

The Minnesota Project
Strong Local Economies, Vibrant Communities, and a Healthy Environment
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July 15, 2004

John Fuller, Senate Counsel
G-17 State Capitol
75 Rev. Dr. Martin Luther King Jr., Blvd.
St. Paul, MN 55155

RE: LEETF Workgroup Wind Energy Policy Issues Evaluation Scoping Comments.

Dear Mr. Fuller:

The Minnesota Project's mission is to support strong local economies, vibrant communities and a healthy environment in rural Minnesota. We have been involved in advancing renewable energy generally and wind power in particular for about a decade. In that context, we offer these comments on the scope of the LEETF study.

Wind energy development, including large projects owned by out-of-state corporations, have been good for the economies of rural areas where they have been developed. However, careful reasoning and available analysis show that ownership structures do matter to the prosperity of local communities. The local benefits also impact the extent to which the development and supporting infrastructure-namely transmission lines- are supported locally. The legislature has clearly understood this and established a series of policies to ensure that a segment of the wind energy market would be developed in small blocks-which would presumably be owned by local investors. These policies have included:

- Preferential treatment of smaller projects relative to local taxation (break points at 2 MW and 12 MW respectively).
- Market set asides for wind projects under 2 MW within Xcel's wind mandate.
- Establishment of a standard tariff for small wind projects selling to Xcel.
- Payment of a 1.5 cent per kilowatt-hour incentive for the first 200 MWs of wind projects under 2 MW.

The final incentive, the actual cash payment for small projects, has been truly instrumental in bringing forth small, locally developed wind projects. This has helped overcome the limitations of the federal Production Tax Credit and other

disadvantages associated with the economies of scale of wind development. However, the cap on that incentive has been reached just as individual entrepreneurs are coming forth in significant numbers to do community based projects. This is a critical time to establish long term and stable policies to allow these entrepreneurs persist and thrive.

There are four distinct steps needing to be accomplished in this process:

1. Define and articulate the policy objectives that are being sought. (i.e.)
 - a. Clean energy production.
 - b. Community economic benefit through local equity participation in wind development.
 - c. Diverse and dynamic wind industry that spurs development of local and regional businesses providing ancillary and support services to wind developers.
 - d. Economical wind energy – reasonable impact to ratepayers and taxpayers.
2. Document the principal barriers to the desired outcomes in the market place and assess their relative importance. (i.e.)
 - a. Scales of economy
 - i. Limitation of the PTC
 - ii. Transaction costs (Legal costs, PPA, MISO studies, etc)
 - iii. Equipment cost
 - iv. Transmission interconnect
 - b. Access to capital / cost of capital
 - c. Uneven market power
3. Identify and develop a variety of policy tools or mechanisms that can be used to achieve those objectives. (i.e.)
 - a. Incentive payments – based on capital investment or production
 - b. Favorable tariff rates and terms
 - c. Low cost capital (Direct loans, loan guarantees, etc.)
 - d. Market set asides (I.E. X% of REO to be from small or community wind)
 - e. Market preferences for government procurement
 - f. Technical assistance
 - g. Combined packages of various tools.
4. Evaluate those tools and mechanisms relative to their effectiveness, cost and impact.

Breaking the process into these steps will help the Workgroup to be more focused and productive. Particularly if the Workgroup and facilitator can approach the process as one of joint problem solving rather than one of competition between specific interests.

Working through the proposed steps will allow the key issues that need to be addressed come forward as appropriate. It will also provide the context to effectively work through those questions and issues efficiently and effectively. In that light, we offer no specific comments on the questions proposed.

Minnesota Project would, however, like to comment on the five deliverables outlined in the work plan. These deliverables appear to be entirely compatible to the framework discussed above. Please consider the following comments by listed deliverable:

- *Inventory of current wind projects in Minnesota and Surrounding States by size, in-service date, ownership, customers and location.*

Ownership should be characterized if possible. Simply listing the names of LLCs will not provide useful information about the nature of the ownership, which is the item of greatest importance here.

- *An inventory of current Minnesota Federal and neighboring state policies which seek to facilitate wind energy development.*

There are a number of documents and Internet websites that already inventory policies, which seek to facilitate wind energy development state by state. Additional information is needed to add value to this data including:

- How much development will or can the policy support? (I.E. how much will a specific REO/RPS require, what is the level of funding appropriated for direct payment of cash incentives and how much development can that appropriation support, etc).
 - How effective have various policies been in inducing actual development?
 - What type of development is encouraged – small projects, large projects, locally owned projects, public sector projects, etc.
 - What is the cost to the public treasury of the policy in terms of \$/kwh produced and/or \$/kw installed.
 - What is the cost to ratepayers in terms of \$/kwh or \$/kw?
- *Identify policy alternatives, which minimize consumer cost while maximizing the economic development potential for both small and large developers.*

This is the core deliverable for the process and LEETF Report. However, it begs a few questions, such as what are the barriers to community based investment in wind development. Targeting policy tools and resources at the key barriers should help to maximize both efficacy and efficiency. Some of

these points are addressed in the “Work Plan Overview” box, but they need to be explicitly tied to the process outcomes.

There is also a need to assess the various policy tools. The assessment should consider both efficacy (how well do the tools actually induce wind development generally and community based wind specifically) and efficiency (what is the unit cost of the policy).

- *Identify ways to ensure that the costs of wind-related economic development are borne by the communities where the economic development is likely to occur.*

This deliverable as stated is truly troubling. It implies that there is no State interest in the economic health of rural Minnesota. It also implies there are no State wide benefits to facilitating investment in Minnesota by Minnesotans. It should be noted that local governments forgo approximately 90% of local tax revenue from projects of under 2 MW. They are currently making significant contributions to the small wind incentives. It would be appropriate to eliminate this deliverable or if failing to do so restate it in more acceptable terms such as:

Identify appropriate ways that areas hosting and benefiting from community based wind development can make reasonable contributions to the incentives for such development.

- *Identify opportunities for investment or ownership of wind projects on the part of local landowners, cooperative investors, or utilities and their customers.*

The identification of the opportunities should also include assessment of the feasibility of these opportunities. Models developed under exceptional or no longer existing circumstances should not be used to assert a general or unlimited opportunity for similar projects. This section could easily underestimate the barriers and challenges that are associated with various opportunities or models that will likely be identified by interested parties in this process.

Thank you for the opportunity to comment. I look forward to continued participation in this process.

Sincerely

John Fuller

- 5 -

July 15, 2004

Mark Lindquist
Energy Policy Specialist