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August 23, 2010

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PUBLIC SERVICE COMMISSION

VIA EMAIL AND U.S. MAIL

Darrell Nitschke
Executive Director
North Dakota Public Service Commission
State Capitol Building, Dept. 408
600 East Boulevard
Bismarck, ND 58505-0480

**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”) (collectively “Applicants”) in the above-referenced cases, submit this letter to the North Dakota Public Service Commission (the “Commission”) to provide an update on the status of the CapX2020 Group 1 Projects which are the subject of our request for an Advance Determination of Prudence (“ADP”). Applicants have had an opportunity to review Advisory Staff’s August 20, 2010 memorandum to the Commission.

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Letter providing status update for the Group 1
Projects
Northern States Power Company/Otter Tail
Power Company
Zeviel Simpser, Briggs and Morgan

64 PU-09-676 Filed: 8/23/2010 Pages: 7
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Binding Contractual Investment Commitments for Phase 1 of the Fargo Project

On August 18, 2010, Xcel Energy, Otter Tail and the other project owners executed the Project Participation Agreement (“Ownership Agreement”) and other project agreements constituting the binding contractual investment commitments for the segment of the Fargo Project from Monticello, Minnesota to St. Cloud, Minnesota (“CapX Fargo Phase 1”). The utilities who are committing themselves to funding and eventual ownership of the completed Project are: Xcel Energy, Great River Energy, Western Minnesota Municipal Power Agency (“WMMPA”)¹, ALLETE, Inc., d/b/a Minnesota Power, and Otter Tail (collectively “Project Owners”). Collectively, the agreements create a binding obligation that each owner will fund construction, operation and maintenance of the CapX Fargo Phase 1 Project up to their allocated share. These agreements constitute legally binding contractual investment commitments for the Project Owners for CapX Fargo Phase 1 as contemplated in paragraph 1 of the proposed Settlement Agreement entered into between Applicants and Advocacy Staff. Applicants would be happy to provide additional information on the Ownership Agreement should the Commission find it helpful.

The Ownership Agreement governs most of the rights and obligations of the Project Owners, as funders of the construction of the project facilities and as owners of the completed and energized facilities. Except for the Monticello Substation and Quarry Substation assets, the Project Owners of CapX Fargo Phase 1 will own all property interests in the Facilities (defined as the transmission lines and associated real property) as tenants-in-common in undivided ownership interests. The assets of Quarry Substation and Monticello Substation will be owned individually by Xcel Energy.

Enclosed, please find a list of all critical permits received by the Project Owners prior to making their investment commitment. Submission of this list was a provision of paragraph 1 of the proposed Settlement Agreement.

The Project Owners have elected the following ownership percentages in CapX Fargo Phase 1:

¹ Missouri River Energy Services (“MRES”) has been a participating CapX2020 utility from the commencement of these proceedings. Under the Project Development Agreement, MRES held rights to as much as 11% of the Fargo Project. MRES chose to assign its rights to its affiliate, WMMPA. While WMMPA will be the owner of a share of Phase 1, it will continue to be affiliated with MRES and the overall utility operations are unchanged.

Xcel Energy	36.1%
Great River Energy	25.0%
Minnesota Power	14.7%
Otter Tail Power	13.2%
WMMPA	11.0%

These are the same ownership percentages represented to the Commission by Applicants in our Applications for an Advance Determination of Prudence in the above referenced cases.

Applicants would have preferred Commission approval of the Settlement Agreement prior to entering into these binding contractual investment commitments for CapX Fargo Phase 1. However, scheduling and timing constraints would have made any delay imprudent. Construction at the Monticello Substation for the Project is scheduled to coincide with the planned outage of Xcel Energy's Monticello nuclear power station. Any delay in the commencement of construction would require substantial delays so that construction of the Project could coincide either with the next planned outage or additional outages at the Monticello plant. Neither option was attractive to the Project Owners. Therefore, given that CapX Fargo Phase 1 is only a small portion of the Group 1 Projects, Applicants deemed it prudent to move forward with CapX Fargo Phase 1 without a Commission order on our requests for an ADP. Applicants continue to believe it is important to have the Commission's final determination on the Settlement Agreement prior to final commitments to the remaining segment of the Fargo Project and other Group 1 Projects.

The Project Owners have begun construction activities on this Project and are expected to meet a 4th quarter of 2011 in-service date.

Route Permit for CapX Fargo Phase 1

On July 12, 2010, the Minnesota Public Utilities Commission ("MNPU") issued a "Route Permit for Construction of a High Voltage Transmission Line and Substation in Wright and Stearns County" to Xcel Energy and Great River Energy in Docket No. E002, ET2/TL-09-246 (the "Route Permit"). The Route Permit designates the route for CapX Fargo Phase 1. The issuing of the Route Permit was the last MNPU action required prior to construction of CapX Fargo Phase 1. Applicants have filed a route permit application with the MNPU for Phase 2 of the Fargo Project and are currently engaged in the administrative process on that matter.

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Applicants expect to file an application for a Certificate of Public Convenience and Necessity with the Commission for the North Dakota portion of the Fargo Project in the Fall of 2010. Applicants are also actively working with government agencies and the Army Corps of Engineers to coordinate routing of the North Dakota portion of the Fargo Project with the proposed Red River diversion project. The process to determine the final location of the diversion project is underway and may impact the timing of an application for a Certificate of Corridor Compatibility and an application for a Route Permit. We anticipate the ability to begin this process sometime in 2010.

Route Permit for the Brookings Project

On July 15, 2010, the MNPUC approved a route permit for five of the six segments of the Brookings Project located in Minnesota. The MNPUC remanded back to the administrative law judge for further development of the record for one segment to determine the most appropriate location for crossing the Minnesota River. A hearing on the river crossing and associated alignments leading up to the river crossing has been scheduled for late 2010. An order on the approved five segments is expected soon.

At its August 4, 2010 work session, the Commission expressed some concern with approving an ADP for the Brookings Project due to the uncertainty surrounding that project. Applicants believe that the terms of the Settlement Agreement provide sound mechanisms to address the Commission's concerns.

Under the Settlement Agreement, the ADP for any of the Projects does not become fixed until after a binding investment decision is made to assure the Commission that abandonment of the project is highly unlikely. In addition, no ADP for the Brookings Project would be fixed without an additional Commission review and approval of the Brookings Project after MISO transmission cost allocation issues have been addressed. Therefore, if Applicants enter into the investment commitments like we made for CapX Fargo Phase 1 without prior Commission approval, an ADP for the Brookings Project would not become binding. The requirement for affirmative Commission action prior to investment commitments being made for the Brookings Project is intended to address the Commission's concerns related to the cost allocation uncertainty surrounding the Project. Approval of Brookings Project in the Settlement Agreement will give Applicants the certainty they need to move forward with the Group 1 Project requiring the largest investment while at the same time addressing the Commission's concerns from past ADP approvals.

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Further, a substantial amount of the uncertainty surrounding the Brookings Project has been alleviated. Since the settlement, on July 15, 2010, MISO filed its proposed cost allocation methodology with the Federal Energy Regulatory Commission ("FERC") and specifically listed the Brookings Project as a planned transmission project that for its newly proposed cost allocation methodology conceptually would apply. While the FERC process is in its early stages, Applicants and the Commission are now aware of what MISO has proposed. This helps clarify the situation to a great degree.

Finally, we note that under the Settlement Agreement we are foregoing the guarantee of cost recovery under the ADP statute until we make legally binding contractual investment commitments, including provisions for contractual penalties, for construction of each of the Group 1 Projects. Such investment decisions were never required or made for other projects for which the Commission has approved ADPs. For example, Big Stone II was cancelled prior to the type of binding commitment that is required by our Settlement Agreement. We believe that this requirement, which is applicable to all of the Group 1 Projects, including the Brookings Project, provide sufficient protection to allow the Commission to approve the Settlement Agreement in its entirety.

Please feel free to contact Mr. Dave Sederquist at (701) 241-8632 if the Commission requires additional information or has any questions.

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

Enclosures
cc: Service List

CRITICAL PERMITS FOR CAPX FARGO PHASE 1

Certificate of Need granted by the Minnesota Public Utilities Commission on May 22, 2009 in PUC Docket No. ET-2, E-002, *et. al.*/CN-06-115.

Route Permit for the Construction of a High Voltage Transmission Line and Substation in Wright and Stearns Counties issued by the Minnesota Public Utilities Commission on July 12, 2010 in PUC Docket No. E002, ET2/TL-09-246.

