Minnesota Public Utilities Commission
Staff Briefing Papers

Meeting Date: September 10, 2015 .... Agenda Item **#3**

Company: Xcel Energy (Xcel or the Company)

Docket No. **E-002/M-15-619**

In the Matter of a Petition by Xcel Energy for Approval of a Purchase Power Agreement with Best Power Int'l, LLC

Issues: Should the Commission approve the power purchase agreement (PPA) between Best Power Int'l, LLC (Best Power) and Xcel?

Should the Commission approve recovery of the costs associated with the PPA through the fuel clause adjustment (FCA) mechanism?

Staff: Susan Mackenzie…………………………………………….....651-201-2241

Relevant Documents

Xcel petition .... June 25, 2015
Department of Commerce (DOC) comments. .... July 21, 2015
Xcel reply comments .... August 6, 2015
DOC reply comments .... August 17, 2015

The attached materials are workpapers of the Commission Staff. They are intended for use by the Public Utilities Commission and are based upon information already in the record unless noted otherwise.

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Statement of the issue

Should the Commission approve the PPA between Best Power Int'l, LLC (Best Power) and Xcel?

Should the Commission approve recovery of the costs associated with the PPA through the fuel clause adjustment (FCA) mechanism?

Introduction/background

The petition before the Commission is a request by Xcel for approval of a PPA with Best Power for a 718 kW (AC) solar powered electric generating facility on a site at the School Sisters of Notre Dame in Mankato, MN. Best Power will construct, own and operate the facility.

The Best Power project was selected for an RDF grant award of $900,000 as part of the Cycle 4 RDF competitive bid process (RDF project EP4-5). The standard grant contract signed by Best Power was executed on October 3, 2014 and filed with the Commission for informational purposes on October 23, 2014. The project is currently under construction but approval of the PPA is a condition that must be met prior to the disbursement of RDF grant funds.

Xcel is also seeking approval to recover the Minnesota portion of the power purchase costs of the PPA through the fuel clause rider. In reply comments, the DOC recommended approval of the proposed PPA and recovery of the combined energy and capacity costs through the fuel clause rider under Minn. Stat. § 216B.1645.

Positions of the parties

Xcel Energy (Xcel)

Xcel stated that the PPA is in the public interest, reasonable and protects the interest of ratepayers. It stated that the agreed upon price per MWh is comparable to the price per MWh in other recent solar PPAs executed by the Company. The PPA is based on the Model RDF Solar Energy PPA and is a pay-for-performance energy contract, so that risk to ratepayers is minimized. The cost per MWh of the .718 MW facility is comparable to that of larger solar installations, despite unique design features of the project. The PPA will contribute to the Company meeting SES compliance at a reasonable cost comparable to other solar purchase contracts, while allowing developers and the Company to learn more about new components of solar technology.[1]

The Company intends to count the purchase toward the requirements of the SES (Minn. Stat. § 216B.1691, subd. 2). It requested that upon approval, costs incurred in connection with the PPA be recoverable consistent with Minn. Stat. § 216B.1645 through the fuel cost charge of the fuel clause rider.

[1]The project will experiment with higher voltage platforms that provide benefits in terms of component cost savings and reduced install time. For a fuller description of the RDF project, see Xcel's Petition filed June 25, 2015, p. 5.

Department of Commerce (DOC)

The DOC provided a complete summary of the filing and an analysis of the proposed PPA in comments filed on July 21, 2015. Staff will not repeat the DOC comments here. Based on its review of the PPA, including the additional information provided by Xcel in reply comments, the DOC concluded that: (1) the price to be paid by Xcel for the power provided during the first 15-year term on the PPA is reasonable, (2) ratepayers will be reasonably protected from financial and operational risks, and (3) curtailment provisions are appropriate.

Consistent with Minn. Stat. § 216B.1645, and past Commission practice, the DOC recommended that the Commission authorize Xcel to recover the Best Power PPA's combined energy and capacity costs through the FCA. The Department also recommended that the Commission require Xcel to offset its recovery of costs by any revenues it receives from any and all sources resulting from:

In initial comments, the DOC asked for more information on certain issues, indicating that it would provide a complete set of recommendations upon review of Xcel's reply comments.[2] The DOC sought more information on:

- *protection from operational risks if Best Power is unable to perform under the proposed PPA;* the DOC noted that the PPA includes specific features that minimize the negative impacts on ratepayers if the project is not built or operated as expected; however, it noted that Section 4.1(g) of the PPA required Best Power to report back to disclose any environmental contamination identified and to confirm that the problem had been remediated; the DOC asked Xcel in reply comments to discuss whether and to what extent there are circumstances that would limit or preclude Best Power's ability to perform under the proposed PPA.

- *protection from operational risk when no security fund is required*; the DOC asked Xcel to address in reply whether and how ratepayers will be protected in a situation in which the project does not operate in accordance with the proposed PPA.

- *curtailment;* the DOC asked Xcel to clarify why a curtailment provision was required given that such a provision was not included under similar circumstances when a project is connected at the distribution system level, with no need for MISO involvement. The DOC also asked Xcel to explain the use of non-firm transmission service given that it may result in curtailment payments.

- *SES eligibility*; the DOC invited Xcel to provide information to support a determination by the Commission that the solar energy purchased from the Best Power facility is SES-eligible.

The DOC also asked Xcel to provide: (1) a copy of its second quarter report on the project from the RDF Quarterly Report, (2) a reconciliation of the difference between project capacity used in

[2] For a full description of the issues and clarifications sought by the Department, see the DOC's initial comments, filed July 21, 2015.

the RDF bid and that identified in the instant filing, and (3) clarification that the Company would request Commission approval of any extension or non-extension if Xcel deems it appropriate to pursue such an extension.

On August 17, 2015, after reviewing Xcel's reply comments, the DOC filed a final set of clarifying comments recommending approval of the PPA. The DOC indicated that the Company had responded to all the DOC's concerns, with the exception of one that was addressed through an email exchange and brought forward into the DOC's August 17 comments. This concern had to do with the fact that Xcel had not addressed the request by the DOC that Xcel discuss in reply comments whether and to what extent there are circumstances that could limit or preclude Best Power's ability to perform under the proposed PPA specific to the environmental disclosure report outlined in Section 4.1.(g) of the PPA. The PPA stated that on July 11, 2015 Best Power would file a report on an environmental assessment.

However, Xcel did respond to the DOC request through an email sent on August 14, 2015, in which it indicated that Best Power had provided an environmental assessment that revealed no evidence of recognized environmental conditions in connection with the site. The DOC, satisfied with this response, recommended approval of the PPA but noted that Xcel should be fully aware, monitor, and communicate to the Department and the Commission any inherent risks in RDF PPAs, since these risks and costs are ultimately borne by ratepayers.

Staff discussion

Staff recommends the Commission approve the PPA as recommended by the DOC, find the renewable energy generated by the project eligible for the Minnesota RES, and authorize recovery of the PPA's Minnesota-jurisdictional costs through the fuel clause rider.

Also, as recommended by the DOC, the Commission should: (1) require Xcel to report in its annual automatic adjustment reports on whether it obtains any revenue from any source as a result of the PPA with Best Power, and (2) instruct Xcel to remain vigilant and monitor carefully inherent risks associated with RDF PPAs, such as follow up and reporting on environmental requirements that could ultimately interfere with the ability of a party to perform under the PPA, resulting in costs to be borne by ratepayers.

Staff believes the parties are in agreement on the Decision Alternatives proposed below. Staff has slightly modified the Department's language for clarity without changing the substance of the recommendations.

Decision Alternatives

1. Grant Xcel's request to approve the PPA with Best Power Intl., LLC, including the edits to Section 4.4(a)-(b) proposed on page 3 of Xcel's August 6, 2015 comments, upon the condition that an extension of the PPA beyond its current 15 year term will require Commission approval.

2. Xcel shall remain fully aware and carefully monitor inherent risks associated with PPAs for projects that have been awarded RDF funding. These risks include but are not limited to potential environmental risks. Xcel shall follow up on the risks it identifies and report them to the Department and Commission.

3. Find the renewable energy generated by the project is eligible for the Minnesota RES and approve the PPA under Minn. Stat. § 216B.1645, subd. 1.

4. Authorize recovery of the PPA's Minnesota-jurisdictional costs, including the combined energy and capacity costs, through the Company's fuel-clause rider under Minn. Stat. § 216B.1645, subd. 2.

5. Require Xcel to report in its annual automatic adjustment reports on whether it obtains any revenue from any source as a result of the PPA with Best Power Intl., LLC, and to itemize any such revenues by source and amount.