



March 21, 2018

Energy and Utilities Finance and Policy Committee
Chair David J. Osmek
95 University Avenue W., Room 2107
St. Paul, MN 55155

Job Growth and Energy Affordability Finance and Policy Committee
Chair Pat Garofalo
485 State Office Building
St. Paul, MN 55155

As Minnesota's Energy Market evolves to accommodate new electricity sources, technology, changing customer preferences, and environmental concerns, to say nothing of flat electricity demand, we recognize that you face difficult choices to optimize the coming changes. As a grassroots organization dedicated to educating the public, in particular those who identify as conservatives, we stand ready to assist.

We think you have a tremendous opportunity. The coming changes are revolutionizing energy markets and are already benefitting consumers through a "cleaner and cheaper" model. Policymakers have the incredible opportunity to support a new direction that can change the tired discussion over preferred energy sources and instead focus on building a new model designed to confront current and future challenges.

Judging by past and current Legislative priorities, it appears that many stakeholders (including utilities) lack faith in the Minnesota Public Utilities Commission's (PUC) oversight capability. Monopoly utilities, understandably, have responded to this change by seeking resource 'certainty' from the Legislature instead. The most recent, but hardly the only instance, is Xcel Energy's request to obtain pre-approval for "at least \$1 billion" for maintenance of its Prairie Island plant, paid for by ratepayers and justified by Xcel's goal of its fleet becoming 85% free from carbon-generating sources.¹ In exchange, PUC oversight would be curtailed, and other options such as demand response, storage and renewables ignored.

Nuclear energy is a clean, valuable and viable energy source, and should be a part of an "all of the above" energy portfolio. But by allowing monopoly utilities to avoid their statutory regulator, or a competitive process, legislators wind up with politically-charged proposals that accomplish neither consumer protection nor economic freedom, the result being energy that is neither cleaner nor cheaper – and a regulatory environment that is neither trusted nor predictable.

¹ Mike Hughlett. "Xcel seeking new way to charge for nuclear energy costs." *Star Tribune*. 14 March 2018.
<http://www.startribune.com/xcel-seeking-new-way-to-charge-for-nuclear-costs/476730553/> accessed 20 March 2018.



This structural problem can be clearly seen in the history of recent energy decisions by the Legislature. Just last year a utility executive testified that, since 1994, utilities have been repeatedly asked to or have been required to add biomass, wind, and solar onto their grid by the Legislature. In each instance, exemptions were granted for monopoly utilities from the Certificate of Need process before the PUC.² Last year, natural gas was added. And now, nuclear. The trend is evident and troubling.

We believe this political intrusion into the regulatory process, over time, has contributed to the decline of Minnesota's historic reputation for competitive rates. Minnesota's competitiveness has fallen from the top-five to the bottom half.³ Some place blame on technologies they disfavor. That blame is incomplete. For example, Iowa has added even more wind as a percentage and have seen rates remain stable.⁴

MnCEF encourages the Legislature to fix the underlying problem we describe. We recommend a new path that moves toward a proactive approach in which the Legislature sets a long-term direction and ensures that a trusted regulator can carry out its mission.

Specifically, we think the Legislature should commit to unleashing free market forces where possible, letting the marketplace better allocate risk and reward. By allowing – and encouraging – new suppliers to enter the marketplace at their own risk to address demand, consumers will determine which providers should succeed or fail, with risks being borne by those who stand to gain. As free market principles incentivize market actors, the quality of products will increase, prices will decline, and the regulator's job becomes more focused on reliability and implementation.

This transformation won't – and shouldn't – happen overnight. But it will happen. It is happening. While our market evolves, it is imperative that the Legislature restore trust in a fair, efficient regulator to protect consumers, ensure reliability and quality during this difficult transition, and make quasi-legislative, and quasi-judicial decisions based on evidence in a timely manner.

We look forward to working with local political leaders, industry leaders, utilities, candidates and policymakers to ensure that a conservative, free-market based approach to utility resource decisions becomes an attractive an option for electric generation.

A handwritten signature in black ink, appearing to read "Mike Franklin".

Mike Franklin
President, Minnesota Conservative Energy Forum

² Minnesota State Senate Energy and Utilities Finance and Policy Committee. Hearing on SF0085. 90th Legislature. 1st sess. St. Paul: Sergeant at Arms (Statement of Rick Evans, Xcel Energy). 2 Feb. 2017.

³ Hayward, Steven F., and Nelson, Peter J. *Energy Policy in Minnesota: The High Cost of Failure*. Center of the American Experiment. 2017. pg. 7.

⁴ U.S. Energy Information Administration. "Rankings: Average Retail Price of Electricity to Residential Sector, December 2017." <https://www.eia.gov/state/rankings/?sid=IA#/series/31> accessed 20 March 2018.