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State of Minnesota
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STATE OF MINNESOTA | DISTRICT COURT

COUNTY OF RAMSEY | SECOND JUDICIAL DISTRICT

State of Minnesota, ex. rel., Association of Freeborn County Landowners,

Plaintiff,

v.

Minnesota Public Utilities Commission,

Defendant,

and

Buffalo Ridge Wind LLC, Three Waters Wind, LLC, Northern States Power Company, Plum Creek Wind Farm, LLC,

Defendant-Intervenors.

Case Type: Other Civil
Court File No.: 62-CV-20-3674
Judge: Hon. Sara Grewing

DECLARATION OF PETER D. MATHIESON

I, Peter D. Mathieson, under penalty of perjury, state the following:

1. I am the Vice President, Tax for Xcel Energy, Inc., a registered public utility holding company, and the parent of Northern States Power Company ("NSP," or the "Company"), which owns Freeborn Wind Farm ("Freeborn Wind"). I am employed by Xcel Energy Services, Inc., which is a subsidiary of Xcel Energy, Inc. This Declaration is filed in Opposition to Plaintiff Association of Freeborn County Landowners ("AFCL")'s Motion for Temporary Injunction.

2. Freeborn Wind is an up to 200 MW wind farm straddling the Minnesota-Iowa border. Freeborn Wind received a site permit from the Minnesota Public Utilities Commission to locate up to 84 MW of the wind facility in Freeborn County, Minnesota.

3. Freeborn Wind was acquired based on a price that presumed the wind farm would qualify for 100 percent of the available federal production tax credit ("PTC") available for wind

facilities. PTCs are earned on electricity produced by wind generating facilities that meet certain qualifying criteria. The PTC rate is currently 2.5 cents per kilowatt hour ("kWh"). That rate is indexed each year for inflation. The PTC rate for which a project can qualify is dependent on the year in which construction begins on the wind facility.

4. According to IRS guidance, "construction" on a wind facility can begin by starting actual physical work or by incurring at least 5% of total project cost. NSP began construction on Freeborn Wind in 2016 by incurring at least 5% of project cost in that year.

5. Once a project begins construction, one of two additional criteria must be met in order to qualify for PTCs. The project either must be under continuous construction from start to finish or, as a safe-harbor alternative, the wind facility must be placed in service by a certain date. That certain date in the case of wind facilities that began construction in 2016 is December 31, 2021. This is known as the five-year continuity safe-harbor.[1]

6. Freeborn Wind can receive 100% of the PTC rate if construction is continuous or the wind farm is placed in service by the end of 2021. If a wind facility began construction in 2016 but did not get placed in service before the end of 2021 or construction were not continuous, that wind facility would not qualify for any PTC.

7. The continuous construction requirement is not well defined by the Internal Revenue Service ("IRS"), consequently, taxpayers cannot be certain to have satisfied it until further guidance is issued or upon completion of an IRS audit. Because the continuous construction standard is ambiguous, taxpayers routinely utilize the five-year continuity safe harbor

[1] The safe-harbor is five years for wind projects that began construction in 2016 and 2017 and four years for other wind projects

and place projects in service within the safe-harbor period. With respect to Freeborn Wind, that period ends on December 31, 2021.

8. Since Freeborn Wind started construction in 2016, if no continuous construction can be proven to the satisfaction of the IRS for the entire duration, beginning in 2016 and lasting until the project is placed in service, or if the project is not placed in service by the end of 2021, Freeborn Wind would not qualify for any PTC.

9. The PTCs the Company receives from Freeborn Wind will benefit all of our customers. PTCs flow through to customers as an offset to the revenue requirement that is used to determine the electricity rates the Company charges. The revenue requirement offset for PTCs is calculated by multiplying the actual or expected kWh generated by a project by the currently effective per kWh tax credit. The total PTC value is then grossed up for income taxes as discussed below.

10. Based on our current projections of the annual energy production for Freeborn Wind, the undiscounted value of the PTCs to the Freeborn Wind project, which would be lost if the project were not to be placed in service by the end of 2021, is approximately $240 million. The lost benefit to the Company's customers would be even higher, however, because NSP's rates incorporate the impact of income taxes on the revenue we collect from customers. Therefore, a reduction in the revenue requirement recovered from customers in rates results in a corresponding reduction in income tax also recovered from customers in rates. The forecasted undiscounted value of the PTCs grossed up to incorporate the reduction in income taxes is approximately $330 million.

11. This potential harm could theoretically be partially mitigated were the Company able to obtain equipment that qualified for 80% or 60% of the PTC value based on the beginning

of construction date. In that case, the undiscounted value of the lost 100% PTCs grossed up for income taxes would be approximately $66 million or $132 million, depending on whether the project could qualify for the 80% or 60% PTC value, respectively. However, we do not currently have safe-harbored technology that would qualify for the 80% PTC value.

I declare under penalty of perjury that everything I have stated in this document is true and correct

Dated: August 19, 2020
Minneapolis, Minnesota

/s/ Peter D. Mathieson
Peter D. Mathieson