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September 22, 2011

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

SUBJECT: Environmental Protection Agency's Power Sector Rules Pilot Project

Dear Mr. Nitschke:

The North Dakota Public Service Commission ("Commission") recently requested an update regarding the involvement of Northern States Power Company, a Minnesota corporation ("Xcel Energy" or the "Company") in the Power Sector Rules Pilot Project ("Project") sponsored by the State of Minnesota and the Environmental Protection Agency ("EPA").

Xcel Energy is participating in the Project through its representation on the Project advisory committee. The Company believes our participation in the Project could be beneficial as our technical and policy expertise will help better inform the EPA, the Minnesota Pollution Control Agency ("MPCA"), and other stakeholders of the requirements and challenges ahead in implementing these EPA regulations. At the same time we will work to ensure that efforts to minimize costs are fully considered and, hopefully, adopted in the final Project recommendations. In addition, we believe the comprehensive, coordinated approach undertaken through the Project should ultimately prove beneficial by allowing utilities and ratepayer representatives to identify and discuss practical issues regarding the implementation of these federal rules with state and federal officials, representing both environmental and economic regulators, and with environmental advocates.

Participation in this effort is consistent with our Federal legislative strategy to influence federal policy makers and bring about sound, rational regulation that minimizes customer cost impacts, protects the public interest and provides due credit for proactive actions by utilities in their efforts to be environmentally responsible.

It is important to note that while the Company has agreed to participate in the Project, Xcel Energy has not agreed to be bound by any recommendations that may result from the Project. It is also important to note that no policy proposals have yet been discussed

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by the advisory committee and therefore, no recommendations have yet resulted from the Project. Thus, we have not yet been faced with any decisions or options resulting from the Project that would incur any costs or cost savings on behalf of our customers; no costs related to the Project have been incurred to date; and no costs related to the Project are included in our currently pending electric rate case, Case Nos. PU-10-657 and PU-11-55.

We appreciate the opportunity to brief the Commission on this Project, and, as discussed further below, we would be happy to provide periodic updates to the Commission on a going forward basis and to facilitate participation in future Project meetings by Commission Staff.

Background of the Project:

In the Spring of 2011, the EPA approached the MPCA regarding an opportunity to review the implementation of a number of current and pending EPA rules impacting the power sector. The goal of the Project is to explore whether these EPA rules could be implemented and complied with in a well coordinated and cost-effective manner. The EPA offered to provide modeling and other technical resources to assist with the Project. The MPCA agreed and contacted the Division of Energy Resources of the Minnesota Department of Commerce, and the Minnesota Public Utilities Commission, to assist in planning and facilitating the Project.

As part of the effort, the Minnesota state agencies formed a small advisory committee, to provide insight concerning policy options for rule implementation, and to make recommendations. The participants in the advisory committee are:

- Representatives from Minnesota Power and Xcel Energy, the two utilities in the state with the vast majority of emissions impacted by the EPA rules;
- Two representatives of large power customers;
- One representative of low-income consumers; and
- One representative of the environmental community.

In addition to the advisory committee, the Minnesota state agencies also formed a technical modeling group to assist in and evaluate the EPA modeling. The members of that group are technical experts from Minnesota Power and Xcel Energy, the Midwest Independent System Operator and the federal Energy Information Agency. The Minnesota state agencies selected the Great Plains Institute to facilitate advisory committee discussions. The EPA asked the World Resources Institute to provide technical assistance and facilitate the modeling work group.

The agencies are attempting to conclude the Project by the end of the year, if not earlier. As described by the Minnesota agencies and the EPA, the desired outcomes for the project are:

- A set of recommendations to the Minnesota agencies for a process or plan that will guide covered sources to a responsible compliance strategy that meets all regulations, ensures reliability, mitigates costs and incorporates energy efficiency, renewable energy and combined heat and power applications.
- An estimate of how compliance strategies will affect air quality and greenhouse gas emissions in the state, and
- An estimate of how compliance strategies will affect the Minnesota economy.

Project activity to date:

To date, the Project has had only one in-person meeting, which was held on August 19, 2011 at the MPCA offices in St. Paul. The meeting focused primarily on organizational and procedural matters. On Friday, September 16, 2011, the Project met by WebEx teleconference to listen to presentations by the EPA on a potential compliance relationship between the Cross State Air Pollution Rule and the Regional Haze Rule.

The next in-person meeting has been set for September 27, 2011 from 10:00 am to 2:00 pm also at the MPCA offices. All of the meetings of the Project are open to the public, and can be attended either in-person or by WebEx teleconference. The MPCA is maintaining a website devoted to providing information about the Project, which can be accessed at the following URL:

www.pca.state.mn.us/index.php/air/air-permits-and-rules/air-rulemaking/power-sector-regulations-project.html

Benefits of participating in the Project:

Prior to the first meeting, the Company worked with Minnesota Power, the Minnesota Chamber of Commerce, and representatives of our large industrial customers to develop and agree to a set of guiding principles. The principles were designed to retain our abilities to challenge EPA rules or any findings of the Project, and to focus our efforts in the Project toward achieving compliance with EPA regulations as cost-effectively as possible. In particular, under the guiding principles, Xcel Energy, Minnesota Power, and representatives from the large industrial customers participating in the Project:

- (1) reserve our individual rights to challenge any EPA rule included in the Project;
- (2) retain our ability to challenge any modeling, finding or report from the Project; and
- (3) are committed to focusing the attention and resources of the Project on policy options that reduce ratepayer impacts in complying with EPA regulations. A copy of those guiding principles is attached to this letter.

Accordingly, we expect to work with members of the advisory committee to identify practical options to implement and comply with EPA rules in ways that reduce required capital investments for environmental controls or compliance, thus reducing the impact of these EPA rules on our ratepayers. For example, one of Xcel Energy goals in this effort is to have the advisory committee support the MPCA's determination of the

control technologies that need to be installed under the initial regulatory milestone of the federal Regional Haze Rule, known as the “Best Available Retrofit Technology” requirement or BART. The MPCA has determined that both Unit 1 and Unit 2 at Xcel Energy’s Sherburne County Generating Station in Becker, Minnesota are subject to this BART requirement. After years of analysis and review, the MPCA determined in 2009 that BART for these units were relatively inexpensive control technologies for NOx and SO2 emissions reductions.

However, in its June 2011 preliminary review of the MPCA’s BART determinations, EPA Region 5 stated its belief that BART for these units should include “Selective Catalytic Reduction” (“SCRs”) for additional NOx reductions. The installation of SCRs on these units would cost Xcel Energy ratepayers in excess of \$250 million over the next few years. SCRs were considered in the MPCA’s BART review for Sherco 1 & 2 and the MPCA determined that SCRs would not be cost-effective control technologies and would not result in a sizeable visibility improvement. We hope to use the Project to bolster support for the MPCA’s BART determination, saving our ratepayers the significant capital costs of these SCRs in this timeframe.

As noted previously, we will provide periodic updates to the Commission on a going forward basis. Moreover, we invite participation in future Project meetings from the Staff; such participation could either be in person or over the phone.

We hope the information above addresses any concerns you may have regarding the Project. However, if you have additional questions or concerns, we would be happy to address this matter further with Commissioners or the Staff.

Please feel free to contact me if you have any questions about the information in this letter. Thank you.

Sincerely,

A handwritten signature in blue ink that reads "David H. Sederquist". The signature is written in a cursive, flowing style.

David H. Sederquist
Sr. Consultant, Regulation & Finance
Xcel Energy

Cc: Pat Fahn

EPA Power Sector Rules Project Participant Ground Rules

- Participation in the EPA Power Sector Rules Project (Project) does not imply support for EPA rules, actions or decisions that impact the electric power sector. All procedural and substantive rights, actions, or objections available to a Participant in the Project with regard to those rules, actions or decisions are reserved to the Participant during and after the Project.
- Participants reserve the right to publicly comment on any results of modeling, or policy analysis or discussion conducted as part of the Project. This includes comments on any contemporaneous or subsequent use of such results, analysis or discussion in any regulatory, legislative or other policy making proceedings or activities at either the, state or federal level.
- Each Participant shall be given the opportunity to have all technical and system detail and assumptions reviewed by Participant's technical staff, and to have their input and advice considered, before being adopted or used in Project modeling or analysis. A Participant may provide supplemental commentary to any final report on modeling or technical analysis or policy with which they disagree.
- The electric rate impact and/or Minnesota employment impact of modeling assumptions and policy options or choices must be projected in the aggregate for the state, by utility and, where appropriate, on a policy option basis. To the extent possible, the Project should focus its efforts and attention on policy options that reduce ratepayer impacts without reducing environmental quality.