



414 Nicollet Mall
Minneapolis, MN 55401

June 11, 2015

—Via Electronic Filing—

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

RE: 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 Reply Comments in response to the Minnesota Public Utilities Commission's Notice of Comment Period dated May 5, 2015.

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/

JODY L. LONDO
REGULATORY POLICY SPECIALIST

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

REPLY COMMENTS

OVERVIEW

Northern States Power Company, doing business as Xcel Energy, submits this Reply to the June 1, 2015 Comments submitted by the Minnesota Department of Commerce, Division of Energy Resources regarding our April 30, 2015 Petition seeking approval to acquire the 200 MW Courtenay Wind Project.

We appreciate the Department's review of our filing and support for our purchase and development of the Courtenay Project. We respond to the Department's request for additional information regarding the applicability of the North Dakota Investment Tax Credit to the Courtenay Project, and our resulting treatment of it in our cost calculations. We additionally provide an update on the Project's Midcontinent Independent System Operator, Inc. (MISO) Generator Interconnection Agreement (GIA) and status of negotiations for transmission delivery of the Project's output over Minnkota Power Cooperative's transmission system.

In summary, there is negligible impact from the North Dakota Investment Tax Credit, so we did not include it in our cost calculations. However, as also observed by the Department, the Project's levelized cost is similar to its original Power Purchase Agreement level and to our Border Winds Project. With respect to transmission, we have cured the MISO GIA default, and MISO has filed to withdraw the notice of termination. We expect to reach an acceptable resolution with Minnkota within the coming weeks, and will notify the Commission as soon as a final settlement arrangement is completed.

Therefore, we respectfully request that the Commission accept our proposal to purchase and develop the Courtenay Project as outlined in our Petition and supplemented by this Reply.

REPLY

A. North Dakota Investment Tax Credit

The Department requested that we provide the following information in our Reply: (1) Whether our levelized cost calculations and Strategist analysis under a Company-owned scenario assumed use of all or a portion of the North Dakota Investment Tax Credit associated with the Courtenay Project; and (2) the extent to which we expect to use the North Dakota Investment Tax Credits over the life of the Courtenay Project.

By way of background, North Dakota Century Code Section 57-38-01.8 provides for a tax credit based on the amount invested in certain qualifying renewable energy facilities, including the Courtenay Project. The tax credit applies against North Dakota income tax liability, which can be utilized over a period of years that is less than the expected life of a wind farm. Consequently, for these tax credits to be fully utilized by the owner of a qualifying project, the owner must have at least as much North Dakota income tax liability as the credit.

While we have some North Dakota income tax liability, it is insufficient to utilize the North Dakota Investment Tax Credit we receive for our ownership of the Courtenay Project for all but the final year that the Project is eligible for the credit. This is due to our utilization of the same tax credit for the Border Winds Project, which will go into service approximately one year before the Courtenay Project. The tax credits we receive for the Border Winds¹ Project more than offset our North Dakota income tax liability, leaving no additional North Dakota income tax liability against which to apply the tax credits we are eligible to receive for the Courtenay Project. Consequently, we have no additional North Dakota income tax liability to offset with the tax credits we receive for the Courtenay Project, except for in the final year of the credit eligibility period.

¹ We note that our economic analysis of the Border Winds Project in Docket No. E-002/M-13-716 did not assume the use of the North Dakota Investment Tax Credit. This is because at the time we entered into the contract for the purchase of the Border Winds Project, that Project did not qualify for the tax credit as its in-service date was beyond the then applicable time frame. In the recent North Dakota legislative session, the North Dakota Investment Tax Credit was extended to 2017 and the Border Winds Project now qualifies. 2015 N.D. Laws S.B. 2037 (West's No. 241). In light of this recent legislative change, we plan to work with the North Dakota Public Service Commission to determine the appropriate way to treat these tax credits in rates. To the extent there are any future changes to North Dakota tax law that would impact either the Border Winds Project or Courtenay Project, we will inform the Commission and propose how best to address any such changes.

Additionally, because the North Dakota Investment Tax Credit is structured to only offset North Dakota income taxes, it is not available as an offset to the cost of service for the remaining four jurisdictions in the NSP System (Michigan, Minnesota, South Dakota, Wisconsin). This is because state-level taxes are direct-assigned to the respective states, so only our North Dakota customers incur North Dakota income tax liability in their cost of service. In other words, because only our North Dakota customers pay the costs that we can offset with the North Dakota Investment Tax Credit, we can only apply any savings to their cost of service. This is in contrast to the Federal Production Tax Credit which is an offset to our federal tax liability and property taxes on assets in our rate base, both of which are allocated to all of our jurisdictions. Similarly, in Minnesota, Minnesota state income taxes are directly-assigned to our Minnesota customers. Thus, the same outcome is true for our Minnesota customers when Minnesota law provides for a similarly structured tax credit. For example, the Credit for Increasing Research Activities (a/k/a Minnesota Research and Development Credit) is applied to Minnesota state income tax, therefore, directly reducing the Minnesota cost of service for Minnesota customers.

Because of our inability to use the North Dakota Investment Tax Credit for the Courtenay Project for all but one year, and because it would only offset the cost of service of only one of our five retail electric jurisdictions, we did not include the effects of the North Dakota Investment Tax Credit in either our levelized cost analysis or our Strategist analysis for our ownership and development of the Courtenay Project.

Finally, since our economic analyses of our ownership and development of the Courtenay Project did not include the effects of the North Dakota Investment Tax Credit, and the Department supports approval of our ownership of the Project based on our levelized cost analysis, we do not believe that any additional conditions related to the North Dakota Investment Tax Credit are necessary.

B. Update on Generator Interconnection Agreement

In our Initial Filing, we provided information with respect to the Notice of Termination filed by MISO at the FERC for the GIA for the Project.² As discussed in our Petition, MISO had sought to terminate the Project's GIA due to Geronimo's default under the GIA. By posting a surety bond to secure the work that Otter Tail Power Company must perform to support the interconnection of the Courtenay

² *Midcontinent Independent System Operator, Inc.*, Docket No. ER15-1363-000, Notice of Termination of Generator Interconnection Agreement (March 25, 2015).

Project, we have cured the applicable default. As a result, MISO has withdrawn its Notice of Termination³ and the GIA is now currently in full force and effect⁴ – resolving any open issues related to the Courtenay Project’s GIA.

C. Update on Minnkota Power Cooperative Delivery Issues

Although we have not yet reached a final agreement with Minnkota, we continue to have productive discussions to resolve this issue. We believe that we will reach an acceptable resolution within the coming weeks. We will provide an additional update to inform the Commission when a final resolution is reached.

CONCLUSION

We appreciate the Department’s analysis and comments supportive of our proposal, and respectfully request that the Commission approve our request to acquire the Courtenay Wind Project.

Dated: June 11, 2015

Northern States Power Company

³ *Midcontinent Independent System Operator, Inc.*, Docket No. ER15-1363-000, Motion to Withdraw Filing of the Midcontinent Independent System Operator, Inc. (May 4, 2015).

⁴ 18 CFR 35.17(a) (withdrawal motion deemed withdrawn at the end of 15 days from the date of filing of the withdrawal motion, if no answer in opposition to the withdrawal motion is filed within that period and if no order disallowing the withdrawal is issued within that period).

CERTIFICATE OF SERVICE

I, Lynnette M. Sweet, 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 11th day of June 2015.

/s/

Lynnette M. Sweet

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