

September 12, 2018

**PUBLIC DOCUMENT**

Daniel P. Wolf  
Executive Secretary  
Minnesota Public Utilities Commission  
121 7<sup>th</sup> Place East, Suite 350  
Saint Paul, Minnesota 55101-2147

RE: **PUBLIC Comments of the Minnesota Department of Commerce, Division of Energy Resources**  
Docket No. E002/M-17-26

Dear Mr. Wolf:

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

An updated Petition for approval of a Second Amendment to a Power Purchase Agreement with Woodstock Hills, LLC for a 9.2 MW wind generation project.

The Petition was submitted on August 13, 2018 by:

Bria Shea  
Director, Regulatory and Strategic Analysis  
Xcel Energy  
414 Nicollet Mall  
Minneapolis, Minnesota 55401

The Department recommends that the Commission **approve** Xcel Energy's Second Amendment to a Power Purchase Agreement with Woodstock Hills, LLC for a 9.2 MW wind generation project. The Department is available to answer any questions that the Commission may have.

Sincerely,

/s/ KATE O'CONNELL  
Manager

KO/ja  
Attachment



## Before the Minnesota Public Utilities Commission

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### Public Comments of the Minnesota Department of Commerce Division of Energy Resources

Docket No. E002/M-17-26

#### I. INTRODUCTION

Northern States Power Company, doing business as Xcel Energy (Xcel or the Company) requests that the Minnesota Public Utilities Commission (Commission) approve a Second Amendment to a Power Purchase Agreement (PPA) with Woodstock Hills, LLC (Woodstock Hills) for a 9.2 MW wind generation project (Petition).

As noted in the Commission's July 12, 2017 *Order Denying Petition for Amended and Restated Woodstock Hills PPA, Without Prejudice* (July 2017 Order), on December 10, 1997, the Commission approved a request by Xcel to authorize a PPA with Woodstock Hills, to construct a 10.2 MW wind farm (the 1997 PPA).

On January 6, 2017, Xcel filed a Petition for Approval of an Amended and Restated Power Purchase Agreement with Woodstock Hills, for both wind and solar power (First Amended PPA). Xcel requested approval to recover the costs of proposed new facilities to be installed at the Woodstock Hills wind farm (the proposed project) under Minn. Stat. § 216B.1645 through the fuel clause rider. The Company requested to count the wind and solar energy purchases toward the solar and wind renewable energy requirements under Minn. Stat. § 216B.1691.

The Commission's July 2017 Order denied Xcel's First Amended PPA without prejudice, since Xcel did not meet its burden of proof to show that it was reasonable to charge ratepayers the proposed higher rate.

On August 13, 2018, Xcel proposed the Second Amended PPA to the PPA with Woodstock Hills.

The Department provides its analysis of the Second Amended PPA with Woodstock Hills below.

## II. DEPARTMENT'S ANALYSIS

### A. BASIS FOR REJECTION OF FIRST AMENDED PPA

The Commission's July 2017 Order explained the issues clearly on pages 3-4, as follows:

The Department clarified that but for the cost of energy in the proposed Amended PPA, it would have recommended approval of the proposed Amended PPA, as the other terms appeared to be reasonable with certain modifications.

The Commission finds that Xcel has not met its burden of proof to show the proposed PPA is reasonable for ratepayers. The Commission agrees with the Department's analysis, which shows that while the 1997 PPA was not as beneficial to ratepayers as believed when initially proposed, that PPA included a security provision to protect ratepayers if the PPA ended due to insolvency.

In addition, the proposed Amended PPA is more expensive than the 1997 PPA in its early years, despite decreases in the cost of wind generation over the last decade. Further, the Amended PPA does not include the accompanying benefits of lower costs for ratepayers over time. Importantly, Xcel did not adequately buttress its proposal for the combined wind and solar project by providing sufficient information by which the Commission could weigh the benefits of the Amended PPA against the additional costs it would impose on ratepayers.

Moreover, the Commission finds that other early wind development projects in similar economic circumstances to Woodstock Hills, with front-end loaded pricing schedules, were able to reform the cost structure of the initial PPA, yet not burden ratepayers with increased costs. Thus, the Commission concludes that the cost structure of the Amended PPA is not reasonable for ratepayers.

Finally, Xcel has not adequately explained or justified what benefit its proposal would have compared to simply allowing the 1997 PPA to terminate, and increasing the amounts of utility-grade wind generation under consideration in other dockets. For these reasons, the Commission will reject the Amended and Restated Woodstock Hills, PPA without prejudice.

### B. SUMMARY OF SECOND AMENDED PPA

The following compares some of the provisions of the Second Amended PPA to the First Amended PPA:

- The repowering project would replace the 17 wind turbines<sup>1</sup> that were subject to the 1997 PPA with 4 new, large rotor GE 2.3 MW turbines with a total new Committed Nameplate Capacity of 9.2 MW (a 1.0 MW reduction from the prior level of 10.2 MW),
- The Second Amended PPA involves wind only, with no solar component,
- In addition, a new substation would be constructed,
- The repowered project would be located in the same Pipestone County, the same county where the original project was located,
- Farm land currently occupied by the 17 turbines would be rehabilitated for agricultural production,
- The 30-year term would remain the same (thus ending December 31, 2033),
- The facility is expected to produce **[TRADE SECRET DATA HAS BEEN EXCISED]** of wind energy annually for the remaining years of the PPA term,
- The levelized price of the power over the remaining years of the Second Amended PPA is **[TRADE SECRET DATA HAS BEEN EXCISED]** per MWh, significantly lower than in the First Amended PPA,
- The Second Amended PPA is expected to result in expenditures of **[TRADE SECRET DATA HAS BEEN EXCISED]** over the remaining term of the PPA. This amount is much lower than the **[TRADE SECRET DATA HAS BEEN EXCISED]** amount indicated for the First Amended PPA,
- The proposed commercial operation date for the proposed repowering project is no earlier than 9/30/18 and no later than 7/31/19,
- Consolidated Edison Development, Inc. (ConEd) acquired from Juhl Energy, Inc. all rights, title and interest in Woodstock Hills, and
- The security letter requirement is much lower per kW of nameplate capacity than the First Amended PPA.

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<sup>1</sup> 600 kW Vestas V-44 turbines.

In support of its proposal, Xcel stated on page 2 of its Petition that: "Rather than taking no action and essentially allowing the Woodstock Hills project to fail, the Company believes that the Second Amendment to the current PPA will produce a more favorable outcome for all parties including our customers." Xcel also noted that the proposed pricing is comparable to other recently approved wind projects and the proposal would include refurbishing the existing substation.

*C. ANALYSIS OF SECOND AMENDED PPA*

The Department examined the proposed Second Amended PPA for five main issues:

1. Whether the proposed Second Amended PPA price is reasonable,
2. Whether Xcel's ratepayers would be appropriately protected from the financial risks of the Project,
3. Whether Xcel's ratepayers would be appropriately protected from the operational risks of the Project,
4. Whether the curtailment provisions are appropriate, and
5. Whether Xcel's request to recover the proposed Second Amended PPA's combined energy and capacity costs through the FCA pursuant to section 216B.1645 is reasonable.

*1. Proposed PPA Price*

As noted above, the proposed Second Amended PPA price is much lower than the price proposed in the First Amended PPA, at a level that is comparable to prices of other wind facilities. As a result, the Department concludes that the proposed pricing is reasonable.

*2. Financial Risks*

There are two types of financial risks that may have negative impacts on Xcel's ratepayers:

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

*a) Seller Default*

Unlike the 1997 PPA, in the proposed Second Amended PPA the risk of front loading is eliminated since the proposed Second Amended PPA price increases over the life of the Project. Therefore, an early termination of the proposed Second Amended PPA would not result in overpayments by Xcel's ratepayers. As a result, the Department concludes that this aspect of the PPA is reasonable.

*b) Bankruptcy Risks*

The proposed Second Amended PPA has provisions regarding default due to various factors, including filings for bankruptcy by ConEd (or Xcel), opportunities to cure such default, and remedies including use of the Security Fund and termination of the PPA.

The Department concludes that these features in the proposed Second Amended PPA would reasonably protect Xcel's ratepayers from various financial risks.

*3. Operational Risks*

The operational risks are the risks that the Project will not be built or operated as expected. These risks include a complete shutdown or a partial shutdown of the project due to technical problems or penalties from agencies due to operation issues. In the case of a partial shutdown, ratepayers must be assured that their payments for the energy are reduced accordingly. In the case of a complete shutdown, Xcel would need to find long-term replacement power, which may or may not be more expensive.

The proposed Second Amended PPA includes several features to minimize any negative impacts on Xcel's ratepayers if the project is not built or operated as expected. These features include provisions such as payment only for production or during compensable curtailment periods, default for failure to operate in a reasonably timely manner within the required commercial operation dates, an opportunity to cure the default, use of the Security Fund to compensate for failure to operate, and termination of the PPA.

*4. Curtailment Provisions*

In principle, Xcel must pay for the curtailed energy only if Xcel initiates the curtailments, and Woodstock Hills is able to produce and deliver energy. If, after including these payments, the price is still reasonable, curtailment payments should be approved for recovery from ratepayers.

Non-compensable curtailments are those resulting from, among other events: restriction or reduction of firm transmission service or non-firm transmission service that would have been imposed even if firm transmission had been in place by the transmission service provider, maintenance outages, lack of available transmission, and failure of the seller to maintain the necessary permits.

Compensable curtailments are generally when Xcel initiates a curtailment due to market participation activities, not due to problems with the facility.

The Department notes that the compensable curtailment provisions are necessary to maintain the integrity of the transmission system. Additionally, the payments for curtailed energy are needed for events reasonably related to the financial viability of the Seller. The proposed Second Amended PPA stipulates that payments per MWh for compensable curtailment are the same as payments that would have been received by the Seller absent the curtailment plus any associated tax benefits that the Seller would have received but did not due to the curtailment. These curtailment provisions are similar to those approved for other wind PPAs.

Thus, the Department concludes that the curtailment provisions of the proposed Second Amended PPA are appropriate.

##### *5. Cost Recovery*

Xcel proposed to recover the costs of the proposed Second Amended PPA through the Fuel Clause Rider pursuant to Minn. Stat. §216B.1645, subds. 1 and 2, which allow utilities to recover costs of PPAs approved by the Commission that are needed to satisfy the renewable energy standard and objectives set forth in Minn. Stat. §216B.1691.

Given the amount of renewable resources on Xcel's system, it is unclear that the Company needs the proposed Second Amended PPA to satisfy the renewable energy standard and objectives set forth in Minn. Stat. §216B.1691. However, the Department concludes that the provisions of the Second Amended PPA are reasonable and are primarily energy-based rather than capacity-based. As a result, the Department recommends that the Commission authorize Xcel to recover the proposed PPA's costs through the reformed Fuel Clause Adjustment (FCA).

Additionally, the Department notes that the provisions covering ancillary services provide that any compensation the Seller receives under the interconnection agreement or otherwise from third parties for Ancillary Services must be provided to the Company at no additional cost. As such the Department recommends that the Commission also require Xcel to offset the rates

charged to ratepayers by any and all revenues Xcel receives from all sources as a result of the proposed Second Amended PPA.

To this end, the Department recommends that the Commission require Xcel to report in its FCA true-up filings the extent to which any revenues from any source as a result of the proposed Second Amended PPA deviate from proposed rates and to itemize any such revenue deviations by source and amount.

### **III. SUMMARY AND RECOMMENDATIONS**

As discussed above, the Department recommends that the Commission approve Xcel's proposed Second Amended PPA with ConEd for energy production from the Woodstock Hills facility. The Department also recommends that the Commission allow Xcel to recover costs of the PPA through the FCA mechanism, net of any and all revenues received due to the facility.

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## **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  
Public Comments**

**Docket No. E002/M-17-26**

Dated this **12<sup>th</sup>** day of **September 2018**

**/s/Sharon Ferguson**

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