STATE OF NORTH DAKOTA

PUBLIC SERVICE COMMISSION

Northern States Power Company
Advance Determination of Prudence – Geronimo Wind Application

Case No. PU-12-59

PROPOSED FINDINGS OF FACT, CONCLUSIONS OF LAW AND ORDER

DECEMBER 3, 2012

Appearances

Commissioners Brian P. Kalk, Kevin Cramer, and Bonny M. Fetch.

Zeviel T. Simpser, Briggs and Morgan, P.A., 2200 IDS Center, 80 South Eighth Street, Minneapolis, MN 55402-2157, appearing on behalf of Northern States Power Company.

Elizabeth M. Brama, Briggs and Morgan, P.A., 2200 IDS Center, 80 South Eighth Street, Minneapolis, MN 55402-2157, appearing on behalf of Northern States Power Company.

Mark Gruman, Public Service Commission, State Capitol, 600 E. Boulevard Av., Bismarck, North Dakota 58505, on behalf of the Public Service Commission Advocacy Staff.

Illona Jeffcoat-Sacco, General Counsel, Public Service Commission, State Capitol, 600 E. Boulevard Av., Bismarck, North Dakota 58505, on behalf of the Public Service Commission advisory staff.

Patrick J. Ward, Administrative Law Judge, Zuger Kirmis & Smith, 316 North Fifth Street, Provident Building, P.O. Box 1695, Bismarck, ND 58502-1695.

Preliminary Statement

On January 31, 2012, the Applicant Northern States Power Company (NSP or Company) filed an application with the North Dakota Public Service Commission (Commission) seeking an advance determination of prudence (ADP) under North Dakota Century Code § 49-05-16 for a Power Purchase Agreement (PPA) with

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Public Service Commission Advocacy Staff

Mark Gruman

Geronimo Wind Energy, LLC (Geronimo) from its 200 megawatt (MW) Prairie Rose wind generation project (Project).

On February 15, 2012, the Commission issued a Notice of Filing and Notice of Intervention deadline of April 27, 2012. No parties intervened in these proceedings.

On August 1, 2012, the Commission issued a Notice of Hearing for October 22, 2012. The Notice specified the issue to be considered was whether the proposed PPA resource addition is prudent.

The Commission held the hearing on the application on October 22, 2012 in the Commission Hearing Room, 12th floor, State Capitol, Bismarck, North Dakota.

Having allowed all interested persons an opportunity to be heard and having heard, reviewed and considered all testimony and evidence presented, the Commission makes the following:

Findings of Fact

1. NSP is an investor-owned electric utility headquartered in Minneapolis, Minnesota authorized to provide public utility service in North Dakota.

2. NSP is forecasted to have excess generating capacity until 2017.

3. NSP is expected to have enough renewable energy credits (RECs) to meet its requirements in all the states it serves until 2016.

4. On September 16, 2010, NSP issued a request for proposal (RFP) for up to 250 MW of wind specific generation.

5. After reviewing all proposals on price, curtailment risk, interconnection and transmission network requirements, and the ability to complete the proposed project by the end of 2012 NSP selected the Prairie Rose project on June 7, 2011.

6. The Project is located in Rock and Pipestone Counties, Minnesota.

7. The Project will interconnect at NSP's Angus Anson plant under a net zero interconnection (NZI) and is expected to be placed into service by the end of 2012. A NZI is a special interconnection arrangement where a new generating unit (PRW) uses and shares interconnection rights of an existing generating unit (Angus Anson). In actual operation, the combined output of PRW and Angus Anson cannot exceed the capability of Angus Anson. If necessary to avoid such a situation, the output of PRW

will be curtailed. Because of the possibility of curtailment, PRW will not qualify to receive capacity benefits so long as PRW utilizes the NZI.

8. NSP will purchase the entire output of the 200 MW Project over a 20-year term at a set escalating price per megawatt hour (MWh). The present value revenue requirement (PVRR) for the term of the PPA is $280.6 million.

9. NSP also entered into an Option Agreement whereby NSP has the right to purchase wind rights to an adjacent site and certain other development assets necessary to develop an additional 100 MW project. NSP will seek a separate ADP if it decides to exercise this Option Agreement.

10. The Federal Production Tax Credit (PTC) is scheduled to expire December 31, 2012 and is generally agreed to have a significant impact on the economics of wind generating resources.

I. NSP Prudence Analysis

11. In the Company's energy pricing analysis the Project was analyzed in comparison to a natural gas resource. This analysis showed that the PPA would provide lower cost energy than the forecasted cost of natural gas generation. This analysis, however, does not take into account the entire NSP resource portfolio. This analysis also assumes that capacity costs are included for the natural gas alternative.

12. Using Strategist, NSP was able to provide a total system cost analysis with and without the Project to indicate the amount of an increase or decrease in the PVRR for the entire NSP system.

13. The Company's initial analysis showed that the PVRR would be $5.4 million more with the PPA than without or an estimated higher cost to ratepayers. This result assumed that PRW received capacity benefits, which is inconsistent with the NZI.

14. In its initial analysis the Company included a capacity credit for the entire life of the contract. However, since the Project will interconnect under a NZI the Project will not receive capacity credit from MISO. If the Project were to receive capacity credit beginning in 2018 the PVRR would increase by $13.5 million from the initial analysis. If the capacity credit is removed for the entire life of the contract the PVRR increases by $17.7 million.

15. The initial Company analysis included wind integration costs at a levelized price of $4.28/MWh based on 2006 natural gas prices and a 25% wind penetration level. The Company later revised the wind integration costs to $2.22/MWh to account for lower natural gas prices and a 13% wind penetration level. This adjustment reduces the PVRR by $14.1 million from the initial analysis.

16. NSP's analysis includes a reduction of $400,000 (PVRR) to account for the expected reduction in sulfur dioxide emissions. No reductions for carbon dioxide are included.

17. In its updated analysis NSP includes estimated revenue credits to account for selling North Dakota allocated RECs beginning in 2016 that were not included in its initial analysis. This results in a decrease of $9.2 to $14.1 million (PVRR) depending on REC price estimates.

18. The natural gas prices used in the Company's analysis were from January 2011. The Company believes that any assessment of prudence should be based upon assumptions available at the time of the Company's decision and that the Commission cannot use more recent, updated assumptions in its deliberations.

19. Wind generating resources essentially have zero marginal cost based on the fact that its fuel source, wind, has no cost. This fact therefore puts wind generation as one of the first in the sequence of dispatching in NSP's generation fleet. As a result, it displaces, or reduces the use of, resources with fuel costs greater than zero.

20. NSP believes that the PPA is a prudent resource addition.

II. Advocacy Staff Prudence Analysis

21. In its prudence analysis Advocacy Staff reviewed the Company's application and assessed its assumptions, inputs, and analysis for reasonableness.

22. Advocacy Staff does not accept the Company's comparison of PRW to the natural gas alternative.

23. In its review and subsequent discussion with the Company, Advocacy Staff found that it would not be reasonable to include capacity credit for the Project since it is currently under a NZI and that there are no plans for a traditional interconnection, which is necessary to receive capacity credit. As previously stated, removing the capacity credit for the entire life of the contract increases the PVRR by $17.7 million.

24. Advocacy Staff believes that a more up-to-date natural gas price forecast should be used given the approximately 25% decrease seen from the Company's forecast used. The Company conducted analysis under a scenario where natural gas prices are 20% lower. The result of this analysis increases the PVRR with the PPA by $40.8 million. Advocacy Staff believes that the Commission should use the most recent, updated assumptions available at the time of the Commission's deliberations, and should not be bound to accept only assumptions used by the Company at the time of the Company's decision.

25. The combination of these two adjustments from the Company's initial Strategist analysis shows that the PVRR for the total NSP system is $63.9 million higher with the PPA than without.

26. Advocacy Staff believes that REC revenues should not be accounted for in the analysis due to the fact that the market for RECs is immature and therefore their value difficult to forecast.

27. Advocacy Staff believes that the energy pricing analysis, whereby the Company compares the PPA to a natural gas alternative, does not provide an accurate and comprehensive view of the economic impact of the PPA on the entire NSP system.

28. Advocacy Staff believes that the PPA is not a prudent resource addition.

From the foregoing Findings of Fact, the Commission makes the following:

Conclusions of Law

1. The Commission has jurisdiction in this matter.

2. In comparison to NSP's existing generation portfolio, the PPA with Geronimo is not a prudent resource addition.

3. The Commission should make it clear that they can use more recent updated assumptions in assessing the prudence of this and future resource acquisitions or decisions.

From the foregoing Findings of Fact and Conclusions of Law, the Commission makes its:

Order

The Commission orders that the Applicants request for an advance determination of prudence for its PPA with Geronimo Wind Energy, LLC is denied.

PUBLIC SERVICE COMMISSION

Kevin Cramer **Commissioner**	**Brian P. Kalk** **Chairman**	**Bonny M. Fetch** **Commissioner**