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October 20, 2011

Darrell Nitschke, Executive Director
North Dakota Public Service Commission
State Capitol Building, Dept. 408
600 East Boulevard
Bismarck, ND 59505-0480

**Re: 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**

Dear Mr. Nitschke:

Northern States Power Company, a Minnesota corporation (“Xcel Energy”), and Otter Tail Power Company (“Otter Tail” and, collectively with Xcel Energy, “Applicants”) provide to the North Dakota Public Service Commission (the “Commission”) the following update on site preparation activities for the Helena Substation.

On October 13, 2011, Xcel Energy began site grading activities on Xcel Energy owned land at the Helena Substation, one of several substation that are part of the Brookings Project. Xcel Energy undertook these site grading activities to take advantage of the optimal weather conditions currently occurring in the area and therefore mitigate some risk of inclement weather during the spring, 2012 construction season.

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Xcel Energy's construction activities were done at its own risk, and not pursuant to any legally binding investment commitment for the Brookings Project. Undertaking these site grading activities is a proactive construction management decision intended to keep the Brookings Project on schedule. Applicants believe that these site grading activities and the manner in which they were undertaken are consistent with the Settlement Agreement entered into by Applicants and Commission Advocacy Staff and adopted by the Commission in its October 6, 2010 Order Adopting Settlement ("October 6 Order") in the above referenced cases.

In compliance with ordering clause 7 of the October 6 Order, Applicants are providing this update. The remainder of this letter will discuss the Helena Substation and site grading activities, certain contractual arrangements and Applicants' compliance with the Settlement Agreement, and the October 6 Order.

A. The Helena Substation and Site Grading Activities

The Helena Substation is a new 345 kV transmission substation that is to be a part of the Brookings Project and located in Minnesota. It is planned to be part of the first segment of the Brookings Project to be placed in-service in May 2013. Once Ownership Agreements for the Brookings Project are executed, the proposed Helena Substation is expected to be discreetly owned by Xcel Energy.

On October 13, 2011, Xcel Energy began site grading activities on Xcel Energy owned land that is the site of the Helena Substation. Consistent with the Route Permit issued by the Minnesota Public Utilities Commission, Xcel Energy has reached agreement with the landowner and purchased the property at the designated site. Only initial site grading is being undertaken this fall so that foundation work can begin as early in the spring of 2012 as possible. The site grading activities are estimated to cost approximately \$800,000. The Helena Substation is expected to cost approximately \$12 million.

Xcel Energy's construction management decided that the optimal weather conditions currently being experienced in Minnesota provided the best opportunity to engage in these site grading activities instead of waiting for similar conditions to be present in the spring of 2012. By undertaking these site grading activities now, Xcel Energy can better ensure that the Helena Substation will be constructed on schedule. If weather conditions are not acceptable in the spring, then Xcel Energy will have to wait until

early summer to begin grading activities, significantly delaying the in-service date of the Helena Substation. Consequently, Xcel Energy decided to take advantage of weather conditions this fall and move forward with grading activities now.

B. Contractual Arrangements

Xcel Energy engaged in these site grading activities on its own and not pursuant to any obligations Xcel Energy has to other owners of the Brookings Project. Neither Applicants nor any other participant in the Brookings Project have executed any legally binding investment commitment, as represented by the Ownership Agreements, for the Brookings Project. By engaging in the site grading activities now, Xcel Energy has shouldered the risk that the Ownership Agreements will eventually be executed.

Applicants and our other project partners are developing the Brookings Project pursuant to a Project Development Agreement (“PDA”). The PDA provides the commercial arrangements for the project participants through the engineering, permitting, and siting stages of project development. The PDA does not require any project participant to own any part of the Brookings Project but only provides each participants’ project share that they may choose to own sometime in the future. The PDA for the Brookings Project currently authorizes some project engineering and land procurement activities but does not authorize construction activities such as site grading. Applicants expect to elect their ownership share and enter into the Ownership Agreements for the Brookings Project shortly after MISO affirms the Brookings Project as an MVP.

Based on past experience with other CapX Group 1 Projects, once ownership shares are elected and Ownership Agreements executed, each project participant will contribute to their ownership shares in certain ways. For example, Xcel Energy elected a 36.1% share of the Fargo Project, however, for reliability purposes, Xcel Energy is to own 100% of certain project substations. The costs of the substations to be wholly, and discreetly, owned by Xcel Energy will be part of Xcel Energy’s overall contribution to the Fargo Project to achieve its 36.1% share of the Project. Similarly, Xcel Energy’s discreet ownership of the Helena Substation will contribute to its overall expected 72% share of the Brookings Project.

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Further, because of its discreet ownership of the substations for the Fargo Project, Xcel Energy was responsible for their design and construction. Applicants expect that the Ownership Agreements for the Brookings Project will allocate to Xcel Energy similar ownership, design, and construction responsibilities for certain substations, including the Helena Substation.

Xcel Energy has been conducting its pre-construction activities in anticipation of the high likelihood that similar contractual arrangements for the Fargo Project will be applicable to the Brookings Project, including the likely discreet ownership of the Helena Substation and Xcel Energy's concomitant obligation to construct the Helena Substation on schedule. Given the optimal weather conditions for the conduct of site grading activities, Xcel Energy undertook the commencement of the site grading work to help ensure that it can meet its expected contractual commitments.

That said, because the Ownership Agreements for the Brookings Project are not executed and the PDA does not authorize any construction, Xcel Energy's site grading activities are being done on a proactive basis in anticipation of Ownership Agreements being executed. The prospective partners in the Brookings Project remain very confident that MVP cost recovery will be affirmed by MISO and project investment commitments will be executed soon thereafter. Given Xcel Energy's assessment, it judged it prudent to authorize the limited work at the Helena Substation site this fall.

C. Compliance with the Settlement Agreement and October 6 Order

Applicants believe that Xcel Energy's site grading activities are consistent with the Settlement Agreement and the October 6 Order. Specifically, both order clause 5 of the October 6 Order and paragraph 4(b) of the Settlement Agreement require that in order for the ADP for the Brookings Project to continue in effect, the Commission must issue a finding of continued prudence of the Brookings Project prior to Applicants entering into Ownership Agreements for the Brookings Project. As explained above, as of yet Applicants have not entered into Ownership Agreements for the Brookings Project. Thus, Applicants remain in compliance with the terms of the Settlement Agreement.

Applicants look forward to a thorough discussion of our Settlement on Continued Prudence at the hearing scheduled for October 26, 2011. Applicants will also be

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available to answer any questions the Commission may have as to the site grading activities at the Helena Substation Site. Please feel free to contact Dave Sederquist at (701) 241-8632, or Dean Pawlowski at (218) 739-8947 if the Commission requires additional information or has any questions in the interim.

Respectfully,

/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

cc: Illona Jeffcoat-Sacco
Matt Dorsett
Mitch Armstrong