

June 9, 2020

Mr. Will Seuffert
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
Saint Paul, Minnesota 55101-2147

RE: **Response to Supplemental Comments, Minnesota Department of Commerce, Division of Energy Resources**
Docket No. E002/PA-19-553

Dear Mr. Seuffert:

On June 4, 2020, Northern States Power Company, doing business as Xcel Energy (Xcel, Company) submitted its Reply to the Minnesota Department of Commerce, Division of Energy Resources (Department) Supplemental Comments dated April 8, 2020.

The Department recommended in its Supplemental Comments that the Commission approve Xcel's proposal to amend the existing renewable energy purchase agreement (REPA). The information included in the Company's most recent submission does not change that recommendation. However, the Department also recommended that if the Commission decided in favor of approving the Company's preferred purchase option, the Commission should condition that acquisition to protect ratepayers. The Department provided the following seven conditions:

- Annual Capacity factor – If the facility's annual capacity factor is lower than Xcel forecasted, shareholders will be responsible for the replacement power expense associated with that shortfall. This information is included in **TRADE SECRET** Attachment D of the filing.¹
- Operations and Maintenance (O&M) Expense – The amount of this expense that may be charged to ratepayers is capped at Xcel's forecasted annual cost included in **TRADE SECRET** Attachment D. While ratepayers would benefit from lower O&M expenses, shareholders would be responsible for any O&M costs in excess of those annual amounts of the filing.²
- Land Lease expense – Similar to O&M expense above, recovery of this expense from ratepayers is capped at Xcel's forecasted annual cost included in **TRADE SECRET** Attachment D of the filing. Ratepayers would benefit from any lower costs, but shareholders would be responsible for any land lease expense in excess of those annual amounts.

¹ Xcel provided its forecasted annual capacity factor for the Project in the information it provided for the Strategist model. That information is included as **TRADE SECRET** Attachment D.

² The Company also provided its forecasted expenses for Mower in its response to Department Information request no. 20. **TRADE SECRET** Attachment D also summarizes this information.

- Insurance expense – The amount of this expense that can be charged to ratepayers is capped at Xcel’s forecasted annual cost included in **TRADE SECRET** Attachment D of the filing. Ratepayers would benefit from any lower costs and shareholders would be responsible for any insurance expense in excess of those annual amounts.
- Property/production tax expense – Recovery of this expense from ratepayers is capped at Xcel’s forecasted annual cost included in **TRADE SECRET** Attachment D of the filing. Shareholders are responsible for any tax expense in excess of those annual amounts.
- Production tax credit – Xcel must credit to its ratepayers 100 percent of any extension of the WPTC, consistent with Xcel’s description above of its analysis and treatment of WPTCs for other wind facilities that the Company owns (e.g. Grand Meadows).
- Unrecorded depreciation – Xcel must reduce the net book value (and corresponding purchase price) to reflect unrecorded depreciation from June 2019 onward, to reduce costs for ratepayers and avoid overstating the net book value of the Mower County facility.

In its reply, Xcel included three proposed conditions.

- The Company must justify any costs (including O&M expense, ongoing capital expense – including revenue requirements related to capital included in rate base – insurance expense, land lease expense, and property/production tax expense) that are higher than forecasted in this proceeding. The Company acknowledges that it bears the burden of proof in any future regulatory proceeding related to the recovery of costs above those forecasted in this proceeding.
- Customers must be sufficiently protected from risks associated with the non-deliverability of accredited capacity and/or energy from the projects. The Company shall report annually the energy production levels from the facility and shall explain in detail the causes for any long-term shortfalls in production compared to forecasted levels. The Commission may make adjustments to recovery in the future if actual production varies significantly from assumed production over an extended period.
- The Company must credit to its customers 100 percent of any additional production tax credits (PTCs) received in connection with Mower County Wind Facility that it receives as a result of any extension related to PTCs.

Xcel’s proposed conditions appear to address the first six of the Department’s proposed conditions. The Company did not address the Department’s proposal to reduce the Mower County purchase price by accounting for depreciation expense since June 2019. However, discussions with the Company indicated that the facilities have not been operating, due to the repowering construction work, and therefore the facilities are not being subject to wear and tear, which depreciation expense is intended to reflect. Thus, the Department concludes that a depreciation adjustment is not needed in this case.

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The Department considers Xcel's proposed condition to be a reasonable representation of our position and would not oppose the Minnesota Public Utilities Commission (Commission) using those three conditions in lieu of the Department six conditions listed in our prior comments, if the Commission decides to allow Xcel to own the Mower facilities. The Department suggests one minor editorial change: the word "projects" in the second condition should be changed to "project".

The Department is available to answer any questions that the Commission may have in this matter.

Sincerely,

/s/ STEVE RAKOW
Analyst Coordinator

/s/ JOHN KUNDERT
Financial Analyst

JK/ar
Attachment

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
Letter**

Docket No. E002/PA-19-553

Dated this **9th** day of **June 2020**

/s/Sharon Ferguson

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