February 11, 2019

Via Electronic Filing

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

RE: Xcel Energy Petition for Approval of Mankato Energy Center Acquisition Docket No. 18-702

Dear Mr. Wolf:

The Institute for Local Self-Reliance and Cooperative Energy Futures respectfully submit the following comments on Xcel Energy's proposed acquisition of the gas-burning Mankato Energy Center. In short, this proposed acquisition fails to respect the regulatory compact, is not in the interest of Xcel customers, and creates worrying precedents that utility resource planning is optional.

Resource Plans Belong in Resource Plans

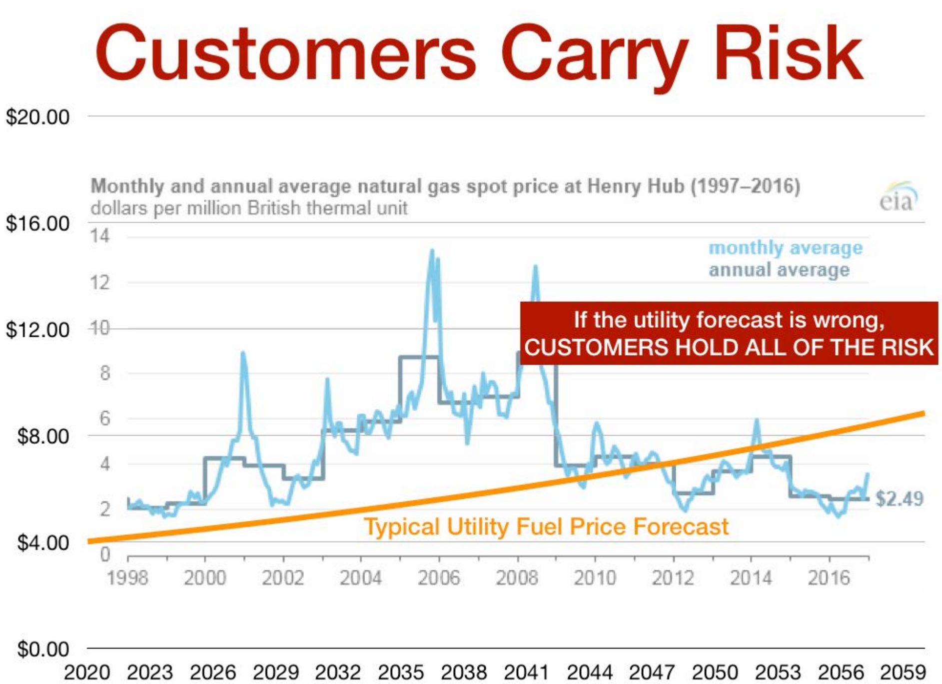
"One of staff's hopes for the next IRP is that Xcel will not bypass the Commission's resource acquisition process." — Briefing papers, Xcel IRP extension

As explained in greater detail below, the acquisition of a power plant carries significant financial and environmental risks that are only fairly evaluated when measured against alternatives. Presumably, the existing power purchase contracts have been vetted in such a manner. The ownership of the power plant has not. The coincidence in timing of this proposed acquisition and the recently approved delay in resource planning should be noted, and any consideration of a plant acquisition of this nature should occur in the context of and based on analysis of an IRP review.

Short-Term Benefits for Shareholders, Long-Term Risks for Customers

Xcel shareholders will see immediate benefits from the gas plant acquisition, as the Company can begin collecting a rate of return on expended capital immediately.

In contrast, customers will be liable for many costs (some already committed and others newly acquired). Customers already bear the risk that fuel cost estimates are unrealistically low against a history of gas price volatility, as illustrated in the following chart (in eight other states, shareholders would be required to risk-share with customers).



With Company ownership in the years beyond 2026, customers also assume new and significant risks. In its initial petition, Xcel Energy states that, “Company ownership will mitigate the risk associated with the termination of the MEC I [power purchase agreement] in 2026.” **Even setting aside the fuel price risk that customers, not shareholders currently bear, data from the Company’s Colorado subsidiary contradicts the Company’s assertion of customer risk.**

In January 2018, responses to a request for proposal issued by Xcel Energy’s Colorado subsidiary show that projects with a go-live date in 2023—three years prior to the power purchase agreement’s expiration—would undercut the combined cycle plant’s costs by a significant margin.[1] The following chart provides a simple comparison based on the tendered bids and Lazard’s estimate of the levelized cost of energy from a combined cycle gas plant.

FIGURE 19. SOLAR+STORAGE PRESENTS STIFF COMPETITION FOR GAS GENERATION

In other words, the utility purchase of the facility and the commitment to operating the plant far beyond the expiration date of its existing power purchase obligations extends customer exposure to fuel price risk into a period in which options that are even cheaper than **current** gas plant costs are almost certain to be available. If the utility thinks that an extended commitment to natural gas is a wise investment, then it should—like

[1] Farrell, John. Reverse Power Flow. (Institute for Local Self-Reliance, 2018), p28. https://ilsr.org/wp-content/uploads/2018/07/Reversing-the-Power-Flow-ILSR-July-2018.pdf

utilities in eight other states—share in the risk that natural gas prices will sharply rise. The tenuous financial performance of most major domestic natural gas producers, at a minimum, should give Commissioners pause in allowing long-term commitments to natural gas.[2]

Finally, Company ownership also confers operations and maintenance risks currently held by the plant owner onto customers.

An Economic Investment in Tension with Company Commitments

With ownership of the Mankato Energy Center, the Company commits to earning a return on its investment for shareholders beyond its power purchase obligations that could be in tension with its commitment to the City of Minneapolis climate action goals through the Clean Energy Partnership and the utility's own public carbon reduction goals, which include a commitment to carbon-free electricity by 2050 - within the life of the second of the two Mankato Energy Center units. In other words, Xcel Energy would likely have to close at least one of the two units before the end of its useful life in order to make its own carbon commitments. Even if there is a potential to operate these units until the end of their economic life that doesn't violate these commitments, it creates undue tension between the utility's shareholders and its customers.

A Worrying Double Precedent

The recent approval of the Nemadji Trail Energy Center raises questions about whether the Commission has created two potential precedents: 1) that regulated utilities can make resource decisions outside of the resource planning process, and 2) that such

[2] More Red Flags on Fracking: Weak Third-Quarter Results as Cash Losses Persist Even With Production and Price Increases. (IEEFA, Dec. 2018). http://ieefa.org/wp-content/uploads/2018/12/More-Red-Flags-on-Fracking_December-2018.pdf

decisions will not respect the evidentiary requirements of need and cost-effectiveness. Approval of the Mankato Energy Center acquisition will send a clear message to Minnesota's utilities: the regulatory compact to do resource planning within the approved integrated resource plan is more a goal than a requirement and that shareholders need not wait for strong proof of need to bring big ticket proposals before the Commission.

Recommendation

The Commission should reject the Company's proposed acquisition of Mankato Energy Center because it would violate the resource planning process, saddle customers with many additional risks (that shareholders do not share), likely increase customer costs, likely violate the utility's existing carbon commitments, and create poor precedents for utility resource planning. Should the Commission decide otherwise, it should—at a minimum—require utility shareholders to share fuel price risk and provide other financial safeguards for customers.

Thank you for the opportunity to comment; we appreciate that there has not been any legislative preemption of this regulatory process.

Sincerely,
/s/
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