PREVAILING WINDS, LLC

February 21, 2017

Amanda Reiss, Staff Attorney
South Dakota Public Utilities Commission
State Capitol Building
500 East Capitol
Pierre, South Dakota 57501

Re: Qualifying Facilities of Prevailing Winds, LLC

Dear Ms. Reiss,

The staff ("Staff") of the South Dakota Public Utilities Commission (PUC) has requested an update regarding filings made by certain QF Entities (as hereinafter defined).

QF Entities

The following entities were each organized as a South Dakota limited liability company and are wholly owned subsidiaries of Prevailing Winds, LLC, ("Prevailing Winds") a South Dakota limited liability company:

BHY1, LLC
CEC1, LLC
CME1, LLC
DEC1, LLC
FEM1, LLC
LRE1, LLC
NEC1, LLC
SEC1, LLC
SEC2, LLC
SEC3, LLC
SVE1, LLC
SVE2, LLC
SVE3, LLC (collectively "QF Entities").

Prevailing Winds is owned by 160 South Dakota members, and nearly all of those members are customers of electrical cooperatives located in South Dakota. Prevailing Winds formed the QF Entities to initiate offers to certain Rural Electric Cooperatives in South Dakota under the Federal Public Utility Regulatory Policies Act (PURPA), which is discussed later in this letter.

Filings

On or about December 19, 2016, each of the QF Entities filed with the Federal Energy Regulatory Commission (FERC) a Form 556 "Certification of Qualifying Facility (QF) Status for a Small Power Production or Cogeneration Facility." On or about December 20, 2016, the QF Entities provided to the PUC a Notice of Self-Certification of Qualifying Facility Status for a Small Power Production Facility (QF Notices). The QF Entities filed the QF Notices with the PUC pursuant to 18 C.F.R. § 292.207, which sets forth the procedures for obtaining qualifying status.

Activities of QF Entities

After providing QF Notices to the PUC, the QF Entities made, on December 22, 2016, offers to sell energy, capacity and renewable energy credits to certain Rural Electric Cooperatives in South Dakota (Cooperatives) through individual Legally Enforceable Obligations (LEOs). As Qualifying Facilities (QFs), the offers were made pursuant to PURPA, which was enacted on November 9, 1978 as part of the National Energy Act. The purpose of PURPA is to promote energy conservation (by reducing demand) and to promote greater use of domestic energy and renewable energy (thereby increasing supply).

The offers made by the QF Entities do not force the Cooperatives to purchase energy, capacity and renewable energy credits from the QF Entities. Rather, the offers create an opportunity for the Cooperatives to choose whether to purchase renewable energy generated in South Dakota that would reduce the energy costs of the Cooperatives. In this case, the cost of the energy, capacity and renewable energy credits offered by the QF Entities to the Cooperatives is less than half the price of what the Cooperatives are currently paying for just energy and capacity alone[1], without any renewable energy credits.

FERC Orders

In a recent order, FERC confirmed that retail distribution cooperatives may under PURPA buy power from qualifying facilities that wish to sell renewable energy to them. In an order issued June 18, 2015 in the Delta-Montrose Electric Association docket, EL 15-43-000, FERC confirmed that Delta-Montrose, a rural electric cooperative based in Montrose, Colorado, was allowed to purchase power from qualifying facilities offering available energy and capacity under applicable qualifying facilities rules. In the Delta-Montrose matter, Delta-Montrose had sought confirmation that it was required to comply with PURPA, even though it had an all requirements contract with Tri-State Generation and Transmission ("Tri-State"), under which it was limited to generating only 5% of its own energy requirements, and otherwise required to purchase 95% of its requirement from Tri-State. FERC confirmed Delta-Montrose's obligation to purchase power from a qualifying facility regardless of the terms of its contract with Tri-State Generation and Transmission.

In another recent order involving Delta-Montrose, FERC confirmed that a distribution cooperative (Delta-Montrose) must purchase the electrical output made available to it by a qualifying facility, notwithstanding restrictions in the cooperative's all-requirements contract with its generation and transmission supplier (Tri-State) on third-party contracts. In an order

[1] Based on stated 2015 Average Wholesale Rate of 57.3 mills per kWh, East River Electric 2016 Annual Report and August 2016 Basin Electric rate increase of 12%.

issued June 16, 2016, in the Tri-State Generation and Transmission Association docket, EL 16-39-000, the FERC denied Tri-States' petition for declaratory relief that its fixed-cost recovery proposal was consistent with section 201 of PURPA, which proposal would have allowed Tri-State to charge its member cooperatives, such as Delta-Montrose, for Tri-States unrecovered costs with a member's QF power purchases that exceed the 5% limitation set forth in the requirements contracts between Tri-State and Delta-Montrose. FERC noted that such contractual restrictions could hinder the development of cogeneration and small power production by qualifying facilities.

QF Entities - Size and Number

The number of the QF Entities that were formed by Prevailing Winds and that filed QF Notices with the PUC was derived by appropriately sizing the annual electrical output of each QF Entity to match the size of a Cooperative's annual load but without requiring the Cooperative to take more energy than practical, which was determined to be, and resulted in, a cap of approximately 30% of that Cooperative's annual load. Where the Cooperative's annual load was greater than the annual electrical output of 20 megawatts of wind power, an additional QF Entity was formed to reach approximately 30% of that Cooperative's annual load. These additional QF Entities are necessary because the Energy Policy Act of 2005 created an important exception that has resulted in FERC removing a utility's purchase requirement for most Qualifying Facilities over 20 megawatts when a QF is located in independent system operator and regional transmission organization regions.

Project Permitting

In forming the QF Entities, Prevailing Winds had and has no intent of circumventing the permitting requirements under the laws of South Dakota. Rather, the formation of the QF Entities is simply the tool needed to facilitate potential offtake agreements between the QF Entities and Rural Electric Cooperatives in South Dakota. It is far, far too early in the negotiation process with the Rural Electric Cooperatives to speculate whether this offtake scenario will lead to any power purchase agreement or on the overall size of the project. Prevailing Winds and the QF Entities have and will fully comply with all state and local permitting requirements and procedures.

Request for Proposal by Basin

Some of the Cooperatives to whom the QF Entities made offers to sell energy, capacity and renewable energy credits are members of Basin Electric Power Cooperative (Basin). Basin is a regional generation and transmission cooperative that provides wholesale power to member rural electric systems in several states including South Dakota. In a very recent development, Basin has issued a Request for Proposal (RFP) for a wind energy project of between 100 and 200 MW, and set forth in the RFP the following evaluation schedule:

Release of RFP	February 10, 2017
Notification of Interest	February 17, 2017
Bid Submittal Deadline	March 10, 2017 5:00 PM
Proposal Evaluation	March 10 to April 13, 2017
Notification of Shortlist of Bidders	April 13, 2017
Decision Made	May/June of 2017

Prevailing Winds has provided its notice of intent to bid to Basin, and Prevailing Winds intends to submit a proposal to Basin in response to the RFP. In the meantime, the QF Entities will continue to initiate offers to sell energy, capacity and renewable energy credits to certain Cooperatives in South Dakota. The situation facing Prevailing Winds and the QF Entities is very fluid and they will adapt as required by the circumstances.

Closing

When Prevailing Winds, LLC was chartered, it adopted a mission statement that stated, in part;

> *Our commitment is to develop wind energy projects that are sustainable, long term and environmentally sound. We are committed to the social and economic improvement of rural South Dakota by maximizing a projects economic benefit within the local communities.*

Consistent with its charter, Prevailing Winds and its QF Entities are extending potential economic benefits to as many South Dakota residents as possible by making offers to the Cooperatives.

In view of the recent FERC orders referenced above, Prevailing Winds and the QF Entities believe that rural distribution electric cooperatives are well-positioned to obtain power from renewable sources, even in cases where they are subject to a requirements contract with their generation and transmission cooperative. Prevailing Winds and its QF Entities truly believe that if these offers are accepted, tens of thousands of South Dakota residents will save money on electricity costs while simultaneously creating a needed economic boost to rural South Dakota through wind energy.

Prevailing Winds and its QF Entities have no intention of imposing high energy and capacity prices on any Cooperative or of forcing any Cooperative to take more energy than is practical. The goal is to produce energy and capacity that is home grown here in South Dakota that will reduce the energy costs for members of Cooperatives for the next 25 plus years.

Sincerely,

Ronnie Hornstra

Ronnie Hornstra, President, Avon, SD
On behalf of the Prevailing Winds, LLC Board of Governors:

Ronald Wagner, Tyndall, SD
Erik Johnson, Avon, SD
David Mogck, Tripp, SD
Keith Thorstad, Chokio, MN
Bruce Voigt, Avon, SD
Mark Rames, Olivet, SD
Paul Dummer, Lesterville, SD

Cc: Lee A. Magnuson, Roland H. Jurgens III