

STATE OF NORTH DAKOTA
BEFORE THE
NORTH DAKOTA PUBLIC SERVICE COMMISSION

NORTHERN STATES POWER COMPANY,
A MINNESOTA CORPORATION
IN THE MATTER OF AN APPLICATION
FOR ADVANCE DETERMINATION OF
PRUDENCE FOR A POWER PURCHASE
AGREEMENT WITH GERONIMO WIND
ENERGY, LLC

CASE NO. PU-12-_____

I. OVERVIEW

Pursuant to N.D.C.C. § 49-05-16 and the Settlement Agreement in Case No. PU-07-776, Northern States Power Company, a Minnesota corporation, submits this Application to the North Dakota Public Service Commission for approval of an Advance Determination of Prudence (“ADP”) for the 200 megawatt (“MW”) Prairie Rose wind generation project and power purchase agreement (“PPA”) with Geronimo Wind Energy, LLC.

The Prairie Rose wind project is a prudent and cost-effective opportunity to achieve a portion of our future energy supply requirements. In 2010, with natural gas prices dropping, we issued a Request for Proposals (“RFP”) for up to 250 MW of wind generation to test the market and determine whether we might see a corresponding decrease in wind generation costs. The market responded aggressively and we received over 140 proposals comprising about 9,200 MW of wind capacity. In reviewing the pricing contained in the various proposals, it became evident that the recent drop in natural gas prices along with the possible expiration in 2012 of the federal Production Tax Credits (“PTC”) placed significant downward pressure on wind energy prices. Our analysis and subsequent negotiations led us to the selection of the Prairie Rose project, whose price reflects a significant market drop in wind prices and compares favorably to non-renewable energy supply options such as natural gas.

Our final negotiated price for the Prairie Rose project is **[BEGIN TRADE SECRET
END TRADE SECRET]** in year one of the 20 year PPA and **[BEGIN**

TRADE SECRET **END TRADE SECRET]** on a levelized basis over the life of the contract. The Project has a 2012 in-service date.

The Prairie Rose wind energy price compares favorably to energy pricing using natural gas as a fuel supply. This comparison was based on a heat rate of 7,000 BTU/kWh and our natural gas price forecast¹. As part of this analysis, a capacity cost was added to the natural gas alternative equal to the capacity cost associated with construction of the Prairie Rose project. The analysis shows that Prairie Rose offers a lower energy cost compared to natural gas throughout the term of the PPA.

We also conducted a Strategist analysis that compared our total system Present Value Revenue Requirements (“PVRR”) with and without the Prairie Rose project. Strategist simulation showed a system PVRR with the Prairie Rose PPA to be virtually the same as the system PVRR without the PPA.

The Prairie Rose power purchase takes advantage of what may be a unique opportunity. The federal PTC expires at the end of this year, and the likelihood of another extension is unknown. The cost of wind power may increase significantly. Acting now allows us to cost effectively add another renewable resource to our system.

Thus, for all the reasons discussed above, the Commission should issue an ADP for the Prairie Rose PPA after notice and a hearing, if necessary, is held pursuant to N.D.C.C. § 49-05-16. In this Application, we outline:

- Description of the Applicant
- Standard of Review
- Description of the 2010 RFP
- Description of the Power Purchase Agreement
- Reasonableness of the PPA
- Communications and Service List
- Conclusion

¹ January 2011 natural gas forecast.

II. DESCRIPTION OF THE APPLICANT

Xcel Energy is a Minnesota corporation duly authorized to do business in the State of North Dakota as a foreign corporation. The Company conducts business in the State of North Dakota as a public utility subject to the jurisdiction and regulations of the Commission pursuant to Title 49 of the North Dakota Century Code. The full name and address of the Company is:

Northern States Power (“NSP”) Company,
a Minnesota corporation
414 Nicollet Mall
Minneapolis, Minnesota 55401

The Company also operates in North Dakota from the following address:

Northern States Power (“NSP”) Company,
a Minnesota corporation
2302 Great Northern Drive
Fargo, North Dakota 58102

A Certificate of Incorporation with amendments was filed with the Commission on September 30, 2009 and is incorporated herein by reference.

Xcel Energy has service territory in five upper Midwest states including North Dakota. We presently serve approximately 89,000 retail electric customers in and around Fargo, Grand Forks and Minot, North Dakota. We own just over 250 miles of transmission lines and 14 substations in North Dakota.

III. STANDARD OF REVIEW

North Dakota law authorizes the Commission to issue an ADP if “the [C]ommission determines that the resource addition is reasonable and prudent.” Specifically, North Dakota law provides:

N.D.C.C. § 49-05-16. Advance Determination of Prudence.

A public utility proposing to construct, lease, or make improvements to an energy conversion facility, renewable energy facility, transmission facility, or proposed energy purchase

contract from another entity or person for the purpose of ensuring reliable electric service to its customers may file an application with the commission for advance determination of prudence regarding the proposal....

This standard is similar to the “honestly and prudently invested” standard that the Commission uses for ratemaking (N.D.C.C. § 49-06-02). The general prudence standard calls for determining whether the utility action was reasonable at the time it was taken under all relevant circumstances. *See* Charles F. Philips, Jr., *THE REGULATION OF PUBLIC UTILITIES – THEORY AND PRACTICE* at 292 (Public Utility Reports 1988); *see also* David. J. Muchow, William A. Mogel, *ENERGY LAW AND TRANSACTIONS* at § 4.02[3][b] (2009). Under N.D.C.C. § 49-05-16, the Commission may issue an order approving the prudence if three conditions are met:

- a. The public utility files with its application a projection of costs to the date of the anticipated commercial operation of the facility addition;
- b. The commission provides notice and holds a hearing, if appropriate, in accordance with N.D.C.C. § 49-02-02; and
- c. The commission determines that the facility is reasonable and prudent.

IV. REQUEST FOR PROPOSAL PROCESS

The Prairie Rose Project was selected as the most advantageous resource offered in our 2010 RFP, which was issued on September 16, 2010. In that RFP, we sought cost-effective wind resources that could be operational by the end of 2012. We indicated projects with a 2012 in-service date would be considered to take advantage of the federal PTC and other incentives set to expire at the end of 2012. The Company indicated the RFP was open to proposals of any size up to 250 MW and was open to all types of ownership structures including power purchase agreements from independent power producers, projects proposing Company ownership of the assets, or any combination.

By the October 15, 2010 submittal deadline, Xcel Energy received 143 proposals on 106 sites comprising 9,189 MW of distinct resources. Approximately 63 percent of the capacity offered was in the form of PPA proposals and the remainder proposed Company asset ownership. Many projects contained PPA and ownership options and

multiple variations. Proposed project sites were located in Minnesota, North Dakota, South Dakota, Iowa, Illinois, Indiana and Montana.

The proposals were initially separated into two groups: PPAs and Xcel Energy ownership proposals. The PPA proposals were ranked by levelized equivalent price, ranging from **[BEGIN TRADE SECRET** **END TRADE SECRET]** as shown below in Figure 1.

FIGURE 1: PRICE DISTRIBUTION

[BEGIN TRADE SECRET

END TRADE SECRET]

The Company focused its evaluation of PPA proposals priced under **[BEGIN TRADE SECRET** **END TRADE SECRET]** on a 20-year levelized basis. Since the types of proposals offered for Xcel Energy ownership varied widely and there was a broader spectrum of risks to be considered when assessing the value of ownership proposals, an extensive comparison of asset ownership options was developed. The comparison estimated the cost of bringing the assets offered from the project development stage through commercial operation so that those costs could be compared to the levelized PPA pricing.

The Company evaluated the proposals based on a number of criteria including price, curtailment risk (both frequency and duration), interconnection and transmission network requirements, costs and the ability to complete the proposed project by the end of 2012. The Company then prepared and issued clarification questions to further differentiate which projects were in the best position to move forward in a timely manner. A short-list of six proposals was developed (see Table 1).

TABLE 1: PROPOSAL SHORT LIST ²

[BEGIN TRADE SECRET

END TRADE SECRET]

After completion of due diligence review and initial negotiations with the six short listed projects, the Company selected the Prairie Rose Project as the best candidate with which to proceed into definitive negotiations. Prairie Rose was the lowest cost, most viable proposal and it is currently in an advanced stage of permitting and development. As indicated in Table 1, all the short-list proposals were in a very

² The projects in Table 1 are based on bid prices and do not reflect any rank order.

narrow price range. However, final negotiations resulted in the selection of the Prairie Rose Project as the best available option for our customers.

V. DESCRIPTION OF POWER PURCHASE AGREEMENT

A primary benefit to customers for pursuing an additional increment of renewable energy is the significant tax and other public incentives currently available for the development of renewable energy. However, these incentives expire at the end of 2012, and there is considerable uncertainty whether the incentives will be extended. The Prairie Rose Project will provide our customers with a hedge against the risk of higher costs in the future.

As with all of our power purchases, we have designed the Prairie Rose PPA to protect the Company and its customers from significant development and operating risks. The PPA also establishes a Security Fund to mitigate financial risks. The Security Fund provides assurance that facilities will be constructed pursuant to the milestones contained in the PPA and provides security to cover any damages, including replacement energy costs, should the facility fail to achieve the Commercial Operations Date or otherwise not operate in accordance with the PPA.

We have minimized the risks of curtailment costs by arranging for delivery to the Split Rock Substation in Brandon, South Dakota (about 10 miles east of Sioux Falls, South Dakota) and dispatching the Angus Anson plant to make adequate transmission capacity available for the Project's output. This approach, referred to as a "net zero interconnection" ("NZI") allows the Prairie Rose Project to interconnect to the transmission system without the need for incremental transmission upgrades. Under the NZI agreement, the Angus Anson plant is required to limit its output when the Prairie Rose Project is generating power so that the combined output of both will not exceed the existing interconnection rights of Angus Anson. As long as the combined output of both facilities does not exceed the current authorized reservation, there should be limited curtailments since the Project will fit within the existing firm transmission rights of Angus Anson.³

³ The NZI agreement was conditionally accepted by the Federal Energy Regulatory Commission ("FERC") on December 23, 2011. However, the net zero interconnection concept is the subject of ongoing proceedings before the FERC, including a protest by Shetek Wind Inc., Jeffers South LLC, and ALLCO Renewable Energy Limited.

The following is a brief description of the relevant terms of the amended Prairie Rose PPA⁴ (see Attachments A and B):

1. PURCHASE PRICE AND TERMS

Xcel Energy will purchase the entire output of the 200 MW Prairie Rose Project over a 20-year term. The price of the energy provided is **[BEGIN TRADE SECRET
END TRADE SECRET]** as illustrated below in Table 2. The levelized cost of energy is **[BEGIN TRADE SECRET
END TRADE SECRET]** Under the PPA (Section 5.1.E.), **[BEGIN
TRADE SECRET**

END TRADE SECRET] In the event the price adjustment is triggered, the levelized cost of energy will be **[BEGIN TRADE SECRET
END TRADE SECRET]**. Energy production prior to Commercial Operation Date (“COD”) will be purchased by Xcel Energy at a rate of **[BEGIN TRADE SECRET
END TRADE SECRET]**.

TABLE 2

[BEGIN TRADE SECRET

⁴ On September 30, 2011 the Company and Prairie Rose Wind, LLC amended the PPA primarily to allow a provisional NZI to qualify under the terms of the PPA and to clarify other aspects of the PPA. The provisional NZI is discussed in greater detail in item 4 of this section

END TRADE SECRET]

The PPA is expected to result in annual energy expenditures of approximately [BEGIN TRADE SECRET END TRADE SECRET]. The estimated annual committed energy is 725,000 MWh based on a [BEGIN TRADE SECRET END TRADE SECRET] Geronimo Wind can adjust the Committed Energy value up or down by as much as three percent based on actual performance within 13 months of COD.

2. COMMERCIAL OPERATION DATE

Commercial operation is expected in [BEGIN TRADE SECRET END TRADE SECRET] or as extended for reasons other than Force Majeure, Event of Default by NSP or delay attributable to NSP, is considered an Event of Default on the part of Geronimo Wind.

3. SECURITY

To mitigate financial risks, the Prairie Rose PPA includes a security provision in the amount of [BEGIN TRADE SECRET END TRADE SECRET] from which Xcel Energy may draw. The security fund will be established and can be fully funded through one of three methods: a letter of credit, cash deposited with an Issuer in which the Company holds a perfected security interest, or a guaranty from a guarantor of sufficient financial size acceptable to the Company. As is typical with security funds, Geronimo Wind must replenish the fund within a short period-of-time for any draws. After COD, the Security can also be provided in the form of a guaranty if the minimum requirements are met.

4. PROVISIONAL NZI

On December 23, 2011, the Federal Energy Regulatory Commission (“FERC”) approved the Prairie Rose provisional NZI agreement. Normally, the Company requires a wind developer to have a permanent agreement rather than a provisional interconnection arrangement as part of the PPA. Provisional interconnection agreements are used when a generator wants to interconnect prior to completing all of the required study work. In some circumstances, this provisional arrangement creates

greater delay and curtailment risk since it is unclear whether or when the interconnection will be finalized.

Xcel Energy agreed to allow Prairie Rose to proceed with a provisional interconnection agreement in exchange for its commitment to accept any incremental cost or curtailment risk that arises out of the provisional agreement. This approach will allow Geronimo Wind to move forward with its project and the PPA, while at the same time insulating ratepayers from any potential impact.

5. CURTAILMENT

As noted above, we estimate a very low curtailment risk for the project as the project will utilize a NZI. However, as is typical with power purchase agreements, the Prairie Rose PPA includes provisions under which Xcel Energy will pay for curtailment energy in any commercially operational year unless the curtailment results from an emergency, maintenance outages, or Geronimo Wind's failure to maintain any permit license or approval required by a governmental authority. The PPA also clarifies that if MISO curtails the Prairie Rose Project due to the Company's failure to displace the generation at the Angus Anson facility, such an event is compensable. The Company receives **[BEGIN TRADE SECRET** **END TRADE SECRET]** of Uncompensated Curtailment per contract year with limited carryover of the unused Uncompensated Curtailment allocation. If the Uncompensated Curtailment allocation is exhausted in any contract year, NSP must pay Prairie Rose for the curtailed renewable energy grossed-up for lost PTC if applicable. NSP is excused from payment for curtailment of renewable energy resulting from a) emergency, b) transmission maintenance and testing, or c) failure of Geronimo Wind to maintain all permits or authorizations necessary to operate the Project.

5. OPTION AGREEMENT

Xcel Energy and Prairie Rose have also completed an Option Agreement (see Attachment C), under which Xcel Energy has the right, but not the obligation, to purchase wind rights to an adjacent site and certain other development assets necessary to develop the additional 100 MW Option Project. The Option Agreement contains two elements: (1) an option to purchase the development rights to an additional 100 MW wind project adjacent to the proposed Prairie Rose Project, and (2) an option to purchase a 24-mile interconnecting transmission line. If built, the additional 100 MW project will utilize the same transmission line being built to support the 200 MW Prairie Rose Project. Thus, the Option Agreement also provides

for Xcel Energy's purchase of the transmission line connecting both the 200 MW PPA Project and the 100 MW Option Project to the Split Rock substation as part of the larger transaction.

The Company will seek separate Commission ADP approval if we decide to exercise our rights under the Option Agreement. The Company has no plans at this time to enter into any new wind generation PPAs; we will re-assess our renewable development plans once federal policies become clearer. However, the reasonableness of the 200 MW Prairie Rose PPA is not dependent upon the Option Agreement.

VI. REASONABLENESS OF THE PPA

The Prairie Rose PPA is prudent and in the public interest for the reasons discussed below.

1. PRAIRIE ROSE IS A COST-EFFECTIVE OPTION FOR OUR CUSTOMERS AND WILL HELP MAINTAIN REASONABLE RATES

The Company's evaluation of the Prairie Rose Project considered cost-effectiveness from two viewpoints: (1) energy pricing; and (2) total system costs. Our energy pricing analysis uses natural gas as a fuel supply and adds a capacity cost to the natural gas alternative equal to the capacity cost associated with construction of the Prairie Rose project. Our total system cost analysis used Strategist to determine Present Value Revenue Requirements ("PVRR") with and without the Prairie Rose project.

Our energy pricing analysis (see Figure 2) indicates the Prairie Rose PPA consistently provides lower cost energy to our system than the forecasted cost of the natural gas generation. Thus, the Prairie Rose PPA provides a hedge for our customers from potentially higher cost generation sources, depending on future market conditions.

FIGURE 2: NATURAL GAS COMPARISON

[BEGIN TRADE SECRET

END TRADE SECRET]

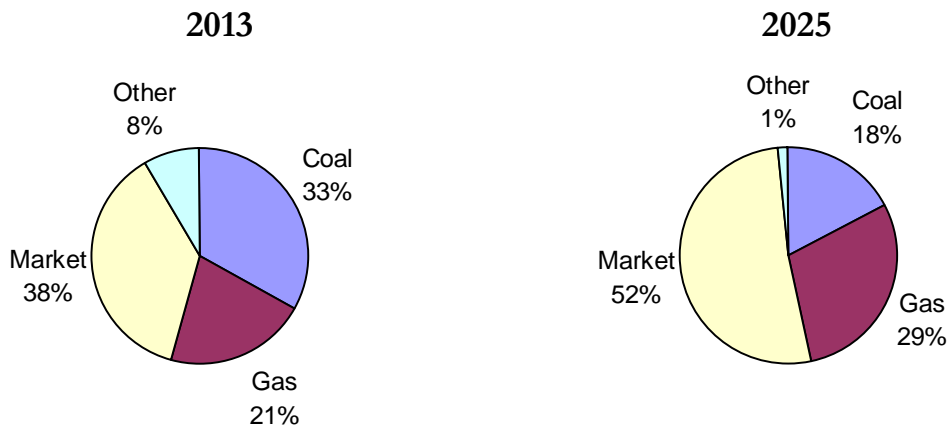
Our total system cost analysis, using Strategist, indicates the cost of our aggregated power supply will be virtually the same with or without the 200 MW Prairie Rose Project. Total system costs are estimated as follows:

PVRR Results (\$000)	Without Prairie Rose	With Prairie Rose	Difference
Base Case (\$0 CO2)	\$98,346,810	\$98,352,245	\$5,435

As shown, the estimated \$5.4 million in increased PVRR is insignificant when compared to the \$98.3 billion PVRR of the system. The base analysis does not include any costs for carbon dioxide emissions or other environmental externalities.

The Strategist analysis illustrates the extent to which our fuel supply mix will change with generation from Prairie Rose (see Figure 3). Throughout the 20 year PPA term, Prairie Rose displaces coal-fired, natural gas-fired, and market energy, as well as energy from some of our woody biomass and refuse derived fuel projects.

FIGURE 3: ENERGY DISPLACED BY THE PRAIRIE ROSE PPA



In addition, we note the PPA price is fixed and known for the entire 20-year term; it is not subject to economic indices or fuel price volatility. If natural gas prices are higher than forecasted, the PPA will provide even greater benefits for our customers.

2. *THE PRAIRIE ROSE PROJECT WAS SELECTED AS THE RESULT OF A RIGOROUS, COMPETITIVE PROCESS WHICH CONSIDERED ALL TYPES OF WIND PROJECT ARRANGEMENTS*

As discussed earlier, the Prairie Rose PPA was selected as a result of a rigorous RFP process in 2010. The Prairie Rose PPA was selected due to its favorable energy price compared to other wind proposals (PPA and Company-owned) and an alternative natural gas power supply option. Thus, the Prairie Rose PPA helps maintain reasonable rates for our customers and provide a hedge against higher rates that may be associated with both renewable and non-renewable fuel price volatility.⁵

3. *THE RENEWABLE ENERGY PROVIDED BY THE PRAIRIE ROSE PPA WILL HELP THE COMPANY MEET OUR ONGOING RES REQUIREMENTS AND REO GOALS*

While the Company is subject to the regulatory authority of five public utility commissions, we provide the energy supply required by our customers on a single, unified system basis. As such, the various state renewable energy requirements and

⁵ While the Company did not consider environmental externalities in choosing the Prairie Rose PPA, it is reasonable and the Commission has supported qualitative consideration of environmental externalities in the past. *See Otter Tail Corporation Advance Determination of Prudence Application*, Findings of Fact, Conclusions of Law, and Order, Case No. PU-06-481 at ¶¶ 36-9 (N.D. P.S.C. August 27, 2008).

goals differ in terms of percentages and target dates but we are committed to being compliant system-wide and we make investment decisions on a system-wide basis as well. We seek to balance our renewable energy obligations and goals from the various states with the cost concerns of our customers. We believe the Prairie Rose PPA assists in meeting the renewable energy obligations and goals of the five states in which we operate and helps keep our commitment of reasonable rates for our customers.

4. *THE PRAIRIE ROSE PPA WILL BENEFIT OUR CUSTOMERS BY TAKING ADVANTAGE OF CURRENT MARKET CONDITIONS AND THE AVAILABILITY OF THE FEDERAL PTC*

As noted earlier, the Prairie Rose PPA is in the public interest and its favorable pricing reflects the currently existing market for wind generation. Through the bids received in our 2010 RFP, it became evident that the recent drop in natural gas prices along with the possible expiration of the federal PTC at the end of 2012 caused a significant downward pressure on wind energy prices. In this current and highly-competitive wind market, developers are making significant efforts to bring forward new projects at the lowest possible price, which directly benefit our customers.

It is unclear how long the availability of this low-priced wind generation will continue as the federal PTC option may not be renewed beyond 2012 and natural gas prices have historically been volatile. Consequently, developers and the Company are both eager to take advantage of the PTC while it is still available. All combined, these factors have convinced the Company it is prudent to proceed with our strategy of adding the Prairie Rose Project to help meet our RES obligations in a cost-effective manner.

VII. PROJECTED COST OF THE PRAIRIE ROSE PPA

N.D.C.C. § 49-05-16 requires a projection of costs to the date of the anticipated commercial operation of the electric resource. As noted above, commercial operation of the Prairie Rose project is expected in **[BEGIN TRADE SECRET
END TRADE SECRET]**. The PPA is expected to result in annual energy expenditures of approximately **[BEGIN TRADE SECRET
END TRADE SECRET]**.

VIII. COMMUNICATIONS AND SERVICE LIST

We respectfully request that the following persons be placed on the Commission's official service list for all official communications in this case:

James R. Alders
Director, Regulatory Administration
Xcel Energy Services, Inc.
414 Nicollet Mall, 7th Floor
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Minneapolis, MN 55401

IX. CONCLUSION

The Prairie Rose PPA is a reasonable and prudent investment for the purpose of providing electric service to our customers. Numerous analyses confirm the PPA is a cost effective undertaking that will help maintain reasonable rates for our customers and provide a hedge against higher rates that may be associated with both renewable and non-renewable fuel price volatility.

Specifically, the PPA (1) was chosen as a result of a public, transparent competitive bidding process; (2) is competitive in pricing to other renewable resources and compares favorably to energy pricing using natural gas as a fuel supply; (3) has minimal incremental impact upon our system costs when compared to non-renewable alternatives; and (4) provides diversification to our resource portfolio, which promotes price stability for our customers. Thus, the PPA meets the standard for the Commission to make an advance determination of prudence and reasonableness.

If the Commission wishes to have a formal hearing on this filing, we are willing to pre-file written testimony and exhibits in support of our Application. If this course is chosen, we will work with the Commission Staff to determine a schedule to submit such testimony. We are confident that the testimony and exhibits will further support the prudence of our PPA included in this application, provide additional support for

choosing this path to help meet customer energy needs, and expand on the cost projections for the PPA discussed in this application.

Included with this application is our filing fee of \$125,000 and an affidavit that supports the truthfulness of our statements.

Dated: January 31, 2012

Northern States Power Company,
a Minnesota Corporation

Respectfully submitted,

/s/

James R. Alders
Director, Regulatory Administration