



414 Nicollet Mall
Minneapolis, Minnesota 55401

November 8, 2013

—Via Electronic Filing—

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

RE: REPLY COMMENTS
RENEWABLE DEVELOPMENT FUND - CYCLE 1 EVOCATION F/K/A ANAEROBICS
DOCKET NO. E002/M-00-1583

Dear Dr. Haar:

Northern States Power Company, doing business as Xcel Energy, submits these Reply Comments in the above reference matter. These Reply Comments are in response to the October 2, 2013 Comments of the Minnesota Department of Commerce, Division of Energy Resources.

We have electronically filed this document, and served copies on the parties on the attached service lists.

If you have any questions regarding this filing please contact me at (612) 330-7529 or paul.lehman@xcelenergy.com.

Sincerely,

/s/

PAUL J LEHMAN
MANAGER, REGULATORY COMPLIANCE AND FILINGS

Enclosures
cc: Service List

STATE OF MINNESOTA
BEFORE THE
MINNESOTA PUBLIC UTILITIES COMMISSION

Beverly Jones Heydinger	Chair
David Boyd	Commissioner
Nancy Lange	Commissioner
J. Dennis O'Brien	Commissioner
Betsy Wergin	Commissioner

IN THE MATTER OF THE REQUEST OF
NORTHERN STATES POWER COMPANY,
A MINNESOTA CORPORATION AND
WHOLLY OWNED SUBSIDIARY OF XCEL
ENERGY INC. FOR APPROVAL OF A
RENEWABLE DEVELOPMENT FUND
OVERSIGHT PROCESS

DOCKET No. E002/M-00-1583

REPLY COMMENTS

OVERVIEW

Northern States Power Company, doing business as Xcel Energy, submits these Reply Comments regarding an AnAerobics project that was approved for inclusion in the first cycle of our Renewable Development Fund (RDF) in 2002. These Reply Comments are in response to the October 2, 2013 Comments of the Minnesota Department of Commerce, Division of Energy Resources and we continue to believe that the sale of one of the AnAerobics generators is in the best interest of our customers and no disallowance of costs from this past RDF project is necessary.

The Department recommended that the Commission require Xcel Energy to return \$1.1 million to the RDF, as a result of an unsuccessful AnAerobics project. We thank the Department for their thorough review and acknowledge that while we work hard to help each RDF project meet their goals, this AnAerobics project did not achieve success.

This AnAerobics project was selected and approved during our first RDF cycle, over 11 years ago. The project involved cutting edge technology and we provided flexibility to the vendor to enable them a better chance at success. Since the termination of the AnAerobics grant contract, we have implemented several processes and management tools to better control the risks associated with these RDF projects for our customers. In addition, we made extensive efforts to recoup some of the costs spent on two

generators for this project by trying to sell the generators or finding a comparable project that could use the generators.

The mission of RDF is to promote the start-up, expansion and attraction of renewable energy projects. Thus, we fully anticipate that some of the projects selected for funding will not be successful due to the very nature of their innovative technology. That said, we acknowledge that process and management improvements were needed for the RDF program. Ultimately, this project did not succeed because of the technology and methods our vendor employed, not because of contract mismanagement. Unsuccessful projects are rare and we are proud of our RDF program and the many achievements we have had as a result of it. We look forward to future successes within our RDF program and a swift resolution of issues related to this unique project.

REPLY

Our August 8, 2013 Status Update in this Docket detailed the extensive background of this AnAerobics project as well as our regular reporting on this issue.¹ Below, we briefly summarize compliance with the Commission's August 17, 2004 Order including improvements to the RDF administration and oversight and our diligence in finding a use for the generators that were acquired for the AnAerobics project.

A. Improvements to RDF Administration and Oversight

As discussed in our August 8, 2013 Status Update, we learned a number of lessons during the first RDF funding cycle, including lessons from the AnAerobics project. The same can be said for each of the funding cycles, and with these lessons come improvements in the process. We have worked hard to improve the RDF program and tighten our project and contract management. For example, RDF administrative and contractual improvements were put into effect in Cycle 2 and have evolved in subsequent cycles (i.e. lump sum payments, standardized contracts, project reporting requirements, etc.). We believe the improvements we now have in place will better manage risks for our customers.

As a result of the Commission's August 17, 2004 Order, the Company engaged in a series of stakeholder meetings with Department of Commerce, Commission staff, and representatives of the RDF board. These stakeholder meetings ultimately culminated in a series of Commission Orders in this docket, dated August 3, 2005 and October 5, 2006, which fleshed out the operation and administration of the RDF. Improvements

¹ Since 2004, the Company has reported on AnAerobics activities in thirty-three Quarterly Reports, twenty-two summary updates pertaining to Ecovation, and seven compliance filings related to Commission Orders.

to the RDF during the years following the AnAerobics contract termination include the following:

- Authorization to use no more than five percent of grant funds to develop, administer, monitor, and evaluate grant contracts;
- Requirement to file Quarterly Reports with the Commission to keep stakeholders informed as projects progress;
- Requirement to publish on its website information about the Projects funded by the RDF; and
- Development of the RDF's mission statement.

1. RDF Mission Statement

As noted above, RDF's mission statement was developed following the AnAerobics contract termination. The mission statement has been amended over time, but currently reads:

The overall purpose (mission) of the fund is to:

- Increase the market penetration of renewable electric energy resources at reasonable costs in the state;
- Promote the start-up, expansion and attraction of renewable electric energy projects and companies in the state;
- Stimulate renewable electric energy research and development in the state;
- Develop demonstration scale renewable electric energy projects of near-commercial renewable electric generation or near-commercial electric infrastructure delivery technology that enhance the delivery of renewable electric energy within the state; and
- Provide benefits to Minnesota citizens, businesses and Xcel Energy's electric ratepayers.

The Company believes that the termination of the AnAerobics project is a rare but inevitable result of an organization whose mission is to promote the start-up, expansion and attraction of renewable energy projects.

With respect to AnAerobics specifically, we believe the Commission provided a similar sentiment in its October 5, 2006 Order regarding process and operational improvements for the RDF in this same docket. In rejecting the call for using a third-party administrator to run the RDF grant program in place of Xcel Energy, the Commission pointed to the AnAerobics situations as follows:

Only one project, the AnAerobics project, is claimed to have gone seriously awry. And while the Commission has yet to make a determination on that claim, it would not be fatal if true, since failed projects are a legitimate and inevitable part of any systematic program to fund emerging technologies. In short, the current structure has performed capably, at the least, and there is no compelling need to replace it.

The Order language recognizes the inherent risk of project failure when dealing with emerging technologies. The RDF process through the first funding cycle that initiated the AnAerobics project worked “capably” and as it was expected to. That included an understanding that not all projects funded by the RDF would reach completion and that some RDF grant funds may very well show limited to no success in fostering the development of emerging renewable technologies.

B Efforts to Find a Use for Generation Equipment

At the time the Commission issued its August 17, 2004 Order, the Company indicated that there were possibilities that it would be able to find alternative applications for the bio-digestion equipment purchased by AnAerobics, thereby recouping for ratepayers the value of the original RDF grant. The Commission thus deferred its decision to allow the Company to develop those possibilities.

We note that a share of the grant amount disbursed also reimbursed AnAerobics for design and engineering to develop the plans and specifications needed to order the equipment and generators which were later repossessed. Accordingly, the sale of recovered assets would not recoup the full value of the asset in addition to the full value of the labor expended to acquire the asset.

There was significant time and effort expended to identify an appropriate and comparable project for the equipment that was repossessed upon the dissolution of the AnAerobics project. As discussed in our August 8, 2013 Status Update, over the years, filings specific to the disposal of the AnAerobics equipment and the quarterly RDF progress reports have informed the Commission of many of Xcel Energy’s activities to recoup losses related to this project.

In addition, numerous informal inquiries through networking with stakeholders have been pursued. Unfortunately, these information inquiries did not work out for a variety of reasons including the fact that these two biogas fuel generators are specialized and there are a limited number of buyers.

C. Generator Sale

Despite our challenges, as mentioned in our August 8, 2013 Status Update, the Company signed a Purchase and Sales Agreement for the one of the generators on June 17, 2013 for \$50,000. The Company plans to sell the asset to the buyer and credit the proceeds from the sale to customers in our annual RDF filing.

CONCLUSION

We thank the Department for their thorough review. While our overall RDF program has achieved great success, this AnAerobics project did not meet its goals. This AnAerobics project was selected and approved during the initial stages of our RDF and since the termination of this contract; we have implemented several processes improvements to minimize the risk to our customers. We look forward to future successes within our RDF program and a quick resolution of remaining issues related to this distinct project.

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

xx electronic filing

DOCKET No. E002/M-00-1583

Dated this 8th day of November 2013

/s/

SaGonna Thompson
Records Analyst

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