Minneapolis
City of Lakes

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March 5, 2019

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

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

Dear Mr. Wolf:

The City of Minneapolis appreciates the opportunity to provide input on Xcel Energy's petition to acquire Mankato Energy Center and submits this letter for the Commission's consideration.

First, as one of Xcel's largest electricity customers in Minnesota and on behalf of the more than 400,000 residents we represent, the City of Minneapolis supports Xcel Energy's decarbonization plans as announced on December 4, 2018. The pledge to deliver 100 percent carbon-free electricity to customers by 2050 and to reduce carbon emissions 80 percent by 2030 is consistent with many of the City's clean energy and climate goals.

The City also supports Xcel's efforts to ensure a positive relationship with its union workforce as noted in the petition. The City recognizes that the approximately 40 workers[1] employed at Mankato Energy Center (MEC) might benefit from having Xcel take ownership of the plant, and that this is one of several factors that the Commission may wish to consider.

However, the City is concerned that the proposed acquisition may not align with the broader public interest. The City requests that the Commission consider the following points.

Deferral until after the Integrated Resource Planning Process is Prudent
The City believes that the pending integrated resource plan (IRP) process will provide valuable information for a more complete evaluation of the proposed acquisition. With the benefit of the pending IRP findings, the acquisition could be considered as part of a comprehensive review of the Company's overall portfolio that considers the trending market conditions, technology options, Company goals, and State policy priorities, not just as they are today, but what they are likely to be within the coming 15-year timeframe.

Protect Customers Against Costs Associated with Stranded Assets
New long-term capital investments in natural gas generation resources come with risks to utility customers who generally pay for stranded assets when infrastructure investments become obsolete. While the City does not support the acquisition of MEC, if the Commission approves the purchase, the City requests that the Commission consider a mechanism to protect customers from future economic and regulatory risks associated with utility ownership so that these risks are shared by the utility's investors rather than borne primarily by customers.

[1] An approximation provided by Xcel Energy during an informal discussion with analysts and managers familiar with the petition.

A Power Purchase Agreement May Be Preferable Compared to Ownership

Given the decades-long commitment the proposed MEC acquisition comes with, the City is concerned about the Company's ability to recover the investment cost under evolving market conditions with an increasing preference for renewable energy resources. Considering the market transformation underway, the City believes that shorter-term power purchase agreements (PPAs) for MEC rather than utility ownership reduces the risk to Xcel's customers of the asset being stranded.

The City notes that Xcel has an existing agreement to purchase power from the MEC plant initiated in 2004 and amended in 2015 per Attachment A of the Company's Petition. The City is sensitive to the potential increase in costs to customers associated with Xcel's proposed acquisition of the plant. In addition to the base purchase price there are transaction costs and added expense to support the Company's return on investment that would be borne by customers. The proposed purchase price of $650 million (Attachment A, Section 2.01) is a significant investment, though Xcel notes favorably in its petition that the purchase price is only about $100 million more than the present value of its capacity payment obligations under the current PPAs. Still, over time, purchasing the plant may not be a good value for customers.

The City is concerned that total cost to customers under an acquisition will be more expensive when compared to the cost of a PPA. In addition to the risk associated with the plant becoming a stranded asset during its useful life due to increased regulations related to carbon or pollution standards, there are fuel price volatility risks. The City notes that customers bear the burden of fuel cost uncertainty. While the Company's assessment is that the acquisition is a sound investment for the utility and its investors, the purchase may not align with the public's interest if there is not a clear cost savings and/or environmental benefit.

Conclusion

A commitment to an amount that approaches or exceeds $1 billion to purchase and operate MEC presents an opportunity cost that directs valuable resources toward long-term fossil generation and makes it more difficult to invest in building out both utility- and customer-owned renewable generation. The City believes that on balance, renewable resources provide more benefit in terms of cost savings, public health, and economic development opportunities. At the same time, long-term fossil generation investments are increasingly risky given customer preference, existing state statutory goals, uncertainty around fuel prices, and the possibility of new pollution regulations within a plant's lifetime. For these reasons the City requests that the Commission weigh these risks and costs to customers against the value of Xcel's ownership of and long-term responsibility for the Mankato Energy Center gas plant.

Respectfully submitted,

Mr. Kim W. Havey, LEED AP, AICP
Division of Sustainability