

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
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COMPLIANCE FILING

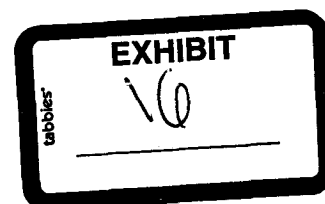
In compliance with ordering clause 4 and ordering clause 5 of the Commission's October 6, 2010 Order Adopting Settlement in the above referenced cases ("October 6 Order") and pursuant to paragraph 4 of the CapX2020 Group 1 Projects Advance Determination of Prudence Request Settlement Agreement dated as of September 23, 2010 ("Settlement"), Northern States Power Company, a Minnesota corporation ("Xcel Energy"), and Otter Tail Power Company ("Otter Tail" and collectively with Xcel Energy, "Applicants") provide additional information on the resolution of cost allocation issues relevant to the Brookings Project, including the impact on North Dakota as well as an updated discussion of the continued prudence of the project.

Applicants are making this compliance filing at this time so that it may be possible to receive the Commission's finding of continued prudence simultaneously with Applicants obtaining all Critical Permits and the Midwest Independent Transmission System Operator, Inc.'s ("MISO") Multi-Value Project ("MVP") designation for the Project. Based on the progress that the utilities participating in the Brookings Project ("Participating Utilities") have made on the permitting and pre-construction phase of the Brookings Project, we anticipate executing the Project Ownership Agreement by the end of June of this year. However, the Participating Utilities will not move forward with the execution of the Ownership Agreement without first obtaining MVP designation for the Brookings Project from MISO. We believe that MISO will designate the Brookings Project as an MVP at its June 15, 2011 board meeting.

If the Participating Utilities achieve this timing, construction can commence on schedule. If there is considerable delay in executing the Ownership Agreement,

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Exhibit 16
Otter Tail Power Company / Northern States Power Company

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Applicants do not believe that the Brookings Project will be able to be placed in-service by the second quarter of 2015, the currently expected in-service date for the Project. Applicants hope that the Commission will have found the continued prudence of the Brookings Project by the time Applicants expect to execute the Ownership Agreement. Applicants will gladly work with the Commission to find ways to accommodate this schedule.

I. Cost Allocation for the Brookings Project

Pursuant to ordering clause 4 of the October 6 Order and paragraph 4(a) of the Settlement, Applicants are required to make a filing providing additional information on the resolution of cost allocation issues relevant to the Brookings Project, including the impact on North Dakota. This filing is to include a level of detail on the application of the Brookings Project cost application comparable to what has been provided with regard to the other CapX2020 Group 1 Projects.

A. *FERC Approved Cost Allocation Methodology*

On July 15, 2010, MISO submitted a request to the Federal Energy Regulatory Commission (“FERC”) to amend its Open Access Transmission, Energy and Operating Reserve Markets Tariff (“Tariff”) to create a new category of transmission projects called Multi-Value Projects or “MVPs” (the “July 15 Filing”). MVPs are high-voltage transmission projects that enable the reliable and economic delivery of energy in support of documented energy policy requirements and address multiple issues affecting multiple pricing zones. MISO proposed to allocate the costs of any transmission projects that qualified for MVP status across the MISO footprint to all load on a load share basis.¹ In other words, the costs of constructing, operating and maintaining a MVP will be recovered from all load who use the MISO transmission system in proportionate share of that load to total load through a usage rate. The usage rate will minimize the upgrade costs for affected generators and the local utility.

In the July 15 Filing, MISO submitted a list of sixteen “Candidate” transmission projects from across its footprint that MISO believed would be eligible for MVP status. The Brookings Project is included on this Candidate MVP list.

¹ MISO’s proposal allocates a proportionate cost share of MVPs not only to load within MISO but also to any load that used the MISO system, regardless of where that load was located. For example, if load within the PJM Interconnection (“PJM”) was served by energy that was generated in MISO and transmitted into PJM, that transaction would be assessed a usage rate based on its percentage of total load.

On December 16, 2010, FERC issued its initial order substantially accepting² MISO's July 15 Filing and the cost allocation methodology proposed to apply to certain transmission projects, such as the Brookings Project. *Midwest Independent Transmission System Operator, Inc.*, 133 FERC ¶ 61,221 (2010)(the "MVP Order"). The MVP Order is a significant positive step that establishes the framework for how the costs of the Brookings Project will be allocated. The MVP Order remains subject to requests for rehearing.³ However, a rehearing does not stay a FERC order and the MVP tariff is legally in effect as MISO's currently effective cost allocation process for eligible projects.⁴

The attached white paper provides an in-depth discussion of the application of the MVP rate mechanism and shows how MISO's Tariff and usage rate will affect Applicants and our North Dakota customers. As demonstrated in the white paper, Xcel Energy's North Dakota customers will be responsible for 0.43% of the revenue requirement for the Brookings Project resulting in \$3.2 million being allocated to Xcel Energy's North Dakota customers. Otter Tail's North Dakota customers will be responsible for 0.35% of the revenue requirement for the Brookings Project resulting in \$2.6 million being allocated to Otter Tail's North Dakota customers. By being able to allocate the costs of the Brookings Project to all load in the MISO footprint, Xcel

² In addition to requiring certain compliance filings, FERC rejected MISO's proposal to assess the usage rate to transactions into the PJM region. However, transactions that sink outside of MISO but not in PJM, for example in the Southwest Power Pool or the Western Area Power Administration, would be assessed the usage rate.

³ The following entities filed requests for rehearing or answers to requests for rehearing: Organization of MISO States ("OMS"); MISO; MISO Northeast Transmission Customers; Midwest ISO Transmission Owners ("MISO TOs"); Indicated MISO Transmission Owners ("Indicated MISO TOs"); Illinois Commerce Commission; Illinois Municipal Electric Agency; Exelon Corporation; Duke Energy Ohio, Inc. and Duke Energy Kentucky, Inc.; E.ON Climate and Renewables North America LLC; Midwest TDUs; Michigan Public Service Commission; Renewable Energy Systems Americas Inc.; Iberdrola Renewables, Inc.; Southern Illinois Power and Hoosier Energy Rural Electric Cooperative; American Municipal Power, Inc.; Indianapolis Power & Light Company; American Wind Energy Association and Wind on the Wires; Industrial Customers; FirstEnergy Service Company; and Wisconsin Public Service Commission ("PSCW"). FERC has not yet issued an order on rehearing and has issued a procedural order allowing more time to consider all of the requests.

⁴ The FERC could overturn or modify the MVP Order on rehearing or the MVP Order could be reversed or modified on appeal. That said, Applicants believe that any changes to the MVP Order would be applied on a prospective basis. Because all regulatory orders are ultimately subject to change, Applicants consider it prudent to move forward upon the Brookings Project receiving the MVP designation from MISO under the Tariff currently in effect and that the currently effective Tariff provides the necessary level of certainty to invest in this major project.

Energy's and Otter Tail's North Dakota customers combined will, therefore, be responsible for less than 1% of the costs of the Brookings Project.

B. Next Steps

MISO staff, in conjunction with the Participating Utilities, have been working to qualify the Brookings Project for MVP classification pursuant to the new MISO Tariff provisions. We anticipate that all necessary steps will be completed to allow the MISO Board of Directors to consider the Brookings Project for eligibility as an MVP Project at its regularly-scheduled board meeting in mid-June 2011.

Several actions are being taken to obtain MVP status for the Brookings Project. We are working in conjunction with MISO technical staff and other stakeholders in MISO established workgroups. These include developing the MISO system studies to identify related underlying system upgrades that would be included in the Brookings Project scope; working on the business case or need statement to be presented to the MISO board; completing the stability analyses and resolution of any issues that are uncovered; and conducting the short-circuit analysis. Applicants continue to work actively with MISO through participation in the study process and provision of any and all data necessary for MISO to complete its analysis under these circumstances.

Since the Brookings Project was included as one of the MISO Candidate MVP projects in MISO's FERC filing, and continues to be studied through the Candidate MVP process, Applicants are optimistic that the MVP designation for the Brookings line will be approved at the MISO Board meeting on June 15, 2011. Applicants anticipate completing the ownership arrangements shortly after the MISO Board of Directors acts.⁵

II. Continued Prudence of the Brookings Project

In the October 6 Order, the Commission found that Applicants' investment in and construction of the Brookings Project was reasonable and prudent. Pursuant to the October 6 Order and Settlement, Applicants are required to make a filing

⁵ As the Commission is aware, the owners of the Brookings Project will enter into a series of agreements, the most important of which is the Project Participation Agreement ("Ownership Agreement"), to contractually bind the owners of the Brookings Project to fund, construct, and own the Brookings Project. The Ownership Agreement governs most of the rights and obligations of the project owners, and will be the binding contractual investment commitment of the Project owners to complete the Brookings Project. Once the Ownership Agreement is executed, the signatories are bound to proceed with construction and there is no practical way to cancel participation, absent risking penalties for breaching the contract or extraordinary circumstances, which are unlikely.

evidencing the continued prudence of the Brookings Project. In the six months since the October 6 Order, the need for the Brookings Project has not diminished and the prospect of MVP designation has made it clear that the costs of the Brookings Project will be reasonable for our retail North Dakota customers. As demonstrated below, the Brookings Project continues to be a prudent investment for Applicants.

A. Demonstrated Need and Prudence

As described in our Application and the testimony in this proceeding, the Group 1 Projects represent a prudent and coordinated set of transmission improvements designed to address both the near and long-term overall system reliability needs of Applicants' customers as well as the needs of the other utilities in the region. Additionally, the Group 1 Projects will provide a foundation for expansion to address future growth. The Brookings Project is an integral part of this platform to meet these near and long-term needs.

Applicants also demonstrated that the Group 1 Projects, including the Brookings Project, are needed to support generation expansion in North Dakota and other parts of the region. The record shows that the Group 1 Projects, combined, will result in an overall incremental increase to the North Dakota Export ("NDEX") Limit of 700-800 MW. Additionally, Applicants have demonstrated that the Brookings Project will allow the continued development of generation in western Minnesota and eastern South Dakota and alleviate some strain on the transmission system in North Dakota by strengthening the transmission network North Dakota based generation relies on to move energy eastward and North Dakotans rely on to provide reliable service. The Brookings Project also provides a foundation for the construction of future MVP projects. For example, MISO has identified the Big Stone – Brookings 345 kV Transmission Line and the Big Stone – Ellendale 345 kV Transmission Line as likely MVP projects. These projects would not be feasible without the Brookings Project.

B. Continued Prudence

Applicants' proposed investment in and construction of the Brookings Project continues to be prudent. No events in the intervening months between the Commission's issuance of the October 6 Order and this filing have changed the fundamental needs for the Brookings Project. The Brookings Project continues to be necessary for regional reliability, community service reliability, and generator outlet purposes. MISO's expected decision in June to qualify the Brookings Project as an MVP further supports continued prudence of this project. Given the continued need for the Brookings Project and the reasonable cost allocation for our customers, all in

all, the Brookings Project continues to remain a prudent project for Applicants to invest in and construct.

III. Current Status

Since the Commission issued the October 6 Order, Applicants and the Participating Utilities have continued to diligently work toward obtaining all necessary permits and completing the pre-construction phase of the Brookings Project. On May 22, 2009, the Minnesota Public Utilities Commission (“MPUC”) issued the required Certificate of Need for the Project, which was modified August 9, 2009, and affirmed on reconsideration and appeal. On September 14, 2010, the MPUC issued its Order Granting Route Permit for five of the six segments of the Brookings Project located in Minnesota. On March 1, 2011, the MPUC issued a Route Permit for the remaining segment of the Brookings Project. A group of landowners have requested reconsideration for the segment of the Brookings Project approved by the MPUC in the March 1, 2011 Order Granting Route Permit for Remanded Segment of Route. The MPUC considered the petition on April 14, 2011, upheld their original decision and denied reconsideration. It is possible the landowners may appeal the MPUC decision however, we will know if an appeal is made in June, 2011. On November 22, 2010, the Participating Utilities filed an application for a Facility Permit with the South Dakota Public Utilities Commission. Applicants expect the South Dakota Route Permit process to be completed in June, 2011.

IV. Conclusion

The cost allocation methodology related to the Brookings line has been sufficiently clarified to provide a reasonable basis for Applicants to move forward with the Brookings Project. MISO’s MVP methodology is currently in effect and it is expected that the Midwest ISO Board of Directors will give the Brookings Project MVP status. Applicants do not expect any material changes to the MVP construct that would make moving forward with the Brookings Project an impossibility. Therefore, Applicants respectfully request the Commission find the continuing prudence of the Brookings Project prior to our expected execution of the Project Agreement at the end of June, 2011.

The continued prudence of the Brookings Project is clear. The factors evidencing the need for the Brookings Project have not been reduced, but further supported by the Midwest ISO’s additional technical and business analysis. The Brookings Project continues to be needed and is a prudent project to address regional reliability, community service reliability, and generator outlet needs. With the development of the MISO Tariff, the cost burden of our customers is reasonable making the Brookings Project just as prudent a project today as when first proposed.

Date: April 29, 2011

Respectfully submitted,

/s/ James R. Alders
James R. Alders
Director of Regulatory Administration
Xcel Energy Services Inc. on behalf of
Northern States Power Company

/s/ Dean Pawlowski
Dean Pawlowski
Principal Engineer
Otter Tail Power Company

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VERIFICATION

STATE OF MINNESOTA)
) ss.
COUNTY OF OTTER TAIL)

DEAN PAWLOWSKI, being first duly sworn on oath, deposes and says that he is Principal Engineer for Applicant, Otter Tail Power Company in the above captioned matter, that the Compliance Filing was prepared under his direction, that he knows the contents thereof, and that the same is true and correct to the best of his knowledge and belief.

[SIGNATURE PAGE FOLLOWS]

Dean Pawlowski

DEAN PAWLOWSKI

Subscribed and sworn to before me this 28th day of April, 2011.



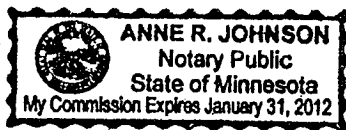
Notary Public *Nancy LuAnn Olson*

My Commission Expires: *1-31-2015*

James Alders

JAMES R. ALDERS

Subscribed and sworn to before me this 20th day of APRIL, 2011.



Notary Public

Anne Johnson

My Commission Expires:

4/31/12