

NORTH DAKOTA TRANSMISSION AUTHORITY



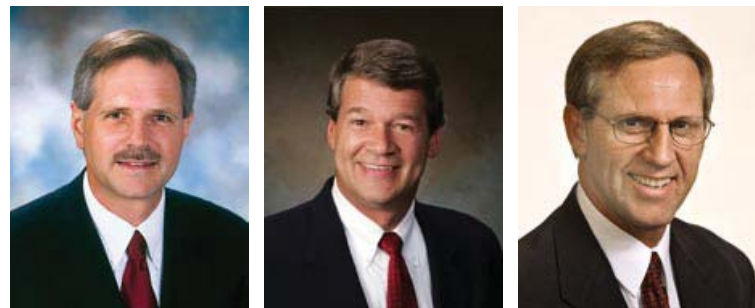
Annual Report | July 1, 2007 to June 30, 2008

Overview

At the request of the North Dakota Industrial Commission (NDIC), the North Dakota Transmission Authority (Authority) was created by the North Dakota Legislative Assembly in 2005. Since its inception, the Authority's mission has been to facilitate the development of transmission infrastructure in North Dakota. The Authority was established to serve as a catalyst for new investment in transmission by facilitating, financing, developing and/or acquiring transmission to accommodate new lignite and wind energy development. The Authority is a builder of last resort, meaning private business would have the first opportunity to invest in and/or build additional needed transmission.

By statute, the Authority membership is comprised of the members of the NDIC. In late 2006 the Authority named Sandi Tabor as its acting director. Ms. Tabor works closely with the Executive Director of the NDIC, Ms. Karlene Fine. The Authority has no other staff, and receives no direct general fund appropriation.

North Dakota Industrial Commission



John Hoeven
Governor

Wayne Stenehjem
Attorney General

Roger Johnson
Agriculture Commissioner

North Dakota Transmission Authority



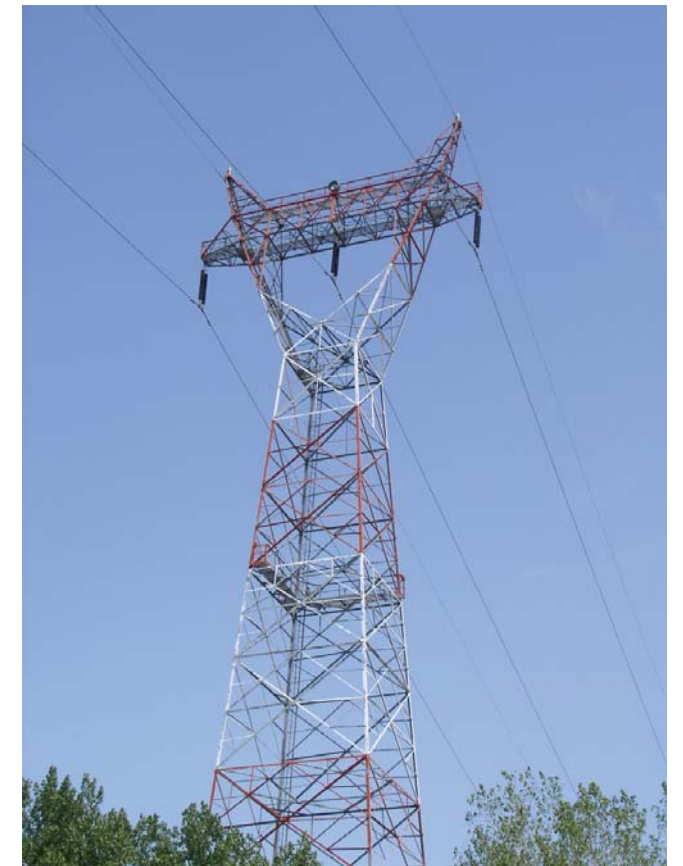
Sandi Tabor
Acting Director

Statutory Authority

Statutory authority for the Authority is found in chapter 17-05 of the North Dakota Century Code. Section 17-05-05 N.D.C.C. delineates the powers of the Authority including:

1. make grants or loans or to borrow money;
2. to issue up to \$800 million in revenue bonds;
3. enter into lease-sale contracts;
4. own, lease, rent and dispose of transmission facilities;
5. enter into contracts to construct, maintain and operate transmission facilities;
6. investigate, plan, prioritize and propose transmission corridors; and participate in regional transmission organizations.

Before the Authority may exercise its power to construct transmission facilities, it must follow a process defined by statute to ensure public participation and comment. In particular, the Authority must publish a notice describing the need for the transmission project. Entities interested in constructing the facilities or furnishing services to satisfy the identified needs have 180 days to respond by filing a notice of intent. If the Authority receives a notice of intent from an interested entity, it may not exercise its powers to construct unless the Authority makes a finding that doing so would be in the public interest. In making such a finding, the Authority shall consider the economic impact to the state, economic feasibility, technical performance, reliability, past performance, and the likelihood of successful completion and ongoing operation.



Summary of Activities

Interaction with Interested Parties

A significant element of the Authority's mission is to solicit ideas from interested parties regarding solutions to transmission constraint issues in North Dakota. The Authority's discussions have included outreach to independent transmission companies that build transmission infrastructure, to companies interested in developing lignite projects under the Lignite Vision 21 (LV21) program and to wind developers.

The Authority's work has also focused on interaction with members of Midwest Independent System Operator (MISO), the Organization of MISO (OMS) and other regional and state planning and permitting authorities to ensure transmission policies developed will be favorable to any new ND projects (coal or wind) that may come before these groups. For instance, the Authority provided input to the Western Governors Association on a letter to Congress requesting energy policy considerations that would stimulate clean energy growth, including provisions for clean coal and tax exempt status for state-issued revenue bonds for transmission development.

Another critical component of our interaction with interested parties is our outreach to entities interested in the development of new generation projects in North Dakota. This includes working with participants in the LV21 program, as well as with representatives from the wind development community. The following is a more detailed description of the Authority's outreach activities.

Transmission Round Table

Wind development activities in the state have increased significantly during the last year. To facilitate more orderly development and provide new opportunities for wind developers, the Authority orchestrated a meeting between transmission owners and wind developers. The transmission round table discussion was hosted by the Authority on May 20, 2008. Those attending included Governor Hoeven, Agriculture Commissioner Johnson, ND Public Service Commission (PSC) Commissioner Susan Wefald, and PSC Commissioner Kevin Kramer. The purpose of the meeting was to provide wind developers and transmission owners an opportunity to discuss wind development in North Dakota. Presentations were made by Basin Electric Power Cooperative, Montana-Dakota Utilities Co., Wind on the Wires and Minnkota Power. The group agreed that the meeting was worthwhile and encouraged the Authority to hold additional meetings to continue the dialogue.

Transmission Development Contacts

Another important function of the Authority is to serve as a contact point for wind developers. In addition the Authority works closely with the ND Department of Commerce regarding resource development contacts. The Authority held discussions with the following groups during the last year:

- Representatives from the Bismarck-Mandan Development Association regarding a wind developer interested in projects in North Dakota. A future meeting with the company will be coordinated.
- Outland Renewable Energy from Minnesota contacted the Authority on several occasions to explore potential wind development options.
- State Senator Curtis Olafson regarding wind development in the Grafton area. Discussions were also held with a representative from the Grafton Economic Development Association. The Grafton group scheduled a meeting with a wind developer from Manitoba to explore the possibilities of a wind farm in the Grafton area. The Authority also participated with Senator Olafson in several public outreach opportunities including a local radio interview to discuss wind development in the state.
- Representatives from Minnkota Power Cooperative regarding potential financing arrangements for the development of a transmission line in eastern ND. The line was part of the Langdon Wind Farm development. In the end Minnkota determined it did not require the Authority's resources for this project, but indicated a need may arise in the future.
- Basin Electric Power Cooperative regarding an update on its system upgrade in the oil and gas fields of western North Dakota. Additionally, the Authority funded a transmission load capability study on the oil field transmission project. Authority staff reviewed and approved the Western ND Transmission Load Capability Study conducted by PACE Global Energy Services late last year.
- Bank of North Dakota representatives and Karlene Fine to discuss a request from Mountrail-Williams Distribution Cooperative regarding financing for a 115kV distribution line. The Cooperative had developed a financing package, but needed additional funding to be able to complete the project. Due to the terms of the Cooperative's financing package, the BND was not able to participate.
- Just Wind LTD regarding the development of wind projects in Logan and Emmons counties. The representative was interested in the Authority building a transmission corridor in order to move wind to Minnesota.

Other Contacts

As demand for transmission capacity grows, several discussions regarding the development of distribution lines were held with local distribution cooperatives and transmission owners. As result, the Authority met with Eric Hardmeyer, president of the Bank of North Dakota, and Karlene Fine to discuss potential incentive packages for developing wind distribution projects. Authority staff is conducting more detailed discussions with several of the transmission owners to ascertain the type of incentives that may be useful in future developments. The objective of this endeavor is to develop a new financing package to be administered by the Bank of North Dakota.



Summary of Activities - continued

Government Action

An important part of the Authority's mission is to serve as a conduit of information for government agencies on numerous issues. The Authority accomplishes this mission through participation on commissions, testimony before legislative committees and meetings with regulatory entities like the North Dakota Public Service Commission (PSC). A snapshot of the Authority's government relations work includes the following:

EmPower ND Commission

During the 2007-2008 interim legislative period, the Authority has been actively engaged in the EmPower ND Commission work. Authority activities included briefing the Commission on transmission issues in North Dakota and preparing the transmission and wind portions of the Commission's final report. In so doing, staff also met with wind interests to develop a SWOT analysis and discussed potential recommendations for inclusion in the report. Authority staff also participated in numerous discussions as part of the EmPower ND Commission deliberations. In particular several meetings were held with the ND Tax Commissioner regarding taxation on wind projects and transmission infrastructure.

The Commission's final report included the following goals for wind and transmission:

- Increase installed capacity of wind generation to 1,500 megawatts by 2020 assuming it is cost-effective to do so.
- Increase North Dakota's energy export capacity to 4,000 megawatts.
- Maximize the availability of research dollars to be a leader in cutting edge wind harnessing technology.
- Support sensible, effective incentives to encourage investment in renewable wind resources that can play a vital role in addressing our nation's energy needs.



Gov. Hoeven, surrounded by members of the EmPower Commission, speaks at a press conference on June 26 to announce the Commission's recommendations. (L-R) Curt Jabs, John Weeda, Andrea Stomberg, Mark Nisbet, Randy Schneider, Shane Goettle, and Terry Goerger.

Congressional Briefings

In May 2008 the Authority presented briefings to the Congressional delegation regarding key issues in the transmission field. Included with the briefings were fact sheets related to the challenges facing transmission projects in North Dakota.

Federal Tax Exemption Legislation

Authority staff discussed the federal tax exemption for transmission infrastructure revenue bonds with the ND Congressional delegation and staff on several occasions during 2008. Congressional staff is aware of the importance of the exemption and is evaluating opportunities to include the language in the appropriate bill.

State Legislative Briefings

The Authority works closely with the North Dakota Legislative Assembly to evaluate issues of importance to the success of its mission. To date the Authority has presented an in-depth presentation regarding transmission issues to the interim Energy Development and Transmission Committee. Authority staff also monitored the activities of the interim committee related to the study of wind farm siting.

Coordination with ND Public Service Commission

The Authority works closely with the ND PSC on wind development issues. During 2008, meetings have been held with Commissioner Wefald to discuss MISO activities and other wind related issues. More specifically, the Authority also attended meetings with the PSC to discuss draft rules regarding the decommissioning of wind farms and to discuss siting issues associated with migratory birds. The Authority also worked closely with representatives from Minnesota Power as they prepared to brief the PSC Commission on the acquisition of the Minnkota Power DC line and future wind farm development.

MN Public Utilities Commission

In light of its ability to add additional transmission capacity to the system, the Authority filed a letter of support for the Big Stone II project with the Minnesota Public Utilities Commission in June.



Summary of Activities - continued

Communication with Regional and Federal Agencies

During last year the Authority engaged in conversations with representatives from several regional entities. The following is a summary of those activities.

CAPX 2020

The Authority held several meetings with representatives from the CAPX2020 project to discuss infrastructure needs, future transmission studies and coordination with the ND PSC. As CAPX2020 moves forward the Authority will continue to participate in planning and associated activities as requested by the CAPX2020 group.

Midwest Independent System Operator

- **Regional Generation Outlet Study** – Authority staff participated in meetings regarding the regional generation outlet study. This study is evaluating the impact of state specific renewable portfolio standards on MISO operations, specifically focusing on wind development. While much of the work to date has involved discussions with Minnesota, Iowa, Illinois and Wisconsin, the projected growth of wind projects in North Dakota may alter the MTEP 09 planning process.
- **MISO Coordination Agreement** – Authority staff held several meetings with representatives from Basin Electric Power Cooperative to discuss the MISO coordination agreement tariff. A new tariff has been filed with FERC, and the Independent System (operated by WAPA) is evaluating which, if any, of the options provided for under the tariff may be of interest to system members. This is an important decision as it may impact the pancaking of tariffs when transmission crosses from the Independent System to the MISO system.

Transmission Study Groups

The desire to move wind energy from North Dakota and South Dakota has become a key issue in the transmission arena. Several national groups and planning organizations (like MISO) are proposing special study commissions/committees/task forces to develop proposals for meeting renewable portfolio standards. Of the many groups being developed, the Authority will be recommending to Governor Hoeven that the Authority participate in a group called the Upper Midwest Transmission Task Force. This would be in addition to continuing participation in MISO study groups.

The Upper Midwest Transmission Task Force would include the interests of the regulators (like the ND PSC) and representatives from the executive branch of North Dakota, South Dakota, Minnesota, Iowa and Wisconsin. The group's mission will be to identify the necessary generation resources and the transmission projects or infrastructure needed to support those resources in a cost-effective manner and to determine a reasonable allocation of these costs for the Upper Midwest. The MISO will serve as a partner in the planning process.

Upper Great Plains Transmission Coalition

The Upper Great Plains Transmission Coalition met in October 2007 to discuss a variety of issues, mainly focusing on policy changes being pursued by MISO. Agenda items discussed included updates on:

1. the coordinating agreement negotiations between MISO and WAPA;
2. discussions regarding the MISO queue logjam and ways to improve the study process;
3. the MISO transmission planning process for 2008;
4. implementation of RECB I and II tariff structure; and
5. DOE's National Interest Electric Transmission Corridor designation process.

Authority staff presented information regarding 2008 goals, including plans to hold a roundtable discussion with transmission owners and wind developers in early 2008. The group agreed that the Coalition should hold at least two meetings each year, and should encourage committees to meet between full coalition meetings.

Search for Permanent Director

The Authority conducted a search for a permanent director in late 2007/early 2008. After evaluating the salary requirements of the applicants and the job duties of the director position, the decision was made to not hire a full-time director at this time, but that the Authority should retain a consultant to monitor and participate in MISO discussions.



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