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June 30, 2017

VIA ELECTRONIC
AND U.S. MAIL

Darrell Nitschke, Executive Secretary
North Dakota Public Service Commission
Department 408
600 East Boulevard Avenue
Bismarck, ND 58505-0480

RE: 2016 ANNUAL RENEWABLE ENERGY OBJECTIVE STATUS REPORT

Dear Mr. Nitschke:

Northern States Power Company, doing business as Xcel Energy, respectfully submits this renewable energy objective (REO) compliance report for calendar year 2016 to the North Dakota Public Service Commission as required by North Dakota Century Code Section 49-02-34.

North Dakota Century Code Section 49-02-34 states:

Commencing on June 30, 2009, retail providers shall report annually on the provider's previous calendar year's energy sales. This report must include information regarding qualifying electricity delivered and renewable energy and recycled energy certificates purchased and retired as a percentage of annual retail sales and a brief narrative report that describes steps taken to meet the objective over time and identifies any challenges or barriers encountered in meeting the objective.

The statute originally contained a sunset provision which ended the annual REO reporting requirement with the June 30, 2016 submittal. However, the sunset language was removed during the 2017 legislative session.

OVERVIEW OF 2016 RENEWABLE PRODUCTION AND REC SALES

In 2016, 420,578 megawatt-hours, or 19.6 percent, of the energy we provided in North Dakota was generated at facilities using REO-qualifying renewable resources (see Attachment A). Also, consistent with previous Commission preferences, the Company sold all 1,728,349 remaining pre-2016 vintage Renewable Energy Credits (RECs) that

were not needed last year to comply with the 10 percent 2015 REO objective in North Dakota. In addition, 496,049 2016 vintage Renewable Energy Credits (RECs)¹ were sold. In total, REC proceeds being passed on to North Dakota customers are \$229,354 to (See Attachment B).

The amount of energy generated from renewables in 2016 compared to 2015 levels increased about 5 percent, reflecting a 16 percent increase in REO-qualifying renewable production on the NSP System offset by the exclusion of renewable energy from certain resources disallowed by the Commission in prior rate or Advanced Determination of Prudence (ADP) dockets.

MANAGEMENT OF NORTH DAKOTA RECS

The Midwest Energy Tracking System (MRETS) is the regional database used to officially show compliance relative to state renewable energy standards.² One REC is created with the production of one megawatt-hour of electricity at a power plant that qualifies as renewable-based generation. Xcel Energy has set-up state jurisdictional accounts in MRETS and allocated RECs to each jurisdictional account in proportion to jurisdictional energy use³. These MRET's accounts are not "retirement" accounts, but rather holding accounts for unused and active RECs that will ultimately be applied to jurisdictional renewable objectives or standards, or sold.

In general, RECs are either retired or sold to demonstrate compliance with the various renewable energy standards and objectives in the states in which the Company operates and ensure an orderly and accurate accounting of RECs across the industry. In the Commission's September 8, 2010 Order (Case No. PU-10-19), the Commission confirmed that the statute does not require the Company to retire any RECs after the 2015 performance year. To demonstrate compliance with the North Dakota voluntary REO of 10 percent in 2015, NSP elected to retire the needed 218,888 RECs of older vintage RECs into a MRET's retirement subaccount. Later, in 2016 and early 2017, the balance of 2008-2015 vintage RECs were sold in the voluntary market to fully comply with previous Commission direction to liquidate RECs soon after they are created and pass the proceeds on to customers.

¹ Including RECs from resources not specifically included in the statutory definition found in NDCC 49.02.34.

² All renewable generation facilities owned by Xcel Energy have been registered in M-RETS. All commercial facilities from which the Company purchases renewable energy that we have specific rights to the RECs are also registered in MRETS.

³ It should be noted that in order to maximize the value of its poultry litter-based REC portfolio, the Company maintains a separate MRET's sub-account strictly for poultry RECs. Poultry RECs are primarily used for renewable portfolio standards in North Carolina and are generally sold at a premium. The allocation of the Company's poultry RECs is not made to each of its state jurisdictional MRET's accounts until *after* a sale has been executed. As of the date of this report, the poultry RECs have not been sold; the Company expects to sell them by the end of the third quarter 2017.

So, given the aforementioned interpretation of statute and the Commission's stated preferences, the Company plans to continue to sell all or as many of the North Dakota RECs as possible that are generated each year going forward. In other words, no RECs will be retired in 2016 or beyond since there is no ongoing REO in North Dakota. The Company will pass all REC sale proceeds on to North Dakota customers through the Fuel Cost Rider.

Notably, since July 1, 2012 the Company has sold over 3 million North Dakota RECs generated during the 2009 – 2016 period, producing North Dakota customer credits exceeding \$2.5 million. In future years, we will continue to look for optimal sale opportunities in the REC market for our inventory of North Dakota RECs, and timely sell them for the benefit of our retail customers.

EFFORTS TO ADD NEW SOURCES OF RENEWABLE ENERGY

The Company has taken a number of steps in recent years to add renewable resources to its system in the spirit of the state's REO as well as to continue to comply to the various renewable energy standards and objectives of the other states in which we operate. Highlights of recent efforts include:

- Commencement of operations in 2016 of the 200 MW Courtney Wind Facility in North Dakota and the 200 MW Odell Wind Facility in Minnesota;
- A proposal to add an additional 1,550 MW portfolio of new owned and purchased wind energy, including a 150 MW facility near Hebron, North Dakota.

If there are questions regarding information contained in the attached report, please feel free to contact me or Sarah Frazee at (303) 571-7619 or sarah.m.frazee@xcelenergy.com. Thank you.

Sincerely,



DAVID SEDERQUIST
SR. REGULATORY/FINANCIAL CONSULTANT
XCEL ENERGY (NORTH DAKOTA)

cc: Pat Fahn

North Dakota Renewable Energy Objective 2016 Status Report

Jurisdictional Allocation (based on 2016 energy use)

	<u>State Allocators</u>
1 Minnesota	73.5559%
2 North Dakota	5.3628%
3 South Dakota	5.0562%
4 Wisconsin/Michigan	<u>16.0251%</u>
5 NSP System	100.0000%

2016 NSP System Renewable Generation

	<u>MWh (RECs)</u>
6 Wind	7,635,907
7 Hydro (pre-2007)	1,286,676
8 Biomass/Wood	964,460
9 Refuse-Derived Fuel (RDF)	258,512
10 Landfill Gas	97,116
11 Hydro (in-service 2007 or after)	49,796
12 Solar	<u>25,220</u>
13 NSP System	10,317,687

ND REO Renewable Energy

14 ND % of NSP System Energy	5.36284%	L2
15 NSP System RECs allocated to ND	553,321	L13 x L14
16 Exclude pre-2007 Hydro & RDF ¹	(82,865)	-(L8+L12) x L14
17 Exclude RECs from Sources Rejected by NDPSC ²	<u>(49,878)</u>	
18 ND REO qualifying renewable energy:	420,578	

ND Retail Electric Energy Sales

19 ND electric energy retail sales	2,212,739	FERC Form 1
20 Exclude pre-2007 Hydro ³	<u>(69,002)</u>	-L8 x L14
21 ND REO adjusted retail sales	2,143,737	
22 % of ND Energy from REO Qualifying Renewables	<u>19.6%</u>	(L18/L21)

2016 ND REC Sales

23 Total System ND Net Allocated RECs	553,321	L15
24 Exclude RECs from Sources Rejected by NDPSC	(49,878)	L17
25 Adj. for Mis-allocation of Poultry RECs in 2015 ⁴	<u>(3,188)</u>	
26 Net ND RECs Available to Sell 2016 Vintage	500,255	
27 2016 Vintage Executed REC Sales ⁵	496,049	Att B
28 RECs Retired for 2016 REO Compliance ⁶	0	

Notes:

- 1 Per Settlement Agreement in Case No. PU-12-813.
- 2 Per ND REO statute 49-02-25 and 49-02-26
- 3 Per ND REO statute 49-02-30
- 4 The allocation of poultry litter-based RECs was over-stated in 2015.
- 5 Includes pre-2007 hydro and resource-derived fuel RECs not allowed in REO statute. Also, 7,394 biomass (poultry litter) RECs (2016 vintage) will be sold in Q3 (See Attachment B).
- 6 Per statute, there is no REO compliance requirement after 2015; RECs are sold as available.

North Dakota Renewable Energy Objective 2016 Status Report

ND REC Sales Summary

<u>Transaction Date</u>	<u>Vintage</u>	<u>Quantity</u>	<u>Net Proceeds</u>
12/5/2016	2015	271,076	\$62,347.48
2/21/2017	2008 - 2015	1,457,273	\$38,033.48
5/31/2017	2016	496,049	<u>\$128,972.74</u>
		Total:	<u>\$229,353.70</u>

*Proceeds are Net of applicable Broker Fees

REC Inventory (as of 6/30/17)

<u>Source Type</u>	<u>Vintage 2016</u>	<u>Total</u>
1 Wind	0	0
2 Solar	0	0
3 Hydro	0	0
4 Biomass*	<u>4,206</u>	<u>4,206</u>
5 Total	4,206	4,206

Notes:

* Inventory of biomass (poultry-litter) RECs is expected to be sold in 3rd quarter 2017