

Reply Comments

June 24, 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 (CEF) respectfully submit the following reply comments on Xcel Energy's proposed acquisition of the gas-burning Mankato Energy Center.

On the Record

Like several other parties, the Institute and CEF believe comments by the Sierra Club add to the factual record of this docket and should not be removed. The Institute and CEF would also like to reflect that the "Settlement Agreement" omits many participants of this docket, especially consumer advocates—such as the Citizens Utility Board, the Office of the Attorney General, or Energy CENTS Coalition. This omission seems particularly problematic given the poor balance of risk and costs for customers in the Mankato purchase proposal, as noted below.

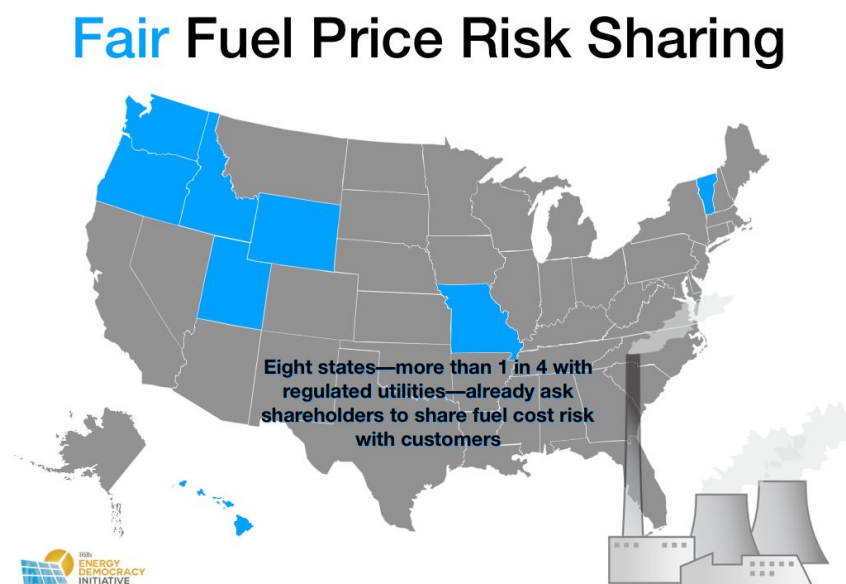
Risk Mitigation for Shareholders, Not Customers

Xcel offers a number of assertions about the mitigation of risks to customers from the proposed acquisition (a concern raised by the City of Minneapolis and others), but none actually reduce customers' risk exposure or financial liability should the forecasts of fuel prices or capacity needs prove inaccurate. Examples include:

- Noting that the Mankato facility could prove a hedge against capacity costs. This hedge only has value if capacity costs are higher in the future, but the future market may provide multiple, low-cost capacity options with renewable energy, demand response, and lower cost energy storage.
- Future rate case and compliance filings. While these represent checkpoints for future intervention (for many stakeholders, at their own expense), they do not insure any financial protection for customers.

As Xcel says in its comments, ““Fuel and energy prices shift with changing market conditions.” As Xcel shareholders receive protections through its monopoly service territory, Xcel customers deserve greater certainty that this investment will result in financial benefits.

One potential customer risk mitigation mechanism would be to ask shareholders to shoulder a portion of fuel price risk, as is done in eight other states with vertically integrated utilities.



Path Dependency and Undercounting Alternatives

ILSR shares the concern raised by the City of Minneapolis about the implications of a long-term commitment to this plant in place of the flexibility to discontinue purchases when existing power purchase agreements expire. The City notes, “Future economic analyses for renewable procurement would actually discourage investment in renewables in a scenario where Xcel owns MEC by showing less or no capacity need.”

This era in electricity markets features renewable energy resources that often cost less than existing resources (even when paired with storage, as noted by Xcel in reference to its Colorado subsidiary’s tender), where increased investment in energy efficiency and demand response can play a disproportionate role in addressing new demand, and where new policies (time-of-use pricing, as with Xcel’s upcoming pilot) offer a demand-side opportunity to meet capacity needs.

One such resource, community solar, is dramatically undercounted in Xcel’s modeling assumptions. According to Attachment A of Xcel’s reply comments, the entire universe of community solar projects will have a nameplate capacity of 720 megawatts in 2030.

This figure is just 1 megawatt more than the sum of in-service projects with those in the design/construction phase in January 2019. **According to Xcel’s model, there will be virtually no additional community solar development between 2020 and 2030.**

Such a projection may align with the utility’s legislative agenda, but is a

Xcel reply comments, 3/29/19, Docket 18-702

Table 13: Distributed Solar Forecast

Distributed Solar (Nameplate MW)				
Year	Solar Rewards	Net Metered	Community Gardens	Total
2018	29	18	246	293
2019	41	27	504	573
2020	49	37	641	727
2021	53	47	649	749
2022	56	58	657	771
2023	57	70	665	792
2024	57	83	673	813
2025	56	96	681	834
2026	56	109	689	854
2027	56	122	697	875
2028	55	135	705	895
2029	55	147	713	915
2030	55	160	720	935

shockingly poor assumption in a modeling exercise.

A power plant purchase is a large and long-term commitment to fuel price liability, polluting power generation, and environmentally harmful fuel extraction. When there are many clean, cost-effective or nearly cost-effective alternatives, it should be evaluated alongside them wholistically within a resource planning context.

Conflating Net Present Value and Reasonable Price

In its defense of the proposed acquisition, Xcel suggests, “The fact that our modeling shows customer benefits associated with ownership under a wide variety of resource planning scenarios demonstrates that the Company is paying a reasonable price for the plant.”

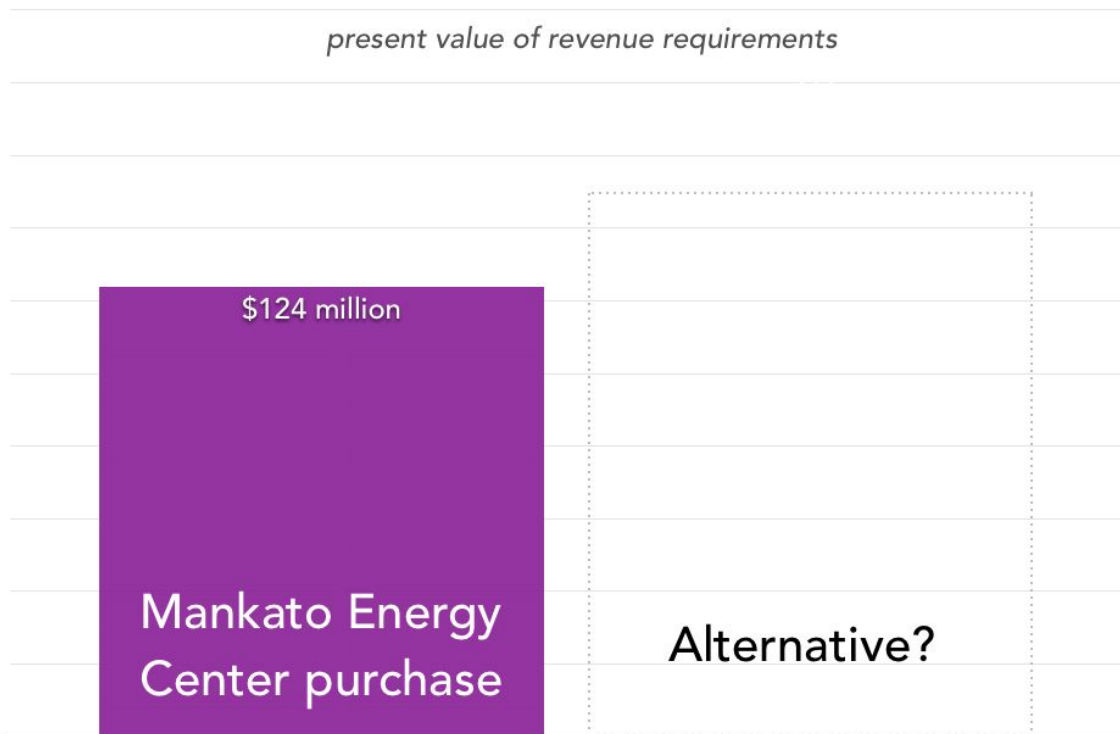
In a word, no.

This statement conflates the purpose of net present value calculations—which indicate whether a project has financial benefits exceeding costs over the timeframe analyzed—with comparison shopping. For example, in desiring to buy a Tesla, I might show my wife a 20-year net present value analysis showing that the financial benefits of ownership, such as reduced fuel costs and maintenance, will exceed the cost of financing the car. It does not, however, suggest that the purchase price is reasonable.

Rather, reasonableness would require a comparison of the net benefits of alternatives, such as comparing a Tesla to a used Toyota Prius or, in this case, the present value of revenue requirements and present value of societal costs of purchasing the LSP-Cottage Grove plant. Comments from LSP-Cottage Grove suggest, “it is highly likely Xcel’s ratepayers will receive substantial savings and be better served if Xcel were to purchase the Cottage Grove Facility instead of completing the proposed Acquisition.” Xcel counters that the plant lacks the same benefits as the Mankato plant. **Without an**

apples-to-apples comparison, participants in this docket do not know what constitutes a reasonable purchase price.

THE MISSING PIECE IN “REASONABLE COST”



The High Cost of Mankato's "Flexibility"

In contrast to technologies and policies—from energy storage to community solar—that can be deployed quickly, with lower upfront costs, and by non-utility participants with lower capital costs, Xcel offers that the Mankato gas plant could shutter early to help address its long-term climate and market vulnerabilities. Notably, the offer comes with two significant caveats, taken from Xcel's reply comments:

- “Those modeling results show that we can retire the plant a full 14 years earlier than the anticipated operational life for a very modest incremental cost of \$25 million on a [present value of revenue requirements] basis.”
- “And should that aggressive scenario ultimately come to pass, the Commission would have full authority to determine how best to deal with the remaining plant balance in an equitable fashion.”

In other words, even if retirement of Mankato in 2040 makes financial, environmental, or economic sense, early retirement will cost customers more than not purchasing the plant. Despite that promise of financial liability for customers, the utility expects the Commission to ensure that shareholders still get paid.

Recommendation

For the many reasons cited by other commenters and summarized above, the Institute for Local Self-Reliance and Cooperative Energy Futures believe this acquisition to be imprudent. Should the Commission opt to allow the acquisition despite its questionable financial merits, we strongly recommend that Commissioners adopt consumer-protection measures that mitigate the significant and lopsided risk the utility's purchase places on its customers and consider measures to ensure that customer-sited capacity and energy resources not be disadvantaged by the purchase.

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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