



414 Nicollet Mall
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January 8, 2016

—Via Electronic Filing—

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

RE: REPLY COMMENTS
AURORA PPA COST RECOVERY
DOCKET NO. E002/M-15-330

Dear Mr. Wolf:

Northern States Power Company, doing business as Xcel Energy, submits the enclosed Reply Comments to the December 4, 2015 Comments and December 8, 2015 Addendum of the Department of Commerce, Division of Energy Resources, in the above-referenced Docket.

Pursuant to Minn. Stat. § 216.17, subd. 3, we have electronically filed this document, and served copies on the parties on the attached service list.

If you have any questions regarding this filing please contact me at (612) 215-5367 or Amy.s.fredregill@xcelenergy.com.

Sincerely,

/s/

AMY S. FREDREGILL
MANAGER RESOURCE PLANNING AND STRATEGY

Enclosures
c: Service List

STATE OF MINNESOTA
BEFORE THE
MINNESOTA PUBLIC UTILITIES COMMISSION

Beverly Jones Heydinger	Chair
Nancy Lange	Commissioner
Dan Lipschultz	Commissioner
John Tuma	Commissioner
Betsy Wergin	Commissioner

IN THE MATTER OF THE PETITION OF
NORTHERN STATES POWER COMPANY
FOR APPROVAL OF COST RECOVERY OF
THE NORTH DAKOTA SHARE OF THE
AURORA DISTRIBUTED SOLAR PROJECT

DOCKET NO. E002/M-15-330

REPLY COMMENTS

INTRODUCTION

Northern States Power Company, doing business as Xcel Energy, submits to the Minnesota Public Utilities Commission this Reply to the December 4, 2015 Comments and December 8, 2015 Addendum of the Minnesota Department of Commerce – Division of Energy Resources on our petition for recovery of the North Dakota share of the costs of the Aurora Distributed Solar Power Purchase Agreement (PPA).

While the Department recommended that the Commission reject our proposal, we respectfully disagree and request approval of cost recovery of the North Dakota share of the Aurora Distributed Solar PPA (Aurora PPA) by Minnesota ratepayers. As we stated in our initial petition, we believe our proposed jurisdictional cost allocation approach for the Aurora PPA is appropriate because the project was selected as a reasonable and prudent approach not only to meet an identified resource need, but also because it allows us to fulfill Minnesota state energy policies. The Commission cited state policy favoring energy from renewable sources¹ and the state goal of reducing greenhouse gases² in its Order directing the Company to negotiate a draft PPA with Aurora.³ While a market-based solution was established in this case, it is unlikely to be a solution for future cost recovery of resources. Our primary concern with this request is to develop a solution to a potentially recurring difference between

¹ Minn. Stat. § 216B.2422, subd. 4.

² Minn. Stat. § 216H.02.

³ ORDER DIRECTING XCEL TO NEGOTIATE DRAFT AGREEMENTS WITH SELECTED PARTIES, p. 34, DOCKET NO. E002/CN-12-1240 (MAY 23, 2014).

two states' policies and resource planning approaches. This is not a new challenge, and a solution exists that is supported by the precedent set by the Commission in the Renewable Development Fund (RDF) Rate Rider proceeding.⁴ With that decision, the Commission recognized that the costs of a project with a unique connection to Minnesota policy are appropriate to allocate to Minnesota ratepayers. If the Commission decides to reject this petition, it could establish an expectation that developers might be expected to cover a share of the costs for projects that are developed to support the Company's compliance with a Minnesota policy.

In these comments we provide an explanation for why we believe our proposed jurisdictional allocation for this project is appropriate and respond to the Commission's question related to the approval of cost recovery for power that is sold into the wholesale market.

REPLY

A. The Company's Proposed Jurisdictional Allocation Approach for the Aurora PPA is Appropriate

In order to allow the Company to fulfill Minnesota state energy policy, we believe it is appropriate for the Commission to approve recovery of the incremental costs that would otherwise be allocated to the Company's North Dakota customers. As noted above, there is in fact precedent in the June 6, 2011 Order in the RDF Rate Rider proceeding for the Commission to approve this jurisdictional cost allocation approach. As the Aurora PPA was selected, in part, to meet Minnesota state policy, we believe our request is reasonable.

The Commission noted in its Order, referenced above, that the state policy favoring energy from renewable sources and the state goal of reducing greenhouse gases added to the value of Aurora's proposal and was a factor in its selection. Importantly, this resource assists the Company in satisfying the Solar Energy Standard (SES), as provided in Minn. Stat. § 216B.1645.

Section 216B.1645 provides that the Commission shall approve cost recovery for a PPA if the utility entered into it "to satisfy" Minnesota's renewable energy objectives and standards.⁵ The record in the competitive resource acquisition Docket

⁴ Minnesota Public Utilities Commission ORDER AFTER RECONSIDERATION MODIFYING MARCH 17, 2011 ORDER AND REALLOCATING EXPENSES dated June 6, 2011 in Docket No. E002/M-10-1054

⁵ Section 216B.1645 provides: "Upon the petition of a public utility, the Public Utilities Commission shall approve or disapprove power purchase contracts . . . entered into or made by the utility to satisfy . . . the renewable energy objectives and standards set forth in section 216B.1691 . . ."

established that the Company would use the solar Renewable Energy Credits (RECs) obtained under the Aurora PPA to meet its SES obligations.⁶ The Commission relied on the value of the Aurora project as a resource that would help us satisfy our SES obligations as one of the factors supporting its selection of the PPA. If this proposed cost recovery mechanism is approved, the project will provide benefits specifically to Minnesota customers, including the retention of all the RECs that would otherwise be allocated to North Dakota or retained by the developer.

By contrast, under the agreement, if the MPUC denies recovery, then Aurora pays NSP the incremental cost. In that circumstance, Aurora keeps the RECs for the North Dakota share.

B. Resource Planning is done on an Integrated System Basis

The Department raised a concern in their comments about the lack of support for selecting the Aurora project to meet energy and capacity needs of only our Minnesota ratepayers. While we have addressed above that this resource was selected not only to fulfill an identified resource need, but to satisfy policy obligations which are specific to Minnesota, it is also important to note that we have an integrated Upper Midwest system and we acquire resources on a system-wide basis. Therefore the Department's suggestion to require a different bidding process to analyze the project based only on the energy and capacity needs of our Minnesota ratepayers would not be practicable. We do not model any generation alternatives based solely on Minnesota need. Instead, our integrated system planning approach is based on economies of scale and a well-balanced fuel source mix that maximizes benefit to our customers for the long term.

C. Power Generated by the Aurora Distributed Solar Project will not be sold into the wholesale market

The Commission's October 27, 2015 Notice in this Docket included the following topic for comment:

If approval is sought or recommended under Minn. Stat. § 216B.1645, Subd. 2, discuss the relevance of the sentence under the same section: "The commission may not approve recovery of

⁶ IN THE MATTER OF THE PETITION OF NORTHERN STATES POWER COMPANY D/B/A XCEL ENERGY TO INITIATE A COMPETITIVE RESOURCE ACQUISITION PROCESS, Docket No. E002/CN-12-1240.

the costs for that portion of the power generated from sources governed by this section that the utility sells into the wholesale market.”⁷

We do not anticipate designating any portion of this project as a wholesale asset because the Aurora PPA will be a retail asset used to meet customer needs. If the Commission approves our request, the energy from the Aurora PPA will serve our overall retail system while the incremental cost of the North Dakota share that was disallowed by the North Dakota Commission will be shifted to Minnesota. Therefore the Company does not believe this statutory question is applicable to our request to approve cost recovery of the North Dakota share of costs.

We note that the addition of the incremental generation from the Aurora PPA could impact the aggregate wholesale purchases and sales revenues the Company makes and receives through the Midcontinent Independent System Operator (MISO) market. The Company currently charges MISO purchases and revenues through the Company’s Fuel Clause Adjustment (FCA) and the Company would continue to allocate costs and revenues to customers through the FCA. As noted in our initial filing, after determining the incremental cost of the North Dakota portion, that amount would be removed reflecting the generation resources disallowed by North Dakota and replacement costs will be added back.⁸ This would effectively shift the incremental cost of the North Dakota portion to Minnesota. Therefore, we believe the existing jurisdictional treatment of MISO purchases and revenues continues to be appropriate.

D. Precedential Risk and State Policy Approaches

While a market-based solution was established in this case, it is unlikely to be a solution for future cost recovery of resources, and may establish a precedent with negative consequences. In this petition our primary concern is to address the potentially recurring issue of differing state policies and resource planning approaches within our Upper Midwest System. A precedent exists for addressing this challenge, established by the Commission’s decision in the RDF Rate Rider Proceeding referenced above.

As a general policy, the Company believes that the developer should not have to cover the cost of a project that is being developed to meet an identified resource need or to support the Company’s compliance with a Minnesota policy. A decision in this

⁷ IN THE MATTER OF XCEL ENERGY’S OCTOBER 20, 2015 PETITION FOR COST RECOVERY OF THE NORTH DAKOTA PORTION OF THE COSTS OF THE AURORA SOLAR POWER PURCHASE AGREEMENT, dated October 27, 2015.

⁸ The North Dakota Negotiated Agreement is proceeding on a separate track, in Case. No. PU-12-813.

case has the potential to introduce additional risk to developers for cost recovery of renewable energy projects on the Upper Midwest System. This additional risk could discourage future bids or incent developers to drive up their bid price in order to cover the additional risk. This could weaken the competitiveness of future resource acquisitions that are based on achieving Minnesota state policies.

CONCLUSION

We appreciate the Department's review and the opportunity to provide additional information in these Reply Comments. We respectfully request that the Commission approve cost recovery of the North Dakota share of the Aurora Distributed Solar PPA by Minnesota ratepayers as a reasonable and prudent approach with an underlying precedent to meeting an identified resource need that supports the energy policies of the state.

Dated: January 8, 2016

Northern States Power Company

CERTIFICATE OF SERVICE

I, Carl Cronin, hereby certify that I have this day served copies of the foregoing document on the attached list of persons.

xx by depositing a true and correct copy thereof, properly enveloped with postage paid in the United States mail at Minneapolis, Minnesota

xx electronic filing

Docket No. E002/M-15-330

Dated this 8th day of January 2016

/s/

Carl Cronin
Regulatory Administrator

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