

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

LeRoy Koppendraye  
Marshall Johnson  
Ken Nickolai  
Thomas Pugh  
Phyllis A. Reha

Chair  
Commissioner  
Commissioner  
Commissioner  
Commissioner

In the Matter of Northern States Power  
Company d/b/a Xcel Energy's Annual  
Automatic Adjustment of Charges Reports For  
Its Electric and Gas Utility Operations and  
Purchased Gas Adjustment True-Up Filing

ISSUE DATE: April 4, 2006

DOCKET NO. E,G-999/AA-04-1279

ORDER ADOPTING TREATMENT OF  
CURTAILMENT PAYMENTS TO WIND  
DEVELOPERS THROUGH FCA AND  
REQUIRING COMPLIANCE FILINGS

**PROCEDURAL HISTORY**

In approving four Xcel wind power purchase agreements (PPAs),<sup>1</sup> the Commission requested the Department of Commerce (the Department) to monitor Xcel's use of curtailment payments<sup>2</sup> under the PPAs to determine if the use was reasonable and prudent. The Commission requested the Department to report its findings annually, beginning in its review of the Electric Utility Annual Automatic Adjustment (AAA) report, expected February 2005.

The Department's Curtailment Report was filed on May 10, 2005. In the Curtailment Report, the Department reviewed Xcel's curtailment cost recovery to date. This included:

1. Curtailment costs incurred and recovered through the FCA (fuel clause adjustment);
2. Impact of payments on rates; and
3. Impact on costs of wind generation.

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<sup>1</sup> Xcel Docket Nos. E-002/M-00-622; E-002/M-02-51; E-002/M-04-404; and E-002/M-04-864.

<sup>2</sup> Curtailment requires Xcel to pay vendors for wind energy that could have been generated but was not deliverable due to transmission constraints and/or other factors set out in the PPAs.

Xcel filed its reply comments on July 20, 2005. Xcel averred that curtailment payments were necessary to facilitate wind generation in Minnesota, and have served as a useful tool to allow procurement of wind resources consistent with state policy as additional transmission infrastructure is developed.

On March 22, 2006, the Department filed its Recommendations to Resolve Issues Surrounding Curtailment Payments by Xcel. The Department proposed a “package” of commitments and reporting requirements that would satisfy all of its concerns and issues surrounding curtailment in the above-referenced four dockets.

On March 22, 2006, Xcel filed a letter in support of the Department’s recommendations. The parties also recommended a process for Xcel’s cost recovery for curtailment payments on a going-forward basis.

The Commission met on March 23, 2006, to consider this matter.

## **FINDINGS AND CONCLUSIONS**

### **I. The Positions of the Parties**

In connection with this proceeding, the Department met with Xcel and reviewed its curtailment practices. The Department’s position is premised on the theory that curtailment is an appropriate regulatory tool to facilitate wind development and “bridge” the timing differences between construction of wind turbines and construction of transmission resources. The Department urged Xcel to make continued progress to implement additional transmission resources to minimize curtailment payments while maximizing wind resources.

The Department recommended that Xcel continue to include provisions providing for curtailment payments in its wind contracts. The Department further recommended that Xcel continue to take specific steps to plan and construct transmission facilities to transmit electricity purchased through these, and future, contracts. Finally, the Department recommended that the costs of curtailment be recoverable through the fuel clause adjustment to the extent authorized under Minn. Stat. 216B.1645.

Xcel agreed to the proposed recommendations, and, with the Department, proposed that the following process be implemented:

1. Xcel would be required to track curtailments and curtailment payments that result from a lack of transmission capacity and report annually with Xcel’s AAA information.
2. Xcel would be required to provide an annual assessment of wind commitments and available or planned transmission capacity.

Recognizing that it is the timing difference between construction of wind turbines and transmission support that necessitates the practice of curtailment payments to wind vendors, the parties outlined a process to ensure that this assessment be closely monitored. Xcel agreed to prepare an annual assessment that will identify specific areas of particular concern where wind commitments exceed transmission capacity to the extent that additional transmission development is appropriate and cost-effective.

Where such areas are identified, Xcel agreed to:

1. present a plan for commencing engineering and “Load and Capability” studies; and
2. discuss whether the Company anticipates a Certificate of Need would be required, and provide its anticipated schedule for initiating such a proceeding and requesting studies from the Midwest Independent Transmission System Operator (MISO).

## **II. Commission Action**

The Commission recognizes that wind is a valuable, environmentally sound energy resource, which Minnesota law has strongly encouraged. The Commission also recognizes, however, that the development of a functional system utilizing wind energy will continue to require that ratepayers pay curtailment costs for available wind energy not yet able to be fully utilized due to constraints in Xcel’s transmission system.

The Commission appreciates the efforts of the Department in working to monitor the prudence and reasonableness of curtailment payments made pursuant to Xcel’s various PPAs. The Department’s findings in this docket evidenced certain gaps in reporting compliance, uses of curtailment beyond those authorized by the PPAs, and higher than anticipated costs of curtailment.

The Commission recognizes the efforts of the parties as they negotiated the sometimes circuitous and difficult path towards development of a reliable and economically feasible source of wind energy for Minnesota. The Commission believes that the approach recommended herein is both reasonable and prudent, as it appropriately balances:

- the state’s interest in expanding wind development in Minnesota;
- the unique characteristics of wind energy;
- the wind producers’ need to construct wind turbines prior to December 31, 2007, in order to qualify for federal production tax credits;
- Xcel’s obligation to take prudent steps to minimize costs; and
- the challenges and timing difficulties of coordinating wind generation development with transmission development.

The Commission believes, however, that an additional factor should be monitored with respect to

curtailment and wind energy to satisfy the statutory requirements of reasonableness and prudence. In an effort to track the rise and fall of curtailment costs in relation to the construction of transmission lines, and, importantly, to ensure that the construction of transmission lines in fact continues to occur, the Commission will require the following: Xcel will be required to provide, within 30 days of the date of this Order, and then as part of its annual AAA filing, a 5-year curtailment estimate in light of planned and existing projects and commitments made to update the transmission system.

The Commission will so order.

### **ORDER**

1. The Commission will defer decision on how to track MISO recoverable charges relating to wind curtailment until Xcel's Miso Day 2 filing.
2. Xcel shall report on any settlement payments included in the FCA, as part of its monthly AAA filings.
3. Xcel shall continue to include the PTC portion of curtailment payments to Lake Benton I and II in its FCA.
4. Xcel shall continue to include curtailment payments to small wind projects in its FCA.
5. Xcel shall continue to track all curtailments and curtailment payments and report on them in its monthly and AAA filings.
6. Xcel shall promptly, within no longer than 30 days from the date of this Order, file a report of its projected curtailment payments over the next five years related to wind for planned and existing projects and any commitments made to update the system.
7. Xcel shall provide an annual assessment of wind commitments and available or planned transmission capacity. This report shall:
  - identify specific areas of particular concern where wind commitments exceed transmission capacity to the extent that additional transmission development is appropriate and cost effective;
  - present a plan for any such area commencing engineering and "Load and Capability" studies;
  - discuss any requirement for a Certificate of Need and provide an anticipated schedule for initiating such a proceeding and requesting studies from MISO; and
  - include projected curtailment payments related to wind for a five-year time period in light of planned and existing projects and commitments to update the system.

8. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar  
Executive Secretary

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