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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 A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY AND ADVANCED DETERMINATION OF PRUDENCE FOR THE 150 MW MERRICOURT 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 ("Commission") for a Certificate of Public Convenience and Necessity ("CPCN") pursuant to North Dakota Century Code ("NDCC") Chapter 49-03, and an Advanced Determination of Prudence pursuant to NDCC Section 49-05-16, for our proposed 150 megawatt wind powered electric generating facility. This project, called the Merricourt Wind Project, will be located in McIntosh and Dickey Counties, North Dakota and placed into service by the end of 2011.

Xcel Energy has entered into a build/transfer agreement with enXco Development Corporation to develop and construct the Merricourt Wind Project. Ownership of the Merricourt Wind Project will transfer to the Company in a progressive manner. Under our agreement with enXco, Xcel Energy will obtain the CPCN and prudence determination and enXco will apply for the Certificate of Site Compatibility required pursuant to NDCC Chapter 49-22.

I. SUMMARY

The Merricourt Wind Project will provide benefits to our customers and fully meet the requirements of North Dakota law. The project is needed and is prudent and reasonable as it:

- Furthers our compliance with North Dakota's renewable energy policies, as well as those in Minnesota, South Dakota, Wisconsin and Michigan;
- Does not duplicate existing facilities;

- Compares favorably both with comparable renewable energy projects as well as non-renewable resources; and

- Provides benefits of resource mix diversification and a hedge against fuel price volatility.

After considering the benefits and the potential risks of the project, we believe implementing the Merricourt Wind Project is in the best interests of our North Dakota customers, and customers throughout our system. The remainder of this application discusses following: (II) Description of the Applicant; (III) Description of the Project; (IV) Contractual Arrangements; (V) Need for the Project; (VI) Reasonableness and Prudence of the Project; (VII) Communications and Service List and (VIII) Conclusion.

II. DESCRIPTION OF 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 North Dakota Century Code. 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.

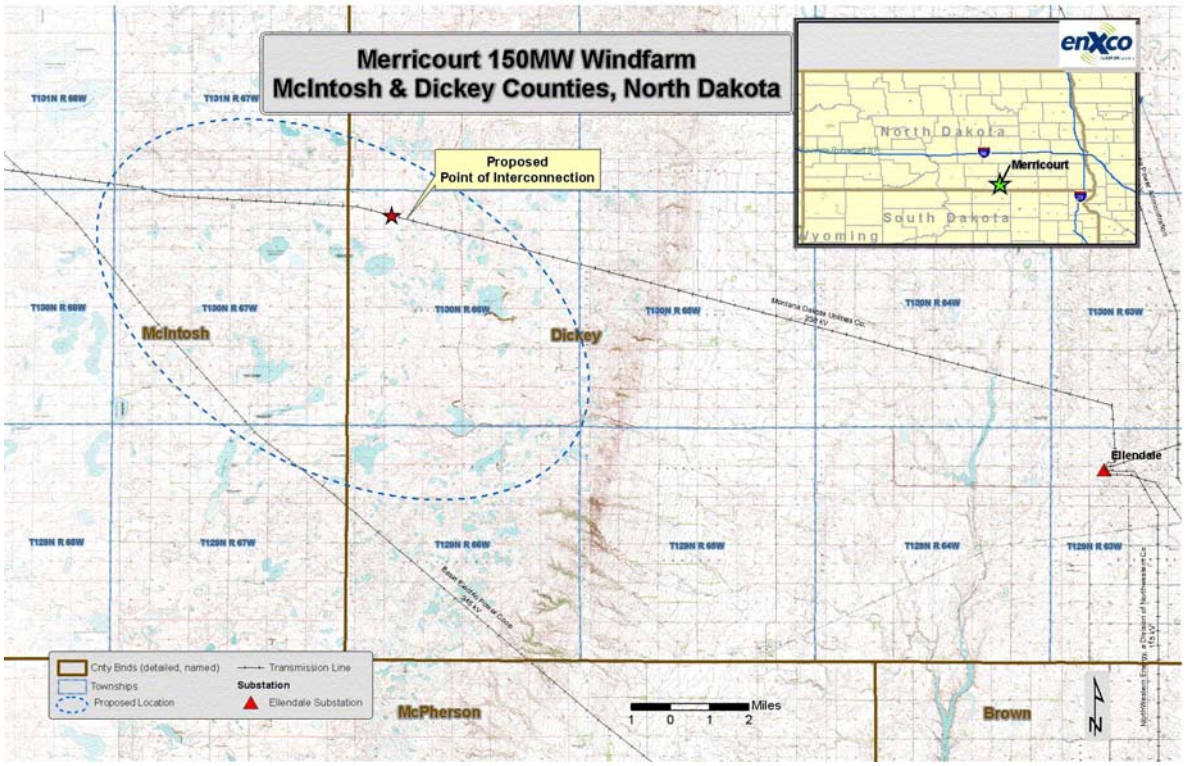
Xcel Energy has service territory in five upper Midwest states including North Dakota. We presently serve approximately 85,000 retail electric customers in and around Fargo, Grand Forks and Minot, North Dakota. We own approximately 250 miles of transmission lines and 12 substations in North Dakota.

The Company will not be extending retail service to any new electric customers in connection with this project, nor will there be a change to our retail electric service territory as a result of this project. Our customers will continue to be served by our applicable tariffs, rules and regulations on file with the Commission. It is expected that the costs of the Merricourt Wind Project as proposed in this Application will be paid for by customers throughout our five state service territory and the jurisdictional portion included in a rate rider filing as appropriate.

III. DESCRIPTION OF THE PROJECT

The Merricourt Wind Project will be located on a site covering approximately 9,600 acres in McIntosh and Dickey Counties, North Dakota. The site location is in an area with a strong wind resource and transmission access. We have entered into agreements with enXco Development Corporation to develop and construct Merricourt. Engineering and some procurement are scheduled to begin in 2010, however, most of the construction of the Merricourt Wind Project will occur in 2011. We anticipate that commercial operation will be achieved by December 31, 2011.

Figure 1
Merricourt Location



The project will consist primarily of wind turbine structures, an electrical gathering system, a project substation, and a project 230 kV transmission line that will interconnect with Montana Dakota Utilities' ("MDU") Wishek – Ellendale 230 kV line. In addition, secondary components of the project include an O&M building, a permanent meteorological tower and access roads as necessary.

The project will generate power using 100 General Electric 1.5 MW sle wind turbines on single shaft tubular towers supported by cast-in-place concrete foundations. The turbines will be on 80-meter hub height towers (262.5 feet) with 77-meter (252.6 feet) diameter rotors for a maximum tip height of 118.5 meters (390 feet). Pad mount transformers at each tower will step up the voltage from 575 v to 34.5 kV. Electricity generated at the turbines will be brought to the project substation using a series of electrical cables at a voltage of 34.5 kV. To the extent possible, collector cables will be buried. The project substation will serve to collect the electricity and step up the voltage from 34.5 kV to 230 kV. A short segment of 230 kV transmission line will be constructed to connect the project substation to the Wishek – Ellendale 230 kV line.

IV. CONTRACTUAL ARRANGEMENTS

enXco will develop and construct the Merricourt Wind Project. As written in the project agreements, ownership of the project will transfer to the Company in a progressive manner. **[TRADE SECRET BEGINS**

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Each contract sets out payment schedules, completion schedules, remedies and recourses for failure by either party to perform their obligations under these agreements. In addition, the parties will enter into separate agreements related to interconnection rights and other ancillary aspects.

V. NEED FOR THE PROJECT

We have organized our discussion of need into three parts. First, we discuss need in the context of current renewable energy policies in place across our service territories including North Dakota. Next we address need from the perspective of our system and how this particular addition furthers this need. Finally, we address specific North Dakota statutory requirements for a determination that the Merricourt Wind Project meets the applicable requirements for a Certificate of Public Convenience and Necessity.

A. The Project is needed to meet States' renewable energy polices

The Merricourt Wind Project is needed to meet the renewable energy policies established by the five upper Midwest states we serve. Over the past few years, all of the five states we serve in the upper Midwest have implemented Renewable Energy Standards or goals. North Dakota has established a Renewable Energy Objective that encourages the state's utilities to serve 10% of the energy they provide from renewable resources by 2015. By 2020, the Company will need to meet 30% of our retail requirements in Minnesota with renewable resources, and of this, 25% must be served by wind generation. In Wisconsin, effectively 15% of the energy sold must be from renewable sources by 2015. In South Dakota and Michigan, 10% of our energy sold must 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 Merricourt Wind Project is needed as an essential step in meeting the combined policy objectives in all of our jurisdictions including North Dakota.

B. The Project is part of the Company's plan to meet our customers' growing energy needs

In addition to our need to meet renewable requirements, our five-state system needs additional energy to meet our customers' growing needs. Our 2007 Resource Plan provided a framework for meeting significant policy goals in the states we serve while continuing to meet our customers' needs in a reliable, cost-effective and environmentally sound manner. Our preferred plan proposed a diverse mix of resources including coal, nuclear, hydro, wind, biomass, and natural gas generation. Our preferred plan includes a number of upgrades at our existing nuclear and fossil fuel plants, a renewed contract with Manitoba Hydro, additional combined cycle plants in the later years and the assumption that we will add on the order of 200 MW of wind resources per year to meet our growing needs.

Since our filing, we have proceeded with steps to obtain formal approval for many of the resources that were proposed. In February we filed for a Certificate of Need for an extended power uprate at the Monticello Nuclear Generating Station. We also filed a Certificate of Need application for additional dry cask storage to support life extension and an extended power uprate at our Prairie Island nuclear facility. We issued RFPs for both Company-owned as well as for Community Based Energy Development ("C-BED") wind resources. The Resource Plan contemplates a diverse portfolio of resources resulting in reasonable costs to our customers.

As we describe in section VI of this filing we have investigated the impact of the Merricourt Wind Project on the cost of our power supply to our customers. The Merricourt Wind Project is an important component of our Resource Plan, as it will assist us in building a cost effective portfolio of resources in a manner that serves the long-term best interests of our customers.

C. Certificate of Public Convenience and Necessity Criteria

The statutory provisions governing the requirement for a public utility to file for and obtain a CPCN are found in Chapter 49 of the North Dakota Century Code.

N.D.C.C. § 49-03-01. Certificate of public convenience and necessity - Secured by electric public utility. No electric public utility henceforth shall begin construction or operation of a public utility plant or system, or of an extension of a plant or system, except as provided below, without first obtaining from the commission a certificate that public convenience and necessity require or will require such construction and operation…

49-03-01.1. Limitation on electric transmission and distribution lines, extensions, and service by electric public utilities. No electric public utility henceforth shall begin in the construction or operation of a public utility plant or system or extension thereof without first obtaining from the commission a certificate that public convenience and necessity require or will require such construction and operation, nor shall such public utility henceforth extend its electric transmission or distribution lines beyond or outside of the corporate limits of any municipality, nor shall it serve any customer where the place to be served is not located within the corporate limits of a municipality, unless and until, after application, such electric public utility has obtained an order from the commission authorizing such extension and service and a certificate that public convenience and necessity require that permission be given to extend such lines and to serve such customer.

49-03-02. Prerequisites to issuance of certificate of public convenience and necessity. Before any certificate may issue under this chapter, a certified copy of the articles of incorporation or charter of the utility, if the applicant is a corporation, or a certified copy of the articles of organization of the utility, if the applicant is a limited liability company, shall be filed with the commission. At the hearing of said application upon notice as provided in this title, the utility shall submit evidence showing that such applicant has received the consent, franchise, permit, ordinance, or other authority of the proper municipality or other public authority, if required, or has or is about to make application therefore. . .

This Application demonstrates that the public convenience and necessity require that the Merricourt Wind Project be built. Specifically, we understand the Commission considers whether or not the project will unnecessarily duplicate facilities. The project is being undertaken to meet the energy needs of Xcel Energy's current customers and no expansion of our service territories are contemplated by this project. Also, the project does not unnecessarily duplicate

facilities as the Merricourt Wind Project energy will be needed to meet the energy needs of our customers as was contemplated in our 2007 Resource Plan.

The Commission has indicated it considers ten (10) factors in determining whether to grant a CPCN for a new electric facility.[1] Below we provide our responses to each of these factors:

From whom does the customer prefer electric service?

Customer preference is not applicable in this circumstance. The Merricourt Wind Project is proposed to meet the needs of all Xcel Energy customers within the five states we serve.

What electric suppliers are operating in the general area?

Electric suppliers and nearby service territories are not at issue in this circumstance. The Project will not provide direct retail service in competition with any other retail electric suppliers in the area.

What electric supply lines exist within a two-mile radius of the location to be served and when were they constructed?

An electric supply line in the vicinity is not a consideration in this circumstance. The Project will not provide direct retail service.

What customers are served by electric suppliers within at least a two-mile radius of the location to be served?

The customer base in the vicinity is not a consideration in this circumstance. The Project will not provide direct retail service. Rather it will meet the energy needs of all Xcel Energy customers within the five states we serve.

What are the differences, if any, between the electric suppliers available to serve the area with respect to reliability of service?

Not applicable. The Project will not provide direct retail service.

Which of the available electric suppliers will be able to serve the location in question more economically and still earn an adequate return on its investment?

Not applicable. The Project will not extend the Company's retail electric service territory.

[1] Testimony of Jerry Lein of the Commission staff, presented to the Interim Electric Industry Competition Committee, April 24, 2000.

Would approval of the application result in wasteful duplication of investment or services?

No. The Project will fulfill a portion of the Company's renewable energy objectives and requirements for our North Dakota, South Dakota, Minnesota, Wisconsin and Michigan service territories. It will meet the energy needs of our customers in our currently certificated service areas consistent with our most recent Resource Plan.

Is it probable that the location in question will be included within the corporate limits of a municipality within the foreseeable future?

No. The Project is not in the immediate vicinity of a municipality.

Will the service be either of the electric suppliers in the area unreasonably interfere with the service or system of the other?

Not applicable. The Project does not extend, and will not provide, direct retail electric service.

As indicated above, the 10 criteria typically used by the Commission to review a CPCN are focused on the extension of electric service to new customers in competition with other providers and do not apply to a wind project. Clearly the project meets the Commission's considerations of need. In addition, we have provided a discussion of why the Merricourt Wind Project is a needed resource both to meet state policy goals and as a system resource. Thus, we believe that it is in the public interest that we be granted a Certificate of Public Convenience and Necessity for this project.

VI. REASONABLENESS AND PRUDENCE OF THE PROJECT

In addition to showing need, North Dakota statues provide that a utility proposing a renewable energy facility such as the Merricourt Wind Project can seek an advanced determination of prudence. In order to facilitate the approximately $400 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.

Furthermore, NDCC Section 49-05-16 establishes that there is a rebuttable presumption that facilities located within North Dakota are reasonable and prudent investments.

This portion of our filing provides information that demonstrates the reasonableness and prudence of the project as well as providing the projected project costs so that the Commission can make its Advanced Determination of Prudence. We provide this support by describing: (A) the competitive acquisition process used to demonstrate that the result was the most reasonable among North Dakota utility owned projects; (B) that the cost is reasonable in light of cost comparisons of the Merricourt Wind Project to other wind projects; (C) that the overall system costs of adding the Merricourt Wind Project are reasonable; (D) that the project will provide diversification and a hedge against future fuel price volatility; and (E) our assessment of project risks. The extensive analyses performed and the risks assessed provide the necessary information for the Commission, after hearing, to determine that the project meets 3 a. of NDCC Section 49-05-16.

A. Competitive Acquisition Process

Xcel Energy initiated a competitive bidding process for wind projects on December 17, 2007. Proposals were requested by March 2008. The RFP sought proposals for build/transfer projects to meet our objective of increasing Company wind turbine ownership. Thirty proposals from developers proposing projects in Minnesota, North Dakota, South Dakota and Iowa were received. After initial screening, 21 proposals representing 3,000 MW from eleven developers were identified as potentially viable for meeting the RFP objectives.

Though additional screening and evaluation, we were able to narrow the field to 12 projects. We performed additional due diligence and requested the developers of the remaining 12 projects mark up a draft term sheet. Both internal and external subject matter experts evaluated the detailed due diligence data we received. Internal departments involved in the evaluation process included: Energy Supply, Transmission Access, Regulatory Affairs, Siting/Permitting, Environmental, and Legal. External consultants supplemented these efforts with the evaluation of wind data and land control documentation.

It became apparent that the projects offered in North Dakota were not viable as they faced development challenges. However, in light of our prior commitment to add wind generation in North Dakota, we had begun a concurrent but separate undertaking to identify viable projects better matching our criteria in North Dakota. We conducted discussions with North Dakota's Department of Commerce and reviewed the MISO queue as part of this process. The Merricourt Wind Project was identified through this process and reviewed using the same key characteristics employed to review the bids received in the RFP process.

Our short list evolved to include four projects. Three projects were located in Minnesota and the Merricourt Wind Project in North Dakota. Of the four projects, the size, location and scheduling of the Merricourt and Nobles Wind Projects, a 200 MW project in southwestern Minnesota, were determined to best match our capital investment objectives and cash flow commitments and the RFP's criteria and timetable.

B. Comparison to Other Wind Projects

In addition to a comparison to other competitively solicited projects, we also compared the cost of this project with several other recent offerings. We developed levelized costs to compare utility and non-utility owned wind projects and projects with different in-service dates, on an equal footing.

1. Compares Favorably to RFP Bids

The levelized cost per MWh of the Merricourt Wind Project was compared to the levelized cost per MWh of the viable projects from the RFP process. In particular, we evaluated the Merricourt and Nobles Wind Project costs. The cost of energy from the Merricourt Wind Project without considering potential transmission network improvements was essentially the same as the cost of energy from the Nobles Wind Project, **[TRADE SECRET BEGINS**

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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 Merricourt Wind Project remained within close range of the Nobles Wind Project's costs. **[TRADE SECRET BEGINS**

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As with other wind projects, the Merricourt Wind Project receives substantial benefit from the federal production tax credit. Without PTC, the levelized cost of energy from the two 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 through 2011.

2. Compares favorable to Power Purchase Proposals

The cost of energy from the Merricourt 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 Merricourt Wind Project to an estimated range of levelized PPA costs for PPA 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 Merricourt project ('11$) 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 Merricourt Wind Project to purchased power arrangements, there are a number of other factors to consider. First, the Merricourt Wind Project costs are based on firm prices as the result of a fully negotiated and signed contract. Our experience in negotiating PPAs is that levelized prices rarely decrease from the initial offering to a fully negotiated contract. Also, PPAs are bid as 20-year contracts, whereas the Nobles Project has a 25-year life.

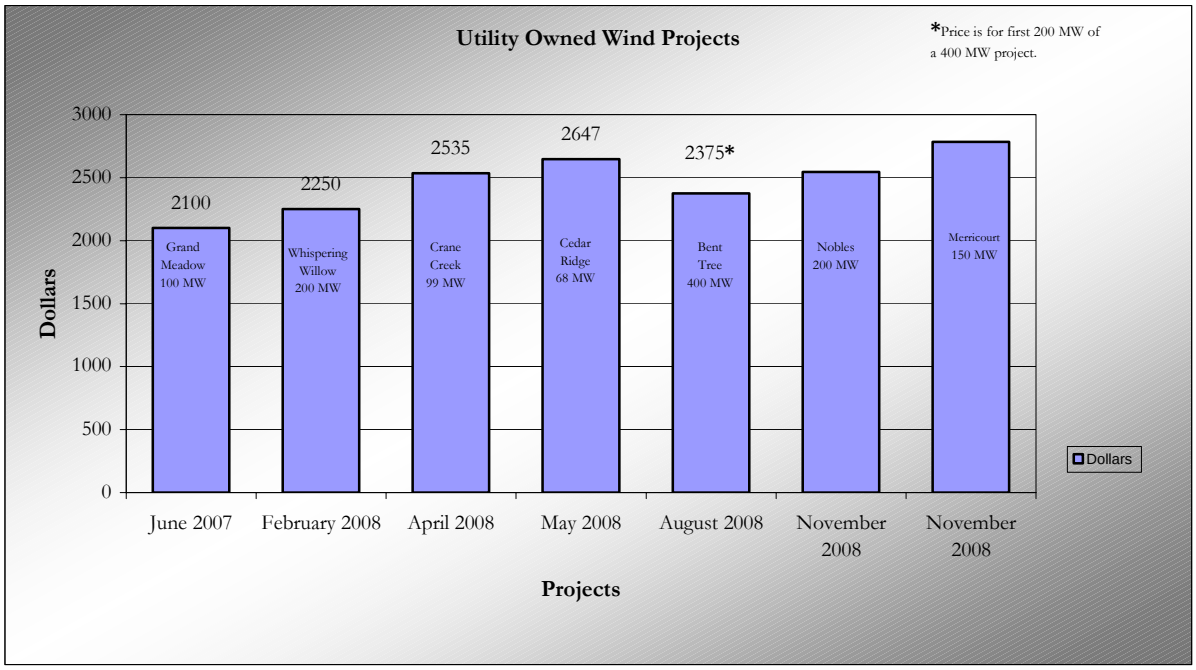
Xcel Energy ownership provides other benefits in that the price will not be reset to the prevailing market rate as will a PPA upon expiration. In addition, after 25 years the initial capital investment of an owned wind project will be fully recovered but the project is still capable of providing energy. Furthermore it can be argued that our escalation rates 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 using in this comparison. 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

The capital cost of the Merricourt Wind Project is comparable to other utility wind projects in the region. As another way of testing the reasonableness of the cost of the Merricourt Wind Project, we conducted a market survey of production capacity costs for other utility-owned projects that have been recently announced. We found four projects tht have been announced and approved in the upper Midwest in the past 18 months, and construction of our Grand Meadow project in southern Minnesota has just been completed. We used publically available sources – primarily press releases and newspaper articles for our information source[2]. From this information, we calculated the installed cost of each projects on a $/kW basis. The results are shown in Figure 2.

Figure 2
Utility Owned Wind Projects



Much of the difference in installed capital cost appears to be associated with the timing and size of the project. The Merricourt Wind Project will be completed

[2] The timing of the cost estimates for the projects may vary as some are based on press releases as of contract signing and some based on regulatory approval dates.

later and is smaller in size than some of the other recently announced projects but, nonetheless, has an installed production capacity cost within a comparable range.

In summary, all of the analysis and indices we examined indicate that the Merricourt Wind Project is a reasonable and prudent approach to fulfilling our states' renewable energy policies and our commitment to North Dakota wind investments.

C. Costs are reasonable from a system perspective

We conducted further analysis using a generation production simulation model to examine the project's performance as part of our generation fleet. Using a resource planning model called Strategist, we compared the total production cost of our system with the Merricourt Wind Project against other generation options.

To conduct this analysis, we first simulated the overall cost of energy production from our system assuming the Merricourt Wind Project is implemented. Next, we removed the project from the model and allowed the model to determine the energy source. The analysis indicates that without the Merricourt Wind Project, energy is supplied from other existing fossil fuel plants. When the project is added to the system, the energy it replaces initially comes from existing natural gas and coal resources, and eventually the wind resource displaces a greater portion of natural gas resources.

Based on our internal modeling, the Merricourt Wind Project had a minor impact on our net system costs. The Merricourt Wind Project only increases the total present value of revenue requirements ("PVRR") by approximately 0.12 percent. The estimated 2012 rate impact on a typical residential customer using 850 kWh per year will be approximately $1.30 per month without consideration of any system fuel cost savings and about $0.80 when fuel cost savings are considered.

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

We also tested the impacts of the project on our system if the federal production tax credit is not available for this project and other subsequent renewable additions. As expected, the cost of energy production on the system increases on a present value of revenue requirements basis. However, this project and other additional wind projects will be needed to meet renewable policy objectives. If we are to meet

renewables objectives, the question is not whether we proceed with a wind project like the Merricourt Wind Project. Rather the question is how best can we mitigate the risk that the production tax credit may not be available for our wind project additions. We believe continuation of the production tax credit is less likely as time passes, and thus, we have a better chance of capturing the benefits of the production tax credit with projects that are implemented in the next few years like the Merricourt Wind Project.

D. PROJECT PROVIDES DIVERSIFICATION AND FUEL PRICE HEDGES

As discussed above, the project provides a hedge against fuel price increases. Our modeling efforts showed that when fuel prices increase, harnessing the wind as a free fuel provides increased benefits. In addition, the Merricourt Wind Project provides location diversification in two respects. The first is related to fuel costs. If our wind resources are spread over a wider geographic area, we have a greater potential to have wind fuel available than if all projects are located in a similar area.

Another diversification benefit to this project is in the area of transmission potential. While there are transmission facilities that need to be built in North Dakota, this problem is not unique to North Dakota. We have a need for transmission in other areas where strong wind regimes exist. Diversification of resources can assist in ensuring transmission facilities do not become more heavily loaded in one area versus another.

E. ASSESSMENT OF PROJECT RISKS

As with any projects, there are risks, some of which we have already briefly mentioned. Three main risks were identified for the Merricourt Wind Project and are presented below with a discussion as to why we believe the risk level for each is acceptable.

1. The Federal Production Tax Credit

There is uncertainty whether the federal production tax credit will be available when the Merricourt Wind Project is placed in service. If not, Xcel Energy will not receive the tax benefit and be able to pass these 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.

The non-renewal of the PTC would not change our need to comply with North Dakota's Renewable Energy Objective as well as renewable requirements in other states. All projects going into service after 2009 would be equally affected by the

lack of the PTC. We are seeing an upward trend recently in the cost of wind projects and believe it is prudent to lock in prices as early as reasonably possible, given the overall amount of wind powered generation that we need to acquire to meet renewable policy objectives on our system.

If the PTC is renewed, it is more 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 these projects. Failure to plan now could push projects off into the future, increasing the risk that PTC will not be available.

2. Turbine Supply Agreement

The Merricourt agreement, which contemplates 2011 construction, includes a clause that **[TRADE SECRET BEGINS**

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3. Transmission Requirements Uncertainty

Per our agreements, enXco is responsible for obtaining the necessary approvals to interconnect the Merricourt Wind Project with the MISO transmission system. enXco made application to interconnect the project and MISO assigned a queue

position 38073-01, project number G359, on March 27, 2004. MISO is presently working to finalize the system impact study to determine transmission constraints. Following completion of the system impact study, facility studies will be done to determine the improvements that must be made. The results of the facility studies will be used to complete the Interconnection Agreement. We expect the facility studies to be completed within the next 12 months, with a signed Interconnection Agreement to follow shortly thereafter.

MISO has completed and posted a draft system impact study. This study identifies several system performance issues that must be addressed to enable the Merricourt Wind Project interconnection. The study identifies one set of possible solutions, although further work is needed to verify performance and examine alternatives. For example, the initial study work did not consider some of the benefits that will be provided by the CapX transmission proposals. The Grand Rapids to Bemidji 230 kV transmission line and the first segments of the Monticello to Fargo 345 kV line are proposed to be in service by 2012. We anticipate they will provide benefits to system performance in North Dakota.

We have included transmission costs in our estimated project costs based on our interpretation of the draft system impact study. The Merricourt Wind Project remains a cost effect resource addition with that level of transmission liability assigned. Until the system impact study is finalized and the facility studies are completed, the actual interconnection costs for the Merricourt Wind Project will remain uncertain. We will be working closely with the MISO, enXco, and transmission owners in the area to establish a successful and cost-effective interconnection plan. However, to protect against the possibility that transmission improvement costs might make the Merricourt Wind Project considerably more expensive than assumed in our analysis, we have negotiated a contract clause that allows us to reconsider the project if transmission costs are too significant.

F. Projected Cost of the Project

NDCC Section 49-05-16 requires a projection of costs to the date of the anticipated commercial operation of the electric resource. We will commit an estimated **[TRADE SECRET BEGINS TRADE SECRET ENDS]** million to the Merricourt Wind Project prior to consideration of any transmission investment costs needed. We have agreed to a schedule of progress payments with enXco to support the development of the Merricourt Wind Project as included in Table 1. We will make an initial payment to enXco in January 2009 and in the fall of 2010 presuming site development activities have been completed by this date. As construction ramps up, the contract calls for monthly progress payments in 2011.

Based on our preliminary analysis of transmission network upgrades that may be necessary, we estimate the project's portion of those costs at **[TRADE SECRET BEGINS TRADE SECRET ENDS]** million based on the MISO current allocation policies.

Table 1 Capital Outlay Projections

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G. Summary of Prudence and Reasonableness

By providing the cost comparisons as well as the process used to determine the range of options and how this resource falls within the range, and the projection of costs to the date of the anticipated commercial operation of project, we believe that we have satisfied the requirements of NDCC Section 49-05-16. Thus, we respectfully request that in addition to granting the CPCN, that the Commission affirmatively make findings as allowed by NDCC Section 49-05-16 to determine the Merricourt Wind Project is reasonable and prudent. The only additional requirement for an Advance Determination of Prudence is for the Commission to provide Notice and conduct a hearing if it deems a hearing is appropriate. And while NDCC Section 49-05-16 provides a rebuttable

presumption that a renewable energy facility located in the state is prudent, we request the Commission issue a timely Notice and hearing if it is deemed to be appropriate.

VII. 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:

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VIII. CONCLUSION

The Merricourt Wind Project meets the statutory standards for need and public necessity as outlined by Commission policy. It does not involve any extension of existing service territory nor does it duplicate facilities. The project is necessary to meet our states' renewable energy policies and to serve the energy needs of our customers as part of an integrated and diversified portfolio of resources.

The project also meets the standard for the Commission to make an advance determination of prudence and reasonableness. Numerous analyses confirm the project a cost effective undertaking that will help meet renewable policies and is a resource option that will provide a hedge against future fuel price increases. As with any future project, Merricourt has some risks. However, after mitigating for what risks we could in our contracts and assessing the remaining risks, we believe the project remains a reasonable and prudent alternative.

Therefore, we respectfully request that the Commission grant a Certificate of Public Convenience and Necessity for Merricourt Wind Project and make a determination that the Merricourt Wind Project meets the Advance Determination

of Prudence requirement of NDCC Section 49-05-16. We further request, pursuant to NDCC Chapter 49-03-02, that the Commission grant the requested Certificate not more than 20 days after a notice of opportunity for hearing issued in this proceeding, if no party requests a hearing. We have attached the Form of Notice of Opportunity for Hearing.

Respectfully Submitted,

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James R. Alders
Director, Regulatory Administration