COMMERCE DEPARTMENT

November 9, 2021

Will Seuffert
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
Saint Paul, Minnesota 55101-2147

RE: **Response Comments of the Minnesota Department of Commerce, Division of Energy Resources Docket No. E002/M-20-815**

Dear Mr. Seuffert:

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

> Petition of Northern States Power, doing business as Xcel Energy, for Approval of an Updated Renewable Energy Standard Rider Factor.

The Petition was filed on November 5, 2020 by:

> Holly Hinman
> Regulatory Manager
> Xcel Energy
> 414 Nicollet Mall, 401 – 7th Floor
> Minneapolis, MN 55401.

The Department recommends approval with modifications. The Department is available to answer any questions that the Minnesota Public Utilities Commission may have in this matter.

Sincerely,

/s/ Stephen Collins
Financial Analyst

SC/ja
Attachment

COMMERCE DEPARTMENT

Before the Minnesota Public Utilities Commission

Response Comments of the Minnesota Department of Commerce
Division of Energy Resources

Docket No. E002/M-20-815

I. INTRODUCTION

On November 5, 2020, Northern States Power Company, doing business as Xcel Energy (Xcel or the Company), filed a petition requesting that the Minnesota Public Utilities Commission (Commission) approve an updated rate in the Company's Renewable Energy Standard (RES) Rider. The petition was filed pursuant to Minnesota statutes section 216B.1645, subdivision 2a, the RES Rider statute. Xcel also filed a supplement on April 29, 2021.

On August 17, 2021, the Minnesota Department of Commerce, Division of Energy Resources filed comments. On September 24, 2021, Xcel filed reply comments. The Department responds to Xcel's reply comments below.

II. RESPONSE TO XCEL

A. RECOVERY LEVELS

1. Overall

As noted above, Xcel is now requesting to recover $106,892,781 in 2021 revenue requirements, versus the $92,794,332 amount requested in the initial petition. The difference is primarily attributable to $18,732,889 in base-rate production tax credit (PTC) true-ups not reflected in the original petition. The increase in true-ups is offset by Xcel reducing the total requested cost recovery for the wind projects from $92,794,332 to $88,168,892. (See Attachment B in the initial petition versus Attachment B in Xcel's reply comments.)

2. 2021 Base-Rate PTC True-Ups

Xcel's reply comments state that the new proposed PTC true-ups reflect "the PTC levels approved in the last concluded multi-year rate plan (MYRP) (Docket No. E002/GR-15-826) since our rate case in Docket No. E002/GR-20-723 was withdrawn, which we committed to do in our Petition in this docket."

Essentially, Xcel's initial petition had assumed a 2021 PTC base-rate true-up to what the Company was forecasting (for the wind projects currently in base rates) in their withdrawn rate case filed in 2020. Since the forecasted PTC levels were the same, as that rate case was filed at about the same time as Xcel filed the instant petition, the true-up was zero. Since Xcel withdrew that rate case, Xcel now proposes trueing-up to their most recent approved rate case. Specifically, per Attachment J of Xcel's reply comments, Xcel's base rates in 2021 assumed $54,363,523 in 2021 PTCs for the four wind projects already in base rates. In contrast, Xcel forecasts $35,639,635 in 2021 actual PTCs for these projects.[1] Per these calculations, the $18,723,889 true-up results in ratepayers being credited Xcel's actual forecasted 2021 PTC amount instead of the $54,363,523.

The Department does not oppose this proposal for 2021 since Xcel's 2021 base rates reflected the assumed PTC levels approved in Docket No. E002/GR-15-826.

3. *Cost Recovery for Build-Own-Transfer Projects (applicable to Crowned Ridge II, Lake Benton, Community Wind North, Jeffers, and Mower)*

For build-own-transfer (BOT) projects (Crowned Ridge II, Lake Benton, Community Wind North, Jeffers, and Mower), Xcel has requested recovery of costs modeled by the Company at the time the resource acquisitions were approved, excluding internal labor.[2] Xcel shows the total amounts requested in Table 2 of the Company's reply comments. As such the modeled costs, excluding internal labor, would effectively act as an aggregate symmetric cost cap such as that applied to Xcel's self-build projects. The Department concludes that Xcel's proposal is reasonable in this particular case given the requested Xcel-incurred costs excluding internal labor (as modeled at the time of acquisition) do appear to be incremental to base rates.

B. COST OF DEBT

The Department's initial comments recommended that the Commission require Xcel to update its RES Rider weighted cost of debt to 1.99%, to reflect the cost cited by Xcel in Docket No. E002/GR-20-723. **Xcel's reply comments agreed to this recommendation.**

C. IMPLEMENTATION DATE & ACCUMULATED DEFERRED INCOME TAXES (ADIT)

Xcel's reply comments assume an implementation date of January 1, 2022 with the adjustment based on 2022 forecasted sales. As such Xcel also removes prorated ADIT. The Department supports these proposals and **recommends that the Commission require that Xcel implement the updated RES Rider rate on January 1, 2022 or within 10 days of the Commission's Order, whichever is later.**

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[1] The main reason for the difference is Nobles wind farm. Nobles went online towards the end of 2010 and stopped receiving PTCs at the end of 2020. (PTCs last 10 years.) Therefore Nobles was still receiving PTCs in the last year of Xcel's 2016-2019 multi-year rate plan which as of 2021 was reflected in base rates. Since Xcel did not actually receive the Nobles PTCs in 2021, but was crediting ratepayers for the Nobles PTCs through base rates, Xcel recoups that amount by increasing the revenue requirements in the RES Rider.

This issue does not apply to the other three PTC base-rate true-up projects. Grand Meadows stopped receiving PTCs in 2018 and therefore the 2019 base-rate amount and 2021 amount of PTCs were $0. Pleasant Valley and Border Winds will stop receiving PTCs in 2025; therefore the 2021 PTC amount and 2019 forecasted PTC amount in base rates do not differ much.

[2] Xcel's proposal is on page 7 of its reply comments: "… we propose adjusted rider recovery caps for the BOT projects that are based on the initial modeled estimates for the acquisition dockets but that exclude internal labor estimates. Specifically, we are proposing to exclude costs reflected on the lines described under the category of "indirect" cost estimates in Attachments 1, 2, 3, 4, and 5, which comprise the internal labor categories."

D. REC STRATEGY

As noted in the Department's initial comments, the Commission's May 6, 2021 Order in Docket No. E002/M-19-732 required Xcel to "provide a discussion of its RES Renewable Energy Credit [REC] management strategy and describe why it is in the public interest" in its next RES Rider filing. That order point relates to two concerns the Department raised in that docket regarding Xcel's Certified Renewable Percentage (CRP) program, in which it voluntarily retires RECs that may be used to satisfy the RES for purposes other than the RES or tariff obligations.

The Department's first concern relates to the relationship between RES Rider project eligibility and the CRP program. Minn. Stat. section 216B.1645 allows for accelerated cost recovery (i.e., cost recovery without the need to file a general rate case) only for renewable projects required to satisfy Minnesota's Renewable Energy Standard. In contrast, renewable projects that are economic but not needed for RES compliance are not eligible for cost recovery via the RES Rider. The Department is concerned that Xcel's CRP program could artificially bestow RES Rider-eligibility on renewable projects that, absent the CRP, would not be eligible. Worse, though perhaps unlikely, the CRP could create a need for Xcel to procure uneconomic renewable resources to satisfy the RES.

The Department's second concern, as discussed in its initial comments in this docket, is that even if the CRP does not create artificial RES Rider eligibility for renewable projects that would otherwise not be eligible, the effect of Xcel's CRP program is that residential and most commercial customers pay more to provide questionable benefits to certain commercial customers. By retiring these RECs, Xcel is foregoing the revenue it could generate by selling them, and that revenue would be credited to ratepayers via the RES Rider, lowering the RES Rider rates. The Department concluded that unless Xcel could demonstrate that this purported marketing benefit for select commercial customers outweighs the harm to other customers from having to pay more for electricity, the Department recommended that the Commission require Xcel to immediately end the CRP program.

Xcel's reply comments did not provide any significant new information, given the detailed information Xcel has already provided in this docket and last year's RES rider docket (19-732). Therefore, **the Department maintains its recommendation. Specifically, the Department is recommending the Commission require Xcel to no longer retire renewable energy credits (RECs) above what is needed for regulatory and tariff compliance. Instead, the Department recommends the Commission require Xcel to sell all RECs not needed for regulatory compliance, and to only sell RECs that are set to expire within one year.**

As noted in the Department's initial comments, for the RECs Xcel is retiring to give customers a marketing benefit, since Xcel could otherwise sell those RECs or use those RECs for compliance for the following four years, the CRP program increases rates for customers. Ratepayers lose the money they otherwise would have gotten from the REC sales, an important consideration since REC prices are generally believed to have increased recently. [3] Relatedly, the Department notes that the Commission has previously approved a profit-sharing proposal for the sale of specific RECs by Xcel, and directed the Company to consult with the Department and other stakeholders on a performance-based REC sales profit-sharing proposal, if desired.[4] To the Department's knowledge, this has not happened.

Finally, the Department appreciates Xcel clarifying that "the Company expects to generate significantly more RECs annually than what is required to be retired under the RES Statute."[5] As a result, the Company's RES Rider recovery should be likewise limited going forward, given any new projects are, according to Xcel, not needed to ensure compliance with the Renewable Energy Standard. Given this important statement as it relates to RES Rider recovery, **the Department recommends that 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.** However, the Department again notes that by unnecessarily retiring RECs, Xcel could change this equation in its favor by creating an artificial need for RECs and thus allow Xcel to get cost recovery of future renewable energy projects through the RES Rider instead of recovering these projects through base rates only. As such a benefit to Xcel of the CRP program is that Xcel is more likely to be able to charge higher rates for renewable energy projects (through the RES Rider), by creating an artificial need for RES compliance.

III. RECOMMENDATION

The Department recommends that the Commission approve Xcel's petition as modified below:

- With the build-own-transfer cost recovery capped at the levels specified in Table 2 of the Xcel's September 24, 2021 reply comments;
- To use a 1.99% weighted cost of debt, to reflect the cost cited by Xcel in Docket No. E002/GR-20-732;
- With respect to the Certified Renewable Percentage program, require Xcel to no longer retire renewable energy credits above what is needed for regulatory and tariff compliance and instead sell all RECs that Xcel does not need for such compliance in the last year of the four-year banking period;
- Take notice that Xcel now expects to generate significantly more RECs than what is required under the RES Statute; and
- Require that Xcel implement the updated RES Rider rate on January 1, 2022 or within 10 days of the Commission's Order, whichever is later. The update shall include the final tariff sheet and all supporting documentation for the calculation of the new RES Rider Adjustment Factor.

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[3] Potentially related to this issue, Xcel's reply comments state that the Company has not sold any RECs in 2021. To the extent this is due to Xcel retiring RECs above the regulatory required levels for marketing purposes, ratepayers are therefore paying higher rates than they would otherwise.
[4] August 26, 2015 Order in Docket No. E002/M-15-515.
[5] Xcel's reply comments also state: "Our forecasts show that, even after accounting for the CRP, we will generate sufficient RECs going forward to comply with the annual state RES mandate with almost no risk of experiencing any compliance shortfalls or needing to purchase RECs for compliance."

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-20-815

Dated this 9th day of November 2021

/s/Sharon Ferguson

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