

September 30, 2020

Will Seuffert
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, Minnesota 55101

RE: **Response Comments of the Minnesota Department of Commerce,
Division of Energy Resources**
Docket No. E002/M-20-614

Dear Mr. Seuffert:

Attached are the response comments of the Minnesota Department of Commerce, Division of Energy Resources (Department) in the following matter:

Approval of a Power Purchase Agreement (PPA) between Xcel Electric and the City of St. Cloud for 8.5 MW Hydroelectric Generation.

The Department recommends that the Minnesota Public Utilities Commission (Commission) **approve the PPA, with requirements** as identified herein. The Department is available to answer any questions that the Commission may have.

Sincerely,

/s/ MICHAEL ZAJICEK
Public Utilities Rates Analyst

MNZ/ja
Attachment



Before the Minnesota Public Utilities Commission

Comments of the Minnesota Department of Commerce Division of Energy Resources

Docket No. E002/M-20-614

I. SUMMARY

On July 23, 2020, Northern States Power Company, doing business as Xcel Energy (Xcel or the Company), filed a petition (Petition) for approval by the Minnesota Public Utilities Commission (Commission) of a 20-year, 8.5 MW of hydroelectric power purchase agreement (PPA) with the City of St. Cloud (the City or the Seller). The Petition stated that the facility (St. Cloud Hydro) satisfies the conditions of a qualifying facility (QF) as a small power production facility that has less than 80 MW of capacity and uses renewable resources as the primary energy source.

On August 10, 2020, Xcel filed the First Amendment to the PPA to correct for clerical errors. In the following sections, the Department refers to the proposed PPA and its First Amendment as the proposed PPA.

On August 24, 2020, the Minnesota Department of Commerce (Department) filed comments with the following conclusions and recommendations:

The Department concludes that the proposed PPA would reasonably protect Xcel's ratepayers from the financial and operational risks of the proposed PPA, with the following requirements:

- No party may transfer the proposed PPA without the consent of the Commission if that transfer would cause any material change to the terms and conditions of the existing agreement.
- Xcel may not purchase the St. Cloud Hydro facility without the consent of the Commission.
- Upon exercising its option to purchase the facility, Xcel shall file with the Commission its plan to recover the costs of purchasing the facility.

However, to complete the record, the Department requested that Xcel, in reply comments:

1. identify its avoided cost of energy and its avoided cost of capacity, as well as the relevant tariff, and
2. demonstrate that the proposed purchase price per MWh is based on the avoided cost of energy and avoided cost of capacity identified in response to question 1 above.

On September 3, 2020, Xcel filed reply comments. The Department responds below.

II. DEPARTMENT ANALYSIS

The Department reviewed Xcel's responses to the Department's requests to determine whether the Company used the correct figures from Xcel's Annual Cost Filing when determining the rate for the proposed PPA. The Department discusses Xcel's responses to both questions below.

1. *Avoided Cost of Energy and Capacity*

Xcel stated that for 2020 its tariffed non-time of day (TOD) avoided energy costs for all hours is \$22.83 per MWh and the estimated weighted average avoided non-TOD capacity cost is \$6.14 per MWh. The Company stated that, when it began negotiations with St. Cloud in 2018, however, avoided energy costs for all hours was \$22.65 per MWh and the estimated weighted average avoided non-TOD capacity cost was \$4.83 per MWh, and thus those values were used as the basis for the PPA offer. The Company further provided tariff pages that confirm these rates for 2020 and 2018. The Department concludes that Xcel has adequately responded to the Department's first question.

2. *Demonstrate that the proposed purchase price per MWh is based on the avoided cost of energy and avoided cost of capacity identified in response to question 1 above*

Xcel stated that it developed the proposed PPA pricing based on its 2018 avoided cost as a starting point, although it did not include the avoided capacity costs until 2026 as the Company expected to be long on capacity until 2026. Xcel stated that as the PPA is long term it applied a discount rate to its avoided cost for future years. This adjustment resulted in the Company's proposed levelized price as included in the application. The Company then negotiated with St. Cloud a proposal that maintained the calculated levelized price but started at a higher rate while increasing by less each year. The Company included a spreadsheet in its filing detailing these calculations.

The Department reviewed the Company's calculations and concludes that the Company's proposed PPA pricing methodology appears reasonable and is based primarily on the Company's avoided cost.

III. RECOMMENDATIONS

The Department recommends that the Commission approve the PPA with the following requirements, as stated in the Department's initial comments:

- No party may transfer the proposed PPA without the consent of the Commission if that transfer would cause any material change to the terms and conditions of the existing agreement.

- Xcel may not purchase the St. Cloud Hydro facility without the consent of the Commission.
- Upon exercising its option to purchase the facility, Xcel shall file with the Commission its plan to recover the costs of purchasing the facility.

/ja

CERTIFICATE OF SERVICE

I, Sharon Ferguson, hereby certify that I have this day, served copies of the following document on the attached list of persons by electronic filing, certified mail, e-mail, or by depositing a true and correct copy thereof properly enveloped with postage paid in the United States Mail at St. Paul, Minnesota.

**Minnesota Department of Commerce
Response Comments**

Docket No. E002/M-20-614

Dated this **30th** day of **September 2020**

/s/Sharon Ferguson

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