



Not Public Document – Not For Public Disclosure

Public Document – Not Public Data Has Been Excised

Public Document

Xcel Energy Information Request No. 2-5
Docket No.: PU-18-403
Response To: North Dakota Public Utilities Commission
Requestor: Michael Majoros
Date Received: April 10, 2019

Question:

Refer to the Martin testimony, page 5, line 17, which describes the impact on the valuation of MEC I and II Facilities and PPAs of the 2017 Tax Cuts and Jobs Act (TCJA).

- a. Describe any likely impact of the TCJA on PPA prices for contracts signed after the TCJA was passed relative to the PPA prices for contracts signed before the TCJA was passed.
- b. Describe whether and how the Company took the likely impact of the TCJA into account when evaluating the cost of alternatives to the MEC I and II purchase.
- c. If the Company did take the likely impact of the TCJA on future PPA prices into account when evaluating the cost of alternatives to the MEC I and II purchase, provide documentation which indicates this.
- d. Is it a fact that Xcel Energy could restructure its PPAs to adjust for the effect of the TCJA? If not, why not?
- e. If Xcel Energy does not purchase MEC I and MEC II will it in fact renegotiate the existing PPAs to adjust for the TCJA?

Response:

- a. It is difficult to speculate on the pricing strategy an IPP may incorporate into their PPA pricing structure as they are motivated to maximize their revenue and hence, profitability, in light of the competitive environment they encounter for each project. Theoretically, if supply were unlimited and costs identical, a reduction in the tax rate should result in lower PPA pricing. Similarly, if an IPP was structuring their pricing to achieve a certain return on equity target, a reduction in tax rate should result in a lower PPA pricing level. In reality, an IPP would only be motivated to lower its pricing if it determined the nearest priced competitor threatened their ability to secure a PPA contract due to the change in tax rate.

- b. All assessments of the MEC I and II purchase were performed using post TCJA federal tax rates as that law was in effect at the time of our acquisition.
- c. Please see our response to NDPSC DR No. 2-4. We did not model future PPA prices in our assessment of the Mankato acquisition beyond that used in our Stratigist models, which used generic costs for replacement generation in choosing the most economic resource mix.
- d. To the extent an IPP with a current contract to sell power to NSPM would be willing to lower pricing of a contract due to a change in their tax position, restructuring the PPA may be possible.
- e. Both the MEC I and MEC II contracts are in full force and affect and we do not foresee a renegotiation as described.

Preparer: Jerry Dittmann
Title: Corporate Development
Department: Corporate Development
Telephone: 612-215-4568
Date: April 24, 2019