

**STATE OF SOUTH DAKOTA
BEFORE THE
SOUTH DAKOTA PUBLIC UTILITIES COMMISSION**

IN THE MATTER OF COMMISSION STAFF'S
REQUEST TO INVESTIGATE NORTHERN
STATES POWER COMPANY DBA XCEL
ENERGY'S PROPOSED FUEL CLAUSE
RIDER

DOCKET NO. EL16-037

**RESPONSE TO COMMISSION STAFF'S
MOTION TO SHOW CAUSE**

Northern States Power Company, doing business as Xcel Energy, submits to the South Dakota Public Utilities Commission this Response to Commission Staff's Motion to Show Cause in the above-referenced docket.

INTRODUCTION

As one of the jurisdictions served by NSP, South Dakota has long benefitted from the economies of scale and diversity of resources available to a larger, integrated system. On behalf of customers, the Company has capitalized on the geographic, supply and resource diversity that the five-state NSP System provides. We acknowledge that maintaining an integrated system has, at times, required compromise—but it has also provided a valuable hedge against fuel variability, geographic changes and supply dynamics. Since 1914, we have weathered all manner of economic and environmental conditions to deliver safe, reliable and affordable energy to our South Dakota customers.

Notwithstanding that fact and despite having shared in (and paid for) the integrated system up to this point, Commission Staff has requested a review of certain parts of the integrated whole. We ask that the Commission elect to forego any such investigation and, in so doing, reaffirm its commitment to the integrated system.

BACKGROUND

The NSP System is comprised of the generation and transmission assets of Northern States Power Company – Minnesota (NSPM), which serves customers in Minnesota, North Dakota, and South Dakota, and the generation and transmission assets of Northern States Power Company – Wisconsin (NSPW), which serves customers in Wisconsin and Michigan. The current NSP System is comprised of a diverse electric

generating fleet with an installed capacity of over 10,000 megawatts (MW) meeting the energy needs of over 1.6 million electric customers. NSPM serves electric customers totaling approximately 90,000 in South Dakota, 1.2 million in Minnesota and 92,000 in North Dakota, making NSPM the largest utility in each of those states. NSPW serves approximately 245,000 electric customers in Wisconsin and 9,000 electric customers in Michigan.

Our generation portfolio currently includes the High Bridge, Riverside, and Angus Anson natural gas plants in Minnesota and South Dakota, the Monticello and Prairie Island nuclear facilities in Minnesota, and the Sherburne County Units 1 - 3 and Allen S. King coal plants in Minnesota. The NSP System also includes peaking plants located in both Minnesota and Wisconsin, as well as approximately 3,000 MW of renewable energy capacity including wind, hydro, biomass, refuse derived fuel, and solar resources.

As a result of the Company's latest Integrated Resource Plan, we have filed a petition with the Minnesota and North Dakota Commissions seeking to add 1550 MW of new wind resources, including 600 MW located in South Dakota. We are excited about the possibility of bringing significant development into the state and anticipate our proposed projects will bring over one billion dollars to South Dakota through capital investments, landowner payments, and property taxes. The Company's Wind Portfolio demonstrates how the integrated nature of the NSP System continues to allow for leveraging of its size and geographic diversity to deliver unique value to our customers and the states we serve.

On November 30, 2016, South Dakota Commission Staff filed a Petition to Suspend NSP's Proposed Fuel Clause Rider. In its Petition, Staff identified three solar projects for further evaluation: Marshall, North Star and Aurora. On May 8, 2017, Staff filed a Motion to Show Cause and recommended that the Commission take testimony on whether these solar project costs are appropriately recovered from customers through the Fuel Clause Rider, but they did not stop there. With little comment, Staff expanded the scope of the requested hearing to include NSPM's Community-Based Energy Development (C-BED) resources, Renewable Development Fund (RDF) resources, certain biomass resources, and any power purchase agreement (PPA) resource where the price has averaged more than \$100/MWh. Many—indeed most—of the other resources being challenged have served South Dakotans for many years.

ARGUMENT

In SDCL 49-34A-8.4, the South Dakota legislature sets forth the criteria a utility must

satisfy to prove that its rates are just and reasonable. It provides:

The burden is on the public utility to establish that the underlying costs of any rates, charges, or automatic adjustment charges filed under this chapter are prudent, efficient, and economical and are reasonable and necessary to provide service to the public utility's customers in this state.

In its Motion, Commission Staff relies on the underlined language to argue that any resource that stems from the policy directive of another state is per se unrecoverable from South Dakota customers. That reading of the statute does not square with Commission precedent.

In the Company's 2012 South Dakota electric rate case, it sought to recover in rates the capital and operating expenses of its Nobles Wind Project—a project that was “undertaken to comply with the Renewable Energy Standards and Objectives that have been established in Minnesota” and approved by the Minnesota Commission on that basis.¹ Notwithstanding that fact, the South Dakota Commission approved full cost recovery. In so doing, the Commission explained:

the standard for testing cost recovery provided in Section 49-34A-8.4 includes consideration of whether the expenditure was ‘efficient and economical.’ That standard provides Xcel with a certain amount of flexibility to pick alternatives that are best for the overall system, not strictly the least-cost alternative. Other factors, such as fuel diversity and diversification of risk are also factors in such a decision. The facts sufficiently demonstrate that Xcel's selection of Nobles satisfies the ‘efficient and economical’ component of that standard.²

The Commission's treatment of Nobles is representative of the thoughtful and reasoned approach South Dakota has historically taken with respect to the integrated system. South Dakota has correctly recognized the significant benefits that come with participation in a large, integrated system while acknowledging that some compromise is required as the price of continued participation.³

¹ *In the Matter of the Petition of Northern States Power Company, a Minnesota Corporation, For Approval of Two Wind Energy Projects*, Docket No. E-002/M-08-1437, Petition at 1 (Dec. 3, 2008) (hereinafter *Nobles Docket*); see also *Nobles Docket*, Order at 3-5 (June 10, 2009).

² *In the Matter of the Application of Northern States Power Company for Authority to Increase Rates for Electric Service in the State of South Dakota*, Docket No. EL11-019, Order at 9 (July 2, 2012).

³ *Id.* at 7 (“Xcel conducts its resource planning on a system wide basis. An integrated system can provide a utility's customers with significant benefits.”).

Continued support for this balanced approach continues to be critically important as our system resources continue to age and near retirement. As our system turns over, we expect to leverage our economies of scale to fill the resource gaps with diverse generation while continuing to deliver on the promise of safe, reliable and affordable energy. That said, not every jurisdiction will agree with every resource that is selected—as with the solar resources at issue here. Yet, as the Commission has done before, it can and should conclude that the value of the integrated system outweighs its discomfort with any one resource.

The Staff's second statutory argument also falls short. Staff argues that by failing to compare the Marshall and North Star solar PPAs to “other electricity alternatives”, we failed to comply with SDCL 49-34A-104. Yet, by its terms, SDCL 49-34A-104's requirement to consider other electricity alternatives applies only to those renewable resources that are needed to meet the state's “renewable, recycled, and conserved energy objective.”⁴ The Marshall and North Star solar projects were not needed to meet South Dakota's renewable energy objective.

For all of these reasons, the Commission should decline to pursue any further review of the Fuel Clause Rider. If, however, the Commission does elect to review the Aurora, North Star and Marshall solar projects, it should decline to review the other projects referenced in the Staff's Motion (Exhibit JPT-2, Exhibit JPT-3, and Exhibit JPT 4). Indeed, there are several, independent reasons for declining to review the other project costs. We address them in turn below.

First, the scant discussion of these resources in the Motion provides no basis for a course correction—particularly where, as here, the resources have been serving customers for as long as 19 years. In fact, over 95 percent of the PPAs identified by Staff in Exhibits JPT-2, JPT-3 and JPT-4 have been serving customers for at least five years. It is not reasonable to abruptly challenge costs that have flowed to customers, without comment, for many years.

Second, the RDF and biomass mandates grew out of a legislative compromise that allowed the Company to continue its nuclear operations.⁵ What is more, South

⁴ SDCL 49-34A-104.

⁵ On May 10, 1994, the Governor signed 1994 Minnesota Session Law, Chapter 641, which was legislation that ratified and approved an Environmental Impact Statement that authorized five casks to be used for the storage of spent nuclear waste—effectively extending the lives of Xcel Energy's nuclear facilities. The 1994 legislation mandated the creation of the Renewable Development Fund (RDF) for the purpose of developing renewable sources of electricity, such as wind, solar, and biomass. The legislation also created a biomass power mandate requiring Xcel Energy to bring 50 MWs of installed biomass capacity onto the system. A December 31, 2002 legislative amendment increased the biomass requirement to 75 MW.

Dakota has historically been a steadfast supporter of nuclear power and, presumably, the bargain that was struck to retain it. In that way, the relationship between the RDF, biomass and nuclear resources demonstrates the inequity that results when a jurisdiction attempts to carve off a particular resource while retaining a related resource.

Third, the Company was an early adopter of wind. The C-BED resources at issue in this case grew out of that early adoption and, as a result, the projects were smaller and more expensive than the Wind Portfolio recently advanced by the Company. It was this early adoption, however, that put the Company in a position to capitalize on the extremely economic Production Tax Credit wind of today. More precisely, the C-BED projects provided us an opportunity to advance our understanding of how to safely and reliably bring wind power onto the system. During the early years, we also gained critical knowledge about how to operate and maintain wind farms—a knowledge that has positioned us to propose wind development in South Dakota that is valued at more than one billion dollars. As a result, the C-BED projects—like the RDF and biomass resources—provide a powerful example of the complex relationships between system resources and the equities at play when jurisdictions seek to pick and choose. The inequity is particularly acute when the resources are first challenged many years after coming onto the system.

Fourth and finally, no showing has been made (or even attempted) with respect to the Cannon Falls peaking plant and Mankato Energy Center combined cycle plant. In fact, it appears that Staff set an arbitrary threshold of \$100/MWh and included any resources that exceeded that benchmark.⁶ The Company believes (and hopes) that more is required to reverse more than a decade of recovery.

The Company has valued serving South Dakota for more than a century, but we are troubled by Staff's Motion and its attempt to single out system resources as well as reopen resources that have served South Dakota customers for many years. To the extent this Motion signals a move away from full participation in the integrated system, we expect this Commission will join North Dakota in analyzing system separation, and the shift in both control and risk that may result as a small footprint system breaks away from a larger, integrated one.

⁶ The \$100/MWh threshold makes little sense as an objective measure in that it uses an energy metric for capacity resources.

CONCLUSION

Based on the foregoing, we respectfully request that the Commission deny the Staff's Motion to Show Cause. In the alternative, we request that the Commission grant the Staff's Motion to Show Cause only as to the North Star, Marshall and Aurora solar projects.