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STATE OF MINNESOTA
BEFORE THE
MINNESOTA PUBLIC UTILITIES COMMISSION

Nancy Lange	Chair
Dan Lipschultz	Commissioner
Matt Schuerger	Commissioner
John Tuma	Commissioner
Katie Sieben	Commissioner

IN THE MATTER OF MINNESOTA POWER'S PETITION FOR APPROVAL OF A 250 MW NOBLES 2 WIND POWER PURCHASE AGREEMENT

MPUC Docket No. EO15/M-18-545

NOBLES 2 POWER PARTNERS, LLC REPLY COMMENTS

I. INTRODUCTION

Nobles 2 Power Partners, LLC ("Nobles 2") provides these reply comments in response to the Minnesota Department of Commerce, Division of Energy Resources' ("DOC-DER") September 21, 2018 Comments ("DER Comments") regarding Minnesota Power's Petition for Approval of the 250 MW Nobles 2 Wind Power Purchase Agreement (the "Petition"). Nobles 2 respectfully disagrees with the DOC-DER's analysis and conclusions regarding the Petition and offers additional facts in support of approval of the Amended and Restated Nobles 2 Power Purchase Agreement with Minnesota Power ("Nobles 2 PPA"). The Nobles 2 PPA will deliver significant benefits to Minnesota Power's ratepayers, and, as described more fully in these reply comments, Nobles 2 and Minnesota Power have worked diligently and in good faith to preserve the ratepayer benefits despite the introduction of several challenges adversely affecting not only Nobles 2 but the broader wind energy marketplace.

II. THE NOBLES 2 PROJECT

The Nobles 2 Power Partners Wind Project is an up to 250 megawatt ("MW") wind project located in Nobles County, Minnesota (the "Project"). As evidenced through Minnesota Power's competitive bidding process, the Project location, design, and development make it one of the most cost-competitive projects available in Minnesota, and, once constructed, it will deliver numerous benefits to the state and local community.

The Project is located along the Buffalo Ridge in southwestern Minnesota, an area recognized as among the best wind resource areas in Minnesota. This area of the state pioneered much of Minnesota's early wind development, allowing the Project to leverage not only the area's great wind resources but also strong, local community support. The agricultural landscape within the Project area has relatively few environmental constraints, and the local landowner support and participation has resulted in an efficient design and layout. These factors, coupled with the strong wind resource, result in an expected capacity factor for the Project as high as 47 percent.

The Project will provide a supplementary source of income for the rural landowners and farmers on whose land the Project will be sited and well-paying jobs for individuals that assist with construction or operation of the Project. The Project will also provide estimated annual production tax revenues ranging from approximately $1.1 to $1.3 million to Nobles County and the townships within which the Project will be sited. The development of the Project will also reduce dependence on potentially volatile fossil fuel markets and will help keep energy dollars in Minnesota.

Nobles 2's development team[1] has worked hard to efficiently utilize the excellent wind resource and ensure the success of the Project through its commercial transactions and permitting activities. Nobles 2 selected the Vestas V136-3.6 MW wind turbine generator as the primary wind turbine model for the Project. The Project will also include 10 to 21 Vestas V110-2.0 MW wind turbines, which are safe harbor turbines that allow the Project to qualify for 100 percent of the Federal Production Tax Credit ("PTC"). Nobles 2's acquisition of turbines as a safe-harbor under the PTC rules means that Minnesota Power's ratepayers will benefit from availability of the full PTC value through a low price in the Nobles 2 PPA. Nobles 2 also made the necessary Midcontinent Independent System Operator ("MISO") interconnection deposits in 2016 to place Nobles 2 in MISO's August 2016 West Area Definitive Planning Phase ("DPP") study group.

Nobles 2 applied for a certificate of need and site permit for the project on October 13, 2017 and is awaiting the Commission's final decision on the applications. Throughout the permitting process, the Project has enjoyed substantial local support, and all speakers at the public hearing spoke in favor of the Project. Additionally, Nobles 2 has worked with county and township road authorities and local drainage authorities to finalize a development, road use and drainage agreement that allows for the use of local roadways during construction. The Nobles County Board approved this agreement on September 18, 2018. Given the advanced stages of permitting, Nobles 2 is positioned to take turbine deliveries and complete construction prior to

[1] Tenaska, Inc., based in Omaha Nebraska, is one of the largest private, independent energy companies in the United States. Tenaska Wind Holdings, LLC, the parent company of Nobles 2 Power Partners, LLC, is an affiliate of Tenaska. Tenaska and its affiliates have developed 10,000 MW of natural gas-fueled and renewable power generation facilities and manage operations for over 7,000 MW power generation capacity.

the October 1, 2020 commercial operation date required under the Nobles 2 PPA and prior to the December 31, 2020 deadline to maintain the Project's safe harbor qualification for 100 percent of the PTC value.

As discussed more fully below, these Project attributes made Nobles 2 the top choice in Minnesota Power's competitive bid process. Nobles 2 continues to work diligently to preserve the PPA and to complete the Project's development activities to ensure that the Project, and its significant ratepayer benefits, will be realized.

III. PROCEDURAL AND TRANSACTIONAL HISTORY

A. The Nobles 2 PPA was Selected as the Lowest Cost Bidder through a Competitive Bidding Process.

As described in Minnesota Power's Petition, Nobles 2 was selected as the lowest cost bidder through a robust competitive acquisition process that evaluated proposals for 35 project sites from 17 bidders, totaling over 5,000 MW of nameplate capacity.[2] On May 10, 2017, Nobles 2 and Minnesota Power executed a PPA for the sale of the energy to be produced by the Project (the "Original PPA").

Minnesota Power's Petition highlights a number of Project attributes that make Nobles 2 the right wind project to meet the need identified in Minnesota Power's 2016-2030 Integrated Resource Plan ("IRP"). First, the location of the Project provides valuable diversification of wind energy production to Minnesota Power and its ratepayers.[3] Minnesota Power also determined that 250 MW from the Project balances Minnesota Power's customer needs and

[2] Minnesota Power Petition at 7.
[3] *Id*. at 9.

reduces customer cost without oversupplying Minnesota Power's power supply with excess wind energy.[4] The Project will also assist Minnesota Power in replacing its older coal plants with renewable energy, thereby reducing carbon dioxide emissions, and help Minnesota Power meet a capacity deficit identified in its IRP.

All of these attributes support the Commission's approval of the Nobles 2 PPA. While DOC-DER raised process concerns regarding the pricing amendment contained within the Nobles 2 PPA, the Commission must carefully consider whether those process concerns (i) outweigh the significant ratepayer benefits of the Project and (ii) justify creating the real risk that Minnesota Power will be unable to replace the Nobles 2 PPA with another project delivering equivalent benefits.

B. Nobles 2 and Minnesota Power Amended the Nobles 2 PPA in August 2018 to Respond to Changes in the Marketplace and Preserve the Benefits of the Project for Minnesota Power Ratepayers.

As discussed in Section II above, at the time Nobles 2 submitted its bid to Minnesota Power and executed the Original PPA, Nobles 2 had started the processes to qualify the Project for 100 percent of the PTC value and submit the project into MISO's August 2016 West DPP study group. In May 2017, when the Original PPA was executed, Nobles 2 expected to have a Generator Interconnection Agreement for the Project in the third quarter of 2018, and the best available information from MISO and Nobles 2's internal analyses indicated the Project could anticipate approximately **[TRADE SECRET DATA EXCISED**

[4] *Id.* at 13

TRADE SECRET DATA EXCISED] in network upgrade costs, making it a very competitive project in terms of $/kW of expected upgrade costs.

Unfortunately, following execution of the Original PPA in May 2017, there were two significant developments affecting the broader wind industry, including the Nobles 2 Project, that put the Project in jeopardy given its very competitive PPA price: (i) passage of the Tax Cut and Jobs Act ("TCJA") in December 2017 and (ii) MISO interconnection study results that significantly increased potential network upgrade costs for all projects in MISO's 2016 August West DPP study group. DOC-DER's Comments focused very narrowly on the actions of Minnesota Power and Nobles 2 following Minnesota Power's competitive bid process, but it is important to understand the broader context that prompted the arms' length, good faith negotiations that occurred to amend the PPA and preserve the Project and its many benefits for Minnesota Power and its ratepayers. This section provides that additional context.

The Original PPA included seller termination rights that allowed Nobles 2 to terminate the PPA based on passage of adverse tax law changes or MISO interconnection issues. The tax-related termination right allowed Nobles 2 to terminate the Original PPA until as late as January 2019. In January 2018, it became evident to Nobles 2 that the TCJA would significantly alter the economics of the Project and jeopardize the financing necessary to execute the Project. However, instead of waiting until January of 2019 to approach Minnesota Power with these issues, Nobles 2 proactively alerted Minnesota Power in January 2018 and approached them in good faith in an attempt to preserve the Original PPA and thereby retain its benefits for Minnesota ratepayers, rather than unilaterally terminating the Original PPA.

The TCJA included several provisions that have a material, negative effect on the economics of all renewable energy projects, including the Nobles 2 Project. For example, the following simple calculation illustrates how the change in tax rate lowers the tax savings to investors due to a decrease in the depreciation benefit to tax liability after the TCJA was approved.

[$]	Pre-TCJA	Post-TCJA
Operating Income	$ 5,000	$ 5,000
(+) Depreciation & Amortization	$ (7,000)	$ (7,000)
(=) Taxable Income / (Loss)	$ (2,000)	$ (2,000)
(x) Tax Rate	35%	21%
(=) Tax Benefit / (Liability)	$ 700	$ 420

These provisions of the TCJA cause a corresponding increase in the cost to access capital, thereby increasing the cost to develop and construct renewable energy projects. Nobles 2's assessment was that the TCJA provisions would raise the cost of renewable energy by as much as 20 percent. Nobles 2's assessment was echoed by others in the marketplace, including, for example, by **[TRADE SECRET DATA EXCISED**

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In the case of a wind project such as the Nobles 2 Project, investors give significant consideration to tax benefits when sizing their investments. These benefits include: (i) the Federal PTCs; (ii) the amount of cash generated from the project; (iii) tax savings due to losses (i.e., depreciation); and (iv) taxes on income generated. The decrease in the corporate tax rate from 35 percent to 21 percent reduces the amount of Federal taxes corporations will pay and, therefore, decreases the value of depreciation and the amount of PTCs investors can efficiently utilize. After the TCJA passed, there was considerable uncertainty in the marketplace with third-party tax equity providers, which substantially reduced the pool of tax equity available to fund wind and solar energy projects. Tenaska's own pool of tax equity that it could deploy for after-tax investments such as Nobles 2 was similarly affected.

More specifically, the TCJA reduces tax benefit expectations for wind energy investors, which is akin to an increase in a project's expected costs. As with any market, investors in renewable energy seek ways to ensure the economic viability of their projects and justify their continuing investments. In the case of Nobles 2, the low price in the Original PPA left little-to-no room to absorb these substantial cost increases, causing Nobles 2 to alert Minnesota Power that it was contemplating terminating the Original PPA. Again, Nobles 2 did this in January of 2018, more than one year before it was obligated to do so under the Original PPA.

At about the same time, in late January 2018, MISO, after encountering months of delays in its interconnection study process, released preliminary modeling information for the August 2016 West DPP study group, which includes Nobles 2, indicating that projects in this study group could be allocated network upgrade costs that were substantially higher than previous industry expectations. In February 2018, MISO informed the August 2016 West DPP study group that they identified a significant voltage stability problem, which would burden projects in the study group with hundreds of millions of additional, unexpected network upgrade costs. Nobles 2 spent most of February and March 2018 gathering additional information about these upgrade costs from MISO to better understand the potential impact on the Project. In March and April 2018, Nobles 2 engaged an independent transmission planning consultant to analyze the MISO information. The resulting analysis estimated network upgrade costs for Nobles 2 to range between [**TRADE SECRET DATA EXCISED TRADE SECRET DATA EXCISED**]. Again, given the low Original PPA price, there was no room for Nobles 2 to absorb these substantially higher costs. Network upgrade costs must be paid up front by the Project to the utilities building the interconnection facilities. In the case of Nobles 2, which will interconnect to Xcel Energy's transmission system, the upgrade costs will be paid to allow Xcel Energy and other MISO transmission owners to upgrade their systems to accommodate the additional energy. Increased network upgrade costs in no way improve the economics for the project developers or investors; they simply increase the amount of capital required to be paid to others to construct the project. Based on the revenue projections under the Original PPA price, there would have been insufficient revenues, without a price adjustment, to absorb these additional costs. As with the increased costs from the TCJA, Nobles 2 had to find a way to offset or recover these additional costs. Nobles 2 informed Minnesota Power about the potential for significantly higher network upgrade costs in April 2018.

Upon Nobles 2 notifying Minnesota Power, in January 2018, that it may have to contemplate terminating the Original PPA due to the TCJA, the parties engaged in good faith negotiations aimed at preserving the significant ratepayer benefits of the Project in spite of these adverse industry developments. These negotiations evolved into two distinct tracks. The first track focused on potential amendments to the Original PPA. The second involved negotiations with a separate team from Minnesota Power's affiliate, ALLETE South Wind, LLC, a subsidiary of ALLETE, Inc. ("ALLETE"), regarding a potential equity investment in the Project. The equity investment discussions are further described in Section V below. The negotiations to amend the Original PPA initially focused on changes to the PPA price to allow for recovery of the additional project costs resulting from the TCJA. Once Nobles 2 informed Minnesota Power of its network upgrade cost concerns, the parties also began negotiations on acceptable additional sharing mechanisms for recovery of higher than expected network upgrade costs.

Throughout these good faith negotiations, the combined goal of Minnesota Power and Nobles 2 was to amend the Original PPA so that the Project could move ahead while retaining the benefits that originally resulted in Minnesota Power's selection of the Nobles 2 Project. At no time during these negotiations did Nobles 2 have knowledge of any proposed pricing for any other project in the RFP, and, accordingly, Nobles 2 remained highly motivated to reach a reasonable agreement with Minnesota Power that retained a PPA for Nobles 2. Nobles 2 understood there was a risk that, if its PPA price was no longer competitive, Minnesota Power would not agree to an amendment, and Nobles 2 would likely have to terminate the Original PPA and remarket the Project to other potential purchasers.

Minnesota Power vigorously negotiated on behalf of itself and its ratepayers between January and August 2018. The levelized costs of Nobles 2's original amendment offer in January 2018 was [**TRADE SECRET DATA EXCISED** **TRADE SECRET DATA EXCISED**] (exclusive of transmission costs), whereas the agreed upon levelized cost agreed to in August 2018 was [**TRADE SECRET DATA EXCISED** **TRADE SECRET DATA EXCISED**] (exclusive of transmission costs). The Nobles 2 PPA price represents a [**TRADE SECRET DATA EXCISED** **TRADE SECRET**

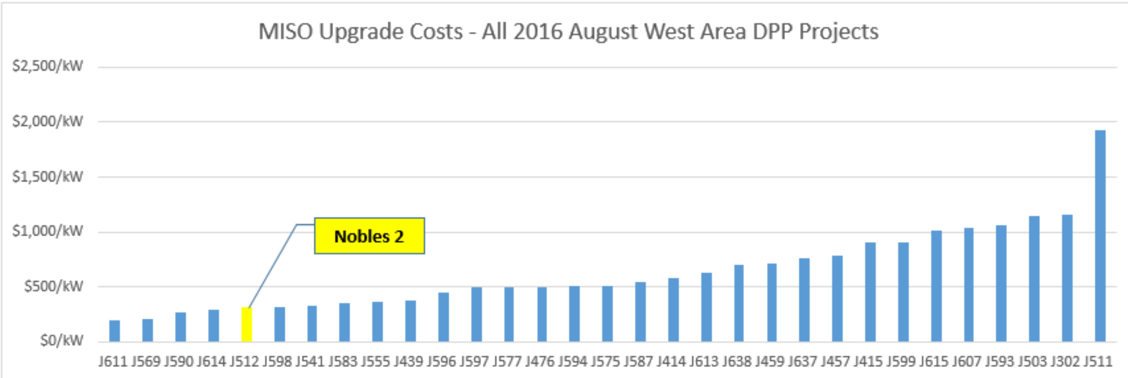
DATA EXCISED] from the [**TRADE SECRET DATA EXCISED TRADE SECRET DATA EXCISED**] levelized cost in the Original PPA, substantially less than Nobles 2's estimate of the total impact of the TCJA (i.e., approximately 20 percent). The parties finalized the Nobles 2 PPA on August 20, 2018. These changes are consistent with other PPAs and processes outlined in Section VII and approved by the Commission.

Shortly before the parties finalized and executed the Nobles 2 PPA, MISO released non-public draft study results for the MISO August 2016 West Areas DPP study group, indicating the Nobles 2 network upgrade costs would be at least [**TRADE SECRET DATA EXCISED TRADE SECRET DATA EXCISED**], with the final number dependent on the conclusion of MISO's then remaining study work. On September 20, 2018, MISO released its final DPP phase I ("DPP1") study report for the MISO August 2016 West Area DPP study group, confirming the Nobles 2 total network upgrade costs to be approximately $79 million, which is a significant multiple higher than Nobles 2's original expectations of [**TRADE SECRET DATA EXCISED TRADE SECRET DATA EXCISED**]. While the increased costs are disappointing, it is important to note that Nobles 2 fared relatively well amongst other August 2016 West Area DPP study group projects, with one of the lowest $/kW of network costs assigned.[5] Figure 2 shows the interconnection costs per kW of J512 (Nobles 2) and other projects in the August 2016 West Area DPP study group. Further, as MISO progresses with the second and third phases of its DPP study process, there is a chance

[5] https://cdn.misoenergy.org/GI_DPP_2016_Aug_West_Phase1_SIS_Report277263.pdf

that these costs will decline, depending on whether other projects withdraw from the August 2016 West Area DPP study group.

Figure 2. MISO Upgrade Costs for all August 2016 West Area DPP Projects.



Accordingly, Nobles 2 remains confident that it is well-positioned within the marketplace and that there are no other projects located in Minnesota with advanced permits and lower MISO network upgrade costs that are not already under contract with an off-taker. [6]

Moreover, the Commission should not overlook the fact that in all 10 scenarios analyzed by Minnesota Power in its Petition, including those assuming the highest estimated transmission upgrade costs, the Nobles 2 PPA provides substantial benefits for Minnesota Power's ratepayers.

[6] The four wind projects in the August 2016 West Area DPP Study Group with lower costs per kW do not meet Minnesota Power's requirements to procure 100-300 MW of wind energy and to add capacity by December 2020: 1) J611 is a 110 MW wind farm proposed in Missouri, which is outside of Minnesota Power's target region for wind diversification and, to Tenaska's knowledge, has not been permitted; 2) J569 is a 100 MW wind farm proposed in Rock County Minnesota and, to Tenaska's knowledge, has not commenced the permitting process with the Commission; 3) J590 is a 90 MW wind farm proposed in Iowa that does not meet Minnesota Power's size requirements; and 4) J614 is a 66 MW wind farm proposed in Iowa that does not meet Minnesota Power's size requirements and is already under contract with an off-taker.

The expected benefits of the Project range from $59 million to $350 million under these scenarios.[7] As noted above, the price under the Original PPA made it impractical to continue development given the changes caused by the TCJA and MISO interconnection costs. However, with the modest price adjustment reflected in the Nobles 2 PPA, the Project continues to deliver substantial benefits to Minnesota ratepayers.

IV. THE AMENDED AND RESTATED PPA PROVIDES BENEFITS TO MINNESOTA POWER RATEPAYERS THAT THE ORIGINAL PPA DID NOT PROVIDE.

While DOC-DER's Comments focused almost exclusively on the price adjustment under the Nobles 2 PPA, there are other provisions within the Nobles 2 PPA that are important for the Commission to consider as well. Notably, the [**TRADE SECRET DATA EXCISED TRADE SECRET DATA EXCISED**] was an additional concession that Nobles 2 ultimately agreed to during the PPA amendment process that will also benefit Minnesota Power's ratepayers. Under Section 17.5 and Exhibit F of the Nobles 2 PPA, Minnesota Power has the option to purchase the Project anytime after the PTC tax benefits expire, [**TRADE SECRET DATA EXCISED TRADE SECRET DATA EXCISED**]. This [**TRADE SECRET DATA EXCISED TRADE SECRET DATA EXCISED**] benefits Minnesota Power and its ratepayers by:

- Allowing Minnesota Power to lock in a low-cost, no carbon wind generation facility; and

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[7] Minnesota Power Petition at 15.

- Positioning Minnesota Power to repower a prime wind resource on the Buffalo Ridge with basic infrastructure, including interconnection, local transmission, underground collection, foundations and a welcoming and supportive local community in place.

The [**TRADE SECRET DATA EXCISED** **TRADE SECRET DATA EXCISED**] has inherent incremental value over the terms of the Original PPA because it provides Minnesota Power [**TRADE SECRET DATA EXCISED** **TRADE SECRET DATA EXCISED**] and its benefits to ratepayers. Under the Original PPA, Minnesota Power had a one-time option to purchase the Project when the PTC tax benefits expire, [**TRADE SECRET DATA EXCISED** **TRADE SECRET DATA EXCISED**] At that time, the [**TRADE SECRET DATA EXCISED** **TRADE SECRET DATA EXCISED**] Under the Nobles 2 PPA, the [**TRADE SECRET DATA EXCISED** **TRADE SECRET DATA EXCISED**] provides Minnesota Power with the ability, [**TRADE SECRET DATA EXCISED** **TRADE SECRET DATA EXCISED**] In addition, [**TRADE SECRET DATA EXCISED** **TRADE SECRET DATA EXCISED**], provides Minnesota Power far more certainty regarding its need for the renewable energy beyond the contract term, the expected operations and maintenance costs, and the economics of a potential repowering. Thus, this provision is a meaningful additional benefit of the Nobles 2 PPA as compared to the Original PPA.

Minnesota Power also negotiated to retain provisions in the Nobles 2 PPA to ensure Nobles 2 would provide Minnesota Power and its ratepayers with capacity, given the inherent value of capacity to its ratepayers. For example, Minnesota Power has the ability to terminate the Nobles 2 PPA if Nobles 2 does not achieve Network Resource Interconnection Service ("NRIS") status with MISO and secure a signed interconnection agreement on or before [**TRADE SECRET DATA EXCISED** **TRADE SECRET DATA EXCISED**]. During the negotiations, Minnesota Power continued to insist that the Project achieve NRIS status, which is necessary for the Project to provide capacity, even though the Energy Resource Interconnection Service ("ERIS") status could have significantly decreased the interconnection upgrade costs for Nobles 2. The other provisions of the Nobles 2 PPA remain largely unchanged, continuing to provide Minnesota Power and its ratepayers protections against development risk and unanticipated increases in cost.

V. DISCUSSIONS REGARDING EQUITY INVESTMENT WERE SEPARATE FROM PPA AMENDMENT NEGOTIATIONS AND PROVIDE BENEFITS FOR PROJECT.

It is common for developers of large energy projects to seek equity partners as part of a project's risk management strategy. As noted above, after Nobles 2 raised the difficulties it had identified resulting from the TCJA in January 2018, it also began a separate set of negotiations with ALLETE regarding the potential for it to become a minority equity investor in the Project. In March 2018, Tenaska, as owner of Nobles 2, and ALLETE signed a non-binding Memorandum of Understanding documenting their desire to continue evaluating a partnering opportunity around Nobles 2. The partnering negotiations continued throughout the summer of

2018 and are continuing as of the date of these reply comments. The partnering agreements have not been finalized, and ALLETE presently does not have any ownership in Nobles 2.

DOC-DER's suggestion that the ALLETE equity investment and PPA amendment negotiations were nefariously connected is simply inaccurate. These negotiations occurred in parallel with the separate discussions Nobles 2 and Minnesota Power were having regarding the PPA amendment, and different teams of individuals were involved in those discussions at Minnesota Power and ALLETE. In fact, as a counterparty in both negotiations, Nobles 2 can attest to the great lengths Minnesota Power and ALLETE went to keep the two teams and negotiations separate. The good faith negotiations are further demonstrated by the fact the amended price reflected in the Nobles 2 PPA is *lower* than the amended price Nobles 2 originally offered Minnesota Power in January 2018, before ALLETE began contemplating an equity investment, demonstrating that both Nobles 2 and Minnesota Power remained highly motivated to agree on the lowest possible price.

From Nobles 2's perspective, there were numerous reasons to approach ALLETE as a potential equity partner. First and foremost, as discussed in these reply comments, the pool of potential equity investors is shrinking and becoming increasingly difficult to access due to the consequences of the TCJA. Identifying and having a willing equity partner under these circumstances allows Nobles 2 to finalize its financing and gain access to the capital needed for turbine payments, MISO interconnection costs, and construction contracts, thereby achieving greater financial certainty for the Project. Second, ALLETE has experienced business development professionals who are very familiar with MISO and energy development and finance. Thus, in terms of completing due diligence reviews and executing the remaining development milestones, ALLETE represents a true development partner capable of providing technical expertise that will benefit the overall Project.

Advancing the equity investment negotiations in parallel with other development tasks is an important part of bringing certainty to the Project and ensuring it will meet its required milestones. Importantly, the equity investment with ALLETE hasn't yet been finalized, but was nonetheless disclosed as part of Minnesota Power's Petition, further evidencing the parties' intent to be transparent about the potential for an affiliated interest between Minnesota Power and Nobles 2, should the equity investment transaction with ALLETE close.

VI. NOBLES 2 IS WELL-POSITIONED TO DELIVER POWER UNDER TIMEFRAMES REQUIRED BY THE COMMISSION.

DOC-DER recommends that the Commission deny Minnesota Power's Petition, and, among other measures, require Minnesota Power to go through another RFP process. As discussed in other sections of these reply comments, the adverse impacts of the TCJA and higher than expected MISO network upgrade costs affect all wind projects. In fact, as mentioned in Section III, the MISO network upgrade costs have a greater effect on most other wind projects in the same queue as Nobles 2. Accordingly, Nobles 2 cautions that requiring additional months-long processes will continue to drive up costs and yield only a minimal likelihood of identifying a comparable alternative.

As described in the Petition and in the DER Comments, there is no dispute that the Nobles 2 PPA remains competitive, even assuming, unrealistically, that none of the other competing projects are affected by the TCJA or MISO interconnection costs and delays. Nobles 2 has reviewed publicly available information regarding other projects that may be available to meet the needs identified in Minnesota Power's IRP Order, and it was unable to identify another

250 MW wind project located in southern Minnesota that: (i) has identified transmission system upgrade costs lower than the Project; (ii) has near-complete or complete permits; and (iii) is not already under contract to deliver power to another purchaser. As the Commission is aware, the LWECS siting process in Minnesota takes at least six months to complete, and, if a certificate of need is required, the process takes at least 12 months to complete. Additionally, the MISO study process continues to be delayed, and it is not possible to leap frog existing interconnection queue positions within MISO. Accordingly, if a project does not exist today, it is unrealistic to assume it can reach commercial operation by December 31, 2020. Moreover, with the ramp down of the PTC, any project not already qualified for the 100 percent PTC safe harbor will be at a substantial price disadvantage as compared to Nobles 2. Finally, for projects that have not secured turbines, new tariff and other trade policies are placing additional upward pressure on turbine and steel prices.

Denying approval of the Nobles 2 PPA creates significant risk that Minnesota Power would have difficulty meeting its obligations under the Commission's July 2016 IRP Order, and Nobles 2 would have to remarket the Project to other potential purchasers. If Minnesota Power is required to conduct a new RFP, the result will be the loss of significant ratepayer benefits that Nobles 2 and Minnesota Power have worked so hard to preserve. Moreover, the additional commercial and regulatory uncertainty related to that delay decreases Nobles 2's ability to cost-effectively execute on this Project.

VII. TAX CHANGES AND INTERCONNECTION COSTS ARE AFFECTING THE BROADER WIND MARKETPLACE.

As an independent power producer and participant in the broader energy marketplace, Nobles 2 appreciates DOC-DER's focus on ensuring fair bidding processes and transparency in resource selections. That said, DOC-DER took no issue with the initial selection of Nobles 2, indicating the Minnesota Power's competitive bidding process was robust and its selection criteria was sound. Contract negotiations follow in the natural sequence of events after a short-list is selected, ultimately leading to the Commission's evaluation of the resulting final contract terms. Here, there were many intervening months between the execution of the Original PPA and the present docket. The fact that market forces prompted the parties to negotiate an amendment to the PPA isn't unheard of and is something this Commission has certainly seen before. There are numerous examples where this Commission has recognized changed market circumstances or other factors that weigh in favor of approving a particular resource that either was not selected through a competitive bid process or was later modified.

For example, in 2006, the Commission approved three PPAs between Xcel Energy and three separate wind developers that included a 'considerably higher price' than the price provided in the original version of the same PPAs selected during a Commission-supervised bid process.[8] Xcel Energy and the project proponents noted that the pricing for the three PPAs increased due to market uncertainty caused by federal PTC extension policies, combined with a constrained turbine market, and increased commodity prices that were exacerbated by federal tax uncertainty. In its order approving the MinnDakota PPA, the Commission noted that the "price

[8] See PPM's MinnDakota project in Docket No. E-002/M-06-85, enXco's Fenton project in Docket No. E-002/M-05-1850 and FPL's Mower County project in Docket No. E-002/M-05-1934.

increase for wind projects is not isolated to a particular vendor, but is part of the economics of the industry."[9] The Commission subsequently approved the price increases for all three PPAs.[10]

More recently, the Commission has been made aware of the pervasive impacts of the TCJA and MISO interconnection results through, for example, the regular updates that Xcel Energy has been providing to the Commission regarding how these two issues have impacted its 1550 MW wind acquisition.[11] Xcel Energy notes that the result of the TCJA is to increase project-specific revenue requirements. Xcel Energy then described numerous other commercial measures it took to address this issue.

Also, in May 2018, the Commission approved Xcel Energy's purchase of the Dakota Range I and II Wind Project despite the fact that the Project was not originally selected in Xcel Energy's RFP.[12] There, Xcel Energy did not select the Dakota Range wind farm for a PPA during the competitive bidding process due, in part, to uncertainty with interconnection costs. After the bidding process was complete, Dakota Range learned transmission costs would be

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[9] Order Approving Power Purchase Agreement as Amended. *In the Matter of a Request by Northern States Power Company d/b/a Xcel Energy for Approval of a Power Purchase Agreement with MinnDakota Wind LLC*, Docket No. E-002/M-06-85 (May 3, 2006); Order. *In the Matter of Northern States Power Company d/b/a Xcel Energy's Request for Approval of Power Purchase Agreement with Fenton Power Partners I, LLC,* Docket No. E-002/M-05-1850 (March 31, 2006); and Order. *In the Matter of Northern States Power Company d/b/a Xcel Energy's Request for Approval of Power Purchase Agreement with FPL Energy Mower County LLC (FPL)*, Docket No. E-002/M-05-1934 (March 31, 2006).

[10] *Id*.

[11] See e.g., Supplement, *In the Matter of the Petition of Xcel Energy for Approval of the Acquisition of Wind Generation from the Company's 2016-2030 Integrated Resource Plan*, Docket No. E002/M-16-777 (May 11, 2018) eDocket ID No. 20185-142979-02.

[12] Order Approving Petition, Establishing Ratepayer Protections, and Granting Variance, *In the Matter of the Petition of Northern States Power Company, d/b/a/ Xcel Energy, for Approval of the Acquisition of the 302.4 MW Dakota Range I and II Wind Project*, Docket No. E,002/M-17-694 (May 17, 2018).

lower than expected so Xcel Energy entered into an agreement to purchase the project. While the Commission recognized the importance of a competitive bidding process in ensuring utilities develop energy projects at the best overall price for ratepayers, the Commission also recognized that the significant benefits to ratepayers presented by the Dakota Range I and II projects weighed in favor of approval, despite the fact the project wasn't the result of an approved RFP process.[13]

The Commission must evaluate the reasonableness of the Nobles 2 PPA in light of the surrounding facts and circumstances, and it should not ignore that market changes related to the TCJA and MISO interconnection costs are impacting others in the marketplace as well. The Commission can reasonably evaluate the facts here to determine that the modest post-RFP changes to the PPA are reasonable given the nature of the market conditions and conclude that another RFP is impractical and unlikely to materially improve Minnesota Power's options for cost-effectively meeting the renewable energy needs identified in the IRP Order.

VIII. CONCLUSION

Nobles 2 respectfully requests that the Commission approve Minnesota Power's Petition. The Nobles 2 PPA will provide significant, undisputed benefits to Minnesota Power ratepayers. In order to recognize those benefits, it is important that the Commission provide regulatory certainty, by approving the Nobles 2 PPA, to allow Nobles 2 to make the significant additional investments necessary to complete construction and deliver power under the Nobles 2 PPA by October 1, 2020.

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[13] *Id*. at 4.

Dated: October 5, 2018

Respectfully submitted,

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