

## Staff Briefing Papers

Meeting Date June 3, 2021 Agenda Item \*\*2

Company Xcel Energy (Xcel or the Company)

Docket No. **E-002/M-20-891**

### In the Matter of Xcel Energy's Petition for Approval of the Sherco Solar Project

- Issues
1. Should the Commission determine that the proposed Sherco Solar project is exempt from certificate of need (CN) requirements?
  2. Should the Commission require Xcel to provide supplemental information?
  3. Should the Commission require Xcel to initiate a competitive bidding process?

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### ✓ Relevant Documents

### Date

Xcel Energy, <i>Petition (Public and Non-Public)</i>	April 12, 2021
LIUNA Minnesota & North Dakota, <i>Comments</i>	April 30, 2021
Becker Township, <i>Comments</i>	April 30, 2021
City of Becker, <i>Comments</i>	April 30, 2021
Office of the Attorney General, <i>Comments</i>	April 30, 2021
Department of Commerce-DER, <i>Comments</i>	April 30, 2021
Department of Commerce-EERA, <i>Comments</i>	April 30, 2021
Institute for Local Self-Reliance, <i>Comments</i>	April 30, 2021
Xcel Energy, <i>Informational Letter</i>	May 19, 2021

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The attached 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.

## I. Statement of the Issues

1. Should the Commission determine that the proposed Sherco Solar project is exempt from certificate of need (CN) requirements?
2. Should the Commission require Xcel to provide supplemental information?
3. Should the Commission require Xcel to initiate a competitive bidding process?

## II. Introduction

### A. Project Summary

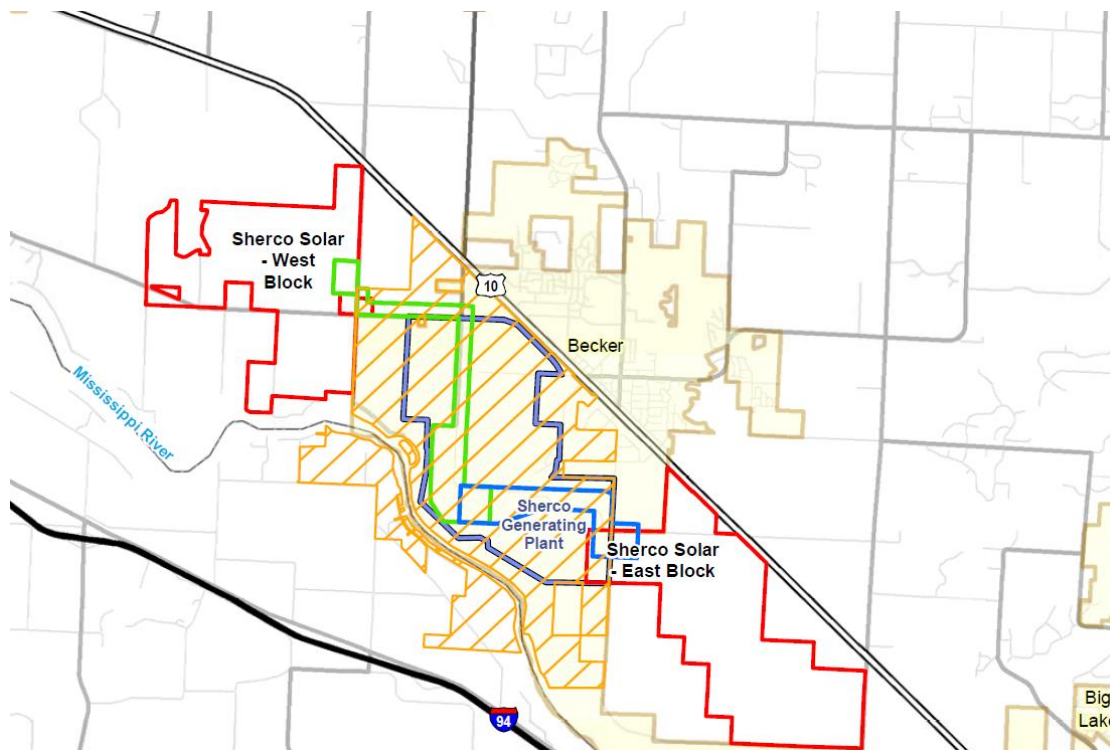
On April 12, 2021, Xcel filed a Petition for Approval to develop, own, and operate 460 megawatts (MW) of solar capacity at the Company's Sherburne County generation facility site (Sherco Solar). Total installed capital costs for the Project are estimated to be approximately \$622 million with AFUDC (\$586 million without AFUDC).<sup>1</sup> Xcel requests approval to recover 100% of the costs from Minnesota ratepayers through the Renewable Energy Standard (RES) Rider. Xcel anticipates beginning commercial operations for portions of Sherco Solar via a phased approach beginning in 2023 to accommodate an in-service date for the entire project by the end of 2024.

Sherco Solar is a joint development between Xcel and National Grid Renewables (NG Renewables). The project was driven by Xcel's plan to reutilize the Company's transmission interconnection rights as its coal units cease operations. Through a build-transfer arrangement, Xcel will acquire a 230 MW site from NG Renewables (the West Block), which includes 1,654 acres of land, and combine it with another 230 MW project (the East Block), which includes 1,826 acres of land.<sup>2</sup> Both the West Block and East Block will be located on land that is leased by NG Renewables and the Company, respectively. The figure below depicts the overall project location.

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<sup>1</sup> In the Petition, Xcel designated the capital cost estimate as trade secret; however, Xcel removed the trade secret designation in Xcel response to PUC IR 2, so the Commission may publicly discuss the estimated costs.

<sup>2</sup> NG Renewables is responsible for securing permits for the site of the project routes for high voltage transmission lines (HVTL) connecting the project to the Sherburne County Substation.



### B. Other Sherco Solar Dockets

As discussed in comments from the Department of Commerce-Energy Environmental Review and Analysis (DOC-EERA), Sherco Solar requires both site and high voltage transmission line (HVTL) route permits from the Commission. On April 20, 2021, Xcel submitted a site permit application and two HVTL applications for Sherco Solar under the alternative review process (Minn. Stat. § 216E.04; Minn. R. 7850.2800-3900). Thus, in addition to the instant proceeding, there are three other dockets related to Sherco Solar currently pending:

- The West 345 kV transmission line (Docket No. E-002/TL-21-189);
- The East 345 kV transmission line (Docket No. E-002/TL-21-190); and
- The Site Permit for the 460 MW solar installation (Docket No. E-002/GS-21-191).

Xcel's position is that Sherco Solar and the West and East HVTL projects are all exempt from CN requirements.

Staff notes that if a CN for Sherco Solar is required, it must be issued prior to issuing a final site permit. Minn. R. 7850.2700, subp. 3 states, "The PUC shall not make a final decision on a permit for a project that requires a Certificate of Need from the Public Utilities Commission until the applicant has obtained the necessary approval."

### C. Procedural Issues

The issues for the Commission to consider at this stage are procedural. Specifically, staff brought this matter before the Commission prior to comments on the merits so the Commission could consider whether Sherco Solar requires a CN under Minn. Stat. § 216B.243. In addition, the Commission can address the completeness of the Petition; the Commission has options that would require Xcel to supplement the Petition with additional information.

### III. Exemption from the Certificate of Need Requirements

Xcel solicited Sherco Solar through the Commission's "Modified Track 2" resource acquisition process, which was developed and approved by Commission Order in Xcel's last Integrated Resource Plan (IRP) in Docket No. 15-21. On pages 40-42 of the Petition, Xcel argued that Sherco Solar is exempt from the CN requirements of Minn. Stat. § 216B.243 under Minn. Stat. § 216B.2422, subd. 5, which states, in relevant part:

**Bidding; exemption from certificate of need proceeding.** (a) A utility may select resources to meet its projected energy demand through a bidding process approved or established by the commission. , , (b) Notwithstanding any other provision of this section, if an electric power generating plant, as described in section 216B.2421, subdivision 2, clause (1), is selected in a bidding process approved or established by the commission, a certificate of need proceeding under section 216B.243 is not required.

According to Xcel, initiating a competitive solicitation for solar projects was consistent with the Commission's January 11, 2017 Order, which approved the acquisition of substantial solar resources and authorized the Company to pursue additional cost-effective solar resources if in the best interest of customers. The Order also approved Xcel's proposal to retire the Sherco 1 and 2 coal facilities, which will create a capacity need in the mid-2020s. In addition, Xcel's proposal to add 460 MW of solar at Sherco is consistent with the Company's pending 2019 IRP in Docket No. 19-368, which shows that solar is the most optimal resource to meet Xcel's system needs in the mid-2020s, beginning in 2025.

Xcel argued that Sherco Solar is also exempt from the CN requirements under Minn. Stat. § 216B.243, subd. 9, which provides an exemption for a wind or solar electric generation facility that is intended to be used to meet the obligations of Minn. Stat. § 216B.1691:

**Renewable energy standard facilities.** This section [216B.243] does not apply to a wind energy conversion system or a solar electric generation facility that is intended to be used to meet the obligations of section 216B.1691; provided that, after notice and comment, the commission determines that the facility is a reasonable and prudent approach to meeting a utility's obligations under that section. When making this determination, the commission must consider:

- (1) the size of the facility relative to a utility's total need for renewable resources;

- (2) alternative approaches for supplying the renewable energy to be supplied by the proposed facility;
- (3) the facility's ability to promote economic development, as required under section 216B.1691, subdivision 9;
- (4) the facility's ability to maintain electric system reliability;
- (5) impacts on ratepayers; and
- (6) other criteria as the commission may determine are relevant.

If the Commission determines that Sherco Solar is exempt from CN requirements, or takes no action, then a subsequent notice will be issued setting initial and reply comments deadlines. If the Commission decides that a CN is required, then Xcel would submit its application, and the Commission could decide the appropriate review process after the CN application is filed and during its completeness determination.

#### **IV. Party Comments**

##### *A. Becker Township*

Becker Township (the Township) commented on the impact Sherco Solar will have on its transportation connections and business park, which could create public safety and mobility hazards. At more than 1,200 acres of land within the township, and more than 3,400 acres overall, the Township stated Sherco Solar “essentially preempts the Town’s local land use plan, transportation plan, and zoning ordinance.” Moreover, the project could hinder the transportation of people and goods on the local and arterials roads. Thus, the Town Board requests that these public safety concerns be addressed prior to the Commission authorizing the site permit and two route permits to move forward.

##### *B. City of Becker*

The City of Becker (the City) noted that it is following several dockets before the Commission, and the City intends to continue participation in those dockets to ensure its concerns related to siting and permitting are addressed. Specifically, the City raised concerns that Sherco Solar is sited near existing and planned municipal infrastructure, and the project could adversely affect future development. As proposed, the project’s proximity could block industrial growth and development in those areas and waste benefits expected from state and local infrastructure investments.

The City emphasized that it could lose as much as 75% of its property tax base as a result of decommissioning the Sherco coal units. The City has been working to strategically replace this loss in tax revenue with revenue generated by private redevelopment, which involves working with nearby municipal utilities and investing in infrastructure. For example, the City is investing more than \$22 million in infrastructure to serve the City’s planned business park and \$8 million in developing the capability to serve commercial and industrial development.

### *C. Department of Commerce, Division of Energy Resources*

The Department of Commerce, Division of Energy Resources (DOC-DER) recommends that the Commission:

- Rely upon the normal informal comments and reply comments process to develop the record in this proceeding;
- Determine that Sherco Solar is exempt from a CN requirement;
- Determine that Xcel has adequately outlined the Company's proposal regarding assigning costs and benefits from Sherco Solar to the various jurisdictions;
- Determine that new capacity expansion modeling analysis is warranted; and
- Require Xcel to supplement the capacity expansion modeling to be consistent with the proposed cost recovery.

#### **1. CN Exemption**

DOC-DER concluded that a CN is not required for Sherco Solar because the project arose from a Commission-approved (Modified Track 2) bidding process, which is the exemption allowed by Minn. Stat. § 216B.2422, subd. 5 (b). Minn. Stat. § 216B.243, subd. 9 (RES facilities) also provides a potential path for Sherco Solar to qualify for a CN exemption; however, since Sherco Solar already qualifies for a CN exemption because Xcel used the Modified Track 2 process, the Department did not review the RES facilities exemption.

Whether a CN is required or not, DOC-DER recommends the Commission rely upon the normal informal comments and reply comments process to develop the record in this proceeding. However, if other parties claim significant contested material facts and/or raise controversial issues, then DOC-DER has no objection to a Commission-ordered contested case.

#### **2. Supplemental Information**

DOC-DER explained that need can be established by an IRP determination, a statutory mandate, or, in the alternative, new capacity expansion modeling (CEM) analysis. DOC-DER agrees with Xcel that updated CEM analysis is necessary, which could be new analysis particular to this docket or a reference to the analysis in the 2019 IRP. However, since the modeling Xcel relies upon was done at the system level, DOC-DER recommends the Commission require Xcel to supplement its modeling to be consistent with the proposed cost recovery mechanism.

Regarding the assignment of benefits to Minnesota, DOC-DER stated the Petition sufficiently explains how costs would flow through the Minnesota RES Rider and payments from South Dakota and North Dakota would be credited through the Minnesota RES Rider. The merits of Xcel's proposal will be addressed in future comments.

#### *D. Department of Commerce, Energy Environmental Review and Analysis*

The Department of Commerce Energy Environmental Review and Analysis (DOC-EERA) filed comments recommending that the Commission hold any decision on acceptance of the Sherco Solar site and HVTL route permit applications until a decision is made on whether a CN proceeding is required.

#### *E. Institute for Local Self-Reliance*

Institute for Local Self-Reliance (ILSR) did not have a recommendation on the CN exemption or the completeness of the Petition, but it flagged a few issues for the Commission's consideration. First, ILSR noted that the project costs seem high, based on what ILSR was able to discern from the limited publicly available information. Second, while ILSR generally supports replacing the rate base of the Sherco coal plant with a large solar plant, ILSR also supports competitive processes that consider all resources. Third, Xcel's comparison of Sherco Solar to community solar has no merit for the following reasons:

- It is unreasonable to expect small projects to compete with large ones on price alone;
- Sherco Solar will not deliver power directly to the distribution system, so its capital and levelized costs do not include delivery costs to customers recovered separately under customer rates;
- Community solar projects avoid costs such as transmission congestion and losses that Sherco Solar will not; and
- Community solar of similar scope would deliver direct financial benefits to thousands of Minnesota residents and businesses, which would likely result in significantly higher employment and economic impact.

#### *F. LIUNA Minnesota & North Dakota*

LIUNA Minnesota & North Dakota (LIUNA) concluded that Sherco Solar qualifies for a CN exemption for the following reasons:

- Sherco Solar is generally consistent with the utility's most recent IRP;
- Sherco Solar was selected through the Modified Track 2 process; and
- Sherco Solar would help Xcel to meet the Company's RES requirements.

LIUNA recommends the Commission evaluate Sherco Solar using the initial and reply comment process, as it most easily allows for public participation and input. LIUNA also believes that Xcel has provided adequate information on the proposal for the Commission to initiate an informal proceeding where supplemental analysis can be used to develop a complete record.

### *G. Office of the Attorney General*

The Office of the Attorney General – Residential Utilities Division (OAG) concluded that Sherco Solar requires a CN and does not qualify for any exemptions to that requirement. Also, the OAG concluded that the current record is not adequate to evaluate the project even if the need were established. Therefore, if the Commission disagrees with the OAG’s CN analysis, it should protect ratepayers by requiring a new procurement process that ensures robust competition and a complete record on which to evaluate the project’s cost.

Because Sherco Solar would have a capacity greater than 50 MW, it would be a “large energy facility,” and Minn. Stat. § 216B.243, subd. 2 requires that no large energy facility can be sited or constructed in Minnesota unless the Commission issues a CN. Xcel cited two statutory exemptions to the CN requirement for which it believes the project qualifies: meeting the Company’s RES obligations and acquisition through a Commission-approved, Modified Track 2 bidding process. The OAG contended that Xcel already has a supply of solar resources well in excess of its RES requirements, and the Commission’s January 11, 2017 IRP Order did not approve a bidding process for solar additions with in-service dates after 2021.

The OAG argued that the resource acquisition process was critically flawed because Xcel artificially constrained competition by limiting eligible proposals to build–transfer projects located at the Sherco site. The restriction of bids to build–transfer projects interconnecting at the Sherco site prevented participants from submitting power purchase agreement (PPA) proposals, and as a result, there were too few bids to ensure that the winning proposal was competitively priced. While Xcel explained that taking advantage of valuable interconnection rights was in the best interest of its customers, the OAG argued that if this is true, the Company’s proposal would be the winning bid in an unconstrained bidding process.

Notably, Xcel’s RFP elicited only two competing proposals, one of which was eliminated for being incomplete, while the other was eliminated because it could not show a clear path to site control or a generator tie line. This left Xcel’s proposal as the only option remaining. The fact that there were only three bids in total, with only Xcel’s that could be shortlisted, is not reflective of typical RFP responses.

The OAG recommends the Commission require Xcel to seek a CN for Sherco Solar. Failing that, the Commission should direct the Company to conduct a new competitive procurement process with the following conditions:

- The competitive-bidding process shall include a request for proposals that is posted publicly and open to any interested developer.
- The request for proposals shall not include geographic limitations.
- The request for proposals shall be open to power purchase agreements, build–transfer proposals, and utility self-build projects.



- Xcel’s proposed bidding process, timeline, evaluation criteria, and request for proposals language shall be filed with the Commission at least one month prior to the issuance of the request for proposals. This filing shall also include a contingency plan describing the subsequent process should the bidding process fail to elicit a meaningful number of bids.

#### *H. Public Comments*

Public comments were received from Big Lake Sno Cruisers, R.D. Offutt Farms (RDO), and the Clear Lake Township Board, who all support the project. Big Lake Sno Cruisers stated it has been in regular contact with Xcel to assist in planning of snowmobile trail reroutes. RDO agreed to invest 1,500 acres of highly productive, irrigated farmland to be converted to host solar panels. However, since Sherco Solar will require RDO to cap 16 well and remove 14 pivot irrigation systems – which in an average four-year rotation means approximately 375 acres per year will be taken out of production – RDO intends to work with Minnesota state agencies to explore solutions to replace these acres. The Clear Lake Township Board (the Board) stated that the West Block of the project will be located entirely within Clear Lake Township limits, and the Board supports the project’s long-term financial benefits to the township and surrounding community.

#### *I. Xcel, Informational Letter*

On May 19, 2021, Xcel filed an informational letter to provide additional context to the City of Becker’s comments. Xcel explained that the Company has continued conversations to address the City’s concerns, and Xcel will continue to work toward a mutually beneficial resolution.

## **V. Staff Discussion**

### *A. Summary of the Issues*

The main reason why staff brought the CN issue before the Commission was because if the project is not supported by the Commission’s January 11, 2017 IRP Order, if it is premature to implement an IRP that has not been approved, and if the project is not needed for the RES, then a CN proceeding might be required under Minn. Stat. § 216B.243. The Commission can decide that no action is required at this time, and the need analysis and eligibility for RES Rider recovery can be part of the Commission’s decision on the merits. However, as discussed previously, since there are three other Sherco Solar dockets pending before the Commission – the site permit application and two HVTL applications – staff believes it makes sense to resolve issues such as the CN exemption and completeness prior to receiving comments on the merits.

DOC-DER and LIUNA provided helpful insights about the most reasonable path forward. DOC-DER stated that “irrespective of the evaluation process ultimately used (CN or bidding), the Company’s claims on the merits (items such as need, alternatives, and other issues) will be evaluated at a later date.”<sup>3</sup> LIUNA stated that an initial/reply comment process “most easily

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<sup>3</sup> DOC-DER comments, p. 3.

allows for public participation and input.”<sup>4</sup> At the same time, staff believes the OAG provided a reasonable CN analysis, and staff does not oppose their conclusions on the CN issue.

DOC-DER stated that the Petition should be supplemented with new capacity expansion modeling, and staff agrees. At a minimum, Xcel should conduct EnCompass modeling evaluating Sherco Solar both as a system resource and under the proposed jurisdictional treatment. While Xcel may argue that a generic, 500 MW solar unit in 2025 was selected in every scenario in its 2019 IRP, staff is not convinced that Sherco Solar is necessarily consistent with the IRP. In part, this is because the solar price assumptions used in the IRP and the cost estimates for Sherco Solar might be different enough to warrant further analysis. Also, staff agrees with DOC-DER that Xcel’s modeling should “be consistent with the proposed cost recovery—reflecting only the load and resources serving the Minnesota and Wisconsin system.”<sup>5</sup> Finally, under Minn. Stat. § 216B.243, subd. 9, one of the criteria the Commission must use when determining whether a renewable resource is a reasonable and prudent approach to meeting the RES is the impact to ratepayers, which the Petition lacks.

Regarding competitive procurement, staff agrees with the OAG that a site-specific RFP for build-transfer proposals only was a questionable choice by the Company. In addition, staff agrees with the OAG that the response to Xcel’s RFP, which amounted to just three bids with only Xcel’s proposal that could be shortlisted, was underwhelming.<sup>6</sup> However, as the next section will discuss, it is not clear there is a need for a large-scale solar resource acquisition process to begin with. Thus, while the OAG raised legitimate concerns, the recommendation for a new bidding process asks the Commission to address the merits of the proposal. To the extent Xcel’s RFP was flawed, the Commission can decide to deny the Petition after comments have been received from parties on this issue.

### *B. Xcel’s Justifications for a CN Exemption*

This section will address Xcel’s arguments supporting its position that Sherco Solar is exempt from CN requirements. First, while staff generally agrees with Xcel that a solar facility could qualify for a CN exemption if needed for RES compliance, due to Xcel’s current REC balance, it is unclear whether a renewable resource the size of Sherco Solar is needed. Second, staff believes it is unclear what connection the Commission’s January 11, 2017 IRP Order has with the need for Sherco Solar or a site-specific large-scale solar resource. Third, while staff agrees that Sherco Solar is consistent with Xcel’s proposed 2019 IRP, and modeling by some parties recommend a substantial amount of solar in the mid-2020s, the 2019 IRP has not been approved by the Commission. Furthermore, the capacity expansion modeling to which Xcel refers does not assume 100% Minnesota cost allocation.

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<sup>4</sup> LIUNA comments, p. 1.

<sup>5</sup> DOC-DER comments, p. 7.

<sup>6</sup> The OAG noted that MP’s 2016 solar RFP attracted 83 proposals from 26 developers. Staff adds that Xcel’s 2014 solar RFP attracted 111 proposals by 36 developers, totaling over 2,100 MW of solar PV capacity.

## 1. Obligations under Minn. Stat. § 216B.1691

Regarding Xcel's compliance with the Solar Energy Standard (SES), the Company reported in its 2019 Annual Solar Energy Report that it expects to exceed the amount of Solar Renewable Energy Credits (SRECs) well beyond 2034:

The Company expects to accumulate and exceed the amount of solar RECs (SRECs) required to satisfy the MN SES compliance requirements beginning in 2020 and continue well beyond 2034. SRECs accumulated in the REC bank beyond what is needed for compliance requirements, will be applied towards the MN state RPS obligations to avoid any REC expirations.<sup>7</sup>

The figure below is from Xcel's 2019 SES report, which shows that Xcel has sufficient RECs available to meet the 10% SES goal through 2034. However, this figure does not match Figure 6 of the Petition, which shows that Xcel will fall short of the 10% goal in 2030. This is because Figure 6 does not include "Total RECs Available," which is the purple bar from the figure below:

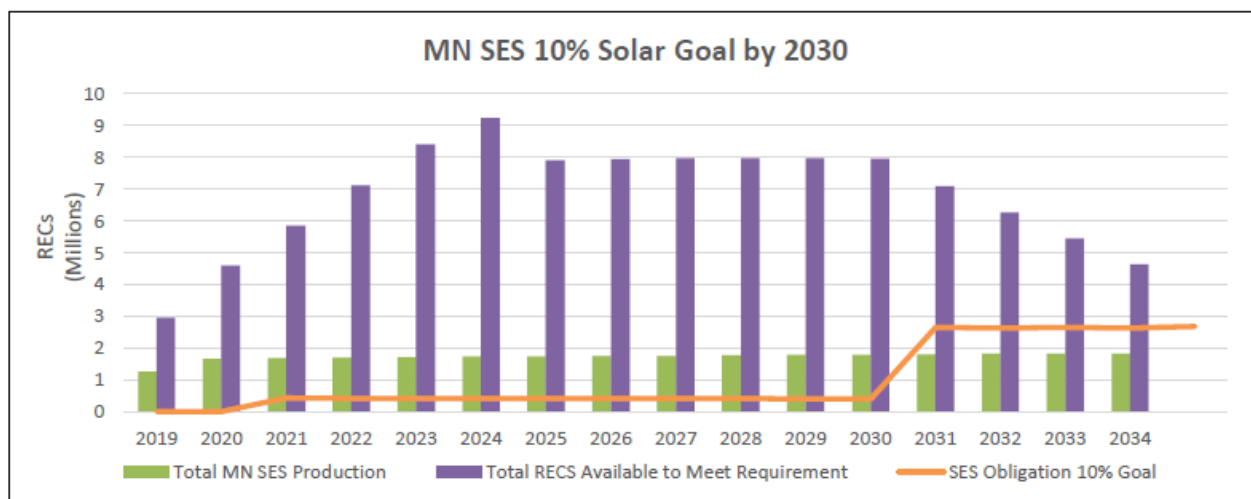
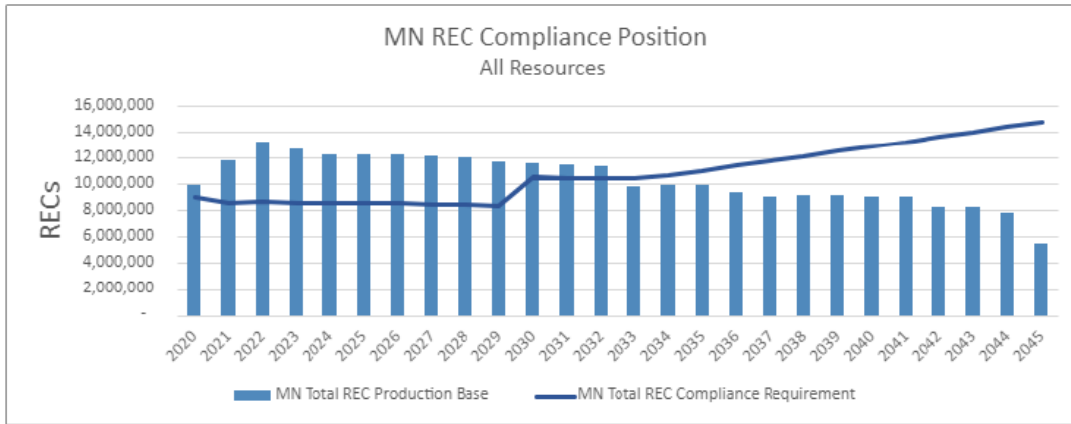


Figure 7 of the Petition shows Xcel's Minnesota REC compliance position. According to Figure 7, Xcel expects to have a surplus of RECs for RES compliance requirements until 2033. (Note that Figure 7 includes recent wind repowering projects, but not the 120 MW Northern Wind Repower that is scheduled for the June 10, 2021 Commission meeting.)

<sup>7</sup> Docket No. 20-464, 2019 Annual Report on Progress in Achieving the Solar Energy Standard.

**Figure 7: Compliance Position without the Sherco Solar Project**



**2. The Commission’s January 11, 2017 IRP Order**

The Commission’s January 11, 2017 Order in Docket No. 15-21 addressed the size, timing, and acquisition of wind and solar resources. Importantly, the Order approved resources in the five-year action plan only, which covered the 2016-2021 timeframe. The one exception was that, to maintain flexibility, the Commission modified Xcel’s plan to include the acquisition of no less than 400 MW of additional demand response by 2023.

One reason why the Commission limited resource acquisition to the five-year action plan was because the Commission expressed concerns with Xcel’s energy and demand forecast, and at the time, it was expected that forecasting issues could be resolved in a certificate of need proceeding for the acquisition of 750 MW of intermediate capacity. It was also expected that Xcel would file a new IRP in February 2019. The Order stated:

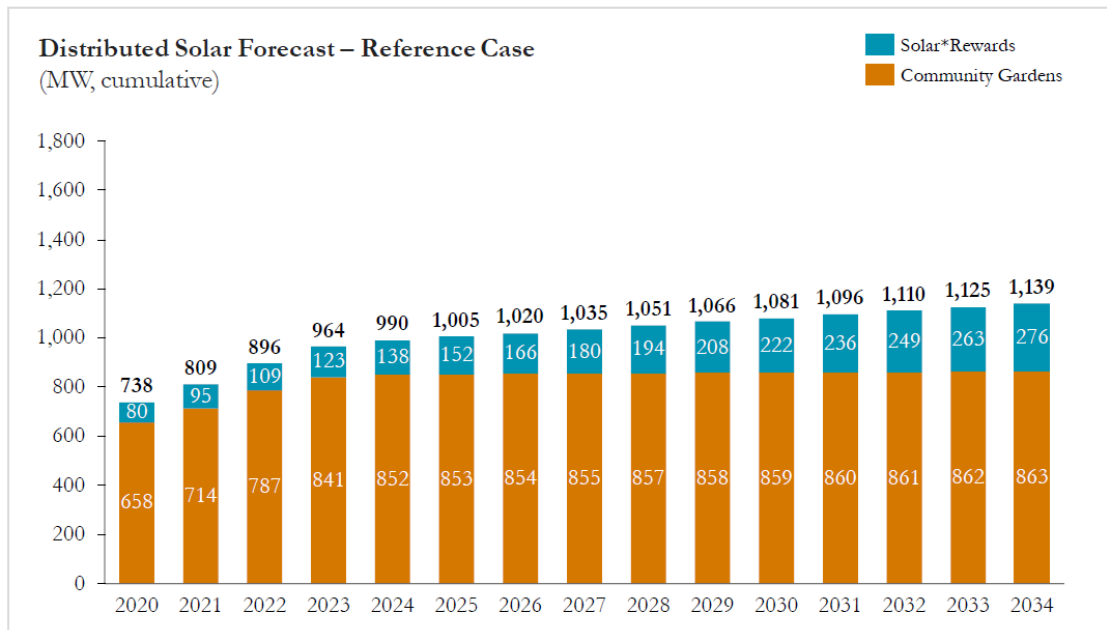
Xcel’s Strategist-modeled energy and demand forecast is acceptable for planning purposes but concludes it should not be used to support any resource acquisition proposal beyond the five-year action plan.

The Commission also recognized that future resource needs, including solar, would depend not only on the timing of plant retirements but the adoption of community solar gardens (CSGs). Xcel’s final proposed plan included 400 MW of large-scale solar in the five-year action plan, but the Commission modified Xcel’s IRP by removing large-scale solar to account for the Company’s CSG estimate. Order Point 4.a. stated:

- 4. Xcel’s resource plan is modified as follows:
  - a. to remove 400 MW of large-scale solar in 2016–2021. Xcel shall acquire approximately 650 MW of solar in 2016–2021 through a combination of the Company’s community solar gardens program or other acquisitions. The Company may pursue additional, cost-effective solar resources if it is in the best interests of its customers.

According to Xcel's distributed solar forecast in its 2019 IRP, the Company forecasts 809 MW of distributed solar by 2021, with 714 MW coming from CSG. In other words, Xcel will surpass the amount of solar contemplated by the Commission's January 11, 2017 Order.

**Figure III-1: Reference Case NSP System Distributed Solar Forecast**



Moreover, Xcel stated in its July 1, 2019 IRP filing that the Company was on track to exceed the Commission's 650 MW by 2021 solar requirement two years early:

Per Docket No. E002/RP-15-21 Order Point 4a (January 11, 2017), our solar acquisitions will exceed the 650 MW through CSG resources or other cost-effective acquisitions. The CSG program is on track to exceed the ordered 650 MW by year ending 2019.<sup>8</sup>

Xcel claims the January 11, 2017 Order supports Sherco Solar because the Order authorized the Company to acquire additional solar if cost-effective. Staff believes this is a dubious interpretation of the Order, especially considering the Commission's concerns about Xcel's forecast, the focus on the five-year action plan, and balancing large-scale solar acquisitions with distributed solar estimates. Additionally, Xcel did not provide evidence in the Petition to demonstrate Sherco Solar is cost-effective.

### **3. Sherco Solar will fulfill its capacity need created by retiring the Sherco coal plants**

The Petition stated that the need for Sherco Solar is tied both to its last approved IRP and its currently pending IRP:

<sup>8</sup> Docket No. 19-368, Xcel IRP Petition, Resource Plan – Chapter 3, p. 56, footnote 14.

In the January 11, 2017 Order on our 2016-2034 Integrated Resource Plan, the Commission approved our accelerated schedule to cease operations of Sherco 2: “Xcel’s schedule to retire Sherco 2 in 2023, and Sherco 1 in 2026, is approved.”

The cessation of operations at Sherco 2 will contribute to our expected capacity need in the mid-2020s. The Sherco Solar project will help meet that need through the solar resources identified in the Company’s proposed expansion plan in our 2020-2034 IRP.<sup>9</sup>

The connection between Sherco Solar and RES compliance is similar to the connection between Sherco Solar and coal plant retirements. Sherco Solar will generate RECs that the Company could eventually use for RES compliance, but that need might be more than a decade away. Similarly, Sherco Solar will provide a capacity benefit to Xcel’s system as the Company’s retires its baseload plants, and a capacity need will eventually emerge. However, whether Sherco Solar specifically is needed to meet a capacity deficit in the near-term is questionable. If Xcel constructs a natural gas plant at the Sherco site, if Xcel’s 2019 IRP underestimates distributed solar growth, or if Xcel’s 2019 IRP forecast overstates its resource need, a capacity deficit might not be imminent even with retiring the Sherco coal units. (Staff notes that Xcel’s demand forecast and distributed solar forecast are disputed issues in the pending IRP.)

Nevertheless, in the context of the Commission’s January 11, 2017 IRP Order, the Commission concluded that “more likely than not, there will be a need for approximately 750 MW of intermediate capacity coinciding with the retirement of Sherco 1 in 2026.” Xcel’s 2019 IRP proposes to construct an 835 MW natural gas plant at the Sherco site, thus satisfying that need. Furthermore, as noted above, Xcel has realized more CSG on its system than previously estimated. Xcel has also added much more wind generation than expected by the January 11, 2017 Order, including roughly two gigawatts of new wind and approval to repower and extend the life of several existing wind facilities. Ultimately, the likelihood of Xcel facing a capacity deficit by the time Sherco 1 closes in 2026 will be addressed in the 2019 IRP proceeding, but staff does not agree that there is a connection between the January 11, 2017 IRP Order and a 460 MW solar facility in 2024.

### *C. Guide to the Decision Options*

The first two decision options are to either 1) determine Sherco Solar is exempt from CN requirements, or 2) take no action. While these may seem to be a distinction without a difference, staff included the option to take no action in case the Commission does not want to address procedural matters at this stage of the proceeding. However, as noted above, addressing the CN exemption now could clarify potential regulatory process issues that could arise in the future.

Staff also includes an option that expands on DOC-DER’s recommendation to supplement the Petition with new modeling. Staff’s alternative is:

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<sup>9</sup> Petition, p. 23.

Require Xcel to supplement the Petition with EnCompass modeling that evaluates Sherco Solar both as a system resource and, separately, reflecting only the load and resources serving the Minnesota and Wisconsin system. Xcel shall file its supplemental modeling by June 25, 2021. The Commission grants authority to the Executive Secretary to modify this deadline.

A June 25, 2021 deadline will allow the Company approximately three weeks from the date of the hearing to conduct new modeling. Subsequently, staff will issue a notice setting an initial comment period of 30 days, followed by a 10-day response period.

Finally, Becker Township requested that prior to the site permit and two route permits receiving Commission authorization to move forward, Xcel should address the Town Board's concerns over transportation connections and their long-range plan to implement road improvements. Typically, these issues would be evaluated in an environmental assessment/report in the site and route permit dockets, and in a CN proceeding, if required. If the Commission decides the appropriate procedural path is the standard initial and reply comment process used for a miscellaneous filing, the Commission could require Xcel to address the Township's concerns in the June 25, 2021 supplemental filing.

## VI. Decision Options

### **Does Sherco Solar Require a Certificate-of-Need?**

1. Determine that the proposed Sherco Solar project is exempt from a certificate-of-need. *(Xcel, DOC-DER, LIUNA)* **AND**
  - a. Rely upon the initial and reply comments process to develop the record in this proceeding. *(DOC-DER, LIUNA)* **AND**
  - b. Determine that the Xcel has adequately outlined the Company's proposal regarding assigning costs and benefits from the proposed Sherco Solar project to the various jurisdictions. *(DOC-DER)* **OR**
2. Take no action. **OR**
3. Determine that the proposed Sherco Solar project requires a certificate-of-need. *(OAG)*

### **Should Xcel Supplement the Record with Additional Analysis?**

4. Determine that new capacity expansion modeling analysis is warranted. *(DOC-DER)* **AND**
5. Require Xcel to supplement the capacity expansion modeling to be consistent with the proposed cost recovery. *(DOC-DER)* **OR**
6. Require Xcel to provide new EnCompass modeling that evaluates Sherco Solar both as a system resource and, separately, reflecting only the load and resources serving the Minnesota and Wisconsin system. Xcel shall file its supplemental modeling by June 25, 2021. The Commission grants authority to the Executive Secretary to modify this deadline. *(Staff alternative to Options 4 and 5.)*
7. Xcel shall address Becker Township's concerns over transportation connections and road improvements in a supplemental filing. *(Becker Township)*

### **Should Xcel conduct a new competitive procurement process?**

8. Direct Xcel to conduct a new competitive procurement under the following conditions:
  - a. The competitive-bidding process shall include a request for proposals that is posted publicly and open to any interested developer.
  - b. The request for proposals shall not include geographic limitations.



- c. The request for proposals shall be open to power purchase agreements, build-transfer proposals, and utility self-build projects.
  
- d. Xcel's proposed bidding process, timeline, evaluation criteria, and request for proposals language shall be filed with the Commission at least one month prior to the issuance of the request for proposals. This filing shall also include a contingency plan describing the subsequent process should the bidding process fail to elicit a meaningful number of bids. *(OAG)*