



414 Nicollet Mall
Minneapolis, MN 55401

June 14, 2015

—Via Electronic Filing—

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

RE: ADDITIONAL REPLY COMMENTS
200 MW COURTENAY WIND ACQUISITION
DOCKET NO. E002/M-15-401

Dear Mr. Wolf:

Northern States Power Company, doing business as Xcel Energy, submits the attached Additional Reply Comments to the Department's June 22, 2015 Reply Comments regarding our April 30, 2015 Petition in this matter.

Pursuant to Minn. Stat. § 216.17, subd. 3, we have electronically filed this document, and served copies of these Reply Comments on the parties on the attached service list. If you have any questions regarding this filing please contact me at (612) 330-5601 or jody.l.londo@xcelenergy.com.

Sincerely,

/s/

ALLEN D. KRUG
ASSOCIATE VICE PRESIDENT
STATE REGULATORY POLICY

Enclosure
cc: Service List

STATE OF MINNESOTA
BEFORE THE
MINNESOTA PUBLIC UTILITIES COMMISSION

Beverly Jones Heydinger	Chair
Nancy Lange	Commissioner
Dan Lipschultz	Commissioner
John Tuma	Commissioner
Betsy Wergin	Commissioner

IN THE MATTER OF THE PETITION OF
XCEL ENERGY FOR APPROVAL OF THE
ACQUISITION OF 200 MW OF WIND
GENERATION

DOCKET NO. E002/M-15-401

ADDITIONAL REPLY COMMENTS

OVERVIEW

Northern States Power Company, doing business as Xcel Energy, submits these Additional Reply Comments to the Department's June 22, 2015 Reply Comments regarding our April 30, 2015 Petition seeking approval to acquire the 200 MW Courtenay Project. We appreciate the Department's review of our filing, and continued support of the Company's acquisition of the 200 MW Courtenay Project. We file these Additional Reply Comments for two reasons.

First, we committed to update the Commission when we resolved the Minnkota transmission delivery issue. We are pleased to report that we have resolved that issue, thereby removing that contingency from our ability to move the Project forward.

Second, we clarify our position on the Department's recommended treatment of the North Dakota Investment Tax Credit (NDITC). We believe this Docket raises an important policy issue about the allocation of State income taxes (and offsetting State-specific credits). But that issue need not be resolved in this proceeding, as the NDITC is largely unavailable to the Courtenay Project because the Company's tax appetite is largely taken up by the Company's Borders Wind Project. We believe the Commission can defer final resolution of the treatment of the NDITC to our Borders Wind Project (where the NDITC is available and being utilized). This outcome will allow the Courtenay Project to move forward without delay and preserves the issue to the Borders Project where it has practical application. In addition, this outcome provides us time to work with our North Dakota stakeholders in an effort to gain consensus on the treatment of the tax credit.

ADDITIONAL REPLY COMMENTS

A. Minnkota Delivery Issue

The Company is pleased to report that we have resolved the transmission delivery issue with Minnkota, ensuring that the power from the Courtenay Project can be delivered to Xcel Energy's customers. On June 26, 2015, Minnkota, Geronimo and the Company all executed a Settlement Agreement that resolves the transmission delivery issues. The Settlement Agreement will be filed with FERC in due course and we expect that the FERC proceeding will be dismissed in the near future. By resolving that issue, the Company has been able to take the next steps in the development in order to meet the 2016 PTC deadline.

B. Treatment of the NDITC

We respond to the Department's request that a ratable share of NDITC be allocated to our Minnesota customers. We appreciate the Department's position and recognize that the NDITC has been allocated in the past. The Department's comments raise an important policy issue that provides the Commission with an opportunity to balance State-specific cost-of-service issues with system-wide cost considerations. For the reasons explained below, we respectfully suggest that final resolution of this important policy issue can be deferred to consideration of our Borders Wind Project, where the NDITC is both available and utilized. That issue need not be resolved in this proceeding, since the NDITC is largely unavailable to the Courtenay Project and the impact of the tax credit was not taken into account in developing the economic justification for the Project.

1. *Company's Position*

As explained in our Reply Comments, the Company's practice is to assess state income tax liability as a stand-alone calculation for the cost of service in that state. We believe it is important that this concept be considered fully as part of the Commission's policy judgment on this issue.

- The NDITC is structured to offset the Company's North Dakota income tax liability and only offsets the Company's cost of service in North Dakota. The NDITC is not available to offset the cost of service for our other jurisdictions.
- Unlike state income taxes and tax credits (which are treated as a state-specific cost of service), federal income taxes and tax credits as well as property taxes

are allocated across our system for the benefit of all of our customers, as explained in our Reply Comments.

- If we share one state-specific income tax benefit, conceptually it may be appropriate to share other state tax benefits, raising important policy questions about stand-alone taxation.

The Department suggests the Company “appears to have changed its position on whether Minnesota ratepayers should be credited for their proportionate share of NDITCs.”¹ We do not believe the Company has changed its position, but agree that the precedent cited by the Department provides helpful information to inform the Commission’s overall consideration of this policy issue.² We note that the Company has consistently taken the position that state taxes (and associated credits should be addressed on a stand-alone basis.³ Further, if we implement something other than stand-alone tax treatment, we would need to seek concurrence from our North Dakota regulators.⁴ While there may be circumstances where allocating state income taxes and credits may be appropriate, we believe that issue should be made after careful consideration based on a complete record.

2. *Proposed Outcome*

The Company recognizes that the Department raises an important policy question for the Commission’s consideration. As a practical matter, however, this issue is not critical to resolution of whether our purchase of the Courtenay Project is in the public interest because the NDITC is largely unavailable to this Project and we did not take the NDITC into account in assessing the economics of the proposed purchase. Thus,

¹ *In the Matter of the Petition of Xcel Energy for Approval of the Acquisition of 200 MW of Wind Generation*, Docket No. E002/M-15-401, DEPARTMENT RESPONSE COMMENTS at 5 (June 22, 2015) [Department Response Comments].

² In the Wind2Battery Project in Docket No. E002/M-10-1066, cited by the Department, the Company allocated the federal investment tax credit; the Wind2Battery Project was not eligible for the NDITC because it was not located in North Dakota. The line item cited by the Department was the result of a labeling error that was intended to refer to the Federal ITC. See, *In the Matter of the Petition of Northern States Power Company, a Minnesota Corporation, Regarding the 2011 Renewable Energy Standard Rider and 2010 RES Tracker Report*, Docket No. E002/M-10-1066, NSPM Reply Comments at Attachment A at 8 (Jan. 10, 2011) (Responding to an information request, clarifying that the Wind2Battery Project benefits from bonus tax depreciation and the Federal ITC). The Department also refers to the treatment of NDITC related to Otter Tail Power Company’s 2010 Renewable Energy Standard Rider. Otter Tail appears to have affirmatively proposed allocating the NDITC amongst its jurisdictions. *In the Matter of the Petition of Otter Tail Power Company’s Request for Approval of its 2010 Renewable Resource Cost Recovery Adjustment Factor*, Docket No. E017/M-09-1484, Initial Filing at Attachments 1-3 (Dec. 31, 2009).

³ *In the Matter of the Petition of Northern States Power Company for Approval of Investments in Two Wind Projects: 200 MW Nobles Wind Project and 150 MW Merricourt Wind Project*, Docket No. E002/M-08-1437, COMPANY REPLY COMMENTS at 7-8 (March 13, 2009).

⁴ *Id.*

the downstream rate treatment of the NDITC in this proceeding is not a critical inquiry to deciding whether to approve our purchase.

In light of all of the considerations identified above and by the Department, the Company respectfully suggests that final resolution of the NDITC issue should be deferred and need not be ruled upon as part of the Commission's consideration of whether our purchase of the Courtenay Project is in our customers' interest. Since the NDITC has little practical impact on the instant Docket, we believe it would be better to address the important policy issues prior to rendering a definitive decision.

We suggest that final resolution of the treatment of the NDITC should be deferred to filings relating to our Borders Wind Project. As we have described, the tax credits generated by the Borders Wind Project (which is in-service and predates the Courtenay Project) are sufficient to offset the Company's North Dakota income for several years. As a result, except for the last year of eligibility, there will be no NDITCs attributable to the Courtenay Project. The Commission can address the proper rate treatment of the NDITC in proceedings relating to the Borders Wind Project. This could occur either in our contemplated upcoming 2016 rate case or in our 2015 capital true-up arising out of our 2014 rate case. In either circumstance the Commission will have ample opportunity to consider and decide the policy issue surrounding the proper rate treatment of a state-specific tax benefit.

Deferring resolution of this issue to the Borders Wind Project will provide important benefits.

- First, since very little of the NDITC will be attributable to the Courtenay Project, it is appropriate to take additional time to consider the policy ramifications of this issue. Those policy considerations can be better explored in connection with the Borders Wind Project, where the NDITC provides a more significant benefit.
- Second, as we have mentioned, we will need to consult with our North Dakota regulators to seek concurrence on the Department's suggestion that the NDITC should be socialized across jurisdictions. By deferring the issue in this proceeding, it will provide the Company time to address the issue with our North Dakota regulators.
- Third, deferring final resolution of the issue will provide an opportunity for the Commission to develop a complete record on the question and will allow the

Commission to make an informed decision based on all of the relevant considerations.

CONCLUSION

In short, Xcel Energy appreciates the opportunity to supplement the record on the resolution of the Minnkota transmission delivery issues and to clarify our position on our proposed treatment of the NDITC. We respectfully request that the Commission approve the transaction to allow us to complete the Courtenay Project for the benefit of our customers.

Dated: July 14, 2015

Northern States Power Company

CERTIFICATE OF SERVICE

I, SaGonna Thompson, hereby certify that I have this day served copies of the foregoing document on the attached list of persons.

xx by depositing a true and correct copy thereof, properly enveloped with postage paid in the United States mail at Minneapolis, Minnesota;
or

xx by electronic filing.

MPUC Docket No: E002/M-15-401

Dated this 14th day of July 2015.

/s/

SaGonna Thompson

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