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February 9, 2017

Darrell Nitschke, Executive Director
North Dakota Public Service Commission
State Capitol Building, Dept. 408
600 East Boulevard
Bismarck, ND 59505-0480

Re: Clarification of Proposed Change to Advance Determination of Prudence (ADP) Obligation and Issues Impacting ADP for 1,500 MW Wind Resources Case Nos. PU-07-776, PU-16-678

Dear Mr. Nitschke:

With this letter, Northern States Power Company, doing business as Xcel Energy, seeks to clarify its proposed changes to the Company's obligation to submit Advance Determination of Prudence (ADP) requests for significant generation and transmission investments, including its proposed 1,500 MW wind resource acquisition.

We recognize that the Commission is moving forward with a process to decide whether any changes to the ADP obligations are warranted. This letter does not address that process. Rather, we thought it would be useful to provide greater clarity of our initial request to amend the Company's ADP obligation and also explain in more detail the factors impacting an ADP petition for our acquisition of up to 1,500 MW of wind resources.

Amendment to the Settlement ADP Obligation

The December 22, 2008 Settlement Agreement in Case No. PU-07-776 includes a provision requiring the Company to file ADP requests for significantly sized generation and transmission projects. In a Letter of Commitment filed on November 5, 2012 (Case No. PU-12-059), the Company further defined its ADP obligation by committing to make these ADP filings within 14 days of filing a similar approval application with the Minnesota Public Utilities Commission (MPUC).

The original intent of the ADP obligation provision, as the Company understands it, was to ensure that the Commission was fully informed of the Company's planned investments and to provide the Commission an opportunity to weigh in on those investments.

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On January 25, 2017, the Company and Advocacy staff submitted an Amended and Restated Settlement Agreement which included a provision that retained the ADP requirement as it was defined in the original Settlement Agreement with one exception—it allowed the Company to request, for good cause, Commission approval to waive the ADP requirement on a case-by-case basis.

In seeking the ADP waiver provision, the Company's goal was to add optionality to the current process in the hopes of gaining administrative efficiencies. Over the ten-year period that the ADP obligation has been in place, the Company has realized that certain transmission and generation projects may not warrant the time and resources expended in the development and review of an ADP application. For those projects, the Company could seek, and the Commission could grant, a waiver request. Absent Commission approval of a waiver, however, the requirement of an ADP application would remain. The Company appreciates the dialogue with the Commission and its Staff and looks forward to working to refine the ADP obligation in a way that will promote flexible and efficient oversight.

ADP for 1,500 MW Wind Acquisition

On October 24, 2016, Xcel Energy filed with the MPUC a plan to construct and operate four wind generating facilities in Minnesota and North Dakota totaling 750 MW of nameplate capacity. In addition to these owned wind projects, we intend to select up to 750 MW of additional wind energy purchases or build-to-own transactions from projects we received in response to a Request for Proposals (RFP) issued on September 22, 2016. The Company is seeking Minnesota approval for all these wind acquisitions, not through a traditional Certificate of Need process, but rather through an alternative regulatory procedure described more fully below.

On September 2016, the Company issued an RFP for wind project proposals. On October 24, 2016, the day before receiving responses to that RFP, the Company filed a self-build project petition in Minnesota. That petition provided information about each of its self-build projects. On October 25, 2016, the Company opened the RFP bids and began evaluating the bids based on criteria vetted by an independent auditor. At this time, Xcel Energy is in the process of negotiating contracts for those projects that emerged from the RFP.

In March 2017, the Company intends to make a supplemental filing in Minnesota that will include (1) bid data and a ranking of all bids received in response to the RFP; (2) an analysis of all projects for which we conduct due diligence in accordance with the factors identified above; (3) all successfully negotiated contracts from the RFP process; (4) a recommendation as to what projects we believe merit Commission approval; and (5) an independent third-party auditor report of our RFP process that will review our evaluation of proposals and due diligence, as well as our selection or proposal for contract negotiation. In that supplement,

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we will also compare the results of the RFP process to our self-build wind portfolio. The goal of the supplemental filing will be to provide a complete and detailed analysis of the projects that emerged from the RFP process and a comparison between those projects and our self-build wind portfolio. It was not until this process was completed that the Company would know the projects for which it would seek approval and negotiate contracts (with regulatory approval contingencies).

It is this March supplemental filing—and not the preliminary October filing—that we believe should trigger the timeliness commitment for our ADP petition. Had the Company filed an ADP last fall it would have been incomplete as it would not have included the analysis comparing the competitiveness of our self-build wind portfolio to the winning RFP bids. Put differently, we can provide the Commission a far more robust ADP in March 2017 than we could have in October 2016.

In considering the value to the Commission of an ADP related to the wind acquisition, we would also note that the pending RTF proceeding may lead to an outcome in which none of the costs of the wind acquisition are allocated to North Dakota.

We appreciate the conversation thus far and restate our commitment to work with the Commission and Staff to comply with the Company's ADP requirement. Please contact me if the Commission requires additional information or has any questions.

Respectfully,



David H. Sederquist
Sr. Consultant, Regulation and Finance

cc: Illona Jeffcoat-Sacco
Pat Fahn
Jack Schuh