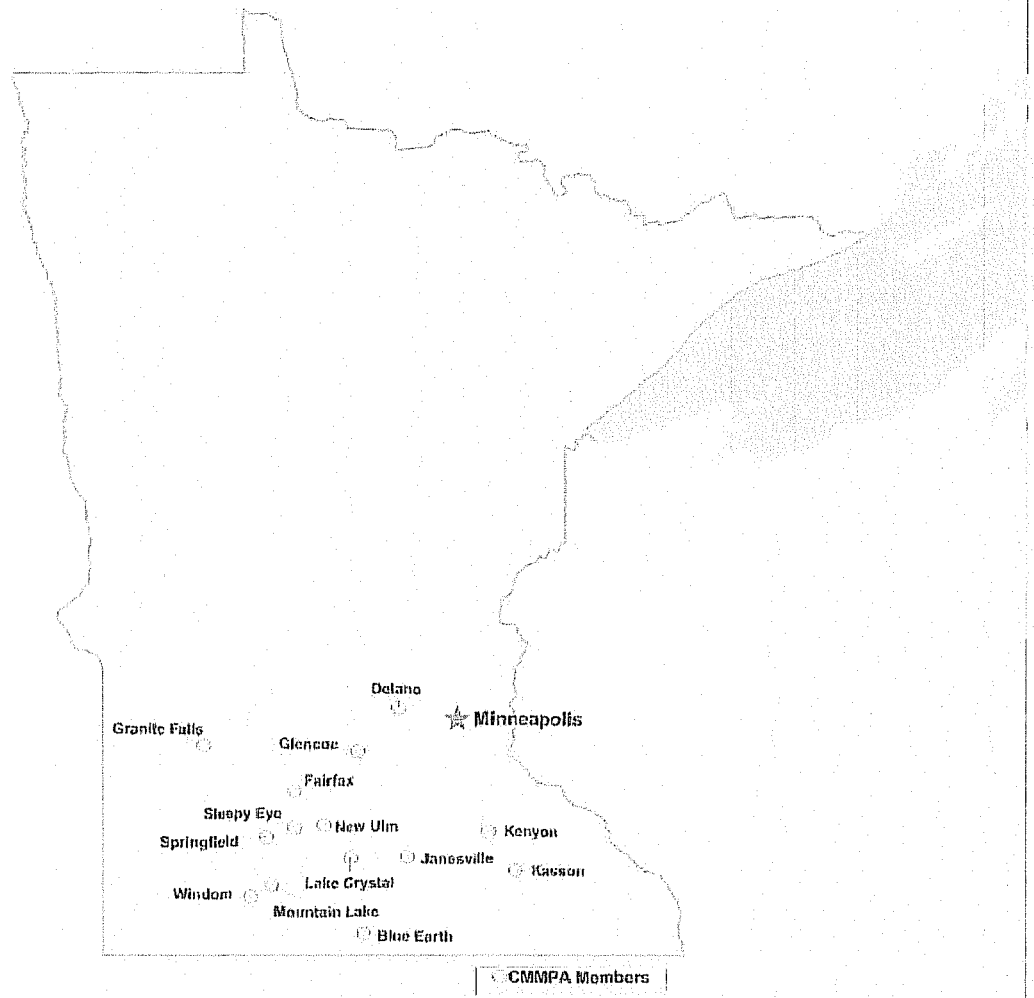
Summary

Applicants' Exhibits 6 and 46

Overview

- Central Minnesota Municipal Power Agency (CMMPA)
  - An organization of 14 small municipal distribution utilities in south central Minnesota
  - Board of Directors consisting of 14 representatives, one from each member system
  - Forecasted 163 MW peak demand in 2006
  - Seven employees
- CMMPA is a project-oriented agency
  - Each member responsible for their planning their own portfolio; The agency assists and advises them only
  - Members plan and finance their own local peaking generation
  - Agency primarily involved in assisting members in planning, procuring and financing shared baseload resources
  - Members retain autonomy to make final decision of what "projects" they add to their portfolio

CMMPA Members



Overview (continued)

- Twelve of the 14 CMMPA members are participating in Big Stone Unit II, plus Willmar, MN, a non-member municipal utility

- Our proposed share in Big Stone Unit II is 30 MW.

Supply Portfolio

- Today, CMMPA purchases almost 100% of its energy
  - Only 30% of these purchases are at fixed, stable prices
  - 70% of these purchases are purchased either directly from the market, or contractual arrangements that closely mirror market prices
    - A majority these market based purchases are non-firm, do not include capacity, are interruptible and require being backed up/hedged by the members' high-cost local diesel peaking generation
- This legacy resource strategy is no longer viable due to:
  - Increases in natural gas prices
  - Tight supply or decreasing availability of low-cost surplus economy energy in the market
  - Increasingly-constrained transmission system, resulting in interruptions in delivery

Resource Planning

- CMMPA is not required to file integrated resource plans in Minnesota
  - Too small in size
- CMMPA retained RW Beck to performed three consecutive, power supply studies (in 2002, 2004 and 2006)
  - All three studies economically compared baseload coal generation, natural gas generation and market purchases
  - Each study was a refinement of previous studies
    - Updated load and natural gas price forecasts
    - 2006 study considered DSM and renewables as well
  - Each subsequent study showed similar results, which economically confirmed our need for baseload coal generation

Resource Planning (continued)

- The 2006 RW Beck study is the most comprehensive, up–to-date study, and supersedes previous analyses
  - Included an econometric load forecast and system-level analysis
  - Also evaluated DSM and renewables
  - Used leading-edge, Strategist™ computer model
- 2006 RW Beck study results
  - Capacity deficits without Big Stone Unit II
    - By 2011, our reserve margin will fall below 10%
  - We could economically justify an additional 30 MW more than our current proposed Big Stone Unit II share of 30 MW (or 60 MW in total)
    - The additional 30 MW being economically justifiable from energy cost savings realized from avoided, market-price energy purchases
  - Additional renewable wind energy is desirable
  - DSM beyond current CIP-based efforts is not cost-effective

Need for Baseload (continued)

- CMMPA's needs baseload generation today
  - Until recently, CMMPA was under a full-requirements contract
  - CMMPA currently has ***no*** baseload generation
  - CMMPA's alternative to Big Stone Unit II is to continue to purchase from the market
    - Economical market purchases are either not available or deliverable
- Why Big Stone Unit II?
  - Members' only capacity is oil- and natural gas-fired peaking units
  - We are now at the mercy of rising and volatile natural gas prices, and ongoing tightening of the supply/demand situation in the region
  - 70% of our energy supply is non-firm energy, with market-based pricing
  - Prices for our wholesale purchases have risen dramatically the past few years

Need for Baseload (continued)

- Participation in the Big Stone Project
  - Provides firm energy from the generator portion of the project
  - Also provides firm delivery from the transmission portion of the project
  - CMMPA need both baseload coal generation *and* transmission
- Participation in the Big Stone Project allows CMMPA to own generation and transmission
  - And to have more direct control over its future long-term power supply, and protect its members from market volatility
- CMMPA members need reliable, low energy cost, baseload capacity
  - To meet our projected capacity deficits
  - To replace high-priced market purchases and lower our energy prices
  - To stabilize the current volatility of our prices
  - To supplement and back-up our renewables efforts