MINNESOTA
PUBLIC UTILITIES COMMISSION

Staff Briefing Papers

Meeting Date	August 13, 2020		Agenda Item 3**
Company	Northern States Power Company dba Xcel Energy		
Docket No.	**E-002/PA-19-553**		
	In the Matter of the Petition of Northern States Power Company for Approval of the Acquisition of the Mower County Wind Facility		

Issues

1. Should the Commission approve the request of Northern States Power Company dba Xcel Energy (Xcel or the Company) for approval of the acquisition, ownership, and operation of the 98.9 Megawatt repowered Mower County, Minnesota Wind Facility pursuant to the terms of a negotiated purchase agreement, as a regulated asset?

2. Alternatively, should the Commission approve the First Amendment to the Renewable Energy Purchase Agreement (REPA)?

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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.

✓ **Relevant Documents**	**Date**
Docket No. E-002/M-05-1850	
Commission – Order Approving a Power Purchase Agreement with Fenton Power Partner I, LLC	March 31, 2006
Docket No. E-002/M-19-553	
Xcel Energy – Petition & Attachment G (TS)	August 30, 2019
Xcel Energy – Petition Supplement	November 13, 2019
Department of Commerce – Comments (TS)	December 13, 2019
LIUNA Comments – Comments	December 16, 2019
Xcel Energy – Reply Comments (TS)	January 31, 2020
LIUNA Reply Comments	February 6, 2020
Department of Commerce – Supplemental Comments (TS)	April 8, 2020
BlueGreen Alliance – Comments	May 6, 2020
Xcel Energy – Reply to Supplemental Comments	June 4, 2020
Department of Commerce – Response to Supplemental Comments	June 9, 2020
Department of Commerce – Clarification to Response to Supplemental Comments	June 23,2020

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I. Statement of the Issues

1. Should the Commission approve the request of Northern States Power Company dba Xcel Energy (Xcel or the Company) for approval of the acquisition, ownership, and operation of the 98.9-Megawatt repowered Mower County, Minnesota Wind Facility pursuant to the terms of a negotiated purchase agreement, as a regulated asset?

2. Alternatively, should the Commission approve the First Amendment to the Renewable Energy Purchase Agreement (REPA)?

II. Introduction

On August 30, 2019 Xcel filed a Petition with the Minnesota Public Utilities Commission (Commission) requesting approval of the Company's acquisition, ownership and operation of the 98.9 megawatt (MW) repowered wind facility in Mower County, Minnesota (Project). The Mower County Wind Facility (Facility) is currently owned by FPL Energy Mower County, LLC (Seller), which is owned by NextEra Energy, Inc.

The Facility currently consists of 43 Siemens 2.3 MW MKII Wind Turbine Generators (WTGs). Consistent with industry and Company experience, the repowered Project will allow more efficient energy production and will extend the Facility's useful life by 25 years.

Xcel originally entered into a Renewable Energy Purchase Agreement (REPA) with the Seller on November 18, 2005 for a twenty-year term expiring in December 2026. In late 2018, the Seller approached Xcel to discuss partially repowering the facilities' existing wind turbine generators in conjunction with a sale of the repowered project to the Company.

Xcel stated that, since both the Company and its customers would benefit from the repowering project, it negotiated and executed a Purchase and Sale Agreement (PSA) that, subject to Commission approval, will acquire the repowered Mower County Wind facility. The Company went on to note that its proposed PSA is consistent with its most recent Resource Plan's Preferred Plan and that its planned 2020 completion date means it is expected to qualify for 100 percent of the current federal renewable electricity Production Tax Credit (PTC).

The Company said that the proposed acquisition would result in substantial customer benefits:

> [T]he estimated present value of revenue requirement (PVRR) savings to customers resulting from the repower and purchase is \$48-49 million, with a present value societal cost (PVSC) savings of approximately \$50 million. Further, even if this acquisition were considered incremental to the wind in our Preferred Plan, it would provide a PVRR benefit of over \$10 million, and a PVSC benefit of \$49 million.[1]

[1] In the incremental analysis, however, Xcel noted that the PVRR and PVSC results diverge because adding incremental wind to the amount of wind already included in the Preferred Plan results in further

Moreover, Xcel stated that, since this is a repower project, it avoids the transmission risk of a greenfield project because it makes use of existing interconnection rights.

Xcel concluded by requesting Commission approval for the Company's acquisition, ownership, and operation of the Facility as a regulated asset pursuant to the terms of the executed PSA. Alternatively, if the Commission does not grant this approval, Xcel requested approval of the First Amendment to the REPA which – though less beneficial to customers – incorporates contract provisions and customer protections.

III. Background

On March 31, 2006, in Docket No. E-002/M-05-1850,[2] the Commission issued its Order approving the Mower County Wind REPA. Purchase of power began on December 3, 2006 and the term of the agreement extends 20 years, through December 2, 2026.

On July 17, 2019, Xcel executed a Purchase and Sale Agreement for the Mower County Wind Facility with ESI Energy, LLC, (ultimately owned by NextEra Energy, Inc.) which owns 100 percent of the membership interests of FPL Energy Mower County, LLC.[3] The Company's obligations are conditioned on Commission approval of the transaction. If approved, Xcel would seek cost recovery through the Renewable Resources Rider (RES).

On August 30, 2019, in this docket, Xcel filed a petition requesting that the Commission approve the Company's acquisition, ownership, and operation of the Facility per the terms of the executed PSA. However, if the Commission does not approve the PSA, then Xcel requests approval of the First Amendment to REPA.

On November 13, 2019, Xcel submitted a supplemental filing that provided additional analysis and other updates to the Company's Strategist modeling.

On December 13, 2019, the Department of Commerce, Division of Energy Resources (Department) filed comments arguing that the Company's Strategist inputs, and modeling are flawed and that the ratepayer benefits identified by Xcel are based on the premise that the Federal Wind Production Tax Credit will expire. Based on its analysis, the Department recommended that the Commission reject Xcel's request to purchase the Facility as a regulated asset. Instead, the Department recommended the Commission approve Xcel's proposed Amended PPA which the Department stated would limit the extent to which ratepayers would pay higher costs of energy from the Facility.

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reductions of carbon emissions.

[2] *In the Matter of Northern States Power Company d/b/a Xcel Energy's Request for Approval of Power Purchase Agreement with Fenton Power Partners I, LLC*

[3] Instant Docket, Xcel Petition, August 30, 2019, Appendix A contains a copy of the PSA.

On December 16, 2019, the Labor International Union of North America (LIUNA) filed comments generally supporting Xcel's PSA.

On January 31, 2020, Xcel submitted reply comments answering the Department's request for additional information and including additional modeling analysis. The Company concluded by repeating its request for Commission approval of the PSA and requesting approval for cost recovery for the Project under the RES Rider.

On February 6, 2020, LIUNA filed reply comments reiterating its support of Xcel's proposed PSA and stating its view that the project can benefit workers and the public through creation of high-quality jobs, while advancing Xcel's carbon reduction goals.

On April 8, 2020, the Department submitted supplemental comments providing its analysis of the PSA and the alternative REPA First Amendment as a buy/lease decision. The Department continued to recommend the REPA alternative. However, if the Commission prefers the PSA alternative, the Department listed seven conditions that it said would increase ratepayer protections.

On May 6, 2020, the BlueGreen Alliance filed comments stating support for the PSA and expressing confidence that regulated ownership of the wind facility would benefit local communities and workers.

On June 4, 2020, Xcel filed its reply to the Department's supplemental comments. The Company proposed three conditions to replace the seven proposed by the Department. In addition, Xcel stated that, should the Commission deny the acquisition, it no longer plans to acquire the repowered Facility through an unregulated affiliate.

On June 9, 2020, the Department submitted a letter in response to Xcel's reply to supplemental comments. The Department stated the Xcel's proposed three conditions answered six of the seven conditions the Department had proposed. However, the Department noted that Xcel did not address the Department's proposal to reduce the acquisition purchase price by the amount of unrecorded depreciation expense from June 2019 forward. However, discussions with the Company revealed that the facility has not been in operation and, therefore, no depreciation expense adjustment is necessary. The Department concluded by stating that it considers Xcel's proposed conditions to reasonably account for the Department's proposed conditions.

On June 23, 2020, the Department filed a letter clarifying a statement in its June 9th letter. The Department clarified that the wind facility is currently in operation, but that the repowering has not begun and, therefore, the new repowered facility does not require current depreciation expense so no depreciation adjustment to the purchase price is needed.

IV.Relevant Statutes and Rules

A. Minn. Stat. § 216B.50

This statute pertains to the acquisition of plant by a public utility and it states in part:

> No public utility shall sell, acquire, lease, or rent any plant as an operating unit or system in this state for a total consideration in excess of $100,000, or merge or consolidate with another public utility or transmission company operating in this state, without first being authorized so to do by the Commission. … If the Commission finds that the proposed action is consistent with the public interest, it shall give its consent and approval by order in writing. In reaching its determination, the Commission shall take into consideration the reasonable value of the property, plant, or securities to be acquired or disposed of, or merged and consolidated.

B. Minn. R. 7825.1800 Filing Requirements For Petitions To Acquire Property

Petitions for approval to acquire property shall contain one original and three copies of the following information, either in the petition or as exhibits attached thereto:

A. Petitions for approval of a merger or of a consolidation shall be accompanied by the following: the petition signed by all parties; all information, for each public utility, as required in parts 7825.1400 and 7825.1500; the detailed reasons of the petitions and each party for entering into the proposed transaction, and all facts warranting the same; the full terms and conditions of the proposed merger or consolidation.

B. Petitions for approval of a transfer of property shall be accompanied by the following: all information as required in part 7825.1400, items A to J; the agreed upon purchase price and the terms for payment and other considerations.

C. A description of the property involved in the transaction including any franchises, permits, or operative rights, and the original cost of such property, individually or by class, the depreciation and amortization reserves applicable to such property, individually or by class. If the original cost is unknown, an estimate shall be made of such cost. A detailed description of the method and all supporting documents used in such estimate shall be submitted.

D. Other pertinent facts or additional information that the commission may require.

V. Parties' Comments

A. Xcel Energy – Petition

Xcel is requesting approval of the Company's agreement to acquire, own, and operate a 98.9 megawatt (MW) repowered Project.

In the alternative, should the Commission not approve the purchase acquisition, then Xcel is requesting approval for the First Amendment to its Renewable Energy Purchase Agreement.

In support of its petition, Xcel has provided:

- Background history and Project description,
- Pricing and terms information under both the PSA and the First Amendment to the REPA,
- Benefits analyses of the PSA and First Amendment to the REPA, and
- Discussion of the public interest.

The Company also provided several attachments (i.e. documentation) in support of its petition, including the original Renewable Energy Purchase Agreement, executed November 18, 2005, and both the Purchase and Sale Agreement and First Amendment to the Renewable Energy Purchase Agreement, executed June 17, 2019.

Since the PSA includes a condition that calls for a Commission Order by August 31, 2020, Xcel has requested that the Commission consider its acquisition proposal in time so that an Order can be issued by that date. (Staff believes the Commission will vote on a decision by August 31, however, a final, written order may not be issued until later in the year. Staff has made Xcel aware of this possibility).

1. Repower Project Overview

The Seller is planning to repower each of the existing 43 2.3 MW MKII Wind Turbine Generators. The repowered project will result in the same nameplate capacity of 98.9 MW, but with more efficient technology and it will extend the facility's useful life by an additional 25 years. Xcel noted that its 25-year life extension expectancy is in line with industry and Company experience.

2. Purchase and Sale Agreement

Xcel stated that the purchase price to be paid is non-public information (trade secreted) and was the result of negotiations between the parties. The Company's obligations under the PSA are conditioned upon the Commission's approval of the transaction. If the acquisition is approved, the Company would seek to recover costs of this acquisition via the RES Rider.

Xcel also stated that the proposed PSA is consistent with its most recent Resource Plan's Preferred Plan and the wind procurement strategies discussed therein. The Company noted that, by completing the repower prior to the end of 2020, the Project is expected to qualify for 100 percent of the existing federal renewable electricity Production Tax Credit (PTC).

The proposed acquisition will take the form of a cash payment at the close of the transaction and Xcel stated that there are no affiliated interests between the Company and ESI Energy, LLC or any of its subsidiaries.

Xcel noted that the estimated purchase will be in excess of the project's net book value and will result in an acquisition adjustment, which the Company will request to be included in rate base with full return over the useful life of the plant investment.

Xcel stated that Minn. Stat. §216B.50 governs the transfer of utility assets in excess of $100,000. In addition, the Company recognized that Minn. R. 7825.1800 sets forth the filing requirements for petitions to acquire property. Xcel said that it has complied with this rule, with the exception of subpart B.

a. Statutes, Rules and Variance Request

Minn. R. 7825.1800, subpart B reads:

> Petitions for approval of a transfer of property shall be accompanied by the following: all information as required in part 7825.1400, items A to J; the agreed upon purchase price and the terms for payment and other considerations.

Xcel is requesting a variance of this subpart B because this part "is geared toward the issuance of securities, which is not at issue here".

The Company asserted that the Commission has previously issued a variance to rule 7825.1400 cited in subpart B[4]. Xcel stated that the Commission has found rule 7825.1400 is applicable to capital structure filings and the information is not pertinent to petitions to acquire property.[5]

3. REPA and First Amendment

The Company executed a Renewable Energy Purchase Agreement (REPA) with Seller on November 18, 2005 and submitted a petition on December 12, 2005 requesting Commission approval. The Commission issued its Order approving the Mower County Wind REPA on March

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[4] Xcel Petition, August 30, 2019, p. 12, footnote 14: "See, e.g., *In the Matter of Northern States Power Company and ITC Midwest LLC for Approval of a Transfer of Transmission Assets and Route Permit*, ORDER APPROVING SALE AS CONDITIONED, GRANTING VARIANCEAND REQUIRING FILING, Docket No. E002/PA-10-685 (Dec. 28, 2010)".

[5] *Ibid*, footnote 15*: "In the Matter of Xcel Energy's Petition for Approval of a Transfer and Exchange of Transmission Assets with Great River Energy and Member Cooperatives*, ORDER, Docket No. E002/PA-06-932 (Oct. 16, 2006)".

31, 2006. Xcel has been purchasing the output from the Mower County Facility since December 3, 2006, and the current REPA extends through December 2, 2026.

Xcel stated that FPL Energy Mower County, LLC has been the sole owner of the Project and ESI Energy, LLC currently owns 100 percent of the interests in this entity. Both are ultimately owned by NextEra Energy, Inc.

Xcel asserted that it negotiated the First Amendment to the REPA to "ensure additional customer protections and benefits would be incorporated into the terms in the event that the [proposed] PSA is not approved".

The Company stated that it proposes to continue recovering REPA costs through the Fuel Clause Rider[6]. Xcel also noted that, if the Commission does not approve the PSA nor the First Amendment to the REPA, then the repowering may move forward under the current owner's discretion, likely requiring Xcel to purchase the entire output of the repowered facility without customer benefits from the amended terms.

a. Terms and Provisions

Xcel stated that, over the first year of the project's commercial operation, energy would be purchased at a trade secreted negotiated price. Over the remaining six-year life of the contract, pricing will change as of the first date of each commercial operation year and the Company said that the trade secreted pricing is consistent with the current REPA.

The Company reported the following additional provisions that will benefit customers:

> First, a maximum generation volume is included in the amended REPA; above this volume the Company will settle excess energy at a negotiated price. Xcel noted that the current REPA has no generation caps and the Company is obligated to purchase all energy at the REPA price.
>
> Second, the amended REPA had provisions that differentiate between compensable and non-compensable curtailment. Xcel asserted that the curtailment provision will benefit customers in that it more narrowly defines the curtailment under which the Company would need to compensate Seller for energy that is not delivered.
>
> Third, the Company will continue to receive the Renewable Energy Credits (RECs) from all purchased energy from the Facility.
>
> Fourth, the Commercial Operation Date of the Project is December 1, 2020 but no later than December 31, 2020. The original 20-year term of the original REPA is scheduled to end December 2, 2026 and the First Amendment does not extend this term.

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[6] *Ibid*, p. 14: Pursuant to Minn. Stat. §216B.1645, consistent with the recovery method for wind generation projects in satisfaction of the legislative requirements of Minn. Stat. §216B.1691, subd. 2.

Fifth, the original REPA included a requirement for the Facility owner to maintain a Security Fund through either an irrevocable standby letter of credit or through an interest-bearing escrow account and the First Amendment made no revision to this provision.

Finally, Xcel stated that "No net increase in net income to NSP will result from this amendment, as the Minnesota costs of the power purchase will equal the Minnesota revenue collected."[7]

Further, Xcel stated that it intends to count power purchases under the amended REPA toward the legislative requirements of Minn. Stat. §216B.1691, subd. 2. On approval and consistent with other Company wind generation purchases, Xcel sought approval to continue recovering costs pursuant to Minn. Stat. §216B.1645 through the Fuel Cost Charge of the Fuel Clause Rider.

4. Benefits Analyses

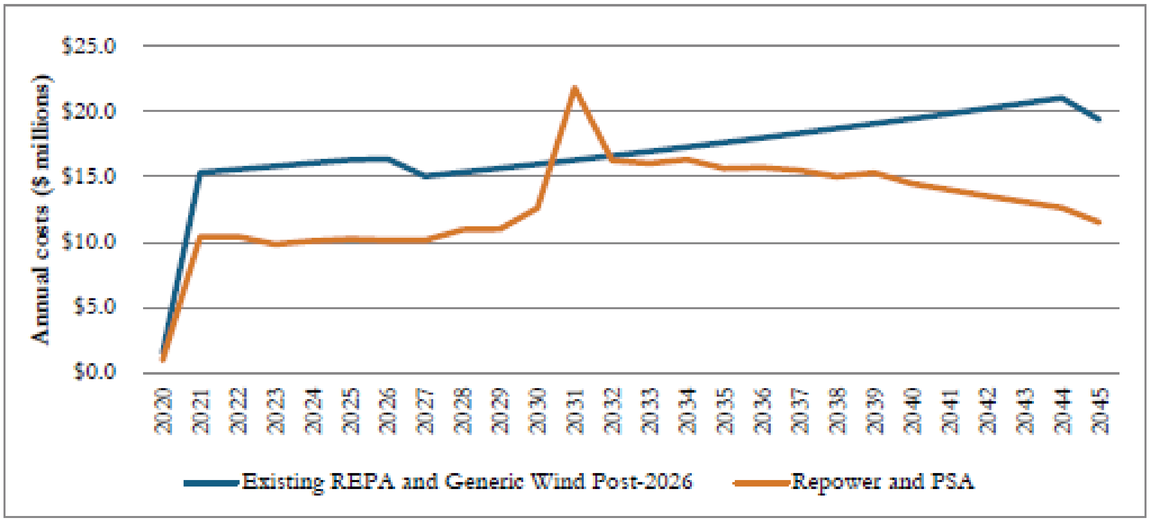
Xcel stated that it performed economic analysis on the proposed PSA using both a Project-specific proforma financial model, as well as the traditional Strategist analyses. The project-specific pro forma analysis is used to understand the Project's expected benefits from the current REPA, while Strategist modeling is used to evaluate the proposed repowering plus the acquisition in the broader context of Xcel's recent Resource Plan's Preferred Plan.

The Company asserted that the analyses show that customers will benefit from Xcel purchasing, owning, and operating the Project and that this "holds true both in the pro forma and Strategist analyses, which each show approximately $48-49 million of present value of revenue requirements (PVRR) benefits within the context of our 'no going back' wind strategy". Xcel went on to say that, even when modeled as incremental generation, the Company's ownership generates customer benefits in the near term, and returns overall PVRR and present value of societal costs (PVSC) savings; so, under either approach, the forecasted level of customer benefits supports the Company's proposed acquisition of the Facility as a regulated asset, including the proposed acquisition adjustment.

[7] *Ibid*, p. 16.

Figure 1, below, shows a comparison of annual estimated costs for the Project's PSA relative to the existing REPA with generic wind replacement.

Figure 1: Annual Estimated Costs for Mower County Repower and PSA, Relative to Existing REPA and Generic Wind Replacement ($ millions)[8]



5. Public Interest

Xcel stated that, although it believes that the purchase and operation of the repowered facility provides greater customer benefits compared to the First Amendment to the REPA, both are in the public interest, are reasonable, and protect the interests of customers.

Xcel made the following arguments in support of its position:

a. The Project is Reasonable

i. The Project will improve the efficiency of an existing wind facility; and
ii. The purchase price under the PSA will provide significant savings for Xcel customers, compared to the existing or amended REPA.[9]

b. The Project is in the Public Interest

i. Repowering and PSA allows the Company to continue to include the more efficient repowered Project as a component of the Company's regulated

[8] Xcel Petition, August 30, 2019, p. 19, Figure 1.

[9] Xcel Petition, August 30, 2019, p. 27. Xcel Footnote 24: "Although not as beneficial to customers as the PSA, the alternative First Amendment to the REPA provides certain customer protections that are not in place in the existing REPA. These protections include excess generation price reduction provisions and narrower terms under which curtailment is compensable. If the Commission does not approve the PSA, the First Amendment to the REPA will result in customer benefits relative to a case where the Project is repowered but no REPA Amendments are approved."

renewable generation portfolio, with significant economic benefits accruing to customers;[10]

ii. Economic benefits begin accruing to customers in the near term, so today's customers benefit from the purchase;
iii. The purchase will add wind energy to the NSP system for the long-term, and avoid significant transmission costs while preserving the site and its rights well into the future; and
iv. Seller has expressed a preference for using local labor in its repowering work, for which the Commission has also expressed a preference.

c. Customers are Protected

i. The PSA negotiated by the Company includes provisions to protect the interests of customers, including industry-standard warranties on the refurbished turbines to be installed.
ii. Approving the Company's request to acquire the Project as a regulated asset ensures the Facility will achieve a lower levelized cost of energy than if the existing REPA were maintained, thereby benefitting customers.[11]

B. Xcel Energy - Petition Supplement

On November 13, 2019, Xcel filed a supplement to its Petition containing additional analyses that incorporated the Commission's recent decisions on the Mankato Energy Center, plus other updates to its Strategist modeling.

The Company stated that its analysis shows that, even under the new modified assumptions, "the acquisition provides immediate cost savings for customers using both present value of societal costs (PVSC) and present value of revenue requirement (PVRR) views".[12]

C. Department of Commerce – Comments

1. Introduction

The Minnesota Department of Commerce, Division of Energy Resources (the Department) submitted its comments on December 13, 2020, asserting that the petition is complex because it includes both a preferred request and a secondary request. The Company's preferred request is that the Commission approve the proposed Purchase and Sale Agreement (PSA) and

[10] Ibid, Xcel Footnote 25: "In the event the Commission does not approve the PSA, the repowering and First Amendment to the REPA is beneficial, as it allows introduction customer protections that have become more standard since the existing REPA began."

[11] Ibid, Xcel Footnote 26: "We [Xcel] further note[s] that, if the Commission does not approve the PSA, the First Amendment to the REPA updates and improves customer protection provisions common in more modern REPA terms, including excess generation settlement provisions and differentiation of compensable and non-compensable curtailment.

[12] Xcel Petition Supplement, November 13, 2019, p. 1.

that the repowered Mower County Wind Facility asset be included as a regulated asset in Xcel's Minnesota rate base. The secondary request is that the Commission approve Xcel's First Amendment to the Mower County PPA (Amended REPA).

Originally, Xcel also proposed purchasing the Facility and then "step[ping] into the shoes of the Seller by acquiring the repowered facility under an unregulated affiliate."[13] Xcel withdrew this option in its June 4, 2020, reply to supplemental comments.[14]

2. Summary of Petition

Xcel's primary request is that the Commission determine that the proposal to acquire the existing Mower County facility as a regulated asset is prudent and in the public interest under Minnesota Statutes §216B.50.

The Department said that Xcel identified the following four benefits from the proposed purchase and alternative:

- Cost savings relative to purchasing/selling energy on the spot market of the Midcontinent Independent System Operator (MISO);
- Purchase of the facility's existing transmission access;
- Current Owner/Developer's expressed preference for union labor; and
- Assistance in Xcel achieving its carbon reduction goals.

The Department stated that the Company's analysis indicated that both options would provide financial benefits to ratepayers.

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[13] Department Comments, December 13, 2019, p. 2: "The Company's secondary request is that the Commission approve that the Company's First Amendment to the Mower County PPA (Amended PPA). Xcel is also proposing to purchase the Mower County facility under this alternative as well. Specifically, Xcel states, "the Company "is prepared to step into the shoes of the Seller by acquiring the repowered facility under an unregulated affiliate." The difference in this option is that an unregulated Xcel affiliate would purchase the facility from its current owner and take over the amended power purchase agreement with the NSPM operating company. Under this approach, Xcel would need to file an affiliated-interest agreement, similar to Xcel's petition for approval of an affiliated-interest agreement regarding the Mankato Energy Center I and II PPAs, pending in Docket E002/AI-19-622."

[14] Xcel Supplemental Reply Comments, June 14, 2020, p. 2, "We also note that the Company no longer plans to acquire the repowered Facility through an unregulated affiliate, should the Commission deny the proposed acquisition."

Table 1, below, shows the results of three of Xcel's several Strategist model runs as well as its pro forma modeling results.

Table 1: Incremental Changes in PVRR and PVSC Savings from Reference Case ($ millions) from 2020 through 2045[15]

Scenario	Purchase	Amended PPA
PVRR (pro forma)	($48.0)	Not applicable
PVRR (Strategist/Incremental)	($10.7)	($3.8)
PVSC – Low Externality Costs All Years (Strategist/Incremental)	($14.1)	($3.8)
PVSC – High Externality Costs All Years (Strategist/Incremental)	($25.8)	($3.8)
Negative values represent reductions in costs and thus estimated benefits to ratepayers		

The Department noted that Xcel did not provide detailed cost estimates for the benefits resulting from the vendor's preference for union labor for the Purchase option, the avoided interconnection costs for new wind facilities or the benefits related to carbon reduction.

3. Department Analysis

The Department considered the following four topics in its analysis:

- **Legal/Procedural** – focuses on determining if the filing complied with the necessary filing requirements.
- **Accounting** – reviews accounting issues for the Purchase and Amended PPA options.
- **Strategist Modeling** – discusses Xcel's Strategist modeling efforts relative to the two options.
- **Purchase Option Additional Information** – discusses the Purchase alternative in light of benefits Xcel identified at a general level.

a. Legal/Procedural Issues

The Company filed its petition pursuant to Minn. Stat. §216B.50 and, since Xcel is proposing to acquire an operating unit for total consideration in excess of $100,000, the Department found that this statute applies to this petition.

The Department went on to note that the statute established a single test: "that the proposed action is consistent with the public interest". Xcel has claimed that the proposed transaction is in the public interest because it:

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[15] Department Comments, December 13, 2019, p. 2, footnote 2: "The Department included the Company's estimates using the "Incremental" in lieu of the "Partial Fulfillment" approach in Xcel's Strategist modeling as we consider the Mower County Project – as opposed, for example, to less expensive renewable power – to be strictly incremental after 2026."

- Provides cost savings to the Company's customers
- Minimizes transaction risks and costs associated with a greenfield facility, and
- Contributes to the Company meeting its carbon reduction goals.

Xcel requested that the Commission waive application of Minnesota Rules 7825.1800, subp. B for its proposed Purchase alternative, noting that the Commission granted variances to the requirements to provide information under Minnesota Rules 7825.1400 (A) to (J) in proposed acquisition of property transactions.

Minnesota Rules 7829.3200 allows the Commission to vary its rules if the Commission finds:

- Enforcement of the rule would impose an excessive burden upon the applicant or others affected by the rule;
- Granting the variance would not adversely affect the public interest; and
- Granting the variance would not conflict with standards imposed by law

Xcel stated that its variance request qualifies for the following three reasons:

1) The information sought by Minn. R. 7825.1400 (A)-(J) is not useful in this proceeding, so its provision would impose and excessive burden
2) Since the proposed transaction does not involve the issuance of securities, granting a variance does not conflict with the public interest, and
3) As demonstrated by previous Commission waivers under similar circumstances, a waiver will not violate any standards imposed by law.

The Department cited a recent Commission Order in which Xcel had requested a variance for a regulated purchase of existing wind generation assets. In that Order,[16] at page 3, the Commission stated:

> The Commission agrees that the information required by the Minn. R. 7825.1800(B) is not relevant to the issues before the Commission in this matter. As required by Minn. R. 7829.3200 to warrant a variance to its rules, the Commission finds:
>
> - The proposed transaction does not implicate the information sought by Minn. R. 7825.1400(A) – (J) and thus, its provision would impose an excessive burden upon the Petitioner,
> - Granting the requested variance would not adversely affect the public interest, as the proposed transaction does not involve the issuance of securities; and
> - Granting the variance would not conflict with standards imposed by law, as evidenced by previous Commission decisions.

[16] Docket No. E-002/PA-18-777, December 3, 2019, *In the Matter of the Petition of Northern States Power Company d/b/a Xcel Energy for Approval of the Acquisition of the Community Wind North Facilities and the Jeffers Wind Facility*, ORDER APPROVING ACQUISITION OF COMMUNITY WIND NORTH AND JEFFERS WIND FACILITIES, APPROVING VARIANCE AND OTHER ACTION.

The Department said that, since the rule variance issues above are very similar to the instant docket, it relies on the Commission's prior approval to recommend that the Commission approve Xcel's variance request in this docket. The Department went on to point out that:

> The Amended [REPA] option, considered in isolation, would be classified as a "Miscellaneous Filing" under Minn. R. 7829, subp. 11 and need to fulfill the requirements contained in Minn. R. 7829.1300, subp. 3. It appears that the information included in the Company's current filing meets the requirements included in those two rules.

Finally, the Department concluded that neither the PSA nor the Amended REPA option appear to have any legal deficiencies within the context of this filing at this time.[17]

b. Accounting Issues

i. Plant Material and Operating Supplies

In response to the Department's Information Request (IR) No. 4, Xcel identified and detailed the trade-secreted amount of plant material and operating supplies that will be recognized on the Company books upon the purchase of the Facility. Xcel stated that at that time, it will assess the amount of materials and supplies to ensure that they are items expected to be needed to operate the Facility over time, and to recognize the appropriate assets at the predecessor's cost and classification as Plant Materials and Operating Supplies.

Further, Xcel said that it expects to apply ordinary ratemaking treatment for materials and supplies in the Minnesota retail jurisdiction, which includes the balance of this inventory in rate base.

ii. Net Book Value of Mower County (Project)

For the PSA, the Department analyzed the following trade-secreted information:

- Acquisition cost
- Provision for Accumulated Depreciation
- Estimated costs for repowering
- Acquisition adjustment

The Department expressed concern that the Company's[18] estimated accumulated depreciation provision assumed that depreciation of electric utility plant held for sale stopped in June 2019

[17] Staff note - the Department pointed out that if Xcel was planning to purchase the Facility as an unregulated operation, then the Company would need to file an affiliated interest agreement under Minn. Stat. §216B.48, Subd. 3. Per its June 4, 2020, Reply to Supplemental Comments, Xcel is no longer considering an unregulated asset purchase.

[18] Xcel Petition, August 30, 2019, Attachment C, footnote 2.

following execution of the PSA. The Department said that the Mower County facility was already placed in service and continues to operate under its PPA with Xcel. So, the Department recommended that the depreciation expense, after accounting for salvage value, but before the installation of new equipment should be recorded from June 2019 forward.

iii. Acquisition Adjustment

The Department pointed out that the proposed acquisition cost exceeds the net book value and will therefore result in an acquisition premium adjustment. Xcel noted on page 13 of its petition that it "will request to include [the acquisition adjustment] in rate base with a full return over the same useful life as the plant investment."

In its IR No. 5, the Department asked Xcel to support why ratepayers should pay for the acquisition adjustment. Xcel replied:

> As we have noted in recent resource acquisition dockets, the standard for assessing whether an acquisition is reasonable is whether the acquisition results in quantifiable and ongoing ratepayer benefits that would not have accrued but for the acquisition and that are greater than the cost of the acquisition adjustment. Assessed under this standard, the acquisition adjustment for the Mower County Project is reasonable.

The Department also asked for citations where acquisition adjustment recovery was allowed for plants already devoted to public service.

> The Minnesota Public Utilities Commission has directly considered the question of whether to permit recovery of an acquisition adjustment only a handful of times and not since the 1990s. That said, in both In the Matter of the Petition of Otter Tail Power Company for Authority to Increase Rates for Electric Service in Minnesota, Docket No. E-017/GR-86-380, April 27, 1987, Order, and In the Matter of the Petition of Interstate Power Company for Authority to Increase its Rates for Electric Service in Minnesota, Docket No. E-001/GR-86-384, March 4, 1987, Order, the Commission authorized the inclusion in rate base of acquisition adjustments paid over net book value for plant already in service.

The Department reviewed the two citations above and noted that in its Order to Interstate Power[19] the Commission stated:

> The Commission agrees with Interstate that Minnesota law does allow the inclusion of acquisition adjustment for ratemaking. The Commission finds that no party disputes the amount paid for the additional interest in the plant or the Company's assertion that the benefits of the acquisition to its ratepayers more than outweigh the costs. Based upon these findings, the Commission will allow recovery of the acquisition adjustment.

[19] Docket No. E-001/GR-86-384, Order, March 4, 1987.

The Department also noted a similar result in Docket No. E-002/PA-18-777 Xcel's *Acquisition of the Community Wind North Facilities and the Jeffers Wind Facility* where the Commission's Order at point #2 said, "Xcel's request to recover acquisition adjustments for Community and Jeffers is approved."

Given the Commission's action in this recent order, the Department recommended approval of Xcel's proposed acquisition adjustment, provided that the Company can identify benefits from the transaction that will exceed the costs Xcel proposes to charge to ratepayers.

The Department did not identify any accounting issues related to the Amended REPA option.

iv. Cost Recovery

Regarding cost recovery under the PSA purchase or the Amended REPA, the Department quoted Xcel saying, "proposed repower and PSA will not result in any rate changes until after the Project acquisition is approved, and a rate change is authorized in the Renewable Energy Standard (RES) Rider."[20]

The Department said that Xcel proposed to continue to recover the costs of the Amended REPA in the fuel clause adjustment, with no reductions from the amounts currently being charged. However, the proposed Amended REPA would limit what ratepayers would pay going forward.

The Department said that it does not contest Xcel's proposed recovery mechanism for the Amended REPA alternative.

4. Strategist Modeling Issues

The Department said that it had concerns regarding Xcel's Strategist modeling efforts in this docket in that the Company:

1. apparently used files related to the old, wind driven spot market pricing and not the new pricing files requested,

2. locked-in a pre-determined expansion plan in Strategist and then merely re-dispatched the pre-determined system with and without the Mower County project under various externality and CO_2 regulatory cost assumptions, and

3. estimated the benefits associated with the purchase by comparing Strategist's energy production with and without Mower County to determine what energy was being displaced by Mower County's output.

The Department stated that, given these shortcomings, it concluded that Xcel had not shown that the benefits (i.e. cost-savings) the Company claims for the PSA purchase alternative are

[20] Department Comments, December 13, 2019, p 10.

reasonable and, therefore, the Department recommended that the Commission reject the PSA purchase due to flawed Strategist modeling.

In addition to the Strategist modeling, the Department analyzed the four potential benefits that the Company identified for the PSA purchase option.

a. Cost Savings –Effects of the Expiration of the Current Federal Production Tax Credit

The Department said that Xcel repeatedly stressed the importance of completing the repowering project before the end of calendar year 2020. The Department believes that the driver for this deadline "is that the Company is planning to qualify for 100 percent of the existing federal renewable electricity Production Tax Credit (PTC)."[21]

The Department stated that:

> The replacement wind turbines that are proposed to be installed for Mower County have been "safe harbored". This feature allows the owner of the repowered facility to claim 100 percent of the PTC even though the facility will likely not be completed until the end of calendar year 2020.

The Department then asked Xcel[22] if it analyzed the effects of an extension of the Wind Production Tax Credit (WTC) in any of its spreadsheet-based analyses? Xcel responded that it had not.

The Department further stated that, "[w]hile the Company noted correctly that the PTC is currently slated to expire in 2020, the history of the PTC suggests that this deadline may not be immutable;"[23] noting that, at present, the PTC has been in existence for 27 years and has been extended nine times during that period. It has lapsed three times and been re-instated retroactively at least once.

The Department asked Xcel to re-run its pro-forma analysis under the assumption that the PTC would be extended through 2030. The result of that revised analysis is trade-secreted, but the Department indicated that it would result in higher costs, so that the cost benefit would disappear by 2027. The Department concluded that the result suggests that ratepayer benefits associated with the PSA purchase option are primarily, if not completely, driven by the tax benefits derived from the PTC. Further, given its history, the Department concluded that it would be reasonable to assume that the PTC, or some other form of tax break, may be extended.

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[21] Department Comments, December 13, 2019, p. 15, Department Footnote 18: https://www.eia.gov/todayinenergy/detail.php?id=39472

[22] Department Comments, December 13, 2019, Attachment 3, Department Information Request No. 13

[23] Ibid, p. 17.

The Department also noted that Xcel did not include, as requested, an analysis in the present value of the social cost (PVSC), that parties might find that information valuable, and the Department hopes that Xcel will supply the analysis in its Reply Comments.

b. Transmission Interconnection Risk

The Department said that Xcel referenced information from MISO that suggested new wind facilities in MISO West could experience extensive system upgrade costs and inferred that this could increase the value of the Project from a ratepayer perspective due to the existing interconnection. The Department stated that it was difficult to estimate any risks or benefits from the existing interconnection, since Xcel did not provide any detailed cost estimate and asked that the Company provide any additional information in its Reply Comments.

i. Wind Generation Technology Risk[24]

The Department noted that the turbines to be installed with the repowering were apparently "safe-harbored" for tax purposes in 2017. So, ratepayers would not be benefitting from the most up-to-date technology under the PSA purchase option or the Amended REPA; however, if Xcel gains approval for the PSA purchase, then ratepayers would face a longer term paying for older technology, perhaps resulting in higher energy costs.

The Department pointed out that, if Xcel were to wait to purchase replacement wind energy until 2027, when the current REPA expires, the price of newer technology wind energy could be considerably less than the price of energy from current technology.

c. Preference for Union Labor

The Department stated that its review of the PSA purchase agreement did not show any language related to a preference for union labor.

In response to a Department information request (IR), Xcel said that documents that were included in the petition did not express Seller's preference for union labor, but a Seller's letter stating the preference was included with Xcel's IR response. However, the Seller did not identify the financial effects of this preference.

The Department pointed out that the Seller only expresses a union labor preference for the purchase option, and the Department requested further discussion of the use of union labor if Xcel were to pursue the Amended REPA in Xcel's Reply Comments.

[24] Ibid, p. 19, Department Footnote 23: "The Department recognizes that Xcel incorporates advances in wind generation technology in its forecasts for wind generation cost. We include this discussion in response to Xcel's failure to include the new pricing data requested in its Strategist analysis."

d. Carbon Reduction Goals

The Department stated that it fully supported Xcel achieving its carbon reduction goals but pointed out that the Company does not appear to be in danger of missing them.[25] The Department noted that Xcel's statement implies that it would obtain a GHG-emitting resource in 2027, at the end of the REPA, and that statement does not seem reasonable given Xcel's aspirational carbon reduction goals in that period. Therefore, the Department believes that Xcel's argument should be given no weight in the Commission's decision.

5. Department Conclusion and Recommendations

The Department recommended that the Commission reject the Company's request to approve the PSA purchase option of the Mower County Wind Generation facility, under Minnesota Statutes § 216B.50 as a regulated asset. The numerous flaws in Xcel's Strategist inputs and modeling technique render the Company's analysis of this purchase alternative to be of no value.

Further, the Department performed additional analysis that suggested the ratepayer benefits identified by Xcel in its pro forma analysis is based almost entirely on the stated expiration of the Federal Wind Production Tax Credit. If the PTC is extended – as it has been repeatedly over its 27-year history – or if future costs of wind continue to decrease as expected, then the ratepayer benefits for the PSA purchase option of already outdated wind technology could be negated.

Instead, the Department recommended that the Commission approve Xcel's proposed Amended REPA, since the amended terms would limit the extent to which ratepayers would pay higher costs of energy from the facility.

Finally, the Department asked that Xcel provide additional information in its Reply Comments, as indicated above.

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[25] Docket No. E-002/M-17-401, Department Reply Comments, June 4, 2009: "Xcel noted in its Comments that is(sic) over-complied with the [greenhouse gas] GHG emissions goal's 2015 goal and that it was on track to exceed the 2025 and 2050 carbons emissions reductions goals as well."

D. Xcel Energy - Reply Comments

Xcel said that it appreciated the efforts of the Department and LiUNA in thoroughly reviewing the Company's petition. Xcel went on to say that it had met with the Department to discuss its modeling concerns and had agreed upon an approach for further analysis of the Project, presented below.

1. Mower County Project Modeling and Potential Market Risk

a. Project Modeling

Xcel stated that initially the Department identified three key modeling concerns:

1) The Company did not use the spot market pricing files the Department requested
2) Xcel's analysis locked in an expansion plan and analyzed the Project by re-dispatching the system with and without the Project
3) The benefits of the purchase were evaluated by comparing energy production with and without the Project to determine what would be displaced.

The "Full Optimization Analysis" presented below is the result of addressing those Department concerns.

Table 2, below, presents a summary of the new analyses. Xcel asserted that the key finding is that "*all results show the proposed acquisition will be beneficial to our customers on both a PVRR and PVSC basis*".[26]

Table 2: 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) • 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: **(72.1)** • PVRR: **(81.7)**

[26] Xcel Reply Comments, January 31, 2020, p. 3.

Analysis	Description	Department Feedback Addressed	Cost/(Savings) ($ millions)
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)**

b. Transmission Constraints and the Value of Mower County Interconnection Rights

Xcel stated that, as discussed in its petition, the MISO queue – especially in MISO West – has significant constraints resulting in a lack of capacity for new projects to interconnect. This, in turn, results in MISO assigning high project-specific upgrade costs. Xcel reports that the costs can be so high that they can effectively double the capital cost of a typical project. The Company pointed out that the Department has recently commented on these concerns in Xcel's Wind Generation RFP Docket no. E-002/M-19-268.[27]

Xcel said it estimates the value to customers of the Mower Project's interconnection rights at approximately $40-200 million. The low end of the valuation is based on the $400,000/MW transmission interconnection costs for a new wind resource used in the Company's IRP. The high end was based on the average identified interconnection upgrade costs in the February 2017 Phase 2 Definitive Planning Process, which was approximately $2,000,000/MW.[28]

[27] Comments of the Minnesota Department of Commerce, Division of Energy Resources, January 8, 2019, p. 7: "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."

[28] Xcel Petition, August 30, 2019, p. 9.

2. Policy and Technology Risk

a. Impact of a Hypothetical PTC Extension

Xcel stated that it performed an alternative analysis where the PTC was extended by ten years, to 2030, at 100 percent of its initial value.[29] This analysis showed that acquiring the Project could cost customers approximately $4.9 million on a PVRR basis out to 2045.[30]

The Company disagrees with the Department's conclusion that "some form" of PTC extension to 2027 could make this acquisition costly to customers for two key reasons. First, the analysis assumed that 100 percent of the PTC would be credited beginning at the end of 2026 and the acquisition could still result in benefits observed in the original analyses. Xcel pointed out that, given interconnection costs and constraints, there would be a real risk that a project would not be available to customers in 2027. Second, the Company disputes the Department's argument that the PTC is likely to be extended. Even though the Further Consolidated Appropriations Act of 2020 extended the PTC for one additional year, it only did it at the 60 percent level. Further, Xcel pointed out that the Commission had, in the past, considered the benefits of acquiring wind energy based on existing policy.[31]

b. Impacts of Technology Improvement

In its comments, the Department stated 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

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[29] Xcel Reply Comments, January 31, 2020, p. 9, Footnote 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."

[30] Ibid, Footnote 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."

[31] Ibid, p. 10, Footnote 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.'"

Company waiting to procure replacement wind at that time.[32] The Department supported this assertion by citing a 2017 National Renewable Energy Laboratory (NREL) report[33]. The Company noted that in the DOE's Fiscal Year 2019 Budget the programs referenced in the report are described as funding "fundamental, early-stage R&D to improve the performance and reliability of next-generation wind plants…" through various collaborative research initiatives.[34]

Xcel declared that it is hopeful that wind energy technology may improve over the next several years. However, the Company's request to acquire a project that shows meaningful and immediate customer benefits should not be rejected because future technology projects may achieve breakthroughs that make future projects more cost effective.

Further, Xcel pointed out that it does include future technology cost improvements in its modeling. The forecasts it uses account for technology improvements, as well as other cost drivers, in real dollars, over time.[35]

c. Union Labor

The Company stated that the 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.

3. Accounting Issues

a. Acquisition Adjustment

Xcel said that its various analyses continue 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 REPA, under a range of potential future market conditions. Accordingly, the proposed acquisition adjustment should be approved.[36]

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[32] Department Comments, December 13, 2019, pp 19-20.

[33] *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.

[34] *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.

[35] Xcel Reply Comments, January 31, 2020, p. 11, Footnote 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."

[36] 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

b. Depreciation

Regarding the Department's concern about Xcel'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. The Department further recommended 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.[37]

In response, Xcel said:

> [T]he 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 approximated 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.[38]

c. Asset Cost Recovery

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. Xcel also said that it intended 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.

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[37] Department Comments, December 13, 2019, p. 8.

[38] Xcel Reply Comments, January 31, 2020, p. 14.

4. Xcel Conclusion

Xcel concluded by requesting that the Commission approve the Company's acquisition, ownership, and operation of the Project. Xcel also requested that the Commission approve cost recovery for the Project via the RES Rider.

E. Laborer's International Union of America (LiUNA) - Comments

On December 13, 2019, LiUNA submitted a letter in support of Xcel's proposal to acquire the repowered Mower Project. The organization stated its belief that the repower project will provide significant socio-economic benefits to the regional economy through maximized use of skilled local labor and tradesmen and women. LiUNA also recognized that the Project will help Xcel meet its carbon reduction goals while efficiently using existing interconnection rights.

F. BlueGreen Alliance (BGA) – Comments

The BGA submitted a letter urging the Commission to approve Xcel Energy's petition for approval of the acquisition of the Mower County Wind Facility. The BGA went on to say:

> We write specifically to respond to three assertions made in the Department's Supplemental Comments. First, the Department argues that the on-shore wind Production Tax Credit is likely to continue to be extended, decreasing the value of the acquisition to Minnesota ratepayers. Second, the Department argues that the value of the site's existing transmission access must be discounted, because an unregulated purchase option "could provide the Commission with some leverage for acquiring the transmission access for ratepayers at some time in the future." Lastly, the Department argues that the societal benefits stemming from the use of union labor should not be considered, because "the use of union labor doesn't appear to be tied to the" regulated purchase option.

BGA said that it believes that the Department's stance in this docket ignores important context and that it based its recommendation on what could happen, rather than what is happening.

The BGA said that an extension of the PTC is possible "but in politics, history is a poor and misleading guide and we do not believe that prudent investments in good, union jobs in clean energy now should be sacrificed in the hopes of achieving greater investments in the future".

G. Department of Commerce - Supplemental Comments

The Department stated that Xcel had claimed the following four benefits associated with its PSA purchase alternative:

1. Cost savings related to purchasing/selling energy on the spot market of the Midcontinent Independent System Operator (MISO);
2. Purchase/ownership of the facility's existing transmission access;
3. Current Owner/Developer's expressed preference for union labor; and

4. Assistance in Xcel achieving its carbon reduction goals.

In its December 13, 2019 comments, the Department recommended that the Commission approve the amended REPA alternative and stated that the REPA:

1. Demonstrated financial benefits for ratepayers in every scenario modeled,
2. Eliminated the risk of technological obsolescence associated with the vendor's choice of 2017 vintage wind turbines for ratepayers, and
3. Eliminated operational and financial risks associated with ownership for ratepayers.

The Department went on to explain that Xcel's Strategist modeling shortcomings and the results of its Wind Production Tax Credit extension scenario provided the support for the Department's recommendation.

1. Comparative Analysis

The Department has provided the following analysis that compares the PSA purchase and the amended REPA using a lease-versus-buy model from a ratepayer perspective.

a. REPA (Lease) vs. Regulated Purchase Option (Buy)

After reviewing the financial literature and previous Commission dockets pertaining to decommissioning wind facilities, the Department provided an exhibit[39] identifying the advantages and disadvantages to leasing. The Department stated that, from a ratepayer perspective, the most important benefits listed are "no risk of obsolescence" and "termination rights". The Department went on to argue that the use of 2017 vintage turbines, which the Company assumes will be operational until 2045 is the basis of its concern regarding obsolescence risk. The Department said that it assumes the wind generation technology will continue to improve over the eight years between Xcel's proposed repowering purchase and the technology that will be available once the existing REPA expires in 2026.

As for leasing disadvantages, the Department said that it considers two to be relevant – "no ownership" and "adequate maintenance of the asset". Both are discussed further below.

i. No Ownership

The Department said that, as noted in its previous comments, Xcel's forecasted ratepayer benefits are dependent on the expiration of the Federal Wind Production Tax Credits (WPTC) at the end of 2020. If the WPTC is extended past the current REPA expiration date of 2026, then the forecasted benefit disappears and would become an additional $4.9 million in costs.

Xcel has recognized that the level and duration of the WPTC controls whether ratepayers benefit or are penalized from the Company's purchase of the Project. The Department

[39] https://efinancemanagement.com/wp-content/uploads/2015/05/Advantages-and-Disadvantages-of-Leasing.png

speculated on whether the WPTC would be extended after 2020 year-end and was correct. On December 17, 2019 the US House of Representatives passed legislation that extended the on-shore wind PTC for an additional year.[40]

Xcel had identified another benefit to ownership – possession of the site's existing transmission access. The Company estimated this benefit's value as being between $40 and $200 million in its reply comments. The Department noted that, while Xcel's valuation estimate may be a good first attempt, it has not been vetted and the wide range of the estimate indicates that the Company is not certain as to the ultimate value. The Department recommended that the Commission discount the benefits Xcel identified with the existing transmission estimate.

ii. Adequate Maintenance

The second disadvantage associated with the REPA is maintenance. Xcel's proposed ownership is expected to ensure maintenance reliability versus ownership by a "distant and uncaring third-party".

b. Societal Costs and Benefits

Xcel noted in its reply comments that the PSA purchase would provide societal benefits by supporting union labor and by lowering Xcel's carbon emissions.

In its IR No. 19, the Department asked if Xcel would be willing to "agree to a condition related to the purchase agreement that requires Seller to sign a Project Labor Agreement (PLA) for Mower County while keeping the currently agreed purchase price unchanged?" The Company stated in its response that the Seller executed an Engineering, Procurement and Construction (EPC) contract with White Construction, Inc. which is known in the industry to use union labor. The Company also stated that it has received further assurance from White "that its current scope of work for the Project is comprised exclusively of union labor" and that Xcel is confident that local union labor will be used for the Project. The Department pointed out that the union labor does not necessarily exist only with the PSA purchase option, but "there appears to be nothing to suggest that the REPA option would not also use union labor".

Regarding carbon emission reductions, the second societal benefit that Xcel claims, the Department noted that "once Mower County is repowered, ownership, at least from a societal perspective is not that important" in that society as a whole will benefit, no matter the owner.

Finally, the Department stated that all of the societal benefit analyses pointed to the conclusion that these benefits are no greater under the PSA purchase alternative than when compared with the amended REPA alternative.

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[40] Department Comments, April 8, 2020, p. 4, Footnote 6: "Interestingly enough, the legislation increased the Wind PTC for projects starting in 2020 to 60 percent of the WPTC. It had been 40 percent for projects initiating construction in 2019. While Mower would not qualify for those changes, the fact that Congress extended the WPTC and increased its value for wind projects coming on-line in 2020 indicates a continued interest in the WPTC in Congress."

c. Purchase Options – Proposed Conditions

The Department presented a list of seven conditions (see Department Recommendations below) that it says attempt to protect ratepayers from significant variance from Xcel's forecast to actual values under the PSA purchase alternative.

d. Other Issues

The Department's December 13, 2019 comments addressed the following topics:

1. Legal and procedural issues;
2. Accounting issues related to the RPA;
3. Cost recovery issues for both alternatives;
4. Strategist modeling for both alternatives; and
5. Purchase option additional information.

The Department concluded that the legal/procedural and cost recovery issues were resolved in its initial comments. The accounting issues only apply to the PSA purchase alternative. The Department addressed its concerns regarding depreciation and the acquisition premium in Attachment E and discussed its issues involving Strategist modeling in Attachment F.

2. Department Recommendations

The Department recommended that the Commission approve Xcel's proposed amended REPA alternative because it provides ratepayer benefits under every scenario analyzed and mitigates the obsolescence from installing the 2017 vintage wind turbines that Xcel is proposing to purchase.

If the Commission believes that sufficient ratepayer benefits exist to approve the Company's request to purchase the repowered Mower County Wind Generation facility, under Minnesota Statutes § 216B.50 as a regulated asset, the Department recommends that the Commission condition that approval with the following:

> 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.
>
> O&M expense – The O&M 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.
>
> Land Lease expense – The amount 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 land lease expenses, shareholders would be responsible for any such costs in excess of those annual amounts.

Insurance expense – The amount 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 insurance expenses, shareholders would be responsible for any such costs in excess of those annual amounts.

Property/production tax expense – The amount 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 tax costs, shareholders would be responsible for any such costs 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 of the WPTC and its treatment of other wind generation.

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.

H. Xcel Energy - Reply to Supplemental Comments

In its June 4, 2020, comments, and in response to the Department's proposed conditions, Xcel stated that should the Commission approve our proposed acquisition, the Company proposes the following 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 the Mower County Wind Facility that it receives as a result of any extension related to PTCs.

I. Department of Commerce – Response to Supplemental Comments and Clarification

In its response to supplement comments on June 9 and its clarifying letter of June 23, 2020, the Department said:

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, while the facilities have been operating, the repowering construction work will not be completed until later, and therefore the new 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.

Thus, while the Department continues to stand by its recommendation that the Commission approve the amended renewable energy purchased power agreement (REPA), if the Commission decides to allow Xcel to own the Mower facilities, the Department would not oppose the Commission using Xcel's three conditions in its June 4, 2020 letter in lieu of the Department six conditions listed in its prior comments, along with changing "projects" in the second condition to "project."

VI. Staff Analysis

A. Summary of Resolved Issues

Issue	Department's Recommendation	
	PSA Purchase	Amended REPA
Legal/Procedural	Does not appear to have any legal deficiencies within the context of this filing at this time.	Does not appear to have any legal deficiencies within the context of this filing at this time.
Waiver of Minn. R. 7825.1800, subp. B for PSA purchase	Relying on past Commission decisions, the Department recommended waiver.	N/A
Proposed Acquisition Adjustment	Recommended approval	N/A
Cost Recovery	Approval through Renewable Energy Standard	Does not contest recovery through mechanism of FCA.
Depreciation	Initial issues were resolved	N/A
Strategist Modeling	All issues related to original modeling assumptions were resolved.	All issues related to original modeling assumptions were resolved.

B. Should the Commission authorize Xcel's request to acquire, own, and operate the repowered Mower County Wind Facility (Project) pursuant to the terms of the negotiated purchase agreement, as a regulated asset?

1. Ownership Cost Benefit Analyses

<u>**Xcel's Position**</u>

Xcel, in its initial proposal, presented both a PSA Purchase-specific proforma financial model as well as Strategist modeling. The Company argued that both analyses showed that customers would benefit from Xcel purchasing, owning, and operating the Project and said that they each show approximately $48-49 million of PVRR benefits. Even when modeled as incremental generation, Xcel said ownership generated customer benefits in the near term while providing overall PVRR benefits and PVSC savings.

After receiving the Department's comments and as a result of discussions, Xcel expanded its analysis and addressed specific Department concerns in additional analyses. The Company performed a "Full Optimization Analysis" that assessed Xcel's future expansion plan with and without the repowered and acquired Mower County Project; this resulted in PVSC savings of $72.1 million and PVRR savings of $81.7 million. Xcel also performed a "Revised Partial Fulfillment Analysis" that assessed the Project as a partial fulfillment of the 1,200 MW of wind energy proposed in its IRP; this resulted in PVSC savings of $43.7 million and PVRR savings of $42.4 million.

Department's Position

After initial concerns regarding Xcel's Strategist modeling, the Department acknowledged that its Strategist concerns were resolved.

However, the Department performed additional analysis and asserted that the benefits in Xcel's Pro Form analysis was based entirely on the expiration of the Federal Wind Production Tax Credit (WPTC). In its Information Request No. 13(b), the Department asked Xcel to perform an analysis of the impact of possible extensions of the Federal WPTC. Xcel complied and the analysis showed that the estimated PSA Purchase ratepayer benefits would disappear if a WPTC extension through 2027 is modeled. In fact, rather than savings, the model resulted in additional costs (trade-secreted).

Given the history of WPTC extensions, the Department concluded that it would be reasonable to assume that some form of tax credit or subsidy will replace an expiring WPTC. In its April 8, 2020 comments, the Department pointed out that it was correct. A bill was signed into law this year that extended the on-shore wind PTC for an additional year.

2. Existing Interconnection Benefits

Xcel's Position

As discussed above, Xcel has estimated a value for existing interconnection access based on the expected costs of interconnecting a greenfield project given MISO interconnection queue congestion, plus interconnection upgrade costs. The Company estimated the low end of the value to be $400,000/MW (as used in Xcel's IRP) and a high end of $2,000,000/MW given average upgrade costs in the February 2017 MISO Phase 2 Definitive Planning Process. This would equate to a range of $40-$200 million for this 98.9 MW repowered Project.

Department's Position

In response,[41] the Department stated:

> The Department notes that Xcel didn't attempt to quantify those transmission benefits until its Reply Comments, at the Department's request. While that cost estimate might be considered a reasonable first attempt, it has not been vetted. Xcel's presentation and wide range of benefits suggests that the Company is not as certain as to those benefits; nor is it clear whether any such benefits would exist in the future, after additional transmission and distribution facilities are built.

[41] Department Comments, December 13, 2019, p. 19.

3. Technological Risk

Department's Position

The Department noted that although the PSA Purchase would help mitigate the cost increases associated with transmission access, it would come at the cost of increased technological risk. The turbines to be used for the proposed repowering were evidently "safe-harbored" for tax purposes in 2017. Therefore, ratepayers will not be receiving wind energy that uses the most up-to-date technology – this is true for both the PSA Purchase and the Amended REPA alternative, however, under the PSA Purchase ratepayers would be locked into long term technology risk.

Xcel's Position

Xcel stated that it is hopeful that wind technology improves over the years. However, it said that its request to purchase a Project that provides immediate and meaningful customer benefits should not be rejected because future improvements may be more cost-effective. Further, the Company said that was "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".[42] Also, as noted previously, the Company's cost forecast does account for technology improvement-associated potential cost declines, in real dollars, over time.

4. Union Labor Benefits

Xcel's Position

Xcel's original petition stated that the Seller expressed a strong preference for union labor in the repowering project. Since that time, the Company stated that repowering activities have proceeded, and the Seller confirmed that it executed an Engineering Procurement and Construction (EPC) agreement with White Construction. Xcel further stated that "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".

Department's Position

The Department stated that information provided by Xcel in response to Information Request 19 supported the Company contention that union labor is expected to be used on the Project. However, the Department noted that since the use of union labor does not appear to be tied exclusively to the PSA Purchase option, there "is nothing to suggest that the REPA option would not also use union labor".

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[42] Xcel Reply Comments, January 31, 2020, p. 11.

5. Ratepayer Protection Conditions

Department's Position

In its April 8, 2020 Supplemental Comments, the Department proposed seven conditions[43] to further protect ratepayers. Please see pp. 28-29 of these briefing materials in Section G, Department of Commerce - Supplemental Comments, 2. Department Recommendations, above.

Xcel's Position

In its June 4, 2020, Reply to Supplemental Comments, Xcel proposed three conditions to address the Department's conditions. Please see p. 29 of these briefing materials, in Section H, Xcel Energy - Reply to Supplemental Comments, above and also reflected in Decision Alternatives 1, A, B, and C., below.

C. Alternatively, should the Commission approve Xcel's proposed First Amendment to its existing Renewable Energy Power Agreement (REPA) for the Facility?

Xcel's Position

Xcel reported the following provisions in the First Amendment to its existing REPA that will benefit customers:

1. A maximum generation volume is included in the amended REPA; above this volume the Company will settle excess energy at a negotiated price. Xcel noted that the current REPA has no generation caps and the Company is obligated to purchase all energy at the REPA price.
2. The amended REPA has provisions that differentiate between compensable and non-compensable curtailment. Xcel asserted that the curtailment provision will benefit customers in that it more narrowly defines the curtailment under which the Company would need to compensate Seller for energy that is not delivered.
3. The Company will continue to receive the Renewable Energy Credits (RECs) from all purchased energy from the Facility.
4. The original 20-year term of the original REPA is scheduled to end December 2, 2026 and the First Amendment does not extend this term.
5. The original REPA included a requirement for the Facility owner to maintain a Security Fund through either an irrevocable standby letter of credit or through an interest-bearing escrow account and the First Amendment made no revision to this provision.

Finally, Xcel said that no net increase in net income to NSP would result from this amendment, as the Minnesota costs of the power purchase would equal the Minnesota revenue collected.

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[43] Note: The seventh condition involving depreciation was subsequently withdrawn as unnecessary.

Department's Position

The Department noted that the Amended REPA alternative resulted in positive PVRR of $3.8 million and PVSC of $3.8 million. In summarizing the costs and benefits of Xcel's proposed Amended REPA alternative, the Department said that it:

1. Demonstrated financial benefits for ratepayers in every scenario modeled,
2. Eliminated the risk of technological obsolescence associated with the vendor's choice of 2017 vintage wind turbines for ratepayers, and
3. Eliminated operational and financial risks associated with ownership for ratepayers.
4. Attained both the societal benefits of carbon reduction and, potentially, the same benefit of using union labor as the PSA Purchase alternative.

However, the Department contended that, since the savings calculated for the PSA Purchase was based on the end of federal tax incentives for wind facilities; if the PTC is extended, as it has been repeatedly in the past 27 years[44], or even if the costs of wind facilities continue to decrease as expected, the ratepayer benefits Xcel identified for the proposed PSA Purchase could be negated.

Finally, the Department recommended that the Commission approve Xcel's proposed Amended PPA, since the provisions in the amendment would limit the extent to which ratepayers pay higher costs of energy from the facility. However, if the Commission decides to allow Xcel to own the Project, "the Department would not oppose the Commission using Xcel's three conditions in its June 4, 2020 letter in lieu of the Department six conditions listed in our prior comments".[45]

Overall Staff Analysis

Given the historical propensity of the federal government to provide tax incentives to encourage wind energy technology and future production, it seems likely that Xcel could replace wind energy at lower costs in 2027 than the 2017 "safe-harbored" repowered facility can provide today.[46] In effect "leasing" the facility through the Amended REPA appears to provide minimal ratepayer risks while maximizing benefits.

[44] As noted previously, legislation that extended the on-shore wind PTC for an additional year was signed into law in December, 2019.

[45] The Department noted that "projects" in Xcel's second condition should be corrected to "project".

[46] For general information about wind technology, the U.S. Department of Energy, Office of Energy Efficiency & Renewable Energy, Wind Energy Technologies Office publishes an annual Wind Technologies Market Report: https://www.energy.gov/eere/wind/2018-wind-market-reports

VII. Decision Alternatives

Proposed Acquisition of Repowered Mower Wind Facility Project

Should the Commission authorize Xcel Energy's request to acquire, own, and operate the repowered Mower County Wind Facility pursuant to the terms of a negotiated purchase agreement, as a regulated asset?

1. Approve Xcel's request to acquire the Mower Wind Facility Project. Find this transaction is consistent with public interest, as required under Minn. Stat. § 216B.50 under the following conditions. (Xcel primary position, Department does not oppose the conditions)

   A. Xcel 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. Xcel bears the burden of proof in any future regulatory proceeding related to the recovery of costs above those forecasted in this proceeding.

   B. Xcel customers must be protected from risks associated with the non-deliverability of accredited capacity and/or energy from the projects. The Commission may adjust Xcel's recovery of costs associated with this project in the future if actual production varies significantly from assumed production over an extended period.

   C. Xcel must credit to its customers 100 percent of any additional production tax credits (PTCs) received in connection with the Mower County Wind Facility that it receives as a result of any extension related to PTCs.

OR

2. Approve Xcel's proposed First Amendment to the Renewable Energy Purchase Agreement (REPA). (Xcel alternate position, DOC)

OR

3. Deny Xcel's request and find that Xcel's request to acquire the Wind Facilities is not consistent with public interest as required under Minn. Stat. § 216B.50. (DOC)

If Xcel's proposed acquisition of the Mower Project is approved

Variance to Minn. R. 7825.1800, subp. B [Acquisition of Property Filing Requirements]

4. Grant Xcel's Variance Request to Minn. R. 7825.1800, subp. B. (Xcel) **OR**

5. Deny Xcel's Variance Request to Minn. R. 7825.1800, subp. B.

Acquisition adjustments for the PSA Purchase

6. Approve Xcel's request to recover acquisition adjustments for the Mower Project. (Xcel, DOC) **OR**

7. Deny Xcel's request to recover acquisition adjustments for the Mower Project.

Cost Recovery for the PSA Purchase

8. Authorize Xcel to recover costs of the Project acquisition through the Renewable Resource Rider (RES rider). (Xcel, Department)

Compliance Filing

9. Require Xcel to report annually the energy production levels from the Project and explain in detail the causes for any long-term shortfalls in production compared to forecasted levels. (The Commission may adjust recovery of costs associated with this project in the future if actual production varies significantly from assumed production over an extended period.)

AND/OR

10. Require Xcel to file, within 60 days of completing the transaction, the final journal entries used to record the transaction. (Staff)

If the REPA First Amendment is approved

11. Authorize Xcel to continue recovering the costs of the Renewable Energy Purchase Agreement (REPA) pursuant to Minn. Stat. §216B.1645 through the Fuel Cost Charge of the Fuel Clause Rider. (Xcel alternate position, DOC)