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State of North Dakota

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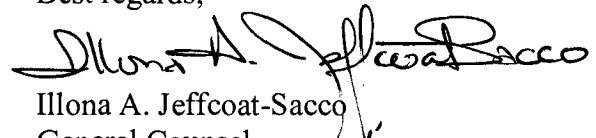
Darrell Nitschke
Executive Secretary
600 East Boulevard, Dept 408
Bismarck, ND 58505-0480

Re: Cap-X2020 Group 1
Case No. PU-09-676 and Case No. PU-09-678

Dear Mr. Nitschke:

Enclosed is the Pre-filed Direct Testimony of Jerry Lein in the captioned cases,
along with a Certificate of Service.

Best regards,


Illona A. Jeffcoat-Sacco
General Counsel

enclosures
c/w enclosures: Al Wahl

STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION

**Otter Tail Power Company
Advance Determination of Prudence - CapX2020 Group 1
Application**

Case No. PU-09-676

**Northern States Power Company
Advance Determination of Prudence - CapX2020 Group 1
Application**

Case No. PU-09-678

PRE-FILED DIRECT TESTIMONY

of

JERRY LEIN

PUBLIC SERVICE COMMISSION ADVOCACY STAFF

April 26, 2010

1 **Q. Please state your name and business address?**

2 A. My name is Jerry Lein. My business address is Public Service
3 Commission, State Capitol, Department 408, 600 E Boulevard Ave., Bismarck,
4 ND 58501-0480

5 **Q. By whom are you employed, what is your position and**
6 **responsibilities?**

7 A. I am employed by the North Dakota Public Service Commission as a
8 Public Utility Analyst. My responsibilities consist primarily of advising the
9 Commission on utility related matters including electric transmission issues.

10 **Q. Please describe your educational background and work experience.**

11 A. I received my Bachelor of Science in Electrical Engineering in 1985 from
12 North Dakota State University, where I also completed graduate coursework and
13 served as an instructor and teaching assistant. In 1988, I began employment as
14 an analyst with the Public Service Commission focusing primarily on the
15 regulation of electric and natural gas utilities.

16 In early 1994, I accepted employment with the Public Service Commission
17 of Nevada. I served as a commission advisor on all matters but with primary
18 responsibility for electric transmission issues.

19 In late 1997, I returned to the North Dakota Public Service Commission
20 where I now serve as the Commission's primary advisor for electric transmission
21 issues. I have been active in the Midwest ISO stakeholder process and in the
22 formation of the Organization of MISO States (OMS), where I have served as co-
23 chair of the OMS Regional Planning Work Group since 2005. I presently serve

1 as an OMS Cost Allocation and Resource Planning (CARP) negotiator and as
2 North Dakota's advisory staff for the Upper Midwest Transmission Development
3 Initiative (UMTDI). I have followed the Cap-X initiative through the MAPP and
4 the Midwest ISO planning processes since it began.

5 **Q. What is the purpose of your testimony?**

6 A. On behalf of Public Service Commission Advocacy Staff, I will present my
7 recommendations regarding the requests of Otter Tail and Northern States
8 Power Company d/b/a Xcel Energy for an advanced determination of prudence
9 regarding the four proposed Cap-X Phase I electric transmission projects.

10 **Q. Will you please briefly summarize your recommendations?**

11 A. Firstly, I recommend the Commission consider whether state regulatory
12 agencies are the proper forum for advance prudence determinations regarding
13 interstate transmission projects given that cost recovery for these interstate
14 transmission projects will be through federally-approved transmission service
15 rates under a Federal Energy Regulatory Commission (FERC) tariff.

16 Secondly, if the Commission determines it should make advance
17 prudence determinations in this case, then I recommend not granting an advance
18 determination of prudence for the Brookings project at this time.

19 **Q. Please explain the federal/state jurisdictional question you raised?**

20 A. I think that a major purpose for seeking an advanced determination of
21 prudence is to assure utilities and investors that cost recovery in retail rates will
22 not be disallowed because the projects are later deemed to be imprudent.
23 However, my retail ratemaking experience has been that state regulatory

1 agencies are federally pre-empted from disallowing retail cost recovery of
2 federally approved wholesale rates. States may disallow expenditures related to
3 a finding that too much of a product or service was taken, but cannot make
4 disallowances based on a finding that the federally approved unit rate for those
5 products or services is unreasonable. The revenue requirements and
6 transmission rates for the interstate transmission lines at issue in these cases
7 would be determined under the Midwest ISO's Federal Energy Regulatory
8 Commission Open Access Transmission Tariff (OATT) such that it appears state
9 regulators wishing to challenge prudence for cost recovery purposes would need
10 to do so before the Federal Energy Regulatory Commission and not in a state
11 retail rate proceeding.

12 **Q. Please explain your recommendation that an advance determination**
13 **of prudence for the Brookings project should not be granted at this time?**

14 A. The proposed Brookings line has become controversial such that it may
15 not be constructed. If it is not constructed then granting an advance
16 determination of prudence would be a green light to make investments that might
17 end up being sunk costs in an abandoned project, similar to what has happened
18 with the Big Stone II abandonment.

19 As I believe will be explained by Midwest ISO witnesses, the Brookings
20 project has not yet been approved for construction in the Midwest ISO
21 Transmission Expansion Plan (MTEP) process. The primary problem at MISO
22 has been who will pay for the Brookings line, as the analysis in MTEP
23 determined that the project is not eligible for regional cost sharing as a Baseline

1 Reliability Project. The project would not be needed “but for” the interconnection
2 of a group of about 19 wind developers identified in the Midwest ISO’s Group
3 Five interconnection queue study seeking grid interconnection in the Buffalo
4 Ridge area so the wind developers can sell about 1,300 MW of power into the
5 Minneapolis area. Thus, the Brookings line is not eligible for cost sharing under
6 the existing Midwest ISO tariff. This means the Brookings line is a \$700 million
7 generator interconnection project where generators would be responsible for
8 90% of that cost under the existing Midwest ISO tariff. I understand there have
9 been resulting payment negotiations between the CAP-X utilities and the Group
10 V wind developers, but those negotiations have not progressed.

11 However, OMS CARP negotiations and Midwest ISO Regional Economic
12 Criteria and Benefits (RECB) Task Force are presently near the conclusion of
13 efforts to develop a new cost sharing methodology for Midwest ISO transmission
14 projects going forward. These efforts are in response to a FERC order requiring
15 that a new methodology be filed with the FERC by July 15, 2010. It is anticipated
16 that the Brookings Project could be eligible for cost sharing when this new
17 methodology is implemented. The proposal being considered for filing at this
18 time would restrict eligibility to projects gaining MTEP approval for the first time
19 with the MTEP 2010 report, but there is risk that the eligibility cut-off date for a
20 new methodology could slip so that the Brookings project would not be eligible if
21 it were to receive MTEP approval prior to the eligibility threshold date ultimately
22 adopted.

1 In addition to the Midwest ISO process, the Governors and regulatory
2 agencies of five Midwestern states (North Dakota, South Dakota, Minnesota,
3 Iowa and Wisconsin) have come together to form UMTDI, which is looking at
4 developing cost allocations among these states for specific projects within our
5 five-state region. What comes out of this effort may largely depend on the results
6 of the OMS CAPP and Midwest ISO efforts. UMTDI is presently working to
7 develop a list of regional projects most needed for an initial build out. The
8 Brookings project is being considered for that list with a possible modification that
9 would extend the western terminus of the project from Brookings to Big Stone,
10 South Dakota for an estimated cost of another \$80 million. This suggests that
11 the Brookings project may not be optimal as proposed.

12 Another possibility for further optimizing the Brookings project comes from
13 the Northwest Exploratory Study performed by the Midwest ISO at the request of
14 the Upper Great Plains Transmission Coalition for the MTEP 03 and MTEP 05
15 reports. The results of that study indicate that two new 345 kV lines out of North
16 Dakota coal fields would significantly increase the North Dakota Export limit
17 compared to just one new line. The study suggest constructing one line through
18 the Fargo, North Dakota area and on to the northern Twin Cities area, and a
19 second line into the Ellendale, North Dakota area and extending through South
20 Dakota to the Twin Cities. A large portion of the first line is being realized by the
21 proposed Fargo-Montecello 345 kV Cap-X line. UMTDI issued an information
22 request regarding feasibility of extending the Brookings line past Big Stone along
23 the Buffalo Ridge in eastern South Dakota and into the Ellendale, North Dakota

1 area as was suggested by the NW Exploratory Study. Responses indicate that
2 the extension would be a feasible Ellendale transmission outlet at a cost of about
3 an additional \$140 million. Ellendale, North Dakota is within one of the most
4 wind-rich areas of the country.

5 **Q. Looking beyond the potential for an Ellendale extension, what other**
6 **transmission is being considered for addressing the backlog of North**
7 **Dakota wind projects seeking interconnection with the Midwest ISO?**

8 A. In addition to the interconnection queue Group V study, the Midwest ISO
9 has undertaken an interconnection queue Group VI study involving about 6,000
10 MW of wind generation seeking interconnection in North Dakota and Montana.
11 Group VI System Planning and Analysis study results issued December 31, 2009
12 indicate approximately \$6 billion in new facilities would be needed for full
13 interconnection of the entire 6,000 MWs with a 765 /345 kV build out:

- 14 Center - Stanton - Coal Creek 345 kV line
- 15 Center - Hettinger 345 kV line
- 16 Hettinger - Wishek - Ellendale 345 kV line; Series compensate Hettinger
- 17 –
- 18 Wishek
- 19 Baker - G757 - Hettinger 345 kV line
- 20 Jamestown - Ellendale 345 kV line
- 21 Rebuild Center - Heskett - Wishek 230 kV line at 345 kV
- 22 Center - Jamestown - Maple River - Hankinson - Big Stone 765 kV line

1 ☐ Coal Creek - Ellendale - Hankinson - Big Stone - Canby - Brookings Co.

2 765

3 kV line

4 ☐ Ellendale - Hankinson 765 kV line (circuit #2)

5 ☐ 345-230 kV transformers at Stanton, Coal Creek, Center, Heskett,

6 Hettinger,

7 Wishek, Ellendale, Baker, Hankinson

8 ☐ 765-345 kV transformers at Center (2), Jamestown (2), Maple River (2),

9 Hankinson, Coal Creek (2), Ellendale (2), Canby (2)

10 ☐ Phase shifting transformer at Hettinger on 230 kV line to Bison

11 **Q. Does this conclude your testimony?**

12 **A.** Yes. Thank you.

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CERTIFICATE OF SERVICE

The undersigned certifies that an electronic copy of the **PRE-FILED DIRECT TESTIMONY OF JERRY LEIN** was sent today by e-mail to each person identified below using e-mail address shown for each:

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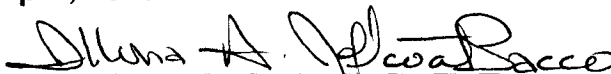
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Bismarck, North Dakota, this **26 day of April, 2010.**


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