



414 Nicollet Mall  
Minneapolis, MN 55401

December 18, 2014

—Via Electronic Filing—

Burl W. Haar  
Executive Secretary  
Minnesota Public Utilities Commission  
121 7<sup>th</sup> Place East, Suite 350  
St. Paul, MN 55101

RE: REPLY COMMENTS  
SOLAR PORTFOLIO FOR INITIAL SOLAR ENERGY STANDARD COMPLIANCE  
DOCKET NO. E002/M-14-162

Dear Dr. Haar:

Northern States Power Company, doing business as Xcel Energy, submits the enclosed Reply Comments on its Petition for approval of a 187 MW Solar Portfolio.

We have electronically filed this document with the Minnesota Public Utilities Commission, and copies have been served on the parties on the attached service list. Please contact me at james.r.alders @xcelenergy.com or (612) 330-6732 if you have any questions regarding this filing.

Sincerely,

/s/

JAMES R. ALDERS  
STRATEGY CONSULTANT  
REGULATORY AFFAIRS

Enclosure  
c: Service List

STATE OF MINNESOTA  
BEFORE THE  
MINNESOTA PUBLIC UTILITIES COMMISSION

Beverly Jones Heydinger	Chair
David Boyd	Commissioner
Nancy Lange	Commissioner
Dan Lipschultz	Commissioner
Betsy Wergin	Commissioner

IN THE MATTER OF THE PETITION OF  
NORTHERN STATES POWER COMPANY  
FOR APPROVAL OF A PORTFOLIO OF  
SOLAR PROJECTS TO MEET INITIAL  
SOLAR ENERGY STANDARD COMPLIANCE

DOCKET No. E002/M-14-162

**REPLY COMMENTS**

**INTRODUCTION**

Northern States Power Company, doing business as Xcel Energy, submits to the Minnesota Public Utilities Commission these Reply Comments on its Petition for approval of a 187 MW solar portfolio consisting of the NextEra's 62.25 MW *Marshall Solar* project, juwi solar's 24.75 MW *MN Solar I* project, and Community Energy Resources' 100 MW *North Star Solar* project. These projects represented three of the most competitive bids received in response to the Solar Request for Proposal (RFP) for utility-scale solar resources the Company issued in April of this year.

As noted in our Petition, our proposal to acquire this 187 MW solar energy portfolio coincided with the Commission's consideration in Docket No. E002/CN-12-1240, which considered whether to direct the Company to enter into a Power Purchase Agreement (PPA) with Geronimo Energy for its 100 MW Aurora project. In the event that occurred, we recommended only moving forward with the *Marshall Solar* and *MN Solar I* PPAs in addition to the *Aurora* PPA, and not moving forward with the *North Star Solar* PPA.

In its December 15, 2014 deliberations in that docket, the Commission selected the *Aurora* PPA to be executed by the Company and Geronimo. In this Reply, we continue to support our recommendation to approve the Company moving forward with the *Marshall Solar* and *MN Solar I* PPAs. However, we acknowledge other parties' comments recommending the Commission require the Company to move

forward with all three solar RFP projects, regardless of the Commission's decision regarding Geronimo's *Aurora* project. While the pricing of the RFP projects is favorable, in weighing all the factors, we believe that it is prudent to take a cautious approach, as the risks of waiting to add additional solar to our system are small.

In these Reply Comments, we:

- Provide additional context to our proposal to acquire the *Marshall Solar* and *MN Solar I* PPAs at this time,
- Address the Department's inquiries regarding cost recovery and corporate structure in the event the Company purchases any of the proposed solar projects, and
- Address the implications of the 100 percent cost recovery Condition Precedent included in each of the solar project's PPAs.

## REPLY COMMENTS

### A. 187 MW Portfolio

Our original proposal was to acquire a 187 MW portfolio of solar energy consisting of the *Marshall Solar*, *MN Solar I*, and *North Star Solar* PPAs (RFP Portfolio) as a reasonable and prudent choice, and in the public interest, because the RFP Portfolio was the product of a competitive bidding process that secured solar energy prices that maximized customer value.<sup>1</sup>

We also recommended that in the event the Commission decided to direct the Company to enter into the *Aurora* PPA in Docket No. E002/CN-12-1240, still only three solar PPAs totaling 187 MW should move forward: the *Marshall Solar*, *MN Solar I*, and *Aurora* PPAs. We continue to recommend this course of action to the Commission. The acquisition of these three PPAs totaling 187 MW is prudent in light of our needs with respect to the 1.5 percent Solar Energy Standard (SES), and the opportunity for future cost savings associated with further technological innovations.

We acknowledge that most of the parties submitting comments in this docket support adding all four of the solar PPAs as resources to our system now because the Investment Tax Credit (ITC) is scheduled to decline at the end of 2016. As the response to our RFP demonstrated, the existing 30 percent Federal ITC resulted in

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<sup>1</sup> We appreciate that the Department's analysis of the RFP Portfolio and *Aurora* PPA confirms our recommendation. The Department's analysis demonstrated that the RFP Portfolio is the least-cost and most reasonable option for the Company to meet Minnesota's 1.5 percent Solar Energy Standard obligation.

attractive pricing, but is scheduled to decline to 10 percent by the end of 2016. Taking full advantage of the higher incentive while it is available makes sense.

The countervailing consideration in the solar generation market, however, is the continuing reduction in production costs due to technology improvements. The likelihood of significant improvements in technology compensating for the reduction in federal incentives is well documented in the IHS Energy's Outlook for US Solar PV Capital Costs and Prices, 2014-2030 (October 7, 2014) (IHS Report), which we cited in our Petition.

The IHS Report involved detailed econometric modeling of the principal factors impacting the existing and projected costs of solar projects, including (i.e., capital costs, cost of capital, tax incentives, operating capacity, and required energy pricing). The report shows that solar photovoltaic benchmark capital costs have fallen by about 50 percent from 2009 to 2014, and are anticipated to fall another 35 percent from the 2014 level by 2020, and a 45 percent reduction from the current level by 2030.<sup>2</sup> These projected capital cost savings are significant, and it appears they will more than offset the decline, or even the possible elimination of the ITC.

Further, our acquisition of the *Aurora*, *Marshall*, and *MN Solar I* PPAs now, combined with anticipated residential solar projects and renewable energy credits, will more than cover the Company's 1.5 percent solar mandate obligations in a sustainable manner through the next decade. We note that with respect to residential solar projects, we had estimated that our customers would add up to 20 MW of such projects by 2020, but after our recent launch of our Community Solar Gardens program, we now believe that distributed generation solar units will add considerably more solar energy to our system.

Weighing the expected technology advances that are expected to more than offset the smaller ITC credit with what we expect to be a robust compliance position in the near-term, it may be prudent to wait to acquire additional solar resources toward meeting Minnesota's 10 percent SES *goal* in the 2020-2030 time period, as the risks of waiting appear small.

In the end, we realize that this is a close call. Taking advantage of the known low cost of the *North Star Solar* PPA now will contribute to the Company's progress in meeting the 10 percent SES goal. However, waiting for the inevitable reduction in capital

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<sup>2</sup> IHS Energy's analysis is based on its tracking of system, component, and customer acquisition costs through various public sources and surveys of key suppliers, including cost data for over 200,000 distributed solar projects installed between 2003 and mid-2014.

costs and what we expect to be very robust customer response to our distributed solar programs will also allow us to make progress on the 10 percent SES goal, while also allowing us to learn from the construction and performance of these projects – and verify the capacity and energy values of utility scale solar in Minnesota before making a larger commitment.

## **B. Cost Recovery and Structure of Purchased Solar Projects**

We acknowledge the Department's December 17, 2014 Reply Comments that accepted the explanation we provided in our responses to Information Requests regarding how we intend to recover our costs to purchase a project pursuant to the Right of First Refusal provision in the *Marshall Solar*, *MIN Solar I*, and *North Star Solar* PPAs, and the corporate structure in the event we obtained the *Marshall Solar* project pursuant to one of the acquisition options included in that PPA's Right of First Offer (ROFO) term.

We, however, confirm in this Reply that in the event we purchased any of these projects, we would seek Commission review and approval of the purchase first, pursuant to Minn. Stat. § 216B.50, subd. 1, which provides that “[n]o public utility shall sell, acquire, lease, or rent any plant as an operating unit or system in this state for a total consideration in excess of \$100,000 . . . without first being authorized so to do by the commission.” Depending on the circumstances surrounding the purchase, we would propose in our Petition that we recover the cost of the project through base rates in our next rate case, or through our Renewable Energy Standard rider.

With respect to the *Marshall Solar* project, it is not clear at this time what the likely corporate structure would be if we were to acquire it pursuant to the ROFO provision identified by the Department. There are a variety of issues that would need to be taken into consideration, including customer impacts, and GAAP accounting and taxation implications. We would explore these and other issues at that time, and outline a proposal in our Petition to the Commission.

## **C. Cost Recovery Condition Precedent**

As explained in our December 12, 2014 Letter filed with the Commission in Docket No. E002/CN-12-1240 regarding the intent of the 100 percent cost recovery Condition Precedent (CP) in the *Aurora* PPA, that same CP in the *Marshall Solar*, *MIN Solar I*, and *North Star Solar* PPAs is intended to assure recovery of only those costs of the PPAs traditionally allocated to our Minnesota and North Dakota customers. The CP was not intended to apply to costs allocated to our South Dakota, Wisconsin, and

Michigan jurisdictions, where regulatory review of the reasonableness and prudence of our PPA costs is conducted on an after-the-fact basis, and therefore might not occur for the PPAs approved in this proceeding for some time.

As we proposed with respect to the *Aurora* PPA, we are open to proposing the same change in the cost recovery CP in the RFP Portfolio PPAs to those bidders to better reflect our intentions. Revising the CP's language rather than striking it from the PPAs will avoid the risk that the North Dakota Commission will dismiss our November 7, 2014 application for an Advance Determination of Prudence for the RFP Portfolio PPAs.

### CONCLUSION

Xcel Energy respectfully requests the Commission approve the *Marshall Solar* and *MN Solar I* PPAs, in light of its selection of the *Aurora* PPA in Docket No. E002/CN-12-1240. Weighing the expected technology advances that are expected to more than offset the smaller ITC credit with what we expect to be a robust compliance position in the near-term, we believe it may be prudent to wait to acquire additional solar resources toward meeting Minnesota's 10 percent SES *goal* in the 2020-2030 time period, as the risks of waiting appear small.

Dated: December 18, 2014

Northern States Power Company

**CERTIFICATE OF SERVICE**

I, Tiffany Hughes, hereby certify that I have this day served copies of the foregoing document or a summary thereof on the attached lists of persons:

xx by depositing a true and correct copy or summary thereof,  
properly enveloped with postage paid, in the United States Mail  
at Minneapolis, Minnesota; or

xx via electronic filing

**DOCKET NO.      E002/M-14-162**

Dated this 18th day of December 2014

/s/

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Tiffany Hughes  
Records Analyst