

November 3, 2014

Via electronic mail and U.S. mail

Dr. Burl Haar
Executive Secretary
Minnesota Public Utilities Commission
121 East Seventh Place, Suite 350
St. Paul, MN 55101

Re: **Reply Comments of Calpine Corporation**

***In the Matter of the Petition Northern States Power Company for Approval of
Competitive Resource Acquisition Proposal and Certificate of Need***

Docket Nos.: E-002/CN-12-1240, E-002/M-14-788 and E-002/M-14-789

Dear Dr. Haar:

Pursuant to the Minnesota Public Utilities Commission's ("Commission") September 25, 2014 Notice Seeking Comments, Calpine Corporation and its affiliate Mankato Energy Center, LLC ("Calpine") hereby submit their Reply Comments in the above-captioned proceedings.

Thank you for your attention to this matter.

Sincerely,

STINSON LEONARD STREET LLP

Brian Meloy

Brian M. Meloy

BMM/cw
Attachments

**STATE OF MINNESOTA
BEFORE THE
MINNESOTA PUBLIC UTILITIES COMMISSION**

<i>In the Matter of the Petition</i>)	
<i>Northern States Power Company</i>)	MPUC Docket Nos.: E-002/CN-12-1240
<i>for Approval of Competitive</i>)	E-002/M-14-788
<i>Resource Acquisition Proposal</i>)	E-002/M-14-789
<i>and Certificate of Need</i>)	

**REPLY COMMENTS
OF CALPINE CORPORATION**

Pursuant to the Minnesota Public Utilities Commission’s (“Commission”) September 25, 2014 Notice Seeking Comments, Calpine Corporation and its affiliate Mankato Energy Center, LLC (“Calpine”) hereby submit their Reply Comments in the above-captioned proceedings. Calpine’s comments briefly respond to the Department of Commerce’s (“Department”) October 23, 2014 Initial Comments.

**I.
REPLY COMMENTS**

In its October 23 Comments, the Department thoroughly evaluates Xcel Energy Inc.’s (“Xcel”) updated forecast and corresponding recommendation that the Commission defer the addition of thermal resources beyond 2019. Based on its own analysis, the Department concludes that, “Xcel should add capacity to its system by no later than 2018.”¹ Calpine agrees with the Department’s assessment. As Calpine noted in its Initial Comments, a potentially significant, multi-year delay in the ability to install new capacity on a competitive basis is not in the long-term interests of Xcel’s customers and may preclude Xcel from being able to take advantage of a uniquely cost-effective

¹ Department’s Initial Comments at p. 11.

opportunity for new combined cycle generating capacity. The record shows that delaying the addition of competitively priced capacity would likely increase costs for consumers over the long-term and potentially limit the ability of the Commission to make resource decisions in the future.

In addition to addressing Xcel's forecast update, the Department presented an analysis of the PPAs submitted by Xcel. With respect to the Calpine PPA, the Department raised two concerns: (1) that inclusion of a Dispatchability Payment in the PPA is an unreasonable deviation from Calpine's bid;² and (2) Xcel assuming responsibility for interconnection costs "places an unknown cost on Xcel ratepayers."³ While Calpine appreciates the Department's concerns, the PPA negotiations should not be viewed in a vacuum. As discussed below, viewed in context of the entire PPA negotiations – which resulted in even stronger ratepayer protections compared with Calpine's initial bid – the inclusion of a Dispatchability Payment and allocation of interconnection costs to Xcel is just and reasonable.

A. Dispatchability Payment

As the Commission can appreciate, PPA negotiations necessarily involve give and take as the contracting parties agree upon a reasonable allocation of risks and benefits. While it is true that Calpine's original bid did not include a Dispatchability Payment, the negotiations resulted in Calpine taking on greater commercial risk than was contemplated in its initial bid. Calpine views this give and take as an inherent part of any negotiation between sophisticated parties – particularly here, where bidders were not asked to conform their original bid to any particular form of PPA with preferred or expected terms and conditions.⁴

² Department's Initial Comments at p. 16.

³ *Id.* at p. 17.

⁴ In contrast to Xcel's recent solar and wind request for proposals, Xcel did not include a draft *pro forma* PPA with its bid instructions. Had such a PPA been included, Calpine could have better assessed the allocation of risk Xcel expected and confirmed its bid accordingly.

Most significantly, in comparison to what the Department characterizes as a “slight” increase in capacity payments, Calpine has accepted substantially greater risk related to when the Mankato Expansion’s capacity will become fully accredited. The Calpine PPA requires that Calpine meet a date-certain commercial operation date (“COD”) for the Expansion – regardless of whether the Expansion’s capacity is fully accredited by MISO at that time.⁵ Since the PPA terms (*i.e.*, contract payments) do not commence until the Expansion is fully accredited, Calpine has effectively agreed to make a significant capital investment to build the Expansion prior to full capacity accreditation. This and other aspects of the PPA reflect Calpine’s willingness to provide Xcel with the maximum amount of flexibility with respect to the Expansion.

As the Department notes in its Initial Comments, the capacity accreditation issue is a MISO system issue outside of Calpine’s control that is currently being addressed by MISO.⁶ Calpine certainly did not assume such risks in formulating its April 2013 bid, but agreed to take on additional risks in the iterative negotiation process – just like Xcel agreed to a Dispatchability Payment. In this respect, Calpine’s assumption of risk is illustrative of both the typical negotiation process and Calpine’s long-term commitment to Xcel and its customers.

Similarly, Calpine has agreed to allow Xcel to delay the COD of the Expansion and even terminate the PPA early upon notice in certain circumstances.⁷ In addition, Calpine’s bid assumed that Xcel would take on all emission related risks. As the Department notes in its Initial Comments, however, the Calpine PPA places only the risk of carbon dioxide regulation directly on Xcel, while other changes in law related to emissions require that Xcel and Calpine cooperate to find a mutually

⁵ See Section 4.2 of the Calpine PPA.

⁶ Department’s Initial Comments at p. 17 (“MISO is aware of this concern and is working with its stakeholder to identify ways for conditional GIAs to qualify as capacity resources prior to the 2019/2020 planning year.” Citing Xcel’s response to Commission Information Request No. 8).

⁷ See Sections 2.3 and 2.4 of the Calpine PPA.

agreeable response and mitigation measures.⁸ Because such give and take is a natural part of the negotiation process, it is overly simplistic to look at one term or provision in isolation to determine whether a PPA conformed to a bid that did not have the benefit of a form PPA as a foundational document.

Finally, as the Department acknowledged, the inclusion of a Dispatchability Payment was intended to “mirror the same terms in the existing Mankato Energy Center PPA.”⁹ The purpose of such a payment is to help Xcel optimize the operational flexibility of the Expansion via automatic generation control (“AGC”) and help conform the new PPA so that it is more reflective of operations related to the PPA for the existing plant.¹⁰

Thus, Xcel receives numerous and substantial additional benefits in exchange for agreeing to a Dispatchability Payment that the Department concedes only “*slightly* increases the total expected capacity payments to Calpine.”¹¹ On balance, Calpine asserts that the PPA substantially *increases* the ratepayer value of the Expansion compared with Calpine’s initial bid.

B. Interconnection Costs

As part of its April 2013 bid, Calpine allocated interconnection related costs to Xcel, based on Calpine’s view that Xcel is in the best position to manage such costs. During this proceeding, however, Calpine provided Xcel and the Department with information available to it from MISO regarding the likely magnitude of such costs, but noted that such cost estimates would be confirmed

⁸ Department’s Initial Comments at p. 18.

⁹ *Id.* at p. 15.

¹⁰ Calpine and Xcel discussed the possibility of merging the existing and Expansion PPAs into a single PPA, but ultimately concluded it may be too complicated to demonstrate that the Expansion PPA conformed to Calpine’s original bid. Notwithstanding this fact, it should be recognized that there is likely additional value in treating the entire facility as a single generation station. The Dispatchability Payment is one way to accomplish that objective.

¹¹ Department’s Initial Comments at p. 15. Emphasis added.

upon completion of a facilities study.¹² Due to delays in the MISO interconnection process and required restudies, MISO has yet to complete the facilities study. As a result, the Department is correct that the final costs remain unknown at this time.¹³

Simply because such costs are not final, it is not unreasonable to allocate interconnection costs to Xcel. Based on the studies that have been done to date, and given the Expansion's advantageous queue position, there is no reason to suspect that such costs will be excessive. Moreover, in its modeling, the Department assigned a \$1.5 million adder to Calpine's bid to reflect expected interconnection costs. The Department found that the Mankato Expansion was a cost-effective resource addition even when assuming that ratepayers would be exposed to that additional cost.

In developing its bid, Calpine determined that Xcel was in the best position to manage interconnection costs. As the interconnecting transmission owner and developer of some of the "contingent" transmission facilities,¹⁴ Xcel has both the expertise and knowledge of the transmission system topology to best manage the cost associated with the interconnection of the Calpine Expansion. Xcel has assumed and effectively managed such risks in other PPA negotiations¹⁵ and consistent with Calpine's bid agreed to such cost responsibility in the Calpine PPA. While the final costs to interconnect Calpine Expansion may be unknown to some extent, Calpine believes that such risks are

¹² See Calpine's Supplemental Response to Department Information Request No. 47.

¹³ Calpine commits to keeping Xcel and the Commission informed with respect to such cost estimates as it proceeds through the interconnection process. Calpine expects that such information will provide comfort that the level of risk being assumed by Xcel is reasonable.

¹⁴ As the Department notes in its Comments, "[o]ver the past several years GIAs for projects located in the Minnesota area have been conditional upon the completion of various MISO Multi-Value Projects including the North LaCrosse to Madison 345 kV line." Department's Initial Comments at p. 17.

¹⁵ As the Commission noted in its December 13, 2013 Order approving the acquisition of certain wind farms in Docket Nos. E-002/M-13-603 and E-002/M-13-716, "Xcel adopted different strategies for managing the interconnection risk associated with the Border Winds and Pleasant Valley projects. Xcel negotiated the price terms of the proposed Pleasant Valley contract with the benefit of interconnection cost studies performed separately by MISO and Xcel. But in the Border Winds contract, Xcel agreed to bear a portion of the project's interconnection costs up to a cap; if costs would exceed the cap, Xcel would have the option of cancelling the contract." See *Order Approving Acquisition with Conditions* at p. 16.

manageable, and similar to the Dispatchability Payment, reflects a reasonable allocation of risk between the parties.

II. CONCLUSION

Calpine agrees with the premise that bidders should be held to the prices and terms used to evaluate their bids. This is particularly important given that Calpine and the other parties are competing against a self-build proposal where Xcel did not bid a fixed price but is seeking cost recovery based on an incentive ratemaking structure. At the same time, it would be unfair and counterproductive to hold competitive bidders accountable for concessions they received during give-and-take negotiations while ignoring important concessions that were made during those negotiations. The inclusion of the Dispatchability Payment in the Calpine PPA must be viewed in the context of the increased commercial risk Calpine has accepted and the additional flexibility the PPA provides to Xcel and its ratepayers, as compared with Calpine's initial bid.

Calpine appreciates the opportunity to provide this brief response to the Department's Initial Comments and reiterates its request that Commission approve the Calpine PPA and order Xcel to proceed with its implementation.

Dated: November 3, 2014

Respectfully submitted,

/s/ Brian M. Meloy

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STATE OF MINNESOTA
BEFORE THE
MINNESOTA PUBLIC UTILITIES COMMISSION

*In the Matter of the Petition of
Northern States Power Company to
Initiate a Competitive Resource
Acquisition Process*

) **Docket Nos.: E-002/CN-12-1240**
) **E-002/M-14-788**
) **E-002/M-14-789**
)
) **CERTIFICATE OF SERVICE**

Catherine M. Wood, certifies that on November 3, 2014 she served true and correct copies of the **Reply Comments of Calpine Corporation** upon the following parties via e-filing and/or U.S. Mail:

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