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Xcel Energy

Docket No.: EL16-037

Response To: South Dakota Public Utilities Commission Data Request No. 6-14

Requestor: Tina Douglas

Date Received: July 10, 2017

Question:

Refer to Page 3, lines 13 through 17, and Page 27, lines 15 through 18, of the direct testimony of Mr. Martin. Mr. Martin states that each resource in the NSP system was developed in consideration of the integrated system. Yet, Mr. Martin concedes that the Company proposed acquiring the 187 MW Solar Portfolio primarily to comply with Minnesota's Solar Energy Standard. Explain how the 187 MW Solar Portfolio was developed in consideration of the integrated system when the 187 MW Solar Portfolio was primarily acquired to comply with Minnesota's Solar Energy Standard.

Response:

While the Minnesota SES was a primary driver for the issuance of the solar RFP and acquisition of the 187 MW Solar Portfolio, other factors informed our decision. We issued the RFP to test the market. We only determined it was in our customers' best interest to proceed with the acquisition once we had a robust response to the RFP. The responses to the RFP provided attractive pricing for solar at that time that was materially lower than Xcel Energy's prior, smaller solar projects. The ITC, which was scheduled to expire at the end of 2016, provided a significant incentive to solar developers. We felt the circumstances warranted the acquisition of the solar resource in order to capitalize on the ITC.

As discussed in Mr. Martin's testimony, the solar acquisition resulted in lower system costs when externalities and future regulatory costs were considered and a \$14 million overall net increase in system costs when no externalities were included. The benefits and costs of the solar additions were equal when a CO₂ cost of \$5.64 per ton was included in the modeling beginning in 2019.

We also considered the benefits provided by the solar projects as a hedge against higher natural gas prices and future environmental regulations through the

displacement of natural gas and coal-based generation. In other words, if the Company was not to acquire these resources, future levels of natural gas consumption and MISO market purchases would be higher, creating higher cost uncertainty for our customers system-wide.

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