



November 19, 2012

Darrell Nitschke, Executive Secretary
North Dakota Public Service Commission
Department 408
600 East Boulevard Avenue
Bismarck, ND 58505-0480

RE: SHERBURNE CO. UNIT 3 RESTORATION UPDATE

Dear Mr. Nitschke:

Northern States Power Company, doing business as Xcel Energy, provides this update to the North Dakota Public Service Commission on restoration activities at Sherco Unit 3. As you may know, on November 19, 2011, while returning to service from a scheduled maintenance overhaul, Sherco 3 experienced a significant failure during pre-operational turbine testing. The failure at Sherco 3 resulted in fires in both the turbine and generator, and caused damage to the generator, exciter and some turbine components.

SHERCO 3 OUTAGE RESPONSE PLAN

Immediately after the outage occurred, we developed a response plan comprised of the following three phases:

- Phase 1: Documentation and Evidence Collection
- Phase 2: Clean up, Disassembly, and Damage Assessment
- Phase 3: Repair and Restoration

We have now largely completed Phases 1 and 2, and continue to make good progress in Phase 3.

COMPONENT REPAIRS AND ESTIMATED RETURN TO SERVICE

Below we provide an update on the following major components of Sherco 3 that were directly impacted by the event:

High pressure (HP) turbine and the intermediate pressure (IP) turbine:

The repair of the HP and IP turbine sections is progressing well. The repaired IP turbine rotor has been returned to the Sherco Plant site. We anticipate return of the repaired HP turbine rotor within the next week or two.

Generator/ rotor and stator:

The original equipment manufacturer continues to make repairs on the generator rotor including fabrication of a stub-shaft to repair the generator-to-exciter portion of the assembly. We anticipate the repaired generator rotor will be returned to the Sherco plant in January 2013.

We are also continuing the on-site restacking of the generator stator.

Exciter:

The off-site fabrication of the exciter cabinet is in-progress. The rewind of the exciter rotor and stator are also in-progress. We anticipate return of the exciter to the Sherco Plant site in January 2013.

Condenser:

The condenser repair (re-tubing) is in the final stages of testing and closeout activities.

Following the return of components from off-site repair facilities, and as on-site repairs are completed, unit restoration and reassembly will occur. We anticipate the majority of reassembly activities to occur between mid-December 2012 and early March 2013. Reassembly will be followed by systems start-up, commissioning and testing to verify operational readiness prior to unit restart and return to service.

While many repair and restoration activities have yet to be completed, and the preliminary schedule could change, our restoration plan targets Sherco 3 returning to service around the end of the first quarter of 2013.

REPLACEMENT POWER COSTS

The outage of the Sherco 3 unit has required us to acquire replacement power from other resources, either by dispatching other NSP System units or purchasing in the MISO energy market.

Generally, we offer our base load coal units, including Sherco 3, in the MISO market as “must run” facilities. This designation means that regardless of the unit’s cost relative to the MISO market’s locational marginal price (LMP), it is assumed the unit

will be online at some level at all times. This is because baseload units like Sherco 3 (and our nuclear plants) are not designed to be entirely removed from service once they are on-line. There are limitations on how much we can change the output of an individual generator between hours without potentially damaging the unit. We manage the output of these units to take advantage of lower cost replacement energy when possible, while seeking to avoid higher O&M costs or unplanned outages (and resulting replacement energy costs) that could occur if the baseload units are forced to run in a manner outside their design parameters.

To estimate the replacement power costs for our “must run” units, we take the difference between the MISO hourly LMP price and the average hourly cost it takes to run the unit at the expected load for that hour. Since Sherco 3 is one of our lower cost units, the MISO LMP is often higher than the predicted cost of Sherco 3 energy. In hours where the MISO LMP was below the production cost at Sherco 3, we reflect the energy cost savings resulting from the fact Sherco 3 was off-line. For example, if Sherco 3’s unit cost is \$15/MWh and the MISO LMP for that hour was \$10/MWh, there would be a \$5/MWh benefit to our ratepayers by not running the unit.

We currently estimate the total replacement power costs related to the Sherco 3 outage from November 2011 through March 2013 to be just over \$23 million. The North Dakota jurisdictional portion is approximately five percent of the total, or about \$1.2 million. However, we note that this estimate is subject to change, based upon natural gas commodity fuel and MISO electricity market conditions.

In closing, we appreciate the opportunity to update the Commission on our work to restore Sherco 3 to service. We will continue to provide periodic updates to the Commission as our work continues and more information is available.

Please contact me at dave.sederquist@xcelenergy.com or (701) 241-8632 if there are any questions regarding this update.

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. REGULATORY CONSULTANT
NORTH DAKOTA REGULATORY AFFAIRS