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August 19, 2019

Daniel P. Wolf
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, MN 55101

—Via Electronic Filing—

RE: REPLY COMMENTS
ACQUISITION OF THE COMMUNITY WIND NORTH FACILITIES
AND THE JEFFERS WIND FACILITY
DOCKET NO. E002/PA-18-777

Dear Mr. Wolf:

Northern States Power Company, doing business as Xcel Energy, submits to the Minnesota Public Utilities Commission this brief letter in response to the August 2, 2019 Response Comments of the Department of Commerce in this docket.

The Department contends that the Company's Strategist modeling for Community Wind North and Jeffers Wind implicates the same concerns the Department raised in its July 26, 2019 Supplemental Comments in the Mankato acquisition docket (Docket No. E002/PA-18-702). For that reason, the Department concludes that the Company's Strategist modeling should not be used as a basis for approving the Company's petition in this docket. In the Mankato docket, we noted our disagreement with many of the Department's modeling conclusions but did not respond in detail to those issues due to timing considerations and our contractual obligation to obtain regulatory approval by September 27th. Instead, we noted that the Company would be prepared to respond to each of the issues raised in the Department's and other parties' comments at the Commission hearing on our petition.

Similarly here, we will not address the Department's concerns regarding our Strategist modeling in detail because we do not want any such response in this docket to trigger a delay in the Mankato proceeding. That said, we do believe that there are good reasons to distinguish wind projects from the Mankato Energy Center natural gas combined cycle that should provide confidence that our wind analysis generates reliable results. We briefly describe the differences below.

First, even assuming we are incorrect about the hours that are the highest price (overall peak load vs. net peak hours), wind should either stay neutral or perhaps benefit, as the overall off peak to on peak ratio of wind does not change and it will likely receive the same portion of the higher peak prices regardless of the pricing structure utilized. Second, the Department was concerned that our sales forecast was too high relative to experience. However, as a zero cost dispatch unit that contributes very little to marginal capacity, it is fair to assume that the wind will be dispatched and that the decision to own this wind will make no difference in our capacity planning.

In sum, we continue to believe that our Strategist modeling is reasonable and fairly demonstrates the value of our proposal to acquire Community Wind North and Jeffers. And we will likewise be ready to respond to the Department's concerns, in even greater detail, at the hearing in this docket.

Setting modeling aside, we want to address one additional issue raised by the Department related to the cost effectiveness of our proposal, specifically with respect to Community Wind North. Because we initially negotiated a single option to purchase both projects, we evaluated them as a combination and demonstrated customer benefits on both a Present Value of Revenue Requirements (PVRR) and Present Value of Societal Cost (PVSC) basis for the combined proposal. The Department is correct, however, that we ultimately negotiated separate purchase agreements for each project and that the projects are no longer contractually bound together. The Department is also correct that two of the modeling scenarios for Community Wind North demonstrate small incremental costs on a PVRR basis when considered as a standalone project.

To be clear, the PVSC results for Community Wind North demonstrate benefits in all scenarios, and we believe those results provide a sufficient basis for the Commission to approve our Petition, but the public interest value delivered by these projects goes beyond those benefits. Namely, if the acquisition is approved, Longroad has committed to expressing a preference to use union labor to construct both projects. The opportunity to utilize local union labor for in-state development is precisely the type of factor the Commission has been willing to consider – and should continue to consider – in determining whether projects are in the public interest.

It is also worth noting that the benefits associated with both Jeffers Wind and Community Wind North are achieved in the early years of the project. This means that approval of our Petition will result in immediate savings for our customers relative to continuation of the REPAs, and those savings will persist for the ten-year duration of the Production Tax Credits. For all of these reasons, we believe the Commission should approve our proposal to acquire both Community Wind North and Jeffers Wind as NSPM-owned resources.

However, if the Commission does not ultimately conclude that our proposal is in the public interest, the Company is willing to move forward with the transactions through an unregulated subsidiary. In that case, the Company would step into the shoes of Longroad Energy under the amended REPAs, it would accept all of the risk associated with the wind farms' value beyond the REPA terms, and it would operate the wind farms consistent with the practices of other independent power producers in Minnesota.

Lastly, we want to address the Department's conclusion that the Company did not adequately justify its request for a variance from Minn. R. 1400(A)-(J). For many years, it has been routine practice of the Commission to grant variances to the requirement in Minn. R. 7825.1800(B) that petitions for the transfer of property include "all information as required in part 7825.1400, items A to J[.]" Throughout that time, the Department has consistently recommended that such variances be granted.¹ This is because Rule 7825.1400 requires the provision of information relevant to capital structure filings for the purpose of investigating the issuance of securities—not the acquisition of property. Indeed, variances to this rule in property transfer proceedings are so uncontroversial that, in 2008, the Office of Energy Security (OES) questioned whether a variance was even necessary given that the information required to be disclosed under Rule 7825.1400 had no bearing on a requested transfer of property.²

Despite this longstanding practice, the Department opposes the Company's requested variance, claiming that the Rule 7825.1400 information "would provide more information about the liabilities involved in acquiring the asset." This position apparently stems from the inclusion of the term "assumption of liability" in two subsections of Rule 7825.1400. That interpretation, however, disassociates the term from its context. The focus of Rule 7825.1400 is on a petitioner's capital structure and any *issuance* of securities or debt. Indeed, the actual phrase used in the rule "the issue or assumption of liability."³ This suggests that any assumption of liability to be discussed under Rule 7825.1400 must be similar in kind to an issuance of securities—and not simply the normal assumption of risks attendant to a particular piece of property. That interpretation is bolstered by Rule 7825.1000's definition of "security," which includes any "assumption of any obligation or liability as a guarantor, endorser, surety, or otherwise in the security of another person."

In connection with the proposed acquisition of Community Wind North and Jeffers Wind, the Company is not assuming any liability "as a guarantor, endorser, surety, or otherwise in the security of another person." These projects will be financed in the normal course of utility operations consistent with how we finance other assets. The

¹ See, e.g., Docket No. G-002/PA-18-294, March 28, 2019, Order Granting Variance and Approving Sale with Conditions; Docket No. E-002/PA-10-685, December 28, 2010, Order Approving Sale, as Conditioned, Granting Variance, and Requiring Filing.

² Notwithstanding this position, the OES supported the requested variance and subsequently continued to do so. See Docket No. E-002/PA-08-1238, Order, incorporating the recommendations of the OES.

³ Minn. R. 7825.1400, Subps. G & I.

requirements of Rule 7825.1400, therefore, are inapplicable here, and the Commission should approve the Company's requested variance to Rule 7825.1800(B)—as it consistently has in the past for similar transactions.

We have electronically filed this document with the Minnesota Public Utilities Commission, and copies have been served on the parties on the attached service list. Please contact me at bria.e.shea@xcelenergy.com or (612) 330-6064 or Mary Martinka at mary.a.martinka@xcelenergy.com or (612) 330-6737 if you have any questions regarding this filing.

Sincerely,

/s/

BRIA SHEA
DIRECTOR, REGULATORY AND STRATEGIC ANALYSIS

c: Service List

CERTIFICATE OF SERVICE

I, Lynnette Sweet, hereby certify that I have this day served copies of the foregoing document on the attached list of persons.

xx by depositing a true and correct copy thereof, properly enveloped with postage paid in the United States mail at Minneapolis, Minnesota

or

xx electronic filing

Docket No. E002/PA-18-777

Dated this 19th day of August 2019

/s/

Lynnette Sweet
Regulatory Administrator

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