

Rebuttal Testimony and Schedule
Phillip J. Zins

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 17

Interruptible Rates

June 13, 2008

Table of Contents

I.	Introduction	1
II.	Discussion	2
III.	Conclusions	6

1 **I. INTRODUCTION**

2

3 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

4 A. My name is Phillip J. Zins. 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 filed Direct Testimony on behalf of Northern States Power Company,
9 (“Xcel Energy” or the “Company”) a Minnesota corporation operating in
10 North Dakota.

11

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

13 A. The purpose of my Rebuttal Testimony is to respond to the North Dakota
14 Public Service Commission’s (the “Commission”) request that Parties address
15 specific questions it raised regarding the Company’s existing interruptible rate
16 tariffs given the Company’s recent exit from the Mid-Continent Area Power
17 Pool (“MAPP”).

18

19 The Company officially withdrew from MAPP on June 1, 2008 and is now a
20 member of the Midwest Planning Reserve Sharing Group (“MPRSG”) and the
21 Midwest Reliability Organization (“MRO”). The Commission’s questions
22 concerning these events were expressed in its February 28, 2008 letter to the
23 Parties in this proceeding. For convenient reference, I have provided a copy
24 of this letter as Exhibit___(PJZ-2), Schedule 1.

25

26 In this letter, the Commission also articulated questions concerning the
27 appropriate retail rate-recovery of administrative costs associated with

1 Midwest Independent System Operator (“MISO”). This second question is
2 addressed by Mr. Stephen J. Beuning in his Direct Testimony and Ms. Anne
3 E. Heuer in her Rebuttal Testimony.

4 5 **II. DISCUSSION**

6
7 Q. MR. ZINS, PLEASE DESCRIBE THE CONCERNS EXPRESSED BY THE COMMISSION
8 REGARDING THE POTENTIAL IMPACTS ON INTERRUPTIBLE RATES RESULTING
9 FROM THE COMPANY’S EXIT FROM MAPP AND MEMBERSHIP IN THE MPRSG
10 AND MRO.

11 A. The Commission asks; *“whether the terms and conditions and enforcement provisions for*
12 *interruptible service are cost based and reasonable given the changes occurring in the wholesale*
13 *industry.”* The Commission appears to be concerned that the Company’s
14 withdrawal from MAPP may have altered the fundamental resource planning
15 value of the Company’s retail interruptible rate programs. Additionally, the
16 Commission’s letter seems to be asking whether the Company’s membership
17 in the MPRSG and MRO requires changes to the design of our interruptible
18 rate tariffs. Finally, the Commission wishes to know whether any provisions
19 of MISO’s wholesale tariffs require changes to the Company’s interruptible
20 tariffs.

21
22 Q. HAS THE FUNDAMENTAL RESOURCE PLANNING VALUE OF THE COMPANY’S
23 INTERRUPTIBLE RATES BEEN ALTERED BY THE COMPANY’S WITHDRAWAL FROM
24 MAPP?

25 A. No. The Company’s membership in the MPRSG and MRO results in
26 generation planning reserve requirements that are very similar to that of

1 MAPP.¹ That is, the Company will still be required to maintain adequate
2 generation planning reserves and its interruptible rate programs will continue
3 to be valuable in helping manage load to help assure that the generation
4 planning reserve requirement is achieved.

5
6 In summary, the fundamental resource planning value of the Company's
7 interruptible rate programs are not altered by the Company's exit from MAPP
8 and the replacement membership in the MPRSG and MRO.

9
10 Q. DOES THE COMPANY'S WITHDRAWAL FROM MAPP AND MEMBERSHIP IN THE
11 MPRSG AND MRO REQUIRE CHANGES TO THE DESIGN OF THE
12 INTERRUPTIBLE TARIFFS?

13 A. No. As indicated above, the planning reserve requirements under the MPRSG
14 are not conceptually different from those that existed under MAPP. Both
15 MAPP and MPRSG/MRO generation planning reserve requirements are
16 designed to assure that each utility (and the system as a whole) has enough
17 generation capacity to meet expected peak loads plus sufficient reserves to
18 cover unexpected events, such as load levels being greater than forecast
19 and/or generation plant outages.

20
21 MAPP accomplished this by requiring the utility to have certified generation
22 capacity equal to at least 115% of its actual system peak load, measured after
23 the fact (in other words, based on actual historical peak demand rather than a
24 forecasted load). Under this system, the Company used its interruptible load
25 to reduce its system peak load to assure that after the actual peak load had

¹ The generation planning reserve requirement of MPRSG and MRO replace that of MAPP.

1 occurred there was still at least 15% generation capacity in reserve. This
2 method used by MAPP resulted in sufficient reserve margin to permit
3 participants to take “credit” for plants that may have failed or that were out of
4 service for maintenance.

5
6 Under the MPRSG, the planning reserve requirement is conceptually the same
7 but somewhat different in administration. The MPRSG requires participants
8 to have available generation capacity, equal to at least 114.2% of their
9 forecasted load. However, the generation resources used to meet this
10 requirement must be those actually available to meet load and would not
11 include resources that are down for scheduled maintenance or those forced
12 out of service. The practical impact of this difference in the respective
13 requirements on the amount of planning reserves each utility maintains will
14 likely be small. But any case, the difference does not affect the conceptual
15 basis for the Company’s interruptible rate programs.

16
17 Thus, the basic economics that guide the design of the interruptible tariffs (e.g.
18 interruption credits and associated terms, conditions of service) remain the
19 same under the MPRSG planning reserve requirements as they were under
20 MAPP. The interruptible rate credits along with the interruption-performance
21 requirements specified in the terms and conditions must: (1) be attractive
22 enough to incent customers to voluntarily sell-back to the Company some of
23 their entitlement to firm service; but also (2) provide the utility (and its
24 customers) with an alternative source of peaking capacity, which has cost

25

1 and performance characteristics, that are comparable to and competitive with,
2 building and owning combustion turbine capacity or purchasing capacity from
3 other power suppliers in the wholesale market.
4

5 Q. MR. ZINS CAN YOU RESPOND TO THE QUESTION OF WHETHER THE COMPANY'S
6 INTERRUPTIBLE RATES REMAIN "COST BASED AND REASONABLE" UNDER THE
7 MPRSG AS COMPARED TO MAPP?

8 A Yes, this question is really a sub-part of the previous question. As indicated in
9 my Direct Testimony, the economic essence of a utility's "obligation to serve"
10 is to provide low-cost reliable firm service. This means that "interruptible
11 service" is in reality, firm utility service, attached to which is an after-the-fact
12 power supply contract, through which the utility has the opportunity to buy-
13 back from willing customers a part of their firm utility service.
14

15 The result is a peaking capacity purchase transaction that occurs when, and if,
16 doing so is consistent with the utility's obligation to provide low-cost reliable
17 firm service to all customers collectively. This interruptible-rate source of
18 peaking capacity (and the necessary detailed terms, conditions and design of
19 the interruptible tariffs) continue to be designed to be competitive with
20 supply-side sources such as building and owning combustion turbine capacity
21 or purchasing peaking capacity from another wholesale power supplier
22

23 In summary, the historic "economic calculus" that underlies the design of the
24 Company's interruptible rate tariffs is reasonable and remains the same as it
25 was under MAPP.
26

1 Q. DO ANY OF SPECIFIC PROVISIONS OF MISO WHOLESale TARIFFS, AS
2 COMPARED TO THOSE UNDER MAPP, HAVE AN IMPACT ON THE TERMS,
3 CONDITIONS OR DESIGN OF THE COMPANY'S INTERRUPTIBLE RATES?

4 A. I am not aware of any MISO tariff provisions that would justify changing the
5 design or administration of the Company's interruptible rate programs. The
6 proposed revisions to MISO Module E relating to Resource Adequacy are not
7 expected to be final until the spring of 2009 at the earliest and it remains to be
8 seen if the MISO Module E changes will affect our Resource Adequacy
9 considerations. In the meantime, we continue operate under the MPRSG for
10 Resource Adequacy purposes.

11

12 It is possible that, as the MISO wholesale market matures, new opportunities
13 may develop through which the Company could propose revisions to its
14 interruptible tariffs to derive additional benefits for the system. However, at
15 this point the Company has no reason to modify its interruptible tariffs or
16 change the way they are administered as a result of MISO wholesale tariff
17 provisions.

18

19

III. CONCLUSIONS

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21 Q. PLEASE SUMMARIZE YOUR CONCLUSIONS.

22 A. The Company's interruptible rate programs are designed to be competitive
23 with conventional alternative sources of peaking capacity and continue be
24 valuable in light of the Company's exit from MAPP and membership in the
25 MPRSG and MRO. At the present time, there are no changes in the terms,
26 conditions or the design of the Company's interruptible rate programs, which

27

1 are warranted by either the switch from MAPP to MPRSG generation
2 planning reserve requirements or from MISO wholesale market tariffs.

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4 Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

5 A. Yes, it does.

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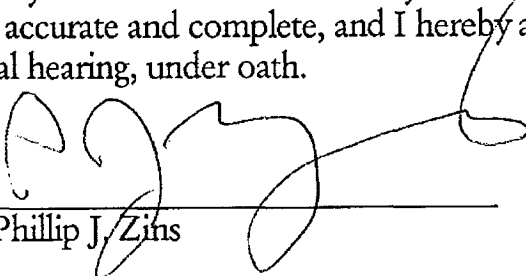
STATE OF NORTH DAKOTA
BEFORE THE
PUBLIC SERVICE COMMISSION

In the Matter of the Application of Northern
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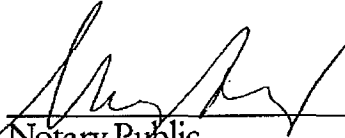
Case No. PU-07-776

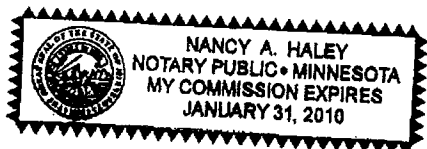
AFFIDAVIT OF
Phillip J. Zins

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.


Phillip J. Zins

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


Notary Public





Public Service Commission
State of North Dakota

Case No. PU-07-776
Exhibit____(PJZ-2)
Schedule 1
Page 1 of 2

COMMISSIONERS

Susan E. Wefald, President
Kevin Cramer
Tony Clark

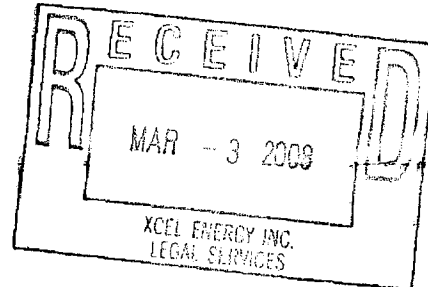
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February 28, 2008

Megan J. Hertzler
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414 Nicollet Mall, 5th Fl.
Minneapolis, MN 55401

Douglas A. Bahr
Division Director
Office of the Attorney General
600 E. Boulevard Ave. Dept 125
Bismarck, ND 58505



Re: Case No. PU-07-776, NSP Electric Rate Increase Application

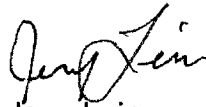
Dear Ms. Hertzler and Mr. Bahr:

The purpose of this letter is to request that you investigate and address the following issues:

1. Whether the terms, conditions and enforcement provisions for interruptible services are cost based and reasonable especially given changes occurring in the wholesale industry, including the expected discontinuance of the Mid-continent Area Power Pool financial obligation for planning reserve capacity and implementation of the Midwest ISO markets and Open Access Transmission Tariff (OATT) Module E resource adequacy requirements.
2. What recovery procedures should be approved for Midwest ISO energy market costs and should any amounts already recovered be refunded? Interim procedures for recovery through NSP's Fuel Cost Adjustment were approved subject to refund by the Commission in Case No. PU-05-147. Since then, the FERC ordered that MISO administrative cost adders under OATT schedules 16 and 17 are no longer eligible for recording as a cost of fuel and purchased energy in FERC Account 555. MDU (Case No. PU-06-447) and Otter Tail (Case

No. PU-05-131) have refunded schedule 16 and 17 administrative charges and are no longer recovering those costs through fuel cost adjustments.

Sincerely,



Jerry Lein
Public Utilities Analyst
Commission Advisory Staff

cc Kent Larson
Dave Sederquist
Mike Diller
Pat Fahn
Commissioner Susan Wefald
Commissioner Kevin Cramer
Commissioner Tony Clark