

## Staff Briefing Papers

Meeting Date	April 7, 2022	Agenda Item **3
Company	Xcel Energy (Xcel or the Company)	
Docket No.	<b>E002/M-21-590</b>	
	<b>In the Matter of Xcel Energy's Power Purchase Agreement with St. Paul Cogeneration, LLC</b>	
Issues	Should the Commission reconsider its January 24, 2022 Order in this matter?	
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 <b>Relevant Documents</b>	<b>Date</b>
Commission Order	January 24, 2022
Xcel Energy, <i>Petition for Reconsideration and Amendment</i>	February 14, 2022
St. Paul Cogeneration, LLC, <i>Reply Comments</i>	February 15, 2022

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The attached materials are work papers 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.

## I. Statement of the Issue

Should the Commission reconsider its January 24, 2022 Order?

## II. Background

Xcel currently has an executed Power Purchase Agreement (PPA) with St. Paul Cogeneration, LLC (SPC) to purchase energy and capacity from the SPC facility, a 33 MW wood-and-natural gas-fired combined heat and power (CHP) facility located in downtown Saint Paul. As of early-2021, the PPA was scheduled to expire on December 31, 2022; however, during the 2021 Legislative Session, an amendment to Minn. Stat. § 216B.2424 was passed into law that allows Xcel and SPC to file a new PPA with the Commission, subject to certain conditions. As staff summarized in its December 8, 2021 staff briefing papers in the instant docket, Minn. Stat. § 216B.2424, subd. 5c has several requirements, which include both procedural aspects and guidance for the Commission in reviewing the PPA:

Subdivision 5c(a) requires that a new PPA between Xcel and SPC must be filed by August 1, 2021, with the term extended to December 31, 2024. Xcel filed the PPA on July 30, 2021, and the term expires on December 31, 2024.

Subdivision 5c(b)(1) is essentially a compliance requirement for SPC; it requires SPC to demonstrate and certify that the transport of biomass fuel from processed waste wood from ash trees to the SPC facility complies with the regulatory requirements under the Minnesota State Formal Quarantine for Emerald Ash Borer (EAB).

Subdivision 5c(b)(2) requires that the PPA price cannot exceed \$98 per megawatt-hour (MWh), and the price must demonstrate “significant savings” relative to the existing PPA. The PPA price is \$98/MWh, and it reduces cost by about 30 percent relative to the existing PPA.

Subdivision 5c(b)(3) requires that the PPA include a proposal for one or more electrification projects that result in the downtown Saint Paul district energy system producing thermal energy for its customers using electricity generated from renewable sources. Xcel’s petition did not include a specific proposal but discussed three different options for electrifying the thermal loads. Xcel stated it will file an electrification proposal to the Commission for approval no later than September 2024.

Subdivision 5c(b)(4) requires that the PPA provides “net benefit to the utility customers or the state.”

Subdivision 5c(d) states that SPC must attempt to obtain funding to reduce the cost of generating electricity and enable the facility to continue to operate beyond the agreement period to address the removal of ash trees, without any subsidy or

contribution from any PPA after December 31, 2024. SPC must submit periodic reports to the Commission regarding these efforts.<sup>1</sup>

Subdivision 5c(h) states that the Commission may allow Xcel to recover prudently incurred costs net of revenues resulting from the electrification project through an automatic cost recovery mechanism that allows for cost recovery outside of a general rate case. The cost recovery mechanism must (1) allow a reasonable return on the capital invested in the electrification project and (2) recover costs only from Minnesota electric service customers only.

On July 30, 2021, Xcel filed a petition for approval to extend the PPA through December 31, 2024. On January 24, 2022, the Commission issued its Order approving the two-year PPA with SPC under Minn. Stat. § 216B.2424, subd. 5c. However, the Commission declined to approve Xcel's proposed cost allocation method.

Xcel proposed to recover the costs of the PPA exclusively from Minnesota customers through the Fuel Clause Rider (FCR). Xcel argued that recovery of the PPA costs from Minnesota customers is warranted due to the unique attributes of SPC and its benefits to Minnesota. Minn. Stat. § 216B.2424, subd. 5c(b)(3) requires the PPA provide a "net benefit to the utility customers *or the state*," and Xcel discussed benefits to the state such as: the management of Emerald Ash Borer; the continued operation and efficiencies of a CHP facility; and the potential to electrify a portion of the downtown Saint Paul heating load.

The Commission's January 24, 2022 Order authorized recovery through the FCR, but only the Minnesota jurisdictional amount. The Commission reasoned:

The Commission will authorize Xcel to recover the Minnesota jurisdictional amount of PPA purchased-energy costs, net of any matching revenues, through Xcel's Fuel Clause Rider.

The Commission is not persuaded by Xcel's argument that purchased-energy costs should be recovered from Minnesota customers without jurisdictional allocation. The statutory text limiting recovery of certain costs to Minnesota customers expressly applies to electrification-project costs only and does not justify unusual treatment for PPA costs. Further, although Minnesotans will experience some local benefits, the capacity benefit of the PPA will contribute to reliability throughout Xcel's integrated system, beyond state borders. Accordingly, it is not reasonable to hold Minnesota customers responsible for more than their jurisdictional share of these costs.<sup>2</sup>

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<sup>1</sup> Docket No. 21-590, December 8, 2021 staff briefing papers, pp. 2-3.

<sup>2</sup> Commission Order, p. 9.

On February 14, 2022, Xcel filed a petition requesting the Commission reconsider its January 24, 2022 Order.

### III. Petitions for Reconsideration

Petitions for reconsideration are subject to Minn. Stat. § [216B.27](#) and Minn. R. [7829.3000](#). Under Minn. R. 7829.3000, a party or a person aggrieved and directly affected by a Commission decision or order may file a petition for reconsideration within 20 days of the order. Other parties to the proceeding shall file answers to a petition within 10 days. Petitions for reconsideration are denied by operation of law unless the Commission takes action within 60 days.

If the Commission takes up a party's request for reconsideration, the Commission may:

- (1) grant reconsideration for the purpose of tolling the statutory time period to allow additional time for reconsideration, or
- (2) grant reconsideration and modify its initial decision, or
- (3) deny the petition for reconsideration and thereby affirm the initial decision.

In accordance with the Commission's adopted meeting procedures, only a Commissioner voting on the prevailing side may move to reconsider. If the motion to reconsider passes, then the matter is again before the Commission.

The Commission met on December 16, 2021 to discuss the matter, with Chair Sieben and Commissioners Means, Schuerger, and Tuma present and Commissioner Sullivan abstaining. The Commission voted 4-0 on the motion to approve the PPA, which included Order Point 2 pertaining to cost recovery:

2. Authorize Northern States Power Company d/b/a Xcel Energy (Xcel Energy) to recover the purchased energy costs net of any matching revenues through the Fuel Clause Rider.

Xcel's petition outlines its cost recovery mechanism, which the Company believes would assign costs in a manner that respects the jurisdictional benefits of the PPA.

### IV. Xcel Request for Reconsideration

#### A. *Justification for Reconsideration*

Xcel reiterated that the Minnesota legislature's passage of Minn. Stat. § 216B.2424, subd. 5c demonstrates that the SPC facility fulfills a unique role in Minnesota. SPC has served heating load in downtown Saint Paul since 2003, and waste heat is captured and used to provide thermal energy to more than 200 buildings in the downtown Saint Paul business district and beyond. Moreover, there are few options for tree waste disposal in Minnesota – and none in the Twin Cities metro area – that can address the amount of wood residuals currently managed and eliminated by SPC. Minn. Stat. § 216B.2424, subd. 5c permits the Commission to approve the PPA if it “provides a net benefit to the utility customers *or the state.*” (Emphasis added by Xcel.) Xcel explained the purpose for requesting reconsideration as follows:

The purpose of this petition is to have the Commission reconsider language of Section V.B of the Order, which limits recovery to “the *Minnesota jurisdictional* amount of [purchased power agreement (PPA)] purchased-energy costs, net of any matching revenues, through Xcel’s Fuel Clause Rider.” Based on the Commission’s discussion of the record, we anticipated the Order would lay out an approach that satisfied the Commission’s interest in ensuring that other states pay for the energy and reliability benefits provided by the PPA, while recognizing it offers Minnesota-specific benefits that would justify a cost-recovery approach that differs from other resources. We understand the Commission’s perspective that the Company should generally only recover from its Minnesota customers the Minnesota jurisdictional share of the costs, but we respectfully request that the Commission reconsider this aspect of its decision given the unique circumstances presented by this PPA.<sup>3</sup>

Xcel acknowledged the Commission’s discussion that Xcel’s proposed cost recovery method did not reflect SPC’s contribution to Xcel’s resource adequacy. In response, Xcel stated:

The Company cannot disagree with the capacity benefit this—or any other generator—provides to the integrated system, but respectfully suggests that if the Company were looking to address a capacity deficit, it could have found a more cost-effective resource, or combination of resources, through a competitive acquisition process.<sup>4</sup>

### *B. Xcel Proposal*

The Commission’s January 24, 2022 Order authorized Xcel to recover the Minnesota jurisdictional amount of the PPA purchased energy costs, net of any matching revenues, through Xcel’s FCR. Xcel proposes the following modification:

authorize the Company to recover the PPA purchased energy costs, net of any matching revenues, less a market-based amount for the non-Minnesota jurisdictional portion of the energy and capacity benefits.

According to Xcel, this proposal “will essentially require customers in the other states in the integrated system to pay for the capacity and energy benefits that this PPA provides to the system but have Minnesota customers alone pay for the Minnesota-specific benefits of the PPA.”

Xcel included the table below as Attachment A of the petition to show the expected impacts of the proposal. The total cost of the PPA is \$15,023,400 per year, which is calculated by multiplying the PPA price, \$98/MWh, by annual purchased output, 153,300 MWh.

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<sup>3</sup> Xcel petition, p. 2.

<sup>4</sup> Xcel petition, p. 3.

Xcel then used a market-based proxy for energy and capacity; specifically, Xcel considered locational marginal pricing (LMP) at the NSP.NSP node for energy and the MISO Zone 1 planning reserve auction (PRA) clearing price for capacity to derive a total market cost for an equivalent amount of energy (153,300 MWh) and capacity (25 MW).

The ND and SD Allocation rows apply a jurisdictional allocator to estimate what those states would pay under a traditional allocation method, and what those states will pay under the Company's proposal to adjust Minnesota customers' share by "a market-based amount for the non-Minnesota jurisdictional portion of the energy and capacity benefits."

As staff understands it, the ND and SD Allocation rows in the Energy Impact and Capacity Impact sections of the table show what those states will ultimately pay for energy (roughly \$250,000 each for energy and \$2,500 each for capacity) under Xcel's proposal. These are market-based costs that apply a roughly 5 percent jurisdictional allocator to the Total Market Energy and Total Market Capacity costs. The Total PPA-ND/SD Allocation rows of the Total Impact to MN portion show the ND/SD PPA costs that Minnesota customers will be assigned under full allocation of PPA costs (roughly \$800,000 each).

#### Impact of Proposed Jurisdictional Recovery

<i>Energy Impact</i>	2023	2024
Production (MWh)	153,300	153,300
Cost (\$/MWh)	\$98	\$98
Total Cost	\$15,023,400	\$15,023,400
Market Price*	\$31.02	\$26.20
Total Mkt Energy Cost	\$4,754,660	\$4,017,184
ND Allocation	\$258,306	\$218,222
SD Allocation	\$267,145	\$227,323
<b>Total (credit to MN)</b>	<b>\$525,452</b>	<b>\$445,545</b>

\*To be based on actual LMP

<i>Capacity Impact</i>	2023	2024
2021/2022 Zone 1		
PRA Clearing Price**	\$5 MW/day	
Total (Based on 25 MW)	\$45,625	\$45,625
ND Allocation	\$2,479	\$2,478
SD Allocation	\$2,563	\$2,582
<b>Total (credit to MN)</b>	<b>\$5,042</b>	<b>\$5,060</b>

\*\*To be based on actual Zone 1 Clearing Price

<i>Total Impact to MN</i>	2023	2024
Total PPA-ND Allocation	\$816,176	\$816,103
Total PPA-SD Allocation	\$844,105	\$850,139
Total Energy Credit	\$525,452	\$445,545
Total Capacity Credit	\$5,042	\$5,060
<b>Difference (from MN)</b>	<b>\$1,129,787</b>	<b>\$1,215,636</b>

<i>Allocations</i>	2023	2024
ND	5.4327%	5.4322%
SD	5.6186%	5.6588%

In short, the total cost of the PPA is \$15,023,400. Xcel proposes to recover this amount from Minnesota customers only. However, to reflect the system benefits the SPC facility will provide, Xcel proposes to recover a market-based energy and capacity component from other jurisdictions. This amount is calculated by applying the jurisdictional allocator (in %) to the total market energy cost and total market capacity cost (based on 25 MW). If the Commission grants Xcel's reconsideration request, the Company offers to make compliance filings to show it will not over-collect the actual costs of the PPA.

## V. Parties' Comments

St. Paul Cogeneration, LLC (SPC) was the only party to comment on Xcel's reconsideration petition. SPC expressed concern that not granting Xcel's reconsideration request could put the PPA at risk and undermine the Commission's previous approval. SPC explained that a condition precedent to the PPA is that Xcel receives authorization to recover all costs incurred, so Xcel may seek to terminate the PPA if Xcel cannot recover its costs.

SPC also provided an update on activity since the December 16, 2021 hearing on this matter:

As proposed by the Commission, work has begun to identify alternatives to reduce the cost of electricity generated by SPC. Over the past 6 weeks, SPC has had multiple meetings with the Minnesota Pollution Control Agency and the Partnership on Waste and Energy concerning the sources of waste wood used by SPC, identifying stakeholders to participate in a working group to examine alternatives (e.g., tipping fees) to reduce the cost of electricity generated by SPC, and to quantify the public benefit provided by SPC. SPC anticipates this work will continue to progress over the next several months and as the work advances, SPC will provide periodic voluntary updates in this Docket and to the Minnesota Legislature.

## VI. Staff Analysis

As Xcel correctly stated in its February 14, 2022 petition, the Commission generally reviews petitions to reconsider on whether they (i) raise new issues, (ii) point to new and relevant evidence, (iii) expose errors or ambiguities in the underlying order, or (iv) otherwise persuade the Commission that it should rethink its decision. As staff will describe below, Xcel did not raise new issues, point to new evidence, or expose errors in the Order; rather, Xcel hopes to persuade the Commission that it should rethink its decision, and in doing so, the Company provided a modified version of Order Point 2, with an explanation of how Xcel would collect market-based amounts of energy and capacity benefits from other jurisdictions.

Xcel proposes to use market-based proxies – LMP for energy and Zone 1 PRA clearing prices for capacity – to recover costs from other jurisdictions to offset recovering all costs associated with the PPA from Minnesota customers. This is similar to how Xcel collects costs from other jurisdictions for other Minnesota-specific resources—for example, Community Solar Gardens (CSG). Under the CSG program, North Dakota and South Dakota customers pay a market rate for the energy from the CSG resources; in this case, there is an additional capacity component that recognizes the Commission's January 24, 2022 Order, which stated that “the capacity

benefit of the PPA will contribute to reliability throughout Xcel’s integrated system, beyond state borders.” The impact of the market proxy method is shown below in an excerpt of the table from Attachment A (this table is provided in full on page 5 of the briefing papers).

<i>Total Impact to MN</i>	2023	2024
Total PPA-ND Allocation	\$816,176	\$816,103
Total PPA-SD Allocation	\$844,105	\$850,139
Total Energy Credit	\$525,452	\$445,545
Total Capacity Credit	\$5,042	\$5,060
<b>Difference (from MN)</b>	<b>\$1,129,787</b>	<b>\$1,215,636</b>

Recall that the total cost of the PPA is roughly \$15 million per year. (This amount is calculated by multiplying the energy price, \$98/MWh, by the expected generation, 153,300 MWh.) The first two rows show the ND and SD Allocations under a traditional cost allocation framework. The North Dakota and South Dakota allocations comprise slightly more than five percent each of the \$15 million, or roughly \$800,000+ from each state. The impact to Minnesota of paying for 100 percent of the PPA costs is approximately \$1.66 million in 2023, and the energy and capacity credits reduce this burden by about \$530,000. In other words, Xcel’s language stating “less a market-based amount for the non-Minnesota jurisdictional portion of the energy and capacity benefits” means that North Dakota and South Dakota would pay \$525,452 for energy benefits and \$5,042 for capacity benefits in 2023. These system benefits would be credited to Minnesota ratepayers to offset the full allocation of the PPA to Minnesota.

Staff notes that Xcel’s position has not changed since the initial PPA filing; the reconsideration petition simply clarified how the costs and revenues associated with the PPA would be accounted for across all jurisdictions, while introducing a new capacity component that would be credited to Minnesota customers. The Commission has already addressed whether Minnesota should pay for the ND PPA Allocation and the SD PPA Allocation shown in the excerpted table above; the Commission’s January 24, 2022 Order explained that “it is not reasonable to hold Minnesota customers responsible for more than their jurisdictional share of these costs.”<sup>5</sup> However, as laid out in Xcel’s and SPC’s filings, the Commission may decide to reconsider its decision for two main reasons.

First, given the localized benefits of the SPC facility, the Commission may decide it is reasonable for Minnesota customers to pay for the ND and SD allocations. Second, the Commission may agree with SPC that not allowing cost recovery under Xcel’s proposed framework would put the PPA at risk. Should the Commission grant reconsideration, staff supports Xcel’s offer to make compliance filings to demonstrate what is recovered from customers in other states and that the Company is not recovering more than the actual costs of the PPA.

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<sup>5</sup> Commission Order, p. 9.



## VII. Decision Options

1. Deny Xcel Energy's request to reconsider the Commission's January 24, 2022 Order.
2. For procedural purposes only, grant reconsideration for the limited purpose of tolling the 60-day time period to allow additional time for preparation of the Commission's written Order on the merits. **AND/OR**
3. Grant reconsideration to authorize Xcel Energy to recover the PPA purchased energy costs, net of any matching revenues, less a market-based amount for the non-Minnesota jurisdictional portion of the energy and capacity benefits. *(Xcel)*
4. Xcel shall make compliance filings to demonstrate what the Company recovers from customers in other states and that the Company will not ultimately recover more than the actual costs of the PPA. *(Xcel)*