

## Staff Briefing Papers

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| Meeting Date | April 23, 2020  |  | Agenda Item <b>*4</b> |
| Company      | Northern States Power Company, doing business as Xcel Energy  |  |                       |
| Docket No.   | <b>E002/AI-19-810</b><br>In the Matter of the Petition of Northern States Power Company for Approval of a Shared Facilities Agreement for Interconnection Service Among Crowned Ridge Wind, LLC, Crowned Ridge Wind II, LLC, and Crowned Ridge Interconnection, LLC |  |                       |
| Issue        | Should the Commission approve Northern States Power Company's Shared Facilities Agreement (Agreement) for Interconnection Service?  |  |                       |
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### Relevant Documents

### Date

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|---|-------------------|
| NSP-MN - 2020 Shared Facilities Agreement Petition            | December 20, 2019 |
| NSP-MN - 2020 Shared Facilities Agreement Supplemental Filing | February 13, 2020 |
| Department of Commerce - Comments                             | February 20, 2020 |
| NSP-MN - Reply Comments                                       | February 27, 2020 |

The attached materials are work papers of the Commission Staff. They are intended for use by the Public Utilities Commission and are based upon information already in the record unless noted otherwise

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## **I. Statement of the Issue**

Should the Commission approve Northern States Power Company's Shared Facilities Agreement (Agreement) for Interconnection Service?

## **II. Introduction**

On December 20, 2019, Northern States Power Company, doing business as Xcel Energy filed a petition seeking approval of a Shared Facilities Agreement (Agreement) for Interconnection Service between: Crowned Ridge Wind LLC; Crowned Ridge Wind II LLC,; and Crowned Ridge Interconnection, LLC.

On February 20, 2020, the Department recommended the Commission approve the Agreement subject to the condition that NSP report annually the costs and revenues, including the resulting assignment or allocation used to share costs and revenues between CR 1 and CR 2.

On February 27, 2020, Xcel agreed to the Department's condition.

## **III. Summary of Northern State Power Company-Minnesota's Shared Facilities Agreement (Agreement)**

### **a. Entities Involved in the Agreement**

Northern States Power Company, doing business as Xcel Energy (Xcel, NSP-MN, or the Company) is seeking approval of a Shared Facilities Agreement (Agreement) for Interconnection Service between:

Crowned Ridge Wind LLC, (CR 1);  
Crowned Ridge Wind II LLC, (CR 2); and  
Crowned Ridge Interconnection, LLC (CR Interconnection).

CR 1 is a 200 Mw wind project, approved by the Commission in E-002/M-16-777,<sup>1</sup> is located in Codrington County, South Dakota.

CR 1 is wholly owned by ESI Energy, Inc. ESI Energy, Inc. is a Delaware Limited Liability Company headquartered in Juno Beach, Florida, and is a wholly-owned intermediate holding company subsidiary of Next Era Energy, Inc. (NextEra Energy or NextEra). NextEra is also based in Juno Beach, Florida. Xcel notes that NextEra Energy will build and own CR 1 and Xcel will purchase electricity from CR 1 via a purchase power agreement (PPA).

CR 2 is also a 200 Mw wind project and will be built by NextEra Energy. Xcel will acquire CR 2 when it is completed through a Purchase and Sale Agreement (PSA).

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<sup>1</sup> ORDER APPROVING PETITION, GRANTING VARIANCE, AND REQUIRING COMPLIANCE FILING, In the Matter of the Petition of Xcel Energy for Approval of the Acquisition of Wind Generation from the Company's 2016-2030 Integrated Resource Plan, Docket No. E-002/M-16-777 (September 1, 2017)

The Commission approved Xcel's PPA for the CR 1 Project and the PSA for CR 2 in Docket No. E002/M-16-777.

Currently, however, both CR1 and CR 2 are wholly-owned subsidiaries of ESI Energy, LLC.

CR Interconnection is a joint venture between Crowned Ridge Wind LLC and Crowned Ridge Wind II LLC. CR Interconnection was formed for the purpose of maintaining the transmission interconnection rights for the CR 1 and CR 2 Projects. Its responsibilities with regard to interconnection for the Projects are governed by the Agreement filed in this docket.

#### **b. Nature of Interconnection**

As both the Crowned Ridge projects are located in South Dakota, they will interconnect with the Midcontinent Independent System Operator (MISO) grid at an existing substation owned by Otter Tail Power (the Big Stone South 230 kV substation).

CR 1 and CR 2 will interconnect with Otter Tail's substation via a single transmission line (owned equally by CR 1 and CR 2), but each project will maintain its own separate interconnection queue position.

As CR 2 will be owned by Xcel when that project is completed, there will be two owners (ESI Energy and Xcel) to the interconnection arrangement once Xcel Energy acquires CR 2. When that occurs, as Xcel points out in its petition, MISO rules do not allow for both Xcel and ESI Energy to be listed separately as the Interconnection Customer on the General Interconnection Agreement (GIA). Xcel argues that when the Projects become separately owned, a single, joint venture entity will be needed to hold and manage interconnection rights. Absent this single joint venture, one possible alternative, Xcel points out, is to build separate transmission facilities for CR 1 and CR 2.

Another alternative considered by Xcel, but in the end rejected, is to consolidate the parties' ownership structure, or enable one of the Crowned Ridge projects to expand the Big Stone South substation and construct a new transmission line between the substation and the project.

Xcel has rejected these possible arrangements as impractical because of cost considerations and procedural barriers.

Xcel has preferred the alternative which creates a joint venture to act as a single entity holding and managing the interconnection rights for both the CR 1 and CR 2 projects and being a counterparty to the GIA with MISO. Xcel maintains that this is the most reasonable alternative. Under this arrangement, CR 1 and CR 2 will operate under a single GIA with MISO and Otter Tail and will interconnect with the grid via a single transmission line to Otter Tail's substation. This line will be owned equally by CR 1 and CR 2 in undivided interests.

In general, under the Agreement, CR 1 and CR 2 will grant CR Interconnection non-exclusive rights to access and utilize any shared facilities, such as the transmission tie line, as reasonable or necessary for the provision of interconnection services to both entities.

Xcel assures the Commission that the Agreement will ensure that the Crowned Ridge Wind Projects can interconnect to the MISO system at a reasonable cost, delivering renewable energy from wind projects that the Commission has previously approved.

CR Interconnection is not yet an affiliated interest of the Company; however, when Xcel acquires ownership of CR 2, CR Interconnection will become a joint venture of Xcel and CR 1 (itself an affiliate of NextEra Energy), and the Shared Facilities Agreement for Interconnection Service contemplated in this petition will become an affiliated interest agreement.

### **c. Shared Facilities Agreement (Agreement)**

The proposed Shared Facilities Agreement governs CR Interconnection's responsibilities under the Projects' GIA. Xcel and NextEra have coordinated to develop this Agreement in a form acceptable to both.<sup>2</sup> The Agreement governs activities of CR Interconnection in order for it to hold and manage interconnection rights and energy delivery for the Crowned Ridge wind energy projects. CR Interconnection will manage the interconnection rights for CR 1 and CR 2 such that CR 1 and CR 2 will continue to be able to interconnect and provide energy to the MISO system and to preserve the shared transmission line and the single point of interconnection.

Attachment B to Xcel's filing contains the Shared Facilities Agreement<sup>3</sup> for interconnection between CR 1, CR2, and CR Interconnection. Xcel has declared the entire document to be trade secret. The shared facilities are not identified or noted even in the trade secret version of the filing. See the redacted pages 13 and 14 of Attachment B to Xcel's petition.

### **d. Term**

The Agreement is expected to continue until terminated by mutual agreement of the CR 1 and CR 2, or if either party permanently ceases operation of its respective Projects.

### **e. Costs**

Xcel expects the costs of operating CR Interconnection and the administration of this agreement to be *de minimis*. Xcel noted that CR Interconnection will have no direct employees because it is established only to hold and manage the interconnection rights for the Projects. However, the day-to-day operation will be managed by CR 1 (as the Managing Member) and

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<sup>2</sup> Xcel also filed the Amended and Restated Purchase and Sale Agreement for CR 2 in Docket No. E-002/M-16-777 contemporaneously with this Petition. The restated and amended agreement reflects provisions related to the formation of CR Interconnection and CR Interconnection's responsibilities under the Shared Facilities Agreement for Interconnection Service. A copy of this agreement is in Attachment D to Xcel's Petition in this docket, #19-810, for reference.

<sup>3</sup> Xcel's initial filing contained only a "form" (unexecuted) agreement. Xcel's February 13, 2020 Supplemental filing contains the executed agreement. Xcel noted that the executed version differs from the form version largely in "non-material updates and clarifications." However, Xcel indicated there was a change with regard to terms but that change was deemed by Xcel not to affect the public interest.

Xcel expects any administrative costs it would incur as a result of this arrangement to be *de minimis*.

Xcel acknowledged that there may be costs associated with energy delivery or curtailment.<sup>4</sup> These costs are not the result of the formation or operation of the affiliated interest, but are governed by the Agreement and facilitated by CR Interconnection on behalf of CR 1 and CR 2. Xcel stated that the terms of the Agreement ensure that both CR 1 and CR 2 are treated fairly in the division of these costs. Where costs are directly attributable, as for instance, the occurrence of an Adverse Event at one Project which causes CR Interconnection to incur a cost, the cost would be allocated to the Project that caused the Adverse Event. However, if costs are not directly attributable, or are not specific to a single Project, they would be allocated to CR 1 and CR 2 in accordance with their respective pro rata shares of the Projects' capacity. In the event of a dispute, the Agreement outlines resolution processes in which both owners will have equal representation.

#### **f. Affiliated Interest Contracts**

Xcel noted that, pursuant to Minn. Stat. § 216B.48 and Minn. R. 7825.2200(B), after its acquisition of CR 1 is complete, CR Interconnection will be an affiliated interest of Xcel as CR Interconnection will then be a joint venture between Xcel and CR 1 (an affiliate of NextEra).

Xcel noted that it is seeking approval of the Agreement prior to the Company taking ownership of CR 2, in order to allow project development to remain on schedule.

#### **g. Standard of Review**

Minn. Stat. § 216B.48, Subd. 3, provides, in relevant part, that

No contract or arrangement, . . . , providing for the furnishing of management, supervisory, construction, engineering, accounting, legal, financial, or similar services, and no contract or arrangement for the purchase, . . . of any property, right, or thing, or for the furnishing of any service, property, right, or thing . . . between a public utility and any affiliated interest . . . is valid or effective unless and until the contract or arrangement has received the written approval of the commission.

Minn. Stat. § 216B.48, Subd. 3, also provides, in relevant part,

The commission shall approve the contract or arrangement made or entered into after that date only if it clearly appears and is established upon investigation that it is reasonable and consistent with the public interest. No contract or arrangement may receive the commission's approval unless satisfactory proof is submitted to the commission of the cost to the affiliated interest or rendering the services or of furnishing the property or service to each public utility. Proof is satisfactory only if it

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<sup>4</sup> The Agreement outlines provisions for CR Interconnection's role in managing Projects' curtailment; they cover "internal" and "external" curtailment and provide for allocation on a pro rata share of the Projects' capacity, unless curtailments are specifically directed at a certain Project.

includes the original or verified copies of the relevant cost records and other relevant accounts of the affiliated interest, or an abstract or summary as the commission may deem adequate, properly identified and duly authenticated, provided, however, that the commission may, where reasonable, approve or disapprove the contracts or arrangements without the submission of cost records or accounts. The burden to establish the reasonableness of the contract or arrangement is on the public utility.

Minn. Rules 7825.2200 set forth a number of filing requirements.

Xcel has requested that the Commission review the affiliated interest agreement in light of whether it is reasonable and consistent with the public interest.

Xcel maintains that after CR 1 and CR 2 are separately owned, these two projects would not be able to interconnect and provide energy to Xcel's system without a single entity such as CR Interconnection being a counterparty to a GIA with MISO. Xcel adds that there are no preferable alternatives to the CR Interconnection arrangement – building separate transmission facilities for each Project could theoretically provide an alternative, but Xcel argues that it is not a practical alternative, given cost considerations and procedural barriers.

Xcel also states that the Agreement is reasonable because it provides for the fair and equitable use of joint infrastructure and allocation of any curtailment or costs attributable to the Projects

#### **IV. Department's Comments**

On February 20, 2020, the Minnesota Department of Commerce, Division of Energy Resources (Department) submitted its comments, essentially recommending that the Commission approve the petition and subjecting Xcel to some reporting requirements.

##### **A. Filing Requirements**

The Department reviewed the petition pursuant to Minnesota Rules 7825.2200 (B) and the Commission's September 14, 1998 Order Initiating Repeal of Rule, Granting Generic Variance, and Clarifying Internal Operating Procedures, Docket No. E,G-999/CI-98-651, and concluded that the petition is substantially complete.

## **B. Department Analysis**

### **1. Agreement is Needed and Reasonable**

The Department agrees with Xcel's argument that "it is likely that either the Projects' ownership structure would need to be consolidated, or one of the Projects would have to expand the Big Stone South substation and construct a new transmission line between [the substation] and the Project." The Department agrees with Xcel's conclusion that because one project (CR 1) is under a PPA agreement while the other project (CR 2) is under a BOT [build-own-transfer] agreement, consolidating the ownership structure is not a reasonable alternative and that constructing a new transmission line is not a reasonable alternative due to the increased costs and environmental impacts that would result from a second line.

The Department concludes that there is a clear need for Xcel's Shared Facilities Agreement and that the alternatives to the Agreement are inferior.

### **2. Costs of the Agreement and Allocation**

The Department agrees with Xcel that, given the limited nature of the activities assigned to CR Interconnection and the Agreement, the costs are likely to be small.

The Department agrees with Xcel that, wherever cost-causation is clear, the party that created the cost should pay for the cost. When cost causation is unclear, the Department notes, costs can be "assigned on a pro-rated capacity basis—here expected to be about 50 percent to CR 1 and 50 percent to CR 2." The Department has required that Xcel report the costs and revenues, including the resulting those which are assigned or allocated, between CR 1 and CR 2.

The Department has pointed out an inherent risk that because CR 1 will be responsible for the day-to-day management of CR Interconnection on behalf of CR 1 and CR 2, that could conceivably put CR 1 in the position of using CR Interconnection to the benefit of CR 1 and to the detriment of CR 2. But, the Department adds that the risk may not be real because, given the structure of the overall project, a single point of interconnection fed by a single transmission line required to respond to operating directions of MISO, it is not clear how this risk could manifest itself.

## **C. Department Recommendation**

The Department recommends the Commission:

1. Approve the petition; and
2. Require Xcel to report the costs and revenues, including the resulting assignment or allocation used to share costs and revenues between CR 1 and CR 2, on an annual basis.

## V. NSP-MN's Reply Comments

On February 27, 2020, Xcel submitted its reply comments agreeing to the Department's reporting requirement that "any costs or revenues – to the extent they are incurred or received – associated with the affiliated interest agreement be reported annually."

## VI. Staff Comment

Staff agrees with the Department's recommendations.

## VII. Decision Alternatives

1. Approve Shared Facilities Agreement for Interconnection Service among Crowned Ridge Wind, LLC, and Crowned Ridge Wind II, LLC, and Crowned Ridge Interconnection, LLC; (Xcel, Department); and
2. Require Xcel to report the costs and revenues, including the resulting assignment or allocation used to share costs and revenues between CR 1 and CR 2, on an annual basis. (Xcel, Department)  
  
or
3. Reject the Agreement.