

# BRIGGS

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December 3, 2012

**VIA FEDERAL EXPRESS**

Darrell Nitschke, Executive Director  
North Dakota Public Service Commission  
State Capitol Building, Dept 408  
600 East Boulevard  
Bismarck, ND 59505-0480

**Zeviel Simpser**  
(612) 977-8865  
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**Re:** *Northern States Power Company, a Minnesota corporation*  
*Advance Determination of Prudence – Geronimo Wind Energy, LLC Application*  
Case No. PU-12-59

Dear Mr. Nitschke:

On behalf of Northern States Power Company, enclosed for filing with the North Dakota Public Service Commission (the “Commission”) in the above referenced case, please find an original and seven copies the Public version of Applicant’s Post Hearing Brief.

Pursuant to N.D. Admin Code § 69-02-09 and Judge Ward’s October 10, 2012 Order Granting Trade Secret Protection, also enclosed for filing is one copy of the trade secret version of the Company’s Post-Hearing Brief.

Also, pursuant to agreement with Advocacy Staff, the Company will file its proposed findings no later than December 5, 2012.

Sincerely,

BRIGGS AND MORGAN, P.A.

*/s/ Zeviel Simpser*

Zeviel Simpser

ZS/ts  
Enclosures

cc: Mark Gruman (w/enc.)(via email)  
Ilona Jeffcoat-Sacco (w/enc.)(via email)

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STATE OF NORTH DAKOTA  
PUBLIC SERVICE COMMISSION

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

Case No. PU-12-59

**APPLICANT’S POST-HEARING BRIEF**

**I. INTRODUCTION**

This proceeding pertains to the application for an Advance Determination of Prudence (ADP) submitted by Northern States Power Company, doing business as Xcel Energy, for the Company’s Power Purchase Agreement (PPA) with Geronimo Wind Energy, LLC and its successors relating to the 200 MW Prairie Rose Wind, LLC generation project (collectively, the Project). This Application was submitted to the North Dakota Public Service Commission pursuant to N.D.C.C. § 49-05-16 and the Settlement Agreement in Case No. PU-07-776.

The Company and Advocacy Staff have agreed that briefs outlining the significant issues in this proceeding may be helpful to the Commission as it prepares to make a decision regarding the prudence of the PPA with the Prairie Rose Project. The Company respectfully submits this brief in support of the prudence of the PPA. In this brief, the Company will:

- Outline the key benefits of the Prairie Rose Project and PPA.
- Describe why the Company believes the prudence of the PPA should be judged on the basis of facts and circumstances known to the Company at the time it decided to enter the PPA.

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- Explain our modeling and forecasting efforts used in assessing whether to acquire the resource addition, including how our initial, conservative assumptions can reasonably be adjusted such that a quantitative analysis of the Project further demonstrates the prudence of the resource addition for our North Dakota electric customers.
- Address other issues we believe the Commission may wish to consider in making its determination of prudence.

The Company believes that the evidence in this proceeding<sup>1</sup> demonstrates that the PPA:

- Is a prudent resource addition for our North Dakota electric customers.
- Represents a unique opportunity to add new generation to our system at historically low pricing, in large part by capturing the value of the federal Production Tax Credit (PTC) before its scheduled expiration at the end of 2012;
- Compares favorably to alternative resource acquisitions the Company might have made at the same time, and provides a hedge against future market volatility; and
- Enhances the diversity of the Company's energy portfolio and helps protect North Dakota customers from the potential costs of future environmental regulation.

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<sup>1</sup> Evidence regarding the prudence of the Project was developed through pre-filed direct and rebuttal testimony submitted on behalf of the Company and Commission Advocacy Staff (Advocacy Staff), and via an evidentiary hearing held on October 22, 2012.

## **II. OVERVIEW OF PROJECT**

In 2010, the Company began to observe that wind generation pricing was reaching historic lows due to competition in the regional marketplace, the decline in natural gas commodity pricing, and the pending expiration of the federal Production Tax Credit.<sup>2</sup> The Company therefore issued a Request for Proposal (2010 RFP) to determine whether wind pricing might be sufficiently cost-effective to warrant a resource addition.<sup>3</sup> The Company did not impose any requirements in the 2010 RFP that would limit the location of the proposed project or whether it would be a PPA or Company-owned project. However, the objective of capturing pricing benefits of the PTC necessitated a requirement that any proposed project must be in service by December 31, 2012.<sup>4</sup>

The Company received 143 proposals in the 2010 RFP process, ranging in price from [BEGIN TRADE SECRET END TRADE SECRET]. The pricing by the lowest bids proved to be historically-low for wind generation up to that point. Weighing this with other factors, such as supply diversity, the Company determined that it would be prudent to acquire the certainty of a new wind generation resource. The Company narrowed the proposals to a “short list” of six projects, and selected the 200 MW Prairie Rose Wind Project as the most economic project that met the December 31, 2012 in-service requirement.<sup>5</sup>

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<sup>2</sup> K. Haeger Direct at p. 5.

<sup>3</sup> Application at p. 4. The Company’s intent to initiate an RFP process was set forth in the Company’s 2010 Midwest Resource Plan filing. T.16.

<sup>4</sup> *Id.* at 5-6.

<sup>5</sup> L. McCarten Direct at 6-7. In analyzing the various bids, the Company determined that certain bids that appeared to offer lower prices than the Prairie Rose Project, including the [BEGIN TRADE SECRET *New Frontier Project* END TRADE SECRET ], did not meet the RFP criteria and/or required significant transmission upgrades. R. Oye Rebuttal at p. 2-7. As a result, we concluded it was not realistic for these projects to be in service by December 31, 2012 and therefore the projects were unlikely to capture the PTC. *Id.* Consequently, the total cost of such projects was likely to be significantly higher than it initially appeared from looking at the lower bids in isolation. *Id.*



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from \$0.2 million to \$18.6 million.<sup>9</sup> This updated range of benefits indicates that the Project is likely to provide cost savings to customers.

Even if the future marketplace does not bear out our quantitative assessment, the qualitative benefits of the project combined with the certainty of obtaining historically-low wind energy pricing argues for the prudence of the Project. New wind projects help diversify the Company’s energy portfolio, which in itself reduces pricing volatility in the event fuel or market prices change dramatically.<sup>10</sup> Additionally, wind generation offers a hedge against future carbon, natural gas, or other environmental regulation that may increase the cost of producing or purchasing electricity.<sup>11</sup> The likelihood and scope of such regulations are uncertain at this time, but environmentally-neutral sources of energy, like the Project, promise savings and customer protections in the event of future environmental regulation that may occur during the 20-year term of the PPA.<sup>12</sup> Lastly, the Project includes no fuel costs, and therefore, provides additional customer protections against the possibility of future fuel cost increases.

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<sup>9</sup> K. Haeger Rebuttal at p. 14.

<sup>10</sup> K. Haeger Direct at p. 16.

<sup>11</sup> *Id. see also* T.79-80 (Question from Commissioner Cramer: “[A] single policy by an administration to outlaw fracking, wouldn’t that change everything? And isn’t that a real possibility?” [Answer by K. Haeger:] “I can’t say if it’s going to be real. Certainly it’s been discussed. And, yes, it would dramatically change the gas picture in the United States. . . . A moratorium on fracking, even for a short period of time, would devastate the industry and you would see very expensive gas prices.”).

<sup>12</sup> *Id.* at 16. Pursuant to North Dakota law, future carbon regulations are not quantitatively factored into the Prairie Rose cost-benefit analysis. N.D.C.C. § 49-02-23; K. Haeger Direct at p. 16.

**B. Standard of Review**

1. *The ADP Statute*

Under North Dakota law, the Commission may approve an Advance Determination of Prudence if, “the [C]ommission determines that the resource addition is prudent.”<sup>13</sup> Specifically, North Dakota law instructs:

**Advance determination of prudence.** ... A public utility that intends to make a resource addition<sup>14</sup> may file an application with the commission for an advance determination of prudence regarding the resource addition....

The commission may issue an order approving the prudence of a resource addition if:

- a. The public utility files with its application a projection of costs to the date of the anticipated commercial operation of the resource addition;
- b. The public utility files with its application a fee in the amount of one hundred twenty-five thousand dollars. Upon request of the commission and with the approval of the emergency commission, the applicant shall pay such additional fees as are reasonably necessary for completion of the application process by the commission. The commission may waive or reduce the fee;
- c. The commission provides notice and holds a hearing, if appropriate, in accordance with section 49-02-02; and
- d. The commission determines that the resource addition is prudent. For facilities located or to be located in this state the commission, in determining whether the resource addition is prudent, shall consider the benefits of having the resource addition located in this state.<sup>15</sup>

The Company filed this Application for an ADP on January 31, 2012. There is no dispute that the Company filed a projection of Project costs and the required filing

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<sup>13</sup> N.D.C.C. § 49-05-16.

<sup>14</sup> As defined in the statute, “resource addition means construction, modification, purchase, or lease of an energy conversion facility, renewable energy facility, demand response system, transmission facility, or a contract to acquire energy, capacity, or demand response for the purpose of providing electric service.” Thus the Prairie Rose PPA fits within the definition of a “resource addition.” In addition, the Settlement Agreement in Case No. PU-07-776 provides that the Company must file an application for an ADP for any agreement to purchase more than 50 MW. This Application was likewise filed in fulfillment of that agreement.

<sup>15</sup> N.D.C.C. § 49-05-16.

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fee. The Commission also provided notice, and then conducted an evidentiary hearing on the matter on October 22, 2012. Thus the only question for the Commission is whether the Project resource addition is prudent.

2. *The Standard for Determining Prudence*

North Dakota law instructs that “[t]he commission’s order determining prudence of the resource addition is binding for ratemaking purposes.”<sup>16</sup> Consequently, an ADP proceeding is much like any other rate proceeding before the Commission, and the Commission’s ratemaking standards apply. In North Dakota, this is the “honestly and prudently invested”<sup>17</sup> standard.

When assessing the prudence of a particular utility investment or resource addition, the Commission considers whether a utility’s actions were reasonable at the time the investment was made. This has been the Commission’s approach in North Dakota rate proceedings,<sup>18</sup> and has been the position taken by Commission Staff in other ADP proceedings.<sup>19</sup> It is consistent with the concept that the Commission is assessing whether the utility made an honest, as well as prudent, investment.<sup>20</sup> It is also consistent with the broad-based “prudent investment rule,” under which a utility

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<sup>16</sup> N.D.C.C. § 49-05-16(4).

<sup>17</sup> N.D.C.C. § 49-06-02.

<sup>18</sup> See, e.g., *Montana Dakota Utilities Co. Electric Rate Increase Application*, ORDER ON SETTLEMENT, Case No. PU-10-124 (N.D. P.S.C. June 8, 2011) (adopting settlement where analysis of the reasonableness and prudence of a two wind resources was performed based on information known at the time the decision to invest in the wind resources was made and not some other future time even though resources were used and useful when rate case was filed).

<sup>19</sup> See *Otter Tail Corp. Advance Determination of Prudence Application, Montana-Dakota Utilities Co., a Division of MDU Resources Group, Inc., Advance Determination of Prudence Application*, Case Nos. PU-06-481, PU-06-482, Advocacy Staff Post Hearing Brief, pp. 3-6 (N.D. P.S.C. Aug. 3, 2007).

<sup>20</sup> N.D.C.C. § 49-06-02. By definition, the “honesty” of a utility’s investment decision can only be judged on the basis of facts the Company knew or should have known at the time of making its decision.

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is compensated for all prudent investments at their cost when made, regardless of whether they remain necessary in hindsight.<sup>21</sup>

This is also consistent with the ratemaking standards of other utility commissions. For example, FERC holds that the reasonableness of a utility’s decision to incur costs should be judged at the time the decision was made:

[M]anagers of a utility have broad discretion in conducting their business affairs and in incurring costs necessary to provide services to their customers. In performing our duty to determine the prudence of specific costs, the appropriate test to be used is whether they are costs which a reasonable utility management (or that of another jurisdictional entity) would have made, in good faith, under the same circumstances, and at the relevant point in time.<sup>22</sup>

Likewise, the “standard by which the [Montana Public Service Commission] judges the prudence and reasonableness of actual electricity supply costs is what [a utility] knew, or should reasonably have known, at the time it incurred the cost obligations.”<sup>23</sup> The South Dakota Public Utilities Commission has adopted a similar standard.<sup>24</sup>

The New York Public Service Commission has also traditionally held that:

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<sup>21</sup> 73B C.J.S. Public Utilities § 44 (2012).

<sup>22</sup> *New England Power Co.*, Opinion No. 231, 31 FERC ¶ 61,047, *reb. denied*, Opinion No. 231-A, 32 FERC ¶ 61,112 (1985), *aff’d sub nom. Violet v. FERC*, 800 F.2d 280 (1st Cir. 1986).

<sup>23</sup> *Re North Western Energy*, Docket No. D2007.5.46, 2008 WL 5987430 (Montana P.S.C. June 24, 2008); *see also Re Mountain Water Co.*, Docket No. D2010.4.41, 2011 WL 2714078 (Montana P.S.C. Mar. 22, 2011) (“The Commission finds that the refinancing was prudent based on the best information available at the time [of refinancing]”); *Re Montana Power Co.*, Docket No. D2001.7.93, 2001 WL 1530268 (Montana P.S.C. Aug. 17, 2001) (“A prudence review involves evaluating the resources MPC acquired as well as resources that could have been acquired and information available to MPC when decisions were made.”).

<sup>24</sup> *See In Re Black Hills Power*, FINAL DECISION AND ORDER GRANTING JOINT MOTION FOR APPROVAL OF SETTLEMENT STIPULATION AND APPROVING RATES AND TARIFFS, Docket No. EL09-018, Conclusion of Law 14 (S.D. P.U.C. Aug. 11, 2010) (finding a resource addition prudent “particularly in the context of the facts and circumstances present and available to BHP at the time the decision to proceed with such resource addition was made”).

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[A utility’s conduct] should be judged by asking whether the conduct was reasonable at the time, under all the circumstances, considering that the company had to solve its problems prospectively rather than reliance on hindsight. In effect, our responsibility is to determine how reasonable people would have performed the task that confronted the company.”<sup>25</sup>

The Missouri Public Service Commission has likewise applied the New York standard and further stated that “[t]he commission will assess management decisions at the time they were made and ask the question, ‘given all the surrounding circumstances existing at the time, did management use due diligence to address all relevant factors and information known or available to it when it assessed the situation?’”<sup>26</sup> The Pennsylvania Commission applies the same standard:

Prudence is that standard of care which a reasonable person would be expected to exercise under the same circumstances encountered by utility management at the time decisions had to be made. In determining whether a judgment was prudently made, only those facts available at the time of the judgment was exercised can be considered. Hindsight review is impermissible.<sup>27</sup>

Given this Commission’s historical approach and the traditional approach of other commissions, the Company has operated with the understanding that the prudence standard in North Dakota is “whether the utility action was reasonable at the time it was taken under all relevant circumstances.”<sup>28</sup>

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<sup>25</sup> *Re Consol. Edison Co. of New York, Inc.*, 45 P.U.R. 4th 325, 331 (N.Y. P.S.C. 1982) cited approvingly by *In Re Union Elec. Co.*, 257 P.U.R. 4th 259, 293 (Mo. P.S.C. June 1, 2007); *Re UNITIL Serv. Corp.*, 72 N.H. P.U.C. 467, 472 (N.H. P.U.C. 1987); *Re Long Island Lighting Co.*, 71 P.U.R. 4th 262, 269 (N.Y. P.S.C. Nov. 16, 1985); *Re Gulf States Util.’s Co.*, 87 P.U.R. 4th 428, 471 (Tex. P.U.C. Oct. 15, 1986); *Re Detroit Edison Co.*, 52 P.U.R. 4th 318, 325 (Mich. P.S.C. March 31, 1983).

<sup>26</sup> *Re Kansas City Power and Light Co.*, 75 P.U.R. 4th 1, 52 (Mo. P.S.C. 1986).

<sup>27</sup> *Re UNITIL Serv. Corp.*, 72 N.H. P.U.C. 467, 472 (N.H. P.U.C. 1987) (citing *In Re Salem Nuclear Generation Station*, 70 P.U.R. 4th 568, 574 (Pa. P.U.C. 1985)).

<sup>28</sup> See *Northern States Power Co., Otter Tail Power Company Advance Determination of Prudence CapX2020 Group 1 Application*, Case Nos. PU-06-767, PU-09-678, Joint Application for Advance Determination of Prudence, pgs. 4-5 (N.D. P.S.C. Oct. 2, 2009); *Northern States Power Co., Advance Determination of Prudence Prairie Island Nuclear Plant - Steam Generators and Extended Power Uprates Application*, Case No. PU-10-127, pgs. 19-20 (N.D. P.S.C. Apr. 19, 2010); *Northern States Power Co., Advance Determination of Prudence Geronimo Wind Energy, Application*, Case No. PU-12-159, pgs. 3-4 (N.D. P.S.C. Jan. 31, 2012); See *Northern States Power Co. Advanced*

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Notwithstanding the established ratemaking standards of this and other regulatory bodies, Mr. Hahn advocates that the Commission apply a different ratemaking standard in this proceeding. Specifically, Mr. Hahn suggests that instead of relying on the information available at the time the resource acquisition was made, the Commission should consider information available when the application for an ADP is made.<sup>29</sup> Mr. Hahn's suggestion is not supported by legal analysis; rather, he said that it is based on his experience testifying before other commissions.<sup>30</sup> For the reasons discussed below, Mr. Hahn's suggested new standard of review is not feasible for utilities undertaking resource additions generally, and in particular, overlooks the realities of negotiating a resource addition through a PPA.

a. Timing of ADP Applications for PPAs

The Company believes that a standard of review that measures the prudence of a resource acquisition at the time of an ADP Application, rather than the time of the resource decision, is not only inconsistent with North Dakota and other ratemaking precedent, but also creates unworkable uncertainty about the information that the Commission may ultimately consider.

In contrast to a new capital project, such as a new Company-owned generating facility or transmission project for which the Company seeks an ADP before the capital investment is made, it is not practical to file an ADP Application for a PPA until after negotiations have been completed and an agreement is executed.

If the Company were to file an ADP Application prior to executing a PPA, utilizing the standard Mr. Hahn suggests would mean that neither party would know what

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*Determination of Prudence 201 MW Nobles Wind Project Application*, Case Nos. PU-08-907, Supporting Information and Affidavit of James R. Alders, pg. 2 (N.D. P.S.C. July 23, 2009).

<sup>29</sup> T.144-46.

<sup>30</sup> T.145-46.

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facts might be considered by the time the PPA is eventually signed; more importantly, the Company would lose significant leverage with its counterparty in negotiating the best possible price for customers. Likewise, bringing an executory contract to the Commission would involve presentation of a project of uncertain terms and outcome. Consequently, it is critical for a PPA to be a “done deal” and for the terms of regulatory review to be known prior to filing an ADP Application with the Commission.<sup>31</sup> Because the ADP should be filed after the PPA is executed, the facts on which the Company made its decision to enter the PPA may likely be somewhat or substantially different than the facts known at the time the ADP is filed. The Commission should therefore review the prudence of the Company’s decision to enter into the PPA based on the facts available to the Company at the time the decision was made to enter into the PPA.

The Company now understands that it did not file this ADP Application within the timeframe that the Commission expects. To that end, the Company has committed to filing future ADP Applications at essentially the same time it seeks other regulatory approvals for a particular resource acquisition.<sup>32</sup> This will serve to eliminate or minimize differences between the Company’s assumptions at the time of its analysis and the time of its ADP Application.

Moreover, if the Company had filed this Application soon after the PPA was entered into, there appears to be no dispute that the Commission’s established ratemaking standard would apply. The Commission should therefore review the prudence of the Company’s decision to enter into the PPA based on its traditional ratemaking

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<sup>31</sup> The Company recognizes that PPAs can contain clauses that would allow the Company to terminate the contract in the event a regulator did not find the PPA prudent. These types of clauses have no impact on the prudence or imprudence of the particular resource addition, as they are merely a risk management tool that has no impact on our customers.

<sup>32</sup> Letter from Judy Pofert to Darrell Nitschke (November 5, 2012).

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standard and the facts available to the Company at the time the decision was made to enter into the PPA. Doing something different based on the isolated facts of this proceeding may result in long-term and unintended implications for future proceedings.

b. The Suggested Standard is Not Feasible

The standard Mr. Hahn suggests is likewise not feasible because it assumes that it is possible to predict the future with certainty. The Company strives to use conservative forecasting assumptions to help ensure that the benefits of any resource addition are likely to accrue to our customers even if future events do not occur as planned. However, a utility's forecasts necessarily must be based on facts known at the time the forecast is developed.<sup>33</sup> Here, for example, the Company's modeling efforts were undertaken with the information available at the time the modeling took place, and could not have taken into accounts facts not known at that time.<sup>34</sup> The established prudence standard avoids the situation where a utility decision is evaluated based on information the utility could not have known at the time the contract was executed.

The standard Mr. Hahn suggests is also unworkable for the following reasons: First, an RFP process for a new resource can take up to 18 months to assemble, seek and receive bids, evaluate bids, negotiate terms, and complete the transaction.<sup>35</sup> It would be difficult, at best, for the utility to select bids and negotiate terms if the facts the regulatory body would be considering in its review of the contract are not clear.

Second, both the utility and a project developer enter into a contract on the basis of facts known at the time, and each party is subject to the terms of the contract even if

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<sup>33</sup> K. Haeger Rebuttal at p. 2.

<sup>34</sup> S. Wishart Rebuttal at p. 7.

<sup>35</sup> K. Haeger Rebuttal at p. 2.

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future circumstances change.<sup>36</sup> Just as the Developer is expected to fulfill its contractual agreements even if its own costs increase, so must the Developer be able to depend on the utility's commitment to the contract even if the price of alternative projects drops after the contract is executed. Here, too, uncertainty about the perspective and criteria regulators may apply would introduce a chaotic element to project planning.

c. The Suggested Standard Does Not Lead to a Reasonable  
Prudence Assessment

The standard Mr. Hahn proposes is also infeasible because circumstances can change even during the course of a pending ADP proceeding. Here, the ADP Application was filed in January 2012. At that time, actual natural gas prices were in the approximate range of \$2.00 to \$2.50 per dekatherm, compared to the more common historic range of \$3.90 to \$4.50 per dekatherm.<sup>37</sup> Gas prices declined further through June 2012, as this proceeding progressed.<sup>38</sup> However, by the time of the October 22, 2012 evidentiary hearing in this matter, natural gas prices had rebounded to approximately \$3.50 to \$3.80 per dekatherm.<sup>39</sup> This fluctuation in actual costs, even during the course of the ADP proceeding, demonstrates the difficulty in predicting volatile gas commodity prices – even in the short term.

The difficulty in forecasting becomes even greater over the long-term. As Mr. Haeger testified:

You know, the last couple years in the gas business have actually been quite unnatural, let's say. When you look back at prices in 2008 when gas was trading at \$12 a dekatherm, nobody anticipated that three years later they would be trading at \$4 a dekatherm. And so to suggest that I could predict exactly the direction of

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<sup>36</sup> *Id.* at p. 3.

<sup>37</sup> T.59-60.

<sup>38</sup> R. Hahn Direct at p. 22.

<sup>39</sup> *Id.*

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where everything, all gas prices are going in the future – I don't think I want to take that bet.<sup>40</sup>

This discussion further underscores the practical problem with the standard Mr. Hahn proposes: No entity can predict future, volatile, natural gas prices with any degree of certainty.<sup>41</sup> It is therefore essential that the Commission apply a consistent and practical standard to its prudence determinations, so that utilities use the information the Commission expects them to consider when conducting their project analysis and planning.

Furthermore, because forecasts can change even during short-term periods (such as during an ADP review period), Mr. Hahn's proposal to use forecasting information as of the time an ADP Application is filed would not necessarily result in the Commission using the most up-to-date information in assessing a project's prudence. Consequently, this proposed standard would not necessarily satisfy Mr. Hahn's stated purpose in proposing such a standard. Rather, it would simply utilize a different, arbitrary point in time.

Because the utility is charged with making the decision whether to acquire the resource addition, the Company continues to advocate that the Commission evaluate the prudence of that decision on the basis of facts available at the time the decision was made. The Company believes that Mr. Hahn's suggested standard is unreasonable, impractical, and not feasible. We have further committed to file future ADP Applications more close in time to similar approval filings in Minnesota, in an effort to address the Commission's timing concerns expressed in this proceeding. Assessing the prudence of utility decisions against the information known at the time

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<sup>40</sup> T.58.

<sup>41</sup> T.59 (In response to a question whether the Company knew, at the time the PPA was signed, that natural gas prices were likely to continue to decline, Mr. Haeger disagreed and noted that "2012 is an aberration" in terms of natural gas prices.)

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the decision is made provides utilities and project developers necessary certainty regarding the criteria by which agreements will be measured – leading to an appropriate balance of project risk and orderly project planning.

**C. Project Need**

We next address Advocacy Staff’s argument that there is no “need” for this Project, as well as the argument that the Project is solely intended to meet Minnesota’s renewable energy standards. We believe that Advocacy Staff suggests an overly-narrow view of “need,” and perhaps a misunderstanding of the purposes of the Project.

1. *“Need” for the Project*

Advocacy Staff argues that the Project must not be prudent because the Company is acquiring an energy resource it does not need for the next five years. We respectfully suggest that focusing on whether the Project is needed solely for reliability purposes is not the only perspective to consider.<sup>42</sup>

On a daily and hourly basis, the Company must determine which energy resources are the most cost-effective to produce electricity, or whether it is more cost-effective to purchase from the MISO market. Without the Prairie Rose PPA resource, for example, MISO would dispatch the next least expensive energy for North Dakota customers – which could, at any given day or time, be higher or lower than the Prairie Rose Project.<sup>43</sup> This determination, therefore, is a question of economic dispatch – not of “need,” in the sense that the Company has sufficient energy available to meet

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<sup>42</sup> K. Haeger Rebuttal at p. 6; T.51-52.

<sup>43</sup> T.170 (Mr. Hahn noted that without Prairie Rose energy, “MISO would not have that energy, it would dispatch the next least expensive unit. Which, quite frankly, could be lower in cost than the PPA right here. And so if it were lower, then North Dakota customers would save money by not having this PPA. **If the replacement market price were higher than the PPA rate, then there’d be an additional cost ...**”) (emphasis added).

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its peak demand – and whether the resource addition enhances the *value* of energy provided to customers over the long term.<sup>44</sup>

Advocacy Staff's approach assumes that if the Company's customers do not need energy to ensure the reliable provision of energy service over the next five years then no reliability need justifies the Project. We have two concerns with this argument: First, the Prairie Rose PPA has a 20-year term, and the Company's current Resource Plan indicates a need for additional resources in the 2017-2018 time period.<sup>45</sup> Consequently, the Prairie Rose PPA can be used to meet this identified energy need, as defined by Advocacy Staff, for 15 of the 20 years of the PPA's term. Second, the law of supply and demand indicates that waiting to acquire resources until the need is urgent tends to have an undesirable effect on pricing.<sup>46</sup>

These circumstances make the resource acquisition prudent now, even though the resource-planning identified need is in the future. The historically-low energy pricing demonstrated by the 2010 RFP, the uncertainty as to the extension of the PTC, and the viability of the Project to take advantage of a certain PTC all argue in favor of taking advantage of the opportunity when it arose, rather than waiting until the need for the resource addition is imminent from a reliability standpoint. While taking advantage of such opportunities may create risk that the cost of energy will subsequently decline (or rise) for reasons outside the Company's control or forecasting, it benefits our customers to take advantage of opportunities to increase and diversify our energy resource portfolio as those opportunities arise.<sup>47</sup>

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<sup>44</sup> K. Haeger Rebuttal at p. 6.

<sup>45</sup> *Id.* at p. 10.

<sup>46</sup> *Id.* at p. 7.

<sup>47</sup> *Id.*

2. *Regulatory Requirements*

In response to concerns raised by Advocacy Staff, the Company has clearly stated, and the record reflects, that the resource addition was not acquired only to meet the renewable energy requirements with which the Company must comply in other jurisdictions. Instead, the Project was identified as a low cost resource that can provide significant benefits to our customers. To that end, the Company believes that the record demonstrates the prudence of the Project viewed objectively from a quantitative or qualitative standpoint, without regard to any renewable energy requirements to which the Company is subject.

While it is true that the Company operates an integrated system, and therefore must comply with the laws and regulations in each of the five states in which the system serves customers, the Company believes that utilization of low cost resources combined with economies of scale of the integrated system provide significant benefits to our customers.<sup>48</sup> That said, the Project was not driven solely by the regulatory requirements of any one state.<sup>49</sup> Rather, the Company determined that the Project compares favorably with non-renewable generation.<sup>50</sup> Although the Project contributes to the Company's ability to meet its renewable obligations throughout our integrated system, including in Minnesota, Company witness Mr. Kurt Haeger testified that the Company would have entered into the Prairie Rose PPA even without the Minnesota Renewable Energy Standard (RES), because the Project serves the Company's overall strategy to hedge against natural gas cost exposure.<sup>51</sup>

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<sup>48</sup> T.17-19.

<sup>49</sup> L. McCarten Direct at p. 7; T.64-65.

<sup>50</sup> *Id.*

<sup>51</sup> T.212-213.

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At hearing, Commissioners inquired whether cost considerations are part of the Minnesota RES.<sup>52</sup> As Mr. Haeger noted, cost is indeed an important consideration, and is factored-into the RES in the form of an “off ramp” in the event of undue economic impact on customers, reliability concerns, or material obstacles to meeting the standard.<sup>53</sup> The “off ramp” is largely set forth in Minn. Stat. § 216B.1691, subd. 2b(a), which includes the following economic and feasibility considerations:

**Subd. 2b. Modification or delay of standard.**

(a) The commission shall modify or delay the implementation of a standard obligation, in whole or in part, if the commission determines it is in the public interest to do so. The commission...must consider:

- (1) the impact ... on ... customers' utility costs, including the economic and competitive pressure on the utility's customers;
- (2) the effects ... on the reliability of the electric system;...
- (6) transmission constraints preventing delivery of service; ...

The commission may modify or delay implementation ... if it finds implementation would cause significant rate impact, requires significant measures to address reliability, or raises significant technical issues...<sup>54</sup>

As Mr. Haeger noted, the Company has not yet faced acquiring a resource that was not cost-effective in order to meet our renewable energy requirements in Minnesota.<sup>55</sup> Consequently, neither the Minnesota Public Utilities Commission nor the Company has yet seen a need to invoke the “off ramp.”

With this background, we next turn to the Company’s quantitative analysis of the Project.

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<sup>52</sup> T.82-83; T.87-88.

<sup>53</sup> T.78-79.

<sup>54</sup> Minn. Stat. § 216B.1691, subd. 2b(a) (2012).

<sup>55</sup> T.78.

**D. Quantitative Analysis**

The Company's use of conservative assumptions in its quantitative analysis of the Project indicates that (i) our customers will likely receive a quantitative benefit from the Project; and (ii) if there is a cost to our customers, it will likely be modest – which again, would be offset by qualitative considerations such as the benefits of a diverse resource pool and a prudent hedge against future environmental requirements. In this section, we outline the Company's comprehensive analysis.

The Company utilizes the Strategist tool for its quantitative modeling efforts. Strategist is widely used for modeling, among other things, the PVRR of a potential resource addition.<sup>56</sup> Advocacy Staff has not questioned the validity of the Company's use of the Strategist tool or that the tool is highly robust. However, Advocacy Staff debates which assumptions should be incorporated into our modeling. Moreover, Mr. Haeger (and multiple witnesses in this proceeding) noted that no modeling or predictive tool can guarantee a particular outcome.<sup>57</sup> In light of the range of possible assumptions that can be used in modeling a resource addition, it is useful to consider a range of possible analyses for the Project to best predict potential outcomes.

Mr. Haeger's Rebuttal Testimony sets forth the range of possible PVRR modeling results for the Project, as derived from the various assumptions proposed by the Company and Advocacy Staff:

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<sup>56</sup> T.90-91. Mr. Wishart further testified that while there are competing modeling products on the market, the results of using a competing tool have not been materially different. *Id.* at 95.

<sup>57</sup> T.58, 81 (Haeger); T.24-25 (McCarten); T. 81 (Commissioner Fetch, noting the difficulty of predicting the future); T.161 (Hahn, noting that it is not possible to predict the future cost of a 200 MW project).

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**Reasonable Range of Economic Analysis**  
PVRR Impacts (\$millions)<sup>58</sup>

	<b>As Filed Strategist Analysis</b>	<b>Updated Strategist Analysis</b>	<b>Updated Conservative Analysis</b>
Net Energy Savings	(\$5.7)	(\$5.7)	(\$5.7)
Capacity Credits	(\$17.7)	(\$13.5)	\$0.0
Wind Integration Costs	\$29.3	\$15.2	\$15.2
<u>SOx Value</u>	<u>(\$0.4)</u>	<u>(\$0.4)</u>	<u>(\$0.4)</u>
<b>Total</b>	<b>\$5.4</b>	<b>(\$4.5)</b>	<b>\$9.0</b>
<u>REC Value*</u>	<u>-NA-</u>	<u>(\$14.1)</u>	<u>(\$9.2)</u>
<b>Total With RECs</b>	<b>\$5.4</b>	<b>(\$18.6)</b>	<b>(\$0.2)</b>

\* REC value estimate not included in typical Strategist modeling

In this table, the Company’s initial conservative analysis is depicted in the far left column. The middle column (Updated Strategist Analysis) depicts an updated analysis, including revised assumptions relating to the timing of the capacity credit, updated wind integration costs, and incorporation of Mr. Hahn’s discussion regarding Renewable Energy Credit (REC) valuation. Finally, the right column (Updated Conservative Analysis) includes the Company’s updated assumptions, but modifies them to incorporate certain increasingly conservative assumptions proposed by Advocacy Staff. Overall, this table illustrates that the updated PVRR results for the Prairie Rose PPA range from a savings of \$0.2 million to nearly \$19 million. The median result of this analysis is an approximate \$9 million benefit to our customers.

Even if the Commission rejected Mr. Hahn’s suggestions that RECs have a monetary value and that it should not be assumed they will be used for compliance with renewable energy mandates, our refined economic analysis shows a range between benefits of \$4.5 million on a PVRR basis, and a cost of \$9.0 million on a PVRR

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<sup>58</sup> K. Haeger Rebuttal at p. 14.

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basis.<sup>59</sup> We believe the Project is more likely to result in a benefit than a cost, but even the highest modeled cost equates to less than two percent of total Project cost, or 0.01 percent of total system cost.

Given the possible qualitative benefits of the Project, in addition to the qualitative factors, the Company's decision to make this resource acquisition at the time was both reasonable and prudent. The Company believes that the most reasonable results of its analysis indicates a net benefit for our customers from the Prairie Rose Project, as depicted in the middle column of the above Table. The following provides an analysis of the individual assumptions demonstrating the reasonableness of the Project:

1. *Net Energy Savings*

The net energy savings represents the cost of the energy produced by the Project over the term of the PPA (\$280.6 million on a PVRR basis) as compared to the energy that it will displace (\$286.3 million on a PVRR basis, at the time the analysis was completed).<sup>60</sup> Our analysis indicated that the Company's energy cost would be \$5.7 million less with the Project in its energy portfolio.<sup>61</sup>

It is important to reiterate that these net energy savings, apart from other modeling assumptions, show that the Project benefits our customers. Moreover, these net energy savings are not in dispute. Thus, while there was much discussion in these proceedings around other modeling assumptions related to wind integration costs, capacity credits, and the like, those modeling assumptions are separate from the

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<sup>59</sup> K. Haeger Rebuttal at p. 14.

<sup>60</sup> *Id.* at p. 8-9.

<sup>61</sup> *Id.*

fundamental energy savings of the Project. These net energy savings alone arguably demonstrate the prudence of the Project.

## 2. *Capacity Credit*

As a wind resource, the Project is essentially an energy (as opposed to a capacity) resource for our generation portfolio.<sup>62</sup> As described above, the energy savings and certainty that we believe our customers will likely experience from the Project supports its prudence. However, we have modeled the impact of a potential capacity credit beginning in 2018, based on a reasonable assumption that the Project could convert from a Net-Zero Interconnection (NZI) to a conventional interconnection due to the Company's current identified additional capacity need, and the likely interim installation of necessary transmission infrastructure. The Company's analysis indicates that a capacity credit of \$13.5 million is appropriate for modeling purposes, which Mr. Hahn disputes.

Most wind resources within the MISO footprint receive a small (12 percent) capacity credit that the Company may use to offset future capacity needs.<sup>63</sup> Our initial analysis of the PPA assumed that the Company would receive this 12 percent accreditation for the generating capacity it adds to the NSP system, starting in 2013.<sup>64</sup> However, the NZI status of the Project makes it presently ineligible for a capacity credit. Keeping the NZI status in mind, our Direct Testimony showed the likely PVRR of the Project both with and without including the economic benefit of earning a capacity credit.<sup>65</sup>

Upon further review, Mr. Haeger determined that for our quantitative analysis, it is most appropriate to assume a capacity credit beginning in 2017-2018, when the

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<sup>62</sup> T.51-52.

<sup>63</sup> K. Haeger Direct at p. 12.

<sup>64</sup> *Id.* at p. 13-14.

<sup>65</sup> *Id.* at p. 14.

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Company's current resource planning identifies an additional capacity need and the necessary transmission infrastructure would be available such that the Project may be able to convert from an NZI to a traditional interconnection.<sup>66</sup> The Company further considered it reasonable to assume a conversion to a conventional interconnection, and therefore accrue the capacity credit beginning in 2018 because: (i) the Project's owners are contractually prohibited from marketing Project capacity to entities other than the Company;<sup>67</sup> and, (ii) Mr. Oye's analysis indicates that significant transmission upgrades will be available in the 2017-2018 timeframe to allow a low-cost conversion to a traditional interconnection arrangement.<sup>68</sup> As a potential low-cost source of a small increment of capacity, it is reasonable to include this small increment of capacity in an economic analysis of Project costs and benefits.

Because the capacity available from the Project represents a small portion of the Company's overall capacity needs in 2017-2018, the Company will make a full evaluation and analysis of the most prudent capacity addition at the appropriate time. Thus, as with all other aspects of modeling, the Strategist model involves reasonable assumptions rather than guarantees of the future. For the reasons described above, for purposes of this Project, it is reasonable to assume that the Company will accrue a capacity credit beginning in 2018.

While the Company's analysis indicates that a capacity credit of \$13.5 million is appropriate for modeling purposes, the Updated Conservative Analysis column of the above Table reflects Mr. Hahn's advocacy for excluding any capacity credit from the model. The Company believes this position to be overly-conservative for the reasons set forth above, but also believes the Project will be beneficial to customers even

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<sup>66</sup> K. Haeger Rebuttal at p. 9-10.

<sup>67</sup> T.206-07.

<sup>68</sup> R. Oye Rebuttal at p. 17-19; K. Haeger Rebuttal at p. 9-10.

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without a capacity credit.<sup>69</sup> The Prairie Rose Project provides a historically-low priced energy resource for our customers, aids in diversifying the Company’s portfolio, and provides a hedge against future environmental regulation with or without the benefit of the capacity credit. Moreover, the Company’s overall approach to modeling remains conservative, such that the Project is likely economically beneficial to North Dakota customers even if the Commission assumes no capacity credit will be earned.

*3. Wind Integration Costs*

Wind integration costs are the costs of “ramping up or down” another energy production unit – typically natural gas – to be available as the wind blows or dies down.<sup>70</sup> Thus as the price of natural gas declines, wind integration costs decline, and the overall costs of a wind project likewise decline.<sup>71</sup>

The Company’s initial modeling assumption for wind integration costs (the \$29.3 million presented in the As Filed Strategist Analysis in the above table), utilized the forecast from a 2006 Wind Integration Study, which assumed a 2020 natural gas price of \$9.00/MMbtu.<sup>72</sup> The Company’s natural gas forecast at the time of undertaking the Prairie Rose analysis was \$7.48/MMbtu.<sup>73</sup> Adjusting this pricing in the model ensures that the same natural gas prices are used for wind integration costs as were used in the rest of our modeling efforts.

In addition, the Company’s initial analysis assumed wind integration costs consistent with a wind penetration level of 25 percent, which is much higher than actual wind

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<sup>69</sup> K. Haeger Direct at p. 15; K. Haeger Rebuttal at p. 14.

<sup>70</sup> T.60-61.

<sup>71</sup> *Id.*

<sup>72</sup> K. Haeger Rebuttal at p. 12.

<sup>73</sup> *Id.*

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penetration at the time when the Project will be placed in service in 2013.<sup>74</sup> The more appropriate wind penetration level is closer to 13 percent.<sup>75</sup> As a result of both these refinements of the data available at the time we decided to enter the Prairie Rose PPA, the wind integration costs in the As Filed Strategist analysis were overstated by approximately \$14.1 million on a PVRR basis.<sup>76</sup>

Even with these updates, the Company believes that the wind integration costs in its analysis may continue to be overly conservative.<sup>77</sup> In keeping with the Company's efforts to conservatively analyze resource additions, however, the \$15.2 million wind integration costs set forth in the Updated Strategist Analysis column of the above Table should be considered a conservative assumption within the range of reasonableness.

4. *SO<sub>x</sub> Value*

The Company's Strategist modeling also indicated a customer savings of approximately \$400,000 (PVRR) associated with the reduction of Sulfur Dioxide (SO<sub>x</sub>) emissions.<sup>78</sup> Consistent with North Dakota law, no benefit was assigned for carbon or other environmental externalities,<sup>79</sup> although a benefit is likely to be incurred in the event of future environmental regulation.<sup>80</sup> There is no dispute regarding this savings compared to higher levels of SO<sub>x</sub> emissions; thus, there is no adjustment for it between any of the columns in the above Table.

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<sup>74</sup> S. Wishart Rebuttal at p. 4.

<sup>75</sup> *Id.*

<sup>76</sup> *Id.* at p. 5.

<sup>77</sup> *Id.* at p. 6.

<sup>78</sup> K. Haeger Rebuttal at p. 13.

<sup>79</sup> N.D.C.C. § 49-02-23.

<sup>80</sup> *Id.*

5. *REC Value*

Consistent with our conservative modeling approach, the Company's initial analysis did not include any assumptions regarding the valuation of RECs, which would have been an additional Project benefit. This is the case because it is our standard practice to assume that RECs will be used for compliance with renewable energy mandates.<sup>81</sup> In Direct Testimony, Mr. Hahn suggested that the Company should monetize North Dakota-allocated RECs and that we should not assume they will be used for compliance purposes,<sup>82</sup> which would suggest that the value of RECs should be included in the quantitative analysis of the Prairie Rose Project.<sup>83</sup>

Company witness Ms. Kari Chilcott Clark noted that at the time the Company entered into the Prairie Rose PPA, indicative pricing in the REC marketplace estimated the 2013 REC market at \$1.29 per REC, climbing to \$2.05 per REC in 2016 with a 1.9 percent inflation factor thereafter.<sup>84</sup> Ms. Clark and Mr. Haeger concurred that these are the most reasonable forecasts for modeling purposes, along with an assumption that the Company would begin disposing of Prairie Rose RECs in the 2015-2016 time frame.<sup>85</sup> Consequently, the Updated Conservative Analysis includes a \$9.2 million value for RECs, and the Updated Strategist Analysis includes a \$14.1 million REC value to demonstrate the monetization of RECs, as proposed by Advocacy Staff.

In summary, incorporating all of the above updates and perspectives, and utilizing the best information known to the Company at the time it decided to enter the Prairie

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<sup>81</sup> S. Wishart Rebuttal at p. 7.

<sup>82</sup> R. Hahn Direct at p. 30 (“Q: Do RECs have value to North Dakota customers? A: Yes. The RECs could be sold and the proceeds used to offset the cost of power.”).

<sup>83</sup> S. Wishart Rebuttal at p. 7.

<sup>84</sup> K. Clark Rebuttal at p. 8.

<sup>85</sup> *Id.* at p. 8-9 and Schedule 2; K. Haeger Rebuttal at p. 14. Mr. Hahn suggests a current, 2012 REC value of \$0.65 to \$0.95 per REC (R. Hahn Direct at p. 31-32), but this does not equate to the value of RECs beginning in 2013 when the Prairie Rose PPA is in service, to the forecasted valuation of RECs as of the date the Prairie Rose PPA was entered, or to the likely value of RECs when they begin to be sold in 2015-2016.

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Rose PPA, the Company believes that the Prairie Rose Project is most likely to provide a cost savings to customers of between \$0.2 and \$18.6 million on a PVRR basis. Even without considering the qualitative benefits of the Project, this analysis supports the prudence of the Project.

**E. Qualitative Analysis**

As previously discussed, the qualitative benefits of the Project include a historically-low, certain, fixed price at which our customers will obtain low-cost energy, thereby providing protection from swings in the cost of energy. Similarly, the Project increases the resource diversity in the Company's energy portfolio, thereby providing a hedge against the potential for future volatile fuel prices.<sup>86</sup> Further, as a new renewable resource, the Project provides benefits with respect to uncertain environmental regulations that may be promulgated in the future, including new carbon dioxide or hydraulic fracturing regulations.<sup>87</sup> When these qualitative benefits are added to the quantitative benefits, the record supports a determination of prudence, even if there may be some cost to our North Dakota customers for the resource addition.<sup>88</sup>

**F. Other Issues**

*1. Renewable Energy Credits*

Advocacy Staff initially recommended that the Company sell all RECs that accrue to North Dakota customers immediately as they are generated, including but not limited

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<sup>86</sup> K. Haeger Direct at p. 16.

<sup>87</sup> *Id.*

<sup>88</sup> See *Advanced Determination of Prudence 201 MW Nobles Wind Project Application*, Case Nos. PU-08-907, ORDER ON APPLICATION FOR ADVANCED DETERMINATION OF PRUDENCE (N.D. P.S.C. Aug. 12, 2009) (discussing the record indicating that the difference between the cost of the proposed resource addition and other alternatives while more costly was not large and that quantitative factors should also be considered and finding prudence based on this record).

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to RECs accrued for the Project. The Company responded that liquidating RECs in the presently-immature market would deprive North Dakota customers of the opportunity to benefit from strategic management of the Company’s REC portfolio.<sup>89</sup> Such management includes retiring the oldest RECs first, and actively seeking above-market REC sales opportunities.<sup>90</sup>

The Company noted that market analyses and strategic searches for opportunities in markets for Renewable Energy Standard compliance and the REC voluntary purchase market result in a greater ability to maximize REC values, as compared to immediate liquidation.<sup>91</sup> The Company further noted an example of a recent successful REC sale in which selling a volume of RECs equivalent to or less than **[BEGIN TRADE SECRET**

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Following submission of Rebuttal Testimony, Advocacy Staff and the Company agreed that the Company should continue to actively manage its REC portfolio and seek opportunities to liquidate its RECs at premium prices. As part of that agreement, the Company commits to include information about monthly indicative REC market pricing, as well as any REC sales the Company made in the prior year, in its annual North Dakota Renewable Energy Objective filing.<sup>93</sup> We believe this reporting will provide additional transparency to the Commission, creating an enhanced opportunity for the Commission to have oversight and ask questions regarding the Company’s REC management.

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<sup>89</sup> K. Clark Rebuttal at p. 2-3.

<sup>90</sup> *Id.* at 5.

<sup>91</sup> *Id.* at p. 3-4

<sup>92</sup> *Id.* at p. 7.

<sup>93</sup> T.127-28.

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2. *Net Zero Interconnection Service*

In pre-filed Testimony, Advocacy Staff also raised questions regarding the NZI status of the Prairie Rose Project. In particular, Advocacy Staff questioned (i) the fairness of NZI opportunities; (ii) the possibility that there will be times when the NZI project is unable to deliver energy to the grid; and, (iii) whether the value of NZI was adequately captured in the 2010 Wind RFP.<sup>94</sup>

The Company provided in its Rebuttal Testimony that:

- FERC has addressed or is in the process of addressing the issue of fairness around NZI generally, and the Prairie Rose Project specifically.<sup>95</sup> FERC is also working with MISO to ensure future NZI opportunities are implemented in a fair and transparent manner. Thus, any fairness issues are being resolved by FERC, and should not impact the Commission's determination in this proceeding.<sup>96</sup>
- The Company has examined the potential for the Project to be unable to deliver energy to the grid as a result of the NZI, and has found that any such occasions are unlikely to occur, and if at all, it would be on an extremely infrequent basis.<sup>97</sup>
- Because NZI was available to all bidders in the 2010 Wind RFP, the value of NZI was incorporated in the prices offered in the 2010 Wind RFP.<sup>98</sup>

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<sup>94</sup> R. Hahn Direct at p. 13-17.

<sup>95</sup> A settlement in FERC Docket No. EL11-53 includes agreement by all parties that the Prairie Rose project is not discriminatory and that other projects are not similarly situated. R. Oye Rebuttal at p. 7-10. While FERC has not passed judgment on the settlement as of this writing, both the Administrative Law Judge and FERC Staff have recommended approval of the settlement.

<sup>96</sup> R. Oye Rebuttal at p. 7-16.

<sup>97</sup> *Id.* at p. 12-13.

<sup>98</sup> K. Haeger Rebuttal at p. 15-16.

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Additionally, the Company estimated the perceived value of NZI by quantifying the perceived value of the Company's ability to do an NZI project, as if the Company had accepted a non-NZI bid. This facilitated an apples-to-apples comparison to non-NZI bids.<sup>99</sup> As a result of this process, the Company determined that Prairie Rose remained the most-cost effective Project, even if a \$10 to \$15 million NZI value was added.<sup>100</sup>

This testimony went unrebutted at the evidentiary hearing, as Advocacy Staff appeared to conclude that the more critical question was the overall economic value of the Prairie Rose Project compared to other alternatives. Accordingly, NZI issues appear to be resolved for purposes of this proceeding.

#### **IV. CONCLUSION**

The Prairie Rose Project PPA provides a renewable resource for our customers at reasonable prices, and with contractual price certainty over the next 20 years. Recognizing the confluence of events that have come together to drive the price of wind energy to historic regional lows, the Company took advantage of this opportunity to ensure that we could capture these low prices for our electric customers. We believe the record clearly demonstrates the prudence of the Project when applying the established standard of review.

The Company has provided a robust analysis of the economics of the Project under many scenarios. Under most of these scenarios, including those our resource planning experts advocate as the most reasonable within the range of possible outcomes, the Project is likely to provide economic benefits to our customers. However, even if the future does not unfold as forecasted, the record demonstrates

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<sup>99</sup> *Id.* at p. 16.

<sup>100</sup> *Id.*

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that the Project would likely result in only modest costs to our customers (\$9 million on a system wide, PVRR basis) when viewed in light of our overall system-wide yearly fuel and purchased energy costs (\$1.1 billion).

Thus, the more likely potential for positive economic benefits for customers, assessed on the basis of reasonable and conservative assumptions, demonstrates the prudence of the Project. Additionally, the Project:

- Provides a hedge against volatile fuel prices that could significantly increase our customers' energy costs –
- Provides a hedge against future environmental regulations that could significantly increase our customers' energy costs; and
- Ensures that our customers obtain the benefits of historically-depressed wind energy prices now, instead of having to make more difficult decisions in an uncertain future.

The holistic analysis of the Prairie Rose Project, as reflected in the record of these proceedings, supports the grant of the Advanced Determination of Prudence requested in the Company's Application.

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Dated: December 3, 2012

Respectfully submitted,

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