

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF NORTH DAKOTA**

IN THE MATTER OF THE APPLICATION
OF NORTHERN STATES POWER
COMPANY, A MINNESOTA
CORPORATION, FOR AN ADVANCE
DETERMINATION OF PRUDENCE FOR
THE 201 MW NOBLES WIND PROJECT

CASE No. PU-_____

OVERVIEW OF APPLICATION

Northern States Power Company, a Minnesota Corporation ("Xcel Energy" or the "Company"), respectfully submits this Application to the North Dakota Public Service Commission (the "Commission") for an advance determination of prudence pursuant to North Dakota Century Code ("NDCC") Section 49-05-16 for our proposed 201 megawatt ("MW") wind powered renewable energy facility on the Buffalo Ridge in Southwestern Minnesota called the Nobles Wind Project.

I. SUMMARY

The Nobles Wind Project is one of two wind energy facilities which the Company is constructing through build/transfer ("B/T") agreements with enXco Development Corporation ("enXco") to help meet our system wide renewable energy obligations. The other project, the Merricourt Wind Project, will be located in North Dakota. An application for a Certificate of Public Convenience and Necessity and an Advance Determination of Prudence has been submitted to the Commission for the Merricourt Wind Project under separate cover.

We are undertaking the Nobles Wind Project in furtherance of North Dakota's renewable and recycled energy objective contained in NDCC Chapter 49-02-28 as well as similar obligations in Minnesota, Wisconsin, Michigan and South Dakota. The Nobles Wind Project is a prudent approach for the Company to undertake as part of meeting our renewable-energy requirements as well as to ensure reliable electric service to our customers in North Dakota and throughout our system. The Nobles Wind Project was selected pursuant to multi-state request for proposal ("RFP") seeking viable wind-energy projects for our customers. The Nobles Wind Project compared favorably to other examined options, including other bids we received in the RFP and other utility-owned wind based generation projects.

The Nobles Wind Project is needed to help the Company meet our customers' energy needs, thereby ensuring long-term reliable electric service. The Nobles Wind Project allows the Company to diversify our renewable resource mix by adding Company-owned renewable generation to our portfolio. Last, the Nobles Wind Project provides a hedge against fuel price volatility.

After considering the benefits and potential risks of the Nobles Wind Project, we believe that its implementation is prudent and in the best interest of our North Dakota customers, and customers throughout our system. The remainder of this application discusses the following:

- Description of the Applicant
- Request for an advance determination of prudence
- Description of the Nobles Wind Project
- Prudence of the Nobles Wind Project
- Communications and Service List

II. Description of the Applicant

Xcel Energy is a Minnesota corporation duly authorized to do business in the State of North Dakota as a foreign corporation. The Company conducts business in the State of North Dakota as a public utility subject to the jurisdiction and regulation of the Commission pursuant to Title 49 of the NDCC. The full name and address of the Company is:

Northern States Power Company,
a Minnesota corporation
414 Nicollet Mall
Minneapolis, Minnesota 55401

The Company also operates in North Dakota from the following address:

Northern States Power Company,
a Minnesota corporation
2302 Great Northern Drive
Fargo, ND 58102

Xcel Energy's Certificate of Incorporation and amendments thereto were filed with the Commission on May 31, 2001 and are incorporated herein by reference.

Xcel Energy has service territory in five upper Midwest states including North Dakota. The Company presently serves approximately 85,000 retail electric customers in and around Fargo, Grand Forks and Minot, North Dakota. Xcel Energy owns approximately 250 miles of transmission lines and 12 substations in North Dakota.

III. ADVANCE DETERMINATION OF PRUDENCE

North Dakota statutes provide that a utility proposing a renewable energy facility such as the Nobles Wind Project can seek an advanced determination of prudence. In order to facilitate the approximately \$500 million investment associated with the project, and maintain the confidence of the investment community that our investment in this project will be recoverable in future rates, it is important that we obtain such an advance determination as allowed by statute. Specifically, North Dakota law provides:

49-05-16. Advance Determination of Prudence A public utility proposing to construct, lease, or make improvements to an energy conversion facility, renewable energy facility, transmission facility, or proposed energy purchase contract from another entity or person for the purpose of ensuring reliable electric service to its customers may file an application with the commission for advance determination of prudence regarding the proposal.....

Under NDCC Section 49-05-16, the Commission may issue an order approving the prudence of an electric resource addition if three conditions are met:

- a. The public utility files with its application a projection of costs to the date of the anticipated commercial operation of the electric resource addition;
- b. The commission provides notice and holds a hearing, if appropriate, in accordance with section 49-02-02; and
- c. The commission determines that the resource addition is reasonable and prudent.

The remainder of this Application will provide supporting information for the Commission to determine that the Nobles Wind Project is a reasonable and prudent investment for the purpose of providing electric service to our customers. Xcel Energy will file Direct Testimony and Exhibits of witnesses to further support this Application if the Commission deems a hearing appropriate for this filing and will work with the Commission's staff to determine a schedule to submit testimony expeditiously. The testimony and exhibits would further support the need for the output of the Nobles Wind Project; provide rationale and support for choosing the

Nobles Wind Project as the best resource for meeting that need and describe the project development process including the cost projections provided herein.

IV. THE NOBLES PROJECT

A. Project Description

The Nobles Wind Project will be located over 25,000 acres in Nobles County, Minnesota on the Buffalo Ridge. The project will consist of 134 GE 1.5 MW sle wind turbines, resulting in 201 MW of nameplate wind power capacity. The site location is in an area with strong winds and limited transmission constraints following completion of the Buffalo Ridge Incremental Generation Outlet (“BRIGO”) facilities (Minnesota Public Utilities Commission Docket No. E/002-CN-06-154). Electricity generated from the turbines will be routed to a collector substation within the Project area. The final location of the collector substation will be determined based upon final turbine placement.



The Nobles Wind Project will interconnect to our existing Nobles County Substation located north of Worthington, Minnesota. The interconnection costs will be funded as part of the Nobles Wind Project. An interconnection agreement has been filed with the Federal Energy Regulatory Commission (“FERC”) by the Midwest Independent Transmission System Operator, Inc. (“MISO”). The existence of the interconnection agreement and the favorable place this project holds in the overall MISO interconnection queue are key advantages to the Nobles Wind Project.

The construction of the Nobles Wind Project substation is the responsibility of enXco pursuant to the agreements. The land rights and other interests will be transferred to Xcel Energy. In addition, in order to deliver the energy to our service territory, a Transmission Service Request in the amount of 201 MW was placed with MISO on November 5, 2008.

The nameplate generating capability of the project is 201 MW. Our outside consultant, WindLogics, Inc, conducted an analysis of the site-specific wind data. This analysis was based on the use of GE 1.5 MW sle wind turbines. The analysis predicted a [TRADE SECRET BEGINS

TRADE SECRET ENDS]. We assumed a net capacity factor of [TRADE SECRET BEGINS TRADE SECRET ENDS] for our cost evaluation process discussed elsewhere in this Application.

B. Implementation Schedule

Primary construction is planned to begin in Spring 2010. However, engineering, procurement and some construction will occur in 2009 pending approval of this application. The current project schedule indicates that wind turbines will be delivered to the project site starting in time to begin turbine erection in 2010. Under the current proposed schedule, we anticipate that commercial operation will be achieved by December 31, 2010.

Key variables that may influence the proposed construction schedule include receiving the necessary approvals, weather-related delay days and the timeliness with which the interconnection process is completed by MISO and the transmission owner. We expect regulatory permitting for the Nobles Wind Project to be completed within six months.

C. Projected Project Costs

NDCC Section 49-05-16 1.a requires a projection of costs to the date of the anticipated commercial operation of the electric resource. The project is currently budgeted at [TRADE SECRET BEGINS TRADE SECRET ENDS] million. We estimate that the project's contribution to the cost of network upgrades and other associated transmission facility costs to be approximately [TRADE SECRET BEGINS TRADE SECRET ENDS]. The project is a

[TRADE SECRET BEGINS

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We have agreed to a schedule of progress payments with enXco to support the development of the Nobles Wind Project as included in Table 1. An initial payment was made to enXco in September 2008. As construction ramps up, the contract calls for monthly progress payments in 2009 and 2010.

Table 1 Nobles Capital Outlay Schedule

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D. Ownership Structure of the Nobles Wind Project

The ownership structure proposed for the Nobles Wind Project – where the developer builds the Project and then transfers it to Xcel Energy in a progressive manner – is the same approach taken for our North Dakota Merricourt Wind Project and the prior Grand Meadow wind project. It is an appropriate way to proceed with the Nobles Wind Project.

This B/T approach to project development takes advantage of the expertise of enXco in developing wind energy projects. It allows the Company to more precisely fix the cost of a particular project. Company-owned wind resources total less than 10 percent of our renewable portfolio and we believe it is appropriate to increase the proportion of wind projects owned by the Company. EnXco, as one of the largest wind developers in the country with many years of experience in permitting and constructing large wind energy projects as well as relationships with necessary turbine vendors and specialized contractors in the region. We have contracted with enXco for the development, construction and operation of the Nobles Wind Project using **[TRADE SECRET BEGINS**

TRADE SECRET ENDS].

V. PRUDENCE OF THE NOBLES WIND PROJECT

A. The Need for Nobles Wind Project

Xcel Energy is undertaking the Nobles Wind Project to meet the renewable energy policies established in North Dakota and the other four states in the upper Midwest in which we serve. All of these states have implemented renewable energy standards or goals. North Dakota established a Renewable Energy Objective that encourages the State's utilities to provide 10 percent of the energy it sells to its customers from renewable sources by 2015. Minnesota has a requirement that by 2020, the Company will need to meet 30 percent of our retail requirements in Minnesota with renewable resources with 25 percent of our retail requirements served by wind generation. In Wisconsin, effectively 15 percent of the energy we sell to our retail customers must be from renewable sources by 2015. And South Dakota and Michigan each require 10 percent of our energy be from renewable resources by 2015.

As of 2008, approximately 4,372,983 megawatt hours or 10.3% of the electricity our customers use comes from renewables based generation sources. By 2015 approximately 7,319,103 megawatt hours or just over 16% of the electricity we produce needs to come from renewable based generation based on current statutes. Our most recent estimates indicate we will need to add on the order of 2,600 MW of wind power to our system by 2020 to meet the aggregate of these requirements. The Nobles and Merricourt Wind Projects are needed as an essential step in meeting the combined policy objectives in all of our jurisdictions including North Dakota.

In addition to our need to meet renewable requirements, our five state system needs additional energy to meet our customers' needs. We believe this project provides a sound framework for meeting these significant policy goals while continuing to meet our customers' needs in a cost-effective and environmentally sound manner.

The Nobles Wind Project is an important component of our future resource mix. It will allow us to build a cost effective portfolio of resources in a manner that serves the long term best interests of our customers. We have investigated the impact of the Nobles Wind Project on the cost of our power supply to our customers. The energy provided by this project will not only provide additional "renewable" energy in furtherance of all of the states' that we serve generation policies, it will provide an important energy resource into the future.

B. Project Costs are Reasonable

We are seeking approval of the Nobles Wind Project to meet our North Dakota and other system wide renewable energy obligations and to ensure long term energy supplies for our customers that utilize a diverse resource mix. Because of our renewable obligations, we compared the cost of this project to other wind energy generation that could be implemented to meet our system wide renewable energy obligations and provide energy to our customers.

To perform cost comparisons, we used an internally developed economic model that creates a levelized cost for our proposal that we can use to compare to other proposed RFP projects or projects proposed to be owned by other entities.³

1. Compares Favorably to RFP Bids

In December 2007, the Company issued a Request for Proposals ("RFP") for Company-owned wind energy projects. The RFP process allowed the Company to evaluate a number of projects offered by various developers in a variety of geographic locations. Further, the RFP process allowed us to evaluate projects using the B/T approach preferred by the Company so that it can rely on the experience and expertise of wind developers.

The levelized cost per MWh of the Nobles Wind Project was compared to the levelized cost per MWh of the other viable projects from the RFP process. The cost of energy from the project without considering potential transmission network improvements was **[TRADE SECRET BEGINS**

³ In reviewing this analysis, the Commission should keep in mind that we are comparing a detailed, negotiated fixed-price contract with less certain indicative pricing from power purchase proposals. Comparing the firm costs of this project with indicative costs from other proposals does not invalidate the analysis, but our experience indicates that indicative pricing is more likely to increase than decrease as contracts are negotiated.

TRADE SECRET ENDS]. We also performed multiple sensitivities to test the robustness of our analysis. The sensitivities included tests of various wind capacity factors and other variables such as the estimated substation, project transmission costs, transmission network improvement costs, and O&M costs. These sensitivities were calculated both with and without the extension of the federal production tax credit. Under these sensitivity analyses, the levelized cost of energy from the Nobles Wind Project varied from **[TRADE SECRET BEGINS** **TRADE SECRET ENDS]**

As with other wind projects, the Nobles Wind Project receives substantial benefit from the federal production tax credit. Without PTC, the levelized cost of energy projects increases by approximately \$20.00 per MWh based on the current PTC. Later, we discuss why we believe the project is reasonable and prudent even though the PTC has not been extended beyond 2009.

2. Compares Favorably with Wind Purchase Proposals

The cost of energy from the Nobles Wind Project is also cost competitive with proposals we received in our 2008 RFP seeking wind proposals for 2009 projects that include a local community ownership component. We compared the costs of the Nobles Wind Project to an estimated range of levelized PPA costs for these projects.

To perform this analyses, we escalated the prices from 2009 PPA proposals using escalation rates of both 2% and 6% and levelized them to 2011 using our weighted average cost of capital. The two escalation rates were selected to reflect both currently predicted escalation trends for power projects (6%) and a potentially lower escalation based on impacts of an economic downturn (2%). After discarding the lowest and highest priced projects as potential outliers, the remaining projects made up the range of estimated levelized PPA costs. The nominal levelized costs of the Nobles Wind Project (‘10\$) is below our estimated PPA cost range, and in many cases lower than actual pricing that has been offered for 2009 projects.

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We treat these comparisons as indicative only. When comparing utility owned projects such as the Nobles Wind Project to purchased power arrangements, there are a number of other factors to consider. First, the Nobles Wind Project costs are based on firm prices as a result of a fully negotiated and signed contract. Our experience in negotiating PPAs is that levelized prices rarely decrease from the initial offering to fully negotiated contract. Also, PPAs are bid as 20-year contracts, whereas the Nobles Wind Project has a 25-year life.

Xcel Energy ownership provides benefits in that the price will not be reset to the prevailing market rate as will a PPA upon expiration. In addition, after 25 years the initial capital investment of an owned wind project will be fully recovered but the project is still capable of providing energy. Furthermore it can be argued that the escalation rates we used may be too low. It is plausible that a developer asked to offer a wind proposal to be installed in 2011 would use his cost of capital to escalate his current pricing, thereby resulting in a higher cost than we are portraying in this analyses. In summary, we have attempted to provide a conservative analyses and it may be that the 20 year PPA projects could be more expensive than indicated here.

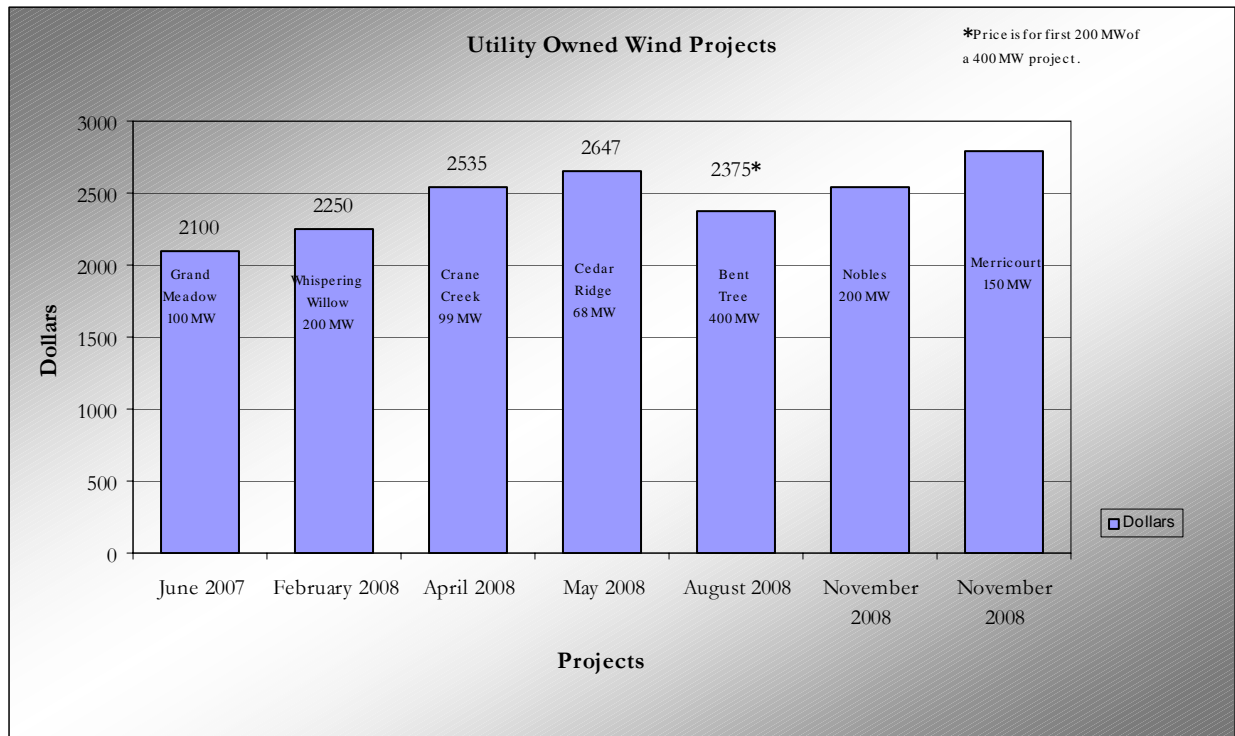
3. Compares Favorable to Other Utility Owned Wind Projects

As another way of analyzing the costs of the Nobles Wind Project, we conducted a market survey of the cost of announced utility-owned wind projects being proposed by neighboring utilities. Five projects have been announced and approved in the upper Midwest in the past 18 months, including our Grand Meadow project in southern Minnesota. The information on these projects provided here was gained from publicly available sources – primarily press releases and newspaper articles. From this information, we calculated the \$/kW installed cost for each project and compared them with the Nobles Wind Project.

All of the projects utilize a B/T approach similar to the Nobles Wind Project. The projects ranged from 68 MW to 400 MW.⁴ The price range of the projects was between \$2,100 per kW installed for our 100 MW Grand Meadow Wind Project to \$2,647 per kW installed for Wisconsin Power & Light's 68 MW Cedar Ridge wind project. As the below figure indicates, the cost of wind projects continues to increase and there is a correlation between size of the project and its cost.

⁴ The Bent Tree project proposed by Alliant Energy is a 400 MW project, however it is being completed in two phases. The cost information is for the first phase or 200 MW. It is assumed some cost synergies were gained by committing to a 400 MW project instead of two separate 200 MW projects.

Utility Owned Wind Projects



The costs of the Nobles Wind Project are reasonable and will be prudently incurred. It is less expensive than purchasing wind energy. It also compares favorably to the costs of other utility owned wind projects.

C. The Impact to Customers Will Be Minimal

Based on our internal modeling, the Nobles Project had a minor impact on our net systems costs. The Nobles Project only increases the total present value of revenue requirements ("PVR") by approximately 0.11 percent. The estimated 2011 rate impact on a typical residential customer using 850 kWh per year will be approximately \$1.55 per month without considering system fuel cost savings and approximately \$0.85 when fuel cost savings are considered.

The Nobles Project also presents a hedge against volatile fuel prices. Should the cost of natural gas increase substantially, the costs of adding the Nobles Wind Project to our system would be 75% less than currently predicted as the electricity generated by the Nobles Project reduces the amount of natural gas needed to be used for gas based generation.

Based on the foregoing, we conclude that there are sufficient safeguards in place to ensure that the interconnection of these projects will not have an adverse impact on system reliability.

D. PTC Risk

There is uncertainty as to whether the federal production tax credit will be available when the Nobles Wind Project is placed in service. If not, we will not be able to pass these tax benefits onto our customers. The production tax credit reduces the cost of energy from wind projects by roughly 25 percent during the first 10 years of operation. Congressional authorization for the tax credit currently expires at the end of 2009.

That said, the non-renewal of the PTC will not change our need to comply with our system wide renewable requirements. All projects going into service after 2009 would be equally affected by the lack of the PTC. We are seeing rapid increases in the cost of wind projects and believe it is prudent to lock in prices as early as possible, given the amount of wind that we need to acquire on our system.

If the PTC is renewed, it is likely that it will be extended in the short term rather than the long term. Since the initial expiration of the PTC, it has been extended six times: once for three years, three times for two years and twice for one year. One more two-year extension would bring PTC eligibility into the time frame for this project. Failure to plan now could push projects off into the future, where PTC availability is even less certain.

VI. Communications and Service List

We respectfully request that the following persons be placed on the Commission's official service list for all official communications in this case:

James A. Alders
Director, Regulatory Administration
Xcel Energy
414 Nicollet Mall, 7th Floor
Minneapolis, MN 55401

Lawrence Bender
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Sr. Consultant, Regulation & Finance
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Records Specialist
Xcel Energy
414 Nicollet Mall, 7th Floor
Minneapolis, MN 55401

VII. Conclusion

The Nobles Wind Project is necessary to meet our system wide renewable energy obligations and to serve the growing energy needs of our customers as part of an integrated and diversified portfolio of resources. Numerous comparative analyses confirm the project is a cost-effective undertaking and will have a minimal impact on customers' bills. Further, the development risks of the Nobles Wind Project are reasonable and prudent given the benefits of expanding Company-owned wind based generation.

Based on the foregoing contained in this Application, Xcel Energy respectfully requests that the Commission make an advanced determination of prudence regarding the Nobles Wind Project pursuant to NDCC Section 49-05-16.

Respectfully submitted,

/s/

James R. Alders
Director, Regulatory Administration