500 West Russell St
Sioux Falls, SD 57104

May 31, 2018

--Via Electronic Filing—

Ms. Patricia Van Gerpen, Executive Director
South Dakota Public Utilities Commission
Capitol Building, 1st Floor
500 E. Capitol Ave.
Pierre, SD 57501-5070

RE: PETITION
REQUEST FOR APPROVAL OF DEFERRED ACCOUNTING FOR CERTAIN BIOMASS TRANSACTION COSTS
DOCKET NO. EL18-____

Dear Ms. Van Gerpen:

Northern States Power Company, doing business as Xcel Energy, submits the enclosed Petition for approval of deferred accounting for certain biomass and biogas transaction costs, pursuant to SDCL § 49-34A-7 and ARSD § 20:10:13:48.

Please contact Tim Edman at 612-330-2952 or timothy.j.edman@xcelenergy.com or call me at (605) 339-8350 or steven.t.kolbeck@xcelenergy.com if you have any questions regarding this filing.

SINCERELY,

/s/

STEVE KOLBECK
PRINCIPAL MANAGER

Enclosure

STATE OF SOUTH DAKOTA
BEFORE THE
SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE PETITION OF NORTHERN STATES POWER COMPANY FOR APPROVAL OF DEFERRED ACCOUNTING FOR CERTAIN BIOMASS TRANSACTION COSTS

DOCKET NO. EL18-____

PETITION

OVERVIEW

Northern States Power Company, doing business as Xcel Energy submits to the South Dakota Public Utilities Commission this Petition to approve the use of deferred accounting and the establishment of regulatory assets for certain biomass and biogas transactions, pursuant to SDCL § 49-34A-7 and ARSD § 20:10:13:48. If approved by the Commission, the Company would defer recognition of transactional costs, as well as associated plant closing and related costs, in conjunction with the termination of two biomass power purchase agreements (PPAs) and one biogas power purchase agreement.

Last year, we entered into PPA termination agreements with Benson Power, LLC, Laurentian Energy Authority, LLC, and Gas Recovery System Energy, LLC (GRS) to terminate the Benson Power, Laurentian Energy, and Pine Bend PPAs, respectively, with the objective of saving customers money and optimizing NSP's overall generating portfolio. This cost-savings initiative, after taking into account the transactional, plant closing, and other costs, will achieve more than $600 million in cost-savings over the remaining years of the PPAs. The net present value (NPV) of these savings is $438 million. We estimate that these savings will result in a benefit of about $22 million for our South Dakota customers.[1]

We believe our request is reasonable and consistent with past decisions of the South Dakota Commission regarding the treatment of unknown and unexpected costs that may arise outside of a general rate case. The costs associated with terminating the Benson Power, Laurentian Energy, and Pine Bend PPAs are above and beyond both what the Company has budgeted for in normal utility operations and what was reflected in the costs of service that were used to set current rates. If our request for

[1] All savings estimates in this petition assumed a January 2018 closing date for the transactions as reflected in our initial regulatory filings in June and July 2017. We now expect the transactions to close in approximately June 2018, and the actual savings to be similar.

deferred accounting treatment of these termination costs is approved, the Company will further address the merits of the initiative and recovery of the costs in its next general rate case.

I. General Filing Information

A. Name, Address, and Telephone Number of the Utility

Northern States Power Company
500 West Russell Street
Sioux Falls, SD 57104
(605) 339-8303

B. Name, Address, and Telephone Number of Utility Attorney

Amanda Rome
Lead, Assistant General Counsel
414 Nicollet Mall, 401 – 8th Floor
Minneapolis, MN 55401

C. Service List Request

The Company requests that the following persons be placed on the Commission's official service list for this proceeding:

Amanda Rome
Lead, Assistant General Counsel
Xcel Energy
401 Nicollet Mall, 8th floor
Minneapolis, MN 55401
amanda.j.rome@xcelenergy.com

Carl Cronin
Regulatory Administrator
Xcel Energy
401 Nicollet Mall, 7th Floor
Minneapolis, MN 55401
regulatory.records@xcelenergy.com

Any information requests in this proceeding should be submitted to Mr. Cronin at the Regulatory Records e-mail address above.

D. Proposed Deferral and Amortization Accounting Method

The Company proposes to defer transactional, plant closing, and related costs incurred in conjunction with the biomass transactions, including the costs of operating the Benson biomass facility, as regulatory assets, with recovery of the costs to be determined in the Company's next general rate case.

The Company respectfully finds that our deferral request is consistent with past Commission decisions. For example, in Docket EL07-035 (*Accounting Treatment for Nuclear Refueling Outage Costs*), the Commission approved Xcel Energy's petition to change from a direct-expense accounting to a deferral/ amortization method and the resulting creation of a regulatory asset (the deferred balance) for planned refueling outages at our Prairie Island and Monticello nuclear plants. The Commission accepted this method of ratemaking treatment in Docket EL09-009 (*Application to Increase Rates for Electric Service*) upon a determination that this methodology is appropriate for ratemaking purposes in that instance.

II. DESCRIPTION AND PURPOSE OF FILING

SDCL § 49-34A-7 states that the Commission shall designate a system of accounts kept by public utilities, and ARSD § 20:10:13:48 states that "all statements, schedules, and working papers shall be prepared in accordance with the classifications set forth in the commission's orders and in the FERC uniform system of accounts . . . ." The Company seeks approval under these provisions for deferred accounting treatment to allow for the recognition of the transactional, plant closing and other costs associated with the termination of PPAs for the Benson Power and Laurentian Energy biomass facilities, as well as the Pine Bend biogas facility, as a regulatory asset.

The Company proposes to include the amortization of the resulting regulatory asset as a test year cost in our next general rate case. We acknowledge that the deferral accounting method and the resulting creation of a regulatory asset shall not preclude Commission review of these amounts and any future cost recovery for reasonableness.

Our proposal is organized as follows:

- Background Information
- PPA Terminations Summary
- PPA Terminations are Prudent, Reasonable and in the Public Interest

A. Background Information

In its September 28, 2017 Order in Docket EL16-037 *(In the Matter of Commission Staff's Request to Investigate Northern States Power Company's Proposed Fuel Clause Rider),* the Commission approved a Settlement Agreement that addressed the treatment of costs related to the possible termination of the Benson Power, Laurentian Energy and Pine Bend PPAs. Specifically, the Settlement Agreement stipulates that:

- The Company may recover the costs of certain biomass PPAs, and may request the Commission approve recovery or special accounting treatment of the South Dakota share of the costs for terminating any of the biomass PPAs.

We note that both the Benson Power and Laurentian Energy projects were constructed as a result of Minnesota's 1994 Prairie Island Cask Storage Authorization Act, granting approval to further operate the Prairie Island and Monticello nuclear power plants, and to store on-site the spent fuel from those facilities. As part of the legislation, the Company was mandated to construct and operate, or contract to construct, 125 MW of installed capacity generated by farm grown closed-loop biomass.

In 2017, additional Minnesota legislation amended the biomass mandate, allowing the Minnesota Public Utilities Commission to approve an amended biomass PPA, the early termination of a biomass PPA, or the purchase and closure of a biomass facility. The Company filed our petition to terminate the PPA with Benson Power, acquire the Benson Power biomass plant, and subsequently close the facility with the Minnesota Commission on June 30, 2017.[2] The Company filed our petition to terminate the Laurentian PPA with the Minnesota Commission on July 14, 2017.[3] The Minnesota Commission issued its final Order approving these two petitions on March 28, 2018.

In addition, the Company filed its petition to terminate the Pine Bend PPA with the Minnesota Commission on June 30, 2017.[4] The Minnesota Commission issued its Order approving this petition on November 8, 2017.

B. PPA Terminations Summary

The Company has obtained the necessary regulatory approvals from the Minnesota Public Utilities Commission to terminate the Benson Power and Laurentian Energy biomass plants, as well as the Pine Bend biogas facility. A settlement agreement between the Company and North Dakota Public Service Commission Advocacy Staff is currently pending before the North Dakota Public Service Commission. A brief description of the terms and cost savings associated with these transactions follows:

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[2] Docket No. E002/M-17-530 (*Petition for Approval to Terminate the PPA with Benson Power, LLC, Acquire the Benson/Fibrominn Plant, and Close the Facility*).
[3] Docket No. E002/M-17-551 (*Petition for Approval to Terminate the Laurentian PPA*)
[4] Docket No. E002/M-17-531(*Petition for Approval to Terminate the Pine Bend PPA*)

1. Benson Power – On February 3, 2017, the Company entered into an Asset Purchase and Sale Agreement with Benson Power, LLC for the 55 MW biomass facility in Benson, Minnesota. The original PPA, with a term ending on September 10, 2028, will be terminated in approximately June 2018 upon final closing of the purchase and sale agreement.

   Over the next several months, the Company intends to proceed with the plant closure, decommissioning and demolition process. As part of this process, Attachment Y (Notification of Generation Resource/Generator Change of Status) was signed on May 11, 2018 and submitted to the Midcontinent Independent System Operator (MISO). MISO requires the owner of a generation resource to submit an Attachment Y Notice at least 26 weeks prior to retiring a plant.

   Our request for cost deferral involves two categories of costs: (1) a regulatory asset that includes the costs necessary to terminate the PPA, acquire the plant, and shut it down; and (2) a regulatory asset for costs necessary to run the plant as we proceed toward an orderly shutdown. Tables 1 and 2 below provide a breakdown of the expected expenditures on a total Company basis, and Attachment A provides more details regarding those costs. The estimated costs provided below will be jurisdictionalized to reflect costs allocable to the South Dakota portion of our system and adjusted as necessary for the actual costs incurred.

Table 1 – Regulatory Asset for PPA Termination, Plant Acquisition, and Shut Down

PPA Termination and Asset Purchase Price & NAF Termination	$95,000,000
Jennie-O Contract Termination	$1,500,000
Title Insurance	$65,000
Escrow Agent Fee	$3,500
HSR Filing Fee	$37,500
Legal & Other	$1,394,000
Demolition and Remediation	$8,000,000
NAF Water Line Relocation	$200,000
City of Benson Stranded Investment	$606,823
Total	$106,806,823

Table 2 – Regulatory Asset for Operating Costs

Total Fuel Transportation Cost	$5,035,989
Total Fuel Cost	$1,073,302
Total Cost to Landfill Ash	$3,227
Property Tax	$3,523,727
O&M	$3,972,877
Backup Power Agreement	$924,000
Total	$14,533,122

Separately, the Minnesota Legislature approved a total payment of $20 million from the state's Renewable Development Account (f/k/a the Renewable Development Fund) over a four year period to the City of Benson for the economic impact and stranded costs associated with the closure of the Benson plant. South Dakota customers do not contribute to the Renewable Development Account.

The Benson Power sale, acquisition and closure transaction is expected to achieve about $345 million (NPV) in savings for our customers over the remaining years of the PPA. South Dakota customers would realize about 5.1 percent of these savings, or about $18 million (NPV).

2. Laurentian Energy – On July 12, 2017, the Company entered into a termination agreement with the Laurentian Energy Authority for the 20 MW thermal steam unit in Hibbing, Minnesota and the 15 MW thermal steam unit in Virginia, Minnesota, both of which partially utilize biomass fuels. The PPA has a term ending on December 31, 2026.

   Based on the termination agreement, the Company will pay the Laurentian Energy Authority $108.5 million over a six year period in equal annual payments of about $18.08 million, on a total Company basis. The Company proposes to defer these payments as a regulatory asset. The costs will be jurisdictionalized to reflect costs allocable to the South Dakota portion of our system.

   In addition, a payment of $34 million will be made to Laurentian Energy from the Renewable Development Account to cover repayment of Laurentian's bondholder debt as well as support the conversion of Laurentian's facilities to thermal units. South Dakota customers are not impacted by the Renewable Development Account expenditure as they do not contribute to the fund.

This transaction is expected to achieve about $87 million (NPV) in savings for customers over the remaining years of the PPA. South Dakota customers would realize about 5.1 percent of these savings, or about $4 million (NPV).

3. Pine Bend – On May 15, 2017, the Company entered into an agreement to terminate the PPA with GRS for the 12 MW Pine Bend landfill gas facility in Dakota County, Minnesota. The Company and GRS entered into the PPA on September 20, 1994 for a term ending on December 31, 2025. The Pine Bend project was developed as a Qualifying Facility under the federal Public Utilities Regulatory Policies Act (PURPA) and Minn. Stat. 216B.164, Subd. 2.

   Based on the terms of the agreement, the Company will pay GRS the monthly difference between the current PPA price and the average monthly Locational Marginal Price (LMP) at the NSP.NSP node plus $10 per MWh, based on 3,000 MWh per month. If the difference is negative, no payment will be made to GRS for that month. The termination agreement specifies that the Company will continue to make the termination payments until the earlier of three years from the effective date or when GRS has received $1.1 million through the monthly payments. The Company proposes to defer these payments as a regulatory asset and jurisdictionalize the costs allocable to the South Dakota portion of our system.

   This transaction will achieve about $5 million (NPV) in savings for customers over the remaining years of the PPA. South Dakota customers should realize about 5.1 percent of these savings, or about $300,000 (NPV).

C. PPA Terminations are Reasonable, Prudent and in the Public Interest

We believe the termination of these three PPAs is reasonable, prudent and in the public interest as demonstrated by the significant cost savings associated with these transactions. These PPA terminations are expected to achieve over $600 million in total nominal cost savings for our customers over the remaining years of the PPAs. The NPV of these savings is $438 million on a system-wide basis, which would result in a savings of approximately $22 million for South Dakota customers.

Table 3 below provides a summary of these savings:

Table 3 – Total Savings from PPA Terminations

Transaction	Nominal Dollars in Millions				NPV Dollars in Millions			
	System			SD	System			SD
	Current	Proposed	Savings	Savings	Current	Proposed	Savings	Savings
Pine Bend	$15.4	$8.8	$6.6	$0.3	$12.3	$7.1	$5.2	$0.3
Laurentian	295.4	173.9	121.5	6.2	225.5	138.6	86.9	4.4
Benson	771.6	292.0	479.6	24.5	561.2	215.6	345.6	17.6
Total	$1,082.4	$474.7	$607.7	$31.0	$799.0	$361.3	$437.7	$22.3

The Commission has the authority to approve deferred accounting and amortization of unusual and non-recurring expenses that were not contemplated when setting the current rates. By doing so, the Commission allows a utility to designate unusual and infrequent costs as regulatory assets that will be amortized over future accounting periods.

The costs associated with terminating the Benson Power, Laurentian and Pine Bend PPAs are above and beyond both what the Company has budgeted for in normal utility operations and what was reflected in the costs of service that were used to set current rates. Rather than expense these costs as they occur, we believe these one-time extraordinary expenditures are most appropriately deferred to a regulatory asset, with the merits of the initiative and recovery of the costs in evaluated in the Company's next general rate case.

CONCLUSION

Xcel Energy respectfully requests that the Commission approve the Company's request for authority for deferred accounting that would allow the Company to recognize as regulatory assets the transactional, plant closing and other costs associated with the Company's termination of power purchase agreements for the Benson Power and Laurentian Energy biomass facilities, and the Pine Bend biogas facility.

Dated: May 31, 2018

Northern States Power Company