

Explanation of McLeod Co-op Power's DG Grid Access Fee.

Your cooperative is committed to providing a safe and reliable distribution grid to every member of the cooperative at fair and reasonable prices. We are also committed to sourcing our electricity supply from a diverse, balanced and cost effective portfolio of resources, including approximately 17% renewable energy.

The costs of providing all of our members equally with a safe and reliable distribution grid are fixed. These costs exist whether or not one of our members is able to install their own generation. We are very aware that, for a variety of reasons, the opportunity to own or install wind or solar generation is not an option for many of our members. Regardless, the grid needs to be built and maintained in such a way that it is capable of serving all members under peak load conditions, whenever that occurs; which could be when a cloud passes over a solar array, the wind is not blowing, or after the sun has set and their solar systems are not producing electricity. While these types of DG systems certainly reduce the amount of energy we have to purchase and deliver, they do not reduce our fixed costs. The problem arises in that we don't charge all of our members a fixed charge that recovers all of our fixed costs. Instead, as is true for virtually every electric utility, we bill a portion of our fixed costs based upon how much energy a member uses.

It is within this reality that MN State Statute 216B.164 Subd. 3(a) was passed that allows electric cooperatives like McLeod to charge a fee in order to collect fixed costs which are not already being recovered by rates when a member installs its own generation. Consistent with this statute, your member-elected Board of Directors approved the DG Grid Access Fee to be applied to all DG systems interconnected after March 1st, 2016. The fee will not apply to DG systems that were in place prior to that date.

The DG Grid Access Fee is calculated based upon our annual financial statements. The development of the fee establishes the portion of our fixed costs being recovered from all members in the Energy Charge. It is this portion of fixed costs that are not being recovered when a member supplies some of its energy needs from DG while remaining connected to and dependent on the grid. The DG Grid Access Fee makes sure that all members, including those with their own generation, are charged appropriately for the cooperative's distribution grid. Without the DG Grid Access Fee we are concerned about fairness; specifically that members without DG will end up being charged for grid costs that members with DG should be paying.

The development of the fee was done very carefully and in a way that provides stability and is reasonable. The fee is based on the size of the DG system (nameplate capacity) because the costs that are not being collected are a function of the energy produced, which is a function of the size of the DG system installed. We have also incorporated two provisions in order to balance the need for the fee with the potential impact on our members that decide to install DG. The first is to give a 3.5 kW allowance before the DG Grid Access Fee is applied. This allowance cuts in half the fee that would otherwise result from the typical size solar system installed at cooperatives in Minnesota, which is about 7 kW. The second is a limit on the fee that any member would be charged. We believe that both of these provisions help ensure that any resulting fees are reasonable while also reducing the shifting of cost responsibility to other members.

Based on our 2016 annual financial results, we have established a DG Grid Access Fee of \$3.92 per installed kW (for any installed kW over 3.5 kW) not to exceed \$51.00 per month. In summary, any DG system larger than 16.5 kW capacity will be capped at the \$51.00 per month maximum fee for 2017. Systems smaller than 16.5 kW and larger than 3.5 kW will pay something between zero and \$51.00, depending upon their nameplate capacity.

2017	
DG Size (kW)	Charge Per Month
2	None
3	None
4	\$ 1.96
5	\$ 5.88
6	\$ 9.80
7	\$ 13.72
8	\$ 17.64
9	\$ 21.56
10	\$ 25.48
11	\$ 29.40
12	\$ 33.32
13	\$ 37.24
14	\$ 41.16
15	\$ 15.08
16	\$ 49.00
17	\$ 51.00
18	\$ 51.00
19	\$ 51.00
20	\$ 51.00