

Erratum

Date: September 20, 2019

From: Commission Staff

Docket No: IP6949, E-002/PA-18-702

RE: Corrections to September 19, 2019 Staff Briefing Papers

On September 19, 2019, Sierra Club contacted Commission staff and stated that Sierra Club's position in the Mankato Energy Center (MEC) acquisition docket was not accurately characterized in the staff briefing papers and deliberation outline. Sierra Club stated that in the Settlement Agreement, which Xcel Energy filed on May 20, 2019, Sierra Club withdrew its opposition to the MEC acquisition, but it takes no position on the matter.

The attached erratum includes four corrections to the September 19, 2019 staff briefing papers.

These materials are work papers of the Commission Staff. They are intended for use by the Public Utilities Commission and are based upon information already in the record unless noted otherwise.

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D. Parties' Final Positions

The Table below provides a summary of parties' final positions and their preferred alternative if the Commission disagrees.

Party	Final Position	If Commission Disagrees
Xcel Energy	Approve	Will buy through unregulated affiliate
Department of Commerce	Deny	Include conditions and adjustments
Office of the Attorney General	Deny	Impose ratepayer protections
Citizens Utility Board of Minnesota	Deny	Evaluate in IRP proceeding
City of Minneapolis	Deny	Evaluate in IRP proceeding
Institute for Local Self-Reliance/Cooperative Energy Futures	Deny	Impose ratepayer protections
LIUNA Minnesota and North Dakota, Clean Grid Alliance, Center for Energy and Environment, Minnesota Center for Environmental Advocacy, Union of Concerned Scientists, Fresh Energy, and Sierra Club.	Approve - via Settlement with Xcel	n/a
LSP – Cottage Grove, L.P.	Deny	n/a
Xcel Large Industrials	Deny	Evaluate in IRP proceeding

E. Commission considerations

Xcel acknowledges that the revenue requirements analysis shows that the revenue requirements associated with acquiring the MEC plant exceeds the values of the payments under the existing PPAs. The Commission needs to decide whether the resource planning analysis demonstrates that ratepayers are better off on a net present-value basis from the acquisition, and/or if the settlement agreement provides addition value to ratepayers, and/or if there are any other mitigation measures that would result in the acquisition being found in to be consistent with the public interest.

III. Background

A. History of the MEC Facility

The Mankato Energy Center (MEC) is a natural gas-fired combined cycle (NGCC) power plant located in Mankato, Minnesota. MEC was designed and permitted to be constructed in two

phases as a full 720 megawatt (MW) facility.¹ In the 2003-2004 timeframe, Calpine Corporation (Calpine) sought and received a Certificate of Need and Site Permit for the entire 720 MW.²

¹ Docket No. E-002/CN-12-1240, In the Matter of the Petition Northern States Power Company to Initiate a Competitive Resource Acquisition Process, Calpine's Mankato Energy Center Expansion Proposal, at 3 (April 15, 2013).

² See Order Granting Certificate of Need issued September 22, 2004 in Docket No. IP-6345/CN-03-1884, and Site Permit issued September 16, 2004 in EQB Docket No. 04-76-PPS-CALPINE.

(Correction to Page 5 of 9/19/2019 staff briefing papers, 18-702)

- The ILSR/CEF considered the acquisition to be imprudent; however, if it is approved, then consumer-protection measures should be included.

On May 20, 2019, Xcel ~~and the Sierra Club~~ filed a Settlement agreement³ in which Xcel agreed to seek early retirement of its coal generating plants in exchange for ~~the Sierra Club~~ supporting for transaction approval. ~~No other parties were signatories to the agreement.~~ On the same day, the Sierra Club filed a request to withdraw its initial comments. Sierra Club did not formally support the acquisition, but instead took no position. Subsequently, CUB, Legalectric/Carol Overland, the City of Minneapolis filed letters opposing the Sierra Club's request.

Parties' supplemental reply comments positions are summarized as follows:

- The Department recommended that the Petition be denied; however, if it is approved, the DOC recommended that certain disallowances and conditions be included.
- The OAG recommended that the Petition be rejected and be considered in Xcel's IRP proceeding.
- XLI stated that the transaction should only be approved within the IRP proceeding.
- LIUNA continued to support the Transaction.
- CUB asserted that the Transaction is imprudent, would shift risks to ratepayers and, if it were to be approved, it should be approved within the context of the IRP.
- LSP – Cottage Grove recommended that the Petition be denied.

On August 1, 2019, Xcel filed a letter stating that if the Commission does not approve the purchase, the Company will complete the purchase through an unregulated subsidiary. In response to a Commission Notice, parties provided the following comments regarding Xcel's plan to, if necessary, complete the transaction through an unregulated subsidiary:

- Xcel stated that, upon receipt of FERC approval, it would make an affiliated interest filing. While Xcel noted that such a filing does not need to be approved prior to signing the affiliate contract, Xcel acknowledged that, without Commission approval, recovery was at risk.
- The Department noted that a purchase by an affiliate would require Xcel to file an affiliated interest petition and recommended that Commission review of that any affiliate issues in such a proceeding.
- The OAG determined that Xcel may need Commission approval before proceeding with any affiliate purchase.
- XLI stated that reviewing and complying with statutory guidelines associated with a possible affiliate purchase is Xcel's burden.

CUB recommended that any affiliate purchase would require an affiliated interest filing and should be reviewed after such a filing is made.

³ Signatories were Xcel Energy, LIUNA Minnesota and North Dakota, Clean Grid Alliance, Center for Energy and Environment, Minnesota Center for Environmental Advocacy, Union of Concerned Scientists, Fresh Energy, and Sierra Club.

Table 7: Present Value Revenue Requirements, in millions

Assumptions	PVRR	PVRR Increase
Base Model - 2.0% inflation, 9.35% ROE	\$914.554	\$0.000
2.0% inflation, 9.50% ROE	\$919.975	\$5.421
2.0% inflation, 9.75% ROE	\$929.011	\$14.457
2.0% inflation, 10.00% ROE	\$938.047	\$23.493
2.5% inflation, 9.50% ROE	\$935.671	\$21.117
2.5% inflation, 9.75% ROE	\$944.753	\$30.199
2.5% inflation, 10.00% ROE	\$953.837	\$39.283
3.0% inflation, 9.50% ROE	\$952.830	\$38.276
3.0% inflation, 9.75% ROE	\$961.963	\$47.409
3.0% inflation, 10.00% ROE	\$971.096	\$56.542

Considering the possible magnitude of the additional risk shown in Table 7 combined with the fact that, regardless of the scenario used, the transaction's cumulative financial benefits do not materialize until, at a minimum, the mid-2030s, suggests that the transaction, from a financial perspective, is risky for ratepayers.

Furthermore, Staff believes that, if the transaction does not make sense financially in this proceeding, it will not make financial sense in another proceeding (such as the IRP).

12. Decision Alternatives

1. Approve Xcel's request to purchase the Mankato Energy Center. (Xcel, ~~Sierra Club revised position~~, CEO and CEE, IBEW, LIUNA)
2. Not approve Xcel's request to purchase the Mankato Energy Center. (DOC, OAG, Staff)

C. Net Book Value/Acquisition Premium (Adjustment)

1. Department of Commerce Comments

Following its review of Xcel's response to the OAG's Information Request regarding MEC's net book value, the Department determined that depreciation should be recorded through the purchase date; thereby, reducing MEC's estimated \$541 million book value by that amount.

The Department noted that, in the Company's proposed journal entries,⁴ Xcel shows that a \$96.194 acquisition adjustment⁵ (premium) is included in the purchase price which Xcel plans to include in rate base and amortized over the estimated useful life of the plant, which is 2046 and 2054 for MEC I and MEC II, respectively. When the Department asked Xcel to provide support for why ratepayers

⁴ Petition, Attachment I.

⁵ An acquisition adjustment is the amount that is above or in excess of the net book value (original cost of the plant less accumulated depreciation).

should pay for the \$96.194 million acquisition adjustment, including identifying offsetting benefits for ratepayers, Xcel provided the following response:



Deliberation Outline, Docket IP6949, E-002/PA-18-702

Financial Issues

Mankato Energy Purchase (page 15 of Briefing Papers)

1. Approve Xcel's request to purchase the Mankato Energy Center. (Xcel, ~~Sierra Club revised position,~~ CEO and CEE, IBEW, LIUNA)
2. Not approve Xcel's request to purchase the Mankato Energy Center. (DOC, OAG, Staff)

NOTE: All subsequent decision alternatives only relevant if Decision Alternative #1 is adopted.

Acquisition Adjustment (page 20 of Briefing Papers)

3. Approve recovery of the \$96.194 million Acquisition Adjustment. (Xcel)
4. Do not approve recovery of the \$96.194 million Acquisition Adjustment. (DOC primary recommendation, OAG, Staff)
5. Approve recovery of one-half of the \$96.194 million Acquisition Adjustment. (DOC alternate recommendation)
6. Allow depreciation not to be booked while the asset is "held for sale". (Xcel)
7. Require depreciation expense to be booked through the Transaction's closing date. (DOC, Staff)

Transaction Costs (page 22 of Briefing Papers)

8. Approve recovery Xcel's transaction costs. (Xcel)
9. Do not approve recovery of Xcel's legal costs of \$450,000. (DOC, Staff)
10. Do not approve recovery of Xcel's transaction costs of \$507,000. (OAG)

2019 Capital Cost Revenue Requirements True-Up (page 24 of Briefing Papers)

11. Allow Xcel to recover its 2019 Revenue Requirement True-up and grant a variance to allow Xcel to recover those costs through the FCA. (Xcel)