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STATE OF MINNESOTA
BEFORE THE PUBLIC UTILITIES COMMISSION

Katie Sieben	Chair
Joseph K. Sullivan	Vice Chair
Hwikwon Ham	Commissioner
Audrey Partridge	Commissioner
John Tuma	Commissioner

In the Matter of Xcel Energy's Natural Gas Innovation Plan	DOCKET NO. G-002/M-23-518
In the Matter of Xcel Energy's Petition Requesting Reaffirmation of Affiliate Interest Arrangement Accounting Treatment	DOCKET NO. G-002/AI-25-259

NEGATIVE CHECK-OFF PERIOD OBJECTION AND COMMENTS OF THE OFFICE OF THE ATTORNEY GENERAL—RESIDENTIAL UTILITIES DIVISION

The Office of the Attorney General—Residential Utilities Division (OAG) respectfully submits this combined objection to the negative check-off period and initial comments in response to the Commission's Amended Notice of Comment Period and Negative Check-Off Periods in Docket No. 23-518 and Notice of Extended Comment Period in Docket No. 25-259.

The OAG responds to two related filings from Xcel Energy arising from the Commission's modification of Xcel's Natural Gas Innovation Act (NGIA) plan. First, the Commission required Xcel to explain what it has done or will do to mitigate stranded asset risks for its hydrogen electrolyzer pilot. Second, the Commission required Xcel to file an affiliated interest arrangement as the hydrogen will be used to fuel an auxiliary boiler to provide steam for resale by Xcel's unregulated operations.[1] To protect ratepayers from the increased risks from Xcel's unregulated operations due to ratepayers $26.3 million investment in a hydrogen electrolyzer that serves an

[1] Docket No. G-002/M-23-518, Order Approving Natural Gas Innovation Plan With Conditions at 27 (May 16, 2025) (Xcel NGIA Commission Order).

Xcel affiliate, the Commission should modify Xcel's affiliated interest arrangement in three ways: (1) the Commission should require Xcel shareholders to bear all risks of any stranded capital costs and return should the Sherco 5MW facility become no longer used and useful; (2) the Commission should require Xcel's shareholders bear all costs of any plant additions necessary to provide hydrogen to locations other than the steam boiler if necessary; and (3) the Commission should require Xcel's shareholders to bear any costs necessary to decommission, relocate, and reconnect the hydrogen electrolyzer. If the Commission chooses not to require that Xcel's shareholders bear these costs, at a minimum it should order Xcel not to pursue cost recovery from residential or small commercial customers for any of the potential costs listed above. This would be in line with the required cost allocation for the general costs of the Sherco 5MW pilot.

BACKGROUND

In Xcel's first NGIA plan, in Docket No. 23-518, Xcel proposed a pilot to construct a $26.3 million hydrogen electrolyzer that would provide hydrogen to partially fuel a boiler that provides auxiliary steam to the Sherco complex and to Xcel's unregulated steam supply system.[2] Under the pilot, Xcel's unregulated operations would then sell the steam generated from the hydrogen-gas blend to Liberty Paper Inc. (LPI).[3] During the NGIA proceeding, the OAG, Department of Commerce, Citizens Utility Board, and CURE all raised concerns with the affiliated interest arrangement in light of the addition of a $26.3 million hydrogen facility.[4] The OAG raised concerns specifically about the risks of constructing a hydrogen project to indirectly serve, through

[2] *Id.* at 7.
[3] Docket No. G-002/AI-25-259, Petition at 4 (June 16, 2025) (Affiliated Interest Petition).
[4] Xcel NGIA Commission Order at 8-9.

Xcel's unregulated operations, a single industrial steam customer that has not committed to purchasing steam for the useful life of the hydrogen electrolyzer.[5]

The Commission's order recognized these concerns, finding "issues involving the pilot's capital costs and risks warrant additional safeguards."[6] Therefore, the Commission conditioned approval of Xcel's Sherco 5MW pilot on several actions, including: (1) Xcel filing an explanation detailing the steps it has taken and will take to mitigate the risk of a stranded asset for its Sherco 5MW pilot, and how it would manage cost recovery if LPI withdraws before Xcel fully recovers the asset's cost (Order Point 6); and (2) Xcel filing an affiliated interest arrangement in a new docket (Order Point 8.A).[7]

On June 16, 2025, Xcel filed a compliance filing pursuant to Order Point 6.[8] Xcel states that it "does not anticipate there being a significant risk of a stranded asset" from the Sherco 5MW pilot.[9] But Xcel acknowledges that its current contract with LPI will expire in 2035 and that LPI can terminate it early by providing 12-months' notice.[10] To mitigate stranded asset risk, Xcel lists three potential alternatives for using the electrolyzer: (A) using the auxiliary steam boiler, and therefore the hydrogen electrolyzer, to heat Sherco's operations buildings; (B) future potential industrial uses in the area around Sherco; or (C) relocating the electrolyzer to serve other locations.[11] Last, Xcel clearly asserts in its filing that if the electrolyzer becomes a stranded asset "the Company will pursue cost recovery for any outstanding plant balance that remains."[12]

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[5] *See* Docket No. G-002/M-23-518, OAG Supp. Comments at 10-17 (Oct. 28, 2024).
[6] Xcel NGIA Commission Order at 9.
[7] *Id.* at 27.
[8] Docket No. G-002/M-23-518, Compliance – Order Point 6 (June 16, 2025) (Xcel Risk Mitigation Compliance).
[9] *Id.* at 1.
[10] *Id.* at 3.
[11] *Id.* at 3-4.
[12] *Id.* at 5.

Also on June 16, 2025, Xcel requested that the Commission reaffirm its existing affiliate interest arrangement accounting treatment with no modifications.[13] Quoting the very order requiring that Xcel file an affiliated interest arrangement, Xcel claims that that order indicates that no change is needed.[14] Xcel offers to include all fuel related cost information by fuel source as separate line items in its annual affiliated interest filings.[15]

ANALYSIS

I. XCEL'S RISK MITIGATION COMPLIANCE FILING SHOWS CONTINUED STRANDED-ASSET RISK OR THE RISK OF ADDITIONAL COSTS TO PREVENT A STRANDED ASSET.

As the Commission observed in its NGIA order "the industrial customer [(LPI)] could discontinue buying steam from Xcel before Xcel has fully recovered the pilot's costs," and required Xcel to submit a compliance filing to address this stranded-asset risk.[16] Xcel's compliance filing provides three alternative uses for the electrolyzer if LPI stops taking steam service prior to the end of the electrolyzer's useful life.[17] But the alternatives are either incomplete or would require additional investments with unknown costs that Xcel would seek to pass on to ratepayers.

Xcel's first claim for there being little stranded-asset risk is that the auxiliary boiler, which will be partially fired by the hydrogen produced by the electrolyzer, can be used to heat other buildings on the Sherco campus. However, Xcel does not provide information on this record for how it intends to use its operations buildings after the Sherco coal-fired facilities are fully retired and decommissioned. Further, these buildings can be currently heated by the auxiliary boiler,[18]

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[13] Affiliated Interest Petition at 2.
[14] *Id.* at 1-2. Xcel did not seek reconsideration or clarification of this order point.
[15] *Id.* at 6.
[16] Xcel NGIA Commission Order at 9.
[17] Xcel Risk Mitigation Compliance at 3-4.
[18] *See* Docket No. G-002/M-23-518, Xcel NGIA Petition, Ex. B at 22 (Dec. 15, 2023) ("Currently the auxiliary steam boiler system is used to supply steam to start-up coal units when the steam

making it unclear why additional steam, no longer being delivered to LPI, would be needed to heat the buildings.

Xcel also states that the electrolyzer could be used to support other industrial uses near Sherco.[19] While this could come to pass, Xcel's comments only provide information about economic development efforts in the area, rather than information about potential alternative customers. But more importantly, there may be additional costs that Xcel would need to incur for the electrolyzer to serve a potential new industrial customer. Xcel would surely seek to pass on these costs to its ratepayers. Even if there is a reduced stranded asset risk, therefore, there is the risk of additional costs indirectly arising from Xcel's pilot should it need to find a new customer.

Last, Xcel states that the electrolyzer will be able to be transported. But Xcel indicates that it must "decommission" the system to relocate it.[20] There would certainly be costs to decommission, transport, and reconnect[21] the system. Again, Xcel would seek to pass on these costs to ratepayers.

Xcel's information about potential alternatives, therefore, each show that additional costs would be necessary to continue using the electrolyzer if LPI stops taking steam service from Xcel's unregulated operations. Because the pilot would benefit Xcel's shareholders through its unregulated operations, Xcel's shareholders must absorb the risks of not only a potential stranded asset, but also any potential additional costs needed to avoid a stranded asset.

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supply is not available from the other coal units, as well as a heating source for the building.") (Xcel NGIA Petition).

[19] Xcel Risk Mitigation Compliance at 4.

[20] *Id.*

[21] There could be costs to both connect the hydrogen produced by the electrolyzer to a new customer and costs to upgrade the electrical transmission or distribution system to serve the electrolyzer's large load.

II. THE COMMISSION SHOULD MODIFY XCEL'S AFFILIATED INTEREST ARRANGEMENT TO PROTECT RATEPAYERS FROM THE RISK OF A STRANDED ASSET OR ADDITIONAL COSTS TO PREVENT A STRANDED ASSET.

The Commission should not reaffirm Xcel's unmodified affiliated interest arrangement. Instead, the Commission should make modifications to the affiliated interest arrangement to protect ratepayers from the risk of the electrolyzer becoming a stranded asset or the costs needed to repurpose or relocate the electrolyzer. The Commission should order that Xcel's shareholders cover any related costs if these risks come to pass. In the alternative, the Commission should order that Xcel may not seek to recover any of these costs from residential or small commercial customers in line with the Commission's previous cost-allocation determination for the pilot.

The OAG extensively analyzed Xcel's existing affiliated interest arrangement during Xcel's NGIA proceeding. The Department of Commerce, Citizens Utility Board, and CURE all voiced similar concerns.[22] After hearing and acknowledging these concerns, the Commission determined that risks of the Sherco 5MW pilot warranted additional safeguards.[23] As part of these safeguards, the Commission ordered Xcel to file an affiliated interest arrangement in a new docket.[24]

Because Xcel proposes to keep its affiliated interest arrangement exactly the same, it necessarily includes all the flaws and risks discussed extensively in the OAG's supplemental comments in Xcel's NGIA filing.[25] The OAG reasserts and incorporates by reference its supplemental comments from Docket No. 23-518 regarding this issue, which are attached.[26] Also,

[22] *See* Xcel NGIA Commission Order at 7-8.
[23] *See id.* at 9.
[24] *Id.* at 27.
[25] *See* Ex. A (Selections from OAG Supplemental Comments from Docket No. 23-518).
[26] *Id.*

for completeness in both dockets, as Xcel seeks reaffirmation of the current arrangement, the OAG attaches the full agreement with LPI and Xcel's 2019 affiliated interest filing.[27]

Instead of addressing the extensive concerns in the NGIA docket, Xcel simply refiled their existing affiliated interest agreement and reaffirmed Xcel's commitment to seek to recover any stranded asset costs from ratepayers.[28] Xcel's filing is unresponsive, particularly in light of Xcel's other June 16 filing showing various costs that would be passed on to ratepayers if LPI stops taking steam service and Xcel's commitment to seek to charge ratepayers for any stranded asset costs.

At core, the potential stranded asset costs or additional costs if repurposing or relocating the facility becomes necessary create risks that Xcel is claiming its shareholders will not be responsible for. Simply put, the electrolyzer would not be constructed at its planned location unless it was serving an auxiliary boiler that benefits Xcel's unregulated operations.[29] As Xcel explained in its NGIA petition: "By 2026 Sherco Unit 1 and 2 will be retired and auxiliary steam boiler operations would transition to be the sole source of steam for a nearby industrial customer who requires the steam production from a minimum of one boiler to operate continuously with the exception of outages for the customer's scheduled maintenance."[30] The Sherco 5MW pilot is designed to benefit Xcel unregulated operations, and while this may be an appropriate use with the right safeguards, these safeguards are essential.

To manifest these safeguards, the Commission should not reaffirm Xcel's existing affiliated interest arrangement. Instead the Commission should modify the arrangement to make it clear that Xcel's shareholders must bear *all* risks of its unregulated venture's use of the

[27] Ex. B (Attachment 4 to OAG Supp. Comments in Docket No. 23-518 – Xcel Oct. 15, 2019 Affiliated Interest Filing).
[28] Affiliated Interest Petition at 6.
[29] *See* Xcel NGIA Petition, Ex. B at 22.
[30] *Id.*

electrolyzer, including the risk that the electrolyzer becomes a stranded asset, the risk that additional costs are needed to repurpose the electrolyzer to serve a different customer, and the risk of additional costs needed to decommission, transport, and reconnect the electrolyzer to another site. These three modifications are described further below:

First, should LPI stop taking steam service from Xcel's unregulated affiliate and no alternative use is found for the electrolyzer, Xcel should not be permitted to recover any undepreciated capital costs or return for the electrolyzer. Xcel's unregulated affiliate is benefiting from the construction and use of the electrolyzer, and it should bear the risks. Therefore, the Commission should order that Xcel's shareholders will bear all risks of any stranded capital costs and return in the event that the Sherco 5MW hydrogen electrolyzer become no longer used and useful.

Second, should LPI stop taking steam service but Xcel finds another off-taker for the hydrogen, Xcel's shareholders must bear all costs needed to provide hydrogen to the new customer(s). The Commission may also wish to make it clear that Xcel may not charge ratepayers for any changes needed to the auxiliary boiler or steam piping should it be able to provide steam service to a new industrial customer if LPI cancels or fails to renew its contract.

Third, should LPI stop taking steam service and Xcel decides it must decommission and transport the electrolyzer to keep it in use, Xcel's shareholders must bear all costs necessary to decommission, relocate, and reconnect the electrolyzer. The Commission should be clear that reconnection costs include both costs to connect the hydrogen produced by the system to a new customer and any costs needed to upgrade the electrical transmission or distribution system in a new location to serve the electrolyzer's large load.

If the Commission chooses not to require Xcel's shareholders to bear the risks listed above, it should at a minimum order that Xcel may not seek to collect any of these potential costs from residential and small commercial ratepayers. In Xcel's NGIA docket, the Commission observed that the hydrogen system would be used "primarily to provide an alternative fuel for large customers with needs that are hard to meet via means other than fossil fuels."[31] In line with Xcel's proposal to align cost recovery from different customer classes based on "which class or classes derive the primary benefit," the Commission "direct[ed] Xcel to refrain from recovering any portion of the cost of this pilot from residential and small commercial customers."[32] In order to fulfill this directive and prevent residential and small commercial customers from paying for any potential or indirect costs of the pilot, the Commission should extend its cost recovery directive to the three sets of potential costs provided above.

Xcel's shareholders have benefited significantly from the arrangement at Sherco that allows Xcel's unregulated operations to profit from steam sales to LPI. Xcel's shareholders will now benefit from receiving hydrogen from a ratepayer funded electrolyzer to serve an auxiliary boiler that allows Xcel's unregulated operations to continue to receive revenues and profits from LPI even after Sherco's coal-fired generators cease operations. Xcel's shareholders should continue to bear all risks from this affiliated interest arrangement, and the Commission should order additional modifications to the arrangement to memorialize who bears these risks.

III. THE COMMISSION SHOULD REQUIRE XCEL TO PROVIDE FUEL RELATED COST BY FUEL SOURCE IN ITS ANNUAL AFFILIATE COMPLIANCE FILING.

In its petition to reaffirm its affiliated interest arrangement, Xcel states that it is willing to include "all fuel related cost information by fuel source as separate line items," in its annual

[31] Xcel NGIA Commission Order at 9.
[32] *Id.*

affiliate compliance filing to provide additional transparency into hydrogen costs.[33] The OAG appreciates Xcel's willingness to provide this information and recommends the Commission order Xcel to do so.

RECOMMENDATIONS

For the reasons stated above, the OAG respectfully recommends that the Commission take the following actions in the two dockets related to Xcel's Sherco 5MW hydrogen electrolyzer.

Docket No. G-002/AI-25-259

The Commission should modify Xcel's affiliated interest arrangement to make it clear that Xcel's shareholders will not only bear risks arising from the previous steam contract, but that shareholders bear any additional risks presented by using the hydrogen electrolyzer to serve Xcel's unregulated operations. To that end, the Commission should order the following:

(1) Xcel's shareholders will bear all risks of any stranded capital costs and return should the Sherco 5MW facility become no longer used and useful;

(2) Xcel's shareholders will bear all costs of any plant additions or other costs necessary to provide hydrogen to another off-taker;[34] and,

(3) Xcel's shareholders will bear all costs necessary to decommission, transport, and reconnect the electrolyzer if it becomes necessary to do so before the end of the electrolyzer's useful life.

In the alternative, and at a minimum, the Commission should order that Xcel may not seek recovery of any of the three costs listed above from residential and small commercial customers

[33] Affiliated Interest Petition at 6.
[34] The Commission may also wish to clarify that Xcel may not charge ratepayers for any changes needed to the auxiliary boiler or steam piping should it be able to provide steam service to a new industrial customer if LPI cancels or fails to renew its contract.

to be consistent with the Commission ordered cost allocation for the pilot in Xcel's NGIA plan.[35]

Last, the Commission should order Xcel to provide all fuel related cost information by fuel source as separate line items in Xcel's annual affiliate compliance filing.

Docket No. G-002/M-23-518

The Commission should not allow Xcel to begin construction on the facility until the Commission orders a modified affiliated interest arrangement in Docket No. G-002/M-25-259 in line with the recommendations above.

Dated: August 15, 2025

Respectfully submitted,

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[35] Xcel NGIA Commission Order at 9, 27.

NGIA. The OAG, therefore, recommends the Commission limit the size of the Amp-Swift pilot to the amount that Xcel proposed in its initial plan—$3.51 million—given that the learnings will be similar from the purchase of a smaller amount of attributes.[29]

II. PILOT 5 – SHERCO 5MW H2 ELECTROLYZER

While the OAG does not oppose the construction of Xcel's Sherco hydrogen facility, the complex regulatory mechanisms at play demand that the Commission modify the pilot to ensure that gas ratepayers do not subsidize Xcel's electric ratepayers or Xcel's unregulated operations.

All fuel produced by the proposed hydrogen electrolyzer would be blended with natural gas to fire an auxiliary boiler to provide steam to an Xcel customer taking unregulated steam service. However, the steam customer does not purchase this natural gas directly from Xcel's gas utility, instead the arrangement approved by the Commission essentially allows Xcel's unregulated entity to purchase the gas and the unregulated entity to recover those costs from the steam customer.[30] This arrangement was approved pursuant to an affiliated interest agreement in 2019, but Xcel's proposal fundamentally changes its reasonableness and causes the arrangement to operate outside of the approved terms and conditions.[31]

Any approval of this pilot should be conditioned on Xcel requesting a new affiliated interest arrangement that proposes more fair terms to its regulated entity and protects ratepayers from additional risks in the current arrangement. Even if Xcel will not agree to this, the Commission should exercise its "continuing supervisory control over the terms and conditions of

[29] *See* Xcel Initial Filing at 7.
[30] Attach. 2 (Xcel Response to OAG IR No. 36).
[31] Minn. Stat. § 216B.48, subd. 3.

the contract[] and arrangement[]" approved in 2019 to ensure this arrangement "protect[s] and promote[s] the public interest."[32]

Because the complex interplay of the auxiliary boiler with Xcel's gas system, Xcel's electric operations, and Xcel's unregulated operations, the OAG first provides some background on this arrangement and the Commission's previous approvals. The OAG then describes the need for the Commission to revisit the current affiliated interest arrangement as the aspects of the arrangement will be fundamentally changed by the pilot. Last, whether the pilot is approved as proposed, or as modified as recommended by the OAG, residential and small commercial customers will not receive the benefits of this pilot, and therefore should not be allocated any costs.

A. Current Regulatory Treatment of Steam Supply and Auxiliary Boiler.

It is OAG's understanding that under current operations, Xcel's unregulated business purchases natural gas from Xcel's gas utility to operate the auxiliary boiler, then these gas costs are either assigned to Xcel's electric customers or included in the steam rate.[33] If the steam boiler is serving Sherco's Units 1 or 3 or plant heating, these costs are paid to Xcel's gas operations and included in Xcel's electric Plant O&M expense.[34]

Xcel's original contract with the steam customer was filed in 1993. In 2019, Xcel filed a petition seeking approval to continue providing steam to the customer as a "nonregulated venture" along with a new contract. Xcel committed that company shareholders would "make all necessary investment and assume all business risks" and "[r]atepayers will not be responsible for any risks associated with supplying steam to [the customer] and will not incur any increased costs."[35]

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[32] Minn. Stat. § 216B.48, subd. 6.
[33] Attach. 3 (Xcel Response OAG IR No. 12).
[34] *Id.*
[35] *In re Petition Requesting Approval of the Amended Agreement*, Docket No. E002/M-19-663, Petition at 7 (Oct. 25, 2019). Xcel's petition is attached to these comments for ease of reference. *See* Attach. 4.

Several provisions of the 2019 contract between Xcel and the steam customer are relevant to this discussion. The contract is not public in its entirety, and these terms are discussed in the not public section below:

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NOT PUBLIC DATA ENDS]

The Department of Commerce reviewed the filing as an affiliated interest transaction, under Minn. Stat. § 216B.48, and recommended approving it with modifications.[36] The

[36] *In re Petition Requesting Approval of the Amended Agreement*, Docket No. E002/M-19-663, DOC Comments (Nov. 25, 2019).

Commission adopted the Department's conclusions and recommendations in full and incorporated the Department's comments into its final order by reference.[37]

B. Xcel's Pilot Fundamentally Alters the Terms and Conditions of Its Currently Approved Affiliated Interest Arrangement and It Must Propose a New Arrangement for Commission Approval.

Xcel's pilot proposal would fundamentally shift the nature of the approved affiliated interest agreement, and create costs and the risk of future costs that Xcel's unregulated affiliate does not compensate Xcel's ratepayers for under the current agreement. The affiliated interest statute provides, "Regular recurring transactions under a general or continuing arrangement that has been approved by the commission are valid if they are conducted in accordance with the approved terms and conditions."[38] The Commission also has "continuing supervisory control over the terms and conditions of [affiliated interest] contracts and arrangements . . . so far as necessary to protect and promote the public interest."[39]

Significant risks and costs are presented in this arrangement as it interplays with Pilot 5 that fundamentally shift the currently approved agreement and the Commission should revisit it. These changes go against Xcel's commitment in its 2019 affiliated interest request that company shareholders would "make all necessary investment and assume all business risks" and "[r]atepayers will not be responsible for any risks associated with supplying steam to [the customer] and will not incur any increased costs."[40] Because Xcel is proposing to change the fuel source for the auxiliary boiler **[NOT PUBLIC DATA BEGINS**

[37] *In re Petition Requesting Approval of the Amended Agreement*, Docket No. E002/M-19-663, Order (Feb. 21, 2020).
[38] Minn. Stat. § 216B.48, subd. 3.
[39] *Id.*, subd. 6.
[40] Attach. 4 (Petition at 7).

NOT PUBLIC DATA ENDS]

Xcel proposes "to price the hydrogen produced from this pilot at the cost of conventional natural gas as set in [the] monthly purchase gas adjustment [(PGA)] filings."[41] The costs of conventional natural gas generally range between $2.50 to $9/Dth.[42] Xcel estimates that the "cost" of its hydrogen from this project is over $49/Dth.[43] Xcel's proposed arrangement is not fair to its regulated operations and ratepayers.

While Xcel claims that its "natural gas customers do not pay for any costs to serve steam, nor do they receive any revenues from the steam customer,"[44] this will cease to be true if Xcel's pilot is approved. Xcel's natural gas customers will be paying $26 million to provide hydrogen to Xcel's auxiliary boiler, the sole purpose of which will be to provide steam to an unregulated customer when Sherco Unit 1 is retired in 2028 and Sherco Unit 3 is retired in 2030. Xcel's proposal is particularly troubling because **[NOT PUBLIC DATA BEGINS**

[41] Attach. 2 at 3 (Xcel Response to OAG IR No. 36).
[42] Based on the Natural Gas Citygate Price in Minnesota excluding significant price spikes in 2021 and 2022. *See* https://www.eia.gov/dnav/ng/hist/n3050mn3m.htm.
[43] Xcel Reply Comments at 24.
[44] Attach. 2 at 2 (Xcel Response to OAG IR. No. 36).

NOT PUBLIC DATA ENDS].[45] This shifts significant risks from Xcel's unregulated operations to its regulated operations.

While Xcel's proposal to subsidize its unregulated operations is more troubling, subsidizing Xcel's electric operations is also inappropriate. While many of Xcel's natural gas customers take electric service from Xcel's electric utility, there are many more electric customers that will benefit from this pilot who are not gas customers. Additionally, natural gas usage does not always align with electric usage. Large natural gas users would be providing a greater subsidy to electric consumers, whether or not they consumed similar amounts of electricity. This is particularly true for low-income households that may have large heating loads due to inefficient boilers and furnaces and poor insulation, but that do not have air conditioning due to its high cost.

If Xcel's pilot is approved, the terms of its affiliated interest arrangement with its unregulated business will fundamentally change and cease to protect and promote the public interest. Therefore, if the Commission approves this pilot, it should reopen the affiliated interest arrangement to determine a new arrangement or require that Xcel file a new affiliated interest arrangement that will protect Xcel's gas utility ratepayers.[46]

C. If Approved, Pilot 5's Costs Should Be Allocated to the Industrial Class.

Regardless of whether Pilot 5 is modified to ensure that Xcel's gas ratepayers do not subsidize Xcel's unregulated operations, these costs should not fall on residential or small business

[45] *See* Xcel Initial Filing, Ex. B at 24, 29.

[46] If the affiliated interest arrangement is not revisited, there is a question as to whether a electrolyzer used solely to provide hydrogen to Xcel's unregulated operations is "used and useful in utility service." Minn. Stat. § 216B.16, subd. 6. While the NGIA provides for utilities to engage in innovative activities, nowhere does the Act modify the regulatory construct to allow utilities to use ratepayer dollars to construct and earn a return on facilities operated solely to provide service to an unregulated affiliate. If an alternative arrangement is not approved, the costs of this facility should not be included in Xcel's rate base.

customers.[47] In its reply comments Xcel continued to support charging all, non-exempt ratepayers for the project.[48] Currently, however this pilot only, indirectly, serves one industrial customer and Xcel's electric generation facilities. Any benefits to the residential and small commercial classes remain speculative and not likely to occur during Xcel's initial NGIA, if ever. Basing current cost allocation on the possibility of future benefits is unreasonable. For instance, it is possible that Xcel applies a learning from the Prairie Island Indian Community Weatherization and Electrification pilot to its commercial customers in the future, but the OAG does not recommend allocating the costs of this pilot to Xcel' industrial and commercial customers. As noted in initial comments, this treatment does not match Xcel's own commitment that "its recovery mechanisms [will] ensure that the customer classes who receive the benefits of specific projects pay for those projects, and conversely, do not pay for the projects targeted to other classes."[49] Therefore, the costs of Pilot 5 should be allocated to Xcel's larger commercial and industrial customers, or if the hydrogen is used for Sherco's power generation facilities to Xcel's generation class.[50]

D. Conclusions and Recommendation

The OAG is deeply troubled by Xcel's current proposal, where Xcel seeks to use its gas ratepayers' dollars to construct a hydrogen facility that will fuel a single steam boiler to serve either Xcel's electric customers or create steam revenues for Xcel's unregulated business—all while paying its gas ratepayers only the cost of geologic natural gas for a significantly more expensive fuel. Allowing Xcel's shareholders to pay Xcel's gas ratepayers the price of natural gas, approximately $2.50-$9/Dth, for hydrogen, approximately $50/Dth, from an electrolyzer that will cost gas ratepayers $26 million to construct, is an unreasonable subsidy to Xcel's unregulated

[47] OAG Initial Comments 30–32.
[48] Xcel Reply Comments at 23.
[49] Xcel Initial Filing at 31.
[50] OAG Initial Comments at 32.

operations. Further, Xcel's proposed pilot would shift significant risks from its unregulated operations to its regulated utility. While the contract between Xcel and the steam customer **[NOT PUBLIC DATA BEGINS**

NOT PUBLIC DATA ENDS] While there may be ways to ensure that Xcel's gas ratepayers are protected from these risks presented by Xcel's unregulated operations, they are not included in the current affiliated interest arrangement. It must be modified to protect the public interest.

In an effort to find solutions that will hold ratepayers harmless while authorizing the innovative aspects of this pilot, the OAG recommends the Commission approve the pilot on the condition that Xcel propose an alternative affiliated interest arrangement with updated terms that compensate and/or protect Xcel's gas ratepayers for the costs and risks of this arrangement. The Commission should require this affiliated interest agreement be approved before Xcel may recover any costs for this pilot.[51]

III. CARBON SEQUESTRATION PILOTS – PILOTS 7 AND 8

Xcel's reply comments raise several arguments in response to the OAG and other parties' opposition to inclusion of two pilots it claims are "carbon capture" resources under the Act: Pilot 7,

[51] The OAG does not oppose Xcel recovering plan development admin costs for this pilot before the approval of the new affiliated interest arrangement.

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October 25, 2019

—Via Electronic Filing—

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

RE: PETITION REQUESTING APPROVAL OF THE AMENDED AGREEMENT WITH LIBERTY PAPER, INC. AND APPROVAL OF ACCOUNTING AND RATE TREATMENT
DOCKET NO. E002/M-19-___

Dear Mr. Wolf:

Northern States Power Company, doing business as Xcel Energy, submits to the Minnesota Public Utilities Commission this Petition for approval of the amended agreement with Liberty Paper, Inc. and approval of accounting and rate treatment.

Portions of our Petition have been marked Non-Public as they contain information the Company considers to be trade secret data as defined by Minn. Stat. §13.37(1)(b). This data contains confidential pricing and contractual information. The information derives an independent economic value from not being generally known or readily ascertainable by others who could obtain a financial advantage from their use. Thus, Xcel Energy maintains this information as a trade secret pursuant to Minn. Rule 7829.0500.

Attachment A provided with the Not Public version of the Petition contains data classified as trade secret pursuant to Minn. Stat. §13.37, subd. 1(b). This information derives independent economic value from not being generally known or readily ascertainable by others who could obtain a financial advantage from its use and is marked as "Not Public" in its entirety. Pursuant to Minn. R. 7829.0500, subp. 3, the Company provides the following description of the excised material:

PUBLIC DOCUMENT - NOT PUBLIC DATA HAS BEEN EXCISED

1. **Nature of the Material**: Attachment A is a copy of a Steam Agreement between Liberty Paper, Inc. and Northern States Power Company, dated effective as of September 10, 2019 (Agreement).
2. **Authors:** The Agreement was created as a result of negotiations between Liberty Paper, Inc. and Northern States Power Company.
3. **Importance:** The Agreement contains confidential and competitively sensitive contractual terms regarding the provision of an unregulated service by the Company to a customer.
4. **Date the Information was Prepared**: The Agreement is dated effective September 10, 2019.

We have electronically filed this document with the Minnesota Public Utilities Commission, and copies have been served on the parties on the attached service list. Please contact me at allen.krug@xcelenergy.com or at (612) 330-6270 if you have any questions regarding this filing.

Sincerely,

/s/

AL KRUG
ASSOCIATE VICE PRESIDENT OF STATE REGULATORY POLICY

Enclosures
c: Service List

PUBLIC DOCUMENT – NOT PUBLIC DATA HAS BEEN EXCISED

STATE OF MINNESOTA
BEFORE THE
MINNESOTA PUBLIC UTILITIES COMMISSION

Katie J. Sieben	Chair
Dan Lipschultz	Vice-Chair
Valerie Means	Commissioner
Matthew Schuerger	Commissioner
John A. Tuma	Commissioner

IN THE MATTER OF A PETITION REQUESTING APPROVAL OF THE AMENDED AGREEMENT WITH LIBERTY PAPER, INC. AND APPROVAL OF ACCOUNTING AND RATE TREATMENT	DOCKET NO. E002/M-19-____ **PETITION**

INTRODUCTION

Northern States Power Company, doing business as Xcel Energy (the Company), submits to the Minnesota Public Utilities Commission (Commission) this Petition for approval of an updated Steam Agreement between Liberty Paper, Inc. (LPI) and the Company, dated September 10, 2019 (the Updated Agreement) for the provision of thermal energy, in the form of steam. The Company is also requesting approval to continue treating the provision of steam to LPI, pursuant to the terms of the Updated Agreement, as a nonregulated business for accounting and rate purposes. This Updated Agreement is an update to the terms of the original Agreement between LPI and the Company, which was signed on October 26, 1993, and extended on May 14, 2014 (the Existing Agreement). The Existing Agreement, and the accounting treatment for the Company's provision of steam to LPI were approved by the Commission in a February 14, 1995 ORDER APPROVING ACCOUNTING PROCEDURES in Docket No. E002/M-93-1253.

LPI's facility was constructed in 1993 near our Sherburne County Generating Plant (Sherco). The location was selected due to its proximity to our Sherco plant and to stimulate economic development in the Sherburne County area. LPI's facility uses excess steam from Sherco for thermal energy used in its process of recycling cardboard and miscellaneous waste paper. The recycled materials are primarily converted into linerboard paper used for the construction of cardboard boxes. LPI has been successful at bringing high-quality manufacturing jobs to the Becker and greater Sherburne County area. Currently, LPI employs over 160 people at this facility.

The Existing Agreement between LPI and the Company expires on December 31, 2019. The Company is requesting Commission approval of a 15-year Updated Agreement, starting January 1, 2020, continuing the current business relationship of the Company and LPI under updated terms. This filing provides a summary of the Updated Agreement and highlights changes from the Existing Agreement. We also provide a discussion of our proposed accounting and rate treatment, consistent with the accounting and rate treatment of the Company's existing relationship with LPI.

I. SUMMARY OF FILING

A one-paragraph summary is attached to this filing pursuant to Minn. R. 7829.1300, subp. 1.

II. SERVICE ON OTHER PARTIES

Pursuant to Minn. R. 7829.1300, subp. 2, the Company has served a copy of this filing on the Office of the Attorney General – Antitrust and Utilities Division. A summary of the filing has been served on all parties on the enclosed service list.

III. GENERAL FILING INFORMATION

Pursuant to Minn. R. 7829.1300, subp. 3, the Company provides the following information.

A. Name, Address, and Telephone Number of Utility

Northern States Power Company doing business as:
Xcel Energy
414 Nicollet Mall
Minneapolis, MN 55401
(612) 330-5500

B. Name, Address, and Telephone Number of Utility Attorney

Matt Harris
Principal Attorney
Xcel Energy
401 Nicollet Mall, 8th Floor
Minneapolis, MN 55401
(612) 330-7641

C. Date of Filing and Proposed Effective Date

The date of this filing is October 25, 2019. The proposed effective date for the agreement is January 1, 2020, or 30 days after the Commission's Order date.

Given the timing of this filing, there is a possibility that our request may not be approved before the proposed effective date for the Updated Agreement. In the event that this occurs, the Company intends to commence service pursuant to the terms of the Updated Agreement with LPI on January 1, 2020, subject to a payment true-up in the event that the Commission makes changes to the agreement. In addition, both LPI and the Company will have the ability to back out of the signed agreement in the event that the Commission makes any material changes that are unacceptable to either party.

D. Statute Controlling Schedule for Processing the Filing

The Company seeks Commission approval of the Updated Agreement pursuant to Minn. Stat. § 216B.05 and our proposed accounting treatment pursuant to Minn. Stat. §216B.10. Under the Commission's rules, the Company's request falls within the definition of a miscellaneous filing under Minn. R. 7829.0100, subp. 11, since no determination of Xcel Energy's general revenue requirement is necessary.

E. Utility Employee Responsible for Filing

Al Krug
Associate Vice President of State Regulatory Policy
Xcel Energy
414 Nicollet Mall, 401 - 7th Floor
Minneapolis, MN 55401
(612) 330-6270

IV. MISCELLANEOUS INFORMATION

Pursuant to Minn. R. 7829.0700, the Company requests that the following persons be placed on the Commission's official service list for this proceeding:

Matt Harris
Principal Attorney
Xcel Energy
414 Nicollet Mall, 401 - 8th Floor
Minneapolis, MN 55401
matt.b.harris@xcelenergy.com

Lynnette Sweet
Regulatory Administrator
Xcel Energy
414 Nicollet Mall, 401 - 7th Floor
Minneapolis, MN 55401
regulatory.records@xcelenergy.com

Any information requests in this proceeding should be submitted to Lynnette Sweet at the Regulatory Records email address above.

V. SUMMARY OF EXISTING STEAM AGREEMENT BETWEEN LPI AND THE COMPANY

The terms of the Existing Agreement between the Company and LPI were considered by the Commission in Docket No. E002/M-93-1253. As here, the Company requested approval of the agreement and proposed accounting treatment pursuant to Minn. Stat. §§ 216B.05 and 216B.10. Although the Department of Public Service (Department) contended the request should have been analyzed as an affiliated interest agreement under Minn. Stat. § 216B.48, the Department ultimately concluded the agreement was in the public interest and should be approved. The Commission concurred, finding that the Company had properly submitted the agreement under § 216B.05 and Minn. Stat. § 216B.10 (as opposed to Minn. Stat. § 216B.48). The Commission further approved the proposed agreement and accounting treatment and found that the proposal "fulfills the statutory filing and accounting requirements and sufficiently protects ratepayers' interest".[1]

The proposed Updated Agreement is substantively similar to the Existing Agreement approved by the Commission, with only limited differences. These differences include, for example, the more specific language surrounding options for ending the agreement early. In addition, the Updated Agreement has simpler terms for how LPI is charged for its steam consumption. In the new agreement, capacity and demand factors are built into a single base energy charge. Previously these were separate billing factors for capacity and demand. The new agreement also has a built-in annual adjustment **[PROTECTED DATA BEGINS…**

[1] ORDER APPROVING ACCOUNTING PROCEDURES, Docket No. E002/M-93-1253 (February 14, 1995), Page

…PROTECTED DATA ENDS]

VI. DESCRIPTION OF AGREEMENT

The proposed agreement between LPI and the Company lays out the terms, rights, duties, and obligations for each party and sets the pricing terms starting January 1, 2020. Below, we provide a brief summary of key terms of the agreement. The full agreement is included as Attachment A.

A. Steam Supply System

As under the Existing Agreement, under the Updated Agreement, LPI will purchase steam from the Company in order to provide thermal energy to their recycling facility. Steam will be provided through a dedicated Steam Supply System that connects the Company's Sherco facility to LPI's facility. The Company will be responsible for owning, operating, and maintaining the Steam Supply System in order to continue steam service. LPI will provide the Company a right-of-way within the LPI facility in order to construct, operate, and maintain the Steam Supply System.

The Company will be responsible for providing all necessary labor and equipment required to operate the Steam Supply System at the Company's cost. However, under the terms of the Updated Agreement, LPI shall reimburse the Company for any capital costs in excess of **[PROTECTED DATA BEGINS… …PROTECTED DATA ENDS]** per year for capital projects that exclusively serve the LPI facility. LPI will be responsible for operating and maintaining their own facilities, at their cost.

For more details on the terms of the agreement relating to the Steam Supply System, please see Paragraphs 4.1 through 4.14 of the agreement, included as Attachment A.

B. Steam Supply Commitment and Pricing

As under the Existing Agreement, under the Updated Agreement, provided that the Company makes the amount of steam available each year, LPI shall be required to **[PROTECTED DATA BEGINS… …PROTECTED DATA ENDS]** Additionally, LPI shall return condensate to the Company at a monthly return rate of at least **[PROTECTED DATA BEGINS… …PROTECTED DATA ENDS]** Under the Updated Agreement, the base energy charge that LPI will pay for steam initially will be **[PROTECTED DATA BEGINS… …PROTECTED**

DATA ENDS] per 1,000 pounds of steam delivered, and LPI agrees to pay **[PROTECTED DATA BEGINS…**

…PROTECTED DATA ENDS] Finally, LPI will pay **[PROTECTED DATA BEGINS…**

…PROTECTED DATA ENDS]

For more details on the terms of the agreement relating to the Steam Supply System, please see Articles 4 and 5 of the agreement, included as Attachment A.

C. Electricity Service

As under the Existing Agreement, under the Updated Agreement, LPI shall purchase electric services from the Company for the purposes of operating their recycling facility for the entire term of the agreement. **[PROTECTED DATA BEGINS…**

…PROTECTED DATA ENDS]

D. Potential Changes at Sherco and Effect on Agreement

In the event that the Company chooses to construct a combined cycle plant at the Sherco site during the term of the agreement, the Company will inform LPI at least 3 years and 3 months prior to the expected completion date of construction. At that time, the Company may also propose a new energy charge or pricing structure to cover the cost of delivering steam to LPI from the combined cycle plant, along with new annual steam supply and take commitments. LPI will then have 90 days to respond whether they would like to receive steam from the new combined cycle plant. If LPI objects to any terms, then the parties will renegotiate the agreement, and any changes would be included in an amended agreement.

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[2] **[PROTECTED DATA BEGINS…**

…PROTECTED DATA ENDS]

[3] **[PROTECTED DATA BEGINS…** **…PROTECTED DATA ENDS]**

E. Early Termination of Agreement

The Company has the right to terminate the agreement for any reason by giving three years notice to LPI. In addition, the Company may terminate immediately upon written notice in the event that LPI's facility is abandoned, LPI declares bankruptcy, or LPI does not consent to a Major Capital Project.[4]

Conversely, after December 31, 2021 LPI may terminate the agreement for their convenience with one year prior written notice. However, LPI will be subject to a termination payment, based on the year of termination.[5]

For more details on the terms of the agreement relating to early terminations, please see Article 13 of the agreement, included as Attachment A.

F. End of Agreement Term

The term of the new agreement shall continue until December 31, 2035. If Sherco is shut down earlier than the end of 2035, the agreement may still continue by using steam from an auxiliary boiler plant or a new combined cycle facility. The previously discussed early termination rules would still apply in these situations. For more details relating to the term of the agreement, please see Article 12 of the agreement, included as Attachment A.

VIII. PROPOSED ACCOUNTING AND RATE TREATMENT

Consistent with the accounting treatment approved by the Commission in conjunction with the original agreement, we are proposing to continue providing steam to LPI as a nonregulated venture. Company shareholders will make the necessary investment and assume all business risks associated with the operations. Ratepayers will not be responsible for any risks associated with supplying steam to LPI and will not incur any increased costs. Costs associated with constructing and maintaining the Steam Supply System will be segregated from the utility rate base for ratemaking purposes. All operating and maintenance expenses and revenue will be recorded in nonutility operating accounts.

[4] Per the agreement, Major Capital Project is defined as any project that exceeds $100,000 of capital costs.
[5] The termination payment schedule can be found as Exhibit E to the agreement, included as Attachment A.

CONCLUSION

Xcel Energy respectfully requests that the Commission approve the proposed amended agreement between the Company and LPI for the provision of thermal energy, in the form of steam. The Company also respectfully requests that the Commission approve our proposed accounting and rate treatment.

The agreement facilitates the transfer of steam from our Sherco facility to LPI's cardboard recycling plant. This is an amendment to the agreement initially signed in 1993. The new agreement is planned to be signed January 1, 2020 and will continue until December 31, 2035.

Dated: October 25, 2019

Northern States Power Company

PUBLIC DOCUMENT – NOT PUBLIC DATA HAS BEEN EXCISED

STATE OF MINNESOTA
BEFORE THE
MINNESOTA PUBLIC UTILITIES COMMISSION

Nancy Lange	Chair
Dan Lipschultz	Commissioner
Matthew Schuerger	Commissioner
Katie J. Sieben	Commissioner
John A. Tuma	Commissioner

IN THE MATTER OF A PETITION REQUESTING APPROVAL OF THE AMENDED AGREEMENT WITH LIBERTY PAPER, INC. AND APPROVAL OF ACCOUNTING AND RATE TREATMENT

DOCKET NO. E002/M-19-____

PETITION

SUMMARY OF FILING

Northern States Power Company, doing business as Xcel Energy (Company), submits this Petition for approval of an updated agreement between the Company and Liberty Paper, Inc. (LPI) for the provision of thermal energy, in the form of steam. The Company is also requesting approval of our proposal to continue treating operations of providing steam to LPI as a nonregulated business for accounting and rate purposes. The agreement between the Company and LPI began in 1993. Scheduled to begin January 1, 2020, the proposed updated agreement will extend until December 31, 2035.

PUBLIC DOCUMENT - NOT PUBLIC DATA HAS BEEN EXCISED

Attachment A provided with the Not Public version of the Petition contains data classified as trade secret pursuant to Minn. Stat. §13.37, subd. 1(b). This information derives independent economic value from not being generally known or readily ascertainable by others who could obtain a financial advantage from its use and is marked as "Not Public" in its entirety. Pursuant to Minn. R. 7829.0500, subp. 3, the Company provides the following description of the excised material:

1. **Nature of the Material**: Attachment A is a copy of a Steam Agreement between Liberty Paper, Inc. and Northern States Power Company, dated effective as of September 10, 2019 (Agreement).
2. **Authors:** The Agreement was created as a result of negotiations between Liberty Paper, Inc. and Northern States Power Company.
3. **Importance:** The Agreement contains confidential and competitively sensitive contractual terms regarding the provision of an unregulated service by the Company to a customer.
4. **Date the Information was Prepared**: The Agreement is dated effective September 10, 2019.