

Rebuttal Testimony
Kent T. Larson

Before the North Dakota Public Service Commission
State of North Dakota

In the Matter of the Application of
Northern States Power Company, a Minnesota Corporation

For Authority to Increase Rates for
Electric Service in North Dakota

Case No. PU-07-776
Exhibit 5

Policy Testimony

June 13, 2008

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1 I. INTRODUCTION

2
3 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

4 A. My name is Kent Larson. My business address is 414 Nicollet Mall,
5 Minneapolis, Minnesota 55401.

6
7 Q. HAVE YOU PREVIOUSLY PROVIDED TESTIMONY IN THIS PROCEEDING?

8 A. Yes. I have filed Direct Testimony in this proceeding on behalf of Northern
9 States Power Company (“Xcel Energy” or “the Company”), a Minnesota
10 corporation operating in North Dakota.

11
12 Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS PROCEEDING?

13 A. I am providing the Company’s overall response to the Direct Testimony of
14 Mr. Charles W. King and Mr. Michael J. Majoros, Jr. (collectively the
15 “Consultants”) presented on behalf of the Advocacy Staff of the North
16 Dakota Public Service Commission (the “Commission”). I will also introduce
17 our other witnesses who are presenting Rebuttal Testimony and provide a
18 brief overview of the information they will present.

19
20 My Direct Testimony discusses why adoption of the recommendations of the
21 Consultants would be extremely detrimental to our ability to provide the level
22 of service our North Dakota customers currently enjoy. We appreciate the
23 concerns raised by Advocacy Staff and are committed to working to address
24 them. The recommendations of the Consultants, however, are not an
25 appropriate remedy for those concerns, are not supported by the record of
26 this proceeding, and should not be adopted by the Commission. My Rebuttal

1 Testimony, along with the Rebuttal of other Company witnesses, provides
2 substantial evidence in support of this overall Company recommendation.

3
4 **II. SUMMARY AND ORGANIZATION**

5
6 Q. HAVE YOU REVIEWED THE CONSULTANTS' DIRECT TESTIMONY?

7 A. Yes, I have.

8
9 Q. DO YOU HAVE ANY OVERALL COMMENTS REGARDING THEIR TESTIMONY?

10 A. Yes. Their Direct Testimony indicates concerns regarding nearly all of our
11 recent investments in our system. From my reading of the testimony, these
12 concerns are based on:

- 13 • *A belief that requirements and initiatives in the Minnesota jurisdiction are inappropriate*
14 *and should be paid for exclusively by Minnesota customers.* Mr. King expresses this
15 concern when recommending disallowance of our costs of meeting
16 renewable energy requirements and complying with the Minnesota Mercury
17 Reduction Act ("MMRA").
- 18 • *Disagreement with the Company's decision to implement environmental improvements*
19 *prior to the time required by federal law.* Mr. King expresses this concern when
20 recommending denial of our costs associated with our Metropolitan
21 Emissions Reduction Project ("MERP") and our compliance with MMRA.
- 22 • *Dissatisfaction with the cost-effectiveness of investments the Company has made in*
23 *Minnesota compared to possible investments in North Dakota.* Mr. King expresses
24 this concern when recommending disallowance of costs associated with our
25 investment in the Grand Meadow wind project and transmission associated
26 with carrying wind from Buffalo Ridge.

27

1 Based on these concerns, the Consultants' overall recommendation of this case
2 is to:

- 3 • Disallow our entire requested rate increase.
- 4 • Reduce current base rates by \$200,000 (although our analysis of the
5 Consultants' recommendations results in a base rate increase of
6 approximately \$4.7 million, as described in Ms. Heuer's Rebuttal
7 Testimony).
- 8 • Consider further cost disallowances in the fuel clause adjustment ("FCA").

9

10 Q. WHAT IS THE COMPANY'S REACTION TO THIS RECOMMENDATION?

11 A. We certainly understand the concerns expressed in the Direct Testimony of
12 the Consultants. We can also appreciate the policy concerns that stem from
13 being asked to approve recovery of costs associated with investments that the
14 Commission did not separately approve and with which it may disagree.

15

16 These concerns also indicate, that as a Company, we can do more to facilitate
17 greater involvement of the Commission in our resource planning process and
18 pursue investments in generating resources located within North Dakota. As
19 you will see throughout our Rebuttal Testimony, we are working to remedy
20 this issue, and to demonstrate this, we are providing substantial information
21 regarding: (i) each of our recent investments; (ii) our efforts to plan for a
22 system that benefits all of our customers; and (iii) our plans for complying
23 with requirements in all jurisdictions in the most efficient and cost-effective
24 manner possible. We are also proposing a process for addressing resource
25 planning in North Dakota to ensure we continue to address these concerns in
26 an on-going manner.

27

1 But while we appreciate the concerns that have been raised and are committed
2 to working to address them, we also believe that the Commission should not
3 resolve our rate case on the basis of broader policy concerns that did not
4 originate with the Company. Rather, we believe that the Commission must
5 consider our rate request in accordance with its standard ratemaking principles
6 and focus on the overall prudence of our decisions and costs and facts of the
7 case. In our view, the drastic remedies that have been recommended by the
8 Consultants are far out of proportion to any concerns related to the
9 Company's decisions or costs, and lack a solid factual basis in the record for
10 this proceeding.

11
12 Q. WHY DO YOU BELIEVE THAT THE CONSULTANTS' RECOMMENDATIONS ARE
13 NOT AN APPROPRIATE RESPONSE TO THE CONCERNS RAISED?

14 A. I believe that the recommendation to disallow our entire requested increase
15 and to instead reduce current rates is not an appropriate response to the
16 concerns raised because:

- 17 • *Their recommendations are inconsistent with the facts of this proceeding.* The facts
18 demonstrate the North Dakota customers have benefited from our
19 investments in an integrated system. There is no basis for disallowing
20 these costs, as the costs of alternative supplies of energy required to serve
21 our North Dakota customers would be higher – likely substantially higher
22 – than our proposed rates.
- 23 • *They are not consistent with the statutory framework for ratemaking.* Ratemaking
24 provides for recovery of prudently incurred costs necessary for providing
25 service to customers. The recommendations of the Consultants are not
26 based on any showing that our costs were imprudent; in fact, their
27 testimony provides remarkably little factual support for such drastic

1 recommendations. Disallowance of prudently incurred costs that benefit
2 our customers is not an appropriate or constructive approach to addressing
3 concerns regarding the level of Commission involvement in our planning
4 process.

5 • *They will not be helpful in facilitating additional investment in North Dakota or*
6 *improving our service to customers.* Clearly, if we are unable to recover our costs
7 of providing service to North Dakota customers, we will be unable to
8 undertake new investments and system improvements that both enhance
9 customer service and address concerns about generating resources on our
10 system.

11 • *They would impair the financial viability of our North Dakota electric business*
12 *operations.* If earnings continue at recent levels or even deteriorate as a
13 result of this case, the financial viability of our North Dakota electric
14 business will be impaired. If significant investments were disallowed, the
15 long-term implications for earnings would be further damaged,
16 compounding the adverse financial effects.

17

18 We believe that all parties – the Company, our customers, the State of North
19 Dakota, and the region – have benefited from a long history of constructive
20 regulation. Our multi-state integrated system offers tremendous benefits and
21 cost savings for all of our customers; our ability to operate such a system
22 requires that all States allow us to meet the various requirements of the others.
23 While we appreciate the concerns that have been raised and are committed to
24 finding approaches to address them, I am convinced that adoption of the
25 recommendations would be:

26 • Harmful to the Company and our ability to provide service to our
27 customers.

- 1 • Harmful to our North Dakota customers, as our large, multi-state
2 integrated system would begin to dissolve, reducing benefits to all.
- 3 • Harmful to North Dakota’s overall interest in encouraging investments in
4 new generation and other system improvements.
- 5 • Harmful to the financial integrity of our North Dakota electric business.

6
7 Therefore, except as detailed within the Company’s Rebuttal Testimony, we
8 respectfully recommend that the Commission not adopt the recommendations
9 advanced by the Consultants in this proceeding.

10

11 Q. PLEASE DESCRIBE HOW YOU HAVE ORGANIZED THE REMAINDER OF YOUR
12 REBUTTAL TESTIMONY.

13 A. I present my Rebuttal Testimony in the following sections:

- 14 • *Benefits of an Integrated System.* In this section, I discuss how our long-
15 standing, constructive relationship with state regulators has allowed us to
16 operate a large, multi-state integrated system that provides tremendous
17 value to our customers. I offer evidence demonstrating how North
18 Dakota customers benefit from this system and the harm that stems from
19 potential fragmentation. The Rebuttal Testimony of Ms. Elizabeth
20 Engelking provides further support for these conclusions.
- 21 • *Overview of Key Investments.* Here, I present a high-level discussion of the
22 basis for the Company’s decision to invest in the projects recommended
23 for disallowance by Mr. King. Many of these investments are compliance-
24 driven and are needed to meet the requirements of our various
25 jurisdictions; others have been pursued as part of the Company’s overall
26 generation plan. In all cases, we believe that: (i) customers have benefited
27 and will benefit from these investments; (ii) our investments in these

1 projects were prudent; and (iii) our costs are appropriate for recovery. The
2 Rebuttal Testimony of both Ms. Engelking and Mr. Richard Rosvold
3 provide further support for this conclusion.

4 • *Impacts of the Consultants' Recommendations.* In this section, I provide our
5 assessment of the harm these recommendations would have on us as a
6 Company, our ability to continue to provide high-quality service to our
7 North Dakota customers, and our efforts to increase investment in new
8 facilities in North Dakota, and the financial viability of our business in
9 North Dakota. I present information on our current service levels, our
10 overall rates, our commitment to the communities we serve, and our plans
11 for future investment – each of which would be adversely affected by
12 adoption of the Consultants' recommendations.

13 • *Planning Proposal.* In response to the concerns regarding resource planning,
14 we have developed a proposal for consideration, as well as other initiatives
15 the Commission could consider. I present a high-level overview of these
16 recommendations, which will be further developed in the Rebuttal
17 Testimony of other Company witnesses.

18 • *Introduction of Witnesses.* In this section, I present the other Company
19 witnesses sponsoring Rebuttal Testimony and an overview of the
20 information they provide.

21 • *Summary and Conclusions.* Finally, I summarize the importance of this case to
22 the Company, our position on the key issues in dispute, and our
23 recommendations to the Commission.

24
25
26
27

1 **III. BENEFITS OF AN INTEGRATED SYSTEM**

2
3 Q. PLEASE DESCRIBE WHAT YOU MEAN BY THE TERM “INTEGRATED SYSTEM.”

4 A. By “integrated system,” I mean the operation of our entire, multi-state system
5 of generating, transmitting, and delivering electricity services within both the
6 NSP-Minnesota and the NSP-Wisconsin operating companies of Xcel Energy
7 Inc. (the “NSP System”). The NSP System encompasses five states in the
8 upper Midwest, including Minnesota, Michigan, North Dakota, South Dakota,
9 and Wisconsin. While the Company’s assets needed to provide service to our
10 customers in these states are not all directly connected, they are all connected
11 as a larger, interconnected network of assets owned by other public utilities,
12 cooperatives, and municipal utilities.

13
14 Connection with this larger, regional network of assets allows us to plan and
15 operate our entire five-state system on an integrated basis. That means, for
16 example, that we can plan our fleet of generating plants on a total-system
17 basis, as opposed to attempting to plan on a state-by-state or community-by-
18 community basis.

19
20 Q. WHAT ADVANTAGES DOES AN INTEGRATED SYSTEM OFFER?

21 A. A large, integrated system allows us to:

- 22 • Reduce the total amount of generating resources used to serve customers;
23 • Diversify the fleet of generating resources required to meet our customers’
24 needs, lowering costs and risks; and
25 • Lower costs by spreading costs over a substantially larger and diverse
26 customer base.

27

1 Q. PLEASE EXPLAIN HOW AN INTEGRATED SYSTEM REDUCES THE TOTAL NEED
2 FOR GENERATING RESOURCES.

3 A. A large, integrated system such as ours requires fewer total generating
4 resources compared to several, smaller systems serving a similar number of
5 customers. This result arises from our ability to take advantage of load
6 diversity across a large number of customers and broad geographic area. For
7 example, a system that combines the usage of relatively peak-sensitive, low
8 load-factor customers with the usage of large, industrial customers with
9 significant off-peak usage will require a lower total amount of generating
10 capacity as compared to two separate systems serving each group. Generally
11 speaking, the larger and broader the range of customers, the greater the
12 diversity of their energy load and usage characteristics will be; and the greater
13 the diversity of load, a greater advantage for generation planning is created.

14

15 Q. PLEASE ELABORATE ON YOUR SECOND POINT REGARDING DIVERSITY OF
16 GENERATING RESOURCES.

17 A. A 10,000 MW system such as ours provides the breadth and scope to support
18 a variety of generating resources that could not otherwise be justified in a
19 smaller system. As indicated in Figure 1 below, our generating fleet is among
20 the most diverse in the nation. Power is generated by nuclear, coal, hydro,
21 natural gas, oil, wind, and biomass -- even garbage.

22

23

24

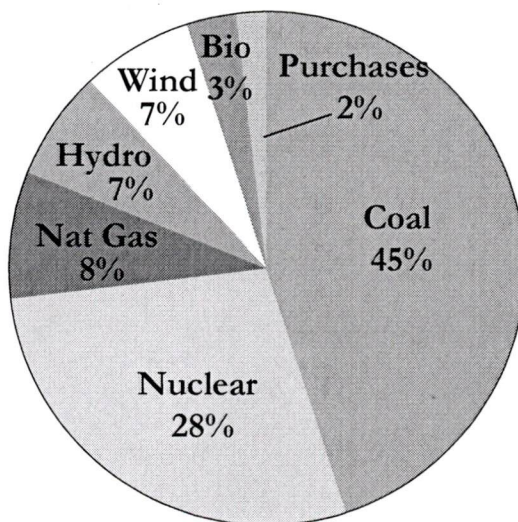
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26

27

1 **Figure 1: Xcel Energy's Portfolio of Resources**

2
3 (% of MWH Produced)



16 Such a diverse fuel mix allows us to not only reduce costs for customers, but
17 also to diversify risk:

- 18
- 19 • Costs are lower, as we have sufficient scale to justify investments in base
20 load nuclear and coal plants that reduce average costs to all customers; and
 - 21 • Risks are lower because we are not dependent on any one fuel source.

22 In times of significant fuel price volatility, as we are currently experiencing, a
23 diversified fuel mix provides a tremendous price hedge for our customers as
24 compared to an electric system dependent on only one or two fuel sources.

25 I should note also that in 2007, 606,500 MWHs of electricity used to serve
26 Xcel Energy's customers in North Dakota was produced by generating
27 facilities located in North Dakota; this represents roughly 25 percent of our
28 North Dakota retail sales.

1 Q. CAN YOU EXPLAIN YOUR THIRD POINT REGARDING REDUCED COSTS DUE TO A
2 LARGER CUSTOMER BASE?

3 A. Yes. Operating an electric system requires certain basic infrastructure
4 investments and services to simply run the business. Because such business
5 costs can be spread over a larger customer base, the average cost of providing
6 service is lower.

7

8 Q. DO YOU BELIEVE XCEL ENERGY'S INTEGRATED SYSTEM HAS PROVIDED
9 BENEFITS SUCH AS THOSE YOU DESCRIBE TO NORTH DAKOTA CUSTOMERS?

10 A. Definitely, yes. For example, in 2007, the average cost of generation on our
11 system averaged \$45.00/MWH. In comparison, average market prices were
12 \$55.00/MWH. Adding the consideration of fixed or capacity costs, our
13 system average was \$77.00/MWH as compared to \$89.00/MWH for the
14 market. Likewise, the average all-in costs of nuclear generation on our system
15 was \$36.66/MWH, significantly lowering our average costs. Utilities of
16 smaller scale would be unable to justify or support investment in such a large-
17 scale, capital-intensive generating resource as a nuclear unit; our system
18 includes three nuclear units, providing over 1500 MWs of generating capacity.
19 Ms. Engelking's Rebuttal Testimony provides further support for these
20 benefits. But I believe there can be no question that our five-state, integrated
21 system offers tremendous benefits to our customers.

22

23 Q. ARE THERE ANY PARTICULAR ADVANTAGES TO NORTH DAKOTA CUSTOMERS
24 DUE TO XCEL ENERGY'S INTEGRATED SYSTEM?

25 A. Yes. The smaller jurisdictions of our five-state service territory enjoy the
26 greatest benefits from being part of a larger system. Our North Dakota load
27 accounts for approximately 500 MW of a 10,000 MW system, or

1 approximately five percent. To meet the needs of this size load on a stand-
2 alone basis, we would likely need to rely on either natural gas generation or a
3 smaller coal plant supplemented with purchased power – there would certainly
4 be no way to support the broad, diverse portfolio of resources currently
5 serving our system. The cost and risk advantages of the integrated system are
6 very apparent, with natural gas costs currently at about \$11/MCF and
7 purchase power costs averaging around \$85/MWH to \$125/MWH or more in
8 peak summer periods.

9
10 Q. ARE THERE ANY DRAWBACKS TO A LARGE, INTEGRATED SYSTEM?

11 A. I do not know that I would call it a “drawback,” but a multi-state, integrated
12 system clearly does require the support of all jurisdictions in which it operates.

13
14 Q. PLEASE ELABORATE.

15 A. We need to meet the applicable requirements of each state and community in
16 which we serve and in which our facilities are located; perhaps particularly
17 since we are a public utility, compliance with all requirements is essential to
18 our ability to do business in a particular state. An integrated system inherently
19 recognizes and respects this need, as it allows the costs of meeting these
20 requirements and operating these facilities to be proportionately shared across
21 the entire system.

22
23 Q. WHY WOULD REGULATORS IN ONE JURISDICTION ALLOW FOR THE RECOVERY
24 OF A SHARE OF COSTS REQUIRED BY THE LAWS AND REGULATIONS OF
25 ANOTHER JURISDICTION?

1 A. Regulators allow the sharing of such costs because they are small compared to
2 the benefits, including cost savings, provided by the larger scale of an
3 integrated system.

4

5 Q. PLEASE CONTINUE.

6 A. The Direct Testimony of Mr. King challenges this fundamental premise of an
7 integrated system: instead of recommending acceptance of a proportionate
8 share of our total system costs, Mr. King recommends significant
9 disallowances, including the costs of meeting Minnesota requirements that
10 apply to generation facilities located in Minnesota. At least part of the basis of
11 this recommendation is disagreement that North Dakota customers should
12 pay any share of the costs of meeting certain statutory requirements of other
13 jurisdictions. The problem with this approach, however, is that once we begin
14 to disaggregate total system costs in any way other than proportionately across
15 our entire system, we will quickly lose the very nature and benefits of an
16 integrated system.

17

18 Q. WHY IS THAT?

19 A. Once such disaggregation of costs begins, there is little impetus to stop and
20 few logical distinctions to support stopping part way. For example, the
21 Minnesota Legislature adopted certain requirements as a precondition to our
22 ability to add spent-fuel storage at our nuclear facilities. If, for example, the
23 Commission denied us recovery of a proportionate share of those costs
24 (believing, as Mr. King argues, that those costs are instead appropriately
25 assigned to Minnesota customers), there is little reason for Minnesota to not
26 claim that it is exclusively entitled to the benefits of low-cost nuclear

1 generation, since it is host to the nuclear plants, and the costs of keeping the
2 plant operating would be borne by Minnesota customers.

3
4 Thus, this is quite frankly a case where the system either hangs together as a
5 whole, or falls apart into separate, jurisdictional systems:

- 6 • Unless each jurisdiction accepts a proportionate share of our total costs of
7 providing integrated service, there is little likelihood that all of the
8 jurisdictions will agree on a different means of allocating costs among
9 them;
- 10 • But unless the utility can recover all of its costs across the jurisdictions
11 through the support of each of the jurisdictions, it cannot continue to
12 operate as an integrated system. Once we embark on such disaggregation,
13 the benefits that come from large scale and scope will dissolve.

14
15 Q. WHY DO YOU SAY THAT THE UTILITY WILL NOT BE ABLE TO CONTINUE TO
16 OPERATE AS AN INTEGRATED SYSTEM IF IT CANNOT RECOVER ALL OF ITS COSTS
17 OF PROVIDING SERVICE IN NORTH DAKOTA?

18 A. Like any business, a utility needs to recover all of its costs to remain viable and
19 continue to fund the needed new investments and improvements to supply its
20 customers' growing needs. While there certainly are advantages to operating
21 in a number of jurisdictions, there is also a key risk – that being the risk that
22 jurisdictions will change the approach to cost sharing in any one given rate
23 proceeding. Because these issues will surface in individual rate proceedings
24 before the various state utility commissions at different times, the utility will
25 not have any means to recapture the disallowed cost until the next rate
26 proceeding in the other jurisdictions. As discussed above, once the premise of
27 proportionate cost sharing is challenged, it is likely that the other jurisdictions

1 will seek to implement their own alternative cost-sharing approaches. In my
2 view, there is no way the integrated system can remain whole in this situation,
3 and the ability to continue to maintain that system will be lost.
4

5 Q. WHAT ALTERNATIVE APPROACH IS AVAILABLE TO A JURISDICTION CONCERNED
6 ABOUT THE COSTS IMPOSED BY ANOTHER JURISDICTION?

7 A. I believe the best way is to continue to employ the constructive regulatory
8 approach that has traditionally been used across our service territories to
9 address these types of concerns. We have worked through complex challenges
10 in the past and can do so again now; this approach has served all parties – our
11 customers, the Company, the states we serve, and the region – well.
12

13 In this case, since much of the concern is focused on our generation
14 investments, a more cooperative effort on resource planning – both between
15 Xcel Energy and the Commission, and among the various state utility
16 commissions of our service territory – would appear to offer a step in that
17 direction. To this end, we make several proposals in our Rebuttal Testimony
18 that would facilitate this effort. I urge the Commission to employ such
19 constructive means of addressing its concerns, as opposed to adopting
20 recommendations for drastic cost disallowances. I believe North Dakota
21 customers and the State of North Dakota will benefit from such an approach,
22 both now and in the long term.
23
24

1 **IV. OVERVIEW OF KEY INVESTMENTS**

2
3 Q. CAN YOU IDENTIFY THE KEY INVESTMENTS RECOMMENDED FOR
4 DISALLOWANCE?

5 A. Yes. Disallowance of costs associated with the following key projects on our
6 system has been recommended:

- 7 • *King Plant*, our rehabilitation project at a 564 MW coal plant. This project
8 allows us to extend the life of this important, low-cost resource for our
9 system by at least 25 years, reclaim 60 MW of lost net dependable capacity
10 due to degradation, and install state-of-the art pollution control equipment
11 that is now essential to meeting our requirements under federal law. Mr.
12 King suggests that we undertook this project earlier than necessary, and
13 concludes that the costs of this project should be disallowed.
- 14 • *High Bridge Plant*, our replacement of 243 MW coal plant with a modern
15 and efficient natural gas combined-cycle plant. This project allowed us to
16 address the issues of an end-of-life coal plant located on the Mississippi
17 River in the heart of a central city, expand net dependable capacity by 272
18 MW, and take advantage of existing transmission capacity at a time when
19 the transmission system is operating at near-full capacity. Given the
20 Company's need for intermediate-load and peak generation, a natural gas
21 combined-cycle plant presents the most cost-effective and dispatchable
22 resource for this type of need. Mr. King states that we should have
23 pursued a coal-based option instead, and imputes a \$3.8 million cost
24 disallowance based on previous estimates of the costs of such an option.
- 25 • *Mercury control projects at our King and Sherco coal-fired plants*, our projects to
26 meet the requirements of MMRA. These projects are compliance-driven
27 and necessary to ensure we meet the requirements of applicable law;

1 however, we also believe that making these investments now in advance of
2 any possible Federal mandate will benefit our customers, as compliance
3 costs increase substantially once national mandates are imposed. Mr. King
4 asserts that such compliance costs that are beyond the requirements of
5 Federal law should be paid for by Minnesota and recommends a \$438,000
6 disallowance.

7 • *Grand Meadow wind project and the southeast Minnesota transmission project,*
8 projects that supply needed energy for our system and help us comply with
9 renewable requirements of our various jurisdictions. Mr. King
10 recommended disallowance of 25 percent of these costs (amounting to
11 \$79,000) based on a belief that North Dakota wind would have been more
12 cost-effective.

13 • *The Red Wing and Wilmarth refuse-derived fuel plants,* which provide a combined
14 40 MW of capacity to our system. These facilities have been in operation
15 for nearly 25 years and have provided both reliable, reasonably-priced
16 service while addressing solid-waste management issues. Mr. King
17 recommends disallowance of \$173,000 in costs of these plants, because
18 they help us meet the Minnesota Renewable Energy Standard, arguing such
19 costs should be recovered exclusively from Minnesota customers.

20

21 Q. WHAT IS YOUR REACTION TO THESE RECOMMENDED DISALLOWANCES?

22 A. As I indicated earlier, I believe the breadth and scope of these recommended
23 disallowances are a drastic and disproportionate remedy to the concerns
24 raised. More specifically, I have four key concerns regarding these
25 recommendations:

26 • *There is little to no factual support for the recommendations.* For example, with
27 respect to the Allan King Plant, there is no support for the conclusion that

1 we undertook the rehabilitation too early. A complex rehabilitation project
2 such as our King Plant project takes considerable time and planning – it
3 would not have served our customers well to delay that project. As
4 discussed in greater detail in Ms. Engelking’s Rebuttal Testimony, that
5 plant was reaching the end of its useful life, experiencing the typical issues
6 of reduced performance due to aging — it was about 35 years old years old
7 when we proposed the MERP project. The simple statement that we could
8 have waited to rehabilitate clearly does not provide adequate justification
9 for a \$3.4 million cost disallowance of a project that provides significant
10 cost benefits our customers.

11 • *They reflect a reactive, rather than proactive, view of how we should plan our investments.*
12 For example, Mr. King indicates that we should wait until required by the
13 Federal government to undertake investments in pollution-control
14 equipment. I do not believe that approach serves our customers well.
15 Indeed, as discussed in Mr. Rosvold’s Rebuttal Testimony, our efforts to
16 anticipate certain requirements have greatly benefited our customers, in
17 that we do not face the higher costs of implementing compliance projects
18 at the same time as all other utilities. In my view, the issues before the
19 Commission require far more thoughtful and measured consideration than
20 the simple rejection of our carefully considered strategy.

21 • *They assume we had options that did not exist.* For example, with respect to the
22 High Bridge plant, Mr. King’s recommendation assumes that a coal-based
23 option was a realistic option and should have been pursued instead of our
24 repowering project. However, coal rehabilitation was not a viable option at
25 that site – like the experience of other utilities across the country, air-
26 quality and other environmental permits needed for continued coal
27 operations were not viable or going to be easily obtained for a site located

1 on the Mississippi River near downtown St. Paul, Minnesota. While Ms.
2 Engelking and Mr. Rosvold provide further support on this issue, I believe
3 our High Bridge project offered by far the best option for our customers in
4 that it: (i) maintains a critical generation site on our system; (ii) takes
5 advantage of existing transmission capacity when most of the rest of the
6 system is at maximum capacity; (iii) provides 272 MW of additional
7 capacity needed for our customers; and (iv) offers operational advantages
8 as our load and system changes.

- 9 • *They are not properly calculated and are difficult to reconcile to our actual costs and*
10 *financial statements.* For example, the recommendation to disallow 25
11 percent of our Grand Meadow and transmission projects fails to account
12 for the additional transmission costs that would be required to implement
13 the North Dakota wind used as a basis for the recommended disallowance.
14 Likewise, the recommended disallowance of High Bridge costs is based on
15 estimated costs of simply additional pollution control equipment, not the
16 costs of rehabilitating and extending the life of the prior coal plant or the
17 replacement costs of the 272 MW of additional capacity our project
18 provides. Even if one accepts the premise behind Mr. King's
19 recommendation, the recommended levels of disallowance are not accurate
20 and are not based on an adequate factual record. The Rebuttal
21 Testimonies of Ms. Anne Heuer and Ms. Engelking provide additional
22 detail on this point.

23
24 As it always has, the Commission must consider our rate request in light of the
25 applicable laws and facts of the case. As we present in detail in our Rebuttal
26 Testimony, our requested costs are prudently incurred and necessary to
27 providing high quality, reliable electric service to our North Dakota customers.

1 While we respect the concerns expressed in this case, a far greater showing
2 than concern is required to support the drastic recommended cost
3 disallowances. We believe the Commission has available more constructive
4 approaches to these issues that should be adopted in this case.

5
6 **V. IMPACT OF STAFF CONSULTANTS' RECOMMENDATIONS**

7
8 Q. YOU HAVE INDICATED THAT XCEL ENERGY'S NORTH DAKOTA CUSTOMERS
9 CURRENTLY ENJOY QUALITY SERVICE AT REASONABLE PRICES. CAN YOU
10 ELABORATE?

11 A. Yes. Our North Dakota customers enjoy very high-quality, reliable electric
12 service at reasonable rates:

- 13 • Our customer surveys indicate a high level of satisfaction, with 96 percent
14 indicating positive views of our service.
- 15 • Our rates are among the lowest in the region, ranking first in 2007 against
16 29 other Midwest utilities.
- 17 • Our reliability in North Dakota is exemplary and among the best of all
18 Xcel Energy jurisdictions, with a system average interruption duration
19 index ("SAIDI") of under 70 minutes. In fact, the Company met or
20 exceeded the Commission-approved reliability performance standards nine
21 out of ten times during the 2001-2005 term of performance-based
22 regulation in North Dakota.

23
24 In addition, Xcel Energy has been a good corporate citizen, making valuable
25 contributions both financially and through our active, engaged employees who
26 make a difference in the communities we serve. For example, we have
27 provided:

- 1 • \$4.7 million in funding to the University of North Dakota (“UND”) for
- 2 energy and environmental projects;
- 3 • \$300,000 toward the development of the North Dakota State University
- 4 (“NDSU”) and UND technical parks;
- 5 • In 2007, just under \$90,000 toward on-going state and local economic
- 6 development efforts;
- 7 • In 2007, over \$220,000 in charitable contributions toward non-profit
- 8 entities, including \$28,000 to the United Way; and
- 9 • Annual contributions of \$20,000 to Energy Share.

10 We are also proud to have Xcel Energy recognized in 2007 as a national leader
11 in our support for our communities with the United Way’s Spirit of America
12 award.

13
14 Q. WHAT PLANS DO YOU HAVE FOR FUTURE FOR INVESTMENT IN NORTH
15 DAKOTA?

16 A. We plan to continue to build on our investments in wind systems, building
17 diversity in our current portfolio of purchased power contracts for renewable
18 resources. We are in the process of evaluating bid proposals for 500 MW of
19 wind resources, and several North Dakota projects are currently under
20 consideration. Given the tremendous potential for wind in North Dakota, we
21 fully expect to own wind assets in North Dakota, as we work to meet
22 renewable energy requirements.

23
24 Unlocking the potential of wind development in North Dakota requires that
25 we address the constrained transmission system, so we can move the resource
26 to major load centers, including those located outside of North Dakota. For
27 example, we are seeking approval to build a 345-kV line extending from Fargo

1 to the Twin Cities as part of the CapX 2020 project, a project that will provide
2 substantial relief to that congestion. The Minnesota Office of Energy Security
3 recently recommended that we increase the size of that line to accommodate
4 even more transfer capability from the west and north. We support that policy
5 recommendation and are proposing to build facilities that can readily be
6 double circuited (i.e., support two 345-kV lines), so that the transmission
7 corridor can be effectively doubled in a comparative short period of time as
8 future circumstances warrant.

9
10 We typically invest more than \$3 million each year to maintain, upgrade, and
11 expand our distribution system. We are currently exploring the potential for
12 automating portions of our North Dakota distribution system to dramatically
13 improve system reliability by reducing the time needed to restore power during
14 an outage. With this technology, state-of-the art switches would automatically
15 isolate the affected mainline feeders in an outage event and restore power to a
16 majority of the impacted customers within minutes.

17
18 Q. WHAT IMPACT WOULD ADOPTION OF THE CONSULTANTS'
19 RECOMMENDATIONS HAVE ON THESE PLANS?

20 A. There is no question that adoption of their recommendation to reduce our
21 current rates would have a significant negative impact on these efforts. We
22 need to be a financially strong, viable company to continue to expand and
23 make substantial investments such as those I have noted. Our actual and
24 normalized returns are not sufficient to maintain that financial viability of our
25 North Dakota electric business operations; reducing rates from current levels
26 would further exacerbate this situation.

27

1 **NORTH DAKOTA EARNED RETURN**

2

	<u>2006</u>	<u>2007</u>
4 Actual Return	8.52%	3.41%
5 Normalized Return	8.85%	2.96%

6

7 Adoption of the Consultants' recommendations would extend this pattern of
8 inadequate earnings. As explained in the Ms. Heuer's Rebuttal Testimony, we
9 estimate that our 2008 return on equity would be approximately 4.3 percent,
10 were the Commission to adopt the their recommendations. Further, since a
11 substantial portion of the cost disallowances would be based on disallowed
12 investments, the adverse effects would last for many years in the absence of a
13 reversal of position in a later case. Ms. Heuer's Rebuttal Testimony indicates
14 that the disallowance of investments would decrease earnings from our North
15 Dakota electric operations that are available for shareholders by over 20
16 percent, and that the effect would last for many years. This combination of
17 financial consequences would undermine the financial viability of our North
18 Dakota electric business operation.

19

20 Q. WHAT DO YOU CONCLUDE FROM THIS POTENTIAL RESULT?

21 A. I believe that this result would be contrary to the interests of our customers
22 and communities, the State, and our Company. For example:

- 23
- 24 • It would impede our ability to continue to provide the high quality of
25 service our North Dakota customers currently enjoy as a result of being
26 part of an integrated system.
 - It would harm our ability to expand our investments in North Dakota.

1 needs. In addition, we are able to coordinate the requirements of our various
2 jurisdictions and develop a plan that meets all of them at the lowest possible
3 cost.

4
5 Q. WOULD NORTH DAKOTA CUSTOMERS BENEFIT FROM A PLAN THAT PROVIDES
6 DIFFERENT RESOURCE REQUIREMENTS FOR DIFFERENT JURISDICTIONS?

7 A. No. If we were required to file a North Dakota-specific resource plan, we
8 would no longer be able to plan on an integrated basis. Instead, we would
9 need to propose specific resources to meet North Dakota needs and policies
10 that would not necessarily comply with the requirements of our other
11 jurisdictions. This could result in a number of conflicts for the Company and
12 higher overall costs for all of our customers. For example, if the Commission
13 were to determine that our North Dakota resource plan should not include
14 wind energy in excess of its own objectives, we would need to include energy
15 from other resources to make up for the wind energy that would no longer be
16 going to North Dakota customers. This would either involve construction of
17 smaller, more costly exclusive resources to meet North Dakota needs or, more
18 likely, result in market purchases that would need to be paid for by North
19 Dakota customers. As noted above, the cost of our wind resources is
20 currently far below the market price, so such a decision would necessarily raise
21 costs to North Dakota consumers.

22
23 Similarly, if the Commission were to determine that constructing a coal plant
24 would be the most prudent action for North Dakota customers, it would not
25 be possible for Xcel Energy to comply unless it also got agreement from its
26 other jurisdictions. Our North Dakota load is simply not large enough to
27 support the construction of such a large generating facility. And if we were to

1 construct facilities to meet only North Dakota goals and requirements, our
2 North Dakota customers would lose out on the benefits of diversity of load
3 and resources that help keep costs low for all of our customers.
4

5 Q. WHAT CAN XCEL ENERGY DO TO IMPROVE HOW ITS RESOURCE PLANNING
6 PROCESS CONSIDERS JURISDICTIONAL REQUIREMENTS AND PREFERENCES?

7 A. Xcel Energy recognizes that the Commission desires greater participation in
8 our planning process. In order to maximize the benefits of an integrated
9 system, we believe that input from the Commission is of most value during
10 the period that we are developing our resource plan.
11

12 To that end, I would like to propose a multi-jurisdictional and collaborative
13 planning process that would take place approximately three months prior
14 to the completion of our resource plan. Through this process, we
15 would invite Commissions and their staffs in all of our NSP System
16 jurisdictions to come together and share the goals and requirements that
17 would need to be considered in the development of Xcel Energy's resource
18 plan. These joint meetings would provide opportunities for regulators from
19 each jurisdiction to discuss specific concerns and conflicts between various
20 goals and requirements. We would expect this process to be iterative; as Xcel
21 Energy uses the information from these meetings to help develop its plan, we
22 would share developments with our regulators for additional feedback.
23

24 While the specifics of such a process still need to be determined, we believe
25 that a more collaborative process will help us create a single, integrated long-
26 term resource plan that brings benefits to all of our jurisdictions and also
27 address the specific concerns of the Commission.

1

2 Q. HOW CAN XCEL ENERGY MODIFY ITS PLANNING TO ADDRESS THE
3 COMMISSION'S CONCERNS ABOUT THE LOCATION OF COMPANY GENERATING
4 FACILITIES?

5 A. Since the 1990s, the former Northern States Power Company and later Xcel
6 Energy have procured its resources through competitive processes. These
7 processes have focused on finding the lowest cost resources for our
8 customers, regardless of their location.

9

10 We understand that all of our jurisdictions are interested in the benefits that
11 come from locating generating facilities in their states. While we cannot
12 commit to placing facilities in particular jurisdictions, we can consider
13 modifying our planning criteria to provide added emphasis to location
14 preferences in considering and selecting resources. We would welcome
15 Commission input into this concept and would be willing to work with North
16 Dakota and the other jurisdictions to arrive at a workable model.

17

18 Q. HOW DOES THIS PROPOSAL ADDRESS THE COMMISSION'S CONCERNS
19 REGARDING THE PRIORITIES OF NORTH DAKOTA IN PLANNING FOR FUTURE
20 ENERGY NEEDS?

21 A. A collaborative approach involving energy policymakers from all affected
22 jurisdictions provides a forum for regulators to discuss the energy priorities in
23 each state and work toward "win-win" policies that address the interests of all
24 jurisdictions served by the Company. In an essay published by the Council of
25 State Governments in 2007, Commissioner Tony Clark stated, "...the best way
26 to avoid these problems is to foster regional discussions and education about
27 the interdependency we all have on our regional electricity grids." He goes on

1 to say that only by coordination across state lines can we ensure that all
2 consumers, economies, and the environment are well served for generations to
3 come. I believe our proposal to facilitate direct discussions among regulators
4 during the resource planning cycle mirrors the type of effort Commissioner
5 Clark calls for.

6
7 **VII. INTRODUCTION OF REBUTTAL WITNESSES**

8
9 Q. PLEASE INTRODUCE THE OTHER REBUTTAL WITNESSES XCEL ENERGY IS
10 SPONSORING IN THIS PROCEEDING.

11 A. In addition to me, the Company is sponsoring Rebuttal Testimony from the
12 following witnesses:

- 13 • *Ms. Elizabeth M. Engelking*, who presents factual support for our key
14 system investments and describes in further detail our planning proposal
15 for the Commission's consideration.
- 16 • *Mr. Richard A. Rosvold*, who presents information regarding our
17 environmental requirements and plans, applicable state and federal laws,
18 and further factual support for the customer benefits of our approach to
19 environmental improvements.
- 20 • *Mr. Dane A. Watson* of Alliance Consulting Group, who provides our
21 assessment of the recommendation regarding non-legal asset retirement
22 obligations and our rationale as to why it should not be adopted.
- 23 • *Mr. Jeffrey C. Robinson*, who provides support for our depreciation costs
24 and methods of determining the remaining lives of our assets.
- 25 • *Mr. Allen D. Krug*, who provides support for our proposal regarding
26 wholesale margins.

- 1 • *Ms. Anne E. Heuer*, who provides support for our requested recovery of
2 certain costs recommended for disallowance, our assessment of the
3 financial impact of the recommendations by the Consultants, and our
4 recommended overall financial request, reflecting the overall position of
5 the Company in this proceeding.
- 6 • *Mr. Phillip J. Zins*, who provides further clarification regarding our
7 interruptible rate programs and the impact of our decision to join the
8 Midwest Independent System Operator planning reserve group.

9
10 Together, these witnesses provide the Company's response to the Direct
11 Testimony of the Consultants.

12 13 **VIII. SUMMARY AND CONCLUSIONS**

14
15 Q. PLEASE SUMMARIZE YOUR CONCLUSIONS FOR THE COMMISSION.

16 A. This electric rate case is extremely important for our customers, the Company,
17 and the State of North Dakota. Our customers enjoy high-quality, reliable
18 service at reasonable rates, and benefit from our high level of community
19 involvement. We have a long tradition of constructive relationships with our
20 customers, communities and regulators.

21
22 We are committed to continuing these constructive relationships and
23 expanding our investments in North Dakota. We also recognize the concerns
24 regarding the balance of costs and requirements among the jurisdictions we
25 serve. We will work to address these concerns, and offer a proposal for
26 cooperative planning to that end.

27

1 Our ability to maintain our commitments requires that we remain financially
2 viable and strong. Our North Dakota customers have benefited greatly from
3 our integrated system; retaining those benefits depends on each jurisdiction's
4 willingness to accept a proportionate share of the associated costs, allowing us
5 to recover our prudent costs of serving customers.

6
7 As such, we respectfully recommend that the Commission not adopt the
8 recommendations contained in the Direct Testimony of the Consultants, and
9 instead adopt the Company's position, as articulated in this Rebuttal
10 Testimony. This position includes:

- 11 • Adoption of the 10.75 percent return on equity and 8.8 percent overall rate
12 of return, as provided in the Stipulation Agreement dated January 10,
13 2008.
- 14 • Approval of an overall rate increase of 12.15 percent allowing us to
15 recover the \$17.946 million revenue deficiency reflected in the Rebuttal
16 Schedules of Ms. Heuer.
- 17 • Adoption of our proposals relating to an expanded Resource Planning
18 process, and continued Commission involvement in the current process of
19 establishing depreciation lives and rates so as to not necessitate the formal
20 filing of a stand-alone depreciation study with the Commission.

21
22 Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

23 A. Yes, it does.

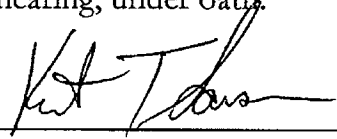
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STATE OF NORTH DAKOTA
BEFORE THE
PUBLIC SERVICE COMMISSION

In the Matter of the Application of Northern)
States Power Company, a Minnesota Corporation)
For Authority to Increase Rates for Electric Service) Case No. PU-07-776
in North Dakota)

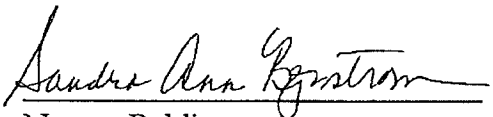
AFFIDAVIT OF
Kent T. Larson

I, the undersigned, being duly sworn, depose and say that the foregoing is the Rebuttal Testimony of the undersigned, and that such Rebuttal Testimony and the exhibits or schedules sponsored by me to the best of my knowledge, information and belief, are true, correct, accurate and complete, and I hereby adopt said testimony as if given by me in formal hearing, under oath.



Kent T. Larson

Subscribed and sworn to before me, this 12 day of June, 2008.



Notary Public

