

State energy factsheet: Minnesota

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This report provides a fact-based overview of Minnesota's power sector. It presents key metrics, highlights recent trends and identifies energy-related opportunities for the state in light of the EPA's Clean Power Plan.

Findings

- Minnesota (MN) is a net importer of electricity; its retail electricity prices are below the US average; and its generation profile is more carbon-intensive than the US average (despite the fact that the state has substantial renewable energy capacity).
- Coal is the largest generation source, but natural gas is becoming more important in MN's power mix, providing 14% of electricity and accounting for 33% installed capacity in 2012, while coal is trending downwards. Coal-fired electricity generation fell from 59% in 2008 to 46% in 2013, and 396MW of coal plants have announced plans to retire between 2015 and 2017.
- Meanwhile, renewable energy generation is trending upwards (it grew from 12% to 21% of annual generation from 2008 to 2013) on the back of strong state policy support. Between 2008 and 2012, MN built 1.7GW of utility-scale renewable capacity (mostly wind), and we estimate that the state's investor-owned utilities (IOUs) will require 644MW of solar by 2020.
- MN is among the nation's leaders in terms of energy efficiency: its energy efficiency mandates have driven state utilities to outspend many of their peers in neighboring states.
- EPA arrived at MN's Clean Power Plan target with a large emphasis on increased gas plant utilisation, but MN also has flexibility and additional (other) options to consider.

Table 1: Key power system metrics, Minnesota versus US average, 2013

Metric	Units	Minnesota	US average	Comment	Rank
Total retail electricity sales	TWh	67	72	Below average electricity demand	23
Total generation	TWh	51	80	Below average in-state generation	31
Retail electricity sales per capita	MWh	12.4	11.6	Above average per capita demand	28
Retail electricity prices	¢/kWh	9.5	10.1	Below average electricity prices	23
Generation from gas	%	13	28	Below average reliance on gas for electricity	32
Generation from gas and renewables	%	33	41	Below average on gas and renewables	26
Energy efficiency score	ACEEE index	25.5	19.2	Above average on efficiency efforts	11
Utility energy efficiency budget	% state revenue	2.42	1.13	Above average utility efficiency budget	14
CO2 emissions rate	tCO2/MWh	0.56	0.52	Dirtier than average generation profile	21
'Adjusted' emissions rate cut	%	42	38	Above average 'ask' under the Plan	10

Source: Bloomberg New Energy Finance, EIA, US Census Bureau, ACEEE Notes: US ranks are in descending order (ie, 1 being highest, 50 being lowest). For some metrics it is 'good' to have a high ranking (eg, generation from renewables, energy efficiency score); for other metrics it is 'good' to have a low ranking (eg, retail electricity prices, CO2 emissions rate).

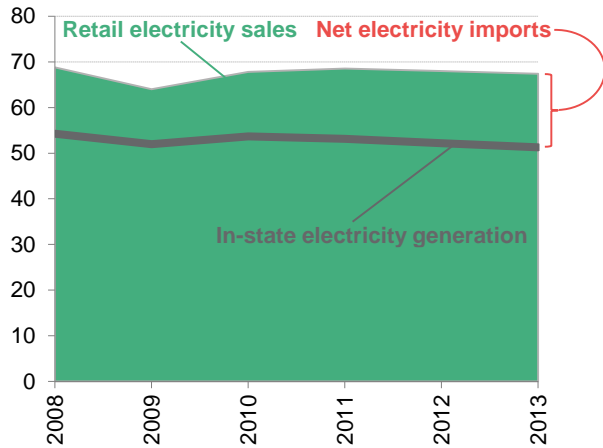
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1. BIRD'S EYE VIEW OF MINNESOTA'S POWER SECTOR

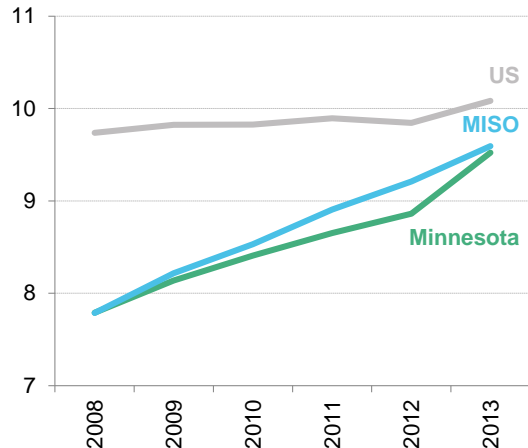
Minnesota (MN) consumes more electricity than it produces (67TWh of consumption versus 51TWh of generation in 2013), making it a net importer of electricity from its neighbors. And MN is growing its domestic generation gap: between 2008 and 2013, the difference between retail electricity sales and in-state generation increased at a compound annual growth rate (CAGR) of 2.1% (Figure 1).

Figure 1: MN electricity sales and generation, 2008-13 (TWh)



Source: Bloomberg New Energy Finance, EIA

Figure 2: MN electricity prices relative to regional (MISO) and US averages, 2008-13 (¢/kWh)

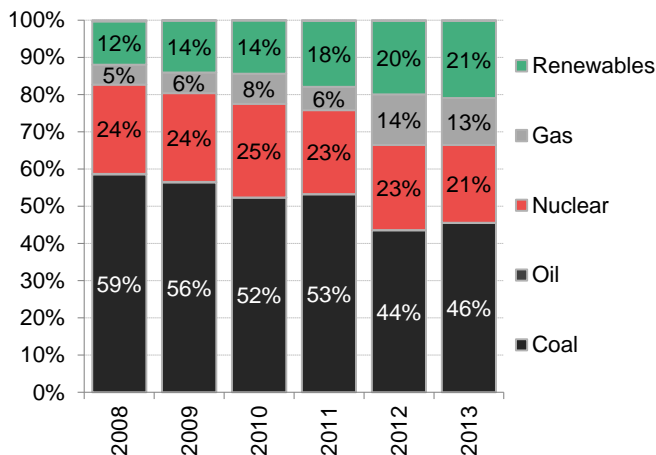


Source: Bloomberg New Energy Finance, EIA Notes: MISO is the electric power market in the Midwest, comprised of part or all of 16 states, including Minnesota.

The retail price of electricity in MN was 9¢/kWh in 2013, 23% higher than in 2008, and on par with the regional average which is below the US average (Figure 2).

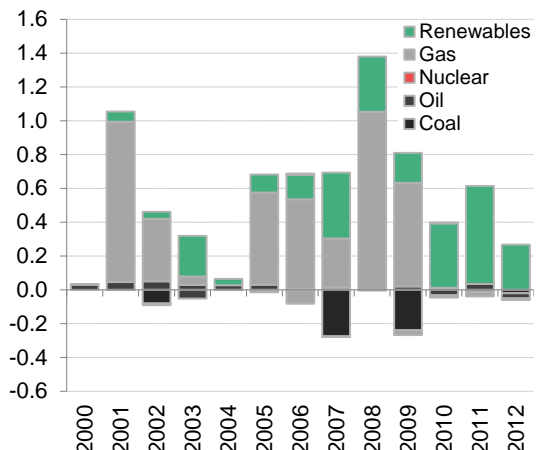
Gas is becoming more important in MN's power mix: gas-fired plants provided 14% of electricity in 2012, up from just 5% in 2008 (Figure 3). Gas plants accounted for 33% of installed nameplate capacity as of the end of 2012, up from 15% in 2000, owing to the addition of 4.4GW of gas capacity (and the retirement of 0.6GW of coal capacity) over that period (Figure 4).

Figure 3: MN electricity generation mix by technology (%)



Source: Bloomberg New Energy Finance, EIA

Figure 4: MN utility-scale capacity additions (build, above x-axis) and retirements (below x-axis), 2000-12 (GW)



Source: Bloomberg New Energy Finance, EIA

At the same time, renewable energy generation is trending upwards (it grew from 12% to 21% of annual generation between 2008 and 2013, driven by wind) and coal generation is trending downwards (it fell from 59% to 46% over that period) (Figure 3). Over 1.5GW of coal retirements have been announced between 2015 and 2017 in the Midwestern ISO (MISO), the transmission system operator for many Midwestern states including MN. Three of these plants, totalling 396MW, are in MN.

2. SUSTAINABLE ENERGY DEPLOYMENT

2.1. Natural gas

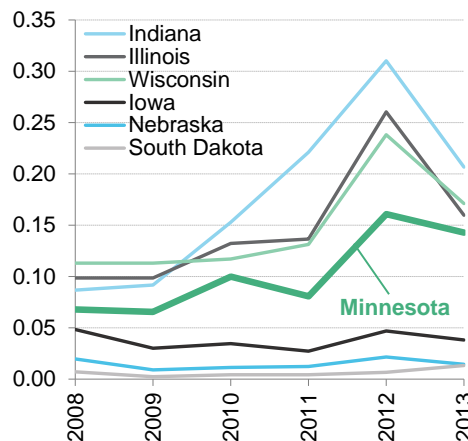
The amount of gas burned for power generation in MN grew at a CAGR of 16% from 2008-13 (a similar trend has occurred in neighboring states, as shown in Figure 5). Increased natural gas production flowing out of the Northeast has driven gas prices down nationwide (including MN, Figure 6), improving the economics of the state's gas fleet.

Table 2: MN policies relevant to sustainable energy sectors

Renewables
Renewable energy standard (RES)
Requires all electric utilities to obtain 25% of electricity from renewable sources by 2025 (30% by 2020 for Xcel Energy)
Solar energy standard
Requires IOUs to have 1.5% of retail electric sales from solar by 2020.
Net metering
Provides customers with net excess generation (NEG) from eligible systems (<1000kW) with a kWh credit on their bill
Value of solar tariff (VOST)
Alternative to net metering compensates customers for net value of solar PV on the distribution system
Energy efficiency
Energy efficiency resource standard (EERS)
Yearly energy savings goal for utilities of 1.5% of average retail sales beginning in 2010 (no statutory end date)
Property assessed clean energy (PACE)
Authorises certain MN local governments to provide property owners with upfront capital for energy efficiency improvements, which is in turn repaid through additional charges on homeowner property taxes

Source: Bloomberg New Energy Finance, DSIRE, Minnesota Department of Commerce

Figure 5: MN and neighboring states' natural gas consumption from the power sector, 2008-13 (Bcfd)



Source: Bloomberg New Energy Finance, EIA

Figure 6: MN natural gas price (citygate), 2008-13 (\$/MMBtu)



Source: Bloomberg New Energy Finance, EIA

Historically, gas plants in MN have run primarily to meet peak electricity demand – as opposed to baseload demand – so their operations remained largely concentrated on summer months, when hot temperatures call for high electricity use. However, low gas prices have allowed gas-fired generators to underprice coal even for baseload during certain periods in recent years. This trend, combined with impending coal retirements, will serve to reduce MN's dependence on coal and will increase its reliance on alternative sources of electricity such as natural gas and renewables.

2.2. Renewables

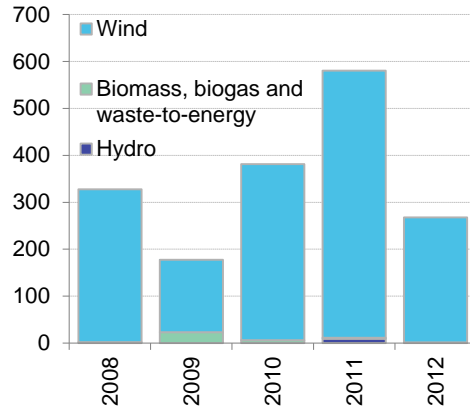
MN has a *mandatory* renewable energy standard that requires most of the state's investor-owned utilities (IOUs)¹ to obtain 25% of energy from renewable sources by 2025 (Table 2). In 2013, renewables provided 21% of electricity generation, and nearly all of this came from wind. Between 2008 and 2012, MN built 1.7GW of utility-scale renewable capacity (1.6GW of wind, 35MW of

¹ Xcel Energy has an even more stringent mandate than other IOUs in the state: its target is 30% by 2020.

biomass and 10MW of hydro; Figure 7), bringing cumulative installed utility-scale renewable capacity to 3.5GW in 2012 (Figure 8). Notably, MN is home to 9 waste-to-energy facilities.

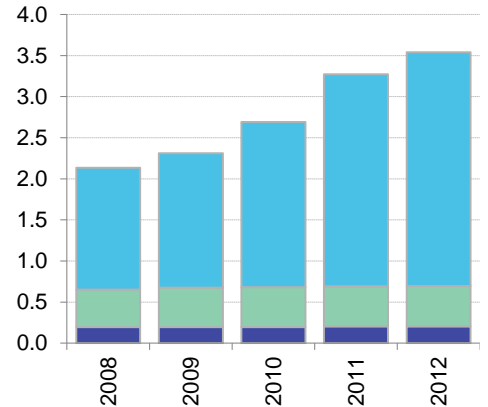
MN has nearly 3GW of utility-scale wind installed, and three utility-scale solar projects were recently approved by the state PUC

Figure 7: MN utility-scale renewable capacity additions, 2008-12 (MW)



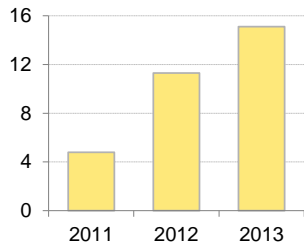
Source: Bloomberg New Energy Finance, EIA

Figure 8: MN cumulative utility-scale renewable capacity, 2008-12 (GW)



Source: Bloomberg New Energy Finance, EIA

Figure 9: MN cumulative installed residential and commercial solar capacity, 2011-13 (MW)



Source: Bloomberg New Energy Finance, IREC

Nearly 16MW of residential and commercial-scale (ie, distributed) solar capacity was installed in MN through 2013 (not visible in Figure 7 and Figure 8, but shown in Figure 9). State policy requires IOUs to have 1.5% of electric sales from solar by 2020. To meet this, we estimate that the state's IOUs will require 644MW of solar capacity, of which 64MW is required to be distributed solar.

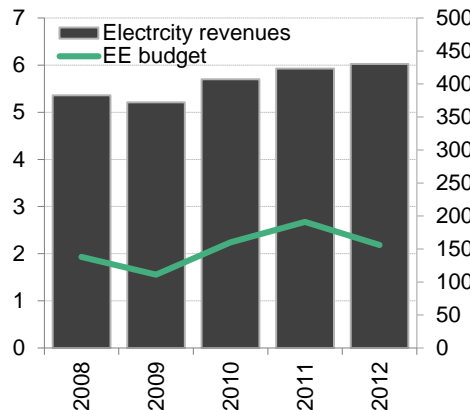
2.3. Energy efficiency

MN is a leader in terms of its overall energy efficiency efforts. The American Council for an Energy Efficient Economy (ACEEE) gave the state its fifth highest score (14 out of 20) for utility and public benefits programs and policies in 2013. Figure 10 shows MN's annual electricity revenues (black bars, left axis, \$bn) and energy efficiency budget (green line, right axis, \$m) from 2008 to 2012. The state dedicates noteworthy percentages of electricity revenues towards efficiency spending. Figure 11 shows how MN stacks up versus nearby states in terms of efficiency spending. MN dedicated 2.4% of its state-wide revenues to efficiency in 2013, relatively high for the region.

MN spends more than some neighbors on energy efficiency

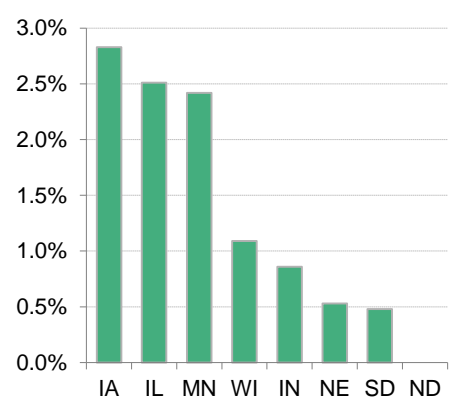
And it ranks 12th in the US for registered energy efficiency patents

Figure 10: MN utility electricity revenues (left axis, \$bn) and electricity efficiency budget (right axis, \$m), 2008-12



Source: ACEEE

Figure 11: States' utility electricity efficiency budgets as a fraction of state-wide electricity revenue, 2013 (%)



Source: ACEEE

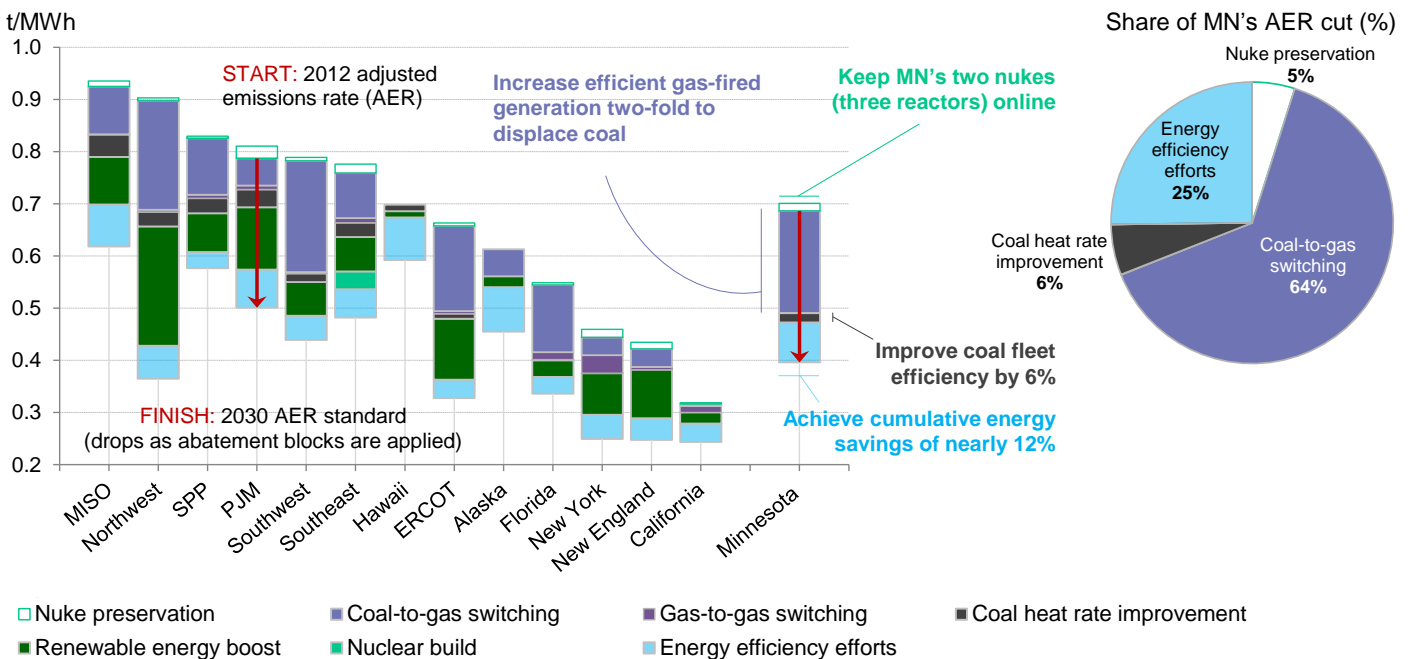
This efficiency spending helped pave the way for MN to achieve the savings required by its annual 1.5% energy efficiency resource standard (EERS). In 2011, incremental annual electric savings (ie, first-year savings from new efficiency efforts) summed across all of the state's utilities measured 965GWh at a cost of \$10/MWh-saved on average in 2011, according to the Minnesota Department of Commerce.²

3. CLEAN POWER PLAN

Minnesota's 'adjusted' emissions rate target

The EPA's *draft* Clean Power Plan tasks MN with reducing its 'adjusted' emission rate (AER) by 42% by 2030 – the 10th most stringent cut in the US. Figure 12 shows how the agency constructed MN's 2030 AER target – by applying various 'abatement blocks' (essentially, EPA assumptions) to the state's generation profile – and the relative importance of each (highlighted in the pie chart).

Figure 12: How the EPA constructed MN's 2030 AER target, compared with other states and regions



Source: Bloomberg New Energy Finance, EPA's Clean Power Plan Note: These charts show a proposed approach for achieving the reduction targets, but the Plan does not require that a state adopt this particular approach (it only requires that the state achieve the final target).

EPA's methodology emphasizes natural gas generation...

According to EPA, increasing efficient gas-fired generation – at the expense of coal – represents the most important 'abatement block' for MN by far (64% of its proposed AER reduction), followed by boosting energy efficiency efforts (25%) and preserving the state's nuclear plants (5%). Under the regulations as written, EPA asks for no incremental renewable build from MN since its RES already exceeds the regional average. Instead, the Plan suggests substantial coal-to-gas switching due to the fact that MN ran its CCGT fleet with one of the lowest capacity factors in the nation in 2012 (the EPA's baseline year for calculating AER targets).

2 For comparison, annual electric savings were 826GWh (which is just short of MN's 1.5% EERS target, in percentage terms) and cost \$14/MWh-saved on average in 2010.

...but the state has various options and flexibility to reduce its emissions intensity

Compliance options

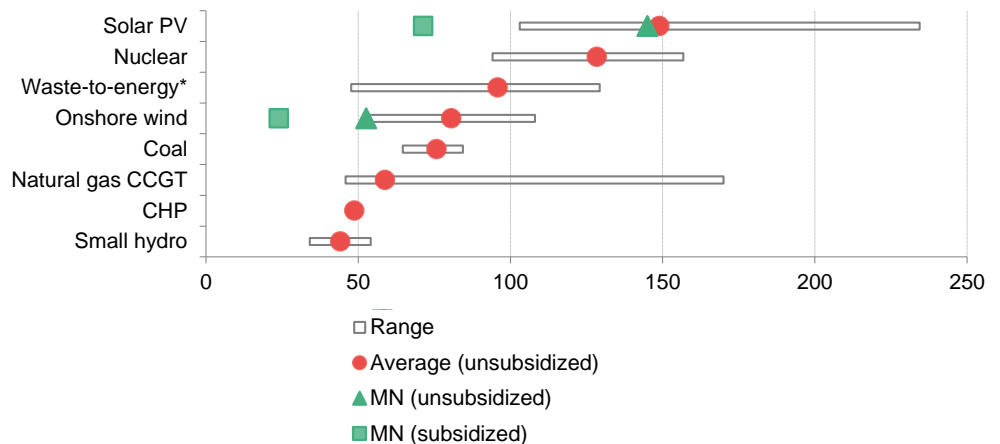
Minnesota need not follow the EPA’s suggested ‘abatement block’ methodology (above) to comply with the Clean Power Plan. The state has flexibility and strategies to consider:

- *Mass-based versus rate-based:* the Plan provides all states with the option to convert the rate-based targets (measured in t/MWh) to mass-based targets (ie, an absolute limit on emissions).
- *Markets versus mandates:* MN may use a market-based mechanism (eg, a trading scheme) to comply with the Plan; or it could do so by further strengthening the existing renewable energy standard and/or energy savings goals.
- *Multistate versus state-level:* MN can band together with one or more neighbors and submit a joint implementation plan to EPA.

4. OPPORTUNITIES

The Bloomberg New Energy Finance levelized cost of electricity (LCOE) analysis compares the cost of producing electricity from different technologies in the US (Figure 13). The red circles show US averages (prior to the inclusion of policy – ie, unsubsidized); the green triangles and squares show subsidized and unsubsidized Minnesota-specific LCOEs, respectively, for onshore wind and solar PV.

Figure 13: Unsubsidized levelized cost of electricity (LCOE) of select technologies in the US compared to subsidized and unsubsidized LCOE of onshore wind and solar PV in MN, H2 2014 (\$/MWh)



Source: Bloomberg New Energy Finance. Notes: *LCOE for waste-to-energy in this report is a global estimate, as opposed to all other LCOEs in Figure 13, which are either US or MN-specific. Variations in MN versus US average result from variations in capacity factor, capex and financing rates. Bars indicate the range of unsubsidized LCOE for each technology in the US. Key policies such as the \$23/MWh Production Tax Credit (PTC) and accelerated depreciated (MACRS) bring down unsubsidized LCOEs to subsidized levels. LCOE for combined heat and power (CHP) is for reciprocating engines with CHP. LCOE for small hydro assumes 60% capacity factor, but this can vary significantly depending on annual rainfall conditions.

Wind and solar PV are already, or on the verge of being, economically viable in Minnesota

A state study suggests MN can increase its 2030 RES to 40% without sacrificing reliability³

Renewables

- MN has a broad scope of renewable technologies to consider. The LCOE analysis indicates that, in MN, wind is already economic without incentives (unsubsidized LCOE below CCGT) and is even more viable after accounting for incentives.

³ According to the Minnesota Renewable Energy Integration and Transmission Study (31 October 2014).

- Based on LCOE, solar PV (subsidized) is cheaper than nuclear and nearly cheaper than CCGT in MN, and small hydro and CHP are similarly attractive.
- Other renewables like waste-to-energy, hydro and biomass could potentially do well in the state if these technologies received similar policy and price support as other renewables.

Natural gas

- The LCOE analysis also highlights the economic merit of natural gas CCGT, especially as increased natural gas production in the Northeast pushes down gas prices nationwide. MN imports most of its gas from Canada – and will continue to do so – but as Northeast production increasingly displaces other sources of demand for Canadian gas, more abundant – and potentially more stable – natural gas supplies could be on the horizon for MN.

Energy efficiency

- As MN's *cumulative* energy savings goal grows (its 1.5% EERS compounds annually), electric utilities may have to expand existing customer programs and pilot new approaches to meet their targets.
- While MN leads other states on efficiency, it has even further room for improvement: for example, [a study prepared for Xcel Energy](#), the state's largest utility, places technically and economically achievable cumulative annual energy savings in MN at 10TWh and 7TWh per year by 2020, respectively.

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