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April 29, 2011

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— VIA E-MAIL & U.S. MAIL —

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

RE: NORTHERN STATES POWER COMPANY RESOURCE PLAN  
CASE NO. PU-10-580

Dear Mr. Nitschke:

As the North Dakota Public Service Commission is aware, in August 2010, Northern States Power Company (“Xcel Energy”) filed our Resource Plan addressing our customers’ needs and planned resources for the period 2011 – 2025. This letter provides an update to the Commission regarding the status of one of the key action items outlined in that Plan - specifically, our Request for Proposal (“RFP”) for up to 250 MW of wind power to be developed by the end of 2012 if benefits are demonstrated.

### **BACKGROUND**

We undertook this RFP to potentially take advantage of the federal production tax credit (“PTC”) set to expire at the end of 2012. While we have sufficient wind resources to cost-effectively serve customers and meet our obligations, we believed it prudent to seek potential additional resources in advance of the current termination date for the PTC to potentially obtain that benefit for our customers. We indicated that the RFP was open to proposals up to 250 MW and all types of ownership structures, including Power Purchase Agreements (“PPAs”), utility ownership, or a combination. We also indicated that we were open to consider projects at all stages of development, including the acquisition of construction ready projects, options for future ownership or options for future development rights. Finally, we did not commit to take resources under this process, but rather indicated that we would only select projects if it made economic sense for our customers to do so.

## **BID EVALUATION**

Our Request generated a tremendous response, resulting in 143 proposals totaling 9,189 MWs located in seven states. Approximately 70% of the MWs were offered as PPA proposals and the remainder proposed our ownership. We received 23 proposals for projects in North Dakota totaling 1,650 MWs.

The proposals reflected a wide range of pricing and ownership options. We evaluated the bids based on a number of criteria, including price, curtailment risk (both frequency and duration), and interconnection and transmission requirements and costs, including network upgrades, system protection facilities and contingencies. We then ranked each proposal by cost over the life of the project and engaged an outside consultant to aid in the transmission evaluation process to ensure a comprehensive and consistent assessment. While we focused our evaluation on the most competitively priced proposals, we did assess all PPA and asset ownership proposals. Our evaluation identified that a significant number of proposed projects were not likely to be completed by the end of 2012 due to their unfavorable transmission interconnection status; thus we excluded them from further consideration. We likewise excluded projects that we concluded were at risk for significant curtailment.

The PPA proposals ranged from the mid \$30's to the low \$90's, with more than 2,500 MW offered under \$50/MWh. Given the large number of such price-competitive proposals, we focused on the proposals with a levelized price of under \$50/MWh. After screening these proposals for transmission availability, we prepared and issued clarification questions to each of the remaining bidders to further determine which projects were in the best position to move forward in a timely manner.

The proposals for asset ownership varied widely and required consideration of the various risks associated with each alternatives. To that end, we carefully evaluated each proposal and developed cost estimates for bringing the proposals to commercial operation. We then were able to compare these costs fairly with the PPA proposals.

Based on this evaluation, we narrowed the proposals to a short-list of six, with which we initiated additional discussions and due diligence. The six short list projects meet our criteria and are very cost competitive (levelized price under \$50/MWh), both with each other and when compared to natural gas generation. One of short listed projects is based in North Dakota, a proposal for a 100 MW PPA.

### NEXT STEPS

We narrowed the short list to the project we determined best met our criteria and offered the most value for customers. We are in the final stages of negotiations of the PPA and Site Option Agreements with that project and anticipate a final levelized price below \$45/MWH. We expect to conclude those negotiations within the next several weeks. Once the final agreements are completed, we will develop and file the appropriate regulatory filings in North Dakota and Minnesota.

Overall, we believe this process was very productive and will result in great value to our customers. We look forward to bringing a project forward to our regulators for consideration. Please contact me at (612) 330-5723 if you have any questions or comments.

SINCERELY,



LAURA MCCARTEN