

SARAFOLEAN AND ASSOCIATES L.L.C.
ENERGY SERVICES

July 25, 2004

To: Legislative Electric Energy Task Force (LEETF) Members

Re: Minnesota is not a retail open access state, so why would (does) Minnesota allow unregulated, non-utility entities to build any generating assets whose output will be put to regulated utilities and their customers?

At the June 29th LEETF meeting Sarafolean and Associates (SAL) mentioned the apparent economic benefits and assurances from utility ownership of generating assets instead of unregulated, third party ownership. This point was also mentioned in SAL's July 21st letter to the Task Force.

Respectfully, SAL is concerned that this point may not receive the scrutiny it deserves. Let's not just discuss this from a cost perspective, instead of the major deviation from established Minnesota utility law and tradition that it seems to be.

Please consider the following questions:

1. Why is the State of Minnesota allowing non-utility interests to build, own and operate, unregulated wind generating facilities without requiring an affected regulated utility to submit a similar, competing proposal?
2. Considering the State's regulatory compact with its utilities, why aren't the utilities required to build, own and operate these wind assets?
3. Does the State need multiple owners of wind generating assets, if so what economic benefits accrue to ratepayers, or what other requirements are met?
4. Should not regulated utilities be given the bidding and investment opportunities their regulatory compact with the State of Minnesota seems to allow?
5. Has Minnesota subtly changed its regulatory compact between utility providers and ratepayers to focus on and allow non-utility ownership of certain generation?

Throughout the later 1990's, it was felt that deregulation of the retail electric industry was at hand. This led many utilities to postpone building any new generation because of potential stranded cost issues. Everyone expected non-utility merchants to construct new plants that would compete with established generators, thereby lowering generation costs for everyone. While the concept seemed good, open access problems experienced in other states has virtually killed serious talk of a deregulated retail utility

industry. Further, it seems that Minnesota will not be deregulating its retail electric markets in the foreseeable future, if ever.

Therefore, to ensure that Minnesota ratepayers are not forced to buy uneconomical electricity, the Legislature should not allow non-utility generators to build, own or operate any generators greater than one megawatt, unless the utility who would be required to purchase that output, submits a similar generating proposal for consideration by the Minnesota Public Utility Commission and Department of Commerce.

It needs to be stated that Iowa's MidAmerican Energy Company, a utility regulated by the Iowa Utilities Board (IUB), will be supplying one-thousand megawatts of wind generation to its customers. MidAmerican Energy will build, own and operate these assets, not un-regulated third parties. Perhaps the State of Iowa and the IUB feels that this will yield the lowest cost wind energy for Mid American's customers.

Be it wind, biomass, closed carbon cycle, whole tree burning, coal gasification, coal, nuclear, natural gas, or hydro generating assets, the host utility should be required to enter the bidding process to ensure that Minnesota ratepayers pay the lowest possible cost and receive the most visible regulatory review process for the various types of energy that the State deems appropriate.

Should the Minnesota legislature feel that it must rely on unregulated generators to provided energy for regulated utility customers, it should then allow those customers to pursue open access opportunities and shop for lower cost energy elsewhere. This would be more appropriate than being held financially captive to a regulatory system that appears to serve special interests instead of Minnesota residents.

Thank you for the opportunity to submit these comments. Should the steering committee have any questions, or require any additional information, please contact me.

Respectfully submitted,

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