

# E Environment Committee

Meeting date: April 10, 2007

## ADVISORY INFORMATION

**Date:** April 3, 2007  
**Subject:** Counties Wind Project / Renewable Energy Agency  
**District(s), Member(s):** All  
**Policy/Legal Reference:** Sustainability Policy 1-2  
**Staff Prepared/Presented:** Jason Willett, 651-602-1196  
**Division/Department:** MCES c/o William G. Moore, 651-602-1162

Legislation has been introduced that would create a Renewable Energy Agency (REA) in Minnesota. Membership would be limited to the voluntary participation from among participants in the Metropolitan Counties Energy Task Force (MCETF) including the Council and the Rural Minnesota Energy Board (RMEB). A REA would enable its members to enjoy the same powers as a municipal power agency, although strictly for renewable energy. The MCETF has asked for Council support of this bill.

Staff will discuss the status of the proposed legislation (HF 2316; SF2069).



**TONI CARTER**  
BOARD OF RAMSEY COUNTY COMMISSIONERS  
DISTRICT 4

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March 22, 2007

Mr. Peter Bell, Chair  
Metropolitan Council  
390 N. Robert St.  
St. Paul, MN 55101

Dear Chair Bell:

I am writing today to express appreciation for the Metropolitan Council's participation in the eight-member Metropolitan Counties Energy Task Force (MCETF), to advise you of recent actions of the MCETF, and to seek the consideration of your organization for legislation of interest to the MCETF.

The MCETF voted on February 1, 2007, to support an effort to seek enabling legislation to allow counties and the Metropolitan Council to create a Renewable Energy Agency (REA). Should counties and the Metropolitan Council so decide, such an agency would be comprised of interested members of the Rural Minnesota Energy Board and the MCETF who decide to join the REA. (The Rural Minnesota Energy Board (RMEB) is a joint powers board formed by 17 counties in southern and southwestern Minnesota to provide policy guidance on issues surrounding energy development in rural Minnesota.)

The MCETF understands that a lot of work remains to fully understand the costs, benefits, risks and options available to move forward with a wind project. Nonetheless, legislation that would allow for creation of an REA would help in further defining future plans. An REA would allow its members to pursue development of Minnesota-based wind energy projects that are expected to provide members with a lower cost source of renewable energy and stabilized energy costs over the long term.

Enclosed is overview information on the wind energy project being evaluated by the MCETF and RMEB. This information outlines creating a number of small, community-based wind projects that would keep the financial benefits in local communities, as opposed to large wind farms that send much of the benefit to investors outside Minnesota. A business model has been suggested that explains how this could work.

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Chair Bell  
March 22, 2007  
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The two organizations, with the assistance of jointly hired legal and technical consultants, have examined options for a governance structure to oversee development and operation of this wind energy project. Two approaches have received the most attention: creating a joint powers board using existing statutory authority, and seeking enabling legislation to allow the creation of an REA.

The information presented by the consultants suggests that creating a new agency offers benefits over creating a simple joint powers board.

- A Renewable Energy Agency (REA) would have the authorities provided to a municipal power agency under Minn. Stat. Chap. 453. Currently, only municipalities enjoy this authority.
- The legislation would allow for a more autonomous entity than a joint powers board.
- The agency would have authority to issue its own bonds or notes without backing of county members.
- The agency would enjoy more flexible contracting provisions, bringing greater benefits to members.

I encourage you to engage discussion among Council members to determine what level of support the Council may bring in the effort to achieve passage of this legislation. Support for the legislation would not commit your organization in any way to joining such an agency, nor would it preclude those interested from forming a governing entity using a different structure (such as a joint powers board). However, passage of the REA legislation in 2007 would allow the MCETF and RMEB to move the project forward this year with an advantageous governance option at their disposal.

Please contact Carl Michaud, lead staff person for the MCETF, if you have further questions regarding this request. He can be reached at his office at Hennepin County Environmental Services at 612-348-3054.

Thank you.



Toni Carter  
Ramsey County Commissioner  
Chair, Metropolitan Counties Energy Task Force

cc: Metropolitan Counties Energy Task Force members  
Carl Michaud, Hennepin County Environmental Services

1.1 A bill for an act  
1.2 relating to energy; allowing certain counties and Metropolitan Council to form  
1.3 a renewable energy agency with the powers of a municipal power agency;  
1.4 including new agency as arm of state for handling of claims; amending  
1.5 Minnesota Statutes 2006, section 3.732, subdivision 1; proposing coding for new  
1.6 law in Minnesota Statutes, chapter 453.

1.7 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

1.8 Section 1. Minnesota Statutes 2006, section 3.732, subdivision 1, is amended to read:

1.9 Subdivision 1. **Definitions.** As used in this section and section 3.736 the terms  
1.10 defined in this section have the meanings given them.

1.11 (1) "State" includes each of the departments, boards, agencies, commissions, courts,  
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1.13 and includes but is not limited to the Housing Finance Agency, the Minnesota Office of  
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1.15 Advisory Committee, the Armory Building Commission, the Zoological Board, the  
1.16 Iron Range Resources and Rehabilitation Board, the State Agricultural Society, the  
1.17 Renewable Energy Agency, the University of Minnesota, the Minnesota State Colleges  
1.18 and Universities, state hospitals, and state penal institutions. It does not include a city,  
1.19 town, county, school district, or other local governmental body corporate and politic.

1.20 (2) "Employee of the state" means all present or former officers, members, directors,  
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H.F. No. 2316, as introduced - 85th Legislative Session (2007-2008)

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2.11 (4) "Judicial branch" has the meaning given in section 43A.02, subdivision 25.

2.12 **Sec. 2. [453.615] RENEWABLE ENERGY AGENCY.**

2.13 Subdivision 1. Establishment. (a) Any county belonging to the Metropolitan  
2.14 Counties Energy Task Force or the Rural Minnesota Energy Board, or their successors,  
2.15 may form a Renewable Energy Agency by the execution of an agency agreement. The  
2.16 Metropolitan Council may also be a member of the Renewable Energy Agency.

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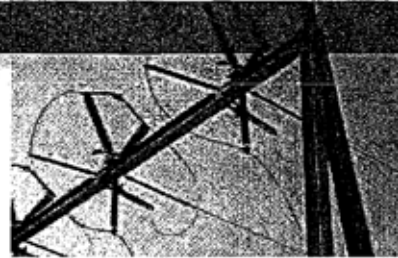
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DRAFT

## Counties Wind Project

### What is the Counties Wind Project?

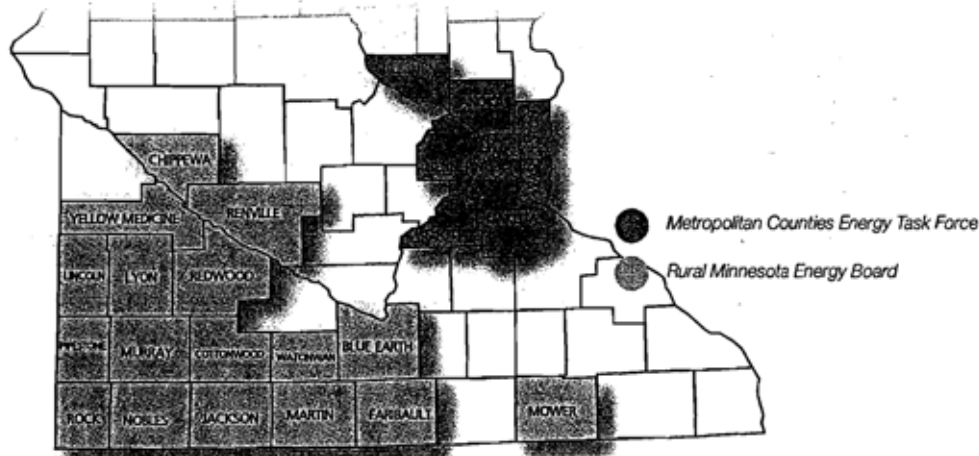
The Counties Wind Project (CWP) is a joint effort of the Rural Minnesota Energy Board (RMEB) and Metropolitan Counties Energy Task Force (MCETF) to develop wind energy projects that will produce 100 to 150 megawatts of electricity to meet a portion of the electricity needs of the counties. The MCETF is an organization of seven metropolitan counties and the Metropolitan Council whose mission includes finding ways for members to secure reliable, low-cost, environmentally responsible energy. The mission of the RMEB is to promote the development of renewable energy in its member counties.



#### Why are the MCETF and the RMEB doing this?

The RMEB and MCETF want to:

- Stabilize long-term electricity costs
- Acquire clean, affordable, and reliable renewable energy
- Assist local wind energy development
- Spread the benefits of renewable energy development to communities across the state
- Contribute to statewide energy independence
- Keep investment revenues in Minnesota
- Promote job creation



# Counties Wind Project

## How would the MCETF and RMEB carry out this project?

A new organization would be formed by interested members of the MCETF and the RMEB. This organization would establish contracts to buy wind generated electricity from community-based wind projects and sell that electricity to local utilities. The utilities

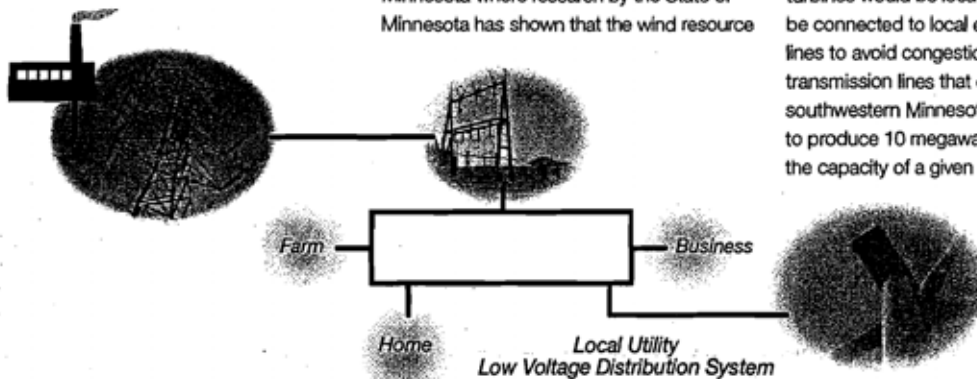
would distribute it to customers, including the counties. **The unique contribution counties provide is aggregation. Counties can help reduce initial investment costs for local projects involving few turbines by aggregating purchases, contracting and other activities.**

The CWP would have the ability to reduce the significant economic barriers facing projects with fewer turbines by aggregating the purchase of wind turbines, construction contracts, warranties, insurance and other development functions related to wind energy projects. This creates economies of scale for smaller local projects that may otherwise not be achieved individually. The CWP would also aggregate the purchase of electricity from multiple, dispersed local projects and sell that electricity to local utilities. This aggregation has the potential to reduce transaction costs, making smaller projects more attractive to utilities.



## Where would the wind turbines be located?

High Voltage Transmission System



The wind turbines would be located in Minnesota where research by the State of Minnesota has shown that the wind resource

is excellent for generating electricity. Also, turbines would be located where they can be connected to local electric distribution lines to avoid congestion on the much larger transmission lines that carry electricity from southwestern Minnesota. Each site is likely to produce 10 megawatts or less, based on the capacity of a given local distribution line.

## How will this project contribute to Minnesota's renewable energy picture?

In 2006, the generating capacity of wind turbines in Minnesota totaled about 895 megawatts, or 7% of Minnesota's total electric generation capacity. Minnesota has set a goal of 25% renewable energy by 2025. State policy establishes community-based wind development as a priority, and

the Governor has called for 800 megawatts of community wind to be developed by 2010. The 100 to 150 megawatts proposed to be developed by the CWP represents a significant, timely step towards achieving the goals set for locally-owned renewable energy.

### *Why should counties take the lead in this project?*

Rural counties want small community-based wind projects that keep most of the economic benefit in the community. Members of the MCETF want economical, renewable energy. It is not likely that the counties' goals could be met through the private sector acting alone. The private sector will continue to develop larger-scale "wind farms," typically 75 megawatts or more, sending much of the economic benefits to investors outside the state. The CWP is specifically designed to foster small community-based wind projects that maximize economic benefits for Minnesota. And if this project does not proceed, counties may miss an opportunity to stabilize their cost of electricity over the long-term.

### *What is needed for the MCETF and RMEB to create the CWP?*

Interested members of the MCETF and the RMEB would join together and form a new organization that would be able to enter into contracts with developers and utilities to purchase and sell electricity, thereby creating the Counties Wind Project. There are two primary proposals for the kind of organization that would be formed.

One proposal would seek changes in state law to create a Renewable Energy Agency (REA), an entity similar to a municipal power agency. The other would seek to use existing authority to create a joint powers entity. Whichever approach is agreed upon, each member of the MCETF and RMEB must individually approve of its participation in the organization that is created. Participating members of the CWP would form an organizing board that would establish its operating rules. The CWP may or may not have employees and may choose to contract for all of the services it provides.

### *Why would legislation be needed to create an REA?*

A governance mechanism is needed for a metro-rural partnership wind development project to proceed. While individual counties and the RMEB are able to form a joint powers agency without legislation, there are significant benefits to doing this project through a governance structure similar to a municipal power agency. This would require legislation to enable counties to form an energy agency similar to a municipal power agency. Securing enabling legislation in the 2007 session would bring projects together while federal tax incentives remain available, moving Minnesota closer to energy independence at a more rapid pace.

### *How would this project stabilize energy costs?*

The intent is for the CWP to create proceeds from the sale of wind energy which each member would use to offset electricity costs. The key to achieving this benefit is securing long-term contracts with wind developers and utilities. One of the next steps in developing this project is to conduct detailed financial analysis to determine the potential for these proceeds to be realized, and what range of proceeds may be likely. This work will give counties a better framework with which to decide whether to join the project.

### *Will this project require county subsidy?*

The objective is to find a path that does not require county subsidies. There will likely be contributions through the RMEB and MCETF for start-up costs, but outside funding is aggressively being sought to minimize the need for county funds.

### *What are the initial start-up costs for the new organization?*

Start-up costs include the technical, financial, and legal resources necessary to create the organization. These resources are needed to develop the business plan, find and evaluate suitable wind turbine sites on the distribution lines, and establish the financing mechanisms to proceed with procurement and construction activities. Estimates for initial start-up costs are \$500,000 to \$1 million. To date, the MCETF and RMEB have requested funding from the Minnesota Department of Commerce for \$200,000 under a grant for wind projects from the Legislative and Citizens Commission on Minnesota Resources. Additional funding may be available from state and federal agencies interested in developing sources of clean energy, and from participating members of the MCETF and RMEB.



### *How much do members of MCETF pay now for electricity?*

*Counties in the MCETF pay over \$14 million annually for electricity to light and cool buildings and to power operations. The Metropolitan Council pays in excess of \$15 million annually for electricity for buildings and operations for municipal services.*



### **Milestones**

#### **Spring - Summer 2007**

- Evaluate business model
- Conduct additional financial analysis
- Begin analysis of wind resource overlay with distribution system capacity

#### **Fall 2007**

- Create a business plan
- Analyze locations for siting wind turbines

#### **Late 2007**

- Form CWP governing entity with interested members from MCETF and RMEB

### **How would wind projects be financed?**

No property tax or other tax dollars are expected to be used to finance these wind projects. The CWP would receive revenues from long-term contracts for the sale of electricity to utilities. The CWP would use those revenues to purchase electricity through long-term contracts with wind development projects. These long-term contracts allow developers to secure the private financing needed to build individual wind projects.

It is anticipated developers would also take advantage of the federal Production Tax Credit. In addition to private equity, some projects may be financed with tax exempt bonds, or other federal grants and loans.

### **What this project is not.**

The CWP would not displace the roles and responsibilities of electric utilities to provide electricity. This MCETF and RMEB effort is intended to support the development of small wind energy projects that otherwise likely would not be built. The project is not intended to change or modify the current regulatory framework for the distribution of electricity to customers by utilities that have a franchise to provide electricity for a designated territory.

### **Should this be a part of the core business of counties?**

Each county board will need to review the project and decide whether proceeding would be consistent with its mission and core businesses plans. Saving energy costs over the long term is certainly in the interest of counties, and some counties consider economic development to be a core activity.

### **What commitments are required to participate?**

There are two levels of commitment. The first level is simply to continue exploring the potential of this project to bring economic benefits to counties and to local communities. The RMEB and MCETF would use currently budgeted resources and outside funding to conduct the planning work necessary to present a viable business plan and create a governing structure for a CWP.

The second commitment would be requested at the time that the governing organization is formed. Each county would need to evaluate its interest in joining. The CWP would involve commissioner participation at the governing board level. It is anticipated that the day-to-day functions of the CWP would involve contracted services rather than agency or county employees.

### **What is the risk for a county that joins the CWP?**

A financial analysis will be developed that will:

- Provide details on the major financial components to this project
- Assess any financial risks to counties participating in the CWP
- Examine likely costs for counties that choose to participate
- Analyze transactions and operational costs to assess the range of proceeds members might expect to receive

Among the long-term risks of joining the CWP is that the cost of electricity from the grid goes down relative to the cost of wind energy purchased by the CWP, undermining the financial advantages of this project. Strategies to provide an "exit" point for members under such an outcome could be explored in the planning and development phase.