

## Staff Briefing Papers

Meeting Date September 1, 2022

Agenda Item 1\*\*

Company Northern States Power Company, d/b/a Xcel Energy

Docket No. **E-002/M-21-794**

**In the Matter of Northern States Power Company d/b/a Xcel Energy's Petition  
for Approval of the Renewable Energy Standard (RES) Rider Revenue  
Requirements for 2022 and Revised Adjustment Factors**

- Issues
1. Should the Commission approve or modify Xcel Energy's 2022 RES Rider revenue requirement and its accompanying revised RES adjustment factor?
  2. Should Xcel be allowed to recalculate the factor in compliance?
  3. Should the Commission approve RES Rider eligibility for five wind repower projects?

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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**

Xcel Energy- Initial Petition (Public & Trade Secret)

November 12, 2021

Department of Commerce- Comments

June 29, 2022

Xcel Energy- Reply Comments

July 15, 2022

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## II. Statement of the Issues

1. Should the Commission approve or modify Xcel Energy's 2022 RES Rider revenue requirement and its accompanying revised RES adjustment factor?
2. Should Xcel be allowed to recalculate the factor in compliance?
3. Should the Commission approve RES Rider eligibility for five wind repower projects?

## III. Introduction

On November 12, 2021, Northern States Power Company dba Xcel Energy (Xcel Energy, Xcel, or the Company) filed its Petition in this matter asking for *inter alia* approval of its Renewable Energy Standard (RES) Rider revenue requirements for 2022. The Petition requested continued RES Rider cost recovery for all the wind projects it had requested in its last RES Rider petition<sup>1</sup>, RES Rider cost recovery for five repower projects<sup>2</sup>, and an adjustment factor of 12.357% of base revenues for a total cost recovery of \$264.0 million including a \$154.3 million carryover balance from previous years. Additionally, the Company proposed to roll into base rates certain renewable energy projects that are currently being recovered in the RES Rider once final rates are implemented in their recently filed General Rate Case.<sup>3</sup>

## IV. Background

Generally, a public utility may not change its rates without undergoing a rate case in which the Commission comprehensively reviews the utility's costs and revenues. However, the Legislature created exceptions to this general policy, whereby a utility may implement a rider to expedite recovery of certain costs not reflected in the company's current base rates.

Under Minn. Stat. § 216B.1645, subd. 2a, a "utility may petition the Commission to approve a rate schedule that provides for the automatic adjustment of charges...to satisfy the requirements of section 216B.1691, provided those facilities were previously approved by the Commission under section 216B.2422 or 216B.243, or were determined by the Commission to be reasonable and prudent under section 216B.243, subdivision 9 ." <sup>4</sup> In response to a utility's

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<sup>1</sup> This included the ten previously approved wind projects: (1) Blazing Star I; (2) Blazing Star II; (3) Courtenay Wind; (4) Crowned Ridge; (5) Foxtail; (6) Freeborn; (7) Lake Benton; (8) Dakota Range; (9) Jeffers Wind; (10) Community Wind North. It also included one project that at the time of the initial filing had not been approved but was subsequently approved in the Commission's March 15, 2022, order in Docket No. E-002/M-20-815 (1) Mower County Wind.

<sup>2</sup> (1) Border Winds Repower; (2) Grand Meadows Repower; (3) Nobles Repower (4) Pleasant Valley Repower; (5) Northern Wind Repower

<sup>3</sup> See Notice and Petition for Interim Rates, In the Matter of the Application of Northern States Power Company d/b/a Xcel Energy for Authority to Increase Rates for Electric Service in the State of Minnesota, Docket No. E-002/GR-21-630 at 4. The projects proposed to be rolled into base rates include: Courtenay, Foxtail, Blazing Star I and II, Lake Benton, Crowned Ridge, Jeffers, Community Wind North, Mower, Freeborn, and Dakota Range Wind Farms.

<sup>4</sup> Minn. Stat. § 216B.1691 is the Minnesota Renewable Energy Standard (RES) statute which outlines the requirements for electric utilities to either generate or procure a certain percentage of their total retail

cost recovery petition of required RES statute procurement, the Commission is authorized to approve a “rate schedule that: (1) allows a utility to recover directly from customers on a timely basis the costs of qualifying renewable energy projects.”<sup>5</sup>

In practical terms, as of 2020, the RES statute requires the Company to generate or procure at least 30% of their retail sales from eligible renewable sources and, of the 30%, 25% must be solar or wind and, of that 25%, no more than 1% can be from solar. Additionally, Xcel must generate or procure at least 1.5% of their retail sales from solar energy. At a high level, Xcel is required to generate or procure at least 31.5% of their retail sales from eligible renewable resources.<sup>6</sup>

The Company’s last approved RES Rider petition was filed on November 5, 2020, in Docket No. E-002/M-20-815 that *inter alia* requested approval of RES Rider recovery for the Mower County Wind project and revised adjustment factors. The Commission’s March 15, 2022, Order in that Docket approved RES Rider recovery for the requested projects and an adjustment factor of 9.765% that has been effective since April 1, 2022.

## **V. Xcel Energy’s Initial Petition**

### **A. Revenue Requirement**

In its Petition, the Company requested revenue requirements of \$263,954,439 for its 2022 RES Rider; however, over 58% of that amount consisted of carryover balances from previous years. For 2022 specifically, the RES Rider revenue requirement request was \$109,615,124 that includes costs for 11 previously RES Rider-approved wind projects and 5 newly requested RES Rider wind repower projects. Table 1 shows the Company’s RES Rider tracker summary as found in its Petition.

In addition to the costs from the previously approved wind projects and the requested repower projects, the revenue requirements are inclusive of Production Tax Credit (PTC) true-ups<sup>7</sup>, Renewable Energy Credit (REC) sales<sup>8</sup>, and North Dakota investment tax credits (NDITCs) from the Courtenay wind project.<sup>9</sup>

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electrical sales from eligible renewable energy technologies.

<sup>5</sup> Minn. Stat. § 216B.1645 subd. 2a

<sup>6</sup> Minn. Stat. § 216B.1691 subd. 2a(b); subd. 2f.

<sup>7</sup> Pursuant to the Commission’s May 18, 2015, order in Docket No. E-002/GR-13-868 PTCs are forecasted and included in base rates and to the extent there is a deviation from the forecast any true-ups flow through the RES Rider.

<sup>8</sup> The Company’s last REC sale was in 2020 and therefore no REC sales have impacted the 2022 Revenue Requirement.

<sup>9</sup> The inclusion of NDITCs in the RES Rider revenue requirements is from the Commission’s April 11, 2017, order in Docket No. E-002/M-15-805. The Company’s 2022 NDITC is \$0 and thus has no impact.

<sup>10</sup>Table 1. Xcel Energy's 2022 Petitioned RES Rider Tracker

Amounts in dollars		Annual Tracker Summary			
		2020	2021	2022	2023
		Actual	Mixed	Forecast	Forecast
Line No:					
1	Blazing Star I	14,276,228	12,120,468	10,578,814	8,278,823
2	Blazing Star II	11,170,554	17,474,042	15,593,514	13,243,364
3	Courtenay Wind	5,313,594	4,666,498	2,878,845	1,917,034
4	Crowned Ridge	8,861,911	10,873,024	10,630,495	8,723,163
5	Foxtail	7,585,379	7,019,635	6,206,177	4,624,295
6	Freeborn	8,969,618	21,013,967	15,501,540	13,324,119
7	Lake Benton	3,701,884	4,541,881	4,178,113	3,530,937
8	Dakota Range	4,630,124	16,334,874	13,100,015	11,136,894
9	Jeffers WF	74,991	2,792,010	2,584,652	2,024,882
10	Community Wind North	158,929	3,623,112	3,464,391	2,941,817
11	Mower	-	7,816,947	7,251,777	6,087,710
12	Northern Wind	-	348,072	7,553,094	13,470,522
13	Nobles Repower	-	1,160,768	9,159,189	7,649,231
14	Grand Meadows Repower	-	34,162	724,052	4,879,780
15	Border Winds Repower	-	14,005	71,335	133,483
16	Pleasant Valley Repower	-	22,387	139,121	232,602
17		64,743,212	109,855,852	109,615,124	102,198,656
18		-	-	-	-
19	ND ITC	-	-	-	-
20	PTC Tracker True-Up	811,541	20,275,303	-	142,964
21	REC Sales	(97,851)	-	-	-
22	Annual Revenue Requirement	65,456,902	130,131,155	109,615,124	102,341,620
23					
24	Carryover	40,712,498	96,853,482	154,339,314	12,733,535
25					
26	Revenue Requirement (RR)	106,169,400	226,984,637	263,954,439	115,075,155
27	Revenue Collections (RC)	9,315,918	72,645,322	251,220,904	115,075,155
28	Balance (RR - RC + Cumulative CC)	96,853,482	154,339,314	12,733,535	-

## B. RES Rider Adjustment Factor

The Company proposed a 12.357% RES Rider adjustment factor to collect the revenue requirement of \$263,954,439 over a 12-month period beginning February 1, 2022. The Company further requested the ability to update the adjustment factor in compliance based upon when the Commission's Order comes out. The RES Rider is a function of the Company's base revenue, and the actual calculation can be found in Table 2 below.

Table 2. Xcel Energy's 2022 Petitioned RES Rider Adjustment Factor

1	<b>Northern States Power Company</b>		
2	<b>Minnesota Renewable Energy Standard (RES) Rider</b>		
3	<b>Projected 2022 effective February 1, 2022</b>		
4			
5	<b>Description</b>	<b>All Classes</b>	
6	Minnesota Net Annual Cost <sup>(1)</sup>	\$ 263,954,439	From Line 26 of Attachment 2
7	Forecasted Minnesota \$ <sup>(2)</sup> Feb 2022 - Jan 2023	\$ 2,136,060,173	From Sum Line 12-22 + Line 27 of Attachment 6
8	<b>Total Factor / \$</b>	<b>12.357%</b>	(Line 1 / Line 2)
9			
10			
11	<b>Notes:</b>		
12	(1) Annual cost includes true-up adjustment to Tracker Account for the previous year's over- or under-recovery. Please see line 24 of		
13	Attachment 2 for details.		
14	(2) Reflects forecasted Feb 2022-Jan 2023 Base Revenues		

<sup>10</sup> See Initial Petition at Attachment 2.

### C. RES Rider Eligibility

The Company requested RES Rider eligibility for 5 wind repower projects that were previously approved in the Commission’s January 22, 2021, and June 15, 2021, Orders in Docket No. E-002/M-20-620.

The projects were brought forward as a portfolio to support the economic relief and recovery from COVID-19. The Company noted that the Orders allowed the Company to recover the costs for the repower projects either (1) in rate base or (2) the RES Rider—provided the Commission issues a separate determination that the projects are RES Rider eligible.<sup>11</sup>

The Company, citing specifically to the phrase “at least” in Minn. Stat. § 216B.1691 subd. 2a, argued that the Legislature did not preclude the Company from procuring renewable resources above what is needed for compliance and that cost recovery via the RES Rider for resources above what is needed for minimum compliance should not be precluded.

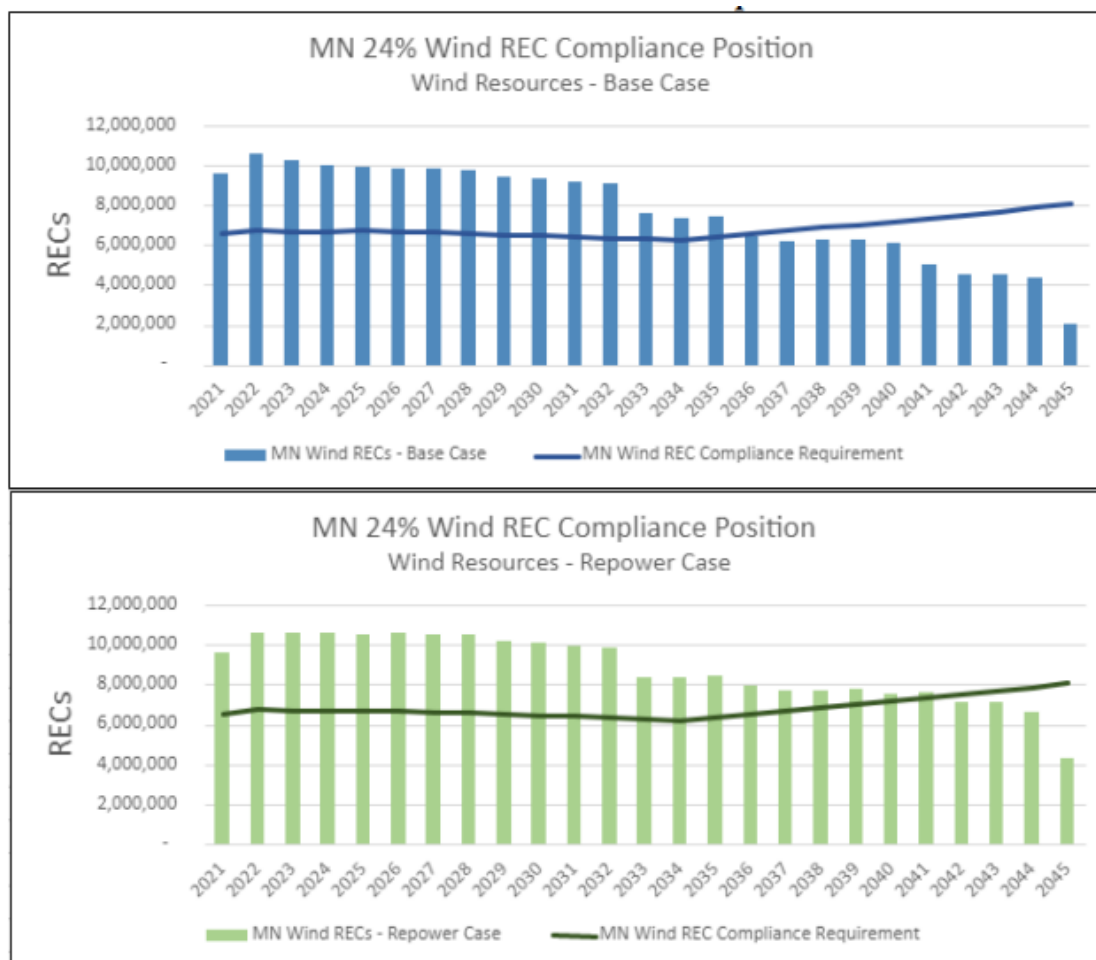
“An electric utility...must generate or procure sufficient electricity generated by an eligible energy technology to provide its retail customers in Minnesota or the retail customer of a distribution utility to which the electric utility provides wholesale electric service so that **at least** the following percentages of the electric utility's total retail electric sales to retail customers in Minnesota are generated by eligible energy technologies by the end of the year indicated” (emphasis added)

Notwithstanding the Company’s argument, it noted that, according to its analysis, the repower projects will be needed for annual REC compliance by the year 2037, and that, even with the repowers, they will need additional renewable energy by 2042. Figure 1 shows the Company’s results of its analysis including a base case (no repower) and repower case.

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<sup>11</sup> *Id.* at 8.

**Figure 1. Xcel Energy's RES Compliance v. RECs by Year  
Base Case and Repower Case**



#### D. Project Cost Caps

##### 1. 1,550 Wind Portfolio & Dakota Range

The Company noted that the Commission's September 1, 2017 Order in Docket No. E-002/M-16-777 ordered a symmetrical cost cap for the 1,550 MW wind projects, allowing the Company to retain any cost savings while barring any recovery over the cap.<sup>12</sup> In its Petition, the Company noted that it ultimately expected to complete the 1,550 MW wind projects \$29,154,084 under the cap and thus is entitled to retain this amount.

Additionally, the Company noted the same symmetrical cost cap was used in the Commission's May 17, 2018, Order in Docket No. E-002/M-17-694 for Dakota Range I and II and that it ultimately was over its cap by \$24,076,756.

<sup>12</sup> The 1,550 projects are Blazing Star I, Blazing Star II, Foxtail, and Freeborn.



The Company cited to various factors including Dakota Range I/II being eligible for 100% of the PTCs as compared to the original acquisition filing assumption of 80%, the global pandemic, and ongoing supply chain issues and proposed to recover the actual costs for the 1,550 projects and Dakota Range I and II, which in the Company's analysis results in a net savings of approximately \$5.1 million (\$29.1 million - \$24 million) as compared to the approved symmetrical cost caps.

## 2. Remaining Previously Approved RES Rider Projects

The Company noted that, of the remaining wind projects (not 1,550 or Dakota Range I/II),<sup>13</sup> it had adjusted their revenue requirements to account for the cost cap overages for Community Wind North and Jeffers.<sup>14</sup>

## 3. Repower Projects

The Company stated it understood the Commission's intent was to create a soft capital cost for the aggregated self-build and Northern Wind project from Docket No. E-002/M-20-620. The Company proposed to set an *aggregate* cap for all five of the repower projects because the projects all came from the same Docket proceeding and all were proposed for similar reasons.<sup>15</sup> Unlike the 1,550 and Dakota Range I/II projects, the Company did not propose the aggregate cap by symmetrical.

# VI. Department of Commerce Comments

## A. Summary

The Minnesota Department of Commerce, Division of Energy Resources (Department) submitted comments on June 29, 2022. Ultimately the Department recommended the Commission approve the petition, with modifications.

## B. Analysis

### 1. RES Rider Eligibility

The Department stated it did not oppose cost recovery through the RES Rider for the Company's petitioned repower projects because the facilities all were previously used to support Xcel's compliance with the State's renewable energy standard.<sup>16</sup>

### 2. Recovery Levels

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<sup>13</sup> Crowned Ridge II, Lake Benton, Community Wind North, Jeffers, Mowers

<sup>14</sup> *Supra* note 10 at 26.

<sup>15</sup> *Id.* at 27.

<sup>16</sup> *See* Department Comments at 4.

The Department supported the Company's proposal to recover costs associated with the 1,550 projects and Dakota Range I & II as combined because "[t]his proposed recovery is less than the capital recovery (combined) approved in the respective dockets."<sup>17</sup>

The Department stated that, for the five repower projects, the "cost recovery proposal would work the same way as the 'aggregate *symmetrical* cost cap' for the 1,050 MW of owned wind...the Department does not object to Xcel's proposal for the aggregate capital cost recovery 'cap' for the repowers". (emphasis added)<sup>18</sup>

### 3. Cost of Capital

The Department noted that, consistent with the Commission's September 30, 2019, Order, the Company proposed to use a 9.06% ROE. Additionally, the Department noted Xcel proposed to use 1.99% for the weight cost of debt and argued that, in previous years, the Commission has required Xcel to use updated cost of debt values and in the Company's most recently filed rate case in Docket No. E-002/GR-21-630, their proposed weighted cost of debt is 1.94%. The Department recommended that, to be consistent with past practice, the Company should update its weighted cost of debt to 1.94% instead of 1.99%.

### 4. Implementation Date

The Department recommended the Commission require Xcel to implement the new tariff, provide the customer notice and make a compliance filing within 10 days of the Commission's Order.

### 5. ADIT

The Department recommend the Commission require Xcel to implement the 2022 RES Rider adjustment "following the end of 2022, to avoid needing to prorate ADIT."<sup>19</sup>

### 6. Updates

The Department requested that, in reply comments, the Company provide an updated RES Rider adjustment factor assuming an implementation date of January 1, 2023.

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<sup>17</sup> Staff notes the Department's comments cite the projects as 1,050 rather than the petitioned 1,550 projects by the Company.

<sup>18</sup> Staff notes that the Department's comments appear to identify the "symmetrical" cost cap approved by the Commission for the 1,550 and Dakota Range I and II projects is what is being proposed for the repowers, however, the Company explicitly stated in its petition "we believe it is reasonable to treat a cost cap in a similar aggregate manner as was established for the 1,550 MW Wind Portfolio, **though we do not propose that the cap be symmetrical**" (emphasis added). See Initial Petition at 27.

<sup>19</sup> *Supra* note 16 at 5.

## VII. Xcel Energy Reply Comments

### *Summary*

The Company continued to request approval of their RES Rider Petition as filed, with the following additions:

- Update, in a future Petition, the 2022 weighted cost of debt in the RES Rider tracker when 2022 actual weighted cost of debt is approved in the pending Multi-Year Rate Plan (MYRP)<sup>20</sup> if it differs from what the Commission approves in this proceeding; and
- A timely implementation of the updated RES Rider adjustment factor on the first of the month following the issuance of a Commission Order in this docket.<sup>21</sup>

### *Weighted Cost of Debt*

As requested by the Department, the Company, in reply comments, submitted attachments for RES Rider cost recovery using the 1.95% weighted cost of debt.<sup>22</sup> While the Company noted it did not object to using 1.95% weighted cost of debt as found in its recent MYRP petition, it disagrees that changes to “selective elements” of its capital structure should be made to its RES Rider. Specifically, the Company stated that altering selective elements of its capital was “inconsistent with much longer-standing precedent of having parties’ vet, and the Commission approve, the entirety of the capital structure in rate case proceedings.”

Further, the Company noted it expects its cost of debt to increase over time and, if the Commission now proposes to update its cost of debt (before a final approved capital structure in its petitioned rate case), the Company would also expect a future update that could result in an increase to the weighted cost of debt also be approved.

If the final weighted cost of debt in the MYRP differs from 1.95%, the Company proposed to update its 2022 weighted cost of debt in its 2024 RES Rider petition that it expects would be filed in late 2023.<sup>23</sup>

### *Implementation Date and ADIT Proration*

The Company disagreed with the Department’s request to have the Commission require Xcel to implement the new adjustment factor after 2022 to avoid ADIT proration. The Company points out that the total impact of ADIT proration is less than \$7,000, while the overall RES Rider

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<sup>20</sup> Docket No. E-002/GR-21-630

<sup>21</sup> Xcel Reply Comments, July 15, 2022, at 5

<sup>22</sup> The Company notes, and staff agrees, that while the Department requested the Company use 1.94% this is only representative of the Company’s long-term cost of debt and does not include the 0.01% cost of short-term debt and thus both the Company and Staff believe the Department intended to use 1.95%.

<sup>23</sup> *Supra* note 20 at 2-3.

balance is growing given large carryover balances from previous years. The Company further argued that *Minn. Stat.* § 216B.1645, subd. 2a calls for cost recovery of the RES Rider “on a timely basis” which the requested delay is at odds with and thus should not be approved. In line with the timely implementation argument, the Company noted that, at times, rider updates result in rate reductions for customers and that the Department accepted ADIT proration in that instance.<sup>24</sup>

The Company requested that the Commission allow it to implement the adjustment factor the first of the month following the issuance of an Order.<sup>25</sup>

#### *RES Rider Tracker Update*

Xcel’s updated RES Rider revenue requirement is \$263,272,076, and a RES Rider adjustment factor of 12.325% a 0.032% reduction as compared to the Company’s initial Petition. The updated tracker can be seen in Table 3.

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<sup>24</sup> See Docket No. E-002/M-19-721, the Company’s Transmission Cost Recovery (TCR) rider that resulted in a rate reduction but because the forecasted rates were implemented during the test year it had to prorate ADIT for March through December to avoid an IRS violation.

<sup>25</sup> *Supra* note 20 at 4.

**Table 3. Xcel Energy's 2022 Updated RES Rider Tracker**

Amounts in dollars		Annual Tracker Summary			
		2020	2021	2022	2023
		Actual	Mixed	Forecast	Forecast
Line No:					
1	Blazing Star I	14,276,228	12,120,468	10,508,699	8,278,823
2	Blazing Star II	11,170,554	17,474,042	15,506,819	13,243,364
3	Courtenay Wind	5,313,594	4,666,498	2,840,889	1,917,034
4	Crowned Ridge	8,861,911	10,873,024	10,558,189	8,723,163
5	Foxtail	7,585,379	7,019,635	6,158,491	4,624,295
6	Freeborn	8,969,618	21,013,967	15,418,463	13,324,119
7	Lake Benton	3,701,884	4,541,881	4,144,363	3,530,937
8	Dakota Range	4,630,124	16,334,874	13,002,791	11,136,894
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11	Mower	-	7,816,947	7,210,256	6,087,710
12	Northern Wind	-	348,072	7,518,382	13,470,522
13	Nobles Repower	-	1,160,768	9,117,119	7,649,231
14	Grand Meadows Repower	-	34,162	720,731	4,879,780
15	Border Winds Repower	-	14,005	71,008	133,483
16	Pleasant Valley Repower	-	22,387	138,483	232,602
17		64,743,212	109,855,852	108,932,761	102,198,656
18					
19	ND ITC	-	-	-	-
20	PTC Tracker True-Up	811,541	20,275,303	-	142,964
21	REC Sales	(97,851)	-	-	-
22	Annual Revenue Requirement	65,456,902	130,131,155	108,932,761	102,341,620
23					
24	Carryover	40,712,498	96,853,482	154,339,314	77,718,833
25					
26	Revenue Requirement (RR)	106,169,400	226,984,637	263,272,076	180,060,453
27	Revenue Collections (RC)	9,315,918	72,645,322	185,553,243	180,060,453
28	Balance (RR - RC + Cumulative CC)	96,853,482	154,339,314	77,718,833	-

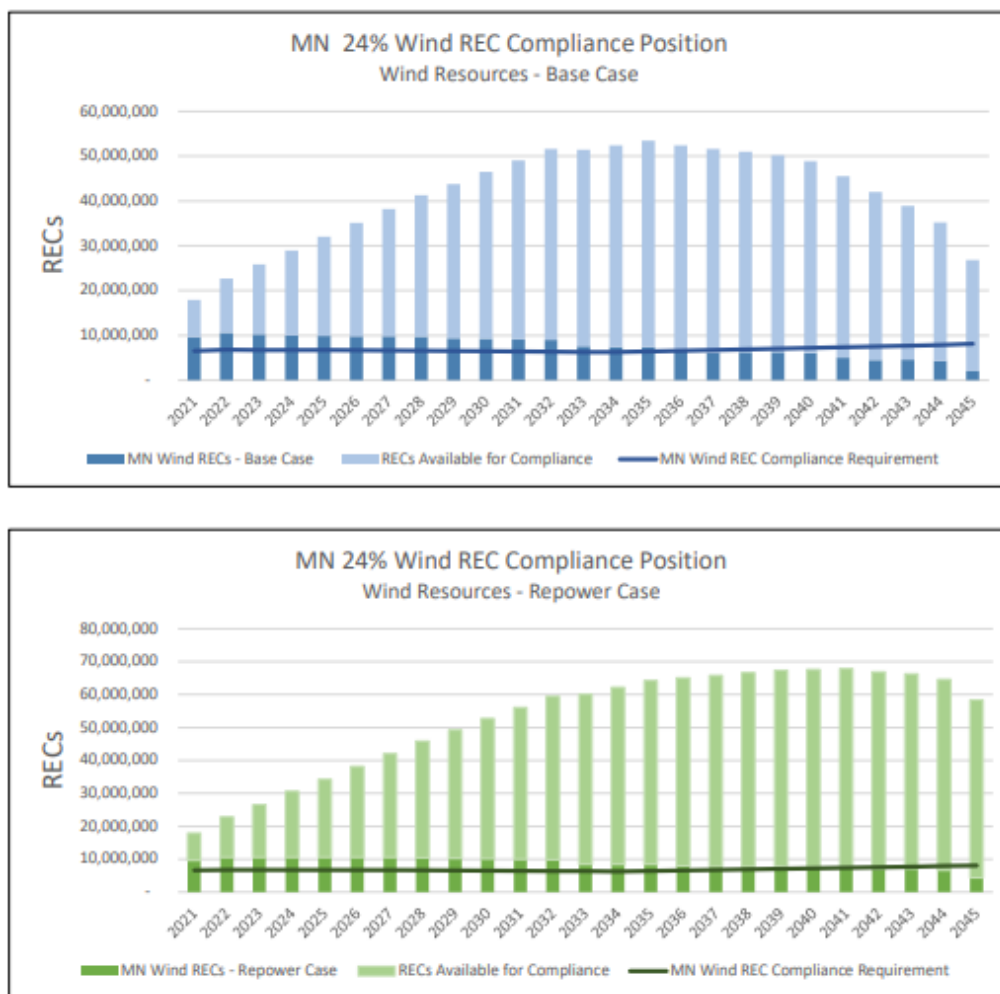
## VIII. Staff Analysis

### *RES Rider Eligibility, Renewable Energy Credits (RECs) and Certified Renewable Percentage (CRP)*

Staff notes that the Company has requested, and the Department is not opposed, to cost recovery for the five repower projects through the RES Rider. In support of its request, the Company notes that Minnesota's renewable energy standard statute *Minn. Stat. § 216B.1691* uses the language "at least" and thus is merely a floor and not a ceiling for the Company to procure renewable resources needed for RES statute compliance and then in turn request rider cost recovery for such projects. Additionally, the Company points to the fact that in its analysis it will need the repower projects to meet the RES requirements as early as 2037 as seen in Figure 1 above.

However, the Company's analysis in Figure 1, is based on matching *annual* sales and renewable production from eligible facilities and does not account for banked RECs which the Company does note is a conservative approach. Using the Company's current wind portfolio (assuming no repowers) along with banked RECs the Company is heavily hedged for ongoing compliance with the RES statute's wind requirement and adding the repowers only increases that hedge further, as seen in figure 2.

**Figure 2. Xcel Energy's Wind RES Compliance v. RECs by Year with Banked RECS<sup>26</sup>**



Staff further notes, that figure 2 represents the Company's current wind portfolio and potentially the repowers (in green), but that Xcel notes it is intending to add significant renewable resources "that will assist the Company in notably exceeding this minimum threshold."<sup>27</sup>

The Company's RES requirement and use of RECs to meet this requirement is juxtaposed with its Certified Renewable Percentage (CRP) program it is marketing to Customers. On the Company's CRP website, they state that CRP "allows you to count the renewable energy portion of electricity delivered to you through our regular energy mix toward your energy goals...We retire RECs to cover the entire renewable energy portion of the electricity that we deliver to you. That means you can take full credit for our renewables and claim Certified Renewable Percentage with confidence that it's not being claimed by anyone else."<sup>28</sup>

<sup>26</sup> Xcel Initial Petition Attachment 15 at 5.

<sup>27</sup> *Id.* at 19.

<sup>28</sup> See <https://mn.my.xcelenergy.com/s/energy-portfolio/power-generation/certified-renewable->

The Company's current portfolio and banked RECs are more than adequate to meet the state's existing RES requirement.<sup>29</sup> Additionally, as the Company notes, it will be adding significant new renewable resources to its portfolio further increasing its RES requirement hedge and leading to the creation and accumulation of additional RECs.

Staff notes the Department was critical of and sought changes to the Company's REC management strategy and the CRP program in the previous RES Rider docket, although no Commission decision was made at the time.<sup>30</sup>

RECs are an asset that *inter alia* can be bought and sold or, as Xcel has proposed with its CRP program, retired on behalf of all its customers. While Staff is not proposing a specific action for the Commission, it may want to consider how the Company should be managing its REC portfolio to maximize their benefits. This is especially true considering the Company will be building new REC creating resources in the near future and with the use of banked RECs already has more than enough RECs to meet the State's existing RES requirement. RECs have a value that can be realized and, since the Company is well hedged to meet its existing RES requirement, staff believes a discussion about how to realize and maximize their benefits is important for ratepayers.

### *Weighted Cost of Debt*

The Department recommended the Company update its weighted cost of debt in the RES Rider to 1.95% to match its recently petitioned cost of Debt instead of the Company's 1.99% petitioned weighted cost of debt from the withdrawn rate case in Docket No. E-002/GR-20-723. In response to the recommendation, the Company did not oppose the change but noted that it expects its cost of debt to increase and that changing "selective elements" of its capital structure was "inconsistent with much longer-standing precedent of having parties vet, and the Commission approve, the entirety of the capital structure in rate case proceedings."<sup>31</sup> Staff notes that, given it was from a withdrawn rate case and not part of a Commission approval in a rate case proceeding, the Company's requested weighted cost of debt was also a "selective element".

Xcel proposed that the Commission approve its request to update the tracker summary to reflect the final weighted cost of debt if it differs from 1.95% after the Commission approval in the pending rate case. Staff notes that cost of debt is fairly dynamic and can certainly change from rate case to rate case, while the Department's request to use 1.95% represents a rate reduction today, by following that same precedent a rate increase could very easily happen in the future and be implemented before the culmination of a final rate case under the Company's

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[percentage](#) (accessed July 18, 2022).

<sup>29</sup> Staff takes note it could be altered by future legislative action.

<sup>30</sup> See Docket No. E-002/M-20-815

<sup>31</sup> Xcel Reply Comments at 2.

proposal. The Commission should consider how a decision to alter the weighted cost of debt today could impact future rider cost recovery petitions.

## **IX. Decision Options**

### RES Rider Eligibility

1. Approve RES Rider cost recovery eligibility for Border Winds Repower, Grand Meadows Repower, Nobles Repower, Pleasant Valley Repower, and Northern Wind Repower projects in the RES Rider tracker. (Xcel, Department)

### Revenue Requirements & Adjustment Factor

2. Approve Xcel Energy's 2022 RES Rider revenue requirements of \$263.3 million as updated in reply comments. (Xcel, Department)
3. Approve Xcel Energy's RES Rider adjustment factor of 12.325% as updated in reply comments. (Xcel, Department)

AND

4. Allow the Company to recalculate the adjustment factor for implementation in compliance. (Xcel)

### Weighted Cost of Capital

5. Approve the Company's weighted cost of debt of 1.95% and allow the Company to update the 2022 weighted cost of debt in the RES Rider tracker in a future petition using the final weighted cost of debt approved by the Commission in Docket No. E-002/GR-21-630, if it differs. (Xcel)

OR

6. Require Xcel to use 1.95% as the weighted cost of debt in the 2022 RES Rider Tracker. (Department)

### Capital Cost Caps

7. Approve the cost caps as petitioned by the Company. (Xcel)

OR

8. Approve the cost caps as petitioned by the Company and set the wind repower cost caps as aggregate symmetrical cost caps. (Department)



Implementation Date & ADIT

10. Require Xcel Energy, within 10 days of the Commission's Order, to 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. (Xcel)

AND

11. Require Xcel to implement the new adjustment factor the first of the month following the issuance of a Commission Order. (Xcel)

OR

12. Require Xcel, within 10 days of the Commission's Order, 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. (Department)