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March 13, 2015

Mr. Darrell Nitschke
Executive Secretary
North Dakota Public Service Commission
600 East Boulevard, Department 408
Bismarck, ND 58505-0408

—Via Electronic Mail—

Re: Comments on Disposition of Renewable Energy Credits
Case No. PU-15-94

Dear Mr. Nitschke:

Northern States Power Company, doing business as Xcel Energy, respectfully submits these comments regarding the near-term disposition of the Company's Renewable Energy Credits (RECs) allocated to its North Dakota jurisdiction.

Our comments are in response to Commission staff's request to address how the utilities regulated by the Commission would recommend using RECs in light of North Dakota's Renewable Energy Objective (REO) of 10 percent in 2015. We believe the options include:

1. making a concerted effort to sell all RECs and returning the proceeds to customers, recognizing that the North Dakota REO is not a requirement,
2. retiring the appropriate number of RECs to fulfill the REO for 2015, and selling any excess RECs and returning the proceeds to customers,
3. retiring the appropriate number of RECs to fulfill the REO for 2015, and holding any excess RECs for future compliance with the Environmental Protection Agency's (EPA) proposed rules for greenhouse gas emissions from existing power plants under section 111(d) of the Clean Air Act or other regulatory compliance, or
4. holding all RECs until the EPA's proposed rules have been finalized and more is known about how the RECs can potentially contribute toward compliance with those requirements.

At this time, the Company respectfully requests that the Commission defer any final decision on disposition of RECs allocated to the Company's North Dakota customers

until at least this fall. This will allow a Commission decision subsequent to the planned release of EPA's final Clean Power Plan rule. The uncertainty around the EPA's rule and its impact on North Dakota RECs warrants deferring a final Commission decision.

A. Background

The North Dakota's REO statute is a voluntary standard. It states:

49-02-28. State renewable and recycled energy objective.

The legislative assembly establishes a state renewable and recycled energy objective that ten percent of all electricity sold at retail within the state by the year 2015 be obtained from renewable energy and recycled energy sources. The objective must be measured by qualifying megawatt-hours delivered at retail or by certificates representing credits purchased and retired to offset non-qualifying retail sales. This objective is voluntary and there is no penalty or sanction for a retail provider of electricity that fails to meet this objective. The objective applies to all retail providers of electricity in the state, regardless of the ownership status of the electricity retailer. Municipal and cooperative utilities that receive wholesale electricity through a municipal power agency or generation and transmission cooperative may aggregate their renewable and recycled energy objective resources to meet this objective.

The statute appears to direct utilities that elect to fulfill the REO to retire the necessary amount of RECs to meet the 10 percent objective beginning in 2015. Therefore, the Company's position has been, unless ordered otherwise by the Commission, that we would demonstrate achievement of the objective by formally retiring the RECs corresponding to 10 percent of our 2015 retail sales in North Dakota via the Midwest Renewable Tracking System (M-RETS). Failure to retire the RECs in this manner would put the Company in the awkward position of not being able to officially show we have done our part to support meeting the state's renewable energy goals.

That said, the Company now believes it may be advisable for the Commission to defer making any final determination regarding the treatment of RECs until fall 2015, when the EPA is expected to release its final section 111(d) rule Clean Power Plan. At a minimum, Xcel Energy believes the Commission should not direct utilities in North Dakota to retire or sell any or all RECs by any predetermined date in advance of seeing what compliance value RECs may have in the final section 111(d) rule.

Separately, the Company periodically provides REO updates to the Commission. In its last REO update report submitted in June 2014, Xcel Energy reported that 12 percent of its retail energy came from REO-qualifying renewable generation in 2013. Since 2009, the Company has sold approximately 971,000 North Dakota

allocated RECs, flowing \$2,094,500 back to North Dakota rate payers through the FCR as a credit on their bills.

B. Potential compliance value for RECs under 111(d) rule

As the Commission is aware, in June 2014, EPA released its proposed *Carbon Pollution Emission Guidelines for Existing Electric Generating Units* (dubbed by EPA the “Clean Power Plan”), followed by a *Notice of Data Availability* (NODA) in October 2014. The proposed guidelines are staggeringly broad and subject to many unresolved legal, technical, and policy concerns, as highlighted in the Commission’s comments to EPA as well as the Company’s. Here we address only a narrow question: will RECs have value toward demonstrating achievement of the goals EPA sets for states in the final rule, and if so, what types and vintages of RECs?

This question remains unanswered, but is likely to be clarified by the final rule. Both the proposed rule and the NODA allude to the potential “banking” of pre-2020 emission reductions and the application of such reductions toward compliance after 2020. In the case of renewable energy, the logical banking instrument would be RECs of pre-2020 vintages. EPA has been urged by many parties, including the Company, to allow state plans to include banking, as this would help alleviate the perverse incentive the proposed rule creates to delay further renewable energy investments or other emission reduction actions until 2020. We expect the final rule may indicate whether banking of pre-2020 REC vintages for post-2020 compliance is permissible in states’ 111(d) plans, and if so, which types and vintages of RECs are bankable.

If REC banking is allowed, it could be more beneficial to utility customers to retain RECs, rather than either retiring them for REO fulfillment or selling them and returning proceeds to customers. Specifically, the customer cost savings after 2020 from applying banked RECs toward compliance may outweigh the benefit of near-term REC sales proceeds, especially since RECs sold now would fetch relatively low prices. In addition, in the event EPA does not eliminate the interim (2020) goals as the Commission and the Company have urged, use of banked RECs could provide flexibility to avoid disruptions such as premature retirement or reduced utilization of coal power plants that could otherwise be necessary to achieve the interim goals.

On the other hand, the final 111(d) rule may not allow REC banking. In this case, the Commission could make a better informed decision, for example directing utilities who elect to fulfill the 10 percent REO to retire REC vintages from now through 2019 towards that objective, selling any excess RECs and returning proceeds to customers, and then to retain RECs for 111(d) compliance beginning in 2020.

The proposed Clean Power Plan suggests that RECs used for compliance with a state Renewable Portfolio Standard (RPS) mandate (or in this context, to fulfill North Dakota's voluntary REO) may *also* be used for 111(d) compliance. Indeed, since EPA considered existing RPS mandates and incremental renewable energy potential in setting states' carbon goals, it is logical that renewable energy installed to meet a RPS or REO would also count toward 111(d) compliance. Therefore, the question of whether it is in customers' best interests to retire, sell, or bank RECs in the years between now and 2020 relates to *all* RECs from qualifying renewable energy and recycled energy sources, not just RECs in excess of those needed to fulfill the 10 percent REO.

There are broader issues related to the Clean Power Plan that would also be informed by delaying a decision until fall 2015. First, the final rule will almost certainly be subject to legal challenge, as the Commission noted in its comments to EPA. While these challenges will not be resolved quickly, reviewing the final rule will give all parties a better sense of the scope of legal challenges and the likelihood of the rule to survive such challenges. Second, seeing the final rule, as well as a model federal plan which EPA has announced it will release concurrently with the final rule, will inform North Dakota's decision whether to submit a 111(d) plan or accept a federal plan. If North Dakota elects to submit a plan, the final rule will inform how that plan can treat RECs as 111(d) compliance instruments.

For these reasons, we believe it is in the best interest of our North Dakota utility customers for the Commission to keep all options open for now and defer any decision on the disposition of RECs until fall 2015.

C. Other considerations

In the event that a utility decides to fulfill the 10 percent REO, the Company believes it will provide greater clarity and consistency with other states' policies if RECs allocated toward the 10 percent REO are retired in M-RETS. Retirement ensures that those same RECs cannot be claimed again toward another voluntary or mandatory renewable energy obligation. RECs used to fulfill the REO, but not retired in M-RETS, would have questionable value to REC buyers, since the renewable energy attributes attached to these RECs would implicitly have already been used. However, RECs generated in excess of the 10 percent REO, and not retired in M-RETS, may still be sold to other parties with proceeds returned to customers.

Since each REC is given a unique serial number in M-RETS, it is not difficult to maintain a separation between the serial numbers retired to fulfill the REO and the unretired RECs that still have value to REC buyers. M-RETS can confirm for any

potential REC buyer that the RECs in question have not been retired to fulfill any regulatory obligation or voluntary goal.

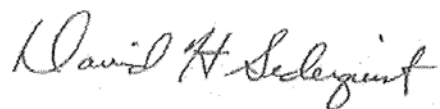
Finally, the REO does not contain a deadline for reporting retirements. In M-RETS, RECs are created 90 days after the operating month. Thus, RECs generated in December 2015 will be recognized in M-RETS by the end of March 2016. Therefore, the Company believes that an appropriate time to file a compliance filing for calendar year 2015 would be mid-2016. Therefore, if the Commission defers its decision discussed in this letter until late 2015, utilities will still have time to respond appropriately – e.g. retire RECs via M-RETS to fulfill the North Dakota REO, if that is part of the Commission’s directive – prior to making their annual REO compliance filing for 2015, due in mid-2016. We would appreciate knowing the Commission’s position on whether it agrees with this timing suggestion (i.e. that retirement of RECs by mid-year for achieving the prior year’s 10 percent of retail sales would be appropriate).

D. Conclusions

We respectfully recommend that the Commission defer any final decision on disposition of RECs allocated to the Company’s North Dakota customers until this fall, after release of the EPA’s final 111(d) rule. Directing utilities to retire and/or sell RECs in advance of seeing the final rule risks sacrificing the long-term value of 111(d) cost containment for the short-term benefit of returning proceeds from RECs sold at presently relatively low prices.

We look forward to further discussions with the Commission. Please contact me at (701) 241-8632 or dave.sederquist@xcelenergy.com if you have questions.

Sincerely,



DAVID H. SEDERQUIST
SR. REGULATORY/FINANCIAL CONSULTANT
NORTHERN STATES POWER COMPANY