414 Nicollet Mall
Minneapolis, Minnesota 55401

January 31, 2020

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–Via Electronic Filing–

Ryan Barlow
Acting Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, MN 55101-2147

RE: REPLY COMMENTS
APPROVAL OF THE ACQUISITION OF THE MOWER COUNTY WIND FACILITY
DOCKET NO. E002/PA-19-553

Dear Mr. Barlow:

Northern States Power Company, doing business as Xcel Energy, submits to the Minnesota Public Utilities Commission the enclosed Reply to the December 13, 2019 Comments of the Department of Commerce, Division of Energy Resources, and the Laborers' International Union of North America regarding our August 30, 2019 Petition for approval of the Company's agreement to acquire, own, and operate the 98.9 megawatt Mower County Wind Facility.

Portions of the enclosed Reply are marked as "Protected Data" as they contain information the Company considers to be trade secret data as defined by Minn. Stat. §13.37(1)(b). This data includes confidential pricing and other contract terms. The information has independent economic value from not being generally known to, and not being readily ascertainable by, other parties who could obtain economic value from its disclosure or use. Knowledge of such information in conjunction with public information in our Petition could also adversely impact future contract negotiations, potentially increasing costs for these services for our customers. Thus, the Company maintains this information as a trade secret.

We have electronically filed this document with the Minnesota Public Utilities Commission, and copies have been served on the parties on the attached service list. Please contact me at (612) 330-6064 or bria.e.shea@xcelenergy.com or Farah Mandich at (612) 330-5918 or farah.l.mandich@xcelenergy.com if you have any questions regarding this filing.

Sincerely,

/s/

BRIA E. SHEA
DIRECTOR, REGULATORY AND STRATEGIC ANALYSIS

Enclosures
c: Service List

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STATE OF MINNESOTA
BEFORE THE
MINNESOTA PUBLIC UTILITIES COMMISSION

Katie J. Sieben	Chair
Valerie Means	Commissioner
Matthew Schuerger	Commissioner
John A. Tuma	Commissioner

IN THE MATTER OF THE PETITION OF NORTHERN STATES POWER COMPANY FOR APPROVAL OF THE ACQUISITION OF THE MOWER COUNTY WIND FACILITY	Docket No. E002/PA-19-553 **REPLY COMMENTS**

INTRODUCTION

Northern States Power Company, doing business as Xcel Energy, submits to the Minnesota Public Utilities Commission the enclosed Reply to the December 13, 2019 Comments of the Department of Commerce, Division of Energy Resources (Department or DOC), and the Laborers' International Union of North America--Minnesota and North Dakota (LIUNA) regarding our August 30, 2019 Petition for approval of the Company's agreement to acquire, own, and operate the 98.9 megawatt (MW) Mower County Wind Facility (Project).

We appreciate the Department's and LIUNA's thorough review of the Petition. Additionally, we appreciate the time Department Staff has spent working with us to resolve modeling concerns discussed in its initial comments. We met with the Department to discuss their concerns and agreed upon an approach to provide further analysis of the Project. In order to ensure we addressed the Department's modeling concerns, we provided updated Strategist files to the Department in advance of providing this Reply. The Department reviewed those files and indicated the new files address their modeling concerns. We believe this was time well spent, enabling parties to refocus on the relative costs and benefits of our proposed acquisition.

The updated analysis presented in these Replies continues to show that the Company's purchase of the repowered Mower County Wind Facility is expected to generate significant customer benefits as compared to the continuation of either the Amended or existing Renewable Energy Purchase Agreement (REPA or PPA), under a range of potential future market conditions. In other words, none of the changes presented in

this Reply invalidates our conclusion that this proposal is good for customers and in the public interest. As noted previously, these benefits also do not include the full value of the Project's interconnection rights, which are becoming increasingly valuable, given the emerging barriers to greenfield wind energy associated with transmission constraints in the region. Based on the benefits identified, we continue to believe that the proposed purchase of the Project is in the public interest and should be approved.

Setting aside detailed discussions on modeling methodologies, however, the Project's value proposition is straightforward: The Company has an opportunity to purchase the repowered Mower County Project at a price that will significantly decrease costs to customers in the near term, as compared to the continuation of a PPA. As noted in our initial Petition, the levelized cost of the Project, if purchased, will be nearly $11/MWh lower than the PPA price. This means that benefits to customers begin accruing immediately. In the longer term, after the original PPA is scheduled to expire, we expect that the cost of wind energy from this Project will be lower than the cost of new generic wind energy. As a result, customer savings continue to accrue over nearly the entire life of the Project. Our modeling supports this conclusion, regardless of whether we evaluate with Strategist – to determine how the acquisition will affect the overall system – or with a spreadsheet-based analysis, which simply compares the cost to purchase the repowered facility to the cost of the PPA plus the cost of generic wind resources following the end of the PPA term. This latter analysis is similar to the approach the Department used to evaluate the benefits of the Company's proposed acquisition of the repowered Lake Benton Project.[1]

In addition to modeling concerns, the Department cites a handful of market, policy, and technology risk factors as further justification for denying the proposed acquisition. However, these factors do not justify denying our acquisition request. As discussed further below, our analyses show the proposed acquisition of Mower results in benefits under a range of scenarios and is consistent with Commission determinations in previous wind acquisition dockets.[2] Further, we do not believe it is consistent with the public interest to forego a project that results in customer benefits now in favor of a hypothetical future project.

Finally, in addition to addressing the above issues, the Company provides additional information on other issues including the Project's potential use of union labor and financial accounting concerns. We note that, in the time since we filed the initial Petition, Seller has identified a construction partner that is known for its use of union

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[1] *See* Docket No. E002/M-16-777, *Comments of the Minnesota Department of Commerce, Division of Energy Resources* (May 1, 2017) at 16-17.
[2] *See* for example, Docket No. E002/M-17-694, Order approving the Company's Dakota Range I and II Project, further discussed on page 10 of these Replies.

labor. Thus, in addition to the benefits we have already highlighted in the record, the Commission can also expect that the Project will provide an opportunity for union workforce benefits, in line with those highlighted in LIUNA's comments in this docket.

Given the analyses the Company has provided in the record, we believe we have demonstrated that the Company's purchase of this Project is beneficial to customers and the local workforce, and will support our clean energy goals while maintaining affordability. For these reasons, we continue to request that the Commission approve the acquisition per the executed Purchase and Sale Agreement (PSA) and allow the Company to recover the cost of the Project through the Renewable Energy Standard (RES) Rider.

REPLY

A. Mower County Project Modeling and Potential Market Risk

In initial comments, the Department identified three key modeling concerns:
1) the Company did not use the spot market pricing files the Department requested in supplemental analysis; 2) our analysis locked in an expansion plan and analyzed the Mower Project by re-dispatching the system with and without the Project included, and 3) the benefits associated with the purchase were assessed by comparing energy production with and without the Project to determine what would be displaced.
As noted above, we worked with the Department to develop a modeling approach that would address their concerns. The "Full Optimization Analysis" presented below is the result of those discussions.

We also present another case for comparison to analyses presented in our initial and Supplement filings. Both of the below analyses present different ways to examine a Base Case – that does not include the proposed acquisition – to a "change case" that does include the Project. A summary of these analyses is included in Table 1, and each analysis is further discussed below.

We acknowledge that additional modeling introduces some additional complexity to the record. However, the key finding of these additional analyses is that *all results show the proposed acquisition will be beneficial to our customers on both a PVRR and PVSC basis*. In other words, the change case is less expensive than the base case in each analysis.

Table 1: Analysis Approaches Included in These Reply Comments

Analysis	Description	Department Feedback Addressed	Cost/(Savings) ($ millions)
Full Optimization Analysis	• Assesses the Company's future expansion plan with and without the repowered and acquired Mower County Project. • Neither the Base Case nor change case includes the 1,200 MW of wind proposed in our most recent Integrated Resource Plan (IRP)[3] • Analysis allows carbon and externality price sensitivity portfolios to optimize independently	• Uses Department-requested revised market price shapes • Re-optimizes full expansion plan, with and without the Mower County Project as an owned resource (i.e. does not lock in an expansion plan)	• PVSC:[4] (72.1) • PVRR:[5] (81.7)
Revised Partial Fulfillment Analysis	• Assesses Mower County Project as a *partial fulfillment* of the 1,200 MW of wind proposed in our IRP (where the Project displaces approximately 100 MW of the total wind proposed). • Allows carbon and externality price sensitivity portfolios to optimize independently	• Uses Department-requested revised market price shapes • Does not lock in an expansion plan; reoptimizes the plan for each carbon and externality price sensitivity	• PVSC: (43.7) • PVRR: (42.4)

In addition to modeled economic customer benefits, we provide further discussion regarding the potential value of transmission interconnection rights. In all, these analyses continue to show that the proposed acquisition is in the best interest of our customers.[6]

[3] *See* (Docket No. E002/RP-19-368) *2020-2034 Upper Midwest Integrated Resource Plan* (July 1, 2019). Our IRP's Preferred Plan includes 1,200 MW of wind to replace our existing wind generation that is scheduled to retire or reach the end of its contract. The Full Optimization Analysis presented here assesses the optimal portfolio without locking in that 1,200 MW of replacement wind.

[4] Present Value of Societal Cost.

[5] Present Value of Revenue Requirement.

[6] Note that modifying the Incremental Analysis provided in the Supplement to use the Department's preferred price shapes generally increases the customer benefits of the acquisition, except for in the PVSC sensitivity (where the updated price shape was already used). For example, the PVRR sensitivity now shows $22.9 million of customer benefits associated with the acquisition, as compared to the $15.2 million shown in Table 2 of the Supplement.

1. *Full Optimization Analysis*

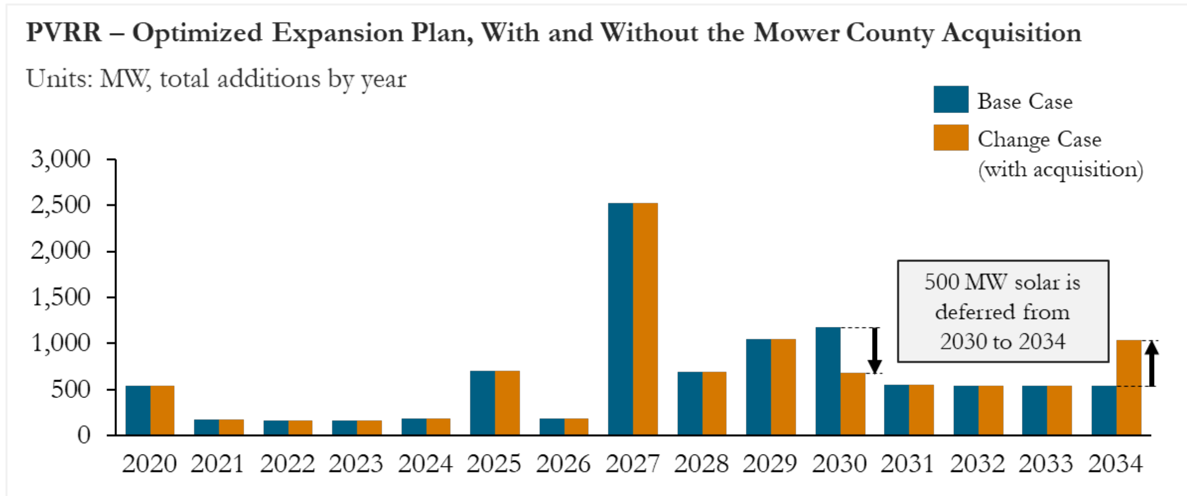
The first method is a new analysis based on the Department's feedback. For the Base Case in this analysis, the Strategist model re-optimizes our 2020-2034 IRP Preferred Plan, without the inclusion of the 1,200 MW of replacement wind proposed in that Plan. Then it analyzes the cost differences for a change case in which the repowered and acquired Mower County Project is part of our generation portfolio. In this approach, each carbon and externality pricing sensitivity is also optimized independently, which means that the expansion plan and associated costs sometimes differ between sensitivities. We believe this approach is responsive to the Department's feedback, in that it uses the requested market price shapes and it also does not lock in an expansion plan for either the base or change cases.

Table 2: Full Optimization Analysis of the Mower County Repower and PSA, Including Externality and Regulatory CO_2 Cost Sensitivities ($2019 millions)

Cost Sensitivity	Cost/(Savings) to Customers ($2019 millions)
PVSC (High Externality Costs through 2024, High Regulatory Costs)	(72.1)
PVRR (No CO_2 Costs)	(81.7)
Low Externality	(82.9)
Low Externality, Low Regulatory Cost of CO_2	(53.0)
Mid Externality, Mid Regulatory Cost of CO_2	(43.0)
High Externality	(84.8)

As shown in Table 2 above, all sensitivities in this analysis show benefits to customers. Savings results are substantially more varied here than in other approaches shown in these Replies because the inclusion or exclusion of the Mower County acquisition results in different timing for future resource additions in some sensitivities, as well as the typical change in system dispatch patterns. For example, including the repowered Mower County Project into our system in 2020, rather than replacing the existing PPA with a generic unit in 2026, means that other capacity additions defer to later years in some sensitivities. An example of this outcome for the PVRR sensitivity is shown in Figure 1 below.

Figure 1: Full Optimization Analysis – System Capacity Expansion Results for the PVRR Sensitivity



2. *Revised Partial Fulfillment Analysis*

The Company also modeled a revision to our "Partial Fulfillment" scenario presented in our initial Petition and November 13 Supplement. The Partial Fulfillment scenario analyzes the impact of considering the Mower County Project as a partial fulfillment of the capacity expansion reflected in our IRP Preferred Plan – specifically the 1,200 MW of generic wind capacity the Company proposed to replace wind rolling off our system in the next several years. In other words, the Project would displace approximately 100 MW of the total 1,200 MW of generic wind proposed in the Base Case. Our November 13 Supplement filing changed certain assumptions due to changed circumstances relating to certain other generating facilities and feedback from the Department.[7] However, we inadvertently did not use the spot market pricing files recommended by the Department. The analysis presented here uses the changed price shapes. It also includes incremental demand response resources in the Base Case and change case. Like the Full Optimization scenario above, each carbon and externality pricing sensitivity is also optimized independently, which means that the expansion plan and associated costs sometimes differ between sensitivities. By using this approach, we avoid "locking in" expansion units in Strategist.

[7] Please see the Company's November 13 Supplement filing for a description of specific changed assumptions from our initial Petition. Several of these changes related to changed circumstances since we originally filed the Petition, such as the expected Crowned Ridge 1 and 2 size reduction, while others relate to changes recommended by the Department.

As in our initial Petition and our Supplement, this revised analysis continues to show that the proposed acquisition will result in customer savings in comparison to the Base Case because the Company purchasing the Mower County Project will result in a lower overall system cost than would maintaining the PPA and then replacing it with generic wind at the end of 2026. Customer savings results hold across all carbon and externality price sensitivities we evaluated, showing that this acquisition is beneficial across a range of different carbon and externality pricing futures.

Table 3: Revised Partial Fulfillment Analysis of the Mower County Repower and Purchase, including Externality and Regulatory CO_2 Cost Sensitivities ($2019 millions)

Cost Sensitivity	Cost/(Savings) to Customers ($2019 millions)
PVSC (High Externality Costs through 2024, High Regulatory Costs)	(43.7)
PVRR (No CO_2 Costs)	(42.4)
Low Externality	(42.6)
Low Externality, Low Regulatory Cost of CO_2	(42.3)
Mid Externality, Mid Regulatory Cost of CO_2	(42.7)
High Externality	(43.9)

3. *Transmission Constraints and the Value of Mower County Interconnection Rights*

In addition to the acquisition's modeled benefits, the Project also provides customers additional value in the form of acquiring the Project's interconnection rights. The Department notes that, while we provided information from the Midcontinent Independent System Operator (MISO) suggesting that new wind facilities in the MISO West region could face extensive system upgrade costs, we did not provide details quantifying the potential effects of higher interconnection costs relative to the Project specifically, and therefore it cannot adequately assess the costs and benefits.[8] We provide additional information regarding the estimated value of the Project's transmission rights, and challenges around the MISO queue below.

As we discussed in our Petition, the MISO queue – particularly in MISO West – faces significant constraints. This lack of capacity for new projects to interconnect results

[8] *See* DOC Comments at 19.

in MISO assigning high project-specific interconnection upgrade costs to the projects in queue; sometimes so high that it would effectively double the capital cost of a typical project. As a result, projects are withdrawing from the queue at a high rate. The Department has highlighted this issue in recent comments in Docket No. E002/M-19-268, stating the following:

> According to the data for the MISO generation interconnection queue for the West region (accessed December 12, 2019), about 63 percent of the capacity in the DPP-2016-AUG group is listed as withdrawn. About 93 percent of the capacity in the DPP-2017-FEB group is listed as withdrawn. Both the DPP-2016-AUG and DPP-2017-FEB groups are in the Generator Interconnection Agreement (GIA) negotiation phase. The DPP-2017-AUG group is currently in Definitive Planning Phase (DPP) phase 2 and 48 percent of the capacity is already listed as withdrawn. Thus, the queue likely places substantial limits on Xcel's options for finding replacement projects in the near future.[9]

The Company estimates that the value to customers of the Mower County Wind Project's interconnection rights are approximately $40-200 million. We derive this estimate based on the potential interconnection costs of a similarly sized greenfield wind resource. The low end of the estimated range is informed by the $400,000/MW transmission interconnection costs assumed for a new wind resource in our IRP. The high end is based on the average identified interconnection upgrade costs in the February 2017 Phase 2 Definitive Planning Process, which our initial Petition notes were approximately $2,000,000/MW.[10] Thus, even at the low end of this range, the interconnection rights provide significant potential benefits. If the amended PPA is approved rather than the acquisition, these benefits would continue to be realized by a merchant generator rather than our customers.

B. Policy and Technology Risk

In addition to the issues addressed above, the Department's comments raise potential policy and technology risks associated with the Company pursuing this acquisition as opposed to waiting to procure a replacement resource following its current PPA term. These include: 1) the possibility that the Federal Production Tax Credit (PTC) will be extended and, if so, that the Mower County acquisition may not result in customer benefits relative to procuring PTC-qualifying wind in the future; and 2) that, because Seller safe-harbored technology in order to qualify the repowering Project for the full

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[9] Docket No. E002/M-19-268. *Comments of the Minnesota Department of Commerce, Division of Energy Resources* (January 8. 2019) at 7.

[10] *See* Petition at 9.

value of the existing PTC, customers will not benefit from the latest technology that may be available when the existing or amended Mower County PPA expires, and that wind technology at that time may be significantly less expensive. The Company provides its response to these issues below.

1. Impacts of a Hypothetical PTC Extension

With respect to the PTC, the Department notes that the analysis it requested the Company perform in DOC Information Request (IR) No. 13 – to assess a specific hypothetical PTC extension scenario – calls into question whether the Mower County acquisition will result in significant customer savings. In response to DOC IR No. 13, the Company performed an alternate analysis where the PTC was extended ten years, to 2030, at 100 percent of its initial value.[11] This analysis shows that, under such a future scenario, acquiring the Mower County Project could result in customer costs of approximately $4.9 million on a PVRR basis out to 2045.[12] The Department concludes from this analysis that "some form" of PTC extension to 2027 would result in this acquisition being costly to customers.[13]

The Company disagrees with this conclusion for two key reasons. First, the analysis provided by the Company assumed that that 100 percent of the PTC would be credited to a project commencing at the end of 2026. Therefore, even if the PTC were extended in "some form," the acquisition of Mower could still result in significant benefits to customers, given the level of customer benefits indicated in the original and subsequent analyses the Company has presented. To better illustrate this, the Company has conducted supplemental calculations in its pro forma model that show the nominal levelized cost at which a PPA starting in 2027 would "break-even" with the proposed Mower County acquisition's PVRR savings is ***[Protected data begins Protected data ends]***. In other words, the PTC would need to be high enough in 2027 to reduce the price of a generic wind addition to an all-in levelized cost of approximately ***[Protected data begins Protected***

[11] A Project's qualifying PTC value is based on an initial value of 1.5 cents per kilowatt hour in 1992 that is subsequently adjusted for inflation each year. In 2015, the PTC was extended for projects commencing construction before the end of 2019, but also phased out at a rate of 20 percent per year. For example, the Mower County Project is envisioned to qualify for the PTCs at 100 percent of this inflation adjusted initial value because it commenced construction (via safe harbor provisions) by 2017 and will be placed in-service before the end of 2020. In contrast, a project that commenced construction in 2019 will receive only 40 percent of the inflation-adjusted initial PTC value.

[12] The Department's Comments also requested we supplement DOC IR 13 with PVSC results; however, as the pro forma analysis does not include any market dispatch analysis, it cannot effectively analyze the societal costs/benefits of the Project. We note that our response to DOC IR 14 – in which we re-create the requested PTC extension analysis in Strategist – includes PVSC results. This analysis does not indicate a PTC extension would result in the Project's acquisition being comparatively costly to customers.

[13] *See* DOC Comments at 18-19.

data ends] or lower in order to negate the customer savings from the Mower County Project identified in the pro forma analysis. Particularly given transmission constraints and associated interconnection costs, there is a real risk to customers that such a project would not be available in 2027, even if some portion of the PTC is extended longer term.

Second, the Department cites the PTC policy's history of extension as evidence that its hypothetical ten-year extension scenario – or something similar – is likely to occur. However the PTC's recent history shows that lawmakers have been willing to phase out the PTC for onshore wind over time.[14] Even though the Further Consolidated Appropriations Act, 2020 extended the PTC for one additional year, it is extended only at the 60 percent level.[15] Under current law, wind projects that begin construction in 2021 or later would not qualify for the PTC. The Commission has, in the past, considered the benefits of acquiring wind resources based on existing policy.[16] Similarly, the Mower County Project's customer benefits should not be foregone based on federal policy speculation. In short, this is a good deal for customers based on the policy environment as it exists today.

2. Impacts of Technology Improvement

With regard to technology cost improvements, the Department states that the "turbines associated with the potential repowering were evidently 'safe-harbored' for tax purposes in 2017," and that it expects new wind turbines to be much less expensive in 2027 such that customers could benefit from the Company waiting to procure replacement wind at that time.[17] To support this statement, the comments cite a 2017 National Renewable Energy Laboratory (NREL) report about the potential benefits from a "collection of intelligent and novel technologies that comprise…next-generation technology…" that the U.S. Department of Energy

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[14] Specifically, the Consolidated Appropriations Act, 2016 (P.L. 114-115) extended the PTC for wind facilities through 2019, but also instituted a 20 percent per year credit reduction for projects beginning construction in 2017, 2018, and 2019 respectively. See "The Renewable Electricity Production Tax Credit: In Brief," Congressional Research Service (November 27, 2018) at 5. Available at: https://fas.org/sgp/crs/misc/R43453.pdf.

[15] The legislation provides for wind facilities beginning construction in 2020 to qualify for the PTC at the 60 percent level. *See* "Senate Passes Tax Extenders Deal that Includes Extension of Renewable Energy Incentives." The National Law Review (December 19, 2019). Available at: https://www.natlawreview.com/article/senate-passes-tax-extenders-deal-includes-extension-renewable-energy-incentives.

[16] For example, in its Docket No. E002/M-17-694 Order approving the Company's Dakota Range I and II Project, the Commission said that project "poses a unique opportunity as a transmission-certain project that qualifies for the 80% PTC. It is unlikely that a project with similar benefits to ratepayers will emerge in the near future, because the PTC will reduce to 60% after January 1, 2019."

[17] *See* DOC Comments at 19-20.

expects to develop in its Wind Energy Technology Office Atmosphere to Electrons applied research program.[18] We note that in the Department of Energy's Fiscal Year 2019 Budget, this program is described as funding "fundamental, early-stage R&D to improve the performance and reliability of next-generation wind plants…" through various collaborative research initiatives.[19]

The Company is hopeful that wind technology may improve over the next several years, and we agree with the cited report that fundamental technology breakthrough is needed to meet ambitious carbon reduction goals affordably. However, our request to acquire a Project that shows immediate and meaningful customer benefits should not be rejected because potential future research breakthroughs may make future projects more cost-effective. This is not consistent with the standard of review the Commission has applied in past renewable acquisition proposals, including the recently approved Jeffers and Community Wind North acquisition in Docket No. E002/PA-18-777.

Further, the Company does consider expected technology cost improvements in our modeling, based on NREL's annual renewable cost forecasting that provides detailed renewable technology cost forecast scenarios. These forecasts account for technology improvement-associated potential cost declines, as well as other cost drivers, in real dollars, over time.[20] As shown above, even when taking projected cost improvements into account, the proposed Mower County Project shows benefits to customers in comparison to the alternative option of generic wind additions after the prevailing Mower County PPA ends. And as noted previously, the interconnection rights at the site will provide additional value to customers – in our transmission-constrained environment – that future potential technology cost improvements do not negate.

C. Union Labor

The Department's comments noted that the Company had provided information from Seller that indicates Seller's preference for use of local labor, including union labor, for the Project's construction work. The Department requested a discussion of the use of union labor.

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[18] *See* "Enabling the SMART Wind Power Plant of the Future Through Science-Based Innovation," (August 2017) at iv. Available at: https://www.nrel.gov/docs/fy17osti/68123.pdf.

[19] *See* Department of Energy FY 2019 Congressional Budget Request, Volume 3 Part 2 at 128. Available at: https://www.energy.gov/sites/prod/files/2018/03/f49/FY-2019-Volume-3-Part-2.pdf.

[20] More specifically, our modeling uses the real dollar projections from the report and subsequently converts them to nominal dollars and adjusts for an assumed $200/kW of transmission interconnection upgrade cost, or $200,000/MW. This assumption is more conservative than our greenfield wind assumptions, in order to account for the possibility that some replacement wind may be achieved through repowering projects with existing interconnection rights.

Since the time the Company provided this information, Seller has been proceeding with repowering activities, including identifying an Engineering Procurement and Construction (EPC) partner. Seller has confirmed that it executed an EPC Agreement with White Construction, which is known in the industry to use union labor and places a high priority on worker safety. White Construction is a signatory to union labor agreements with International and Local Unions, including: International Association of Bridge, Structural, Ornamental and Reinforcing Iron Workers; LIUNA; International Union of Operating Engineers; and International Brotherhood of Electrical Workers.

D. Accounting Issues

The Department's comments included discussion of several issues related to financial accounting. We provide a responsive discussion and clarifications below.

1. Acquisition Adjustment

The Department recommended approval of the Company's proposed acquisition adjustment only if the Company can identify benefits associated with the transaction that exceed the costs of the acquisition.

As discussed above, the analysis presented in our Petition, our Supplement, and this Reply continues to show that the Company's purchase of the repowered Mower County Wind Facility is expected to generate significant customer benefits as compared to the continuation of either the amended or existing PPA, under a range of potential future market conditions. Accordingly, the proposed acquisition adjustment should be approved.[21]

2. Depreciation

The Department states that it disagrees with the Company's approach to depreciation in that the "accumulated provision for depreciation of electric utility plant assumes that depreciation of the assets held for sale ceased in June 2019…" after the PSA was executed. It further recommends that "depreciation expense associated with the net book value of the Project, after accounting for salvage value but before the installation of new equipment should continue to be recorded from June 2019 forward" to avoid overstating the Project's net book value.[22]

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[21] The acquisition adjustment is trade secret and can be located on page 13 of the Company's August 30, 2019 Petition or page 9 of the Department's December 13, 2019 Comments.
[22] *See* DOC Comments at 8.

The Company disagrees with this recommendation. Given the facts and circumstances pertaining to the current asset owner (Seller) following the execution of the PSA in June 2019, the Company concluded for the purposes of estimating acquisition-date book values that the current asset owner would most likely have ceased depreciation by June 2019; therefore, the initial book values assumed to be recognized by the Company for plant assets not replaced in the repowering would be approximately equal to the book values for those items at May 31, 2019. This assumption is in line with U.S. Generally Accepted Accounting Principles (US GAAP), as we discuss further below.

In asset acquisitions, the Company typically recognizes acquired *Electric Plant in Service* and *Accumulated Provision for Depreciation of Electric Utility Plant* at the book values recorded by the previous asset owner, per Federal Energy Regulatory Commission (FERC) guidelines. With respect to the estimate of these amounts at the approximate asset acquisition date of November 2020 – given that GAAP requires that the recognition of depreciation expense ceases once an asset qualifies as "held for sale" – the Company assumes that the current owner would have ceased depreciation by the time the PSA was executed in June 2019. Therefore, the Company believes the most reasonable assumption is that until the date that the Project is transferred to the Company, Seller would carry the plant at the net book value as of May 31, 2019, adjusted for subsequent repowering removals and additions.

More specifically, the accounting guidance contained in the Financial Accounting Standards Board's (FASB's) accounting standards codification topic for property, plant and equipment (*Accounting Standards Codification (ASC) Topic 360 Property, Plant and Equipment*), states:

> (ASC 360-10-35-43) A long-lived asset (disposal group) classified as held for sale shall be measured at the lower of its carrying amount or fair value less cost to sell. If the asset (disposal group) is newly acquired, the carrying amount of the asset (disposal group) shall be established based on its fair value less cost to sell at the acquisition date. A long-lived asset shall not be depreciated (amortized) while it is classified as held for sale.

For illustrative purposes, if the Company had instead assumed that depreciation would continue through a target acquisition date of November 30, 2020, approximately ***[Protected data begins Protected data ends]*** of additional depreciation would have been assumed in the estimated acquisition date net book value for the assets.

That said, and perhaps more importantly for purposes of this proceeding, the date at which the current asset owner ceases depreciation has no impact on the market value of the asset, the purchase price, or the rate recovery the Company seeks. This is true first because the approximately ***[Protected data begins Protected data ends]*** purchase price in the proposed acquisition was negotiated and established based on an evaluation of the market value of the Project, as opposed to its book value. This means that the net book value of the Project has no bearing on the purchase price, and any decrease in net book value resulting from continuing depreciation after May 31, 2019 would be offset by an equal increase in the acquisition adjustment recognized in FERC 114 *Electric Plant Acquisition Adjustment*. Since amounts recorded to FERC 101 *Electric Plant in Service*, FERC 114 *Electric Plant Acquisition Adjustment*, and FERC 108 *Accumulated Provision for Depreciation of Electric Utility Plant* are each proposed to be included in the plant accounts used to calculate the Company's rate base and customer rates, the date at which the current asset owner ceases depreciation has no impact on the value of the assets for the purposes of the amounts that will be paid by the Company or the proposed ratemaking treatment for those expenditures.

Further, we note that Seller's recognition of depreciation expense has no impact on amounts currently charged to the Company and its customers under the existing PPA. The current asset owner is not regulated and is not required to depreciate assets using regulator-approved asset lives using a FERC or similar system of regulated accounts. The PPA prices currently in effect are not cost-of-service based rates – meant to provide recovery of the current asset owner's depreciation and other costs – but rather were determined as a result of a competitive market bidding process.[23] As such, amounts recognized for *Electric Plant in Service* and *Accumulated Provision for Depreciation of Electric Utility Plant* by Seller do not necessarily correlate to amounts historically paid by the Company and its customers for energy under the existing PPA, or to the appropriate recovery amounts for the Company to request following the purchase of the Project in another market transaction 14 years after the initial PPA was signed. For all the reasons stated above, we believe that our approach to estimating acquisition date book value is sound, per GAAP accounting standards. As the transaction provides significant customer benefits and meets all other applicable standards for Commission approval, the amount paid for the transaction – including the acquisition adjustment – should be approved for recovery without modification.

[23] *See* Petition at 6-7 for a background of the existing Mower County PPA.

3. Asset Cost Recovery

The Department's comments also requested clarification on whether the Company's proposed method of cost recovery for all assets related to the Project is similar to the Company's response to DOC IR No. 4(b) regarding plant materials and supplies; in other words that the method described there would be extended to all the assets associated with the acquisition. The Company noted in DOC IR No. 4(b) that it would include materials and supplies in the appropriate FERC accounts and apply the ordinary ratemaking treatment for such accounts in the Minnesota retail jurisdiction. The Company confirms that we do seek to include all acquired assets in the appropriate FERC accounts, including but not limited to FERC 101 *Electric Plant in Service*, FERC 114 *Electric Plant Acquisition Adjustment*, and FERC 108 *Accumulated Provision for Depreciation of Electric Utility Plant*. We also intend to apply ordinary ratemaking treatment to these asset acquisitions, including but not limited to recovering and receiving a regulated rate of return on such plant accounts in the Minnesota retail jurisdiction through the RES Rider.

CONCLUSION

We appreciate the Department's and LIUNA's review of our Petition and the opportunity to provide additional information in these Reply Comments. Given the extensive analysis presented in this record – which shows that the acquisition will result in customer savings under a range of scenarios and sensitivities, benefit the local workforce, and support the Company's achievement of its clean energy goals – we respectfully request that the Commission approve the Company's acquisition, ownership, and operation of the Project. We also request the Commission approve cost recovery for the Project via the RES Rider.

Dated: January 31, 2020

Northern States Power Company

Certificate of Service

I, Jim Erickson, 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 electronic filing

Docket No. E002/PA-19-553

Dated this 31st day of January 2020

/s/

____

Jim Erickson
Regulatory Administrator

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