



Rising costs: Wind power and the wholesale energy market

New state standards and objectives that require the addition of renewable energy are causing wholesale power costs to rise for Cass County Electric Cooperative.

Wind energy and the depressed wholesale energy market are primary drivers behind a 5 percent rate increase that became effective Dec. 20, 2010, and a subsequent rate increase of 16.9 percent that will likely be applied in the spring of 2011.

Minnkota Power Cooperative, our wholesale energy provider, is subject to laws in Minnesota and North Dakota that require the addition of wind energy resources to its generation base. The Minnesota Renewable Energy Standard requires that 25 percent of power be generated through renewable sources by 2025. The North Dakota Renewable Energy Objective requires that 10 percent of power be provided from renewable energy by 2015.

To prepare to meet these standards and objectives, Minnkota contracted with NextEra Energy Resources to begin purchasing significant wind energy resources in 2007, 2008 and 2009. About 1.3 billion kilowatt-hours (kWh) annually are purchased from NextEra, a wind energy developer, under 25-year contracts. This production currently represents about 30 percent of the load obligation created by the retail customers of Minnkota.

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.

At this point, Minnkota needs only a small amount of the electricity generated from these wind farms to meet the needs of the co-ops it serves. The larger share is excess energy, which is sold into the wholesale energy market at variable prices. With a depressed economy, the demand for excess electricity from the market has dropped. Now, instead of selling electricity in the market for a profit, Minnkota sells some of its excess electricity at a loss. On average, the market price has been about 50 percent below average. The shortfall in 2011 is expected to be about \$20 million.

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 wholesale energy market prices remain very low, the surcharge has been extended through 2011. As the economy recovers, it is expected that Minnkota will sell at least some of its excess energy at a profit.