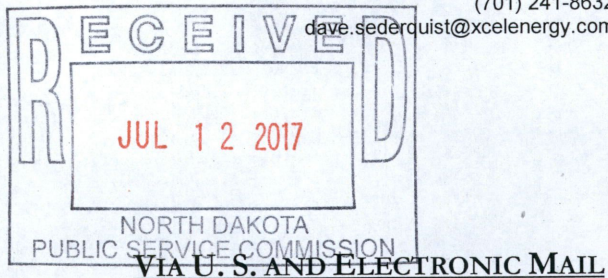


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July 12, 2017

Mr. Darrell Nitschke, Executive Secretary  
North Dakota Public Service Commission  
600 East Blvd.  
Bismarck, ND 58505

RE: 2017 Minnesota Legislative Session Summary

Dear Mr. Nitschke:

Pursuant to the terms of the Settlement Agreement in Case No. PU-10-657, Northern States Power Company (doing business as Xcel Energy) provides with this letter an update of the 2017 Minnesota regular legislative session. We note that Company representatives will be at the Commission offices on July 27 for a Periodic Information Exchange (PIE) meeting, and will be able to follow up at that time if there are any questions about the legislative activity reported here.

**Background**

In the election of 2016, Minnesotans returned a Republican majority to the House of Representatives and, to the surprise of many, gave Republicans a single-vote majority in the Senate. DFL seats were primarily lost in districts outside the Minneapolis-St. Paul metropolitan area, with the exception of outstate college towns and northeastern Minnesota where they have historically done well.

The 2017 Minnesota legislative session convened on January 4 and adjourned on May 22. A special session convened on May 23 and adjourned in the early morning hours of May 26. However, the Governor line-item vetoed the funding for the operation of the House and Senate, a move that legislative leadership is challenging in court. The Governor's goal is to renegotiate some provisions from the tax bill and then call a special session to restore legislative funding.

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Northern States Power Company  
David Sederquist

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### **Sherco Natural Gas Plant**

Xcel Energy supported legislation to permit the construction and operation of a 780 MW combined-cycle natural gas plant on the site of the Company's Sherco coal-fired generating plant near the city of Becker, MN. The bill was passed as a freestanding bill and signed by Governor Dayton early in the session. The bill requires the Company to file an updated and independent cost forecast for the project no later than 20 months before commencement of construction. The law also allows Xcel Energy to ask the commission for a sliding scale rate of return on the project as a cost-control incentive. In effect, the legislation enables the Company to know in advance what type of resource it will pursue in the process of obtaining the necessary regulatory approvals. In addition to needing MPUC approval, the Company must also demonstrate that the costs of the completed project was prudent.

### **Biomass PPA Savings**

Xcel Energy supported legislation that would permit the Company to seek termination of two biomass Power Purchase Agreements (PPAs) that were entered into to comply with 1994 legislation authorizing dry cask storage of used fuel at the Prairie Island nuclear plant. The bill was eventually included in a large "Omnibus Energy Bill" that was signed by the Governor after a special session. Under the bill, Xcel Energy will not be required to purchase replacement amounts of biomass. In total, these and two other transactions will lower net costs to NSP System customers by more than \$600 million over about the next 10 years (three of these terminated purchase agreements are detailed in the Company's pending biomass ADP request, filed on June 30<sup>th</sup>). In spite of the significant savings that customers would realize by terminating these PPAs, the measure was controversial as residents of Benson, Minnesota (where one plant was located) and the logging and turkey farming industries (which provided fuel to two other plants) launched an effort to keep the contracts in force.

### **Renewable Development Fund Modifications**

A major policy and fiscal shift was the creation of a new energy fund from the Renewable Development Account (formerly known as the Renewable Development Fund, or RDF), into which Xcel Energy pays about \$25 million annually. The amount is the result of a per cask fee times the number of spent nuclear fuel storage casks in place at the Prairie Island and Monticello nuclear power plants. The new fund is a special revenue fund in the state treasury, administered by the Dept. of Management and Budget. Xcel Energy continues to have sole authority for final grant recommendations, but fund appropriations require legislative approval. The purpose of the fund was also broadened to include grid modernization and energy storage initiatives. Finally, a number of special appropriations from the RDA were established, the most significant including:

- \$34 million over 5 years to Laurentian Energy to assist the transition required by the termination of the biomass PPA with Xcel Energy;

- \$20 million over 4 years to the city of Benson for economic development initiatives;
- Up to \$15 million to the City of Duluth to upgrade the municipal district heating facility and steam distribution system.

### **Miscellaneous Bills Passed**

Other bills that were passed during the session relating to energy included the following:

- The ban on importing power from a generating facility located outside the state that would contribute to statewide carbon dioxide emissions was repealed;
- A goal was established that average retail electric rates for each class be at least 5 percent below national average by 2025;
- Utility Resource Plans will include least cost plans for meeting 50 and 75 percent of all energy needs from new or refurbished generation through a combination of conservation and renewable resources;
- The criteria for establishing the renewable energy preference will be expanded to consider impacts on local and regional grid reliability, the rate impacts of the intermittent nature of renewables, and the rate impacts of reduced exposure to fuel price volatility, changes in transmission costs, portfolio diversification, and environmental compliance costs;
- Electric co-ops with fewer than 5,000 customers and municipals with less than 1,000 customers are exempt from the requirement to spend 1.5 percent of its electric operating revenues on energy conservation improvements;
- The solar requirement was modified so that MN Power and Otter Tail Power could include customer subscriptions to solar gardens to meet the solar standard.

Also, the Senate confirmed MPUC Commissioner nominee Katie Sieben on May 22, 2017 on a voice vote.

### **Bills Not Passed That Could Re-Emerge in Next Session**

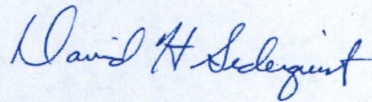
Certain provisions included in the Omnibus Jobs, Energy and Economic Development Bill (Senate File 1937) that were initially vetoed by the Governor were excluded in the subsequent omnibus bill that was passed (Senate Filing 1436). However, there is a likelihood that these measures will be proposed again in the 2018 session. They include:

- The lifting of the current prohibition of new nuclear generation facilities
- A repeal of the 125 MW biomass mandate
- A cap on spent nuclear fuel cask fees of a cumulative \$10 million per cask
- The elimination of Certificate Of Need approval for pipelines and wind projects
- Requirements that the MPUC must consider economic growth and job retention in ratemaking, and in assessing resource decisions.

- A requirement that cost information related to state-mandated energy purchases be made public so that customers can compare what utilities pay for mandates, such as solar gardens and small solar compared to utility scale solar, or biomass compared to gas
- Modifications of the appointment process for new MPUC members such that members are elected from congressional districts, or must be certified as active party members to ensure political balance on the commission, or the appointments are made by legislative leadership as well as the Governor
- A congressional resolution to revive Yucca Mountain as a permanent spent nuclear fuel repository

Please contact me if anyone at the commission would like more information about any of the items described above. Thank you.

Sincerely,

A handwritten signature in blue ink that reads "David H. Sedgwick". The signature is written in a cursive style with a large initial 'D'.

Sr. Regulatory Consultant