

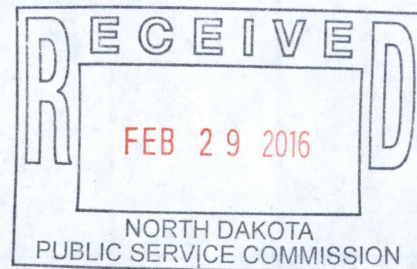


2302 Great N. Drive
Fargo, North Dakota 58102
(701) 241-8632
dave.sederquist@xcelenergy.com

February 29, 2016

VIA U. S. AND ELECTRONIC MAIL

Mr. Michael Diller
Director, Economic Regulation
North Dakota Public Service Commission Dept. 0480
600 East Blvd.
Bismarck, ND 58505



RE: RESPONSE TO STAFF INFORMATION REQUESTS REGARDING
DISPOSITION OF RENEWABLE ENERGY CREDITS (RECs)
CASE NO. PU-15-94

Dear Mr. Diller:

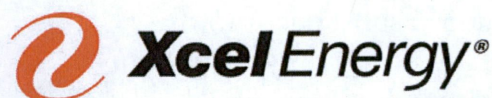
Northern States Power Company, doing business as Xcel Energy, respectfully submits the attached responses to the 8 multi-part questions you asked of us on January 28, 2016. We hope the information provided is helpful to the Commission and staff in preparing for the upcoming March 23 REC forum to discuss how utilities operating in North Dakota and regulated by the Commission should treat RECs in light of North Dakota's Renewable Energy Objective (REO) and the uncertainties around the stayed Clean Power Plan.

The Company previously submitted comments in this docket on March 13, 2015, prior to the publication of the final Clean Power Plan. We have attached those comments to this letter as well for your reference.

As always, don't hesitate to contact me if you have any questions.

Sincerely,

David H. Sederquist
Sr. Regulatory Consultant



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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.

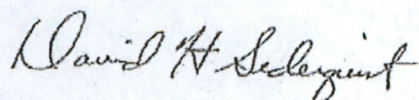
Finally, the REO does not contain a deadline for reporting retirements. In M-RETS, RECs are created 90 days after the operating month. Thus, RECs generated in December 2015 will be recognized in M-RETS by the end of March 2016. Therefore, the Company believes that an appropriate time to file a compliance 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

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Xcel Energy

Case No.: PU-15-94

Response To: ND Public Service Commission Informal Data Request No. 1

Requestor: Michael Diller

Date Received: January 28, 2016

Question:

On a North Dakota (ND) basis, provide a table depicting your inventory of Renewable Energy Credits (RECs) generated, retired, sold and remaining balance since the program started. For years when RECs were sold, indicate the amount of revenue received. For the next 10 years, provide your average projected value for a REC.

Response:

The table below depicts the generation, sales, retirements, and remaining REC balance maintained in the North Dakota allocated REC account in M-RETS. To date, the Company has not retired any RECs for the ND REO.

ND REC Activity Summary (by Vintage)

	2007/2008	2009	2010	2011	2012	2013	2014	2015*	Total
Generated	380,567	204,073	255,173	352,833	359,182	414,807	470,154	450,000	2,886,789
Sold	-	220,113	366,116	115,682	187,531	71,267	10,285	6,262	977,256
Swap/Adjustments	(380,567)	23,890	213,299	146,267	(13,832)	71,037	(66,356)	-	(6,262)
MRETS Balance	-	7,850	102,356	383,418	157,819	414,577	393,513	443,738	1,903,271
Retired	-	7,850	102,356	114,794	-	-	-	-	225,000
MRETS Balance After 2015 REO	-	-	-	268,624	157,819	414,577	393,513	443,738	1,678,271

* 2015 generated and retired RECs are forecasted amounts

As shown above, the company has sold 977,256 RECs to date (see response below "North Dakota REC Sales Proceeds" for yearly sales revenue breakdown listed by execution year). Note that the 2011 and 2014 REC inventories have increased from the last REO report due to a correction in the allocation of certain biomass RECs to North Dakota. The Company, as a practice, retires RECs on a first in, first out basis. All 2007 and 2008 and some 2009 and 2010 vintage North Dakota RECs were swapped with newer vintage RECs residing in our other states' M-RETS subaccounts (states with REC shelf-lives) and later retired to maximize the value of the Company's overall portfolio. The newer vintage RECs remain in the North Dakota subaccount.

We are estimating that 450,000 RECs will be allocated to ND in 2015 once the year's activity has been finalized in M-RETS; however, REC data still needs to be reconciled

and allocated to our states based on megawatt hour energy sales. The final 2015 allocated REC quantity for North Dakota will be shown in our annual REO report filed June 30.

From 2012 through 2014, the Company generated over \$2.2 million in revenue from the sale of its North Dakota RECs.

North Dakota REC Calendar Year Sales Proceeds

2012: \$961,374
2013: \$757,410
2014: \$525,997
Total: \$2,244,781

The Company is not aware of any sources for obtaining long term REC price forecasts. Transactions occur on a short term basis. Our practice is to limit forward REC sales because of the uncertainty in the generation forecast.

Preparer:	Jeffrey Haskins
Title:	Manager Renewable Portfolio
Department:	Purchase Power
Telephone:	303-562-5277
Date:	February 29, 2016

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Xcel Energy

Case No.: PU-15-94

Response To: ND Public Service Commission Informal Data Request No. 2

Requestor: Michael Diller

Date Received: January 28, 2016

Question:

What is the useful life (do REC's self-terminate after a period of time) of RECs in each of the state jurisdictions you serve? If there is no termination date, does the REC market discount old REC's and to what extent? What is your oldest REC remaining in your current balance of unused REC's?

Response:

Each state jurisdiction we serve, with the exception of North and South Dakota, has established a REC shelf life as follows:

- Colorado-year of generation plus 5 years
- New Mexico-year of generation plus 4 years
- Minnesota-year of generation plus 4 years
- Wisconsin-year of generation plus 4 years
- Michigan- month of generation plus 3 years
- Texas-year of generation plus 3 years

Overall, REC prices in the MISO footprint and tracked in M-RETS have dropped considerably in recent years to well below a dollar per REC for current vintages. In fact, we have seen recent market quotes between 35 and 45 cents per REC for inventory in the M-RETS footprint. In comparison, the markets indicate that older and expired REC vintages are discounted to around 10 cents per REC based on recent quotes we have heard from counterparties. Xcel Energy has not attempted to sell any RECs for compliance reasons in jurisdictions where the RECs have reached their shelf life, if a state does have a shelf life.

The oldest REC in our inventory is from January 2009. We have 7,850 of these 2009

vintage RECs, reflecting about 0.5 percent of our total ND REC inventory. We do not intend on selling any of our 2009 vintage RECs but instead plan to retire them as part of our efforts to show achievement of the North Dakota REO in 2015.

Preparer:	Jeffrey Haskins
Title:	Manager Renewable Portfolio
Department:	Purchased Power
Telephone:	303-571-6454
Date:	February 29, 2016

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Xcel Energy

Case No.: PU-15-94

Response To: ND Public Service Commission Informal Data Request No. 3

Requestor: Michael Diller

Date Received: January 28, 2016

Question:

Can REC's prior to 2020 be used to satisfy the Clean Power Plan (CPP) rule and to what extent? Would it be wise to not retire any REC's and save them all for transitioning to less carbon based generation under the CPP?

Response:

These questions are answered below, based on the CPP as finalized and currently stayed, but the answers are subject to considerable uncertainty for several reasons:

- The U.S. Supreme Court on February 9, 2016 stayed enforcement of the CPP pending resolution of legal challenges in both the D.C. Circuit Court and likely subsequent appeal to the Supreme Court. This puts the ultimate form of the CPP under uncertainty for at least the next 1-2 years. It also renders unenforceable the September 6, 2016 deadline for an "initial submittal" to EPA and extension request to September 2018 in order to avoid imposition of a Federal Plan. Our current understanding is that the North Dakota Department of Health has suspended work on its CPP State Plan.
- If the CPP is upheld or partially upheld, the deadlines for state and federal plans, as well as the start of compliance, may change, which could affect the renewable energy generation vintages ultimately eligible for Emission Rate Credits (ERCs).
- If the CPP is upheld or partially upheld, and the North Dakota Department of Health resumes work on a State Plan, whether renewable energy generation is eligible for ERCs will depend on whether this is a rate-based or mass-based State Plan.
- If the CPP is upheld or partially upheld, and the North Dakota Department of Health elects not to submit a State Plan, the types of renewable energy eligible for ERCs are more limited in a Federal Plan.
- If the CPP is upheld or partially upheld, and continues to include the Clean Energy Incentive Program (CEIP), earlier generation vintages of only wind

and solar energy are eligible under the CEIP as proposed by EPA. However, prior to the stay EPA announced that it was initiating a new regulatory action that could modify details of CEIP eligibility, including both types and generation vintages eligible for ERCs under the CEIP. EPA may or may not finalize the details of the CEIP while the CPP is stayed.

- The CEIP is an optional element of State Plans, but required in Federal Plans. If the North Dakota Department of Health elects to submit a State Plan, it could decide not to include the CEIP.

Renewable Energy Certificates (RECs) may not be used for CPP compliance. RECs and Emission Rate Credits (ERCs) are separate compliance instruments, though there is partial overlap between the types and generation vintages of renewable energy that can be awarded both RECs and ERCs. RECs can be used for compliance with state renewable portfolio standards and for meeting the Renewable Energy Objective (REO) if utilities choose to do so, or for making marketing claims in the voluntary REC marketplace. ERCs can be used for CPP compliance in rate-based State Plans and Federal Plans, but cannot be used for renewable portfolio standard/REO compliance. EPA does not place any restrictions on the ability of a renewable facility to be issued both a REC and an ERC for the same megawatt hour (MWh) of generation, but it is unknown whether North Dakota may impose such restrictions.

At a high level, even if North Dakota restricted the ability of the same MWh of generation to be issued a REC and an ERC, the Company could retire RECs from facilities and generation vintages that are not eligible for ERCs without risk of losing future CPP compliance value if the CPP is upheld. All generation from facilities built before January 1, 2013, and generation prior to 2020 from facilities built after January 1, 2013, is ineligible for ERCs under the CPP as currently promulgated. These REC vintages could be retired with little or no risk of losing CPP compliance value.

Under the CPP as finalized and currently stayed, only some types and vintages of renewable energy generation are eligible to be issued ERCs: generation beginning January 1, 2022, from facilities installed after January 1, 2013 (except under the CEIP; see below). If North Dakota submits a State Plan, eligibility is broad; all types of renewable energy, at the State's discretion, can be made eligible for ERCs. If North Dakota accepts a Federal Plan, eligibility of a facility to be issued ERCs is more limited as ERCs may only be issued to wind, solar, geothermal, and hydropower projects, with the same date limitations as above.

Under the CEIP as currently proposed, ERCs may be issued for earlier generation vintages – 2020 and 2021 – but only to a facility that commenced construction after State Plan submission, or after September 6, 2018 in the case of states accepting a Federal Plan. Prior to the stay, EPA announced a new regulatory action to modify the CEIP, which may somewhat broaden eligibility to projects placed in service earlier than September 2018, and/or providing credit for generation vintages prior to 2020. What will be eligible under the finalized CEIP is unknown, and it is also unknown whether EPA will proceed to finalize the CEIP while the CPP is stayed. It is also

presently unknown whether North Dakota will submit a State Plan, and if so when, and whether this will include the optional CEIP; if it does not, then no generation vintages prior to 2022 will be eligible for ERCs.

Therefore, regarding the first question about RECs for generation vintages prior to 2020: under the CPP as finalized and currently stayed, any renewable energy facility placed in service before January 1, 2013 would not be eligible for ERCs, so RECs issued to such a facility, regardless of generation year, could be retired for renewable energy standard/REO compliance (or sold) without risk of losing CPP compliance value. Moreover, RECs issued to a renewable energy facility placed in service after January 1, 2013, but for generation vintages prior to 2022 (or 2020 if North Dakota adopts the optional CEIP) would likewise not be eligible for ERCs, so could be retired or sold without risk of losing CPP compliance value. There is a small risk that if the CPP is upheld, and EPA broadens the CEIP making generation vintages prior to 2020 eligible for ERCs, retiring pre-2020 RECs could create the risk of losing some CPP compliance value. However, this would only be the case if North Dakota imposes restrictions (which EPA currently does not) on the ability of a renewable energy facility to be issued both a REC and an ERC for the same MWh of generation.

As for the second question – whether it would be wise to not retire any RECs and save them all for transitioning to less carbon based generation under the CPP – we noted above that RECs cannot be used for CPP compliance, and some generation vintages are ineligible for ERC issuance so could be retired without losing CPP compliance value. Retiring RECs generated after 2022 by facilities installed after January 1, 2013 would only create a risk of losing CPP compliance value if the CPP is upheld, and North Dakota imposes restrictions (which EPA currently does not) on the ability of a renewable energy facility to be issued both a REC and an ERC for the same MWh of generation.

If North Dakota does impose such a restriction, the Company could still retire RECs issued to renewable energy facilities and/or for generation vintages that are not eligible for ERCs without risk of losing CPP compliance value. This would include RECs issued to any renewable energy facility placed in service before January 1, 2013, for generation in any year. It would also include RECs issued to a renewable energy facility placed in service after January 1, 2013, but for generation vintages not eligible for ERCs (e.g. generation vintages prior to 2022, or prior to 2020 if North Dakota adopts the optional CEIP).

Preparer:	Nicholas Martin
Title:	Manager
Department:	Environmental Policy
Telephone:	(612) 330-6255
Date:	February 29, 2016

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Xcel Energy

Case No.: PU-15-94

Response To: ND Public Service Commission Informal Data Request No. 4

Requestor: Michael Diller

Date Received: January 28, 2016

Question:

If you have other states you serve that have a Renewable Energy Objective (REO), are you retiring or planning to retire REC's in those states? Have other REO states provided you with guidance on the disposition of REC's in their state?

Response:

Yes, the Company has been retiring RECs in each state that has a Renewable Energy Standard (RES) or Objective (REO). The Company intends on retiring the necessary number of RECs in both North Dakota and South Dakota to demonstrate we have met the 2015 REO objectives in those states. .

The Company has not been provided guidance on the disposition of RECs from our other RES/REO states.

Preparer:	Jeffrey Haskins
Title:	Manager Renewable Portfolio
Department:	Purchased Power
Telephone:	303-571-6454
Date:	February 29, 2016

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Xcel Energy			
Case No.:	PU-15-94		
Response To:	ND Public Service Commission	Informal Data Request No.	5
Requestor:	Michael Diller		
Date Received:	January 28, 2016		

Question:

How should the commission weigh achieving the REO against selling REC's for the benefit of ratepayers? What would your company do if the commission decided in favor of selling all REC's and returning the proceeds to ratepayers? What should the commission do to minimize the optics of not meeting the REO and instead selling REC's for the benefit of customers?

Response:

To help the Commission weigh achieving the REO against providing financial benefit to customers, the Company offers the following information:

Current market prices for RECs unbundled from energy transactions are rather low. In late 2014, the market price for RECs with desired attributes was approximately \$1.00 per REC. Today's market has further degraded and is showing REC prices in the range of \$0.35 - \$0.45 per REC. Older vintage RECs have even less value.

Including our estimate of 2015 RECs, the Company has banked approximately 1,900,000 North Dakota RECs through 2015. We estimate that about 225,000 of these RECs would need to be retired in order to satisfy the 2015 REO. Assuming we were able to sell the RECs that are *not* needed to meet the 2015 REO of 10 percent at current market prices, we could realize approximately \$500,000 in proceeds. This amount equates to roughly \$2.00 to \$2.50 per residential customer. If the Company were to sell the estimated 225,000 RECs needed to demonstrate achievement of the 2015 REO, roughly \$70,000 in additional proceeds would be generated. However, in doing so, it would be difficult for the state of North Dakota to verify that it had met its REO.

The Commission's September 8, 2010 Order in PU-10-19 stated that RECs are not to be considered needed for compliance in any year prior to 2015. This Order appears to suggest that, in 2015, utilities need to recognize - in some manner - that they have generated sufficient RECs to show achievement of the REO. Xcel Energy has presumed this to mean the retirement of RECs equivalent to 10 percent of its 2015 ND retail sales. If, however, the Commission were to order North Dakota utilities to sell *all* of its North Dakota REC inventories, the Company would comply with the Commission's direction and sell all available RECs assigned to the ND jurisdiction at the best available market price.

With respect to the question about optics, the Company does not believe it would be prudent for the Commission to direct utilities to report they are meeting the REO (without retiring the necessary RECs) and then sell all of the RECs and pass the proceeds on to customers. That would result in double-counting and credibility questions, and unfavorably impact the sales price as most potential REC buyers would not want a REC that has already been "claimed" toward the REO but not retired.

Preparer:	Dave Sederquist / Jeffrey Haskins
Title:	Sr. Consultant Regulatory & Finance / Manager Renewable Portfolio
Department:	ND Jurisdictional Management / Purchased Power
Telephone:	701-241-8632 / 303-571-6454
Date:	February 29, 2016

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Xcel Energy

Case No.: PU-15-94

Response To: ND Public Service Informal Data Request No. 6
Commission

Requestor: Michael Diller

Date Received: January 28, 2016

Question:

Given the interplay between the CPP, REO and your customers' interest, summarize your plan for managing REC's absent any guidance from the commission and the rationale for doing so.

Response:

This question is answered below, based on the CPP as finalized and currently stayed, but the answer is subject to considerable uncertainty for the reasons described in the response to Data Request No. 3.

The instruments for CPP compliance and for satisfying the REO are distinct: Emission Rate Credits (ERCs) for CPP compliance and Renewable Energy Certificates (RECs) for the REO. However, there is partial overlap between the resources and generation vintages that qualify for ERCs and those that qualify for RECs. Under the CPP as finalized and currently stayed, EPA places no restriction on the ability of a renewable energy facility to be issued both a REC and an ERC for the same megawatt hour (MWh) of generation. If North Dakota likewise does not impose such a restriction in a controlling state implementation plan (State Plan), statute, or rule, the Company could retire RECs from any renewable energy facility for any generation year, without risk of losing future CPP compliance value if the CPP is upheld.

If North Dakota does impose such a restriction, then to ensure CPP compliance value for our customers if the CPP is upheld, the Company's strategy would be to retire (for REO purposes) or sell only those RECs from generation that is not eligible to be issued ERCs. This would include RECs issued to any renewable energy facility placed in service before January 1, 2013, for generation in any year. It would also include RECs issued to a renewable energy facility placed in service after January 1, 2013, for generation vintages not eligible for ERCs (e.g. generation vintages prior to 2022, or prior to 2020 if North Dakota adopts the optional CEIP).

If the CPP is upheld or partially upheld, the Company will also need to consider 1) whether North Dakota plans to submit a State Plan or accept a Federal Plan, and the renewable resources eligible for ERCs in each; 2) whether North Dakota's plan is rate-based, making renewable generation eligible for ERCs; 3) what renewable resources and generation vintages are eligible for ERCs under the CEIP as finalized by EPA; 4) whether North Dakota elects to include the optional CEIP in its State Plan; and 5) whether North Dakota places restrictions on the ability of a renewable energy facility to be issued both a REC and an ERC for the same MWh of generation. These considerations would determine whether there are some RECs we should not retire to avoid the risk of losing CPP compliance value and thus increasing future costs to our customers.

Preparer:	Nicholas Martin
Title:	Manager
Department:	Environmental Policy
Telephone:	(612) 330-6255
Date:	February 29, 2016

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Xcel Energy

Case No.: PU-15-94

Response To: ND Public Service Commission Informal Data Request No. 7

Requestor: Michael Diller

Date Received: January 28, 2016

Question:

According to state law (49-02-34), the last annual report showing progress toward meeting the REO is due on June 30, 2016. If there is no requirement to report on achieving the REO beyond this year, what concern is there in not retiring REC's for the purpose of selling them or saving them for meeting CPP requirements?

If you are intent on retiring REC's to meet the REO each year, do you desire to continue reporting REC's retired to meet the REO so there is a public record of it?

Response:

These questions are answered below, based on the CPP as finalized and currently stayed, but the answer is subject to uncertainty for the reasons described in the response to Data Request No. 3.

The question of whether utilities should avoid retiring their North Dakota inventory of RECs so that they can instead be sold and the proceeds passed on to customers, or alternately saved for potential CPP compliance value, is perhaps the primary REC-related issue that utilities are looking for the Commission to clarify. There are a number of factors the Commission may wish to consider:

- As described more fully in the response to Data Request No. 6, our existing REC inventory and new RECs generated in the near term – that is, any RECs issued to a renewable energy facility placed in service before January 1, 2013, and those issued to a renewable energy facility placed in service after that date but for generation vintages prior to 2022 (2020 if North Dakota adopts the optional Clean Energy Incentive Program) – will not have any value in terms of helping North Dakota comply with the CPP, should this regulation be upheld by the courts in its current form. Thus, retiring those RECs does not pose a risk of losing CPP compliance value for our customers.
- The primary purpose of the Midwest Renewable Energy Tracking System (M-RETS) system is to ensure that renewable credits are accurately tracked and recorded so that the disposition of each REC is properly recognized. If RECs

are not retired in M-RETS to show achievement of the REO, then they are still available to be used elsewhere.

- The approach of retiring RECs to demonstrate achievement of a renewable goal or compliance with a standard is nearly universally adopted by states across the country. If North Dakota directed utilities to sell the RECs needed to demonstrate achievement of the REO, it would be taking a highly unusual approach which would be out of step with the practices of the industry and other states. RECs are retired in M-RETS to demonstrate REO compliance. Older vintage RECs not yet retired would likely be heavily discounted, or we would be unable to find a buyer in existing REC markets.
- If utilities in North Dakota do not retire the RECs, they do not have a verifiable means of documenting their achievement of the North Dakota REO.

It is our intention to retire RECs in 2015 to show that we have met the North Dakota REO, barring alternative direction from the Commission. With respect to reporting of REC retirements after 2015, our preference would be to provide any documentation of REC retirement activity upon Commission request rather than commit to a periodic reporting schedule.

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