

Staff Briefing Papers

Meeting Date February 24, 2022 Agenda Item 2**

Company Northern States Power Company, d/b/a Xcel Energy

Docket No. **E-002/M-20-815**

In the Matter of Northern States Power Company d/b/a Xcel Energy's Petition for Approval of the Renewable Energy Standard Rider Revenue Requirements for 2021 and Revised Adjustment Factors

- Issues
1. Should the Commission approve or modify Xcel Energy's RES rider revenue requirement for 2021 and the accompanying revised RES adjustment factors?
 2. Should the Commission alter Xcel Energy's REC management strategy including its Certified Renewable Percentage (CRP) Program?

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Relevant Documents

Date

Xcel Energy- Initial Petition (Public & Trade Secret)	November 5, 2020
Xcel Energy- Supplement REC Strategy	April 29, 2021
Minnesota Department of Commerce, Division of Energy Resources- Comments (Public & Trade Secret)	August 17, 2021
City of Minneapolis- Reply Comments	September 9, 2021
Xcel Energy- Reply Comments (Public & Trade Secret)	September 24, 2021
Minnesota Department of Commerce, Division of Energy Resources- Response to Reply Comments	November 9, 2021

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I. Statement of the Issues

1. Should the Commission approve or modify Xcel Energy's RES rider revenue requirement for 2021 and the accompanying revised RES adjustment factors?
2. Should the Commission alter Xcel Energy's REC management strategy including its Certified Renewable Percentage (CRP) Program?

II. Introduction

On November 5, 2020 Northern States Power Company dba Xcel Energy (Xcel Energy, Xcel, or the Company) filed its Petition in this matter asking for *inter alia* approval of its Renewable Energy Standard (RES) rider revenue requirements for 2021. The Petition requested continued RES rider cost recovery for 10 wind energy projects plus one new project request for a total cost recovery of \$188.8 million including carryover amounts from previous years.

Between August 17 and November 9, 2021, the Minnesota Department of Commerce, Division of Energy Resources (Department), Xcel and the City of Minneapolis exchanged comments regarding the Company's 2021 RES rider petition, resolving issues of earlier disagreement. However, there remains one unresolved issue between the parties regarding the Company's Renewable Energy Credit (REC) strategy including the Certified Renewable (CRP) program.

III. Background

A. Xcel's Renewable Energy Standard Rider

Generally, a public utility may not change its rates without undergoing a rate case in which the Commission comprehensively reviews the utility's costs and revenues. However, the Legislature created exceptions to this general policy, whereby a utility may implement a rider to expedite recovery of certain costs not reflected in the company's current base rates.

Under Minn. Stat. § 216B.1645, subd. 2a, a "utility may petition the Commission to approve a rate schedule that provides for the automatic adjustment of charges...to satisfy the requirements of section 216B.1691, provided those facilities were previously approved by the Commission under section 216B.2422 or 216B.243, or were determined by the Commission to be reasonable and prudent under section 216B.243, subdivision 9 ." ¹ In response to a utility petition for cost recovery of required RES statute procurement the Commission is authorized to approve a "rate schedule that: (1) allows a utility to recover directly from customers on a timely basis the costs of qualifying renewable energy projects..." ²

¹ Minn. Stat. § 216B.1691 is the Minnesota Renewable Energy Standard (RES) statute which outlines the requirements for electric utilities to either generate or procure a certain percentage of their total retail electrical sales from eligible renewable energy technologies.

² Minn. Stat. § 216B.1645 subd. 2a

The Company's last approved RES rider petition was filed on November 22, 2019 in Docket No. E-002/M-19-732 that *inter alia* requested approval of RES Rider recovery for Dakota Range I and II, Jeffers Wind, and Community Wind North and revised adjustment factors. The Commission's May 6, 2021 Order in that Docket approved RES Rider recovery for the requested projects and an adjustment factor of 5.091% that has been effective since June 1, 2021.

Staff notes the Company is proposing to roll into base rates certain renewable energy projects that are currently being recovered in the RES rider once final rates are implemented in their recently filed General Rate Case.³ Staff also notes the Company filed its 2022 RES Rider petition on November 12, 2021 in Docket No. E-002/M-21-794.

B. Xcel's Instant RES Rider Petition

On November 5, 2020 Xcel Energy filed its Petition for Renewable Energy Standard (RES) rider revenue requirements and adjustment factors for 2021.

On April 29, 2021 Xcel Energy filed a supplement to its November 5 RES Rider petition discussing its Renewable Energy Credit (REC) strategy in response to the March 25, 2021 Commission hearing on the Company's previous RES rider petition in Docket No. E-002/M-19-732 and Ordering Point 13.B of the Commission's May 6, 2021 Decision in that docket.

On August 17, 2021 the Department submitted comments in response to the petition.

On September 9, 2021 the City of Minneapolis submitted reply comments in response to the Department's comments.

On September 24, 2021 Xcel Energy submitted reply comments in response to the Department's comments.

On November 9, 2021 the Department submitted response comments to Xcel Energy's reply comments.

IV. Relevant Statutes

A. Cost recovery for utility's renewable facilities. Minn. Stat. § 216B.1645, Subd. 2a.

a) A utility may petition the commission to approve a rate schedule that provides for the automatic adjustment of charges to recover prudently incurred investments, expenses, or costs associated with facilities constructed, owned, or operated by a utility to satisfy the requirements of section 216B.1691, provided those facilities were previously approved by the commission under section 216B.2422 or 216B.243, or were

³ See Notice and Petition for Interim Rates, In the Matter of the Application of Northern States Power Company d/b/a Xcel Energy for Authority to Increase Rates for Electric Service in the State of Minnesota, Docket No. E-002/GR-21-630 at 4. The projects proposed to be rolled into base rates include: Courtenay, Foxtail, Blazing Star I and II, Lake Benton, Crowned Ridge, Jeffers, Community Wind North, Mower, Freeborn and Dakota Range Wind Farms.

determined by the commission to be reasonable and prudent under section 216B.243, subdivision 9. For facilities not subject to review by the commission under section 216B.2422 or 216B.243, a utility shall petition the commission for eligibility for cost recovery under this section prior to requesting cost recovery for the facility. The commission may approve, or approve as modified, a rate schedule that:

(1) allows a utility to recover directly from customers on a timely basis the costs of qualifying renewable energy projects, including:

(i) return on investment;

(ii) depreciation;

(iii) ongoing operation and maintenance costs;

(iv) taxes; and

(v) costs of transmission and other ancillary expenses directly allocable to transmitting electricity generated from a project meeting the specifications of this paragraph;

(2) provides a current return on construction work in progress, provided that recovery of these costs from Minnesota ratepayers is not sought through any other mechanism;

(3) allows recovery of other expenses incurred that are directly related to a renewable energy project, including expenses for energy storage, provided that the utility demonstrates to the commission's satisfaction that the expenses improve project economics, ensure project implementation, advance research and understanding of how storage devices may improve renewable energy projects, or facilitate coordination with the development of transmission necessary to transport energy produced by the project to market;

(4) allocates recoverable costs appropriately between wholesale and retail customers;

(5) terminates recovery when costs have been fully recovered or have otherwise been reflected in a utility's rates.

(b) A petition filed under this subdivision must include:

(1) a description of the facilities for which costs are to be recovered;

(2) an implementation schedule for the facilities;

(3) the utility's costs for the facilities;

(4) a description of the utility's efforts to ensure that costs of the facilities are reasonable and were prudently incurred; and

(5) a description of the benefits of the project in promoting the development of renewable energy in a manner consistent with this chapter.

B. Eligible Energy Technology Standard. Minn. Stat. § 216B.1691, Subd. 2a(b)

The Renewable Energy Objectives statute, Minn. Stat. § 216B.1691, provides for certain renewable energy objectives, which aptly apply to Xcel and states:

A utility must generate or procure sufficient electricity generated by an eligible [renewable1] energy technology to provide its retail customers in Minnesota or the retail customer of a distribution utility to which the electric utility provides wholesale electric service so that at least the following percentages of the electric utility's total retail electric sales to retail customers in Minnesota are generated by eligible energy technologies by the end of the year indicated:

- (1) 2010 – 15 percent
- (2) 2012 – 18 percent
- (3) 2016 – 25 percent
- (4) 2020 – 30 percent.

Of the 30 percent in 2020, at least 25 percent must be generated by solar energy or wind energy conversion systems and the remaining five percent by other eligible energy technology. Of the 25 percent that must be generated by wind or solar, no more than one percent may be solar generated and the remaining 24 percent or greater must be wind generated.

C. Solar Energy Standard. Minn. Stat. § 216B.1691, Subd. 2f

Additionally, subdivision 2f the Renewable Energy Objective statute provides for a Solar Energy Standard, stating in part:

- (a) In addition to the requirements of subdivisions 2a and 2b, each public utility shall generate or procure sufficient electricity generated by solar energy to serve its retail electricity customers in Minnesota so that by the end of 2020, at least 1.5 percent of the utility's total retail electric sales to retail customers in Minnesota is generated by solar energy....
- (d) The solar energy standard established in this subdivision is subject to all the provisions of this section governing a utility's standard obligation under subdivision 2a....
- (g) A public utility may not use energy used to satisfy the solar energy standard under this subdivision to satisfy its standard obligation under subdivision 2a.

A public utility may not use energy used to satisfy the standard obligation under subdivision 2a to satisfy the solar standard under this subdivision.

V. Xcel Energy's Initial Petition

Xcel's Petition seeks approval of: (1) additional costs associated with the Mower County Wind project; (2) 2021 Revenue Requirements of \$188.8 million, inclusive of tracker carryover balances, Production Tax Credit (PTC) true-up, and REC sale credits; (3) a RES Rider adjustment factor of 9.067%, assuming a February 1, 2021 effective date; (4) the ability to recalculate the adjustment factor based on the timing of the Commission's decision; (5) tariff revisions and customer notice.

The Company's proposed RES rider revenue requirements is outlined in Table 1 and the accompanying adjustment factor is in Table 2.

Table 1: Xcel Energy 2021 RES Rider Revenue Requirement⁴

Component	2021
Wind Project Expenses	\$ 92,794,332
2021 PTC Forecast	\$ -
REC Sales Proceeds Credit to Customers	\$ -
Carryover Balance	\$ 95,966,106
Revenue Requirement Total	\$ 188,760,438

Table 2: Xcel Energy 2021 RES Rider Adjustment Factor⁵

	Res Rate
2021 Revenue Requirement	\$ 188,760,438
Forecasted Feb 2021-Jan 2022 Base Revenues	\$ 2,081,796,423
	RES Rate 9.067%

VI. Discussion

A. Undisputed Issues

1. Project Eligibility

Xcel Energy requested continuing RES rider recovery for ten projects that have been previously approved by the Commission for RES rider recovery: (1) Courtenay Wind Facility; (2) Blazing Star I; (3) Blazing Star II; (4) Foxtail; (5) Freeborn; (6) Crowned Ridge; (7) Lake Benton; (8) Dakota Range I and II; (9) Jeffers Wind; (10) Community Wind North.⁶

⁴ See Initial Petition, November 5, 2020 at 16.

⁵ *Id.* at Attachment A.

⁶ Dakota Range I and II, Jeffers Wind, and Community Wind North were all approved for RES rider recovery in the Commission's May 6, 2021 Order in Docket No. E-002/M-19-732 which was ordered after the original filing date of this petition.

Xcel Energy also requested RES rider recovery for one other project—additional costs for Mower County Wind. The Company noted that the Commission previously approved the Company's acquisition of the project and allowed cost recovery via the RES rider.⁷

The Department agreed that all 11 projects are eligible for RES rider cost recovery.⁸

Decision Alternatives

1. Approve RES rider cost recovery eligibility for the projects included in Xcel Energy's Petition. (Xcel, Department)

2. ***RES Adjustment Factor***

The Company's initial petition called for a 9.067% adjustment factor to recover the RES rider costs.⁹ The adjustment factor is calculated by taking the 2021 RES revenue requirements (inclusive of tracker carryover balance, Production Tax Credit (PTC) true-up, and REC sales) divided by the forecasted base revenues for the 12-month period beginning February 1, 2021.

The Company's 2021 RES revenue requirements as petitioned is \$92,794,332 with a carryover balance of \$95,966,106 for a total of \$188,760,438 and can be seen in table 3 below.

⁷ See Ordering Point 4 of the Commission's November 5, 2020 order in Docket No. E-002/PA-19-553.

⁸ See Department Comments, August 17, 2021 at 4.

⁹ *Supra* note 5.

Table 3: Xcel Energy November 5, 2020 RES Rider Tracker Summary¹⁰

Annual Tracker Summary				
<i>Amounts in \$ Dollars</i>	2019	2020	2021	2022
	<i>Att. C</i>	<i>Att. D</i>	<i>Att. E</i>	<i>Att. F</i>
Wind Projects:				
Courtenay Wind	7,309,363	5,124,468	4,883,972	4,272,009
Blazing Star I (Self-build)	11,249,046	14,203,481	9,058,876	6,339,950
Blazing Star II (Self-build)	1,812,051	10,138,809	11,898,754	10,869,742
Foxtail (Self-build)	10,870,837	8,052,948	4,755,299	3,632,025
Freeborn (Self-build)	970,168	9,075,469	16,672,860	12,330,416
Crowned Ridge (BOT)	3,551,490	6,940,315	9,998,994	8,208,527
Lake Benton (BOT)	3,902,019	4,562,859	4,274,517	3,469,829
Dakota Range	2,974,190	4,666,867	16,400,419	7,060,944
Jeffers	-	(100,251)	2,703,784	2,473,609
Community Wind North	-	863,244	3,929,114	3,725,703
Mower	-	-	8,217,742	7,225,750
Wind Projects Total	42,639,164	63,528,208	92,794,332	69,608,503
RES PTC Tracker	3,082,170	1,316,862	-	34,384
REC Sales Credit	(3,456,839)	(97,851)	-	-
Revenue Requirement Subtotal	42,264,495	64,747,219	92,794,332	69,642,887
Carryover Balance	9,685,604	40,355,842	95,966,106	14,742,448
2017 Over Collection	(15,356,793)	-	-	-
Revenue Requirement Total	36,593,307	105,103,061	188,760,438	84,385,335
Revenue Collections	(3,762,536)	9,136,955	174,017,991	84,385,335
Balance	40,355,843	95,966,106	14,742,448	-

In its comments, the Department requested that the Company provide a “best estimate” of the final 2021 revenue requirements reflecting a 2022 effective date for the adjustment factor.¹¹

The Company noted that, in the last RES rider proceeding, it submitted a compliance filing on May 17, 2021 that included actual costs and revenues through 2020 as required by the Commission’s May 6, 2021 Order. In its reply comments in this docket, the Company provided an updated tracker summary that was consistent with its May 17, 2021 compliance filing and provides additional updates. Incorporating the updates, the Company’s current RES rider revenue requirement is \$203,746,263 which includes a \$96,853,482 carryover balance and \$18,723,889 in PTC true ups.

¹⁰ *Supra* note 4 at Attachment B.

¹¹ *Supra* note 8 at 3-4.

Table 4: Xcel Energy September 24, 2021 RES Rider Tracker Summary¹²

Annual Tracker Summary		
<i>Amounts in \$ Dollars</i>	2020	2021
	<i>Att. D</i>	<i>Att. E</i>
Wind Projects:		
Courtenay Wind	5,313,594	4,670,591
Blazing Star I (Self-build)	14,276,228	8,481,601
Blazing Star II (Self-build)	11,170,554	11,268,948
Foxtail (Self-build)	7,585,379	4,396,317
Freeborn (Self-build)	8,969,618	16,056,796
Crowned Ridge (BOT)	8,861,911	9,406,256
Lake Benton (BOT)	3,701,884	4,014,598
Dakota Range	4,630,124	15,888,295
Jeffers	74,991	2,469,628
Community Wind North	158,929	3,704,547
Mower	-	7,811,315
Wind Projects Total	64,743,212	88,168,892
RES PTC Tracker	811,541	18,723,889
REC Sales Credit	(97,851)	-
Revenue Requirement Subtotal	65,456,902	106,892,781
Carryover Balance	40,712,498	96,853,482
Revenue Requirement Total	106,169,400	203,746,263
Revenue Collections	9,315,918	69,472,301
Balance	96,853,482	134,273,962

Using the revised revenue requirement of \$203.7 million and forecasted sales reflecting a January 1, 2022 effective date, the Company proposed a 9.765% adjustment factor or, as compared to the initial petition, a 0.698% increase.¹³

The Department’s November 9, 2021 response to reply comments did not oppose the change in Revenue requirement and recommended that the Company implement the proposed adjustment factor “on January 1, 2022 or within 10 days of the Commission’s order, whichever is later.”¹⁴

Staff notes the final adjustment factor will likely be different than the currently petitioned 9.765% given the implementation date will be after January 1, 2022 which is the assumed effective date for that adjustment factor. Also, Staff is unsure whether the 10-day implementation period recommended by the Department is achievable. For that reason, the Commission may want to confirm with Xcel whether a different timetable should be used.

¹² See Xcel Energy reply comments, September 24, 2021 at Attachment B, p. 1 of 1.

¹³ *Id.* at Attachment A.

¹⁴ See Department response to reply comments, November 9, 2021 at 4.

Decision Alternatives

2. Approve Xcel Energy's RES rider revenue requirements and accompanying adjustment factor for 2021 as petitioned. (Xcel, Department)

AND

3. Require Xcel Energy to implement, within 10 days of the Commission Order, its updated RES rider rate factors and submit final tariff sheets, customer notice modified to reflect the new approved RES Adjustment factor and supporting documentation for the calculation of the new RES rider adjustment factor. (Department)

3. ***Project Cost Recovery***

As seen in Table 3, the Company's Petition identified 2021 RES rider eligible wind project revenue requirements of \$92.8 million. Xcel Energy noted that the Commission's May 18, 2015 Order in Docket No. E-002/GR-13-868 allowed it to true-up forecasted PTC amounts that are included in base rates and account for the difference in the RES rider tracker. The Company noted that it proposed a PTC forecast for 2021 through 2023 in their multi-year rate plan (MYRP) and that, because the same vintaged data was used in the rate case and in the RES rider petition, there is no forecasted adjustment to true up. Xcel went on to state that, if the MYRP is withdrawn, they would update the PTC forecast and petition accordingly.¹⁵

The Department in its comments noted that, while the Mower order allowed the project to be eligible for RES rider cost recovery, it also stated "Xcel must justify any costs...that are higher than forecasted in this proceeding. Xcel bears the burden of proof in any future regulatory proceeding."¹⁶ In accordance with the Mower Order, the Department requested that Xcel provide further detail and explanation for how the cited costs are consistent with the Mower Order and the original purchase and sales agreement (PSA).¹⁷ Additionally, the Department requested Xcel update its revenue requirements for the other 10 RES eligible wind projects.

In reply comments, Xcel Energy provided further detail on why the petitioned RES rider revenue requirements for projects tend to be higher than the PSA price.¹⁸ The Company argued that the "appropriate cap for rider recovery for these projects includes the PSA prices plus incremental costs directly tied to the projects."¹⁹ The Company elaborated that, during its acquisition dockets for the projects, its pro forma and *Encompass* modeling used to support the prudence of the project was based on the "total project costs" and was not limited to the PSA. Xcel Energy further added that cost recovery of the incremental costs above the PSA is also

¹⁵ *Supra* note 4 citing Docket No. E-002/GR-20-723.

¹⁶ *Supra* note 8 at 4.

¹⁷ *Id.* at 5.

¹⁸ *Supra* note 12 at 2-8.

¹⁹ *Id.* at 4.

consistent with the RES statute which “allows recovery of other expenses incurred that are directly related to a renewable energy project,” provided the expenses “ensure project implementation.”²⁰ The Company provided trade secret data in its reply comments identifying its proposed cost cap which is the total project costs minus the estimated labor costs.²¹

In addition to the incremental costs for projects above the PSA, Xcel’s reply comments identify \$18,723,889 in PTC true up costs with an overall wind project cost reduction of \$4,625,440 as compared to its initial petition.

The Department noted that the Company’s revised 2021 RES rider revenue requirements have increased to \$106,892,781, which is \$14,098,449 more than the originally petitioned amount and is largely due to the PTC true ups that were not in the original petition but are offset somewhat by the reduced project costs.²² The Department noted the \$18,723,889 PTC true up costs are the result of Xcel’s base rates in 2021 assuming \$54,363,523 in PTC credits for the projects in base rates but the forecasted actuals were \$35,639,635 thus requiring the true up after the withdrawal of the MYRP in 2020.

Ultimately the Department noted it “does not oppose this proposal [PTC true up costs] for 2021” and “concludes that Xcel’s proposal is reasonable in this particular case.”²³

Decision Alternatives

4. Approve Xcel Energy’s project cost recovery of \$106,892,781. (Xcel, Department)

4. **Cost of Debt**

Xcel Energy’s initial petition used a weighted cost of debt of 2.25%.²⁴

In its comments, the Department noted that the Commission’s last RES rider Order required Xcel to use a 2.06% weighted cost of debt for 2020, and that the withdrawn MYRP in Docket No. E-002/GR-20-723 cited a weighted cost of debt for 2021 at 1.99%. In light of the Company’s cited 1.99% weighted cost of debt, the Department recommended the Commission require Xcel to use this when updating its RES rider revenue requirements.

In its reply comments Xcel Energy agreed and changed its weighted cost of debt to 1.99%.

²⁰ *Supra* note 2

²¹ *Id.* at 8. Crowned Ridge II’s proposed cap is one-third of the cost to account for the one-third reduction in project size.

²² *Supra* note 14 at 1.

²³ *Id.* at 2.

²⁴ *Supra* note 4 at Attachment M.

Decision Alternatives

5. Approve Xcel Energy's weighted cost of debt of 1.99% for the 2021 RES rider. (Xcel, Department)

5. **ADIT**

Xcel Energy noted it calculated its 2021 RES rider revenue requirements using the Accumulated Deferred Income Tax (ADIT) proration treatment it discussed in its May 25, 2018 filing in Docket No. E-002/M-17-818, which the Department agreed to in the Company's 2019-2020 Transmission Cost Recovery (TCR) rider proceeding in Docket No. E-002/M-19-721.

Xcel's reply comments removed the ADIT proration due to the assumed January 1, 2022 implementation date which is after the conclusion of the test year.²⁵

The Department supported Xcel's removal of the ADIT proration.²⁶

Decision Alternatives

6. Approve Xcel Energy's removal of ADIT proration assuming an implementation date after January 1, 2022. (Xcel, Department)

B. Disputed Issues

1. Renewable Energy Credits

a. Background

Renewable Energy Credits (RECs) are an "attribute" associated with the energy production of an eligible renewable energy generator.²⁷ One REC is produced for every megawatt hour (MWh) of energy generated by an eligible renewable generator. RECs are a commodity that can be traded and represent the ownership rights to the "attribute" of the renewable energy generated.

In accordance with Commission's May 17, 2013 Order in Docket No. E-002/M-12-1132 Xcel Energy is required to return to customers, via the RES rider, 100 percent of the Renewable Energy Credit proceeds. In its Petition, Xcel Energy is refunding 100 percent of the REC sales proceeds and noted that "REC sales completed in 2018 and 2019 occurred prior to our last RES rider petition and are included in the tracker in 2019."²⁸

²⁵ *Supra* note 12 at 12.

²⁶ *Supra* note 14 at 2.

²⁷ Per Minn. Stat. § 1691 subd. 1, eligible renewable energy facilities include: solar; wind; hydroelectric with a capacity of less than 100 MW; hydrogen- provided if it's produced after January 1 2010 it is generated from certain sources.

²⁸ *Supra* note 4 at 15.

At the Commission’s March 25, 2021 hearing of the Company’s previous RES rider proceeding, there was a discussion about the Company’s REC strategy and their “Certified Renewable Percentage” (CRP) program. In response to the discussion the Company filed a supplemental filing in the instant docket outlining their REC strategy.

Xcel Energy’s REC generation, purchases and retirements are tracked in the third-party system “Midwest Renewable Energy Tracking System (M-RETS).”²⁹ After M-RETS issues Xcel their REC generation for a year, they identify program specific RECs that come from dedicated renewable resources and need to be retired. Table 5 shows the number of 2020 vintaged RECs issued for program specific purposes. After the program specific RECs are accounted for, the Company allocates remaining RECs to each of the Company’s state jurisdictions similar to how energy is allocated.³⁰ In 2020, the Minnesota jurisdiction was ultimately allocated 9.179 million RECs.

Table 5: RECs Directly Assigned or Reserved for Specific Programs

Program	2020 Vintage RECs Issued
Solar*Rewards (MN)	35,739
Solar*Rewards Community (MN)	1,211,995
Windsorce (MN)	189,033
Renewable*Connect (MN)	182,540
Solar*Connect Community (WI)	3,150
	1,622,457

State allocated RECs are retired based on State-specific renewable energy standard requirements or goals. In Minnesota, as of 2020, the RES statute requires Xcel to generate or procure at least 30% of their retail sales from eligible renewable sources and, of the 30%, 25% must be solar or wind and, of the 25%, no more than 1% can be from solar. Additionally, Minnesota requires Xcel to generate or procure at least 1.5% of their retail sales from solar energy. At a high level, Xcel is required to generate or procure at least 31.5% of their retail sales from eligible renewable resources.³¹

The Company can bank or sell excess RECs after accounting for program specific RECs and Minnesota renewable energy requirements. Beginning in calendar year 2018, Xcel Energy began calculating a CRP which is the amount of additional RECs retired plus RES compliance retirements. The CRP represents the amount of renewable energy generation and/or procurement for all of Xcel energy retail customers in a calendar year.

b. Department Comments

The Department noted that the CRP program could result in additional REC retirements above what is needed for compliance. Given this fact, the Department stated that “Xcel could otherwise sell those RECs or use those RECs for compliance... Ratepayers lose the money they

²⁹ See Supplement-Renewable Energy Standard Rider in Docket No. E-002/M-20-815, April 29, 2021 at 2.

³⁰ *Id.* at 2-3.

³¹ Minn. Stat. § 216B.1691 subd. 2a(b); subd. 2f.

otherwise would have gotten from the REC sales and may have to pay more to generate any future REC shortfalls due to the reduction in banked RECs.”³²

The Department highlighted that Xcel stated the CRP marketing benefit is “of particular value to commercial customers.” The Department recommended the Commission require Xcel to “immediately end the CRP program”, “unless Xcel can demonstrate that this purported marketing benefit for select commercial customers outweighs the harm to other customers.”³³

c. City of Minneapolis Reply Comments

The City of Minneapolis (Minneapolis) noted it “has established an ambitious and necessary community-wide renewable electricity goal” of 100% renewable electricity by 2030, and that “CRP provides the foundation upon which our 100% community-wide goal is measured and supported.” Minneapolis stated that, if Xcel were to sell all RECs above the RES requirements, it would be farther from achieving their 100% goal.

d. Xcel Energy Reply Comments

Xcel Energy stated the CRP is used by the City of Minneapolis, other municipalities, and large customers as a metric to meeting renewable energy goals and claims.³⁴ Further, Xcel stated the CRP is similar to greenhouse gas (GHG) metrics the Company already provides, does not increase costs for any customer, and is offered to *all* customers not just commercial customers.

As it relates to the Company’s claim that the CRP does not increase rates, Xcel noted that there is a public policy shift focused on GHG accounting and the Company must continually assess the risk of retiring vs. selling RECs. Xcel stated that “[e]nvironmental groups across the county [sic] have increasingly argued that if a utility sells RECs to another party, that other party—and not the utility—is entitled to claim the full GHG emissions reduction and environmental benefits of the MWh of renewable generation those RECs represent.” Additionally, the Company noted that it “expects to generate significantly more RECs annually than what is required to be retired under the RES Statute” meaning there is not likely a risk of additional procurement to meet the RES statute obligations, even with the CRP program.

The Company recommended the Commission take no action related to the Department’s recommendation to require Xcel to end the CRP program.

e. Department Response to Reply Comments

The Department’s response highlighted two concerns with the CRP. First, the Department is concerned that the CRP could “artificially bestow RES rider-eligibility on renewable projects that, absent the CRP, would not be eligible.” Second, the Department continued to note that Xcel is foregoing REC sales that, if sold, would reduce ratepayer’s RES rider costs.

³² *Supra* note 8 at 6-7.

³³ *Id.*

³⁴ *Supra* note 12 at 9.

The Department recommended the Commission require Xcel to no longer retire RECs above what is needed for regulatory and tariff compliance and instead require Xcel to sell all RECs not needed for regulatory compliance and only sell RECs that are set to expire within one year. Additionally, the Department recommended the Commission “take notice that Xcel now expects to generate significantly more RECs annually than what is required to be retired under the RES statute.”

f. Staff Analysis

Staff notes that the Department’s recommendation that Xcel no longer retire RECs above what is needed for RES compliance means the CRP program would effectively be capped at whatever percent is required (currently 31.5%) thus negating the Company’s intention of the CRP program. Additionally, the Department’s recommendation would require Xcel to sell all the RECs it has that are set to expire within one year and not needed for compliance irrespective of the actual market conditions including whether there is an able and willing buyer at a price that is actually beneficial to ratepayers. Staff further notes that requiring Xcel to sell all their RECs could send a signal to potential buyers that the Company is a price taker and *must* sell the RECs (as compared to today where the Company *can* sell RECs) which could lead to lower prices for RECs.

While Staff recognizes that a REC sales profit-sharing proposal is not exactly analogous to the CRP program, the Department highlighted the Commission’s August 26, 2015 Order in Docket No E-002/M-15-515 that allows for such a proposal and is potentially a good launching point for discussion on a REC management strategy amenable to all parties.³⁵ Additionally, the Commission may want to consider requiring workshops where parties can work to come to consensus on such a REC management strategy that could include some of the characteristics of a profit-sharing proposal.

Decision Alternatives

7. Take no action related to Xcel Energy’s REC management strategy including its CRP program. (Xcel)

OR

8. Require Xcel to not retire RECs above what is needed for regulatory and tariff compliance and sell all RECs that Xcel does not need for such compliance in the last year of the four-year banking period. (Department)

OR

³⁵ Department’ Response to Reply Comments, p.4.

9. Require Xcel and the Department to host a series of workshops about the Company's REC management strategy and file a REC management strategy proposed plan for Commission approval by January 1, 2023. (Staff)

VII. Decision Alternatives

Undisputed Issues

1. Approve RES rider cost recovery eligibility for the projects included in Xcel Energy's Petition. (Xcel, Department)
2. Approve Xcel Energy's RES rider revenue requirements and accompanying adjustment factor for 2021 as petitioned. (Xcel, Department)

AND

3. Require Xcel Energy to implement, within 10 days of the Commission Order, its updated RES rider rate factors and submit final tariff sheets, customer notice modified to reflect the new approved RES Adjustment factor and supporting documentation for the calculation of the new RES rider adjustment factor. (Department)
4. Approve Xcel Energy's project cost recovery of \$106,892,781. (Xcel, Department)
5. Approve Xcel Energy's weighted cost of debt of 1.99% for the 2021 RES rider. (Xcel, Department)
6. Approve Xcel Energy's removal of ADIT proration assuming an implementation date after January 1, 2022. (Xcel, Department)

Disputed Issues

7. Take no action related to Xcel Energy's REC management strategy including its CRP program. (Xcel)

OR

8. Require Xcel to not retire RECs above what is needed for regulatory and tariff compliance and sell all RECs that Xcel does not need for such compliance in the last year of the four-year banking period. (Department)

OR

9. Require Xcel and the Department to host a series of workshops about the Company's REC management strategy and file a REC management strategy proposed plan for Commission approval by January 1, 2023. (Staff)