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Minneapolis, MN 55401

August 6, 2015

—Via Electronic Filing—

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

RE: REPLY COMMENTS
SCHOOL SISTERS POWER PURCHASE AGREEMENT WITH BEST POWER INTL.,
LLC
DOCKET NO. E002/M-15-619

Dear Mr. Wolf:

Northern States Power Company, doing business as Xcel Energy, submits this Reply to the July 21, 2015 Comments of the Minnesota Department of Commerce – Division of Energy Resources in the above-referenced docket.

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 Rebecca Eilers at 612-330-5570 or rebecca.d.eilers@xcelenergy.com if you have any questions regarding this filing.

Sincerely,

/s/

PAUL LEHMAN
MANAGER, COMPLIANCE & FILINGS

Enclosures
c: Service List

STATE OF MINNESOTA
BEFORE THE
MINNESOTA PUBLIC UTILITIES COMMISSION

Beverly Jones Heydinger	Chair
Nancy Lange	Commissioner
Dan Lipschultz	Commissioner
John Tuma	Commissioner
Betsy Wergin	Commissioner

IN THE MATTER OF THE PETITION OF
NORTHERN STATES POWER COMPANY
FOR APPROVAL OF THE SCHOOL SISTERS
POWER PURCHASE AGREEMENT WITH
BEST POWER INT'L, LLC

DOCKET No. E002/M-15-619

REPLY COMMENTS

INTRODUCTION

Northern States Power Company, doing business as Xcel Energy, submits to the Minnesota Public Utilities Commission this Reply to the July 21, 2015 Comments of the Minnesota Department of Commerce – Division of Energy Resources on our Petition for Approval of the School Sisters of Notre Dame Power Purchase Agreement with Best Power Int'l, LLC (SSND Best Power PPA).

We appreciate the Department's thorough review of our Petition and the PPA with Best Power. We provide our Reply to the Department's request for additional information below, and we respond to the Department's specific recommendations regarding certain contract terms and relevant aspects of the Renewable Development Fund (RDF) program.

REPLY

A. Comparison of RDF Proposal to PPA Terms

1. Project Capacity

The Department requested we reconcile the difference between the project capacity used in the selection of the Project and the project capacity identified in the executed PPA. There is no difference between the capacity of the project as noted in the original RDF project submission and the capacity noted in the executed PPA. The capacity has merely been stated in different measurement terms. In response to the RDF Request for Proposals, developers listed the nameplate capacity of a solar panel

in DC, which is the capacity at the point of generation. However, the utility purchases the energy measured in AC at the point of interconnection, also called the “point of common coupling.” Thus our solar PPAs uniformly state AC capacity because that is the measurement used at the meter. Section 2, Technical Aspects, of Best Power’s RDF grant proposal provides an estimated conversion from DC to AC capacity, which is less than 1 percent different than the final AC capacity included in the executed PPA.¹

Furthermore, the Commission’s July 17, 2015 Order in Rulemaking Docket No. E999/RM-13-729 clarifies the need to state solar capacity in terms of AC in a PPA. The Order approves the following definition additions to Minn. Rule 7835.0100:

- “capacity” is the number of megawatts **alternating current** at the “point of common coupling,” and
- “Point of common coupling” means the point where the qualifying facility’s generation system, including the point of generator output, is connected to the utility’s electric power system.

Because the capacity listed in the RDF proposal and in the executed PPA is for all practical purposes the same capacity, only stated in different measurement terms, the difference does not impact why the project was selected. We will ensure that future RDF PPA Petitions include more clarity regarding the DC to AC conversion.

2. *Contract Extension*

The Department requested that we clarify that the Company will request Commission approval of any extension or non-extension for a period of up to five years if deemed appropriate or inappropriate to pursue such an extension. At this time we are asking for approval of the fifteen-year contract term. If both parties agree to pursue extending the contract as the term expiration date nears, we would seek Commission approval of the contract extension at that time. Since no pricing is provided in the PPA for energy produced throughout the possible five year extension period, the Company would need Commission approval of the extension (along with pricing for the extension period).

However, we do not believe it is necessary for a separate reporting requirement to notify the Commission if the parties decide not to pursue extending the contract. As part of our resource planning process, we assess this type of energy installation in the context of our full portfolio as they near contract expiration. If we anticipate a contract termination or consider a contract extension in the future for the SSND Best

¹ Please see Section D: Project (EP4-5) Status Update of these Reply Comments for additional information about the capacity of this project.

Power PPA, the Commission would see this decision-making reflected in future resource plans for all of our many PPAs for small resources.

3. *References to Nominal and Real Dollars*

The Department recommended that references to real dollars (instead of nominal dollars) be deleted from any energy spreadsheet to be filed with any future application for RDF funding. We understand the Department's concern in being able to make clear "apples-to-apples" comparisons between projects, and we will take this recommendation into consideration when establishing guidelines for the RDF Cycle 5 grant round.

B. Risk and Security

1. *Department Edits to Section 4.4a-b*

We believe the Department's suggested edits to Section 4.4a-b of the PPA may impede our ability to best manage the contract because it relinquishes some of the Company's discretion. We do not believe that the original contract language lacks protections for our ratepayers and would recommend maintaining the original contract language. However, if the Department and Commission feel strongly that edits are warranted, we would recommend modifying the Department's edits in order for the Company to maintain some level of discretion in our management of the contract. Our suggested modification is as follows:

... without the prior written consent of NSP, which shall not be unreasonably withheld, receipt of which ~~will~~ shall be contingent upon, among other things, Seller's demonstration to NSP's satisfaction that the proposed changes ~~will~~ shall not adversely affect the ability of Seller or any successor entity to perform its obligations under this Agreement.

In particular, we believe that the addition of "among other things" provides more flexibility in applying the contract terms without sacrificing protection for our ratepayers.

2. *Best Power's Ability to Perform*

The Department requested that we provide a discussion on whether and to what extent there are circumstances that may limit or preclude Best Power's ability to perform under the proposed PPA and whether and why the Company is satisfied that any such circumstances will not adversely affect the ability of Best Power to perform its obligations under the proposed PPA. The Company does not believe that it is appropriate to speculate on the project's potential problems. Section 7.2 of the PPA provides for incidents of default, and Section 1.62 is a replacement power clause

which protects the Company and our customers. We do not anticipate an instance where replacement power would cost more than the price paid through this PPA. We do not believe there is any inherent risk to this PPA.

3. Ratepayer Protection during Project Operation

The Department asked that the Company discuss whether and how ratepayers would be protected in the situation where the Project would “not operate in accordance with the proposed PPA,” in the absence of a security fund requirement. In general, we only include a security fund provision in small project PPAs to ensure that the project is completed and put in-service. A security fund is not included in small project PPAs for operational purposes after the project is in-service. In the instance of this SSND Best Power PPA, the RDF funding is used to ensure project completion, and therefore a security fund was not considered to be a necessary contract provision.

Throughout the PPA negotiation process, we treated the SSND Best Power solar installation as we treat other small generation projects in the PPA negotiation process. The Company’s small project PPAs do not typically include an operational security fund, therefore the Best Power PPA does not include an operational security fund. As we stated above, we do not anticipate an instance where replacement power would cost more than the price paid through this PPA; therefore, we do not believe ratepayers need any additional protection once the project is operational.

4. Curtailment

The Department noted that the curtailment provision included in the SSND Best Power PPA was not included under similar circumstances in another Commission-approved solar PPA. On June 25, 2010, the Commission approved a PPA between the Company and Best Power for 400 kW of solar generation at the St. John’s solar facility, which is the only Company solar PPA in Minnesota that does not include a curtailment provision.² This was the first solar PPA the Company had executed for a project to be located in Minnesota. At the time that agreement was negotiated and executed, curtailment of a small on-peak generating resource was not contemplated by either of the contracting parties. While curtailment of solar generation for other than emergency conditions is still a remote possibility, the evolution of the solar market in the United States, and within the MISO footprint in particular, has required that curtailment rights for both the project owner and the Company be defined to satisfy lender concerns and to protect the ratepayers for operational system curtailments. For these reasons, we believe that the curtailment provision is an important and necessary component of the SSND Best Power PPA.

² Docket No. E002/M-09-1481. The St. John’s facility was also funded by the RDF program.

5. *Firm/Non-firm Service*

The Department asks us to explain and justify the use of non-firm transmission service. We clarify that the PPA specifies firm transmission service, and the facility would only utilize non-firm transmission service in a case of non-availability of firm service. Section 5.4 of the SSND Best Power PPA states, “**in the event** NSP elects to utilize non-firm transmission service [emphasis added],” as a way to provide the option for non-firm service if necessary. Section 5.4(a) provides NSP the flexibility to utilize non-firm service if system reliability would require the project to be removed from firm transmission service. Non-firm service would be used only as an option to avoid a compensable curtailment as described in Section 5.5(b).

C. **Solar Energy Standard Compliance**

The Department recommends that the Commission find that the renewable energy generated by the SSND Best Power solar installation is eligible for Minnesota’s Renewable Energy Standard (RES),³ but suggested that the Company provide further detail supporting the project’s eligibility under the Solar Energy Standard (SES). The SES requires the Company to generate or procure sufficient solar-generated electricity so that at least 1.5 percent of the Company’s total retail electric sales in Minnesota is generated by solar energy by 2020. The statute identifies an additional solar energy goal for 10 percent of the retail electric sales in the state to be generated by solar energy by 2030.

To ensure that the S-RECs generated at the SSND Best Power facility are SES-compliant, we intend to register them with MRETS as required by Order Point No. 6 of the Commission’s April 25, 2014 Order in Docket No. E999/CI-13-542. In addition, the Commission has recently addressed energy purchased through PPAs as it relates to SES-compliance in two other Company dockets. In the portfolio of three solar PPAs totaling 187 MW, the Commission allowed the Company to count the energy purchased under the approved PPAs toward its SES requirements.⁴ Similarly, during the Commission’s deliberations on July 30, 2015 on the 100 MW Aurora distributed generation solar PPA,⁵ the Commission orally approved the Company PPA costs as prudent and reasonable to meet the SES.⁶ As with these PPAs to

³ The Department affirms in its Comments that the SSND Best Power project meets the statutory definition of an eligible energy technology as it will generate electricity from a solar generation system and that the energy produced from the Project will be transmitted to Xcel Energy’s distribution system.

⁴ March 24, 2015 ORDER APPROVING SOLAR PORTFOLIO in Docket No. E002/M-14-162

⁵ Docket No. E002/M-15-330

⁶ During the July 30 deliberations, the Commission signaled that it wants to further explore whether all renewable projects should automatically flow through the fuel clause rider. The Company considers this to be a forward-looking issue that should not impact the Commission evaluation of the current SSND Best Power

purchase utility-scale solar energy recently approved by the Commission, the Company similarly seeks Commission approval to count the output of the SSND Best Power PPA toward the SES as it is solar energy and obtained through a competitive bidding process with a PPA approved by the Commission.

The Company will comply with the statutes governing the RES and SES, as well as all supporting Commission Orders, in the tracking and reporting of RECs produced by the SSND Best Power solar facility, therefore we respectfully request the Commission approve our proposal to consider this project eligible under the SES.

D. Project (EP4-5) Status Update

The Department recommended the Company submit in the instant docket a copy of the second quarter 2015 update on the Best Power RDF project, which is the subject of this PPA, in order to complete the record. Attachment A is an excerpt of the RDF Quarterly Status and Progress Report, submitted to the Commission on July 29, 2015 in Docket No. E002/M-12-1278, which pertains to Best Power's solar installation at the School Sisters of Notre Dame site.

The Department also recommended that the Commission require Xcel to identify, discuss and justify any changes to the characteristics of any Commission-approved project in any subsequent filing related to this project, including but not limited to a request for PPA approval.

The Company already discusses changes associated with RDF projects through the Quarterly Status and Progress Report mechanism and does not believe additional reporting requirements are necessary at this time. Furthermore, the Company uses long-standing principles in considering and, when necessary, seeking Commission approval of changes to RDF grant contracts. In Docket No. E002/M-05-109, the Company laid out a framework for making changes to RDF grant contracts. Stated briefly,

Type 1 amendments include administrative changes, such as correcting typographical errors and clarification of contract terms. For this type of change, an amendment to the contract is not required, but documentation of the change and demonstration that there was agreement between the parties is required.

PPA. The Commission also is expected to issue a written order in that docket requiring the Company to provide an update on the current status of SES compliance.

Type 2 amendments include minor contract amendments, including such things as schedule changes for justifiable reasons, reorder of reshipment of specified equipment to correct for contracting errors, delays in completion of routine research progress work reports, and minor changes in work scope. For this type of change, a formal amendment to the RDF contract is required.

Type 3 amendments include more material modifications, including such things as significant changes in the Contractor's scope of work, material modifications of technology and/or equipment to be installed for the RDF project, significant change of contractors, or remediation for defective work. For this type of change, the Company first seeks the RDF advisory group's support for the change and then files the amendment with the Commission for approval.

Many grant proposals are not specific about certain details of the project to allow the grant recipient some leeway for refining project features as the project progresses through the planning stages. For instance, the SSND Best Power RDF grant proposal was not specific about the panel type to be used in the installation to allow more flexibility. The Company views details about the panel type to be a Type 1 administrative change, not requiring amendment. As explained in the most recent RDF Quarterly Report, the final design capacity of the system was smaller than the target goal capacity due to optimization of racking and panel placement within the allocated area. The Company is working with Best Power Int'l, LLC to determine what changes are necessary to the RDF grant contract. Once the changes are determined, the Company intends to proceed in the manner contemplated in the framework provided above.

CONCLUSION

We appreciate the Department's review of our Petition and SSND Best Power PPA and hope the additional information we provide in these Reply Comments meets the Department's requests for clarification and further information. We respectfully request that the Commission approve our Petition for Approval of the School Sisters PPA with Best Power Int'l, LLC as supplemented by these Reply Comments.

Dated: August 6, 2015

Northern States Power Company

Excerpt from the RDF Quarterly Status Report filed on July 29, 2015 in Docket Nos. E002/M-00-1583; E002/M-03-1883; E002/M-07-675; and E002/M-12-1278

**4TH FUNDING CYCLE – ENERGY PRODUCTION; RESEARCH AND DEVELOPMENT
PROJECT STATUS AND PROGRESS**

RENEWABLE ENERGY PRODUCTION PROJECTS

EP4-5 **Best Power Int'l – School Sisters of Notre Dame** (*907 kW_{DC} Solar Generation Facility*)

Start Date 10/3/2014

Grant Amount \$900,000

End Date¹ 10/3/2016

Funds Invoiced \$0

Project Summary: This project is to provide an increased knowledge of solar by installing a 907 kW_{DC} photovoltaic (PV) facility that will utilize a 1,000 V_{DC} platform, versus a 600 V_{DC} platform, a ground-mounted PV facility will be constructed on the School Sisters of Notre Dame campus in Mankato, Minnesota.

2nd Quarter Activity: Best Power Int'l has completed the final design documents for an 849.12 kW_{DC} PV array. The final design capacity of the system was slightly smaller than the target goal capacity due to optimization of racking and panel placement within the allocated area. All required permits, including a building permit from the City of Mankato, have been received. Construction started on June 1, 2015 with installing the perimeter fencing, building an access road and site preparation. The racking, solar panels, and inverters have been ordered. An informational project presentation to help increase the knowledge of solar energy in the Mankato area was provided on June 12, 2015 to the Region Nine Renewable Energy Task Force. A power purchase agreement between Best Power Int'l and Xcel Energy was signed on May 11, 2015 and submitted to the Minnesota Public Utilities Commission for approval on June 25, 2015.

¹ The “End Date” stated in the Quarterly Report for all 4th funding cycle energy production and research and development projects coincides with the estimated date of the final milestone in Exhibit C to each grant contract. The 4th funding cycle grant contracts define the term “Grant Contract End Date” as:

the earliest of 1) the completion of the Project; 2) the scheduled completion date indicated on Exhibit C; or 3) the date on which the Grant Contract has been terminated . . .

For the 4th funding cycle, grant contracts for energy production and research and development projects clarify that the Term of the Grant Contract shall not exceed more than three years from the originally-scheduled Grant Contract End Date (Section 2).

CERTIFICATE OF SERVICE

I, Lynnette Sweet, hereby certify that I have this day served copies of the foregoing document on the attached list of persons.

xx by depositing a true and correct copy thereof, properly enveloped with postage paid in the United States mail at Minneapolis, Minnesota

xx electronic filing

DOCKET No. E002/M-15-619

Dated this 6th day of August 2015

/s/

Lynnette Sweet

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