

June 29, 2022

Will Seuffert  
Executive Secretary  
Minnesota Public Utilities Commission  
121 7<sup>th</sup> Place East, Suite 350  
Saint Paul, Minnesota 55101-2147

RE: **Comments of the Minnesota Department of Commerce, Division of Energy Resources  
Docket No. E002/M-21-794**

Dear Mr. Seuffert:

Attached are the Comments of the Minnesota Department of Commerce, Division of Energy Resources (Department), in the following matter:

Petition of Northern States Power, doing business as Xcel Energy for Approval of 2022  
Renewable Energy Standard Rider Revenue Requirements.

Holly Hinman, Xcel Energy Regulatory Manager, filed the petition on November 12, 2021.

The Department recommends the Minnesota Public Utilities Commission (Commission) **approve the petition with modifications**. The Department is available to answer any questions the Commission may have in this matter.

Sincerely,

/s/ Stephen Collins  
Financial Analyst

SC/ja  
Attachment



## Before the Minnesota Public Utilities Commission

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### Comments of the Minnesota Department of Commerce Division of Energy Resources

Docket No. E002/M-21-794

#### I. INTRODUCTION

On November 12, 2021, Northern States Power Company, doing business as Xcel Energy (Xcel or the Company) filed a petition requesting the Minnesota Public Utilities Commission (Commission) approve 2022 RES rider revenue requirements and an updated Renewable Energy Standard (RES) factor in the Company's RES rider and.

Specifically, Xcel requests the Commission approve:

- RES Rider recovery for five wind repowering projects: Border Winds, Grand Meadows, Nobles, Pleasant Valley, and Northern Wind;
- capital cost caps as proposed;
- 2022 revenue requirements of \$264.0 million—consisting of a 2021 base revenue requirement of \$106.9 million, which includes production tax credit true-up, plus a \$96.8 million carryover balance;
- preliminarily, an RES Rider Adjustment Factor of 12.357% of base revenue for all customer classes, with a recalculated adjustment factor based on the timing of the Commission's decision;
- the proposed tariff revision and customer notice, with Xcel to provide a compliance filing with the final updated tariff within 10 days of the Commission's written order; and
- implementation of an updated RES adjustment factor through the resource adjustment line on retail electric billing rates on the first day of the month following the Commission's written order authorizing the update.

#### II. BACKGROUND

##### A. ENABLING STATUTE

The Commission has approved Xcel's RES rider in its current form pursuant to Minn. Stat. § 216B.1645, subd. 2a, the RES rider statute.

##### B. REPOWER DOCKET (20-620)

On January 22, 2021, in Docket No. E002/M-20-620, the Commission issued an order which, among other things, approved Xcel's request to repower four Company-owned wind farms: Grand Meadow, Nobles, Border Winds, and Pleasant Valley. The Commission also stated Xcel may recover the costs of each repower, including the existing rate base, but clarified the Commission must determine eligibility

for RES rider recovery at the time of any such request. In addition, the Commission stated (1) Xcel must justify any costs higher than forecasted in that proceeding; (2) Xcel bears the burden of proof in future proceedings related to cost recovery above the forecasted levels; and (3) the Commission will otherwise hold Xcel accountable for the price and terms used to evaluate the projects.

On June 15, 2021, in the same docket, the Commission issued an order approving Xcel's request to repower and acquire the Northern Wind project. The Northern Wind project is a complete replacement and expansion of the 97.5 MW (total) Chanarambie and Viking wind facilities located in Murray County, Minnesota. At the time Xcel requested approval, the Company had existing power purchase agreements for the Chanarambie and Viking facilities, with Xcel as the buyer. The repowering transferred ownership of the facilities to Xcel through a Purchase and Sale Agreement, with Xcel then updating the facilities. In addition, Xcel added a 20 MW new greenfield facility in conjunction with Rock Aetna Power Partners, LLC (Rock Aetna) to the transferred, repowered facilities. The June 15, 2021 order included the same cost recovery stipulations applied to the January 22, 2021 order, which are described above.

Aside from the 20 MW Rock Aetna greenfield addition, the five self-build projects (Grand Meadow, Nobles, Border Winds, Pleasant Valley, and Northern Wind) are all repowers of existing Xcel resources. The Department provides brief background information on the pre-repower facilities below, noting the project capacity and in-service date:

- Grand Meadow was a 100.5 MW wind farm placed into service in 2008;
- Nobles was a 201 MW wind farm placed into service in 2010;
- Border Winds was a 150 MW wind farm placed into service in 2015;
- Pleasant Valley was a 200 MW wind farm placed into service in 2015;
- Chanarambie and Viking were separate wind farms totaling 97.5 MW;
  - The Chanarambie PPA was an 85.5 MW PPA dated April 26, 2002;<sup>1</sup>
  - The Viking PPA was a 12 MW collection of seven qualifying facility (QF) PPAs (between a number of LLCs) dated December 18, 2018.<sup>2</sup>

After the repowers, Xcel expects the following installed capability<sup>3</sup> and in-service dates:

- Grand Meadow: 107.2 MW, November 2023 (was 12/1/2023)
- Nobles: 214.4 MW, 12/1/2022
- Border Winds: 165.0 MW, 2025 (was 12/1/2024)

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<sup>1</sup> Docket No. E002/M-00-662.

<sup>2</sup> The seven sellers in the QF PPAs, listed alphabetically, were Buffalo Ridge Wind Farm LLC, Moulton Heights Wind Power Project LLC, Muncie Power Partners LLC, Northern Ridge Wind Farm LLC, Vandy South Project LLC, Viking Wind Farm LLC, and Vindy Power Partners LLC. The instant petition indicates that the PPAs were less than or equal to 2 MW and therefore according to Xcel did not require Commission approval.

<sup>3</sup> For projects with increased capability, the installed capacity would, with the exception of Northern, remain at the pre-repower capacity/capability levels to comply with existing interconnection agreements.

- Pleasant Valley: 220 MW, 2025 (originally 12/1/2024)
- Northern Wind: 120 MW, 12/1/2022

*C. MOST RECENT RES RIDER UPDATE (20-815)*

On March 15, 2022, in Docket No. E002/M-20-815, the Commission issued an order approving Xcel's most recent RES rider update. This most recent RES rider decision ordered as follows:

1. RES rider cost recovery eligibility is approved for the projects included in Xcel Energy's petition.
2. Xcel Energy's RES rider revenue requirements and accompanying adjustment factor for 2021 are approved as petitioned.
3. Within 10 days of the issue date of this order, Xcel Energy shall implement its updated RES rider rate factors and submit final tariff sheets, customer notice modified to reflect the new approved RES Adjustment factor, and supporting documentation for the calculation of the new RES rider adjustment factor.
4. Xcel Energy's project cost recovery of \$106,892,781 is approved.
5. Xcel Energy's weighted cost of debt of 1.99% for the 2021 RES rider is approved.
6. Xcel Energy's removal of ADIT proration is approved, assuming an implementation date after January 1, 2022.
7. This order shall become effective immediately.

The eligible projects approved in the first order point were: Courtenay, Blazing Star I, Blazing Star II, Foxtail, Freeborn, Crowned Ridge, Lake Benton, Dakota Range I and II, Jeffers, Community Wind North, and Mower. The first 10 of these were already approved for RES Rider recovery; Mower was the only new project requested and approved.

On March 22, 2022, Xcel submitted a compliance filing with the final tariff sheets, customer notice modified to reflect the new approved RES Adjustment factor, and supporting documentation for the calculation of the new RES rider adjustment factor. The filing stated Xcel intended to implement the new 9.765% adjustment factor on April 1, 2022, to align with Xcel's standard practice of implementing new rates on the first of the month due to billing system constraints.

*D. ONGOING RATE CASE (21-630)*

On October 25, 2021, Xcel filed a petition requesting an increase in base rates in Docket No. E002/GR-21-630. Commission review of this rate case petition is ongoing.

As described in the direct testimony of Xcel witness Benjamin Halama filed the same day,<sup>4</sup> Xcel proposes to roll in the projects currently recovered in the RES rider (all of which are in service) into base rates, when Xcel implements final rates following the conclusion of the rate case. The projects remaining in the RES rider, following the implementation of final rates in the rate case, would be the

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<sup>4</sup> See pages 107-111.

five repower projects Xcel is requesting in the instant docket: Border Winds, Grand Meadows, Nobles, Pleasant Valley, and Northern Wind. Xcel would also propose to add the Sherco Solar project to the RES rider in a future docket.

In the rate case, Xcel would also update the level of PTCs included in base rates for Xcel-owned wind farms. This proposal impacts the RES rider because Xcel uses (and proposes to continue to use) the RES rider to true-up to actual PTCs received. Specifically, Xcel is proposing to update the base-rate PTC amounts for 2022, 2023, and 2024, which corresponds to Xcel's proposed multi-year base-rate test period. Similarly, Xcel proposes to continue returning any proceeds from the sale of renewable energy credits (RECs) through the RES Rider.

### **III. DEPARTMENT ANALYSIS**

#### **A. ELIGIBILITY**

The RES rider statute in essence allows the Commission to grant rider recovery for facilities constructed, owned, or operated by a utility to satisfy the requirements of Minnesota's renewable energy standard under Minn. Stat. § 216B.1691.

The five new projects, as requested by Xcel, are all repowers of facilities previously used to support Xcel's compliance with the renewable energy standard.<sup>5</sup> Given this fact, the Department does not oppose cost recovery through the RES rider for these particular repowers.

#### **B. RECOVERY LEVELS**

The Department reviews Xcel's proposed cost recovery levels for the repowers and updated proposals for other projects below.

##### **1. Repowers**

For the five repower projects, Xcel proposes to set capital costs equal to the modeled capitalized costs with internal labor removed. This cost recovery proposal would work the same way as the "aggregate symmetrical cost cap" for the 1,050 MW of owned wind approved in Docket No. E002/M-16-777, which is still being recovered in the RES rider. Given this consistency the Department does not object to Xcel's proposal for the aggregate capital cost recovery "cap" for the repowers.

##### **2. 1,050 MW Portfolio & Dakota Range I&II**

Xcel proposes to recover \$1,685,222,672 in capital costs collectively for the 1,050 MW self-build wind portfolio (Blazing Star I&II, Foxtail, and Freeborn) approved for construction in Docket No. E002/M-16-777 and Dakota Range I&II (approved for construction in Docket No. E002/M-17-694). This proposed

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<sup>5</sup> The only exception is the 20 MW of greenfield capacity for the Northern Wind project. However, parsing out recovery of this individual project would be, in this case, unduly complicated.

recovery is less than the capital recovery (combined) approved in the respective dockets. The Department therefore supports Xcel's proposal.

#### *C. COST OF CAPITAL*

Xcel proposes to use the 9.06% rate of return on equity (ROE), consistent with the Commission's September 30, 2019 Order regarding Xcel's RES rider.<sup>6</sup>

For the cost of debt, Xcel proposes to use the 1.99% weighted cost proposed in Xcel's withdrawn rate case in Docket No. E002/GR-20-732. However, this proposal is inconsistent with Xcel's proposal in its ongoing rate case in Docket No. E002/GR-21-630, which proposes a 1.94% weighted cost.<sup>7</sup> In the two prior RES rider dockets, the Commission updated Xcel's cost of debt to reflect the Company's proposed cost for the actual test year, instead of relying on prior test years. To be consistent with this practice and Xcel's proposed 2022 cost of debt in the rate case, **the Department recommends the Commission use the 1.94% weighted cost of debt for this docket instead of Xcel's proposal of 1.99%.**<sup>8</sup>

#### *D. IMPLEMENTATION DATE & ACCUMULATED DEFERRED INCOME TAXES (ADIT)*

Consistent with prior Xcel RES rider updates, the **Department recommends the Commission require Xcel to implement the updated rider following the end of 2022, to avoid needing to prorate ADIT.**

**In addition, consistent with Xcel's proposal, the Department recommends the Commission require Xcel to implement the new tariff and customer notice, and make a compliance filing with supporting documentation, within 10 days of the Commission's order approving the RES rider update.**

**Finally, the Department requests Xcel provide, in reply comments, its forecasted RES rider factor, assuming the Department's proposed modifications are approved and Xcel implements the update on January 1, 2023.**

#### **IV. RECOMMENDATION**

The Department recommends the Commission approve Xcel's petition with the following requirements:

- Use a 1.94% weighted cost of debt.
- Within 10 days of the Commission's order approving the docket, or on January 1, 2023, whichever is later, require Xcel to implement the modified tariff and provide a customer notice, along with a compliance filing with supporting documentation.

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<sup>6</sup> Order point 4 states: "Xcel must use the 9.06% return on equity in all dockets filed by the Company that require a return on equity determination until the Commission issues an order in the Company's next rate case."

<sup>7</sup> Johnson Direct filed October 25, 2021.

<sup>8</sup> The Department's recommendation pertains to this docket only. The Department will file testimony reviewing Xcel's proposed cost of capital for base rates in the rate case.

In addition, the Department requests Xcel provide, in reply comments, its forecasted RES rider factor, assuming the Department's proposed modifications are approved and Xcel implements the update on January 1, 2023.

## **CERTIFICATE OF SERVICE**

I, Sharon Ferguson, hereby certify that I have this day, served copies of the following document on the attached list of persons by electronic filing, certified mail, e-mail, or by depositing a true and correct copy thereof properly enveloped with postage paid in the United States Mail at St. Paul, Minnesota.

**Minnesota Department of Commerce**  
**Comments**

**Docket No. E002/M-21-794**

Dated this **29<sup>th</sup>** day of **June 2022**

**/s/Sharon Ferguson**



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