

November 10, 2021

PUBLIC DOCUMENT

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

RE: **PUBLIC Comments of the Minnesota Commerce Department, Division of Energy Resources**
Docket No. E002/M-20-891

Dear Mr. Seuffert:

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

Petition of Xcel Energy for Approval of the Acquisition of Solar Generation at Xcel Energy's Sherburne County Site.

The Petition was filed on April 12, 2021 by:

Bria Shea
Director, Regulatory and Strategic Analysis
Xcel Energy
414 Nicollet Mall (401–7th Floor)
Minneapolis, MN 55401

The Department finds that the Company's proposed Project used a significantly flawed resource acquisition process and will create an unnecessary cost increase to ratepayers. Therefore, the Department recommends the Minnesota Public Utilities Commission reject the petition without prejudice. The Department is available to answer any questions that the Commission may have.

Sincerely,

/s/ STEVE RAKOW
Analyst Coordinator

SR/ja
Attachment



Before the Minnesota Public Utilities Commission

PUBLIC Comments of the Minnesota Commerce Department Division of Energy Resources

Docket No. E002/M-20-891

I. INTRODUCTION

On December 18, 2020 Northern States Power Company, doing business as Xcel Energy (Xcel or the Company) submitted a letter to inform the Minnesota Public Utilities Commission (Commission) of the Company's planned Request for Proposals (RFP) for solar generation resources interconnecting at the Sherburne County Generating Station (Sherco) site. The letter state that Xcel planned to follow the Commission-approved Modified Track 2 solicitation process for the RFP.

On January 13, 2021 Xcel filed a letter to inform the Commission and interested stakeholders of the recently released RFP for solar generation at the Sherco site. The letter indicated that the Company intended to file a petition requesting approval of the recommended solar project(s) and was planned to include:

- ranking and bid data for all bids received in response to the RFP;
- all successfully negotiated contracts from the RFP process; and
- a report from the independent third-party auditor, Guidehouse, Inc., on the RFP process that will review Xcel's evaluation of proposals and due diligence, as well as Xcel's selection of proposals for contract negotiation.

On February 1, 2021, in compliance with the Modified Track 2 RFP process, Xcel filed a self-build proposal to develop a 460 MW solar project at the Sherco site.

On April 12, 2021 Xcel filed the Company's *Petition of Xcel Energy for Approval of the Acquisition of Solar Generation at Xcel Energy's Sherburne County Site* (Petition). In the Petition the Company proposed a solar generating project developed in partnership with National Grid Renewables Development, LLC (NG Renewables).¹ For the proposed project Xcel would:

- acquire an approximately 1,654 acre solar site under development by NG Renewables (West Block);
- combine the NG Renewables site with a 1,826 acre site that has been under development by the Company (East Block);
- construct a 460 MW solar generating facility split into the East Block and West Block;²
- construct two collector substations, one each at each block; and

¹ According to the Petition, NG Renewables was formerly known as Geronimo Energy.

² The East Block and the West Block would be 230 MW each.

- construct two 345 kV generation-tie (gen-tie) lines which will connect the collector substations to the point of interconnect at the existing Sherburne County Substation (Project).

The expected commercial operation date for the proposed Project is December 31, 2024.

The Petition specifically requests the Commission:

- approve the petition to build, own, and operate the proposed 460 MW solar project at the Sherco site;
- approve the Company's acquisition of Sherco Solar, LLC, which holds the property rights to a 230 MW solar site, from NG Renewables, pursuant to the terms of the January 15, 2021 *Purchase and Sale Agreement (PSA)*;
- approve 100 percent of the costs to be recovered from Minnesota; and
- approve the Company's proposed approach of recovering project costs through the renewable energy standard (RES) rider.

On April 16, 2021 the Commission issued its *Notice of Comment Period* stating that the several topics regarding process and completeness were open for comment.

On April 20, 2021 Xcel filed the following documents related to the siting and routing of the proposed Project:

- *Application of Xcel Energy for a Route Permit for the West 345 kV transmission line for the Sherco Solar Project in Sherburne County*, Docket No. E002/TL-21-189;
- *Application of Xcel Energy for a Route Permit for the East 345 kV transmission line for the Sherco Solar Project in Sherburne County*, Docket No. E002/TL-21-190; and
- *Application of Xcel Energy for a Site Permit for the up to 460 MW Sherco Solar Project in Sherburne County*, Docket No. E002/GS-21-191.³

On April 30, 2021 the following parties filed comments:

- City of Becker, Minnesota (City);
- Minnesota Department of Commerce (Department);
- Institute for Local Self-Reliance;
- Laborers International Union of North America, Minnesota & North Dakota;
- Minnesota Department of Commerce, Energy Environmental Review and Analysis (EERA);
- Office of the Attorney General – Residential Utilities Division (OAG); and
- Township of Becker, Minnesota.

³ According to the August 31, 2021 *Public Information and Environmental Assessment Scoping Meeting* presentation of the Minnesota Department of Commerce, Energy Environmental Review and Analysis unit final permit decisions are expected in May 2022.

On May 19, 2021 Xcel filed a letter providing information regarding the Company's work with the City.

On July 6, 2021, the Commission issued its *Order Granting Certificate of Need Exemption* (Process Order) determining that:

- the proposed Project is exempt from a certificate of need pursuant to Minnesota Statutes § 216B.2422, subdivision 5 (b);
- the record shall be developed using the initial and reply comment process; and
- by July 9, 2021 Xcel shall provide new EnCompass modeling that evaluates the proposed Sherco Solar Project as a system resource and includes an analysis that reflects the cost allocation between Xcel's various jurisdictions.

On July 9, 2021, Xcel filed its *Supplemental Filing: Sherco Solar Project* (Supplement) providing the additional information regarding the proposed Project required by the Process Order.

On July 14, 2021, the Commission issued a Notice of Comment Period (Notice) stating that the following topics are open for comment:

- Should the Commission approve Xcel Energy's request to build, own, and operate the proposed 460 MW solar project at the Sherco generation facility site?
- Should the Commission approve Xcel Energy's acquisition of Sherco Solar, LLC (Sherco Project Company), holding the property rights to a 230 MW solar site, from National Grid (NG) Renewables, pursuant to the terms of the PSA?
- Should the Commission approve Xcel's Energy's request to recover 100 percent of the costs from Minnesota customers?
- Should the Commission approve Xcel Energy's proposed approach of recovering project costs through the Renewable Energy Standard (RES) rider?
- Did Xcel Energy reasonably comply with the requirements of the Modified Track 2 process? If not, should the Commission require Xcel to undertake a new solar solicitation?
- Did Xcel Energy reasonably comply with the Commission's July 6, 2021 Order to provide new capacity expansion modeling and an additional analysis of cost allocation between jurisdictions?
- Are there other issues or concerns related to this matter?

On August 4, 2021, Xcel filed an informational letter regarding the status of the Company's discussions with the City.

On August 10, 2021, the City filed comments explaining that the City's concerns are limited to the footprint of the project as proposed.

On September 7, 2021 Xcel filed an informational letter regarding the status of the Company's discussions with the City.

In response to the Notice, below are the comments of the Department regarding Xcel's Petition.

II. DEPARTMENT ANALYSIS

A. GOVERNING STATUTES AND RULES

1. Background

This filing was made pursuant to Minnesota Statutes § 216B.50 (PA Statute) and Minnesota Rules 7825.1800. The filing was also made pursuant to Minnesota Statutes § 216B.2422, Subd. 5, and Minnesota Statutes § 216B.243 Subd. 9, which provide exemptions from the Certificate of Need statute (Minnesota Statutes § 216B.243) for resources selected through a bidding process approved or established by the Commission and for facilities the Commission deems reasonable and prudent for the Company to meet its obligations under Minnesota Statutes § 216B.1691. Finally, Xcel makes cost recovery requests related to Minnesota Statutes § 216B.1645 Subd. 2a (a).

2. Minnesota Statutes § 216B.50

i. Applicability of Minnesota Statutes § 216B.50

The Company filed the Petition pursuant to the PA Statute, which 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." The Commission's December 14, 1998 *Order Finding Jurisdiction and Approving Property Transfer* (1998 Order) in Docket No. E017/PA-98-1345 clarified the definition of an operating unit or system:

Otter Tail claimed that the Commission lacked authority over this property transfer because the sale of the Wahpeton Division Office did not meet the statutory standard of the sale of "any plant as an operating unit or system." Minn. Stat. § 216B.50, subd. 1. The Company pointed to an earlier Commission decision finding that NSP's sale of an abandoned truck maintenance and repair center did not meet the statutory standard.¹

The Commission finds that the Wahpeton Division Office is an essential part of Otter Tail's Minnesota operating system and is therefore covered by the statute. Providing electric service requires not just power plants, but the repair, meter reading, customer service, and administrative functions performed in the Wahpeton Division Office. As Otter Tail notes in its reply comments, all these activities "play an integral role in keeping the lights on."

The Commission decision on which the Company relies is not on point, since the finding of no jurisdiction in that case rested not just on the fact that the facility was not a generating plant, but on the fact that, at the time the sales agreement was reached, it was not being used for any company purpose.

¹ *In the Matter of the Petition of Northern States Power Company for Approval of the Sale of the Long Lake Service Center*, Docket No. E002/PA-95-260, ORDER DISMISSING PETITION (August 23, 1995).

In this proceeding Xcel proposes to acquire an operating unit as defined by the Commission for a total consideration in excess of \$100,000. Therefore, the Department concludes that Minnesota Statutes § 216B.50 applies to the Petition.

ii. Decision Criteria

The PA Statute establishes a single test:

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.

Xcel concluded that the proposed Project is in the public interest because the proposed Project:

- reutilizes the Company's existing interconnection rights;
- is least-cost among the available alternatives and as compared to other recent proposals within the industry;
- will help drive economic relief and recovery in the wake of COVID-19;
- will support hundreds well-paying union construction jobs as well as significant tax and landowner payments; and
- fulfill solar power needs identified in the Company's current integrated resource plan (IRP).

The Department generally considers four criteria in evaluating resources in resource acquisition proceedings. The first criterion is that any resource acquisition must address a need reasonably tied to IRP outcomes unless a non-IRP related need is claimed. Resources not tied to IRP outcomes will raise overall system costs. The second criterion is that new resources must demonstrate that they are least-cost—they are competitively priced considering the available alternatives and the risks. The third criterion is that the alternatives being evaluated must be compared using a societal benefit/cost test unless a different requirement applies. The fourth criterion applied by the Department during resource acquisition is that renewable resources are preferred. For examples of these criteria see

Minnesota Statutes §§ 216B.243 Subd. 3 (least cost), 216B.2422 Subd. 3 (a) (use of a societal test), and 216B.2422 Subd. 4 (renewable preference).

iii. Information Requirements

First, the Petition qualifies as a miscellaneous tariff filing under Minnesota Rules 7829.0100 Subp. 11. Minnesota Rules 7829.1300 contains the completeness requirements for miscellaneous tariff filings. The Department reviewed the Petition for completeness under Minnesota Rules 7829.1300 and concludes that the Petition is substantially complete.

Second, Minnesota Rules 7825.1800 contains the information requirements for petitions under Minnesota Statutes § 216B.50. Minnesota Rules 7825.1800, Subpart B requires the Company to provide various information set forth in Minnesota Rules 7825.1400 for a property transfer. In the Petition, Xcel requested that the Commission waive application of Minnesota Rules 7825.1800, Subp. B. The Company noted that the Commission has previously granted a variance to the requirements to provide the information outlined 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:

- A. enforcement of the rule would impose an excessive burden upon the applicant or others affected by the rule;
- B. granting the variance would not adversely affect the public interest; and
- C. granting the variance would not conflict with standards imposed by law.

Xcel's analysis of the variance requirements is as follows:

- excessive burden—the proposed transaction does not implicate the information sought by Minnesota Rules 7825.1400 (A) to (J) and, thus, its provision would impose an excessive burden on the Company;
- public interest—because the proposed transaction does not involve the issuance of securities, granting a variance does not conflict with the public interest; and
- standards imposed by law—as evidenced by previous Commission precedent, a waiver will not violate any standards imposed by law.

Since the proposed transaction does not involve the issuance of securities, the Department agrees with Xcel's analysis. Therefore, the Department recommends that the Commission approve the requested variance to Minnesota Rules 7825.1800, Subp. B to allow Xcel to not provide the information set forth in Minnesota Rules 7825.1400, items (A) to (J).

Minnesota Rules 7825.1800, Subpart C requires the Company to provide a description of the property, the cost, and related information. Minnesota Rules 7825.1800, Subpart D requires the Company to provide any other pertinent facts or additional information. The Department reviewed the Petition for

completeness under Minnesota Rules 7825.1800 Subparts C and D and concludes that the Petition is substantially complete.

3. Certificate of Need Statute

Xcel's Petition noted that the proposed Project qualifies as a large energy facility under Minnesota Statutes, per the Process Order the Commission determined that the proposed Project does not require a certificate of need. This is because the proposed Project was acquired through a Commission-approved competitive bidding process and thus is exempt under Minnesota Statutes § 216B.2422, Subd. 5.

4. Process Order Requirements

The Process Order stated:

Xcel shall provide new EnCompass modeling that evaluates Sherco Solar as a system resource and includes an analysis that reflects the cost allocation between Xcel's various jurisdictions. Xcel shall file its supplemental modeling by July 9, 2021. The Commission grants authority to the Executive secretary to modify this deadline.

Regarding modeling as a system resource, in Xcel's Supplement at Section III the Company provided new EnCompass modeling that evaluates Sherco Solar as a system resource. On the whole, the Department notes that the model input databases used by Xcel in the Supplement appear to be the same model input databases as used in the Company's IRP reply comments. The Department concludes that the Company complied with the first part of the Process Order.

Regarding analysis of cost allocation, in Xcel's Supplement at Section IV the Company discusses in detail the Company's cost allocation proposal. The discussion includes the Company's activities with the Relevant Electric Retail Regulatory Authorities in North Dakota and South Dakota and expected financial impacts. Note that the Company's analysis shows that the proposed Project is not a cost-effective system resource. Therefore, the Company does not propose to collect the cost equally amongst the various jurisdictions.

In summary, the Department concludes that the Company complied with the requirements of the Process Order.

B. NEED ANALYSIS

1. Resource Planning Background

The first step in the resource-acquisition process is to establish a need for the generic size, type, and timing of the resource. This step is achieved by tying the project to be acquired to the size, type, and

timing determined in an approved IRP, additional economic analysis, or an external requirement such as a statutory mandate. The Company proposes to bring the proposed Project “in service on a rolling basis, with the full Project in operation by Q4 of 2024.”

Regarding the need for solar generation, the Commission’s January 11, 2017 *Order Approving Plan with Modifications and Establishing Requirements for Future Resource Plans Filings* (Docket No. E002/RP-15-21) approved Xcel’s most recent IRP and stated that:

1. Xcel Energy’s 2016–2030 Resource Plan is approved with the modifications required by this order.

...

4. Xcel’s resource plan is modified as follows:
 - a. to remove 400 MW of large-scale solar in 2016–2021. Xcel will be required to acquire approximately 650 MW of solar in this [2016–2021] timeframe through a combination of the Company’s community solar gardens program or other acquisitions (without limitation to “large-scale” solar). The Company may pursue additional, cost-effective solar resources if it is in the best interests of its customers.

The Commission did not modify Xcel’s proposed expansion plan for solar resources after the 5-year action plan. The Company’s preferred expansion plan in the last IRP for solar resources included 100 MW added in 2022 and 2023; 200 MW added in 2024; and 100 MW added in 2025 and 2026.

The Company’s proposed Project adds 460 MW of solar resources in 2024, after the 5-year action plan of the last IRP. Xcel’s proposed addition of solar resources would cover the requirement for several years from the prior IRP. However, due to the passage of time several modeling inputs are now out of date and the Company has an on-going IRP (Docket No. E002/RP-19-368). Therefore, the Department referred to the proposed plans in Xcel’s on-going IRP (Docket No. E002/RP-19-368).

Table 4-10 of Xcel’s June 25, 2021 reply comments in Docket No. E002/RP-19-368 shows 700 MW of solar added in 2024 and 600 MW added in 2025. Note that Xcel did not study variations on assumed solar prices for the Company’s reply comments. The Department concludes that the proposed Project would be consistent with the generic size, type, and timing of new resources proposed by Xcel in the on-going IRP. Table 13 of the Department’s October 15, 2021 Supplemental Comments shows 700 MW of solar resources added between 2020 and 2024 under the Department’s recommendation (Scenario 11). However, the solar additions in the near term are eliminated in the high solar price contingency (Contingency Y). Therefore, the Department concludes that the proposed Project would be consistent with the generic size, type, and timing proposed by the Department in the on-going IRP as long as the pricing is reasonable.

2. *Discussion of Hedging*

As a member of the Midcontinent Independent System Operator, Inc. (MISO) Xcel's generation cannot serve Xcel's load.⁴ This is because all generation in MISO is dispatched from a single stack to serve all load in MISO. All generation that is dispatched by MISO receives the market price and all load in MISO pays the market price.⁵ The implication of MISO's markets for resource acquisition dockets is that generation owned or contracted by Xcel does not directly serve Xcel's load; instead, it acts as either a financial hedge or as financial speculation regarding market prices.

Generally speaking, in a capacity expansion model (CEM) the addition of a generation resource should have a mixture of three impacts. First, the new unit might reduce energy and capacity imports from the CEM's spot market construct.⁶ To the extent this happens the new generating resource is serving as a new hedge and, as a result, spot market risks are reduced. Further, since solar energy does not have any fuel costs, the reduction in spot market risk due to a solar project does not create any subsequent fuel-related risks, such as exposure to natural gas prices.⁷

Second, the new unit might create a net decrease in energy from other resources already on the utility's system in the CEM.⁸ To the extent this happens risks are transformed. For example, the addition of a wind unit in a CEM might cause natural gas generation to decrease. This indicates that, before the wind unit was added, the natural gas generation served as a hedge against spot market prices. After the wind unit was added the natural gas generation no longer serves as a hedge (because natural gas generation decreased), instead the wind generation now serves as a hedge. Thus, the impact is to transform the hedge and associated risks from the risks associated with a natural gas hedge to risks associated with a wind hedge.

Third, the new unit might increase energy and capacity exports from the utility's system to the CEM's spot market construct. To the extent this happens the addition is not serving as a hedge. Instead, the new unit is serving as speculation regarding spot market prices and, as a result, spot market risks are increased.

⁴ For further discussion see Department Staff's February 11, 2021 comments in Docket No. E002/RP-19-368.

⁵ Of course, prices vary by location, hence the "locational marginal price" or LMP.

⁶ Note that it is possible for the addition of a unit to result in increased imports due to complex system effects within a CEM. For example, adding a 100 MW solar unit (with a 20 percent capacity factor) might result in removing a 100 MW wind unit (with a 45 percent capacity factor) thus requiring additional imports to make up for the lost energy (here, equivalent to 100 MW at a 25 percent capacity factor).

⁷ The Department recognizes solar projects come with their own risks, such as uncertain production and so forth.

⁸ Note that it is possible for the addition of a unit to increase generation from existing units in a year. Hypothetically, in a CEM the forced addition of a 100 MW wind unit might delay the addition of a new 500 MW wind unit by one year because the 100 MW wind unit covers a small capacity deficit the 500 MW wind unit originally was added to cover. The 100 MW wind unit produces less energy and thus the existing system temporarily ramps up production to cover the lost wind energy. While not common, this does happen in CEMs from time to time.

In summary, the economic benefits of adding a new unit to a utility's system are not related to directly serving utility load, instead they are related to financial hedging against price risks and financial speculation regarding future market prices. Therefore, some understanding of price risk is also necessary. Table 1 below provides historic data on prices at the Minnesota hub.

Table 1: Historic Real Time Prices at Minnesota Hub

| Year | Minimum Price | Number of Hours < \$0 | Average Price | Number of Hours > \$100 | Maximum Price |
|------------------------|-------------------|-----------------------|---------------|-------------------------|---------------|
| 2013 | \$ (47.31) | 77 | \$ 31.51 | 146 | \$ 990.08 |
| 2014 | \$ (88.93) | 163 | \$ 31.87 | 127 | \$1,526.59 |
| 2015 | \$ (45.94) | 221 | \$ 21.53 | 21 | \$ 287.13 |
| 2016 | \$ (33.51) | 222 | \$ 20.54 | 29 | \$ 267.63 |
| 2017 | \$ (44.68) | 121 | \$ 23.07 | 38 | \$ 348.06 |
| 2018 | \$ (53.45) | 23 | \$ 26.57 | 59 | \$ 494.40 |
| 2019 | \$ (38.56) | 23 | \$ 21.97 | 32 | \$ 661.22 |
| 2020 | \$ (24.19) | 141 | \$ 17.58 | 20 | \$ 332.98 |
| 2021 to Oct. 31 | \$ (9.72) | 56 | \$ 35.79 | 219 | \$ 888.14 |
| Median | (\$44.68) | 121 | \$ 23.07 | 38 | \$ 494.40 |

Table 1 shows that the average price tends to be stable until this year, between \$20 and \$30 per MWh most years. The lowest price in a year also tends to be stable, between (\$35) and (\$55) per MWh most years. Also, the number of hours in a year prices are extremely low [less than \$0] varies between about 25 and 225 hours per year. In contrast, the highest price in a year tends to be unstable, between \$250 and \$1,600 with the number of hours over \$100 being small; varying between 20 and 150 until this year. In summary, the historic pricing data show much more variation on the high side than on the low side, but the extreme high side prices are concentrated in relatively few hours of the year. This information on price variation should be considered when evaluating the value of a project as a hedge against market prices.

3. Overall Cost/Benefit Results

When determining the net cost/benefit of the proposed Sherco Solar Project the Department's first step was to obtain Xcel's modeling files. The Department then re-ran Xcel's files in order to match Xcel's results. As described by the Department Comments in several dockets, the point of the Department's matching process is to verify that the data received by the Department is the same data used by the utility.⁹ In this case the Department did not attempt to match all of Xcel's results. The Department only verified that the Department obtained the same outputs for the proposed Project (in

⁹ For example, see the Department's October 15, 2021 comments in Docket No. E002/RP-19-368 starting at page 20.

terms of energy, capacity, and cost values) as in Xcel's outputs. This is because the Department's modeling largely relied upon files and work in the on-going IRP which had already been verified. The only new files that were needed were those representing the proposed Sherco Solar Project.¹⁰ The result of the matching analysis was that the Department obtained the same outputs for the proposed Project as Xcel.

In the second step the Department took the files representing the Department's preferred plan in the on-going IRP (Scenario 11¹¹) and then re-ran Scenario 11 under base case conditions and the 14 contingencies, but with the proposed Sherco Solar Project added. In reviewing the CEM outputs, the Department began by reviewing the mixed integer programming (MIP) convergence tolerance¹² calculations for the two versions of Scenario 11 (with and without the proposed Project). The purpose was to gain an understanding of whether the two versions of Scenario 11 were clearly different or not.

As in the on-going IRP (Docket No. E002/RP-19-368) to obtain a reasonable estimate of the MIP convergence tolerance, the Department calculated the cost of the two versions of Scenario 11 using Xcel's calculation method, then substituted the cost calculated under Xcel's formulas for the cost reported by EnCompass for the feasible plan. The range of acceptable costs (from the potential ideal plan's cost to the maximum allowed cost) was then transferred to the newly calculated feasible plan cost. The results of the calculations are shown in Chart 1 below. In Chart 1 the range of acceptable present value of societal costs (PVSC) is represented by the black bar and the feasible plan that was selected is represented by the red dot. The purpose of Chart 1 is to illustrate whether the costs are clearly different or are essentially the same to EnCompass.

¹⁰ Note that all the other files provided by the Company appeared to be the same as used in the on-going IRP but, as stated, the Department did not verify this fact.

¹¹ This scenario (Scenario 11) involves early retirement of the Company's remaining coal units (Allen S. King and Sherco unit 3); operating the Monticello Nuclear Generating Plant to the end of its current life; and operating the Prairie Island Nuclear Generating Plant to the end of a 10-year life extension

¹² The concept of MIP convergence tolerance is discussed in detail in the Department's October 15, 2021 comments in Docket No. E002/RP-19-368 beginning at page 13.

Chart 1: MIP Convergence Results (million dollars PVSC)

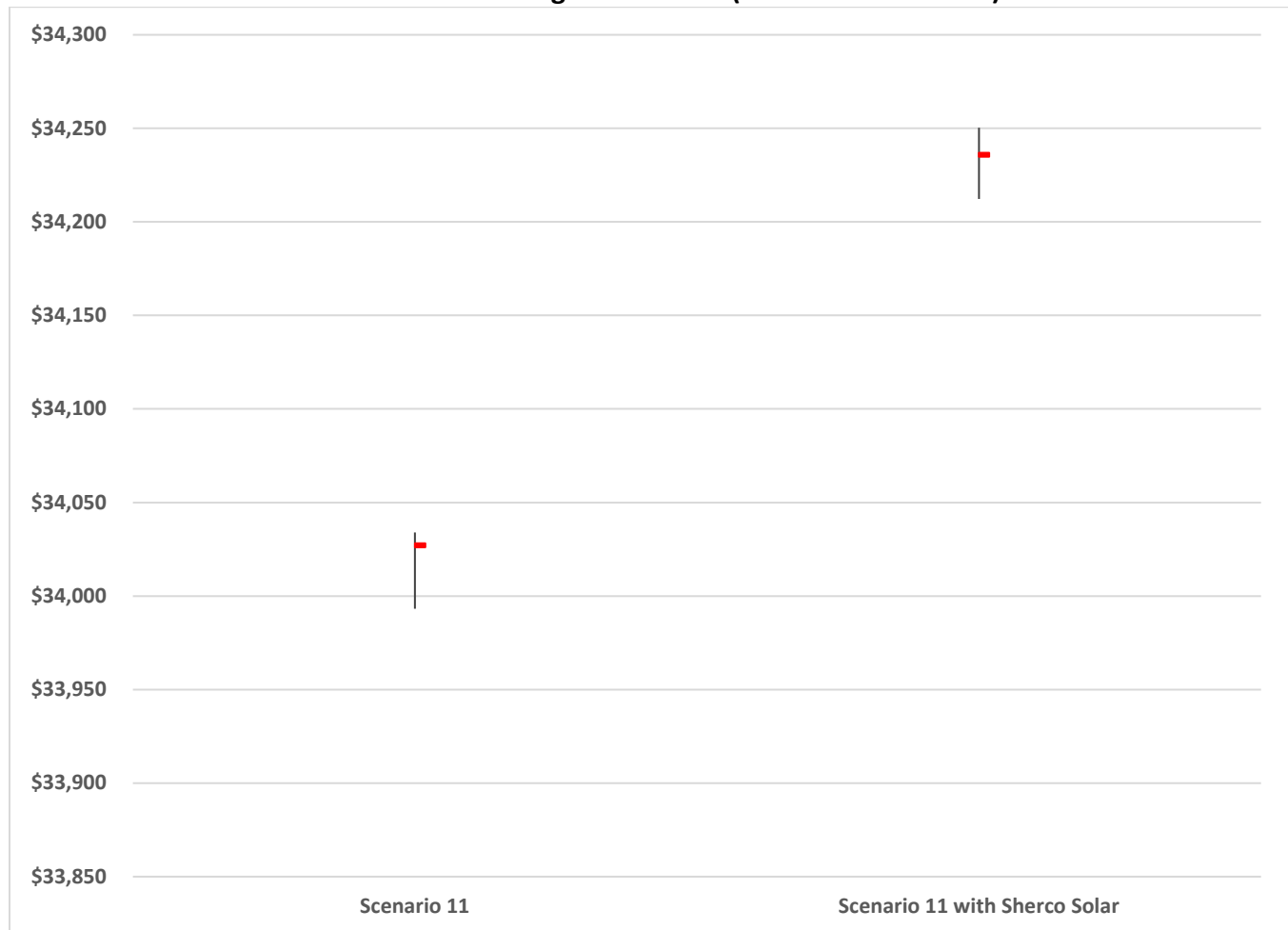


Chart 1 shows that Scenario 11 without the proposed Project clearly has a lower cost scenario under the MIP convergence tolerance calculations because the maximum allowed cost for Scenario 11 (the top end of the black bar) is below the range of costs of the potential ideal plan for Scenario 11 with Sherco Solar (the bottom end of the black bar).

The PVSC differences for Scenario 11 with and without the proposed Project are shown below in Table 2 below. Table 2 shows that adding the proposed Project consistently raises PVSC, by between \$175 million and \$250 million in the base case and various contingencies.

Table 2: System PVSC (\$ Million)

| | Scenario 11 | Scenario 11 w Sherco Solar | Difference |
|-----------------------------|-------------|----------------------------|------------|
| Base Case | \$36,479 | \$36,660 | \$181 |
| B–Low Gas, Market | \$36,432 | \$36,646 | \$214 |
| C–High Gas, Market | \$36,186 | \$36,412 | \$226 |
| D–Low Load | \$35,603 | \$35,854 | \$251 |
| E–High Load | \$37,307 | \$37,504 | \$198 |
| H–High Ext, High Reg | \$37,841 | \$38,016 | \$175 |
| I–Low Externality | \$35,975 | \$36,175 | \$200 |
| J–Low Ext, Low Reg | \$35,091 | \$35,276 | \$185 |
| K2–Mid Externality | \$38,745 | \$38,939 | \$194 |
| L–High Externality | \$41,672 | \$41,861 | \$188 |
| M–No Externality | \$34,056 | \$34,258 | \$202 |
| W–Low Wind | \$36,142 | \$36,386 | \$245 |
| X–High Wind | \$36,688 | \$36,895 | \$206 |
| Y–Low Solar | \$36,197 | \$36,455 | \$258 |
| Z–High Solar | \$36,718 | \$36,827 | \$109 |

In summary, the Department’s EnCompass analysis demonstrates that Xcel’s proposed Project will create a significant cost increase for the Company’s ratepayers.

4. Hedging Results of EnCompass Modeling

To determine the impact of adding the proposed Project to Scenario 11 (the Department’s preferred plan in Xcel’s on-going IRP (Docket No. E002/RP19-368) the Department calculated the change in expansion units added during the planning period (2020 to 2034) and the total change in generation by unit type over the full modeling period (2020 to 2045).

In terms of expansion units added there was no difference in wind or peaking capacity between Scenario 11 with and Scenario 11 without the proposed Project under base case conditions. The amount of generic solar capacity decreased by 500 MW under base case conditions. In other words, the proposed Project fulfills the first 460 MW of solar indicated in our Department’s preferred plan and does not result in a substantive change in the remaining additions.

In the Department’s preferred case, adding the proposed Sherco Solar Project has the following impacts on generation by unit type over the full modeling period (2020 to 2045):

- Natural Gas/Oil Combined Cycle—decrease 1,767 GWh;
- Exports—decrease 1,527 GWh;
- Natural Gas/Oil Combustion Turbine—decrease 551 GWh;

- Wind—increase 861 GWh;
- Imports—increase 1,205 GWh; and
- Solar—increase 3,501 GWh.¹³

Again, the three potential impacts of the proposed Sherco Solar Project in terms of risk are:

- offsetting imports—creating a new hedge;
 - imports increase, resulting in more exposure to market price at load nodes.
- Offsetting existing generation—changing the form of existing hedges;
 - existing renewable generating increases, resulting in a net gain in hedging value; and
 - existing natural gas generation decreases, resulting in less exposure to natural gas prices.
- Creating new exports—creating a new risk to be borne by the system;
 - exports decrease, resulting in less exposure to market price at generation nodes.

The risk benefits of adding the proposed Project to Scenario 11 are a combination of less exposure to market prices at generation nodes (decreased exports), less exposure to natural gas prices, and increased reliance on fixed priced generation (wind and solar); all of which decrease the risk faced by Xcel's system. The risk cost of adding the proposed Project increased exposure to market prices at the load nodes (increased imports). The Department concludes that, overall, the risk decreases faced by Xcel's system outweigh the increased the risk increases.

Finally, the Department notes that adding the proposed Project also substantially increases the amount of curtailment reported by EnCompass; curtailment rises by 1,119 GWh over the full modeling period (2020 to 2045). About 63 percent of the increased curtailment occurs after the 2020 to 2034 planning period.

5. *Xcel's EnCompass Modeling*

The Company's July 9, 2021 Supplement at Table 2 shows that, in PVSC terms, adding the proposed Project to Xcel's IRP Alternate Plan increases system PVSC from \$40,461 million to \$40,524 million or an increase of \$63 million PVSC. The Company's July 9, 2021 Supplement at Table 3 shows that, in present value of revenue requirement (PVRR) terms, adding the proposed Project to Xcel's IRP Alternate Plan increases system PVRR from \$37,120 million to \$37,170 million or an increase of \$50 million PVRR. The Supplement did not provide any analysis regarding whether these differences are significant or not when considering convergence tolerance. In summary, the Company's EnCompass analysis is consistent with the Department's in that it shows that adding the proposed Project is not cost effective.

¹³ The impact on all other unit types were less than ± 500 GWh.

Regarding expansion plan impacts, the Supplement states the result of adding the proposed Project to Xcel's Alternate Plan is that:

from 2020-2034, the remaining expansion plan does not change with the exception of the amount of incremental solar still left to add. In other words, the Sherco Solar project fulfills the first 460 MW of solar indicated in our Alternate Plan and does not result in a substantive change in the remaining additions.

This is the same result as was obtained by the Department.

6. *Summary*

All of the CEM analysis in this proceeding demonstrates that addition of the proposed Project will increase system costs. In addition, the CEM analysis shows that the proposed simply is filling needs that would otherwise be met by generic solar capacity. The Department notes that the logical conclusion from these two outcomes is that the cost of the proposed Project is significantly greater than the cost Xcel itself forecast for new solar capacity in the on-going IRP. This is discussed further elsewhere in these comments.

C. *ACQUISITION PROCESS*

1. *Bidding Background*

The most recent decision regarding Xcel's resource acquisition process is the Commission's January 11, 2017 *Order Approving Plan With Modifications and Establishing Requirements for Future Resource Plan Filings* in Docket No. E002/RP-15-21 which stated at point 5:

Concerning wind and solar resource acquisitions, Xcel:

- a. may use the modified Track 2 process for the acquisition of wind resources included in the five-year action plan, and for any additional solar, if needed, through 2021;
- b. shall, if Xcel intends to provide a bid for wind generation, acquire wind resources through the modified Track 2 process.
- c. shall file a contingency plan early in the process (preferably with the filing of the Company's self-build proposal) to address the potential for the bidding process to fail;

The Company's August 12, 2016 Reply Comments in Docket No. E002/RP-15-21 at pages 9-10 proposed the following steps for what is now referred to as Modified Track 2:

1. We would issue an RFP for wind project proposals.
2. The day before we receive responses to that RFP, we will submit our self-build project petition. This petition will contain an estimate of final

costs for the project and other project details necessary to evaluate our proposal in accordance with the factors identified above.

3. After receiving bids in response to our RFP, we will evaluate the bids and select projects for contract negotiation that are in the best interest of our customers. We will evaluate the bids using a number of factors, such as:
 - Levelized cost;
 - Financial capability;
 - Project schedule;
 - Project design;
 - Project risks;
 - MISO queue position status;
 - Interconnection and network upgrades;
 - Energy production profile;
 - Site control;
 - Project output delivery plan;
 - Expected turbine availability;
 - Pricing options;
 - Project development milestones;
 - Exceptions to standard contract terms and conditions; and
 - Other relevant factors

Using these criteria, we will select projects that are in the best interest of our customers and will negotiate contracts with each of the developers.

4. We will then make a filing to the Commission that will include the contracts for projects selected from the RFP, as well as a comparison between those projects and our self-build proposal. We will include a ranking and bid data for all bids received in response to the RFP and an analysis of the factors identified above for all projects for which we conduct due diligence. Additionally, we will provide an independent third-party auditor report of our RFP process, which will review our evaluation of proposals and due diligence, as well as our selection of proposals for contract negotiation.

The Department notes that the description of the Modified Track 2 process in Xcel's August 12, 2016 Reply Comments uses the word "petition" instead of proposal in the second step. Therefore, a strict interpretation of the Commission's Order, which states that the "Commission will therefore approve the bidding process described by Xcel [in the August 12, 2016 Reply Comments]" could conclude that Xcel must submit a petition (an external proposal) the day before receiving RFP responses in order to be in compliance with the Modified Track 2 process. However, given the Commission used the word "proposal" to describe the process in its Order, the Department takes a broader interpretation that

would also allow Xcel to file an internal proposal under certain circumstances, as long as the proposal is filed before Xcel receives the other bids.

2. *Pre-release RFP Process*

Xcel did not discuss the RFP process in any detail in the Petition. However, Attachment B of the Petition provides the *Closing Report of Guidehouse, Inc. as Independent Auditor* (IA Report). The IA Report did provide some information regarding the RFP process. In addition, a series of Department Information Requests (IRs) were issued to find out exactly how Xcel ran the RFP process. IR No. 2 requested Xcel provide a documentation of any advertisements, requests for proposals, press releases, or any other publicly released document indicating the Company was looking for proposals for new solar facilities. The Company's response was that the Xcel:

- created a webpage for the RFP process on the Company's website;
- issued a press release; and
- provided a pre-release notice to the North American Energy Markets Association (NAEMA); whose membership includes several renewable energy developers.¹⁴

In addition, Xcel cited several news articles on the RFP.¹⁵ The Petition states that the Company "received 43 questions from 15 outside developers regarding the RFP before bids were submitted."

Based on the IA Report, the Company's response to IR No. 2, and the number of developers asking questions, the Department concludes that Xcel made reasonable efforts to publicize the RFP.

3. *RFP Evaluation Process*

The RFP yielded three bids in total, including the Company's self-build proposal. The bids are described in Table 4 of the Petition. Unfortunately, the Petition clarifies that two of the three bids "stated that their respective bids were nonconforming to the RFP requirements for varying reasons, but regardless, had put them forward for our evaluation." The complete absence of conforming bids from other developers and low number of bids of any type are indicative of significant problems with the RFP structure itself. This is discussed further below.

The RFP describes a three phased approach to evaluating bid proposals. The three phases include:

- a. completeness review;
- b. threshold review; and
- c. key parameters review and scoring.

¹⁴ In turn, NAEMA mentioned the RFP on The Green Insider podcast.

¹⁵ The news articles were in the following publications: Minneapolis/St. Paul Business Journal; Renewables Now; Institute for Energy Economics and Financial Analysis; List.Solar; PV Magazine; and Monticello Times.

The RFP states that analysis during the Completeness Review phase “ensures compliance with all bid submittal requirements.”¹⁶ Xcel’s analysis indicated that one of the bids received – from Bidder 2 – was incomplete and the bidder was unable to remedy the issues. Therefore, this bid was eliminated during the Completeness Review phase and two bids moved to the Threshold Review phase.

The Company provided its Completeness Review analysis in response to IR No. 3 and in the IA Report. The Department reviewed Xcel’s Completeness Review analysis as documented and concludes that it was reasonable.

The RFP states that analysis the during Threshold Review phase is done to confirm that “the bidder and RFP Project complies with all specific bid requirements.”¹⁷ Xcel’s analysis indicated that one of the bids received – from Bidder 1 – was unable to show a clear path to site control for the project or the generator tie line to interconnect the Project to the Sherburne County Substation and also did not have a complete preliminary technical design. Therefore, this bid was eliminated during the Threshold Review phase and one bid—Xcel’s self-build proposal—was moved to Key Parameters Review and Scoring phase.

The Company provided its Threshold Review analysis in response to IR No. 3 and in the IA Report. The Department reviewed Xcel’s Threshold Review analysis as documented and concludes that it was reasonable.

The RFP states that analysis the during Key Parameters Review and Scoring phase to evaluate the remaining bids based on four key parameters:

- pricing;
- certified diverse suppliers;
- pollinator habitat scorecard assessment; and
- bidder financial strength.

Pricing made up 70 percent of the overall score, while the other three qualitative criteria made up the remaining 30 percent of the overall score (ten percent each). Since only one proposal was evaluated, the Department did not review Xcel’s Key Parameters Review and Scoring analysis.

4. IA Report

The Department reviewed the IA Report and generally agrees with the IA Report while noting the exception that the Department concludes that Xcel’s RFP itself was poorly designed, creating unnecessary limits which reduced the number of bids received and as a result likely inflated the overall

¹⁶ Examples include fees, sufficient information provided in bid responses, submission of all required information and forms, etc.

¹⁷ Examples include project size, type, and timing; transmission and interconnection requirements; bidder creditworthiness and experience; and so on.

price, and resulting in a project which is not cost effective for Xcel's ratepayers. The difference is that Guidehouse took the narrow construction of the RFP as a given while the Department considers it to be an item to be analyzed and reviewed by the Commission.

The key conclusions from the IA Report are as follows:

Guidehouse's overall assessment is that the goals of the RFP were achieved. With respect to number of bidders, three (3) respondents submitted a total of three (3) proposals. We believe three (3) respondents provides a sufficient range of choices and competition to the Company, considering the (i) very specific nature of the RFP, (ii) the need to interconnect at the current SherCo interconnection site to reduce costs on ratepayers, and (iii) the large size requirement of the project (>75 MW).

...

The completeness and threshold evaluations were performed on a fair and consistent basis with the evaluation process published in the RFP. Respondents were given an opportunity to cure their deficiencies within a reasonable time period.

...

With respect to messages between the Company, interested parties, and respondents, Guidehouse observed that the Company's responses were timely, consistent, and fair, indicating a high level of engagement by the Company. The Company did not bias its responses to favor one technology or party, and interested parties and respondents appeared generally satisfied and appreciative of the responses.

...

There is no evidence that the evaluation and selection process caused any unfair advantage or disadvantage to any interested party or respondent.

...

On March 2nd, 2021, the Company indicated that they are not aware of any breach of the firewall that may have occurred.

Based on the IA Report, the Department concludes that, given the RFP-established market, Xcel ran the RFP process in a reasonable manner and did not bias the Completeness Review, Threshold Review, or Key Parameters Review and Scoring in favor of the proposed Sherco Solar Project.

5. *RFP Design*

The RFP was designed with significant limitations on the point of interconnection (POI). The RFP states:

The proposal pricing should include the full interconnection costs associated with delivering energy from the project to the POI options near the Sherco 345 kV substation. Specifically, the company has designated two dead end structures – shown on the map included in Appendix D – near the existing Sherco 345kV substation.

To justify the significant limits on project proposals allowed in the RFP, the Company's Petition states: "Given the current status of the MISO interconnection queue, however, such significant renewable resource additions will require either substantial transmission upgrades in MISO or the reuse of existing interconnection rights." Also, the Company cites to the Department's February 11, 2021 comments regarding the on-going IRP (Docket No. E002/RP-19-368).¹⁸ In general, the Department agrees with the assumption that, for planning purposes, a significant part of Xcel's planned solar capacity will have to be acquired in a manner that avoids the MISO generation interconnection queue (GIQ). However, that does not mean that all capacity will have to be acquired outside of the GIQ. In addition, the purpose of a RFP is to use competition to check the Departments assumptions (the statement "it would appear...") and also the results of the overall resource planning analysis.

The failure to include competition by opening up the RFP to a broader set of projects resulted in a price inflated far above the prices the Company expected only a few months ago. Specifically, Table 21 in the Company's June 25, 2021 reply comments in the on-going IRP (Docket No. E002/RP-19-368) specify the levelized cost of energy (LCOE) used by Xcel in the EnCompass model. The LCOE for utility-scale solar projects delivered in 2023 is \$46.52. The LCOE rises to \$46.62 in 2024 and \$48.51 for 2025.

The LCOEs expected by the Company in the IRP can be compared to the LCOE for the proposed Sherco Solar Project in the IA Report which is **TRADE SECRET INFORMATION HAS BEEN EXCISED**. The lack of meaningful competition to the proposed Sherco Solar Project is emphasized by the LCOE calculated by Xcel for one of the competing proposals, which was **TRADE SECRET INFORMATION HAS BEEN EXCISED**. After the IA Report was completed the Company refined aspects of the proposed Project and recalculated the LCOE to be **TRADE SECRET INFORMATION HAS BEEN EXCISED**.

If the Commission concludes that solar prices revealed by Xcel's RFP are actually reflective of market prices rather than an unnecessarily constrained RFP, the Department recommends that the Commission consider requiring Xcel to re-analyze the retirement dates of the Company's baseload units in the on-going IRP under solar pricing assumptions reflective of the prices received in this

¹⁸ Xcel cites this statement in the Department's IRP comments:

Further, the West Study Area appears to be out of affordable transmission interconnection capability. Since Xcel's preferred plan involves obtaining interconnection for substantial amounts of new capacity, it is not clear that the plan is achievable within the MISO GIQ20 construct. Furthermore, no amount of GIQ timing reforms can change the lack of transmission; it can only deliver the message that transmission is not available sooner. Therefore, it would appear that either substantial new transmission needs to be built or Xcel will be limited to pursuing projects that avoid the MISO GIQ.

proceeding. It is likely that a different set of baseload unit retirement dates and a significantly different expansion plan would result from the solar prices received in Xcel's RFP.

D. COST RECOVERY

The Company requested that the Commission approve the Company's proposed approach of recovering project costs through the renewable energy standard (RES) rider and approve 100 percent of the costs to be recovered from Minnesota.

1. RES Rider Recovery

Minnesota Statutes § 216B.1645 Subd. 2a (a) states that Xcel:

...may petition the Commission to approve a rate schedule that provides for the automatic adjustment of charges to recover prudently incurred investments, expenses, or costs associated with facilities constructed, owned, or operated by a utility 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.

In this case the proposed Project was selected via a process approved by the Commission under Minnesota Statutes § 216B.2422, Subd. 5 (a) which states that "a utility may select resources to meet its projected energy demand through a bidding process approved or established by the Commission." If the Commission approves the proposed Project, the Department recommends that the Commission approve Xcel's proposed approach of recovering project costs through the renewable energy standard (RES) rider, with the clarification that any recovery through the RES Rider will require a separate Commission determination that the project(s) are eligible. In addition, the Department also recommends that the Commission condition any such approval with the following ratepayer protections, which are similar to those used in previous dockets¹⁹:

- a. Xcel must justify any costs (including operations-and-management 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;
- b. the Commission will limit capital cost recovery to the capital costs used to evaluate the proposed Project;
- c. the Commission will otherwise hold the Company accountable for the price and terms used to evaluate the proposed Project;
- d. ratepayers will not be put at risk for any assumed benefits that do not materialize;

¹⁹ For examples, see Docket Nos. E002/M-17-694, E002/M-16-777, and E002/M-20-620.

- e. Xcel customers must be protected from risks associated with the non-deliverability of accredited capacity and/or energy from the proposed Project. The Commission may adjust Xcel's recovery of costs associated with this proposed Project in the future if actual production varies significantly from assumed production over an extended period;
- f. the Company must report in its fuel clause filing and annual automatic adjustment filings the amount of any curtailment payments, along with explanations for the curtailments, for the proposed Project;
- g. the Company must clearly account for all costs incurred for the proposed Project;
- h. the Company must report quarterly, until the proposed Project is in service, project failures along with the options available to the Commission to remedy any failures that occur; and
- i. report on how the proposed Project as built is consistent with the information requested in the May 20, 2020, notice issued in Docket No. E,G-999/CI-20-492.

2. Recovery From Minnesota

The Petition states that "Due to the direct link between the Sherco Solar project and its achievement of several Minnesota policy goals, we request full recovery of NSPM's project costs from Minnesota customers." Xcel also states that:

the Company will seek to recover a proxy price for the value of these resource attributes in rates in both South Dakota and North Dakota. Any payments received from customers in these jurisdictions related to the Sherco Solar project would then be credited back to Minnesota, reducing the overall price of the project recovered in Minnesota rates.

As shown above, the Department's and Xcel's EnCompass analysis both demonstrate that the proposed Project is not a cost-effective addition to Xcel's system. In addition, the Department's analysis elsewhere in these comments shows significant issues with Xcel's RFP structure. Therefore, the Department recommends that the Commission reject without prejudice the Company's proposed cost recovery mechanism.

If the Commission determines to add the proposed Project despite the cost-effectiveness and RFP-design issues, presumably the only way to justify adding the proposed Project would be to point to Minnesota energy policies. In such circumstances, the Company's proposed cost recovery mechanism would be reasonable with the exception that, if any jurisdiction does not approve a proxy price, the Department recommends that the Commission require Xcel to impute a contribution for that jurisdiction equal to the actual cost of the proposed Project for purposes of calculating Minnesota rates.

E. SOCIOECONOMIC AND ENVIRONMENTAL IMPACT

The Commission's May 20, 2020 *Notice of Reporting Required by Utilities* (COVID Notice) in Docket No. E,G999/CI-20-492 required all rate regulated gas and electric utilities to file a report related to investments that may assist in economic recovery from the COVID-19 pandemic. In response to the COVID Notice Xcel filed the Company's June 17, 2020 *Report: COVID-19 Relief & Recovery*; Table 1 included the Company's proposed Sherco Solar Project in the clean energy investment category. Therefore, the COVID Notice applies to the proposed Project.

The COVID Notice states that the COVID-19 investments should:

- provide significant utility system benefits;
- be consistent with approved resource plans, approved natural gas distribution infrastructure or pipeline safety plans, triennial conservation plans, and existing Commission orders;
- reduce carbon or other pollutant emissions in the power sector or across economic sectors;
- increase access to conservation and clean energy resources for Minnesotans;
- create jobs or otherwise assist in economic recovery for Minnesotans; and
- use woman, veteran, or minority owned businesses as much as possible and provide documentation of these efforts.

The proposed project is for solar energy and would therefore reduce emissions in the power sector and increase clean energy resources. The projects would also create jobs through construction and operation of the proposed Project. Minnesota's unemployment rate was 3.7 percent as of September 2021.²⁰ Full employment is usually considered to occur at an unemployment rate of around 4 percent or 5 percent.²¹ Since Minnesota's economy is essentially at full employment, there is a reasonable possibility that the jobs created will go to non-Minnesotans, depending on specific circumstances in the local area and the job skills needed. Lastly, Xcel's RFP, through its scoring system, explicitly considered documented use of women-, veteran-, or minority- owned businesses. The Department concludes that the proposed Project is partially consistent with the Commission's socioeconomic and environmental criteria from the COVID Notice. While the proposed Project increases significantly utility system costs, it is at least partially consistent with remaining criteria.

F. ANALYSIS OF PSA

The Department notes that the risks associated with the PSA shift to Xcel prior to construction of the proposed Project. During the construction and operational phases, the proposed Project is no different than any other Company-owned power plant. Thus, the risks associated with PSA contracts occur during the project development phase.

²⁰ See <https://mn.gov/deed/data/current-econ-highlights/state-national-employment.jsp> accessed October 29, 2021.

²¹ See <https://www.frbsf.org/economic-research/publications/economic-letter/2017/august/natural-rate-of-unemployment-over-past-100-years/>.

During the development phase the main financial risks of the PSAs that may impact on Xcel's ratepayers are the same as for a PPA:

- a seller default and termination of the PSA before delivery of the development work, and
- entitlement by a lender or other party, as a result of the seller's failure to pay debt, to take over the project and terminate the PSA.

Given the early stages of the work being performed, the relatively small share of the cost of the proposed Project in question, and the PSA reaching an end relatively soon, the Department concludes that Xcel's ratepayers are exposed to minimal financial risks via the PSA. In addition, it is important to be aware that both the Department's and the Company's EnCompass analysis shows that, if the PSA and associated proposed Sherco Solar Project is unsuccessful, then the Company's ratepayers will be better off. In fact, ratepayers' cost would be lower if the entire PSA payment were made and charged to ratepayers and then the proposed Project were terminated than if the proposed Project were to go forward.

In summary, the financial risks are associated with the proposed Project going forward rather than the proposed Project being terminated due to failure of the PSA or for any other reason.

G. RESPONSE TO THE NOTICE

The Department's response to the issues listed in the Notice is as follows.

1. Should the Commission approve Xcel Energy's request to build, own, and operate the proposed 460 MW solar project at the Sherco generation facility site?

The Department recommends that the Commission reject without prejudice Xcel's request to build, own, and operate the proposed Project and require the Company to begin a new RFP process. The Company should be allowed to re-submit the proposed Project in a new RFP process.

2. Should the Commission approve Xcel Energy's acquisition of the Sherco Project Company, holding the property rights to a 230 MW solar site, from NG Renewables, pursuant to the terms of the PSA?

The Department recommends that the Commission reject without prejudice the Company's proposed PSA. The Company should be allowed to re-submit the proposed Project, including the associated PSA, in a new RFP process.

3. Should the Commission approve Xcel's Energy's request to recover 100 percent of the costs from Minnesota customers?

The Department recommends that the Commission reject without prejudice the Company's request to recover 100 percent of the costs from Minnesota customers. The Company should be allowed to propose the same or a revised cost recovery proposal as part of a new RFP process.

4. Should the Commission approve Xcel Energy's proposed approach of recovering project costs through the Renewable Energy Standard (RES) rider?

The Department recommends that the Commission reject without prejudice the Company's proposed approach of recovering project costs through the Renewable Energy Standard (RES) rider. The Company should be allowed to propose the same or a revised cost recovery proposal as part of a new RFP process.

5. Did Xcel Energy reasonably comply with the requirements of the Modified Track 2 process? If not, should the Commission require Xcel to undertake a new solar solicitation?

The Department recommends that the Commission require Xcel to issue a revised solar RFP.

6. Did Xcel Energy reasonably comply with the Commission's July 6, 2021 Order to provide new capacity expansion modeling and an additional analysis of cost allocation between jurisdictions?

As discussed above, the Department recommends that the Commission conclude that Xcel reasonably complied with the Process Order.

7. Are there other issues or concerns related to this matter?

The Department has no other issues or concerns related to this matter.

III. CONCLUSION AND RECOMMENDATIONS

The Department recommends that the Commission:

1. approve the requested variance to Minnesota Rules 7825.1800, Subp. B to allow Xcel to not provide the information set forth in Minnesota Rules 7825.1400, items (A) to (J);
2. determine that Xcel reasonably complied with the Process Order;
3. reject without prejudice Xcel's request to build, own, and operate the proposed Project and require the Company to begin a new RFP process as soon as possible;
4. reject without prejudice the Company's acquisition of the Sherco Project Company from NG Renewables;
5. reject without prejudice the Company's request to recover 100 percent of the costs from Minnesota customers;
6. reject without prejudice the Company's proposed approach of recovering project costs through the Renewable Energy Standard (RES) rider; and
7. require Xcel to issue a revised solar RFP open to solar projects in any location as soon as possible.

If the Commission approves the proposed Project, the Department recommends that the Commission:

- approve Xcel's proposed approach of recovering project costs through the renewable energy standard (RES) rider, with the clarification that any recovery through the RES Rider will require a separate Commission determination that the project(s) are eligible;
- consider requiring Xcel to re-analyze the retirement dates of the Company's baseload units in the on-going IRP under solar pricing assumptions reflective of the prices received in this proceeding;
- condition any approval with the following ratepayer protections, which are similar to those used in previous dockets:
 - a. Xcel must justify any costs (including operations-and-management 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;
 - b. the Commission will limit capital cost recovery to the capital costs used to evaluate the proposed Project;
 - c. the Commission will otherwise hold the Company accountable for the price and terms used to evaluate the proposed Project;
 - d. ratepayers will not be put at risk for any assumed benefits that do not materialize;
 - e. Xcel customers must be protected from risks associated with the non-deliverability of accredited capacity and/or energy from the proposed Project. The Commission may adjust Xcel's recovery of costs associated with this proposed Project in the future if actual production varies significantly from assumed production over an extended period;
 - f. the Company must report in its fuel clause filing and annual automatic adjustment filings the amount of any curtailment payments, along with explanations for the curtailments, for the proposed Project;
 - g. the Company must clearly account for all costs incurred for the proposed Project;
 - h. the Company must report quarterly, until the proposed Project is in service, project failures along with the options available to the Commission to remedy any failures that occur; and
 - i. report on how the proposed Project as built is consistent with the information requested in the May 20, 2020, notice issued in Docket No. E,G-999/CI-20-492.

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
Public Comments**

Docket No. E002/M-20-891

Dated this 10th day of November 2021

/s/Sharon Ferguson

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| Michelle | Dreier | mdreier@electricalassociation.com | | N/A | Electronic Service | No | OFF_SL_20-891_Official |
| Brian | Edstrom | briane@cubminnesota.org | Citizens Utility Board of Minnesota | 332 Minnesota St Ste W1360 Saint Paul, MN 55101 | Electronic Service | No | OFF_SL_20-891_Official |
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| Edward | Garvey | edward.garvey@AESLconsulting.com | AESL Consulting | 32 Lawton St Saint Paul, MN 55102-2617 | Electronic Service | No | OFF_SL_20-891_Official |
| Bruce | Gerhardson | bgerhardson@otpc.com | Otter Tail Power Company | PO Box 496 215 S Cascade St Fergus Falls, MN 565380496 | Electronic Service | No | OFF_SL_20-891_Official |
| | | | | | | | |

| First Name | Last Name | Email | Company Name | Address | Delivery Method | View Trade Secret | Service List Name |
|------------|-----------|------------------------------|--|---|--------------------|-------------------|------------------------|
| Janet | Gonzalez | Janet.gonzalez@state.mn.us | Public Utilities Commission | Suite 350 121 7th Place East St. Paul, MN 55101 | Electronic Service | No | OFF_SL_20-891_Official |
| Anita | Grace | anita@gracemulticultural.com | GRACE Multicultural | 12959 196th LN NW Elk River, MN 55330 | Electronic Service | No | OFF_SL_20-891_Official |
| Bill | Grant | billgrant@minncap.org | Minnesota Community Action Partnership | MCIT Building 100 Empire Dr Ste 202 St. Paul, MN 55103 | Electronic Service | No | OFF_SL_20-891_Official |
| Todd J. | Guerrero | todd.guerrero@kutakrock.com | Kutak Rock LLP | Suite 1750 220 South Sixth Street Minneapolis, MN 554021425 | Electronic Service | No | OFF_SL_20-891_Official |
| Adam | Heinen | aheinen@dakotaelectric.com | Dakota Electric Association | 4300 220th St W Farmington, MN 55024 | Electronic Service | No | OFF_SL_20-891_Official |
| Annete | Henkel | mui@mutilityinvestors.org | Minnesota Utility Investors | 413 Wacouta Street #230 St. Paul, MN 55101 | Electronic Service | No | OFF_SL_20-891_Official |
| Shane | Henriksen | shane.henriksen@enbridge.com | Enbridge Energy Company, Inc. | 1409 Hammond Ave FL 2 Superior, WI 54880 | Electronic Service | No | OFF_SL_20-891_Official |
| Corey | Hintz | chintz@dakotaelectric.com | Dakota Electric Association | 4300 220th Street Farmington, MN 550249583 | Electronic Service | No | OFF_SL_20-891_Official |
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| MJ | Horner | mj.horner@xcelenergy.com | | N/A | Electronic Service | No | OFF_SL_20-891_Official |
| | | | | | | | |

| First Name | Last Name | Email | Company Name | Address | Delivery Method | View Trade Secret | Service List Name |
|------------|------------------|--------------------------|--|--|--------------------|-------------------|------------------------|
| Lori | Hoyum | lhoyum@mnpower.com | Minnesota Power | 30 West Superior Street Duluth, MN 55802 | Electronic Service | No | OFF_SL_20-891_Official |
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| Alan | Jenkins | aj@jenkinsatlaw.com | Jenkins at Law | 2950 Yellowtail Ave. Marathon, FL 33050 | Electronic Service | No | OFF_SL_20-891_Official |
| Richard | Johnson | Rick.Johnson@lawmoss.com | Moss & Barnett | 150 S. 5th Street Suite 1200 Minneapolis, MN 55402 | Electronic Service | No | OFF_SL_20-891_Official |
| Sarah | Johnson Phillips | sarah.phillips@stoel.com | Stoel Rives LLP | 33 South Sixth Street Suite 4200 Minneapolis, MN 55402 | Electronic Service | No | OFF_SL_20-891_Official |
| Stacey | Karels | skarels@local563.org | Mankato Area Bldg & Construction Trades Council | 310 McKinzie St Mankato, MN 56001 | Electronic Service | No | OFF_SL_20-891_Official |
| Thomas | Koehler | TGK@IBEW160.org | Local Union #160, IBEW | 2909 Anthony Ln St Anthony Village, MN 55418-3238 | Electronic Service | No | OFF_SL_20-891_Official |
| Brian | Kolbinger | brian@beckertownship.org | Becker Township Board | PO Box 248 12165 Hancock St Becker, MN 55308 | Electronic Service | No | OFF_SL_20-891_Official |
| Michael | Krikava | mkrikava@taftlaw.com | Taft Stettinius & Hollister LLP | 2200 IDS Center 80 S 8th St Minneapolis, MN 55402 | Electronic Service | No | OFF_SL_20-891_Official |
| Nicolle | Kupser | nkupser@greatermngas.com | Greater Minnesota Gas, Inc. & Greater MN Transmission, LLC | 1900 Cardinal Ln PO Box 798 Faribault, MN 55021 | Electronic Service | No | OFF_SL_20-891_Official |

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|------------|---------------|---------------------------------|--------------------------------------|--|--------------------|-------------------|------------------------|
| James D. | Larson | james.larson@avantenergy.com | Avant Energy Services | 220 S 6th St Ste 1300 Minneapolis, MN 55402 | Electronic Service | No | OFF_SL_20-891_Official |
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| Annie | Levenson Falk | annief@cupminnesota.org | Citizens Utility Board of Minnesota | 332 Minnesota Street, Suite W1360 St. Paul, MN 55101 | Electronic Service | No | OFF_SL_20-891_Official |
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| Pam | Marshall | pam@energycents.org | Energy CENTS Coalition | 823 7th St E St. Paul, MN 55106 | Electronic Service | No | OFF_SL_20-891_Official |
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| Joseph | Meyer | joseph.meyer@ag.state.mn.us | Office of the Attorney General-RUD | Bremer Tower, Suite 1400 445 Minnesota Street St Paul, MN 55101-2131 | Electronic Service | No | OFF_SL_20-891_Official |

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| Samantha | Norris | samanthanorris@alliantenergy.com | Interstate Power and Light Company | 200 1st Street SE PO Box 351 Cedar Rapids, IA 524060351 | Electronic Service | No | OFF_SL_20-891_Official |
| Nate | O'Reilly | nate@iron512.com | Ironworkers Local #512 | 851 Pierce Butler Route St Paul, MN 55104 | Electronic Service | No | OFF_SL_20-891_Official |
| Matthew | Olsen | molsen@otpc.com | Otter Tail Power Company | 215 South Cascade Street Fergus Falls, MN 56537 | Electronic Service | No | OFF_SL_20-891_Official |
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| John | Pacheco | johnpachecojr@gmail.com | | N/A | Electronic Service | No | OFF_SL_20-891_Official |
| Greg | Palmer | gpalmer@greatermngas.com | Greater Minnesota Gas, Inc. & Greater MN Transmission, LLC | 1900 Cardinal Ln PO Box 798 Faribault, MN 55021 | Electronic Service | No | OFF_SL_20-891_Official |
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| Catherine | Phillips | Catherine.Phillips@wecenergygroup.com | Minnesota Energy Resources | 231 West Michigan St Milwaukee, WI 53203 | Electronic Service | No | OFF_SL_20-891_Official |
| Kevin | Pranis | kpranis@liunagroc.com | Laborers' District Council of MN and ND | 81 E Little Canada Road St. Paul, Minnesota 55117 | Electronic Service | No | OFF_SL_20-891_Official |
| Greg | Pruszinske | gpruszinske@ci.becker.mn.us | City of Becker | PO Box 250 12060 Sherburne Ave Becker, MN 55308 | Electronic Service | No | OFF_SL_20-891_Official |
| Generic Notice | Residential Utilities Division | residential.utilities@ag.state.mn.us | Office of the Attorney General-RUD | 1400 BRM Tower 445 Minnesota St St. Paul, MN 551012131 | Electronic Service | Yes | OFF_SL_20-891_Official |
| Kevin | Reuther | kreuther@mncenter.org | MN Center for Environmental Advocacy | 26 E Exchange St, Ste 206 St. Paul, MN 551011667 | Electronic Service | No | OFF_SL_20-891_Official |
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| Susan | Romans | sromans@allete.com | Minnesota Power | 30 West Superior Street Legal Dept Duluth, MN 55802 | Electronic Service | No | OFF_SL_20-891_Official |
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|------------|------------|--------------------------------------|--|---|--------------------|-------------------|------------------------|
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| Colleen | Sipiorski | Colleen.Sipiorski@wecenergygroup.com | Minnesota Energy Resources Corporation | 700 North Adams St Green Bay, WI 54307 | Electronic Service | No | OFF_SL_20-891_Official |
| Ken | Smith | ken.smith@districtenergy.com | District Energy St. Paul Inc. | 76 W Kellogg Blvd St. Paul, MN 55102 | Electronic Service | No | OFF_SL_20-891_Official |
| Peggy | Sorum | peggy.sorum@centerpointenergy.com | CenterPoint Energy | 505 Nicollet Mall Minneapolis, MN 55402 | Electronic Service | No | OFF_SL_20-891_Official |
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| Lisa | Veith | lisa.veith@ci.stpaul.mn.us | City of St. Paul | 400 City Hall and Courthouse 15 West Kellogg Blvd. St. Paul, MN 55102 | Electronic Service | No | OFF_SL_20-891_Official |
| Samantha | Williams | swilliams@nrdc.org | Natural Resources Defense Council | 20 N. Wacker Drive Ste 1600 Chicago, IL 60606 | Electronic Service | No | OFF_SL_20-891_Official |
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|------------|-----------|-----------------------|--|--|--------------------|-------------------|------------------------|
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| Patrick | Zomer | Pat.Zomer@lawmoss.com | Moss & Barnett a Professional Association | 150 S. 5th Street, #1200 Minneapolis, MN 55402 | Electronic Service | No | OFF_SL_20-891_Official |