

STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION

**Northern States Power Company
Advance Determination of Prudence – 201 MW
Nobles Wind Project
Application**

Case No. PU-08-907

ORDER ON APPLICATION FOR ADVANCE DETERMINATION OF PRUDENCE

August 12, 2009

On December 3, 2008, Northern States Power Company (NSP) filed an Application for Advance Determination of Prudence (ADP) for its proposed Nobles Wind Project located in the state of Minnesota. Also on December 3, 2008, Northern States Power Company (NSP) filed an Application for Advance Determination of Prudence (ADP) for its proposed Merricourt Wind Project located in McIntosh and Dickey Counties, North Dakota. Collectively, the two projects are referred to as Wind Projects.

On January 14, 2009, the Commission issued a Notice of Opportunity for Hearing that provided until February 27, 2009 for receiving written comments or requests for a hearing. No responses were received. As identified in the notice, the issue to be considered is whether NSP's proposed investment in the Nobles Wind Project is prudent.

On May 18, 2009, the Commission held an informal hearing to discuss NSP's applications for the Wind Projects.

On July 1, 2009, Staff filed its response to NSP's application after conducting an onsite investigation of NSP's Integrated Resource Plan on June 9 and 10, 2009.

On July 23, 2009, NSP filed a letter discussing its view of the appropriate application of the North Dakota statute concerning advance determination of prudence in this proceeding. NSP also filed the affidavit of James R. Alders to further describe NSP's analysis of the Wind Projects without including environmental externalities.

On July 29, 2009, the Commission held a second informal hearing on the Wind Projects.

On August 6, 2009, NSP filed supplemental information in response a request at the second informal hearing regarding the company's process for screening various technologies for consideration in its overall resource planning process.

Under North Dakota Century Code 49-05-16, the Commission may issue an order approving the prudence of an electric resource addition if the public utility files with its application a projection of costs to the date of the anticipated commercial operation of the electric resource addition, and the commission determines that the resource addition is reasonable and prudent.

To analyze various resource scenarios, NSP first reviews the relative cost and feasibility of generation alternatives, including renewable generation such as biomass, geothermal, solar, and wind; to select the most viable and cost effective resource types for more in-depth analysis. NSP then uses Strategist resource planning software to analyze those resources for possible inclusion on its system and to identify the least-cost expansion plan.

Alders found that the present value of the Wind Projects was approximately \$36 million higher than a natural gas plant alternative (the lowest cost alternative without adding additional wind).

NSP also used the Strategist software to compare the Wind Projects and a natural gas plant alternative, but with an updated natural gas forecast. The updated natural gas forecast reflects lower gas prices in the early years. The results of the analysis show that the present value of the Wind Projects was approximately \$17.613 million higher than a natural gas plant alternative.

NSP determined that a 3% increase in natural gas prices would lead to the Wind Projects being equal in cost to a natural gas alternative. Alders stated that a 3% increase in natural gas prices would not be uncommon. Additional analyses indicated that a 10% increase in natural gas prices would result in the Wind Projects being approximately \$44 million lower in cost than a natural gas alternative.

Alders stated that the \$36 million PVRR difference between the Wind Projects and the natural gas alternative is not large and the Commission should take into consideration other ratepayer benefits that result from the Wind Projects, most importantly the hedge provided by the wind projects against the volatility of and potential increases in natural gas prices. Because the Wind Projects have a fuel cost of zero, the Wind Projects would provide a beneficial hedge against the constant volatility of natural gas prices. Also, the addition of the Wind Projects would diversify NSP's resource mix in both fuel type and supplier type (by adding Company-owned wind generation as opposed to purchased wind energy). The addition of the Wind Projects would allow NSP to not be overly reliant on one fuel type and, accordingly, not have the costs of its electric generation follow the costs of one fuel type.

Alders stated that, considering the possibility of carbon regulation in a qualitative manner, the potential for future environmental regulation to affect fuel costs, including natural gas costs, the Wind Projects provide additional benefits to customers.

The Commission agrees that the Nobles Wind Project will provide a hedge against the volatility of natural gas prices; provide a greater degree of diversity in its fleet of generation facilities; provide a hedge against potential carbon dioxide regulation. The Commission finds that the Nobles Wind Project resource addition is reasonable and prudent.

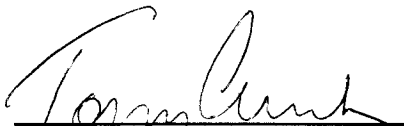
The Commission intends to continue its evaluation regarding the level of wind generation in NSP's energy resource mix, and the impact on its electric utility customers.

Order

The Commission Orders:

1. The Nobles Wind Project electric resource addition is reasonable and prudent.
2. NSP will report to the extent possible, as part of its annual 10-year plan, all reductions in the energy produced at its base load generation units that would not have occurred except for the existence of wind generation. The report will include the time of the event, length of the event, base load plant affected and the amount of energy not produced at the base load plant during the event.
3. NSP will report, as part of its next 10-year plan, on the impacts and costs associated with taking coal plant production up and down to accommodate wind resources during off peak hours.

PUBLIC SERVICE COMMISSION



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