



Wholesale energy costs on the rise

New state laws, federal environmental mandates and changes throughout the energy industry are causing wholesale power costs to rise for Cass County Electric Cooperative.

Minnkota Power Cooperative, our wholesale energy provider, has implemented a 5 percent wholesale rate increase that became effective Dec. 20, 2010, and a subsequent rate increase of 16.9 percent will likely be applied the spring of 2011. Minnkota's average wholesale rate will rise to just more than 6.3 cents/kilowatt-hour (kWh) in 2011, compared to 5.2 cents/kWh in 2010.

There are many factors that impact wholesale electric rates, but there are two major items that are driving up costs. The first item is the major emission control projects mandated by the federal Environmental Protection Agency (EPA).

To remain compliant with EPA emission regulations, Minnkota will spend more than \$425 million on emission control equipment for the Milton R. Young Station, a lignite-fueled generating plant located near Center, N.D.

The upgrades at the Young Station will help remove 95 percent of sulfur dioxide (SO₂) emissions and reduce 60 percent of nitrogen oxides (NO_x) emissions. Further investment is needed in support systems and electrical infrastructure to operate the emission controls.

By 2012, the environmental upgrades to remain in full compliance with current federal environmental standards will be completed. These upgrades will allow the Young Station to continue to be the Minnkota's primary source of generation for a few decades.

The second item that increases Minnkota's costs is related to wind energy contracts.

To prepare to meet the Minnesota Renewable Energy Standard and the North Dakota Renewable Energy Objective, Minnkota contracted with NextEra Energy Resources to begin purchasing significant wind energy resources in 2007, 2008 and 2009. About 1.3 billion kWh annually are purchased from NextEra, a wind energy developer, under 25-year contracts.

It is expected that the decision to enter wind contracts now, rather than later, will provide the lowest long-term renewable energy cost. Unfortunately, in the short term, Minnkota is contracted to pay an over-market price for the wind energy. Minnkota's average contract energy purchase price is currently higher than the depressed wholesale energy market, causing a significant loss on

selling the wind energy not needed by its customers. The shortfall in 2011 is expected to be about \$20 million.

Due to the economic recession, lower demand for electricity has driven wholesale energy market prices down – about 50 percent below average. Major manufacturing and industrial shutdown across the Midwest has contributed to the drop in electricity usage. Minnkota participates in the wholesale energy market to both buy when additional electricity is needed and to sell when electricity resources exceed its load.

In response to the 2009 revenue shortfall created by the reduced wholesale energy market, a one-half cent per kWh energy surcharge was instituted. Because the wholesale energy market prices remain low, the surcharge will likely be extended through 2011.

While maintaining compliance and reliability have required significant investment, Minnkota's rates remain competitive with other power suppliers in the region. Minnkota management will continue to scrutinize its operations in search of budget savings; however, many of the increases are based on fixed costs, compliance with state and federal standards and prior commitments that must be met. Even with the challenges of cost increases being experienced, it is Minnkota's pledge to continue to keep its electricity as the best energy value in the region.