

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

David Boyd  
J. Dennis O'Brien  
Phyllis Reha  
Thomas Pugh  
Betsy Wergin

Chair  
Commissioner  
Commissioner  
Commissioner  
Commissioner

Timothy Edman  
Manager, Regulatory Administration  
Xcel Energy  
414 Nicollet Mall  
Minneapolis, MN 55401

SERVICE DATE: August 26, 2010

DOCKET NO. E-002/M-10-734

In the Matter of Northern States Power Company d/b/a Xcel Energy's Request for Approval of Two Power Purchase Agreements with North Wind Turbines, LLC and North Community Turbines, LLC.

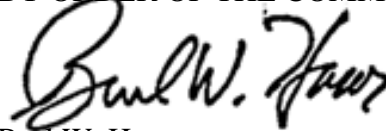
The above entitled matter has been considered by the Commission and the following disposition made:

- 1. The Commission approves the two power purchase agreements between Xcel Energy and North Wind Turbines, LLC and Xcel Energy and North Community Turbines, LLC, subject to Xcel's continued obligation to administer these two agreements.**
- 2. The Commission finds that the two power purchase agreements are a reasonable approach to allow the Company to satisfy the renewable energy objectives and standards set forth in Minn. Stat. § 216B.1691.**
- 3. The Commission finds that the terms of the two power purchase agreements meet all reasonableness requirements in the C-BED statute, Minn. Stat. § 216B.1612.**
- 4. The Commission finds that all Minnesota jurisdictional costs Xcel incurs under the two power purchase agreements throughout their full terms are eligible for recovery from Minnesota retail ratepayers.**
- 5. The Commission finds that the two power purchase agreements will provide 30 of the 60 megawatts of wind energy that Xcel is required to purchase from small, locally-owned, aggregated wind-generation projects under the terms of the Commission orders issued in docket E-002/CN-01-1958, *In the Matter of the Application of Northern States Power Company d/b/a Xcel Energy for Certificates of Need for Four Large High-Voltage Transmission Line Projects in Southwestern Minnesota.***

- 6. Xcel and the other parties to this proceeding shall promptly notify the Commission if the ownership of North Wind Turbines, LLC or the ownership of North Community Turbines, LLC changes.**

The Commission agrees with and adopts the recommendations of the Office of Energy Security which are attached and hereby incorporated in the Order.

BY ORDER OF THE COMMISSION



Burl W. Haar  
Executive Secretary



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July 26, 2010

**PUBLIC DOCUMENT**

Burl W. Haar  
Executive Secretary  
Minnesota Public Utilities Commission  
121 7th Place East, Suite 350  
St. Paul, Minnesota 55101-2147

RE: **PUBLIC Comments of the Minnesota Office of Energy Security**  
Docket No. E002/M-10-734

Dear Dr. Haar:

Attached are the **PUBLIC** comments of the Minnesota Office of Energy Security (OES) in the following matter:

Northern States Power Company's request for approval of Two Power Purchase Agreements with North Wind Turbines, LLC and North Community Turbines, LLC.

The petition was filed on June 30, 2010 by:

Timothy Edman  
Manager, Regulatory Administration  
Xcel Energy  
414 Nicollet Mall  
Minneapolis, Minnesota 55401

The OES recommends **approval with modifications** and is available to answer any questions the Commission may have.

Sincerely,

/s/ SUSAN L. PEIRCE  
Rates Analyst

SLP/jl  
Attachment



## BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

### PUBLIC COMMENTS OF THE MINNESOTA OFFICE OF ENERGY SECURITY

DOCKET NO.E002/M-10-734

#### I. BACKGROUND INFORMATION

On June 30, 2010, Northern States Power Company (Xcel or the Company) filed a petition seeking Commission approval of two Power Purchase Agreements (PPAs or Agreements) with North Wind Turbines, LLC and North Community Turbines LLC (jointly referred to as Community Wind North or CWN).

#### II. SUMMARY OF FILING

The CWN projects were filed under Minn. Stat. §216B.1612, as Community-Based Energy Development (C-BED) projects. Minn. Stat. §216B.1612 is intended to facilitate the development of locally-owned wind projects. The CWN will consist of twelve 2.5 MW wind turbines located in Lincoln County, Minnesota, and is expected to produce [TRADE SECRET DATA HAS BEEN EXCISED] annually. The CWN projects also represent Xcel's partial fulfillment of the Commission's March 11, 2003 Order in Docket No. E002/CN-01-1958.<sup>1</sup> In its March 2003 Order, the Commission granted Xcel a certificate of need for the construction four large high voltage transmission line projects in Southwestern Minnesota subject to conditions. One of the conditions was that Xcel must purchase at tariff rates all available small, locally-owned wind generation on Buffalo Ridge up to a total of 60 MWs.

Efforts to negotiate the CWN agreements have been slow, and the parties indicate that part of the reason was the uncertainty surrounding the allocation of costs transmission, and in particular for the Brookings CapX transmission line (Brookings Project). In July, 2009, the Midwest

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<sup>1</sup> In the Matter of the Application of Northern States Power Company d/b/a Xcel Energy for Certificates of Need for Four Large High Voltage Transmission Line Projects in Southwestern Minnesota, Order Granting Certificates of Need Subject to Conditions, March 11, 2003, Docket No. E002/CN-01-1958.

Independent Transmission System Operator (MISO) initially proposed modifications in its tariff for allocating network upgrade costs for generator interconnection projects so that generators such as CWN would be allocated 100 percent of network upgrade costs for facilities below 345 kV, and 90 percent of costs for facilities 345 kV and above. MISO also made a preliminary determination that the Brookings Project is a generator interconnection project that would result in wind developers needing to fund the Project. More recently, MISO has been considering a proposal to designate certain transmission projects as “multi-value projects” or “MVPs”, and to allocate the revenue requirement associated with such projects to all load within MISO.

Waiting for a definitive resolution to cost allocation issues from MISO would result in a likely loss of \$3.1 million in Federal grant funds by CWN. Loss of Federal grant money would likely result in the project not going forward. Consequently, the parties negotiated a plan in which Xcel could reimburse CWN for up to \$6 million in network upgrade costs as a means of sharing the risk of upgrade costs. Xcel proposes that the Company’s ratepayers pay for this cost as discussed below.

In Docket No. E002/M-08-516,<sup>2</sup> Xcel sought Commission approval of PPA provisions to allow it to accept responsibility for transmission network upgrade costs in its PPAs with smaller independent power producers. Xcel asserted that its proposal would remove one barrier to wind development projects by independent power producers, without unduly burdening ratepayers. The Commission declined to take any action on the request, instead preferring to consider such provisions on a case-by-case basis. The CWN PPAs represent the first such case.

### **III. OES ANALYSIS**

The OES considers whether the PPA is in the best interest of Xcel ratepayers when determining whether to recommend approval. In order to determine if the PPA is in the best interest of Xcel’s ratepayers, the OES reviews the following:

- The price to be paid by Xcel’s ratepayers for wind energy;
- Whether Xcel’s ratepayers are appropriately protected from the financial and operations risk of the wind project; and
- Whether the curtailment provisions are appropriate.

On January 30, 2009, the Office of Energy Security’s State Energy Office issued letters determining that the CWN projects met the requirements of Minn. Stat. §216B.1612, subd. 2 as a C-BED project. These letters are attached. The OES provides this information for the Commission to consider in its determination as to whether the project is a C-BED project.

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<sup>2</sup> In the Matter of the Application of Xcel Energy for Approval of PPA Provisions for Cost Responsibility of Contingent Transmission Improvements, Order Withholding Action, November 10, 2008, Docket No. E002/M-08-516

A. *THE PRICE OF THE PPA*

The PPAs call for Xcel to purchase the entire output of the Project over a 20 year term at a flat [TRADE SECRET DATA HAS BEEN EXCISED]. Using Xcel's cost of capital of 8.83 percent, the OES calculates the NPV of the price over the 20-year life of the contract as [TRADE SECRET DATA HAS BEEN EXCISED]<sup>3</sup> cents per kWh. In the event that CWN fails to maintain C-BED eligibility, the purchase price of energy is reduced to 95 percent of the contract price. The contract price falls within the range of prices of recently approved C-BED PPAs.<sup>4</sup> In addition, Xcel's filing included information comparing the price under the CWN PPAs both with and without transmission reimbursement with the costs of the Xcel-owned wind projects at Nobles and Merricourt. The levelized price of CWN over a 20-year period falls between the prices of the Nobles and Merricourt Projects when transmission costs are included.

Although Minn. Stat. §216B.1612, Subd. 3 requires C-BED tariffed rates to be higher in the first ten years of the PPA than in the last ten years, Minn. Stat. §216B.1612, Subd. 7 allows utilities and C-BED developers to negotiate PPAs with terms different from the tariff. Consequently, the OES concludes that the CWN pricing provisions fall within the statute. The Commission has previously approved PPAs with C-BED developers with a flat rated pricing.<sup>5</sup>

Under the terms of the PPAs, Xcel (i.e. its ratepayers) is entitled to all of the Renewable Energy Credits (RECs) associated with the Project.

B. *FINANCIAL RISKS*

There are two main financial risks that may have negative impacts on Xcel's ratepayers. They are:

- A seller default and termination of the PPA during the early years of the contract when the price paid exceeds the contract levelized price, and
- Entitlement by a lender or other party, as a result of the seller's failure to pay debt to take over the project and terminate the PPA.

Under the first event Xcel's ratepayers may have to pay an excessive price for wind energy during the period when the PPA is in effect. Moreover, Xcel may be forced to find more costly replacement power when the PPA is terminated. Also, under both events, the Project may be terminated and, therefore, put Xcel's compliance with various legislative and Commission requirements in question, along with forcing Xcel to find what may be more expensive replacement wind.

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<sup>3</sup> The first year of operation was not discounted in this calculation. If the first year is discounted the OES calculates the NPV to be [TRADE SECRET BEGINS 3.049 TRADE SECRET ENDS] cents per kWh.

<sup>4</sup> See Goodhue Wind Docket Nos. E002/M-09-1349 & 1350, Adams Wind Docket No. E002/M-09-1366 and Danielson Wind Docket No. E002/M-09-1367.

<sup>5</sup> See Goodhue Wind PPAs, E002/M-09-1350.

The PPA requires the establishment of a security fund that the Company may draw from in the event of potential damages caused by the seller. In this case, the PPA requires a Security Fund in the amount of \$75 per kW or \$2,250,000 which can be funded through a letter of credit within 60 days of regulatory approval, an escrow account, or a guaranty acceptable to the Company.

In addition to the Security Fund, Section 7 of the PPA defines events which constitute seller's default including: the facility is unavailable to provide energy for 90 consecutive or 120 non-consecutive days in any 365 day period commencing with Commercial Operation and continuing through the term of the Agreement, failure to achieve the commercial operation date, failure to cure any material breach within 30 days, and any bankruptcy or insolvency proceeding.

The OES concludes that Xcel's ratepayers are reasonably protected under the proposed PPAs from the financial risks discussed above.

### *C. OPERATIONAL RISKS*

Operational risks are the risks that the wind project will not be built and operated as expected. These risks include a complete or partial shutdown of the project due to technical problems. In the case of a partial shutdown, ratepayers must be assured that their payments for the wind energy are reduced accordingly. In the case of a complete shutdown, Xcel may face the risk of non-compliance with various legislative wind requirements, and may need to find alternative, and possibly more expensive, replacement power.

The PPAs include specific features that protect both Xcel and its ratepayers from the operational risks discussed above. CWN receives payment for only net energy delivered to Xcel (except for curtailment issues detailed below). The PPA allows transfer of membership interests in the Seller provided such sale does not cause the Seller to lose C-BED eligibility. Although Section 4 of the PPA generally restricts the sale of assets by the Seller, Section 9 [**TRADE SECRET DATA HAS BEEN EXCISED**].

Minn. Stat. §216B.1612, Subd. 10 defines the requirements for C-BED eligibility. Depending on the terms of any sale of interests, the Projects status as a C-BED project could be jeopardized. As noted in the pricing discussion above, if CWN fails to maintain C-BED eligibility, the purchase price of energy is reduced to 95 percent of the contract price. The OES recommends parties be directed to notify the Commission of any change in ownership.

After reviewing the PPAs, the OES concludes that Xcel ratepayers are reasonably protected under the proposed PPAs from the operational risks discussed above, with the exception of the contingency for interconnection costs, discussed below in Section E.

*D. CURTAILMENT*

Wind projects often require payment for curtailed energy in order to maintain financial viability of the wind project. Under the terms of the PPAs, non-compensable curtailments include emergency, force majeure, seller's failure to obtain the necessary permits or failure of equipment, and **[TRADE SECRET DATA HAS BEEN EXCISED]**. Payment for curtailed energy can occur for voluntary curtailments, or due to a lack of transmission capacity **[TRADE SECRET DATA HAS BEEN EXCISED]**, for low-load conditions, or for transmission-loading relief under MISO's Open Access Transmission Tariff.

In response to OES IR No 5 (Attachment A) requesting information on the financial impacts if the PPA goes into service prior to the construction of the needed transmission facilities, Xcel states it:

... does not anticipate any negative financial impacts if the PPA goes into service prior to the required network upgrades. As a result of various transmission system improvements as part of the Southwest Minnesota Transmission project and the BRIGO transmission additions and the CapX Brookings Project, the Company estimates that the curtailment risk associated with CWN is low. These transmission improvements provide generation outlet in excess of the generation currently operating, or expected to operate, on Buffalo Ridge. Further CWN has been granted firm transmission service, and would only be curtailed after non-firm generation is curtailed.

In the event compensable curtailment occurs, Xcel states that the incremental cost above the energy purchase would be approximately **[TRADE SECRET DATA HAS BEEN EXCISED]**.

*E. NETWORK UPGRADES AND THE TCR RIDER*

As noted above, the PPA contains a contingency to reimburse CWN for up to \$6 million for network upgrade costs. In response to OES Information Request No. 1, Xcel indicated that the cap of \$6 million in upgrade reimbursement was developed to ensure that the cost of energy from the Project remained within a reasonable range of other recently approved wind projects. When the cost of \$6 million in network upgrades is included, the resulting price increases to **[TRADE SECRET DATA HAS BEEN EXCISED]**. Even with the cost of transmission, the PPA price falls within the range of recently approved prices for C-BED PPAs.

According to the Company, CWN's share of the estimated \$697 million cost of the Brookings Project was expected to be approximately \$16 million, assuming MISO's proposal to treat the project as a generator interconnection project in which interconnection customers pay 100 percent of the costs of the facility. If the Brookings Project is treated as a multi-value project, the



costs associated with the Project would be allocated to all load within MISO, rather than solely to the interconnecting generators such as CWN. Even if Brookings is defined as a multi-value project, Xcel could reimburse CWN for up to \$6 million in costs for other non-MVP network upgrades. No reimbursement will occur until the facility achieves commercial operation. Should any reimbursement occur, Xcel proposes to recover those costs from ratepayers through its Transmission Cost Recovery Rider (TCR Rider).

The OES does not oppose the proposal to reimburse CWN for up to \$6 million in network upgrade costs, provided that Xcel shows these costs to be reasonable, nor to recover those costs from ratepayers through the TCR Rider; however, the OES remains concerned with the financial risk ratepayers may assume for the transmission costs should the Project achieve commercial operation, but later go out of business. While the OES recognizes that ratepayers will ultimately pay for transmission upgrades through Xcel's ownership of the transmission, or through the PPAs, Xcel's proposal represents a hybrid of the two systems that may leave ratepayers unprotected should CWN go out of business in the near future.

For example, if Xcel builds and owns transmission, the transmission line is reflected as an asset on Xcel's financial statements. In the event a particular wind project ceases operation and use of a transmission line, the line can be used by Xcel to transmit electricity from other generation projects to its retail customers, or for the wholesale market. In either instance, ratepayers continue to receive the benefit of the transmission for which they have paid. In the case of a PPA, the cost of interconnection and transmission would be reflected in the price paid under the PPA. In the event a wind project ceased operation, ratepayers would stop paying for that wind. In addition, PPAs such as the CWN contracts often contain security funds that can be drawn on in the event of a seller default to help cover the cost of replacement energy. Once a project shuts down, ratepayers stop paying for the transmission costs through the PPA. Alternatively, some PPAs contain step-in clauses granting Xcel the right to assume control and operate the proposed facility. Thus, ratepayers are reasonably protected from the risk of paying for transmission costs that may later be unused in PPAs. However, the CWN PPAs do not contain any such step-in clauses.

In the case of CWN, ratepayers are being asked to pay up to \$ 6 million in network upgrade costs without any financial recourse should the project shutdown at some future time. The upgrades will not be owned by Xcel thereby giving ratepayers access to those lines even if the CWN project did not operate, nor will they be paid for through the PPA thereby ending ratepayers' financial obligation with the termination of the PPA.

The OES recommends that ratepayers be reimbursed for the \$6 million in network upgrade costs in the event the project ceases operation during the first five years of operation (or longer, if the Commission so determines). Alternatively, Xcel and CWN should address in reply how ratepayers will be protected should the CWN projects cease operation within a reasonable number of years of commencement. The OES recognizes that this risk of a shutdown is very small; nonetheless, such ratepayer risks need to be addressed.

#### **IV. OES RECOMMENDATION**

The OES recommends that the Commission

- Approve the PPAs with North Wind Turbines, LLC and North Community Turbines, LLC.
- Direct the parties to explain how ratepayers will be reimbursed for network upgrade costs in the event the Community Wind North Projects cease operating within five years of commercial operation (or longer if the Commission so determines).
- Order parties to notify the Commission if and when ownership of the Project changes.

/jl

# Attachment A

- Non Public Document – Contains Trade Secret Data  
 Public Document – Trade Secret Data Excised  
 Public Document

Xcel Energy

Docket No.: E002/M-10-734

Response To: Office of Energy Security      Information Request No.      05

Analyst: Susan Peirce

Date Received: July 7, 2010

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## Question:

If the PPA goes into service prior to the construction of the needed transmission facilities, what will be the financial impacts, including but not limited to added congestion costs, curtailment payments, and energy that is not available for customer use.

## Response:

We do not anticipate any negative financial impacts if the PPA goes into service prior to the required network upgrades. As a result of various transmission system improvements as part of the Southwest Minnesota Transmission project and the BRIGO transmission additions and the CapX Brookings Project, the Company estimates that the curtailment risk associated with CWN is low. These transmission improvements provide generation outlet in excess of the generation currently operating, or expecting to operate, on Buffalo Ridge. Further, CWN has been granted firm transmission service, and would only be curtailed after non-firm generation is curtailed.

CWN could achieve commercial operation prior to the implementation of all of the system upgrades necessary for deliverability of project output. Consequently, the Company included PPA provisions that specify **[TRADE SECRET BEGINS**

**TRADE SECRET ENDS]**

Upon completion of necessary transmission upgrades the PPA specifies that we will pay for transmission-related curtailment in a similar manner to our other C-BED PPAs. Again, however, we anticipate low curtailment risk once the network upgrades are completed for the Project. We have nominally assigned a value of **[TRADE**

**SECRET BEGINS:**

**TRADE SECRET**

**ENDS]** that possibly may be curtailed.

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Response By: Tom McDonough  
Title: Manager, Transmission Access  
Department: Market Operations  
Telephone: 612-337-2258  
Date: July 19, 2010



January 30, 2009

Steve Hesse  
President  
North Community Turbines LLC  
c/o Lincoln County Enterprise Development Corporation  
402 North Harold Street, P.O. Box 46  
Ivanhoe, MN 56142

Re: C-BED Determination Letter – North Community Turbines LLC  
Lincoln County, MN

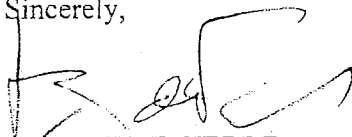
Dear Mr. Hesse:

I am writing in response to your request that the Office of Energy Security provide an opinion on C-BED eligibility for the proposed wind powered electricity generation facility located in Verdi Township, Lincoln County, Minnesota, operating as North Community Turbines LLC, a Minnesota limited liability company, acting on its own behalf and as agent for the seven Minnesota LLCs: Community Wind North 1 LLC, Community Wind North 2 LLC, Community Wind North 4 LLC, Community Wind North 5 LLC, Community Wind North 6 LLC, Community Wind North 8 LLC, and Community Wind North 14 LLC.

Based on current law and the materials and representations you provided, it is our opinion that the North Wind Turbines LLC facility meets the definition of a C-BED project under Minn. Stat. § 216B.1612, subd. 2(g).

Thank you for the information you have submitted and for your effort in developing this C-BED project.

Sincerely,



JEREMY DE FIEBRE  
Operations Supervisor  
State Energy Office

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January 30, 2009

Lowell Thooft  
President  
North Wind Turbines LLC  
c/o Lincoln County Enterprise Development Corporation  
402 North Harold Street, P.O. Box 46  
Ivanhoe, MN 56142

Re: C-BED Determination Letter – North Wind Turbines LLC  
Lincoln County, MN

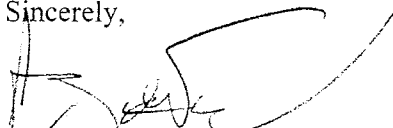
Dear Mr. Thooft:

I am writing in response to your request that the Office of Energy Security provide an opinion on C-BED eligibility for the proposed wind powered electricity generation facility located in Verdi Township, Lincoln County, Minnesota, operating as North Wind Turbines LLC, a Minnesota limited liability company, acting on its own behalf and as agent for the eight Minnesota LLCs: Community Wind North 3 LLC, Community Wind North 7 LLC, Community Wind North 9 LLC, Community Wind North 10 LLC, Community Wind North 11 LLC, Community Wind North 12 LLC, Community Wind North 13 LLC, and Community Wind North 15 LLC.

Based on current law and the materials and representations you provided, it is our opinion that the North Wind Turbines LLC facility meets the definition of a C-BED project under Minn. Stat. § 216B.1612, subd. 2(g).

Thank you for the information you have submitted and for your effort in developing this C-BED project.

Sincerely,



JEREMY DE FIEBRE  
Operations Supervisor  
State Energy Office



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August 18, 2010

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

RE: Comments of the Minnesota Office of Energy Security  
Docket No. E002/M-10-734

Dear Dr. Haar:

On July 26, 2010, the Office of Energy Security (OES) filed comments on Northern States Power Company's (Xcel or the Company) request for Commission approval of two Power Purchase Agreements with North Wind Turbines, LLC and North Community Turbines LLC (jointly referred to as Community Wind North or CWN). In its comments the OES requested additional information on how ratepayers would be reimbursed for network upgrade costs in the event the Community Wind North Projects cease operating within five years of commercial operation (or longer if the Commission so determines).

On August 9, 2010, Xcel filed reply comments noting that it believes the risk of reaching the full \$6 million in upgrade reimbursement to be very low. Additionally, the Company noted that the reimbursement is only for "common use network upgrades" which will benefit ratepayers by improving network operations reliability regardless of how costs are assigned or which generators are on the system.

Xcel's response has addressed the OES's questions. The OES recommends Commission approval of the two PPAs with Community Wind North, and is available to answer any questions the Commission may have.

Sincerely,

/s/ SUSAN L. PEIRCE  
Rate Analyst

SLP/sm