

BEFORE THE MINNESOTA OFFICE OF ADMINISTRATIVE HEARINGS
600 North Robert Street
St. Paul, MN 55101

FOR THE MINNESOTA PUBLIC UTILITIES COMMISSION
121 7th Place East, Suite 350
St Paul MN 55101-2147

IN THE MATTER OF THE PETITION
OF NORTHERN STATES POWER
COMPANY, D/B/A XCEL ENERGY,
FOR APPROVAL OF A COMPETITIVE
RESOURCE ACQUISITION PROPOSAL
AND CERTIFICATE OF NEED

Docket No. E002/CN-12-1240
OAH Docket No. 8-2500-30760

**REBUTTAL TESTIMONY AND ATTACHMENT
OF CHRISTOPHER J. SHAW**

ON BEHALF OF

**THE DIVISION OF ENERGY RESOURCES OF
THE MINNESOTA DEPARTMENT OF COMMERCE**

OCTOBER 18, 2013

REBUTTAL TESTIMONY AND ATTACHMENT OF CHRISTOPHER SHAW
IN THE MATTER OF THE PETITION OF NORTHERN STATES POWER COMPANY
D/B/A XCEL ENERGY FOR APPROVAL OF COMPETITIVE RESOURCE ACQUISITION
PROPOSAL AND CERTIFICATE OF NEED

DOCKET NO. E002/CN-12-1240

TABLE OF CONTENTS

Section	Page
I. INTRODUCTION.....	1
II. PURPOSE OF TESTIMONY	1
III. XCEL'S PROPOSED RECOVERY MECHANISM	1
IV. IN ENERGY'S PROPOSED ADJUSTMENT MECHANISM FOR TRANSMISSION INTERCONNECTION COSTS.....	3
V. FUTURE NEGOTIATIONS AND COST RECOVERY.....	4

1 **I. QUALIFICATIONS**

2 **Q. Please state your name, occupation, and business address.**

3 A. My name is Christopher J. Shaw. I am a Public Utilities Rates Analyst with the
4 Minnesota Department of Commerce, Division of Energy Resources (Department or
5 DOC). My business address is: 85 7th Place East, Suite 500, St. Paul, Minnesota 55101-
6 2198.

7
8 **Q. Are you the same Christopher Shaw who submitted Direct Testimony earlier in this**
9 **proceeding?**

10 A. Yes.

11
12 **II. PURPOSE OF TESTIMONY**

13 **Q. What in the purpose of your Rebuttal Testimony?**

14 A. I address the testimony of Xcel Witness James Alders regarding Xcel’s proposed
15 recovery mechanism and Invenergy Witness Daniel Ewan regarding Invenergy’s
16 proposed adjustment mechanism to adjust its estimate of transmission interconnection
17 costs once actual costs are known. I also provide the Department’s expectations of how
18 future negotiations regarding purchased power agreements (PPAs) would proceed, along
19 with cost recovery for any projects selected by the Minnesota Public Utilities
20 Commission (Commission) in this docket.

21
22 **III. XCEL’S PROPOSED RECOVERY MECHANISM**

23 **Q. Please describe Xcel’s proposed recovery mechanism.**

1 A. On page 5 of his Direct Testimony, Mr. Alders proposed establishment of a rider similar
2 to the rider that the Commission approved regarding Xcel's Minnesota Metro Emissions
3 Reduction Project (MERP),¹ as follows:

4
5 We propose that a rate rider be established for each unit in
6 our proposal that is selected by the Commission. As with
7 MERP, we propose [that] each unit's return on equity be
8 adjusted up or down when placed into service to reflect any
9 difference between its baseline estimated capital cost and
10 the actual capital cost of the unit. The rider, with adjusted
11 ROE, would be used during the first five years of rate
12 recovery. After that the last authorized ROE would be used
13 until the projects are included in base rates.

14
15 Mr. Alders then proposed different adjustments to the Company's ROE based on the
16 percentage difference of actual costs compared to estimated costs used to evaluate Xcel's
17 proposal in the present docket.

18
19 **Q. Has Xcel shown its proposed cost adjustment to be reasonable?**

20 A. No, not in this case. The MERP project did not include competitive bidding as in this
21 process. Here, Xcel's bid is competing against other bids to meet the identified need. If
22 the final cost to ratepayers were not considered to be firm or known when the
23 Commission is evaluating bids, ratepayers would be at risk to incur some amount of
24 unknown costs. Further, if one bidder were allowed to pass extra costs onto ratepayers
25 while other bidders were not, the bidding process would not be fair to all bidders. Xcel has
26 not shown that allowing the Company to adjust the cost of its bid proposal following
27 Commission selection of Xcel's proposal would be fair to other bidders or to ratepayers.

¹ See Docket No. E002/M-02-633

1 As the Department explained in its July 26, 2013 letter,² the Department intends to hold
2 each bidder to the prices used to evaluate each bid for purposes of cost recovery from
3 Xcel retail ratepayers.
4

5 **Q. The answer above addresses what would happen if Xcel were to win the bid in this**
6 **process and the Company's actual costs were higher than the amount bid into this**
7 **process. If instead Xcel's actual costs were below the amount they bid, should Xcel**
8 **be allowed to keep those savings?**

9 A. Yes, I believe that would be reasonable. While such an outcome is unlikely given past
10 experience, Xcel should be able to retain any savings if their actual costs are lower than
11 the costs they have bid into this process, just as any other bidder would be able to do.
12

13 **IV. INVENERGY'S PROPOSED ADJUSTMENT MECHANISM FOR**
14 **TRANSMISSION INTERCONNECTION COSTS.**

15 **Q. Please describe Invenergy's proposed adjustment mechanism for transmission**
16 **interconnections costs.**

17 A. As described in my Direct Testimony at page 3, \$7 million for interconnection costs was
18 embedded in Invenergy's Cannon Falls proposal and \$4 million for interconnection costs
19 was embedded in its Hampton Corners proposal. For its Cannon Falls proposal,
20 Invenergy stated that, "[f]or every million dollar variance from the \$7 million budget, the
21 price will increase or decrease by \$0.05/kw-month."

² Attached as DOC Ex. ___CJS-8 (Shaw Rebuttal)

1 **Q. Has Invenergy shown its transmission interconnection cost proposal to be**
2 **reasonable?**

3 A. No. Similar to the discussion regarding Xcel's cost adjustment proposal above,
4 Invenergy has not shown that, following Commission selection of Invenergy's proposal,
5 it would be reasonable to shift unknown costs onto retail ratepayers. The developers are
6 in the best position to estimate the costs of their proposal. The Department intends to
7 hold each bidder to the costs used to evaluate each bid for purposes of cost recovery from
8 Xcel retail ratepayers.

9
10 **V. PPA NEGOTIATIONS AND COST RECOVERY**

11 **Q. What are the Department's expectations regarding how PPA negotiations would**
12 **proceed for each project selected by the Commission?**

13 A. As noted by Xcel, a bidder selected by the Commission would have four months after the
14 Commission's selection to negotiate a PPA with Xcel and for Xcel to submit the final
15 PPA to the Commission for approval. In my Direct Testimony, I did not recommend that
16 Dr. Rakow make any adjustment to his economic analysis based on bidder qualifications.
17 Nonetheless, a proposed PPA should reasonably protect ratepayers from the risks that a
18 project presents. Thus, the Department expects that any PPA brought to the Commission
19 for approval would not only have pricing terms consistent with the prices that were used
20 to evaluate the bid, but also would include appropriate ratepayers protections. The
21 Department would expect that these protections would be similar to the protections
22 typically included in proposed PPAs such as the security fund, appropriate milestones,

1 and well-defined events of defaults and remedies, among others.³ Further, if upon review
2 of a proposed PPA submitted to the Commission the Department concludes that the
3 pricing terms are not consistent with the analysis used to select the bid or if the PPA does
4 not reasonably protect ratepayers, the Department would recommend modifications to the
5 PPA or, in the alternative, rejection of the proposed PPA.

6
7 **Q. What are the Department's expectations regarding cost recovery if the Commission**
8 **selects Xcel's proposed project?**

9 A. The Department expects that Xcel would request cost recovery in a future general rate
10 case that is consistent with cost representations made in this docket. While there are
11 statutory provisions that allow for recovery through a rider (rate adjustments between
12 general rate cases) for renewable resources and certain transmission investments, the
13 Department is not aware of terms under any existing rider that would make Xcel's
14 proposed Black Dog project eligible for rider recovery.

15
16 **Q. Does this conclude your testimony?**

17 A. Yes

³ For example, see Docket Nos. E002/M-13-603 and E002/M-13-716.



85 7th Place East, Suite 500, St. Paul, MN 55101-2198
Main: 651.539.1500
Fax: 651.539.1549

mn.gov/commerce/energy

July 29, 2013

Burl W. Haar
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, Minnesota 55101

RE: In the Matter of the Petition of Northern States Power Company d/b/a Xcel Energy for Approval of Competitive Resource Acquisition Proposal and Certificate of Need Docket No. E002/CN-12-1240

Dear Dr. Haar:

The Minnesota Department of Commerce (Department) continues to analyze the bids submitted in the above referenced docket. In conducting its review, the Department has become aware that some costs associated with some of the bids are either not included and assumed to be borne by Xcel, or are estimated subject to revisions. Specifically:

- Xcel proposes to “update transmission and gas pipeline estimates after a site and routes have been permitted and interconnection agreements achieved, and submit those updated support infrastructure estimates for Commission review to establish the baseline against which to compare costs.” (Xcel Proposal at 4-15)
- For its Cannon Falls proposal Invenergy included a \$7 million cost estimate for interconnection, but proposes to increase or decrease the price in the purchased power agreement by \$0.05/kw-month based on actual incurred costs. Invenergy estimated a \$4 million interconnection cost for its Hampton Corners proposal. (Response to DOC IR 54)
- Calpine states that it “expects that Xcel will bear the costs of any required network and interconnection upgrades.” (Response to DOC IR 48)

While the Department is aware that some costs, particularly costs related to the facilities necessary to interconnect to the transmission system, can be difficult to estimate, bidders are in the best position to estimate those costs. Further, the competitive bidding is most fair to all bidders and ratepayers if each bid is evaluated based on the total costs that ratepayers will pay. The treatment of interconnection costs noted above proposed by the bidders in the details of their submittals make a fair comparison difficult.

Burl W. Haar
July 29, 2013
Page Two

Therefore, consistent with past practices, the Department intends to hold each of the bidders to the prices used to evaluate the bids. This letter is intended to put all parties on notice of the Department's intentions. Parties should not expect that ratepayers will pay for any additional costs that are specific to a particular project beyond those included in each bid.¹ This approach best ensures the integrity of the competitive process.

However, ultimately, the Minnesota Public Utilities Commission has the authority to decide whether to allow cost recovery from ratepayers. Therefore, while the Department will make its recommendation to the Commission consistent with the above explanation, it is within the Commission's discretion whether to accept, reject, or modify the Department's recommendations once these issues are brought forward to the Commission.

Sincerely,

/s/ CHRISTOPHER SHAW
Rates Analyst

CS/sm

¹ The Department has supported amendments to PPAs that change the price of the PPA under limited circumstances in the past.