

November 15, 2018

PUBLIC DOCUMENT

Daniel P. Wolf  
Executive Secretary  
Minnesota Public Utilities Commission  
121 7th Place East, Suite 350  
St. Paul, Minnesota 55101

RE: **PUBLIC Supplemental Comments of the Minnesota Department of Commerce, Division of Energy Resources**  
Docket Nos. E015/M-18-545 and IP6964/CN-16-289

Dear Mr. Wolf:

Attached are the **PUBLIC** Supplemental comments of the Minnesota Department of Commerce, Division of Energy Resources (Department) in the following matters:

Minnesota Power's Petition for Approval of a 250-MW Nobles 2 Wind Power Purchase Agreement.

Application of Nobles 2 Power Partners, LLC for a Certificate of Need for the up to 260-MW Nobles 2 Wind Project and Associated Facilities in Nobles County, Minnesota.

The Petitions were filed by:

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Policy Manager  
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Minneapolis, MN 55402

The Department recommends that the Minnesota Public Utilities Commission (Commission) **approve Minnesota Power's petition with conditions and approve Nobles 2 Power Partners, LLC's petition**. The Department is available to respond to any questions the Commission may have.

Sincerely,

/s/ STEVE RAKOW  
Analyst Coordinator

SR/ja  
Attachment

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## Before the Minnesota Public Utilities Commission

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

Docket Nos. E015/M-18-545 and IP6964/CN-16-289

#### I. INTRODUCTION

##### A. POWER PURCHASE AGREEMENT PETITION

On July 18, 2016 in Docket No. E015/RP-15-690 the Minnesota Public Utilities Commission (Commission) issued its *Order Approving Resource Plan With Modifications* (2016 Order). The 2016 Order required that, “By the end of 2017, Minnesota Power shall initiate a competitive-bidding process to procure 100–300 MW of installed wind capacity.”

On July 27, 2016, Minnesota Power, a public utility operating division of ALLETE, Inc. (MP or the Company) issued a request for proposals (RFP) for up to 300 MW of nameplate wind capacity.<sup>1</sup>

On July 28, 2017, MP filed a petition for approval of the Company’s *EnergyForward* Resource Package (see Docket No. E015/AI-17-568). The *EnergyForward* Resource Package encompassed three projects:

- 1) a power purchase agreement (PPA) with the 250-MW Nobles 2 wind project in southwestern Minnesota (First PPA);
- 2) a PPA with the 10-MW Blanchard Solar Project in central Minnesota; and
- 3) affiliated-interest agreements proposing to dedicate 48 percent of the proposed 525-MW Nemadji Trail Energy Center (NTEC) natural gas combined cycle project in Superior, Wisconsin to MP.

On September 19, 2017 the Commission issued its *Order Referring Gas Plant for Contested Case Proceedings, and Notice and Order for Hearings* (Docket Nos. E015/AI-17-568 and E015/RP-15-690) which directed the Company to refile the wind PPA and solar PPA in separate dockets.

On August 22, 2018 MP filed the Company’s *Petition for Approval of a 250 MW Nobles 2 Wind Power Purchase Agreement* (Petition). Among other things, the Petition requested that the Commission approve the *Amended and Restated Wind Power Purchase Agreement for 250 MW*

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<sup>1</sup> The RFP is available in Appendix P of MP’s July 28, 2017 petition in Docket No. E015/RP-17-568.

*of Renewable Generation (Amended PPA).*<sup>2</sup> The Petition notes that a condition precedent in the Amended PPA is approval by the Commission within ten months of filing the Petition.

On September 21, 2018 Minnesota Department of Commerce, Division of Energy Resources, Energy Regulation and Planning (Department) filed comments in Docket No. E015/M-18-545. On September 27, 2018, the Department filed comments in Docket No. IP6964/CN-16-289 noting the Department's concerns as set forth in its September 21, 2018 comments in Docket No. E015/M-18-545.

On October 5, 2018 MP and Nobles 2 Power Partners, LLC (Nobles 2) (collectively, Parties) filed separate reply comments in both dockets.

## B. CERTIFICATE OF NEED PETITION

### 1. Exemption Petition

On April 5, 2016, Nobles 2 filed the Nobles 2's Request for *Exemption From Certain Certificate of Need Application Content Requirements* (Exemption Petition). Specifically, Nobles requested that the Commission grant full or partial exemptions to Minnesota Rules:

1. 7849.0240, subp. 2 (B): Promotional Activities;
2. 7849.0250, subp. B (1) – (5): Description of Certain Alternatives;
3. 7849.0250 (C) (1) – (9): Details Regarding Alternatives;
4. 7849.0250 (C) (7): Effect of Project on Rates System-wide;
5. 7849.0250 (D): Map of Applicant's System;
6. 7849.0270: Peak Demand and Annual Consumption Forecast;
7. 7849.0280: System Capacity;
8. 7849.0290: Conservation Programs;
9. 7849.0300: Consequences of Delay;
10. 7849.0330: Transmission Facilities; and
11. 7849.0340: No-Facility Alternative.

On April 15, 2016, the Department filed comments regarding the Exemption Petition.

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<sup>2</sup> The PPA is between MP and Nobles 2 Power Partners, LLC (Nobles 2), an affiliate of Tenaska, Inc. On May 10, 2017, the Company executed a PPA with Nobles 2 for a 250-MW wind project. On July 20, 2017, the Company executed the First Amendment to the PPA with Nobles 2. On August 20, 2018, the *Amended and Restated Power Purchase Agreement For 250 MW of Renewable Generation* with Nobles 2 was signed. The August 20, 2018 agreement is included in the Petition.

On May 25, 2016, the Commission issued an order approving the Exemption Petition with conditions.

## 2. *Certificate of Need Petition*

On October 13, 2017, Nobles 2 filed its *Application of Nobles 2 Power Partners, LLC for a Certificate of Need for the up to 260 MW Nobles 2 Wind Project and Associated Facilities in Nobles County, Minnesota* (CN Petition). Nobles 2 is an independent power producer (IPP) that proposes to construct, own, and operate an up to 260-MW wind energy conversion system (Project). The project would be located within Nobles County in southwestern Minnesota. Nobles 2's parent, Tenaska Wind Holdings II, LLC is an affiliate of Tenaska, Inc. Nobles 2's parent is based in Omaha, Nebraska and is a private, independent energy company.

On October 13, 2017, the Department filed comments on the completeness of the CN Petition.

On November 20, 2017, Nobles 2 filed reply comments regarding completeness.

On January 4, 2018, the Commission issued its *Order Accepting Application, Directing Use of Informal Review Process, and Varying Timeframes* (Completeness Order).

On March 20, 2018, the Mankato Building and Construction Trades Council filed comments on the Petition.

On April 4, 2018, Nobles 2 filed two letters demonstrating that Nobles 2 completed the notice requirements.

On May 10, 2018, the Commission issued a *Notice of Comment Period* (Notice) which established comment and reply comment deadlines of July 2, 2018 and July 11, 2018, respectively, regarding the merits of the Petition. According to the Notice the topics open for comment include:

- Are there any contested issues of fact with respect to the representations made in the application?
- Should the Commission grant a certificate of need for the project?
- Are there other issues or concerns related to this matter?

On June 27, 2018 the Department filed Comments regarding the CN Petition.

On July 12, 2018 Nobles 2 filed rely comments regarding the CN Petition.

On September 25, 2018 the Laborers District Council of Minnesota and North Dakota filed comments regarding the CN Petition.

On September 27, 2018 the Department filed supplemental comments, noting the Department's concerns as set forth in the Department's September 21, 2018 comments in Docket E015/M-18-545 regarding Minnesota Power's request for approval of the Nobles 2 Wind Power Purchase Agreement.

On October 5, 2018 the Parties filed separate response comments.

Below are the supplemental comments of the Department regarding MP's Petition and Nobles 2's CN Petition.

## **II. UPDATED ANALYSIS OF MP'S PROCESS**

### **A. NOTICE OF TERMINATION**

MP's reply comments at page 2 clarified that the Company "did not receive a notice to terminate the Initial PPA and collect ... compensation from Tenaska." The Department appreciates the Company's confirmation that the understanding expressed in the Department's comments at page 10 was correct. Namely that "after using the condition precedent and threatening to terminate the First PPA unless the price was renegotiated..." the Parties proceeded to renegotiate the First PPA. Thus, the Department understood that the First PPA had not been terminated, but that termination was a possible future outcome and the potential was used as leverage by Nobles 2.

The Department notes that there can be valid reasons to renegotiate a PPA. The validity of a decision to renegotiate is dependent upon the circumstances at the time and must be reviewed on a case-by-case basis. As emphasized in the Department's comments, in this case MP portrayed the series of events as:

- Nobles 2 offered MP renegotiation or termination of the First PPA as options to consider;
- the Parties began renegotiation;
- Nobles 2 offered MP partial ownership in the project which MP accepted; and
- the Parties then concluded a renegotiated PPA with significantly higher prices only slightly below the competing offers.

The Department's comments at pages 14-15 noted concerns with MP's portrayal of the sequence of events, the apparent incentive, with MP as minority partner, of Parties to increase the PPA price as high as possible, and the lack of explanation by MP of any controls to ensure the integrity of the renegotiation process.

*B. TRANSMISSION NETWORK UPGRADES ADJUSTMENT*

MP's reply comments at page 6, while discussing the transmission network upgrades adjustment stated that the Parties:

negotiated a revised transmission price adjustment based on analysis of the MISO Network Upgrade costs that could be assigned to Nobles 2. The Department's comments did not appear to analyze these network upgrade numbers. Furthermore, transmission network upgrade costs do not benefit Tenaska or any potential investment partner. These are expenses paid to other transmission owners that build these transmission facilities.

The reply comments of Nobles 2 made a similar point. First, the Company and Nobles 2 are correct that the Department's September 21, 2018 comments did not analyze the network upgrade costs that could be assigned to Nobles 2. At the time the comments were filed the Department was unaware of the publication of MISO's September 20, 2018 *MISO DPP 2016 August West Area Phase 1 Study* which reported a network upgrade cost estimate of about \$79 million for Nobles 2.<sup>3</sup> Further, the Company did not provide any other information to form the basis for such an analysis. Instead, all that was known at the time was that the Amended PPA transferred the network upgrades cost risk from Nobles 2 to MP's ratepayers. The risk shift was shown in Table 2 of the Department's September 21, 2018 comments.

Second, MP and Nobles 2 are correct that transmission network upgrade costs do not benefit Nobles 2 other than enabling Nobles 2's project to proceed. However, the resulting revenues from the revised transmission network upgrades adjustment, triggered by network upgrade costs, do benefit Nobles 2 and any potential investment partner. For example, if the network upgrade costs were determined to be \$25 million, under the First PPA some of the costs would be paid by revenues from the original transmission price adjustment and some costs would be paid by revenues from the base price. Alternatively, Nobles 2 (and the partner) could terminate

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<sup>3</sup> Note that this is the result from the first phase of the study. The cost estimate will be revised during the second and third phases of MISO's process. Also, the cost estimates had a significant impact on the 2016-Aug-West study group. Specifically, MISO reports that over half of the projects and capacity involved withdrew and will not be included in the second and third phases. See the [November 2018 Decision Point Update](#) for further information on the 2016-AUG-West study group.

the First PPA. However, under the Amended PPA all of the costs would be paid by revenues from the revised transmission network upgrades adjustment and none from the base price; potential termination of the Amended PPA would not be an issue. In this example the revised transmission price adjustment benefits Nobles 2 (and the partner) by eliminating the necessity of choosing between accepting a lower level of return (diverting revenues from the base price to transmission costs) or terminating the project.

### *C. RENEGOTIATION PROCESS*

The Department's comments at page 14 expressed the concern that "MP's Petition indicates that no outside party was involved and no other processes were instituted to ensure that reasonable, arms-length actions were being taken when the Amended PPA was being negotiated between the owners of the Nobles 2 project (MP and Tenaska)."

MP's reply comments at page 3 stated that MP had established separate teams to evaluate potential ownership opportunity and to renegotiate the price; the reply comments of Nobles 2 at pages 15 to 16 also indicated two separate negotiation tracks were used. Furthermore, MP's reply comments at pages 4 to 7 and 21 to 22 provided instances of MP's counter offers resulting in prices lower, and terms more favorable, than originally proposed by Nobles 2 during the renegotiations. The reply comments of Nobles 2 at pages 10 to 11 confirmed MP's discussion of the price impacts of the renegotiation process. Finally, MP's reply comments at pages 15 to 17 provided a more detailed timeline regarding MP's process for addressing the renegotiation request.

After reviewing MP's reply comments, the Department agrees with MP that the fact that prices decreased during the renegotiation process is a reasonable indicator that some efforts were taken to ensure the integrity of the renegotiation process and that the efforts were effective to some degree. Also, the more detailed information regarding the steps taken and the sequence of events provides greater clarity regarding what actually happened.

### *D. TIMING OF A REPLACEMENT*

MP's reply comments at page 8 stated that, given the considerations at stake:

Tenaska would have been very unlikely to exercise its contingency prior to the January 2019 deadline. If Minnesota Power were to initiate a new RFP process in January 2019, it is unlikely that a wind project with similar benefits to customers would emerge, not only because Nobles 2 already qualifies for the 100 percent PTC, but also because it is in the DPP 2016 August West Area Study queue, which is expected to be completed by October 2019 and thus have transmission certainty.

Analyst assigned: Steve Rakow

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The Department agrees with MP that the Company was locked into a PPA with Nobles 2 that was unlikely to be terminated prior to the January 2019 deadline because the threat of termination was the leverage available to Nobles 2 for renegotiating the PPA. Therefore, the Department agrees that, most likely, MP would have been unable to issue a new RFP or revisit the old RFP for a replacement project until early 2019.

That leaves the question of the availability of a wind project with similar benefits to customers would emerge in early 2019. Without actually issuing an RFP there is no way to know what projects would be available in early 2019. However, MP noted two significant benefits available to Nobles 2 that MP believes are unlikely to be available to projects the Company might find in early 2019:

- Nobles 2 already qualifies for the 100 percent Production Tax Credit (PTC); and
- Nobles 2 is in MISO's 2016-Aug-West study group.

In addition, MP's reply comments noted that "two of the most competitive projects from the RFP are already being developed for other customers and are no longer available." In other words, MP believes there is significant demand at this time for wind projects with low costs and transmission certainty that exceeds the supply of such projects.

Regarding the demand for wind projects such as Nobles 2, the Department notes that the levelized cost of new wind projects with 100 percent PTC (such as Nobles 2) is typically below the variable costs of existing coal and natural gas fired units. This means that most utilities in MISO will be able to reduce their costs by adding 100 percent PTC wind and displacing their existing generation. This leads to a situation with a very large potential demand for new wind projects.

In addition, the Department agrees with MP that the fact that two other highly ranked projects withdrew from the original RFP due to being selected by other utilities is further confirmation of the high demand for wind projects. Finally, the Department notes that MISO's November 2018 Decision Point Update, referenced above, shows that MISO's 2016-Aug-West study group started with nearly 6,200 MW of wind capacity and 35 different projects but has been reduced to 2,550 MW and 15 projects, apparently due to the high transmission costs resulting from the first phase of the 2016-Aug-West study. This is an indication of the importance of transmission queue status and the difficulty that might be experienced by projects in subsequent study groups.



#### *E. COMPARISON PROJECTS*

MP's reply comments at page 12 explained how MP selected the comparison projects provided in Figure 5 of the Petition and how MP calculated the costs. The Department agrees that MP selected reasonable projects from the original RFP for comparison purposes. The Department was concerned that the price of the Amended PPA, as presented in the Petition, was approximately that of the second-best projects.

MP's explanation on pages 13 to 14 of the reply comments regarding the varying transmission cost risk amongst the comparison projects are also helpful and illustrate the significantly lower transmission network upgrades cost risk presented by the Amended PPA. In other words, while the known costs of the Amended PPA and the comparison projects are similar, the comparison projects present substantially higher risk of cost increases depending on the results of the generation interconnection studies.

#### *F. EVIDENCE OF COST INCREASE*

The Parties' reply comments provided independent assessments concluding that the Tax Cuts and Jobs Act (TCJA) would increase the cost of wind projects. MP cited assessments by Enovation Advisory, a division of Enovation Partners LLC and Marathon Capital, LLC while Nobles 2 cited an assessment by another independent source. Based upon this information and information provided to the Department by other utilities in recent Commission proceedings, the Department concludes that there is reason to conclude that wind projects in general are experiencing a degree of cost increase due to the TCJA. Therefore, there are unforeseen, actual cost increases that could have contributed to the basis for renegotiations by the Parties.

#### *G. SUMMARY REGARDING THE PROCESS*

The Department's comments at pages 14-15 explained that the problem identified by the Department was MP's portrayal of the sequence of events, the apparent incentive (with MP as minority partner) of Parties to increase the PPA price as high as possible, and the lack of explanation by MP of any controls to ensure the integrity of the renegotiation process. In the reply comments the Parties provided additional information that mitigated the Department's concerns regarding the sequence of events, the change in pricing and risk, and efforts to maintain the integrity of the overall resource acquisition process. Therefore, as discussed above, the Department concludes that the concerns outlined in the Department's initial comments have been addressed by the Parties.

### III. ANALYSIS OF THE AMENDED PPA

As is generally true of electric generators, there are risks that the Nobles 2 facility will not be able to provide the electric service as specified in the Amended PPA. An appropriate PPA should protect MP's ratepayers from such risks. The risks of non-performance can be classified into two categories:

- financial risks, and
- operational risk.

The Department discusses these risks below.

#### A. FINANCIAL RISKS

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

- seller default and termination of the Amended PPA before the expiration date; and
- entitlement by a lender or other party, as a result of the seller's default, to take over the project and terminate the Amended PPA.

Under these events, MP may be forced to find more costly replacement power when the Amended PPA is terminated. Further, under both events, the projects may be terminated and, therefore, put MP's compliance with various legislative and Commission requirements in question.

The Amended PPA provides various measures to reduce the financial risk to MP and the Company's ratepayers of premature termination of the Nobles 2 project and the Amended PPA. They include:

- security (Article 9);
- default, termination, and remedies (Article 11);
- insurance (Article 13);
- obligation to rebuild (section 6.6); and
- buyer purchase option (section 17.5).

Regarding security, Article 9 of the Amended PPA creates a security fund. The size of the security fund is similar to that of other wind PPAs recently reviewed by the Department. MP may draw upon the security fund to satisfy certain obligations of Nobles 2 to MP.

Section 9.5 of the Amended PPA allows MP to “waive or reduce the amount of security required to be posted hereunder in consideration of an Affiliate of MP having a minority ownership interest in Seller.” This is not an issue at this time since MP currently does not have an affiliate owning a minority share of Nobles 2. However, the Department notes that the appropriateness of any reduction in the security fund will be reviewed should such an affiliated interest agreement be presented to the Commission.

Regarding default, termination, and remedies, Article 11 of the Amended PPA contains several terms that serve to mitigate the financial risk faced by MP. The language of section 11.1 defines several events of default by Nobles 2. Section 11.3 then provides for various remedies to an event of Nobles 2 defaulting. Regarding remedies:

- section 11.3.2 allows MP to offset damages from any payments due;
- section 11.3.3 allows MP to seek damages based upon a default; and
- section 11.3.4 allows MP to draw upon the security fund.

Regarding termination, it appears that the intent of section 11.4 is to allow MP to receive from Nobles 2 all of the actual damages incurred by MP.<sup>4</sup> Note that damages due to energy not delivered, which would be equal to the difference between the generation node locational marginal price (LMP) and the contract energy price (referred to Availability Liquidated Damages in the Amended PPA, defined in section 3.2.1(a)) are subject to an overall cap. While the overall cap serves to limit the degree of risk reduction provided by section 11.4, the Department concludes that the overall degree of mitigation of financial risk, as discussed throughout this section, is reasonable.

In any event, the text of the Amended PPA states “Upon the termination of this PPA under this Section 11.4 ... the non-defaulting Party shall be entitled to receive from the defaulting Party all of the actual damages incurred by the defaulting Party...” It is not clear to the Department why the non-defaulting party would be entitled to collect the damages incurred by the defaulting party; thus, the Department recommends that the language of Section 11.4 be revised or MP should explain why the current language is correct.

Regarding insurance, first the Department notes that section 11.5.3, while discussing the use of insurance proceeds, refers to a section 6.7. However, there is no section 6.7 in the Amended PPA. Therefore, the Department recommends that the language of Section 11.5.3 be revised to include the correct reference. Second, the Department notes that Article 13 requires Nobles 2 to maintain various insurance policies; such insurance policies serve to mitigate the risk faced by MP if an insured event were to occur.

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<sup>4</sup> The Department acknowledges that the same rights apply if the situation were reversed and MP were to default. However, the Department’s concern is with protecting ratepayers and not Nobles 2.

Regarding rebuilding, section 6.6 of the Amended PPA requires Nobles 2 to attempt to include terms in the financing documents a requirement to use the insurance proceeds for reconstruction of the damaged portion of the generation facility. This helps mitigate the risk that financing will not be available to Nobles 2 if some or all of the project requires rebuilding.

As emphasized by the Parties in reply comments, section 17.5 of the Amended PPA provides MP an option to purchase the facility. If MP were to purchase Nobles 2's facility the financial risks associated with the Amended PPA would no longer exist. The potential purchase of the Nobles 2 facility by MP can be reviewed if and when such an event occurs.

After reviewing these features in the Amended PPA, the Department concludes that MP's ratepayers would be reasonably protected from the financial risks.

#### *B. OPERATIONAL RISKS*

As is typically true of PPAs, the operational risks are the risk that the Nobles 2 project will not be built and operated as expected. These risks include a complete shutdown or a 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, once again MP may face the risk of non-compliance with the various legislative and Commission requirements, and may need to find what is likely to be more expensive replacement power.

The Amended PPA provides various measures to reduce the operational risks to MP of premature termination of the Nobles 2 project and the Amended PPA. They include:

- mechanical availability (section 3.2)
- obligation to rebuild (section 6.6);
- payment structure (Exhibit B);
- limits on transfer (section 11.1.8);
- meter reading (section 8.2.2); and
- remedies (section 11.3); and
- buyer purchase option (section 17.5).

The mechanical availability requirement of the Amended PPA provides some risk mitigation by requiring Nobles 2 to pay damages when forced outages exceed a level provided in the Amended PPA. This mitigates the risks associated with an extended outage of Nobles 2's facility.

The obligation to rebuild, discussed above, would help ensure energy and capacity delivered to MP are restored to the expected levels. Additional risk mitigation is provided by the structure of MP's payments to Nobles 2; in this case MP pays only for net energy actually delivered to MP (except for curtailment issues, as discussed by the Department below).

Section 11.1.8 of the Amended PPA includes restrictions on the transfer of the Amended PPA by Nobles 2. Limits on transfer provide a reason to expect that the owner of Nobles 2 is qualified to operate the generating facility.

The Amended PPA also includes provisions allowing MP to access the facility to read meters and to be present any time meters are inspected or tested; for example, see section 8.2.2. This ensures that MP's payments are for energy actually received.

Finally, the Amended PPA at section 11.3 specifies the amount of time Nobles 2 has to cure an event of default. Failure to cure constitutes an event of default and allows MP to take various actions to compensate for the default. This provides Nobles 2 an incentive to cure any defaults and restore energy production to the expected levels in a timely manner.

After reviewing these features in the Amended PPA, the Department concludes that MP's ratepayers would be reasonably protected from the operational risks.

### *C. CURTAILMENT PROVISIONS*

For wind power, payments for curtailed energy may be necessary to maintain financial viability of a project. In principle, MP should pay for curtailed energy only if the curtailments are initiated by MP when Nobles 2 is able to produce and deliver energy. MP should not make curtailment payments in other circumstances. If, after including expected curtailed energy and resulting curtailment payments, the overall price is still reasonable, the Amended PPA should be approved. Below is a detailed discussion of curtailments.

The Amended PPA establishes both compensable curtailments, where MP must pay for the curtailed energy, and non-compensable curtailments where MP does not pay for the curtailed energy. Section 7.6 of the Amended PPA defines compensable and non-compensable curtailments. Examples of non-compensable curtailments are **[TRADE SECRET INFORMATION HAS BEEN EXCISED]** Compensable curtailments are the result of MP's refusal to accept delivery for reasons other than non-compensable events. Examples of compensable curtailments include MP **[TRADE SECRET INFORMATION HAS BEEN EXCISED]**. The Department estimated the impact of curtailment of the levelized cost of energy (LCOE). The impact was estimated by determining the cost of energy delivered per

the contract price (excluding any transmission adjustment), assuming 4 percent curtailment,<sup>5</sup> a PTC value of \$23 per MWh in 2018<sup>6</sup> escalated at 2 percent annually, and the 8.18 percent discount rate discussed in the Petition's Appendix C. The results of the curtailment adjustment provisions in the Amended PPA are an increase in the levelized cost of energy (LCOE) from [TRADE SECRET HAS BEEN EXCISED] an increase of about 7.67 percent. Assuming transmission network upgrades of \$25 million are incurred, the LCOE increases from [TRADE SECRET HAS BEEN EXCISED] an increase of about 7.25 percent. In summary, if MP experiences curtailment similar to Xcel Energy's, the Department's estimate of the resulting price increases appear to be reasonable.

As emphasized by the Parties in reply comments, section 17.5 of the Amended PPA provides MP an option to purchase the facility. If MP were to purchase Nobles 2's facility, the financial risks associated with the Amended PPA would no longer exist. The potential purchase of the Nobles 2 facility by MP can be reviewed if and when such an event occurs.

The Department recommends that MP report in its monthly fuel clause filings and annual automatic adjustment filings (AAA) the amount of any curtailment payments. The Department reviews those filings and will make recommendations regarding the appropriateness of any curtailment payment beyond a reasonable level.

#### *D. TRANSMISSION RISK*

Under the proposal, Nobles 2 will pay the generation interconnection costs<sup>7</sup> as part of the Amended PPA's base price. However, the costs of transmission network upgrades are covered through an adder to the base price. Further discussion of the interconnection status for the Nobles 2 project can be found on page 21 of MP's Petition, on pages 17 to 18 of MP's reply comments, and also on pages 5 to 10.

Given the extensive discussion provided by the Parties, in particular the comparison of the different transmission network upgrade adders included on page 13 of MP's reply comments, the risk associated with the cost of transmission network upgrades provided in the Amended PPA is reasonable. The Department's notes that, given the large number of projects that have withdrawn from the 2016-Aug-West study, as discussed above, it would appear that

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<sup>5</sup> The degree of curtailment was based upon Northern States Power Company d/b/a Xcel Energy's (Xcel) statement in Docket No. E002/M-16-777 that Xcel expects that over the lifetime of the most recent wind projects the overall average curtailment rate will be approximately four percent. Some of Xcel's projects are located on the Buffalo Ridge, as is Nobles 2.

<sup>6</sup> See: <https://www.energy.gov/savings/renewable-electricity-production-tax-credit-ptc>

<sup>7</sup> Generation interconnection costs are the costs to move the energy from the generator to the point of delivery, which is a transformer in the project's substation.

transmission network upgrade costs for Nobles 2 are more likely to decrease than increase in the on-going 2016-Aug-West phase two study. In addition, the transmission network upgrades cost cap provided in section 1.2.4 of the Amended PPA provides additional risk protection regarding transmission network upgrade costs.

#### **IV. DEPARTMENT RECOMMENDATION**

Based upon the detailed discussion provided in the Parties' reply comments, the Department recommends that the Commission approve MP's Petition with the following conditions, which were discussed above:

- require MP to revise the language of Section 11.4 or explain why the current language is correct;
- require MP to revise the language of section 11.5.3 that refers to the non-existent section 6.7; and
- require MP to report in its monthly fuel clause filings and AAA the amount of any curtailment payments.

The above revisions to the Amended PPA should be filed as a compliance filing in this docket.

The Department also recommends that the Commission impose the following conditions as discussed in the Department's initial comments:

- in future wind resource acquisition processes MP is required to ascribe a value to the capacity of proposed wind resources unless MP can demonstrate that pursuit of capacity accreditation is not expected to be economic; and
- until such time as a Commission-approved bidding process is in place, MP is to pursue an RFP to investigate the possible procurement of any generation resources needed to meet the Company's energy and capacity requirements, with no presumption that any Company-owned generation identified in that bidding process will be approved by the Commission.

The Department also recommends that the Commission approve Nobles 2's CN Petition, as recommended in the Department's June 27, 2018 comments in Docket IP2924/CN-16-289.

## **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 Supplemental Comments**

**Docket No. E015/M-18-545 and IP6964/CN-16-289**

**Dated this 15<sup>th</sup> day of November 2018**

**/s/Sharon Ferguson**



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Greg	Chandler	greg.chandler@upm.com	UPM Blandin Paper	115 SW First St  Grand Rapids, MN 55744	Paper Service	No	OFF_SL_18-545_M-18-545
David	Chura	dchura@mnpower.com	Minnesota Power	30 West Superior Street  Duluth, MN 55802	Electronic Service	No	OFF_SL_18-545_M-18-545
Paul	Ciesielski	Paul.Ciesielski@arcelormittal.com	ArcelorMittal	3300 Dickey Road  East Chicago, IN 46312	Electronic Service	No	OFF_SL_18-545_M-18-545
Generic Notice	Commerce Attorneys	commerce.attorneys@ag.state.mn.us	Office of the Attorney General-DOC	445 Minnesota Street Suite 1800  St. Paul, MN 55101	Electronic Service	Yes	OFF_SL_18-545_M-18-545
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