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1 STATE OF NORTH DAKOTA
 2 PUBLIC SERVICE COMMISSION
 3
 4 APPLICATION OF NORTHERN STATES POWER COMPANY, A MINNESOTA
 5 CORPORATION, FOR AN ADVANCE DETERMINATION OF PRUDENCE FOR
 6 A POWER PURCHASE AGREEMENT WITH GERONIMO WIND ENERGY, LLC
 6 CASE NO. PU-12-059
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 14 Public Service Commission Hearing Room
 15 12th Floor
 16 State Capitol
 17 Bismarck, North Dakota
 18
 19 October 22, 2012
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 24 TRANSCRIPT PREPARED BY: Janet Shaddix Eiling
 25 Registered Professional Reporter

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5	<p>1 JUDGE WARD: Okay. Good morning,</p> <p>2 everyone. My name is Pat Ward, I'm the</p> <p>3 administrative law judge pursuant to temporary</p> <p>4 appointment designated by the Office of</p> <p>5 Administrative Hearings upon the request of the</p> <p>6 Public Service Commission to serve as the procedural</p> <p>7 hearing officer for this hearing.</p> <p>8 The record will show that it's a little</p> <p>9 past 8:30 a.m., October 22nd, 2012. We're at the</p> <p>10 Public Service Commission hearing room, 12th Floor</p> <p>11 of the State Capitol building, Bismarck, North</p> <p>12 Dakota, the time, date and place set by the notice</p> <p>13 of hearing issued by the North Dakota Public Service</p> <p>14 Commission on August 1st, 2012. This is case number</p> <p>15 PU-12-059.</p> <p>16 We are here to hold a public hearing on</p> <p>17 the Application of Northern States Power for an</p> <p>18 Advance Determination of Prudence of a Power</p> <p>19 Purchase Agreement for 200 Megawatts of Wind Energy</p> <p>20 from the Prairie Rose Wind Generation Project in</p> <p>21 Pipestone and Rock County, Minnesota from Geronimo</p> <p>22 Wind, LLC as set forth in the notice of filing and</p> <p>23 notice of hearing, which has all been duly noticed</p> <p>24 and published in accordance with the requirements of</p> <p>25 statute and the Commission's rule.</p>	7
6	<p>1 This is the public hearing on the</p> <p>2 application of Northern States Power, which is,</p> <p>3 except for trade secret portions, being broadcast on</p> <p>4 the web. The hearing is also being recorded.</p> <p>5 The notice of filing and notice of</p> <p>6 hearing for this hearing specified the following</p> <p>7 issue to be considered and determined upon this</p> <p>8 hearing. Whether the resource addition is prudent.</p> <p>9 It appears that Commission staff disputes this</p> <p>10 prudence of the power purchase agreement.</p> <p>11 Before we begin, are there any opening</p> <p>12 comments from the Commissioners?</p> <p>13 Commission Chairman Brian Kalk.</p> <p>14 CHAIRMAN KALK: Thank you, Your Honor,</p> <p>15 and thank you everyone for being out here early on a</p> <p>16 Monday morning and getting right to it, a good</p> <p>17 turnout.</p> <p>18 I guess the only question I would have,</p> <p>19 Your Honor, is the -- as we get into the trade</p> <p>20 secret information, I mean, does folks think we'll</p> <p>21 get into that or that's really going to come out?</p> <p>22 And if we do, make sure we stop and start the tape</p> <p>23 at the appropriate time.</p> <p>24 JUDGE WARD: Mr. Chairman, we have</p> <p>25 discussed that in the prehearing conference, and the</p>	8
	<p>1 plan would be to, if -- it doesn't appear that</p> <p>2 there's going to be much of the trade secret</p> <p>3 information that will need to come in in the public</p> <p>4 hearing; however, if for some reason we do get into</p> <p>5 that, the attorneys have advised me that they will</p> <p>6 caution us and then we can stop the broadcast and</p> <p>7 go, you know, into a private discussion of those</p> <p>8 topics and then we would be making a separate tape</p> <p>9 that includes that. And then at the conclusion of</p> <p>10 the private, nonpublic information, we would reopen</p> <p>11 the hearing and reopen the broadcast.</p> <p>12 CHAIRMAN KALK: Sounds good. I just</p> <p>13 wanted to talk about it.</p> <p>14 Thanks again everyone for being here, I</p> <p>15 look forward to a good, thorough hearing -- thorough</p> <p>16 hearing.</p> <p>17 Thank you.</p> <p>18 JUDGE WARD: Commissioner Cramer.</p> <p>19 COMMISSIONER CRAMER: Thank you, Your</p> <p>20 Honor, and thanks, everyone, for being here and for</p> <p>21 the hard work that's been done to this point.</p> <p>22 I do have a few items of direction.</p> <p>23 First of all, I would assume, counsel, that we're</p> <p>24 going to accept or stipulate all the prefiled</p> <p>25 testimony, no need to -- okay, we can simply go to</p>	

<p style="text-align: right;">9</p> <p>1 very similar characteristics. And that is to say a 2 wind farm built at the -- at the demand of another 3 state's policies. So I don't -- I don't think 4 that'll surprise anybody that I'm skeptical of this 5 type of an application, or at least honoring the 6 request. I think that it's been well vetted in 7 the -- and well testified to in the prefiled 8 testimony and I appreciate both the work of the 9 utility and, of course, the advocates who I think 10 have argued their points very nicely and thoroughly 11 in the prefiled testimony. 12 So, with that, I just wanted to make 13 those clarifying comments. That I view this as a 14 prudence case as much as an advance determination of 15 prudence case. Probably the first one since we've 16 had -- had the ADP law, where I believe that we're, 17 at the end of this, I would expect it would be 18 settled. 19 I also would caution, and perhaps this 20 will come up, you know, I don't know -- well, let me 21 not -- let me not get to that. I was going to talk 22 about other ways, but we'll just wait and see how 23 this one turns out first. 24 Thank you. 25 JUDGE WARD: Commissioner Fetch.</p>	<p style="text-align: right;">11</p> <p>1 necessary for us to close portions of hearing if 2 such information comes up. 3 We had talked about providing the 4 Commissioners all of the stipulated exhibits at the 5 beginning of the hearing and then counsel can just 6 reference them. Foundation is already agreed to, 7 the exhibits have already been admitted. So if you 8 would want to provide those to the Commissioners 9 now. 10 COMMISSIONER FETCH: Thank you. 11 CHAIRMAN KALK: Thank you. 12 COMMISSIONER CRAMER: Thank you so much. 13 JUDGE WARD: It's my understanding, 14 Commissioners, that there's 10 exhibits, there are 15 both public and private copies of each of the 10 16 exhibits. 17 CHAIRMAN KALK: Okay. Can I check, Your 18 Honor, back up, the nonpublic versions, or didn't we 19 just -- 20 JUDGE WARD: I would say that the 21 nonpublic versions -- we can discuss that later 22 during one of the breaks as to you how we want to 23 handle those. But -- 24 MS. BRAMA: Certainly. 25 JUDGE WARD: Now, before we proceed with</p>
<p style="text-align: right;">10</p> <p>1 COMMISSIONER FETCH: Good morning, 2 everyone. This is the first of this type of case 3 that I'm being able to be involved in, so I look 4 forward to hearing from everyone this morning. 5 Thank you. 6 JUDGE WARD: Thank you, Commissioners. 7 Ms. Brama, would you please state your 8 appearance for the record? 9 MS. BRAMA: Yes, Your Honor. 10 Commissioners, thank you for having us 11 today, my name is Liz Brama, I'm an attorney with 12 Briggs and Morgan here representing Northern States 13 Power Company. With me is Zev Simpser, also from my 14 office. 15 JUDGE WARD: And, Mr. Gruman, would you 16 state your appearance for the record, please? 17 MR. GRUMAN: Thank you, Your Honor. Mark 18 Gruman, Advocacy Staff counsel. To my left is Chris 19 Marohl, Advocacy Staff, and to his left is Richard 20 Hahn from LaCapra Associates, testifying on behalf 21 of Advocacy. 22 JUDGE WARD: Now, it's my understanding 23 that counsel have met and agreed upon exhibits. And 24 as I've indicated already, some of these exhibits 25 contain trade secret information, which it may be</p>	<p style="text-align: right;">12</p> <p>1 opening statements, I did want to find out whether 2 anyone is present in the room who may want to be 3 heard on this issue other than counsel for the 4 parties or witnesses or employees of the parties? 5 Is there anyone in the room who might have a 6 position to take on this application? It doesn't 7 appear that there is. 8 So as soon as Mr. Gruman is settled back 9 in his chair we can proceed with brief opening 10 statements from counsel. 11 Ms. Brama. 12 MS. BRAMA: Thank you, Judge Ward. 13 Commissioners, the company is here today, 14 as Judge Ward indicated, to establish the prudence 15 of the company's decision to enter into a power 16 purchase agreement, or PPA, for 200 megawatts of 17 wind generated by Prairie Rose Wind. 18 Our presentation today, we'll start with 19 our witness Laura McCarten, who will present the 20 company's policy reasons for entering into the 21 Prairie Rose PPA. Next, director of resource 22 planning, Kurt Haeger, will discuss why the project 23 is prudent from a resource planning standpoint. 24 Steve Wishart will provide support for the results 25 of our modeling efforts. And, finally, Randy Oye</p>

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1 will discuss transmission issues, and Kari Clark
 2 will address management of the company's renewable
 3 energy credit, or REC portfolio.
 4 I note for the exhibits that you have in
 5 front of you, there are public and nonpublic
 6 versions of each exhibit, with the exception of
 7 Mr. Wishart's rebuttal testimony, there is only a
 8 public version of that testimony.
 9 The company believes strongly that the
 10 Prairie Rose project is a prudent purchase of a
 11 renewable resource and that the company's North
 12 Dakota customers will benefit from the company's
 13 ability to enhance its portfolio of cost-effective
 14 wind energy.
 15 We're happy to answer any questions the
 16 Commission may have and to get the proceeding
 17 underway.
 18 JUDGE WARD: Mr. Gruman, would you care
 19 to make an opening statement?
 20 MR. GRUMAN: Just briefly, Your Honor.
 21 As indicated before, Advocacy Staff has
 22 two witnesses, Chris Marohl and Richard Hahn. You
 23 have read our prefiled testimony so I'll just defer
 24 to that, you understand our position in that regard,
 25 and we're looking forward to a very good hearing

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1 today.
 2 JUDGE WARD: Thank you, counsel.
 3 Ms. Brama, you may call your first
 4 witness.
 5 MS. BRAMA: The company would like to
 6 have Ms. Laura McCarten.
 7 JUDGE WARD: Ms. McCarten, is your mic
 8 on?
 9 MS. McCARTEN: You tell me.
 10 JUDGE WARD: Okay.
 11 MS. McCARTEN: Yep, good.
 12 JUDGE WARD: All right. Before you begin
 13 your testimony, I'm required by law to advise you of
 14 the law regarding perjury in this state.
 15 Perjury is a false statement under oath
 16 of a material fact made by a person who knows or
 17 does not believe the statement to be true at the
 18 time it is made. Perjury is a Class C felony. A
 19 Class C felony is subject to a maximum penalty of
 20 five years imprisonment, a fine of \$5,000, or both
 21 may be imposed.
 22 Having been advised of the penalty for
 23 perjury, please raise your right hand so I can
 24 administer the oath.
 25 Do you promise to tell the truth, the

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1 whole truth, and nothing but the truth in this
 2 proceeding?
 3 MS. McCARTEN: Yes, I do.
 4 JUDGE WARD: Thank you.
 5 LAURA McCARTEN
 6 EXAMINATION
 7 BY MS. BRAMA:
 8 Q Good morning, Ms. McCarten.
 9 A Good morning.
 10 Q Would you mind just stating and spelling your full
 11 name and position for the record?
 12 A My name is Laura McCarten, that's L-A-U-R-A, M-C,
 13 capital C, A-R-T-E-N. And I'm regional vice
 14 president for Northern States Power.
 15 Q Thank you. Do you have there with you Exhibit 1
 16 public and Exhibit 1 nonpublic?
 17 A I do.
 18 Q And are these your prefiled direct testimony in this
 19 proceeding? I'm sorry, excuse me. These are
 20 Exhibit 2 public and Exhibit 2 nonpublic.
 21 A Correct. That's how they're labeled.
 22 Q Yes. And these are your prefiled testimony in this
 23 proceeding?
 24 A Yes.
 25 Q I understand you've prepared an opening statement.

16

1 Would you like to deliver that now?
 2 A Yes, thank you.
 3 Again, I'm Laura McCarten, regional vice
 4 president for Northern States Power. And I'm
 5 responsible for the regulatory, legislative and
 6 community relations activities in North Dakota,
 7 South Dakota and Minnesota. I started with the
 8 company as a nuclear engineer and have served in
 9 various capacities at the company for over 30 years.
 10 My direct testimony focused on the
 11 reasonableness of the Prairie Rose power purchase
 12 agreement, or PPA, within the context of its low and
 13 stable energy costs, and its contribution to our
 14 diverse energy portfolio for the integrated system
 15 that serves all of our customers in North Dakota,
 16 South Dakota, Minnesota, Wisconsin and Michigan.
 17 In 2010 the company began to observe
 18 increasingly competitive wind pricing in the
 19 midwest. In our 2010 midwest resource plan we
 20 indicated our intention to issue a request for
 21 proposal for wind projects. Our goal was to
 22 determine whether wind generation was priced
 23 sufficiently low to warrant adding inexpensive
 24 renewable energy to our system.
 25 This competitive bid process, which

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1 garnered over 140 proposals, resulted in the
 2 selection of the Prairie Rose Wind Project, the
 3 power purchase. Prairie Rose offered the lowest
 4 legitimate wind pricing that we had ever seen in
 5 this region.
 6 Using the updated assumptions, including
 7 Mr. Haeger's testimony, or his rebuttal testimony,
 8 the Prairie Rose Wind Project will result in monthly
 9 savings for North Dakota customers as compared to
 10 the most competitive alternative. Even using
 11 more -- the most conservative estimates, on average
 12 a North Dakota residential customer would pay about
 13 one and a half cents per month more for the Prairie
 14 Rose Wind Project over the 20-year lifetime of the
 15 project as compared to the most competitive
 16 alternative.
 17 My direct testimony also addressed the
 18 nature of our integrated system, which has produced
 19 significant benefits for our North Dakota customers,
 20 and I'd like to briefly review the aspects of that.
 21 First, our five-state system means that
 22 we can achieve significant cost savings related to
 23 economies of scale. That is, we can invest in
 24 larger and more efficient power plants of varying
 25 fuel types than would be possible if we were a

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1 smaller stand-alone operation in North Dakota. And
 2 a good example of that is our nuclear power plants.
 3 We would not be able to provide such power to our
 4 North Dakota customers if it was a stand-alone
 5 system.
 6 Second, our system allows us to develop a
 7 more diverse energy supply portfolio than we would
 8 be able to on a state-by-state basis. This
 9 diversity protects against fuel price volatility,
 10 fuel supply constraints, and the impacts of power
 11 plant outages.
 12 Third, our integrated system provides
 13 good load diversity, such that the overall system
 14 load factor for our system is around 60 percent,
 15 which is much higher than is typical for smaller
 16 systems. What this means is that less customer load
 17 is exposed to on-peak market prices, which can be
 18 double or triple the cost of our peak market prices.
 19 Fourth, our larger integrated system
 20 gives us the ability to issue requests for proposals
 21 for new resources sized at 150 megawatts or larger.
 22 RFPs of this magnitude are sufficient to draw the
 23 attention of large developers who are able to both
 24 bring large projects on line in a timely manner and
 25 assume the numerous risks present in power plant

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1 development.
 2 Finally, there are advantages to size in
 3 attracting and developing top expertise in energy
 4 trading and risk management, as well as other
 5 critical utility functions such as engineering and
 6 operations.
 7 While the states we serve have
 8 established different renewable energy goals, we
 9 strive to seek a balanced -- a balance, such that we
 10 are able to comply with the requirements of every
 11 state in a reasonable, cost-effective manner, so
 12 that the savings derived from the integrated system
 13 will benefit all of our customers and not be
 14 overshadowed.
 15 The Prairie Rose PPA is one of our lowest
 16 cost wind projects and is consistent with this
 17 overarching objective. And also does help us meet
 18 renewable energy goals.
 19 The driving force behind the Prairie Rose
 20 project is its benefits for the customers of each
 21 state in our system, and my testimony supports the
 22 policy reasons why this power purchase agreement is
 23 prudent.
 24 The witnesses that follow me will discuss
 25 this project in greater detail.

20

1 That concludes my opening statement and
 2 thank you.
 3 MS. BRAMA: Thank you. This witness is
 4 available for questions.
 5 JUDGE WARD: Mr. Gruman.
 6 MR. GRUMAN: I'll defer to opposing
 7 counsel, 'cause perhaps this may be a question
 8 better left to another witness.
 9 EXAMINATION
 10 BY MR. GRUMAN:
 11 Q But, in particular, if this ADP were approved, could
 12 you please explain to us and the Commission about
 13 how those costs would be recovered by the company?
 14 A Mr. Gruman, it's my understanding that as a power
 15 purchase agreement the costs would be recovered
 16 through the fuel clause on a proportional basis
 17 relative to the North Dakota customer load compared
 18 to our total system load.
 19 Q That's about what, 5.8 percent?
 20 A Subject to somebody knowing the exact number, that
 21 sounds in the ballpark.
 22 MR. GRUMAN: Anything else?
 23 I have no further questions.
 24 JUDGE WARD: Any follow-up?
 25 MS. BRAMA: No, Your Honor.

21	<p>1 JUDGE WARD: Any questions from the</p> <p>2 Commissioners for Ms. McCarten?</p> <p>3 CHAIRMAN KALK: Wonderful. Where did our</p> <p>4 attorney go to? Jerry, go see where our attorney is</p> <p>5 at, please.</p> <p>6 JUDGE WARD: For the record, we're taking</p> <p>7 a brief pause while we look for Ms. Jeffcoat-Sacco,</p> <p>8 who stepped out of the room briefly.</p> <p>9 Ms. Jeffcoat-Sacco.</p> <p>10 MS. JEFFCOAT-SACCO: Yes. I went to get</p> <p>11 some trade secret forms to sign for the trade secret</p> <p>12 exhibits. And I wondered if there was another copy</p> <p>13 of the exhibits? Commission Advocacy Staff, or, I</p> <p>14 mean, the Commission Advisory Staff did not get a</p> <p>15 copy.</p> <p>16 MS. BRAMA: Certainly, we can provide an</p> <p>17 additional copy.</p> <p>18 MS. JEFFCOAT-SACCO: Thanks.</p> <p>19 Did you want my appearance and --</p> <p>20 JUDGE WARD: Yes, Ms. Jeffcoat-Sacco,</p> <p>21 might as well.</p> <p>22 MS. JEFFCOAT-SACCO: Sorry.</p> <p>23 JUDGE WARD: I'm looking for that, note</p> <p>24 your appearance for the record.</p> <p>25 MS. JEFFCOAT-SACCO: Ilona</p>	23	<p>1 stipulated to the admission of all exhibits. This</p> <p>2 includes Exhibit 1 public and nonpublic, which is</p> <p>3 our application in this matter. I misspoke earlier</p> <p>4 when I asked Ms. McCarten about Exhibit 2, which is</p> <p>5 her testimony. So Exhibit 1 has been preadmitted,</p> <p>6 we'll refer to it as needed during the hearing.</p> <p>7 JUDGE WARD: I think we can take care of</p> <p>8 the formality of the forms here as we --</p> <p>9 MS. JEFFCOAT-SACCO: As we go, yes, thank</p> <p>10 you.</p> <p>11 JUDGE WARD: -- get a little break as we</p> <p>12 go ahead.</p> <p>13 Chairman Kalk, any questions for</p> <p>14 Ms. McCarten?</p> <p>15 CHAIRMAN KALK: Yeah. Thank you, Your</p> <p>16 Honor.</p> <p>17 EXAMINATION</p> <p>18 BY CHAIRMAN KALK:</p> <p>19 Q Thank you, Laura, for your testimony. I know we</p> <p>20 have a lot of witnesses coming so I'm not going to</p> <p>21 go too far down the weeds off the bat, but just</p> <p>22 from -- I mean, you're one of the senior members of</p> <p>23 the company, and just kind of give me your thoughts</p> <p>24 about, as the company looks back and figures out,</p> <p>25 you know, what percentage of wind do you want to</p>
22	<p>1 Jeffcoat-Sacco, Commission Advisory Staff. With me</p> <p>2 is Patrick Fahn and Jerry Lein, also, as Advisory</p> <p>3 Staff.</p> <p>4 And I will have those forms for folks to</p> <p>5 sign in a minute for the trade secret exhibits.</p> <p>6 Thank you.</p> <p>7 JUDGE WARD: Okay. Ms. Jeffcoat-Sacco,</p> <p>8 when you briefly stepped out of the room we had</p> <p>9 concluded Ms. McCarten's testimony, I'm not sure if</p> <p>10 you heard it all.</p> <p>11 MS. JEFFCOAT-SACCO: I have no questions</p> <p>12 for Ms. McCarten, thank you.</p> <p>13 JUDGE WARD: All right.</p> <p>14 MS. JEFFCOAT-SACCO: I will pass these</p> <p>15 forms out, though, if everyone who has a copy of a</p> <p>16 confidential exhibit would please sign a form,</p> <p>17 return them to me, I'd appreciate it. Not the</p> <p>18 company, but the others.</p> <p>19 MS. BRAMA: Perhaps while these forms are</p> <p>20 going around, if I could just clarify one item for</p> <p>21 the record purposes?</p> <p>22 JUDGE WARD: Please do.</p> <p>23 MS. BRAMA: Counsel for Advocacy Staff</p> <p>24 and I and Judge Ward did confirm earlier, as</p> <p>25 Commissioner Cramer indicated, that we have</p>	24	<p>1 have, what percentage of nuclear do you want to</p> <p>2 have, what percentage of coal, what percentage of</p> <p>3 hydro? You talked about the IRP, and just how is</p> <p>4 the planning perspective, how you look at it from</p> <p>5 your level?</p> <p>6 A Okay. Chairman Kalk, thank you. We look at it --</p> <p>7 we look at it on an evolving level, so we're always</p> <p>8 looking at what do we know today, what do we think</p> <p>9 is happening in the future, because every decision</p> <p>10 that we make today we know stays with us for many</p> <p>11 years. So we try to, on a always going-forward</p> <p>12 basis, we're making decisions just about every year</p> <p>13 on how best to meet our customers' needs, how best</p> <p>14 to serve the integrated system.</p> <p>15 We do integrated resource planning so</p> <p>16 that we can take long views and try to make sure</p> <p>17 that decisions that we take year by year are always</p> <p>18 guided by a good, long view of factors that should</p> <p>19 influence our decision. Factors that can relate to</p> <p>20 cost of energy, supply of energy, things of that</p> <p>21 sort.</p> <p>22 I think what -- a big factor that guides</p> <p>23 us is the value of the diversity of our energy</p> <p>24 portfolio, the idea of not having all of our eggs in</p> <p>25 one basket. And I often liken that to the diversity</p>

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1 of a 401(k) or a financial portfolio, because none
 2 of us can predict the future exactly. It's wise and
 3 it's prudent to have diversity in our supply
 4 portfolio. So that's, I think, a big aspect of how
 5 we try to plan going forward.
 6 I think we're in a position that would be
 7 the envy of a lot of utilities with the diversity
 8 that we have. About 30 percent of our energy comes
 9 from our nuclear power plants, Monticello and
 10 Prairie Island. We're at, I think, about 40 percent
 11 of our energy right now comes from coal-fueled power
 12 plants. We're at something -- I don't know the
 13 exact numbers, but we're somewhere around maybe 13
 14 percent of renewable, that's almost entirely wind
 15 energy. We have growing amounts of natural
 16 gas-fueled generation on our -- as part of our
 17 portfolio. And every day and also over the long
 18 term we're also accessing the market to make sure
 19 that we're getting, you know, low-cost energy
 20 resources wherever we can.
 21 So, overall, I would say that our -- our
 22 plan -- or our approach is always sort of constantly
 23 evolving, looking at the best information available,
 24 trying to look with the long view and always trying
 25 to manage risks so that we can provide reliable,

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1 low-cost energy to our customers now, for today, and
 2 into the future.
 3 Q Okay. So tell me how you integrate a -- you serve a
 4 variety of states. If North Dakota has a goal for
 5 so much renewable, which is the goal, where
 6 Minnesota would have a mandate of a certain amount,
 7 how do you -- how do you integrate that into your
 8 planning? Because it seemed to me that that would
 9 drive some of the planning.
 10 A Well, and I probably defer most of this to Kurt
 11 Haeger, who is our resource planning expert, leads
 12 that group for the company. But I do believe that
 13 as we stand here today we've been able to add the
 14 wind resources that are part of our integrated
 15 system in this upper midwest integrated system. I
 16 think we can show with facts that every time we've
 17 chosen that wind resource, it's always been cost
 18 competitive with what would be an alternative at
 19 that time. So where we are today, I think our
 20 portfolio has been a low or least cost --
 21 Q In your opinion, though, you always use cost as the
 22 factor that determines your resource? I think
 23 that's what I just heard. Even though it may be a
 24 mandate from the state, you still look at the cost
 25 of it?

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1 A I was going to go on to say that I was using the
 2 term least cost, and I'm not sure I'm using that
 3 term correctly because I think we look at other
 4 factors as well. But I think that the portfolio
 5 that we deliver to our customers is very cost
 6 effective and cost competitive.
 7 Q Okay.
 8 A Going forward, I think that's something that, you
 9 know, we'll see how that plays out going forward.
 10 Q And then just the last one I have for you is we've
 11 had a lot of discussion recently in the Commission
 12 about how a company views an IRP. They file an IRP
 13 with the Commission, and in the past the Commission
 14 has not necessarily responded back to IRPs because
 15 we wanted to wait and save that opportunity to
 16 comment in the future.
 17 But did I hear in your testimony, you
 18 said you'd give us the IRP, and that was almost like
 19 a, we told you we were going to do this back when
 20 and now we're doing that, where you valued -- you
 21 had a lot of weight in the IRP that you filed as to
 22 your future resource plans?
 23 A Well, as I understand our IRP, we lay out what we
 24 think is a -- at a high level, the -- a prudent
 25 course of action to serve our customers' needs over

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1 the long haul. But then year by year, with every
 2 specific decision that we make, we're always testing
 3 the particulars of that decision, does this make
 4 sense. And sometimes it may fit within the larger
 5 view that's set by the IRP and sometimes it may not.
 6 So I'm not sure if I'm answering your question
 7 exactly.
 8 Q Just -- and this is maybe outside of this particular
 9 case, but so when you file an IRP, if you don't hear
 10 something back from the North Dakota Public Service
 11 Commission, do you take that as they agree with my
 12 IRP, or do you just take it as they have no position
 13 at this time on it?
 14 A Commissioner, I don't think that we take it as that
 15 you agree. I mean, if the Commission hasn't
 16 specifically acted, we don't presume the
 17 Commission's position.
 18 CHAIRMAN KALK: All right. Thank you.
 19 That was actually all I had. Thank you.
 20 THE WITNESS: Okay.
 21 JUDGE WARD: Commissioner Cramer.
 22 EXAMINATION
 23 BY COMMISSIONER CRAMER:
 24 Q Yes. Thank you, Laura.
 25 You referred a few times to this project

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1 as being the low-cost wind project. Is that to say
 2 it's not the low-cost energy project, just so I'm
 3 clear?
 4 A Commissioner, in my -- In my opening remarks I did
 5 mention that using updated assumptions that
 6 Mr. Haeger used in the modeling of comparing adding
 7 the Prairie Rose Wind Project to the next least-cost
 8 alternative, that adding the Prairie Rose Wind
 9 Project was less costly. So it would be a net
 10 savings to North Dakota customers.
 11 Q Well, one of the struggles I have with all of this,
 12 and it's why we've decided as a Commission to become
 13 a little more proactive in the IRP process for all
 14 of our utilities, multi-state utilities, of course,
 15 is that while you state the value of fuel diversity,
 16 load diversity, we're also seeing -- we're also
 17 seeing growing diversity within -- among state
 18 policies. And that's the challenge, of course, that
 19 we have. Or at least that I have.
 20 And so as states start being very
 21 different, in terms of their culture and their
 22 policies related to regulated utilities, I think we
 23 have to become all the more discerning as protectors
 24 of our own ratepayers.
 25 If it weren't for Minnesota's mandate of

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1 30 percent by 2030, would you be doing -- would you
 2 be building this wind farm?
 3 A Yes, we would, because it's a cost-effective
 4 resource and it's part of how we do our business
 5 kind of every day, is looking for cost-effective
 6 resources that would displace more costly resources.
 7 So on kind of a real-time basis, trying to bring the
 8 best cost energy resource to serve our customers.
 9 Q So if it was 40 percent or 50 percent, I mean, or 10
 10 percent, the mandate, this would still be -- you'd
 11 still be building this 200 megawatts in Minnesota?
 12 A Commissioner, yes. Because when we launched the RFP
 13 to test the market back in the fall of 2010, because
 14 what we were seeing with such low wind prices, we at
 15 that time did not need to add new renewable wind
 16 sources to keep pace even with our Minnesota
 17 Renewable Energy Standard. We were several years
 18 away from having to do that.
 19 What we have done in the past and what
 20 has served our customers very well is we haven't
 21 waited till the last moment to serve a need and to
 22 go forward and meet a need. And I think we've seen
 23 that some utilities that have done that,
 24 particularly with wind, and some here in North
 25 Dakota, when they waited till the last moment they

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1 bought in at the top of the market. Because we
 2 have, I think, taken a prudent approach and not
 3 always waited till the last moment, and this case is
 4 a particular case, we tested the market and because
 5 we found the prices so low that, in and of itself,
 6 regardless of being wind or something else, in and
 7 of itself that price was good for our customers.
 8 Q So how hard have you looked for something other than
 9 this 200 megawatts of wind that might be lower cost?
 10 Because just now, your statement just now, you said
 11 particularly wind, when referring to others, other
 12 utilities who have waited till the last minute. I
 13 mean, your statement, statements all seem to be
 14 predicated on the notion that you were looking for
 15 wind.
 16 A In particular for the Prairie Rose, that did result
 17 from a wind RFP in the fall of 2010 because of
 18 specifically the wind market. But the example I
 19 gave about not waiting till the last moment, I can
 20 say that that's exactly the same thing we did when
 21 we did the conversion of a couple of very old coal
 22 plants in Minnesota to natural gas. We got ahead of
 23 the curve on that and we accomplished those projects
 24 at a much lower cost than people who are perhaps
 25 doing those projects today.

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1 Q One thing about resource planning, to get back to
 2 something with regard to Commissioner Kalk's
 3 questioning, as you go forward, I mean, isn't it
 4 sort of the tradition has been with regulated
 5 utilities that you sort of deal with what you know
 6 today, including costs, including need, and I think
 7 if I understand, you're saying we want to be more
 8 proactive, we're looking out to the future to try
 9 to, I assume, mitigate risk, but, of course, that
 10 carries with it risk as well. Hasn't the tradition
 11 in regulated utilities ratemaking been let's deal
 12 with what we know today as far as both demand and
 13 cost and policy?
 14 A Commissioner, that is a big part of what we do. But
 15 the other thing we do and, again, Mr. Haeger can
 16 elaborate, is we test those assumptions and we try
 17 to come up with a course of action that we call it
 18 robust. In other words, a course of action that
 19 doesn't rely upon a very one narrow prediction of
 20 the future, but something that is a good choice even
 21 if demand, customer demand grows more than you think
 22 it might, or is less than you think it would be, or
 23 if gas prices are higher than you think they might
 24 be, or lower, or anything like that.
 25 So we try to use the best information

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1 available to us today. We also try to do
 2 sensitivity analyses so that we can test the
 3 robustness of our course of action and laying out a
 4 course of action that we think is robust given the
 5 uncertainties of the future.

6 Q One of the things that you stated as sort of
 7 evidence of value of the diversity of your plant and
 8 the value to North Dakota customers and the value of
 9 an integrated plan was what we gain as North Dakota
 10 customers from the nuclear plants that you have.
 11 And yet, I mean, yet Minnesota has pretty well
 12 confined the growth of those plants, have they not,
 13 and required growth of renewables, have they not,
 14 and so isn't your integrated resource plan that we
 15 benefit from, supposedly, really being driven by
 16 Minnesota largely?

17 A Well, Commissioner, there's no doubt that Minnesota
 18 is the largest jurisdiction we serve, so it is an
 19 issue that we grapple with as a company. And I
 20 appreciate your early remarks that you as a
 21 Commission representing your state are also
 22 grappling with the implications of differing state
 23 policies and we grapple with that as well. So we
 24 try to really work with all of our stakeholders and
 25 commissions to try to get to the best answer.

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1 When it comes to nuclear, the State of
 2 Minnesota does have a moratorium on new nuclear
 3 plants. But the State of Minnesota also has
 4 approved life extension, 20 years of additional
 5 operation for both the nuclear plants. The power
 6 uprate at Monticello, which will get more megawatts
 7 out of an existing power plant, is well on its way.
 8 The one at Prairie Island was approved by the
 9 commission, but that is under some review at this
 10 point that we actually initiated.

11 So, in one sense, yes, there is a
 12 moratorium. In the other sense, the state has
 13 supported and enabled continued and expanded use of
 14 the nuclear power plants in the state.

15 Q And, of course, North Dakota customers are confined
 16 to whatever Minnesota decides, good, bad, or
 17 otherwise, with regard to nuclear expansion and wind
 18 mandates, it would seem. As long as we're going to
 19 approve whatever they demand in terms of policies.

20 A Well, Commissioner, again, I guess that's the
 21 conundrum. But if we come back to maybe the
 22 fundamentals of does it serve the customers well in
 23 North Dakota, and I think that our application shows
 24 that in the case of Prairie Rose it does, then I
 25 would hope that that still is the overriding sort of

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1 consideration.

2 Q Um-hum. I appreciate your statement about, you
 3 know, you work with all the stakeholders and, you
 4 know, the conundrum, you know, trying to deal with
 5 all that. And yet, North Dakota being an energy
 6 producing state, sixth largest exporter of
 7 electricity, we've had this discussion countless
 8 times, both in formal -- informally, unformally, and
 9 you're sitting here today so we might as well have
 10 it again formally.

11 Xcel really hasn't done it very well to
 12 the satisfaction of this Commission and to the
 13 policymakers of this state because you still haven't
 14 built anything in North Dakota despite all of the
 15 efforts and all of the promises -- and I'll get to
 16 the one that you no doubt are anticipating -- that
 17 you would. And I guess when I think of all of the
 18 investment that Xcel has made in generation, and
 19 none -- and North Dakota has never been a prudent
 20 place to make that investment, yet several others
 21 have found it to be.

22 I mean, since I've been on the
 23 Commission, 1,500 megawatts of new wind nameplate
 24 capacity has been built in the state. Somebody's
 25 deemed it prudent, somebody thought it was a good

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1 investment, somebody someplace is using that
 2 electricity. And yet Xcel has never been able to
 3 find a way to do it in North Dakota.

4 And I just struggle with the failure of
 5 that. And, quite honestly, each time you come
 6 before us and ask us to deem something prudent
 7 somewhere else, and I look back on all of those
 8 discussions, all of those attempts, all of those
 9 promises, frankly, and I think, go, is it credible?
 10 You know what I mean? I wonder, is it credible that
 11 nothing can be built in North Dakota?

12 And, quite honestly, even these 200
 13 megawatts. I guess, have you thought about asking
 14 Minnesota to pay for it 100 percent? How do we know
 15 that they wouldn't be pleased as punch to pay for it
 16 'cause it meets their culture or mandates? And the
 17 transmission lines that were built out of there were
 18 built as a result of the very first mandate, which
 19 required the wind farm to be built in Minnesota in
 20 the first place. And I just sort of wonder if
 21 there's even a need for it. I mean, those are just
 22 sort of my out-loud thoughts. And I'd be happy to
 23 hear your -- your response to it.

24 And, meanwhile, I'll bring up the
 25 May 7th, 2007, when Jack Dalrymple and Mayor Walaker

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1 and I stood at your facility in Fargo, and Paul
 2 Bonavia, your president for the energy utilities
 3 group said you were going to build 200 megawatts in
 4 North Dakota within the next five years. And you
 5 didn't qualify. And at that time we produced 668
 6 megawatts of wind in North Dakota and now we're over
 7 1,500 and none of it's Xcel's.

8 Mayor Walaker said I can't say enough
 9 about meeting their commitment. You can get all
 10 kinds of lip service in this world, but the
 11 commitment is what we asked for. I mean, what are
 12 we to make of that when we're sitting here one more
 13 time trying to determine whether or not it's prudent
 14 to build 200 megawatts in Minnesota that, frankly,
 15 doesn't even look like there's a need for it, in all
 16 honesty. Maybe there will be in the future. Except
 17 to meet a mandate. I'm not -- I just -- I'm
 18 struggling with it so I need your help.

19 A Commissioner, the -- we have made efforts to build
 20 wind projects in North Dakota. And you're familiar
 21 with the Merricourt project that ultimately we
 22 exercised a withdrawal option on, for a lot of good
 23 reasons, and ultimately we think about the customers
 24 of North Dakota, all of our customers, that was --
 25 we had all of the -- it's a matter of legal -- it's

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1 under litigation right now so I'm being careful
 2 about the words that I choose.

3 But we exercised the option that was
 4 available to us under the terms of the contract and
 5 that also happened to be a very prudent step to take
 6 for our customers because of many reasons. We then
 7 made effort to try to find a substitute project here
 8 in North Dakota. It was coming towards the end of
 9 2011, and that project ultimately found a better
 10 market for its turbines so we were not able to
 11 execute that Border Winds Project.

12 Right now, as we see the production tax
 13 credit expiring at the end of this year and no clear
 14 path that that's going to be renewed, there really
 15 are no cost-effective wind projects out there. And
 16 so from the standpoint of serving our customers
 17 best, we haven't met that commitment to North Dakota
 18 because the projects that we sincerely pursued, put
 19 a lot of effort into, ultimately are not good for
 20 our customers.

21 So I'm -- I -- we've, you know, this is
 22 something that's been a topic of a lot of discussion
 23 between us and the Commission. I don't know what
 24 else I can say about that. But we are pursuing
 25 additional investigations into potential natural

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1 gas-fueled plant that's very early, I can't tell you
 2 how that's going to play out, what the pros or cons
 3 are. But we have begun those investigations, we've
 4 been responding to staff, to information requests
 5 that have come to us in the context of the last
 6 resource plan we filed and we are going to evaluate
 7 that very sincerely as well. I'm not sure if I
 8 can -- I'm not sure what else I can say to you about
 9 that.

10 Q Well, I guess I would be curious, what if the North
 11 Dakota legislature this winter said, you know what,
 12 doggone it, lignite is really important to North
 13 Dakota, we're going to pass a mandate that all the
 14 utilities in North Dakota have to produce at least
 15 80 percent of their electricity with lignite coal.
 16 It's low cost, it's abundant, it's clean, we have,
 17 you know, we have cleaner air than Minnesota has,
 18 let's just do that. Would Minnesota's commission
 19 say, ah, okay, it's a diverse portfolio, it's a
 20 diverse company, it's a diverse load, let's, yeah,
 21 we can -- we'll just go ahead and approve prudence,
 22 would they do that?

23 A I can't speak to what the Minnesota commission would
 24 do.

25 Q There's a good chance they wouldn't?

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1 A I just don't even want to speak on their behalf.

2 Q Well, so at any rate, as you can tell, I'm a
 3 skeptic, you probably knew that coming in.

4 A Commissioner, you did, and previously you did ask a
 5 question, if I may follow up with you about whether
 6 this project is needed. And I think the crux of our
 7 position is it's not a question of need, it's a
 8 question of opportunity. And the value and the low
 9 cost and the other positive aspects of the energy
 10 from this project stand on their own and are a value
 11 to our customers.

12 Q That's a little bit like going to the two-for-one
 13 sale, even though you don't need either one of the
 14 two you bought, but you saved 50 percent getting two
 15 of them. I mean, I guess I -- I don't think that's
 16 how we plan. But at any rate, I understand, and I
 17 appreciate your testimony, your candor, and your
 18 willingness to sit here and take my -- both my
 19 questions and my statements.

20 But, I really, my patience is exhausted
 21 with regard to previous commitments and attempts --
 22 attempts to do something that so many other
 23 utilities have been able to do. And the biggest one
 24 isn't. You know, it seems to me that the biggest
 25 company with the biggest load and the biggest, you

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1 know, fleet ought to have the advantage in finding
 2 something good to do in North Dakota from an
 3 investment standpoint, and yet for some reason all
 4 that bigness works against us and I struggle with
 5 it. And this is the only shot we get, is when you
 6 guys are in front of us for something, and I'm going
 7 to use it as much as I can for the benefit of our --
 8 both our ratepayers and our economy.
 9 A I appreciate the exchange, Commissioner.
 10 CHAIRMAN KALK: Thank you, Laura. I have
 11 nothing further.
 12 JUDGE WARD: Commissioner Fetch.
 13 EXAMINATION
 14 BY COMMISSIONER FETCH:
 15 Q Okay. Following that, I guess I just wanted to ask
 16 you to flesh out a little bit more specifically. In
 17 the, I guess, the portfolio you said you had 30 --
 18 about 30 percent nuclear, 40 percent coal-fueled
 19 power plants, and about 13 percent renewable energy,
 20 mostly of which was wind. What else is in that
 21 renewable energy? Hydro, I assume, and --
 22 A Commissioner, I think there's some turkey litter.
 23 It's sort of a biomass fuel. And there's a little
 24 tiny bit of solar. And probably a little bit of
 25 hydro as well, but small hydro is what would count

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1 and not the large hydro that we get from Manitoba
 2 Hydro, the 500 megawatts.
 3 And I will also say that I believe that
 4 Kurt Haeger or Steve Wishart will, when they're
 5 testifying, they could give you the precise
 6 breakout. I'm kind of going by memory here.
 7 COMMISSIONER FETCH: Okay. That's fine.
 8 Thank you.
 9 CHAIRMAN KALK: Your Honor, follow-up, if
 10 that's okay?
 11 JUDGE WARD: Chairman Kalk.
 12 FURTHER EXAMINATION
 13 BY CHAIRMAN KALK:
 14 Q Laura, just a couple of follow-ups to what
 15 Commissioner Cramer talked about. 'Cause one thing
 16 I think that's always been a hallmark of the
 17 Commission is we pretty much say what's on our mind
 18 and get right to it, so I appreciate Kevin putting
 19 the dialogue right out there to follow up on.
 20 'Cause the -- one of the things that
 21 Commissioner Cramer talked about in his opening
 22 statements, is we had a previous case in front of
 23 the Commission that went two-one, it was myself and
 24 Commissioner Clark went one way and Kevin went the
 25 other way, and his points then were the same as now,

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1 is it was resource to build, you know, to meet the
 2 needs of another state.
 3 But one of the things that I struggled
 4 with during that case is that the company never came
 5 to us in front, early enough, and they built it, but
 6 there was this used and useful term, that maybe it
 7 wasn't -- It was built for some other need but there
 8 was some value that we got out of it. But I
 9 remember I ended up voting yes, give them some value
 10 on that, but had that been a different scenario it
 11 would have played out differently, perhaps.
 12 And that's what we're in right now, is
 13 we're sitting in a case where there's a wind farm
 14 that you're talking about building, and this is our
 15 chance, just as Kevin laid out there, to say,
 16 listen, we don't think this is the best idea.
 17 Because this is why we asked, I think, the
 18 Commission, for ADPs.
 19 But tell me this, just to make sure I'm
 20 clear on how this lays out. So if the Commission
 21 deems it advance -- gives you an advance
 22 determination of prudence, you can build it and
 23 start flowing it to the fuel clause adjustment until
 24 the next rate case, or does that go in perpetuity,
 25 then, or does that just -- I'm not sure.

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1 A Commissioner, I believe that with a power purchase
 2 agreement, it -- once it's in the fuel clause it
 3 stays in the fuel clause and it's not subject to a
 4 future rate case.
 5 Q A little bit different than a wind rider, but kind
 6 of the same kind of accounting tool, perhaps. Maybe
 7 that's something later that we can talk about.
 8 A Perhaps the difference is between a power purchase
 9 agreement and a project that's owned by the company.
 10 But I think I would defer to my counsel. So if it
 11 was a project that we built and owned, then it would
 12 come through a rate proceeding.
 13 Q Fair enough. And if this Commission doesn't grant
 14 an advance determination of prudence, you can still
 15 build it and take all the cost, but then at that
 16 point you would come back at some point in a rate
 17 case and probably try to recover those costs?
 18 A You're speaking hypothetically about a project that
 19 would be built?
 20 Q Well, yeah, absolutely. Because if this Commission
 21 doesn't grant an ADP, you can still enter into the
 22 agreement.
 23 A So, Commissioner, if the Commission doesn't -- to
 24 make sure I understand the question. If the
 25 Commission were to not grant the ADP on this power

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1 purchase agreement, I think what we'd then have to
 2 do is we'd have to work out, well, what does that
 3 mean to the fuel clause and what modifications or
 4 what provisions might need to be put in place in the
 5 fuel clause tariff to handle the fact that there is
 6 an energy resource that is not being recovered from
 7 the North Dakota fuel clause. 'Cause it's still out
 8 there, it's still part of the integrated system. So
 9 it's a complicated issue, I don't know all the
 10 particulars, and I think we'd need to work with
 11 staff and perhaps develop a record for that.

12 Q Absolutely. I just wanted to set some of the -- I
 13 think our discussion with you, I think, sets a tone
 14 for a lot of the future testimony today.

15 And then I guess one of the next things I
 16 was thinking about is, Commissioner Cramer was
 17 talking, is that, you know, you go back through your
 18 testimony, and this Commission did grant an ADP for
 19 Merricourt back in August of 2009, so it's not like
 20 the Commission won't grant ADPs for wind resources
 21 built in North Dakota that meet a certain need. But
 22 it almost seems like, you know, there's a commitment
 23 to build wind no matter what as you read through the
 24 testimony. And that's the part that I guess all
 25 needed to be swayed as this thing goes forward, that

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1 all of the other resources were looked at. So
 2 that's just kind of, I guess, just a set up. But it
 3 just -- it's an interesting scenario that has
 4 developed over the last few years with North Dakota
 5 with building generation here, particularly when and
 6 how we look at the cost as it lays out to North
 7 Dakota consumers.

8 So I guess that would be the only thing I
 9 would close up with, so thank you.

10 JUDGE WARD: Commissioner Cramer.

11 COMMISSIONER CRAMER: Well, I just want
 12 to clarify a couple of things.

13 FURTHER EXAMINATION

14 BY COMMISSIONER CRAMER:

15 Q First of all, if it's built in North Dakota it's
 16 presumed prudent, do you understand that, that we
 17 have that presumption? That that is a tool to
 18 utilize --

19 CHAIRMAN KALK: It's easy to.

20 COMMISSIONER CRAMER: Right. Secondly,
 21 that we are talking about purchase power here now,
 22 you're not building this wind farm, it's there and
 23 you're going to -- okay. I have nothing further.

24 JUDGE WARD: Anything else from the
 25 Commissioners? I'm going to go around to the

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1 attorneys one more time at least. And, Ms. Brama,
 2 do you have any follow-up to any of the things the
 3 Commission asked or the counsel for the ASC asked?

4 MS. BRAMA: Not at this time, Your Honor.

5 I think Mr. Haeger is maybe in a good position to
 6 address some of these issues further when he's on
 7 the stand and so I think we'll wait until he's
 8 available to maybe answer some of the questions the
 9 Commissioners have raised.

10 JUDGE WARD: Thank you. Mr. Gruman.

11 MR. GRUMAN: I think the staff has the
 12 same opinion, I think we'll -- we have follow-up
 13 questions, but I think they're probably best to be
 14 submitted to Mr. Haeger, so we'll defer.

15 JUDGE WARD: Ms. Jeffcoat-Sacco.

16 MS. JEFFCOAT-SACCO: I do have one based
 17 on the questions from the Commissioners.

18 EXAMINATION

19 BY MS. JEFFCOAT-SACCO:

20 Q Is there a fixed payment component in the purchase
 21 agreement that might come up in a future rate case?
 22 Or is it all variable payment?

23 A Ms. Jeffcoat-Sacco, I believe this is all costs that
 24 would come through the fuel clause and none through
 25 a rate base or a rate proceeding.

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1 MS. JEFFCOAT-SACCO: Thanks.

2 JUDGE WARD: Okay. Anything further from
 3 the Commissioners?

4 Ms. McCarten, I think you can step down.

5 THE WITNESS: Thank you.
 6 (Witness excused.)

7 JUDGE WARD: It started out hot this
 8 morning.

9 CHAIRMAN KALK: Oh, it'll get easier now.

10 MS. BRAMA: The company calls Mr. Kurt
 11 Haeger.

12 MR. HAEGER: Good morning.

13 MS. BRAMA: Good morning.

14 JUDGE WARD: Mr. Haeger, before we begin,
 15 I'm required by law to advise you of the law
 16 regarding perjury in this state.

17 As I indicated, perjury is a false
 18 statement under oath of a material fact made by a
 19 person who knows or does not believe the statement
 20 to be true at the time it is made. Perjury is a
 21 Class C felony. A Class C felony is subject to a
 22 maximum penalty of five years imprisonment, a fine
 23 of \$5,000, or both may be imposed.

24 Having been advised of the penalty for
 25 perjury, please raise your right hand so I can

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1 administer the oath.
 2 Do you promise to tell the truth, the
 3 whole truth, and nothing but the truth in this
 4 proceeding?
 5 MR. HAEGER: I do.
 6 JUDGE WARD: Thank you. You may proceed,
 7 Ms. Brama.
 8 KURTIS HAEGER
 9 EXAMINATION
 10 BY MS. BRAMA:
 11 Q Good morning, Mr. Haeger. Could you perhaps state
 12 and spell your name for the record, as well as your
 13 title?
 14 A Kurtis J. Haeger, K-U-R-T-I-S, middle Initial J,
 15 Haeger, H A E -- excuse me -- H-A-E-G-E-R. I'm
 16 managing director of resource planning for Xcel
 17 Energy.
 18 Q And do you have with you there Exhibit 3 public and
 19 Exhibit 3 nonpublic?
 20 A I do.
 21 Q And are those correct copies of the direct testimony
 22 submitted in this proceeding?
 23 A They are.
 24 Q And do you also have Exhibit 4 public and 4
 25 nonpublic?

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1 A I do.
 2 Q And is that your rebuttal testimony from this
 3 proceeding?
 4 A It is.
 5 Q All right. Thank you very much. I understand you
 6 have an opening statement. Please go ahead and
 7 provide it.
 8 A Good morning, Commissioners.
 9 I'm managing director of resource
 10 planning for Xcel Energy. My responsibilities
 11 include overseeing the direction, development and
 12 implementation of the electric resource plan for all
 13 of Xcel Energy's utility operating companies. And
 14 this includes the North Dakota plan.
 15 I've provided both direct and rebuttal
 16 testimony in this case. In my direct testimony I
 17 elaborate on the company's several efforts to secure
 18 wind generation from the North Dakota facility.
 19 I also explained how Prairie Rose came to
 20 be selected as a particularly advantageous wind
 21 project for our customers in a wind market offering
 22 historically low prices. And at the time the PPA
 23 was executed, and even here today, we do not know
 24 whether we will be able to obtain wind energy at
 25 this price in the future given the expected

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1 expiration of the federal production tax credits at
 2 the end of 2012.
 3 There has recently been a question
 4 whether we need 200 megawatts of Prairie Rose Wind
 5 on our system. To answer this question, one must
 6 understand there are two primary drivers in
 7 developing an effective resource plan.
 8 The first component is the capacity
 9 component, or as I like to refer it, iron in the
 10 ground to meet that peak day need. The second
 11 component is energy and the fuel acquisitions to
 12 generate that energy.
 13 When looking at a wind project like
 14 Prairie Rose, the energy to produce by the project
 15 competes to satisfy the minute-by-minute energy
 16 needs of our customers, similar to buying energy
 17 from the MISO market or burning gas in a gas plant
 18 or burning coal in one of our coal plants. With the
 19 normal dispatch function of the company and/or now
 20 MISO, since they actually dispatch the system, on
 21 any day, any hour, or any minute, there are a number
 22 of options available to meet the customers' energy
 23 needs. And as a result it is not a question of
 24 whether we need the energy, but rather of which
 25 source of energy is the most economical to consume

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1 for that specific period of time.
 2 So the more appropriate question that
 3 should be answered is whether we pay another
 4 generator in the market to produce energy on our
 5 behalf through MISO, or a gas producer to drill more
 6 wells, or a coal mine to open additional coal mining
 7 areas, or a wind producer to put in more turbines to
 8 raise more wind energy. The goal of the energy
 9 component of the resource plan is to provide the
 10 means to generate the most effective form of energy.
 11 In my direct testimony I noted that wind
 12 generation is a cost-effective energy resource and
 13 enables the company to quickly add to the diversity
 14 of our energy portfolio. In fact, at the time we
 15 executed the Prairie Rose purchase agreement, this
 16 wind source allowed us to immediately displace more
 17 expensive alternative forms of energy.
 18 I also explained how the modeling of the
 19 Prairie Rose project shows that the project was
 20 reasonable and a prudent energy decision, even under
 21 highly conservative modeling assumptions. Wind
 22 energy provides immediate energy benefits to the
 23 system, just like this past year across country when
 24 utilities purchased additional natural gas in lieu
 25 of burning coal, where they actually displaced coal

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1 usage with lower-priced natural gas due to the
 2 depressed prices of natural gas.

3 It wasn't a question of whether the
 4 country needed additional gas-fired energy, It was a
 5 question of whether it made economic sense to burn
 6 more gas in lieu of coal to produce the finite and
 7 amount of energy that the country actually needed.

8 In my rebuttal testimony I responded to
 9 several issues raised by Mr. Hahn on behalf of the
 10 Commission staff.

11 First, I noted that the prudence of a
 12 particular utility investment is traditionally
 13 determined on the basis of the facts and the
 14 circumstances known at the time of the utility's
 15 decision to proceed with the investment. While we
 16 agree that the Commission may desire updated
 17 information, and we've provided that information in
 18 my testimony, the company cannot make prudent energy
 19 investment decisions on a basis of facts it cannot
 20 possibly know at the time the decision was made.

21 Finally, I reiterate in my rebuttal why
 22 the Prairie Rose PPA is a reasonable and prudent
 23 decision on behalf of all of our customers.
 24 Modeling the likely costs and benefits of various
 25 energy options, including wind and gas and the

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1 operation of our coal fleet, involves art as well as
 2 science and depends heavily on the assumptions one
 3 considers.

4 Our initial analysis was very
 5 conservative but reasonable, utilizing less
 6 conservative but still reasonable assumptions as of
 7 the time our Prairie Rose PPA was executed, as well
 8 as incorporating the value of the renewable energy
 9 credits, in light of Mr. Hahn's direct testimony.
 10 Our economic analysis shows an updated range of
 11 possible savings somewhere around .2 million dollars
 12 for the wind energy to up to 18.6 million dollars of
 13 energy value. We believe this project makes sense
 14 for our customers and is a prudent source of energy.

15 This concludes my opening statement.

16 MS. BRAMA: At this time the witness is
 17 available for questions.

18 I'd like to encourage Commissioners to
 19 ask maybe some of the same questions of Mr. Haeger
 20 that they asked of Ms. McCarten, he may have
 21 additional information. And same for counsel's
 22 Advocacy Staff, if I understand the question you
 23 asked, you may like to ask Mr. Haeger as well.

24 JUDGE WARD: Thank you. Mr. Gruman.
 25 MR. GRUMAN: Thank you.

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1 EXAMINATION

2 BY MR. GRUMAN:

3 Q Well, maybe let's just cut right to it. The biggest
 4 issue of contention between, it seems to me,
 5 Advocacy Staff and the company, is this whole issue
 6 is when -- what price of gas you should be using, is
 7 that correct, and that's kind of your understanding?
 8 January 2011 or January 31st, 2012; is that correct?

9 A Correct.

10 Q Okay. And you can understand why that's so
 11 important to us, because we're talking a 25 percent
 12 differentiation in gas price; is that correct?

13 A I don't know the exact number, but I assume it's
 14 probably in that range.

15 Q Fairly close. And from a dollar standpoint, that
 16 would -- we're probably talking about probably the
 17 40 or 50 million dollars is probably, as far as a
 18 net present revenue requirement standpoint; is that
 19 correct?

20 A I think it's in that range. I'd have to see the
 21 numbers specifically, but I think it's in that
 22 range.

23 Q Okay. Let's talk about the PPA. Was the PPA
 24 contingent upon North Dakota Public Service
 25 Commission approval?

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1 A I do not believe it was.

2 Q Now, when the PPA was approved, was there an
 3 application submitted to this Commission for ADP?

4 A No, it was not submitted at the exact same time, it
 5 was submitted approximately a year later.

6 Q So why a year later?

7 A I think, actually, Ms. McCarten might have been a
 8 little bit better witness to answer that question.
 9 But I think it was an issue of our understanding of
 10 bringing something to the Commission that is known
 11 for sure. And that when you have the ability to
 12 have it in front of you, that it's not something
 13 that is still in question and you will have the
 14 ability to act upon it with more certainty.

15 Now, I think there is a question, and I
 16 think it's a fair question, of when should you see
 17 an application come to you relative to when, let's
 18 say, Minnesota would see it.

19 Q Well, I mean, I represent ratepayers, and we're
 20 looking at we wouldn't even be having this
 21 discussion if you would have filed your ap for the
 22 ADP at the time that you submitted the -- or as of
 23 the time that you reached an agreement on the PPA
 24 because of the fact that we're looking at a 50
 25 million dollar differentiation. I mean, you can

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1 understand our apprehension in that regard, can't
 2 you?
 3 A Yeah. I think you also have to look at it from the
 4 standpoint of when we agreed to the PPA, which was
 5 in approximately March, we were using the
 6 information that we knew in January. So even there
 7 there's some staleness. Just because once you enter
 8 into a process in resource planning, you have to set
 9 a stake in the ground so both the developer and the
 10 company have some assurances that what they're
 11 negotiating on stays constant for a period of time.
 12 And, certainly, even in Minnesota the
 13 filing didn't come till, you know, months later.
 14 And even in that time prices had changed even under
 15 that circumstance. And so you always have a
 16 fundamental shift, or you always have the potential
 17 for gas prices moving around.
 18 And, again, I think the question is, when
 19 we're looking at the agreement and when we're
 20 negotiating the agreement is when it's appropriate
 21 to tie down those prices. Certainly, regulatory
 22 proceedings, RFP proceedings take months.
 23 Typically, an RFP might take nine to 18 months for
 24 us to get through. So we, obviously, in many cases,
 25 have to deal with stale information. And it's very

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1 difficult to suggest that you can continue to update
 2 all the way along that process. It just doesn't
 3 make sense. Otherwise you would never get a chance
 4 to actually have a final decision on anything.
 5 Q Commissioner Cramer had indicated, of course, this
 6 is advance prudence because it's -- we don't have a
 7 rate case. That it's whether or not that this
 8 project is prudent. The thing about it, one thing
 9 in particular, you talked about change, how do they
 10 change? I mean, where were the gas prices headed in
 11 that direction at that time when you were talking
 12 about how gas prices were always changing?
 13 A You know, the last couple years in the gas business
 14 have actually been quite unnatural, let's say. When
 15 you look back at prices in 2008 when gas was trading
 16 at \$12 a dekatherm, nobody anticipated that three
 17 years later they would be trading at \$4 a dekatherm.
 18 And so to suggest that I could predict exactly the
 19 direction of where everything, all gas prices are
 20 going to go in the future, I don't think I want to
 21 take that bet. And so although they were trending
 22 down due to the shale development, the question is
 23 how low would they go. And so I don't think you can
 24 necessarily say that that trend would always
 25 continue. I think there was a lot of question

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1 exactly where gas prices would end up based upon how
 2 big the shale plays actually came out to be in the
 3 United States.
 4 Q But all probability, it was -- it was likely that
 5 gas prices were going to continue to be decreasing
 6 at the time that you struck the PPA, wouldn't that
 7 be correct?
 8 A I think when you look back at the NYMEX and kind of
 9 the averages, you'll see that -- which is the New
 10 York Mercantile Exchange for natural gas contracts,
 11 which is the most widely traded gas contract.
 12 They've been in that three-ninety to four-fifty
 13 range. 2012 is an aberration. I think if you look
 14 even today they're back up into that three-fifty,
 15 four dollar range.
 16 And so when you look at exactly what
 17 happened in 2012, we actually had a large storage
 18 overhang, we went into a period where we didn't have
 19 a winter, and so when you go into a winter season
 20 with a large storage overhang and very little
 21 consumption, which happened in the winter of 2012,
 22 you'll get very depressed prices. That doesn't
 23 suggest in the long term that those prices will
 24 continue to stay depressed. It was in the short
 25 term. And so I think you also have to take into

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1 account what's happening in the natural gas markets.
 2 I mean, certainly gas prices, since
 3 January of 2012, have rebounded to today. I believe
 4 they're trading in the three-fifty to three-eighty
 5 dollar right now. Certainly not around the two
 6 dollar or two-fifty range that we saw back then.
 7 So, I think you have to take into context
 8 of what's going on in that broader market.
 9 Q Well, maybe, just for the benefit of just some of
 10 the public that are probably listening as well, you
 11 just heard some significant discussion about gas
 12 prices, and I'm going to ask this question just to
 13 show how pervasive this question is, as far as how
 14 gas really affects everything.
 15 Explain to me wind integration costs and
 16 how gas is tied to wind integration costs?
 17 A The cost of wind integration, which is actually the
 18 idea that a gas unit has to be available to ramp up
 19 and down to follow the wind, means that you actually
 20 have more generation running to be able to help ramp
 21 than you would normally have had without that wind
 22 there. And that's the integration cost.
 23 And since those units are traditionally
 24 gas type units, the cost that is generated to have
 25 those units available and spinning is a gas cost.

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1 And, therefore, as the gas prices change, those
 2 integration costs change.

3 Q So even though that you're modeling wind, you're
 4 really modeling gas as a variable of wind as well to
 5 adequately model it, would that be correct?

6 A Again, when we model wind as an energy resource, we
 7 are automatically modeling coal, gas, and market
 8 energy. We're not just modeling the impacts of
 9 wind, we're modeling the impacts of wind energy
 10 against those other forms of energy. So by its
 11 general nature, we will always model the impacts of
 12 gas when we're looking at wind because they compete
 13 against each other.

14 It's basically a fuel contract. I either
 15 buy wind fuel or I buy natural gas fuel. And so
 16 when I look at that I certainly look at natural gas
 17 prices because that's what it's competing against.

18 Q From a PVRR standpoint, when you modeled this
 19 project or this PPA in comparison to other projects,
 20 how expensive -- more expensive or cheaper did you
 21 determine, if you could please reiterate that for us
 22 today?

23 A I did, in our initial modeling and my direct
 24 testimony we said it was slightly more expensive.
 25 And under the assumptions, again, I say, modeling is

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1 an art from the standpoint of what assumptions you
 2 include. In the original modeling of it, we
 3 included wind integration at a 25 percent
 4 penetration level, as opposed to what this project
 5 would bring us to, which is about a 13 percent.

6 So we used the updated modeling, moved
 7 the wind integration to the more appropriate wind
 8 integration level, but when we looked at that it was
 9 slightly more expensive in our original case. Based
 10 upon the direct testimony of Mr. Hahn we went back
 11 and clarified and made more specific to some of his
 12 issues exactly what the costs were.

13 When we look at that updated modeling,
 14 this project shows to be cost effective in the most
 15 conservative case by still .2 million dollars, and
 16 in the expected case it's probably closer almost to
 17 19 million dollars of savings.

18 Q Here's, I mean, here's my apprehension about that.
 19 Before you indicated slight, and also you testified
 20 that the change in gas ended up being, from our
 21 perspective, I think it's essentially fact, 40 or 50
 22 million dollars, so -- and we're here for prudence.
 23 So wouldn't it have been more prudent that you
 24 modeled this PPA, and it's just slightly more
 25 expensive, or cheaper, wouldn't you want something a

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1 lot more robust considering that in the market
 2 you're looking at such a wide dynamic in gas prices?

3 A Again, when you look at wind energy as a
 4 displacement for gas, and you realize that when we
 5 look out in the future in our resource plans, today
 6 almost all the additions are going to be natural gas
 7 additions. I mean, when you look out for the near
 8 term future, we don't see, unfortunately, unless
 9 lignite comes in, we don't see much opportunity for
 10 many other resources out there other than natural
 11 gas type resources. So we anticipate that we'll be
 12 adding a lot of natural gas resources in the future.

13 And so when you look at this mix, and
 14 there is a lot of variability, having a portion of
 15 your portfolio, as you were talking about with Laura
 16 McCarten, a portion of your portfolio not exposed to
 17 natural gas prices makes sense. And so that's what
 18 wind helps. 'Cause it's just a trade-off.

19 And I think we've been able to actually
 20 walk a fine line here where we have been able to
 21 select, due to the PTCs, economic wind, and bring it
 22 on our system as a part of our portfolio. And,
 23 certainly, we only can do that at the information
 24 that we know at the time.
 25 'Cause I don't even know next year

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1 exactly what gas prices are going to do. Certainly,
 2 if you go back to the 2006, 2007, nobody anticipated
 3 gas prices would go to \$12 a dekatherm. But they
 4 do. They're variable. So I don't get caught up in
 5 this idea of, if there's a little increase or a
 6 little drop, is that going to change.

7 The fundamentals in the United States
 8 suggest that gas prices are going to be in the four
 9 to seven dollar range going forward, depending upon
 10 what source. And I think that's the long-term view
 11 that you have to fit within, and is it economic in
 12 that view, and I think it is.

13 Q Speaking of long-term view, I mean, as Commissioner
 14 Cramer had indicated, at some point 30 percent of
 15 your generation is going to have to be renewable. I
 16 mean, how does that factor into your decision here,
 17 as far as your RFP looking just for wind? Was it
 18 just gas fuel diversity or, I mean, clearly that was
 19 part of your analysis, wasn't it?

20 A. Certainly, we're trying to bring together two
 21 different hemispheres. One is the economic
 22 hemisphere that North Dakota wants to make sure that
 23 it keeps for its customers. And the second is the
 24 renewable standard for Minnesota. And I think with
 25 this project we were actually able to bring them

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1 together in one project. It was economic for all
 2 customers and it would also suffice to fill part of
 3 the Renewable Energy Standard for Minnesota. So in
 4 this circumstance we were able to bring those
 5 together.

6 Now, going forward the question of will
 7 we achieve a 30 percent renewable, 25 percent of
 8 that by wind? I think, as Laura McCarten said, that
 9 is still a question that we have to deal with.
 10 Because ultimately we'll have to judge the economics
 11 of future wind. Without the production tax credits,
 12 we frankly see that's going to be a struggle. And
 13 we actually started to communicate that to the
 14 Minnesota commission in the last resource plan.
 15 That we said we're not sure exactly on those future
 16 additions if we can get to the level of wind
 17 economically that was required by the 25 percent
 18 RES.

19 So I think that's still a question that
 20 we'll have to answer going forward. And we
 21 certainly understand that we have to walk this fine
 22 line and see if we can bring both of those ideas
 23 together in one project. And if we can't, then we
 24 need to deal with it. This project we were able to
 25 do that.

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1 Q There was a discussion about hedging against natural
 2 gas prices. Is wind the only way to hedge on
 3 natural gas prices?

4 A No, there are a number of ways to actually hedge
 5 natural gas prices. You can certainly do it with
 6 the financial contracts on the NYMEX, you can do it
 7 through a physical contract. But the NYMEX is very
 8 thinly traded once you get out after about four or
 9 five years. And so doing a long-term hedge through
 10 the NYMEX is somewhat difficult.

11 Doing a hedge, a natural gas hedge
 12 through a physical contract is even more difficult
 13 than that. From my experience, and I have
 14 experience in multiple states, we did do a 10-year
 15 agreement in Colorado. And I'll tell you, getting a
 16 10-year agreement, a natural gas agreement at a
 17 fixed price is very difficult. Because you either
 18 have to post such large security or you have to get
 19 the legislature to codify that a commission won't
 20 disallow it in a future proceeding.

21 And so it sounds like it's easy to do a
 22 long-term hedge, it's not. The fact is, wind is one
 23 of the few instruments that we can actually hedge
 24 for 20 years, used to hedge natural gas for 20
 25 years. So it is really an effective means of

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1 providing that stability that you can't get in the
 2 natural gas market.

3 Q Is coal a hedge against natural gas?

4 A Coal is a hedge against -- I wouldn't say against
 5 natural gas because coal usually doesn't come in and
 6 displace. Now, if it's a new coal facility, which
 7 was brought up, then you could look at it as a
 8 future hedge against natural gas.

9 But the problem with getting a new coal
 10 plant permitted right now, with the new EPA
 11 requirements, is very, very difficult. I mean, you
 12 know, under the current rules it's almost
 13 impossible.

14 So, again, if you're looking at the
 15 viability of hedging, wind is one of the few
 16 instruments that we can actually use for a long-term
 17 hedge.

18 MR. GRUMAN: One moment, Your Honor.
 19 I have no further questions.

20 JUDGE WARD: Ms. Jeffcoat-Sacco, any
 21 questions for this witness?

22 MS. JEFFCOAT-SACCO: I do have a couple
 23 of questions.

24 EXAMINATION
 25 BY MS. JEFFCOAT-SACCO:

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1 Q Thinking back to your summary, your introductory
 2 summary where you were talking about need is not the
 3 question to look at, but the competing price in the
 4 market is the question to look at. Are you
 5 basically saying that need is an irrelevant concept
 6 in the -- since we've moved to the concept of the
 7 market, is need an irrelevant concept in your mind?

8 A Not because we moved to the market. Need is tied to
 9 a reliability standard more. Which is that peak
 10 day, which is the capacity component of our resource
 11 planning.

12 In resource planning, again, you deal
 13 with two worlds. One is the reliability world, that
 14 iron in the ground, that peak day. That is what I
 15 need. I need a plant or a facility that will run on
 16 that peak day when it's the hottest day of the year.
 17 And that certainly is a need. And that's what MISO
 18 holds me to to reserve margins and so that is a true
 19 need.

20 When you get to the energy side, that's
 21 the second world in resource planning. That's
 22 driven by dispatch and economics. And that's where
 23 you're not really talking about need as much as
 24 which energy resource is most economic. Because,
 25 again, if you have that reliability covered, it is

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1 really then the question of what is the most
 2 economical resource to operate.
 3 And, again, for instance, when Sherco 3
 4 was down this last year, did we need the energy from
 5 Sherco 3? No. It would have been nice to have it
 6 to compete in the market with, but we didn't need
 7 the energy 'cause the energy came from the rest of
 8 the sources in the market. There are a number of
 9 options out there. So the need component is on
 10 reliability and on peak day, not for the rest of the
 11 year as much. It's really those are the economics.
 12 Q The second thing I was interested in, if we can
 13 discuss it without having to go into a closed
 14 session, was a little bit -- so whatever you can
 15 provide comparing any other North Dakota bids that
 16 had come in in the RFP process, without getting too
 17 specific 'cause I don't think that I'm -- I'm not
 18 asking to go into the specifics enough to close the
 19 hearing. But if you can give us any generalities
 20 about the North Dakota projects that may have come
 21 in and why they weren't selected?
 22 A A number of the North Dakota projects that came in
 23 weren't viable due to transmission issues and
 24 constraints and also the timing of getting them
 25 interconnected. When you look at the economics,

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1 there were a couple projects that would have been
 2 able to compete what it looked like in their bid
 3 price. But during the process of due diligence,
 4 which we obviously want to do to make sure the
 5 project can get completed successfully, we
 6 determined that those projects did not have the
 7 opportunity to get completed by the end of 2012 and
 8 get the production tax credit.
 9 Realizing the production tax credit is
 10 almost worth half of the cost of this wind and,
 11 therefore, making sure that we get that, is huge.
 12 We couldn't take the risk, nor could the developer
 13 take the risk that the federal government wouldn't
 14 help pay for almost half of this wind. And so
 15 although there were some bid projects that appeared
 16 to be economic, when you looked at the ability to
 17 successfully get them completed due to transmission,
 18 that wasn't going to happen.
 19 If you look at Prairie Rose versus the
 20 other projects that could be completed by the end of
 21 2012, Prairie Rose was clearly more cost effective
 22 than all of those resources.
 23 MS. JEFFCOAT-SACCO: That's all I have
 24 right now. Thanks.
 25 JUDGE WARD: Questions from the

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1 Commissioners?
 2 Chairman Kalk.
 3 CHAIRMAN KALK: Thank you, Your Honor.
 4 EXAMINATION
 5 BY CHAIRMAN KALK:
 6 Q Thank you, Mr. Haeger, Kurtis. Kind of bounce
 7 around a little bit here. But the first one, you
 8 had something in your testimony about you felt that
 9 wind was a hedge for future carbon regulation. Tell
 10 me how you think that? I mean, are you a proponent
 11 of future carbon regulation, or, I mean --
 12 A No --
 13 Q -- that's an interesting statement.
 14 A I'm not a future -- I'm not a proponent. But in my
 15 job as far as resource planner, I have to consider
 16 all of the potential risks. And, certainly, carbon
 17 is a potential risk. I'm not a proponent that it
 18 should be a risk. But in my job I have to make sure
 19 that whatever portfolio I put together stands up
 20 under a number of different potentials in the
 21 future.
 22 Q Do you think there is a potential that this
 23 Commission would regulate carbon?
 24 A Of this Commission? No, I believe if carbon is ever
 25 regulated, it's going to be at the federal level.

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1 Q Okay. Fair enough. Not that I agree with that, but
 2 I'll --
 3 A I don't either, but --
 4 Q Can you give me an update on the -- I read through
 5 the testimony of the FERC tariff revision, there's
 6 negotiation taking on, where are we at with that?
 7 It said September of 2012, we're past that time
 8 right now. Is that your's? 'Cause that was in your
 9 testimony.
 10 A Yeah. Randy Oye, I mean, who is our transmission
 11 person, can give you a lot more detail on that. But
 12 my understanding is that MISO submitted the net zero
 13 interconnect tariff language, and that's been
 14 submitted, and I believe it's been accepted. But
 15 Randy could give you the specific information. But
 16 I believe with the settlement with the parties and
 17 then the tariff filing that that issue has been
 18 resolved.
 19 Q Okay. And then this one, just kind of walk me
 20 through this. When you figure out price of, you
 21 know, megawatt-hours, if you will, when you come up
 22 with natural gas versus wind, or -- well, yeah,
 23 let's just take natural gas versus wind. How do you
 24 calculate in the fact that natural gas is baseload,
 25 wind is not? How does that factor in the pricing?

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1 A In our dispatch models, we actually dispatch so we
 2 cover all of the hours. So we realize that wind is
 3 going to be blowing at certain times and natural gas
 4 would be available all of the time. And so when we
 5 actually do our dispatch we allow those to compete
 6 all the time, every hour, okay.

7 Q So how does that work when, if you need the
 8 capacity, if I use that term right, the wind's not
 9 blowing, how does that factor into the model?

10 A Again, when I look at the capacity I'm looking at
 11 the reliability side, the capacity component side of
 12 my world. I make sure that I have enough capacity
 13 to meet my worse day, my peak day, right. Once I do
 14 that planning, then I'm really planning against
 15 different fuels. I'm looking at natural gas fuel
 16 that I can burn in that unit or I can burn wind.
 17 And so I've already taken into account that I've
 18 built my system to handle the reliability side. Now
 19 it's just a matter of fuel trade off.

20 It's really the question of, you know, do
 21 I fuel up at this station or do I fuel up at that
 22 station? I'm already covered to make sure my system
 23 will operate, it's just a matter of what's the least
 24 cost fuel I use.

25 Q After you've met all your needs?

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1 A After I've met my reliability and capacity needs.

2 Q So that goes back to, I think, what maybe Ilona was
 3 talking about, is the -- you have enough to meet
 4 your needs, this is above and beyond it for a
 5 certain period of time?

6 A It's not that, 'cause it's an energy. I haven't --
 7 it's not a capacity. If it was a --

8 Q I think what I'm getting at is that the -- to me,
 9 I'm more inclined to support a higher cost for a
 10 natural gas that will give me baseload as 20 years
 11 changes the picture. So walk me through how natural
 12 gas is not a better alternative going forward,
 13 because you can have it there no matter when you
 14 need it. Maybe that's a better question.

15 A Sure. From an operational standpoint, there is some
 16 benefit because, again, it's something you get --
 17 the question is what's --

18 Q Is that benefit figured in all the --

19 A It is, and the question then becomes what is the
 20 cost of that fuel going forward. Again, if you look
 21 at history, a lot of people were concerned about
 22 natural gas prices when they were at \$12. Now
 23 they're at \$4. In the future they're going to be
 24 something else. We're going to have plenty of
 25 natural gas on the system. I guarantee you. When

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1 we look in the future it is going to be --

2 Q Aren't they building that natural gas in North
 3 Dakota?

4 A We're looking at that. We're honestly looking at
 5 that to see. And certainly we're not there today,
 6 but we are certainly looking at that.

7 Q You talked about transmission. There's one more
 8 witness coming to talk about transmission planning?

9 A Yes.

10 Q Because I want to ask just a prep of it. Some of
 11 your -- you said that one of the reasons that North
 12 Dakota alternatives maybe dropped out was the
 13 transmission congestion, or hook, constraint --
 14 thank you, Kevin -- and we're not all in the MISO
 15 market. Well, Minnesota is not all in the MISO
 16 market, I don't think, are they? I don't think the
 17 whole state is. So some of the -- that's, I guess,
 18 for a future witness to tee up.

19 A Right. Randy can.

20 CHAIRMAN KALK: That was it, thank you.

21 JUDGE WARD: Commissioner Cramer.

22 EXAMINATION

23 BY COMMISSIONER CRAMER:

24 Q A quick question here about what value do you give
 25 wind in your reliability models?

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1 A If it's a -- again, under a NZI, a net zero
 2 interconnect, we wouldn't give it any value at that
 3 time until it's converted to a traditional resource.
 4 At a traditional resource we give it 12 percent
 5 nameplate value. So we take the nameplate, 200
 6 megawatts, times 12 percent, 24 megawatts is the
 7 capacity value we'd give it.

8 Q Very good. I thought it was something like that,
 9 but thank you for clarifying it.

10 A Um-hum.

11 Q When you -- one of the things I struggle with as I
 12 listen to all of this is that -- and I appreciate
 13 your statement that there's some art to it, 'cause
 14 it's based on the assumptions that you use. And
 15 that's sort of the -- that's sort of the struggle I
 16 think I always have, 'cause I always think smart
 17 people can sort of rationalize their decision before
 18 they, you know, after they've made the decision.
 19 And I'm not accusing you of that, don't get me
 20 wrong.

21 But so I'm thinking about the Minnesota
 22 legislature and their mandate. Do you remember what
 23 year they passed their 25 by 2025 and then the 30 by
 24 '30 for Xcel? Do you remember offhand? Was it
 25 previous to 2008?

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1 A Laura, when we -- we -- the 25 percent came up and
 2 we kind of bundled all the buckets together, and
 3 wasn't that in 2007?
 4 MS. McCARTEN: We could find that very
 5 quickly.
 6 BY COMMISSIONER CRAMER:
 7 Q Okay.
 8 A It was right around there.
 9 Q Okay. Here's the point of my question. Because now
 10 you're struggling with this expiration date of 2012,
 11 December 31st of this year for the renewable, and
 12 clearly you've made the case that wind is not
 13 economically viable without the government paying
 14 for it, about half of it. And yet prior to 2008
 15 every year this uncertainty existed. And in the --
 16 within this uncertainty I believe the Minnesota
 17 legislature created the mandate.
 18 What role does the cost play in this
 19 policy? In other words, if the -- if the production
 20 tax credit expires, and not every utility has met
 21 the Minnesota mandate prior to the expiration of
 22 that mandate, or of that expiration, does Minnesota
 23 withdraw its mandate, are they going to change the
 24 mandate, or does cost even -- or is this really
 25 about clean energy? You know what I'm saying?

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1 What's going to change in Minnesota on January 1st?
 2 A And, again, I think we actually foreshadowed that in
 3 the 2010 resource plan. Cost does matter. It
 4 matters significantly. If you go talk to the
 5 Chamber over in Minneapolis, they're very concerned
 6 about cost. We're very concerned about cost. We
 7 actually started to foreshadow in the resource plan
 8 that if we cannot find cost-effective wind, we will
 9 then have to review the assumptions that we can get
 10 to a 25 percent RES on wind.
 11 And I think that's something, again,
 12 that's one of those struggles that we will have
 13 coming up, exactly how do we deal with policymakers
 14 in Minnesota if that resource is not shown to be
 15 cost effective going forward. And, again, under
 16 what assumptions, that'll be debated. We have not
 17 really had to cross that line yet.
 18 Q Sure.
 19 A Now, that's why, with this project and our other
 20 projects, we've actually been able to stay on the
 21 side of economic. But that is going to be a debate
 22 coming up.
 23 Q But if it's -- and maybe I don't understand the RES
 24 well enough. If it's a mandate, it's a mandate,
 25 isn't it?

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1 A Actually, it has off ramps for economic
 2 consideration.
 3 Q And that's what I was wondering.
 4 A It does.
 5 Q Okay. So now, speaking of uncertainty, we speak --
 6 we talk about all these assumptions related to gas.
 7 There's always going to be plenty of it. I mean,
 8 I've sat in the boardroom many times at the American
 9 Gas Association, we expect \$6 gas for 1,000 years,
 10 and all these things. And yet a single policy by an
 11 administration to outlaw fracking, wouldn't that
 12 change everything? And isn't that a real
 13 possibility?
 14 A I can't say if it's going to be real. Certainly
 15 it's been discussed. And, yes, it would
 16 dramatically change the gas picture in the United
 17 States. If you look at where we were before the
 18 explosion in fracking --
 19 Q Yes.
 20 A -- and at the shales --
 21 Q Yes.
 22 A -- this country could not sustain over about 51 Bcf
 23 a day of production.
 24 Q Right.
 25 A Within a matter of two to three years production

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1 increased almost 56 Bcf a day. You could say almost
 2 overnight. That's why prices fell from \$12 down to
 3 where they are today. A moratorium on fracking,
 4 even for a short period of time, would devastate the
 5 industry and you would see very expensive gas
 6 prices. So, in answer, yes. Wherever -- this
 7 country is going to follow wherever fracking
 8 decisions go.
 9 Q Yeah. And I guess my point, I mean, this is why
 10 you, you know, this is your job and you have to
 11 consider lots of things, but which certainties, you
 12 know, to accept and which trends to assume, I think
 13 is as much, I guess, art as science. And I don't
 14 know if that's a fair statement, but I appreciate at
 15 least your acknowledgment that there is some art to
 16 it and the assumptions you use do matter. I just
 17 don't know what we can assume at all anymore given
 18 the complexities of the diversity of cultures in our
 19 country.
 20 A Well, and the way that I look at things and the way
 21 the company looks at things when it comes to
 22 resource planning, when we come up with a natural
 23 gas forecast we actually use four sources. Three
 24 professional agencies, PIRA, CERA, Wood Mackenzie,
 25 and then the market. So we take into account the

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1 current market expectations and the other three, we
 2 blend them together equally, and we come up with a
 3 weighted four-source blend going forward. That
 4 gives us some comfort that at least if one agency is
 5 way out of whack or something that's going on, it'll
 6 get blended down and it'll take into account kind of
 7 a wide spectrum of expected costs. I use that
 8 forecast, and the only thing I can use is what it
 9 says at the time I'm making decisions.

10 Q Um-hum.

11 A And so that's the only reasonable approach I can
 12 bring to bear in resource planning. Because I know
 13 I can never predict natural gas prices myself. If I
 14 did, I certainly wouldn't be in this chair, I'd be
 15 in a beautiful beach right now and not worrying
 16 about rain and, you know. And the fact is, we
 17 attempt to make it a robust enough forecast so that
 18 we think we're in the right range as far as expected
 19 gas prices.

20 Q Sure. And I think sometimes in forecasting the best
 21 teacher is history, and that's why it concerns me.

22 COMMISSIONER CRAMER: But, with that, I
 23 have nothing further. Thank you.

24 JUDGE WARD: Commissioner Fetch, any
 25 questions for Mr. Haeger?

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1 COMMISSIONER FETCH: Well, I guess I
 2 don't really have questions, but I appreciate the
 3 questions of the other Commissioners who have much
 4 more history in this area.

5 All I can say is what you have -- what
 6 you've given is some very good information for me,
 7 but for the life of me, I don't know how you sleep
 8 at night trying to figure out --

9 THE WITNESS: I don't.

10 COMMISSIONER FETCH: -- what, you know,
 11 what to think about for the future, it's a lot of
 12 unknowns. Thank you.

13 JUDGE WARD: Chairman Kalk, anything?

14 FURTHER EXAMINATION

15 BY CHAIRMAN KALK:

16 Q Well, when you talked with Commissioner Cramer it
 17 came up, an off ramp for cost on meeting Minnesota's
 18 mandate. I didn't know that. Could you explain
 19 more about that to me?

20 A I don't have a lot of specifics about it. But I
 21 know that there is some economic consideration
 22 language in the mandate, and so that we have the
 23 ability to go back to the commission if we cannot
 24 find it to be economic.

25 CHAIRMAN KALK: Okay. Maybe, for the

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1 attorneys, is there a future witness who could talk
 2 more about that? I'd just be curious to learn more
 3 about that.

4 MR. SIMPSEY: No, Commissioner, I don't
 5 believe we have anybody that's really prepared for
 6 that. We can talk about that at a high level, but
 7 it may be more appropriate in our resource planning
 8 docket or something.

9 CHAIRMAN KALK: Yeah, okay.

10 MR. SIMPSEY: It may be something we can
 11 address in the briefs.

12 MS. BRAMA: Yes, I was going to suggest
 13 that, we can follow up on that maybe on paper
 14 afterwards.

15 CHAIRMAN KALK: 'Cause I don't know that
 16 it will come to a decision on this case, but it's
 17 just definitely good background information. So,
 18 thank you.

19 MS. BRAMA: Sure.

20 CHAIRMAN KALK: You never know what could
 21 come in.

22 JUDGE WARD: Ms. Brama, any follow-up for
 23 Mr. Haeger?

24 MS. BRAMA: Not at this time. As with
 25 all our witnesses, we do reserve the right to bring

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1 him back after the Advocacy Staff puts on their
 2 case, so to speak, but --

3 JUDGE WARD: Okay.

4 MS. BRAMA: Thank you.

5 JUDGE WARD: Mr. Gruman.

6 MR. GRUMAN: Just one moment, Your Honor.

7 JUDGE WARD: I think that at the
 8 conclusion of the questions for Mr. Haeger, we'll
 9 take a short break.

10 MS. BRAMA: Okay.

11 MR. GRUMAN: I just have one -- may I
 12 proceed, Your Honor?

13 JUDGE WARD: Proceed. Please.

14 MR. GRUMAN: Thank you.

15 FURTHER EXAMINATION

16 BY MR. GRUMAN:

17 Q I just have one question. Kind of a trigger of what
 18 Commissioner Cramer just indicated about how, if
 19 there were legislation that would affect, that would
 20 free up fracking, how that would affect your
 21 resource planning. How about the greenhouse gas
 22 bill, how would that affect coal, as far as your
 23 modeling for resource planning?

24 A Certainly, if there was regulation on greenhouse gas
 25 emissions and cap and trade or anything that imputed

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1 a cost on those emissions, we would then take that
 2 into account. Coal being the primary, or the
 3 largest emitter of greenhouse gas, it would be hurt
 4 or impacted the most. Natural gas is halfway in
 5 between. Wind, very little. And so that would be
 6 kind of the range of spectrum, depending upon what
 7 the regulation was at the time.

8 Q And I don't mean to limit you, I mean, in regard to
 9 coal, I mean, greenhouse gas, of course, is one
 10 major consideration for future resource planning.
 11 Are there any other rules or regulations in
 12 particular that are on your mind that you watch in
 13 particular for modeling coal in the future?

14 A Not maybe specifically to coal. I mean, certainly
 15 any kind of SOx emissions, NOx emissions, any kind
 16 of dust or particulate emissions, so that could come
 17 into regional haze and so forth. Cooling, which is
 18 316B, which is a regulation that's being
 19 contemplated to be final here could impact both coal
 20 and combined-cycle natural gas. So we watch a whole
 21 plethora of different EPA regulations. But, also,
 22 again, the market dynamics between the various fuel
 23 and energy prices.

24 MR. GRUMAN: Thank you.
 25 JUDGE WARD: Ms. Jeffcoat-Sacco.

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1 MS. JEFFCOAT-SACCO: Nothing further,
 2 thank you.

3 JUDGE WARD: Ms. Brama.

4 MS. BRAMA: Nothing further.

5 JUDGE WARD: Any of the Commissioners?
 6 Mr. Haeger, you're excused.
 7 (Witness excused.)

8 JUDGE WARD: We'll take about a 10-minute
 9 break right now. It's just after 10:00, so we'll
 10 say back at 10:12.
 11 (Break taken.)

12 JUDGE WARD: -- for an advance
 13 determination of prudence in the Geronimo Wind
 14 matter. I think we've got all counsel and the
 15 Commissioners back in the room.

16 Just a reminder to get those trade secret
 17 agreements signed and back to Ms. Jeffcoat-Sacco.

18 Ms. Brama, you may call your next
 19 witness.

20 MS. BRAMA: If I may, Your Honor, before
 21 we do that, just address one housekeeping issue that
 22 came up during our break.

23 As we left the testimony right before the
 24 break there was some -- maybe some questions about
 25 the off ramps for Minnesota's Renewable Energy

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1 Standard. And we talked with counsel for Advocacy
 2 Staff as well as ALJ Ward.

3 First of all, I think it's worth just
 4 noting that the off ramps are contained in Minnesota
 5 statutes, section 216B.1691, subdivision 2(b). The
 6 statute has several components to it, and our
 7 proposal is to brief the standard a little bit as
 8 part of our briefing for this hearing to provide a
 9 little bit more background for the Commission for
 10 their use in this or other proceedings. And we've
 11 already talked with ALJ Ward about briefing some --
 12 the issue of prudence and the standard for prudence,
 13 so we would propose to do this briefing at the same
 14 time.

15 For purposes of this hearing, it may be
 16 helpful to the Commission just to -- as a brief
 17 overview, the subdivision 2(v) is a -- 2(b), excuse
 18 me, is a modification or delay of standard, is the
 19 title. It says that the commission shall modify or
 20 delay the implementation of a standard obligation,
 21 referring to the Renewable Energy Standards, in
 22 whole or in part if the commission determines it is
 23 in the public interest to do so. And there's
 24 certain things the commission in Minnesota must
 25 consider when asked to modify or delay

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1 implementation of the standard, including the impact
 2 of implementing the standard on customers' utility
 3 costs, the effects of implementing the standard on
 4 the reliability of the electric system, technical
 5 advances or concerns, delays in acquiring sites, and
 6 other issues which we'll brief in more detail. But
 7 I thought that may be of some help to the Commission
 8 before we continue.

9 JUDGE WARD: Thank you very much for
 10 that.

11 MS. BRAMA: All right. Thank you.

12 Our next witness is Mr. Steve Wishart.

13 MR. WISHART: Good morning.

14 MS. BRAMA: Good morning.

15 JUDGE WARD: Mr. Wishart, I'm going to
 16 just admonish you like I did the others about the
 17 penalty for perjury. Remind you that it's a Class C
 18 felony subject to a maximum penalty of five years
 19 imprisonment, a fine of \$5,000, or both may be
 20 imposed.

21 Please raise your right hand, sir.

22 Do you promise to tell the truth, the
 23 whole truth, and nothing but the truth in this
 24 proceeding?

25 MR. WISHART: I do.

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1 JUDGE WARD: Thank you.
 2 STEVEN WISHART
 3 EXAMINATION
 4 BY MS. BRAMA:
 5 Q Good morning, Mr. Wishart. First of all, would you
 6 mind stating and spelling your name and title for
 7 the record?
 8 A Sure. My name is Steven Wishart. Steven,
 9 S-T-E-V-E-N, Wishart, W-I-S-H-A-R-T. I am currently
 10 director of resource planning and bidding for
 11 Northern States Power.
 12 Q Okay. Mr. Wishart, do you have in front of you
 13 there Exhibit 5 public and Exhibit 5 nonpublic?
 14 A I do.
 15 Q And are these your direct testimony, prefiled and
 16 submitted in this proceeding?
 17 A They are.
 18 Q Do you also have Exhibit 6 public?
 19 A I do.
 20 Q And is that your rebuttal submitted in this
 21 proceeding?
 22 A It is.
 23 Q And there is no nonpublic version of your rebuttal,
 24 correct?
 25 A Correct.

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1 Q Okay. Could you go ahead and share your opening
 2 statement, please?
 3 A I will. As I mentioned, I am currently director of
 4 resource planning and bidding for Northern States
 5 Power. My background, I have a bachelor's degree in
 6 finance, a master's degree in economics, and I'm
 7 currently in the dissertation stage of my Ph.D. in
 8 applied economics at the University of Minnesota.
 9 In my role I currently oversee
 10 evaluations of all large power supply projects for
 11 the Northern States Power's region. I provide value
 12 analysis for senior management and I oversee our --
 13 our modeling software, Strategist.
 14 I provided direct and rebuttal testimony
 15 in this proceeding focusing on our Strategist
 16 modeling efforts around the Prairie Rose purchase
 17 power contract.
 18 My initial testimony -- oh. In my
 19 initial testimony -- oh.
 20 In my initial testimony I explain that
 21 Strategist is a tool that we hope assess the impact
 22 of new power supply projects on our customers by
 23 minimizing the overall present value of revenue
 24 requirements. Strategist is a well respected
 25 industry tool. It's been used by, to my knowledge,

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1 in over 13 states in proceedings such as these.
 2 In our Strategist modeling we determined
 3 that the project had a virtual break even impact on
 4 rates in our initial analysis. From my rebuttal, I
 5 examined -- I reexamined the project in light of
 6 Mr. Hahn's direct testimony and other considerations
 7 that we've identified since my direct testimony was
 8 filed.
 9 In my rebuttal I proposed updating the
 10 wind integration costs that we used in the original
 11 modeling based on more recent information available
 12 at the time. Two, I also adjusted the capacity
 13 credit that we had applied to the plant to ensure
 14 consistency with the NZI concept.
 15 As a result of these appropriate
 16 adjustments, it became clear that, from a modeling
 17 perspective, the possible PVRR results from the
 18 Prairie Rose were likely to be more favor -- more
 19 favorable than I originally considered.
 20 I support Mr. Haeger's testimony
 21 regarding the likely financial benefits of Prairie
 22 Rose and continue to believe that it's a prudent
 23 investment.
 24 That concludes my opening statement.
 25 MS. BRAMA: Mr. Wishart is available for

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1 questions.
 2 JUDGE WARD: Mr. Gruman.
 3 MR. GRUMAN: Thank you, Your Honor.
 4 Well, I can never learn enough about Strategist. So
 5 one thing in particular, 'cause I, you know, it's
 6 obviously very complex, so I'll probably try to dumb
 7 this down, I guess, maybe to my level.
 8 EXAMINATION
 9 BY MR. GRUMAN:
 10 Q When you're modeling something like this, I mean,
 11 are you essentially -- you're forcing wind in one,
 12 and then having the results submitted, and then
 13 essentially not submitting wind, or this PPA, and
 14 then having something else. Is that essentially in
 15 a nutshell what you've done?
 16 A That's correct.
 17 Q Okay.
 18 A And we compare the costs of the two to assess the
 19 impacts on customers.
 20 Q Well, when you're not forcing wind, what is
 21 Strategist picking?
 22 A Because the Prairie Rose and other wind projects
 23 have such a very small capacity credit, it's
 24 typically not building a new gas plant to fill that
 25 need. As Mr. Haeger mentioned, wind is only

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1 currently receiving a 12 percent accreditation and
 2 so the 200 megawatt project only represents 24
 3 megawatts of accredited capacity. So there aren't
 4 any real new wind -- new gas plants coming in to
 5 fill that need.

6 What does happen is that the energy that
 7 Prairie Rose would have been providing is filled
 8 through the dispatch simulation. And that's
 9 replaced by a mixture of market energy, gas, and
 10 coal. And, actually, I had an exhibit in my direct
 11 testimony that summarized what types of energy
 12 resources were being displaced by the Prairie Rose
 13 Wind Project.

14 Q Well, I just want to clarify one matter. You're
 15 talking about the 12 percent accredited capacity
 16 from MISO for this wind, but that's not 2012 and
 17 beyond, I mean, when does that 12 percent accredited
 18 capacity begin in your model?

19 A In the model? In my updated rebuttal testimony we
 20 are beginning that capacity credit in 2018.

21 Q 2018. And Mr. Oye I'm sure will testify to this,
 22 but that's the result of an assumed change in your
 23 interconnection with the grid from NZI to a
 24 traditional interconnect; is that correct?

25 A Correct. Mr. Oye will speak more to that but, yes,

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1 that's the concept behind the start date of the
 2 capacity credit.

3 MR. GRUMAN: One moment, Your Honor.
 4 I have no further questions.

5 JUDGE WARD: Ms. Jeffcoat-Sacco.
 6 MS. JEFFCOAT-SACCO: We have no questions
 7 at this time. Thanks.

8 JUDGE WARD: Commissioners.
 9 Chairman Kalk.

10 CHAIRMAN KALK: I agree with Mr. Gruman
 11 on the complexity of Strategist. So, I guess, just
 12 some thoughts.

13 EXAMINATION

14 BY CHAIRMAN KALK:

15 Q The model, is there anyone -- who are those that
 16 think this is not a good model out there? There
 17 must be somebody.

18 A Um --

19 Q Is this the industry standard where every investor
 20 utility uses Strategist?

21 A Not every investor-owned utility uses Strategist.

22 Q So what would be some other models that other
 23 companies would use?

24 A There is competing products. There's a product
 25 called System Optimizer, which is put out by the old

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1 Henwood Company, they keep changing names, but it's
 2 the old Henwood Company. It uses a similar
 3 algorithm to Strategist.

4 Q So would you expect much variability between systems
 5 that you use in output?

6 A I do not. We have benchmarked the dispatch
 7 simulation in Strategist to a couple other models,
 8 ProSIM is another in-house model that we use, and
 9 the dispatch simulations come very close.

10 Q Okay. Tell me how you -- I noticed in your title, I
 11 guess, you're the -- also deal with demand-side
 12 management?

13 A That was my first job when I started with the
 14 company, yes.

15 Q How does demand-side management tie into the
 16 resource planning? When you look at, if you say
 17 wind is 12 percent, maybe you could shut something
 18 down for 12, if we give you that same 12 percent.
 19 How do you balance those two?

20 A Oh, for demand-side management? I'm not sure I
 21 understand your question.

22 Q Okay. So if you need additional capacity, instead
 23 of -- could you just shut down some large energy
 24 users, you know, shift the load? I mean, how do you
 25 balance that and these models to where, do you go

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1 out and get more -- I always use these terms
 2 incorrectly -- do you go out and get more capacity
 3 or do you just lower your demand?

4 A Yeah. And, actually, it's kind of a two-step
 5 process. And when we look at the demand-side
 6 management, they'll do an economic study of the
 7 region, seeing what types of energy conservation
 8 opportunities are out there and at what cost. And
 9 they'll know the cost of our capacity, they'll know
 10 that a typical peaker is going to cost \$7 per kW
 11 month and typical system energy is in the 30 to 40
 12 dollar range.

13 So they'll have those metrics and they'll
 14 be able to say, well, if I can retrofit this
 15 warehouse with more efficient lighting, does that
 16 pass a cost-benefit ratio test based on the cost of
 17 avoided capacity and energy from other resources.
 18 So they'll do that analysis and determine their DSM
 19 targets, their demand-side management targets.

20 And at the beginning of our resource
 21 planning process we'll include that in our load
 22 forecast. So we'll say load would have been growing
 23 at 1 percent, but our DSM group has identified these
 24 cost-effective demand-side management programs, so
 25 maybe load is only going to grow at .8.

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1 Q Okay. So that's done long before you put it into
 2 the model?
 3 A Correct.
 4 Q Okay. That makes sense.
 5 CHAIRMAN KALK: I think that was all I
 6 had. Thank you.
 7 THE WITNESS: A pleasure.
 8 JUDGE WARD: Commissioner Cramer.
 9 COMMISSIONER CRAMER: I have no
 10 questions.
 11 JUDGE WARD: Commissioner Fetch.
 12 COMMISSIONER FETCH: No questions, thank
 13 you.
 14 JUDGE WARD: Ms. Brama.
 15 MS. BRAMA: Nothing further.
 16 JUDGE WARD: Mr. Gruman.
 17 MR. GRUMAN: No follow-up, Your Honor.
 18 MS. JEFFCOAT-SACCO: Nothing from me,
 19 thanks.
 20 JUDGE WARD: Okay. That was quick and
 21 easy.
 22 (Witness excused.)
 23 CHAIRMAN KALK: Hard to get a pay raise
 24 if you don't stay on the stand long.
 25 MR. WISHART: It just really is very

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1 interesting.
 2 MS. BRAMA: At this point we'd call
 3 Mr. Oye.
 4 JUDGE WARD: Mr. Oye, again, the same
 5 admonition about perjury, I think you've heard it
 6 three times now. So having been advised of the
 7 penalty for perjury, please raise your right hand so
 8 I can administer the oath.
 9 Do you promise to tell the truth, the
 10 whole truth, and nothing but the truth in this
 11 proceeding?
 12 MR. OYE: I do.
 13 JUDGE WARD: Thank you.
 14 RANDALL OYE
 15 EXAMINATION
 16 BY MS. BRAMA:
 17 Q Mr. Oye, could you state and spell your full name
 18 and give your title for the record, please?
 19 JUDGE WARD: May I stop you there just
 20 for one minute? The exhibits that I got for
 21 Mr. Wishart, I got two copies of his direct
 22 testimony but I did not get rebuttal.
 23 MS. BRAMA: I'll ask Mr. Simpson to
 24 get -- oh.
 25 MR. SIMPSE: There is no -- there is no

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1 nonpublic of his rebuttal, so.
 2 JUDGE WARD: I didn't get even a public.
 3 MR. SIMPSE: Oh, my apologies.
 4 JUDGE WARD: I got two copies of his
 5 public direct, but no rebuttal.
 6 MR. SIMPSE: Okay.
 7 JUDGE WARD: And one of them sort of has
 8 got a purple sticker and one's kind of got a gray,
 9 so. Yeah, 'cause we do want to make sure, mine are
 10 going to be the official record when -- okay. Okay,
 11 thanks.
 12 MS. BRAMA: Commissioners, are any of you
 13 missing a copy of Mr. Wishart's testimony? Which
 14 should be public and nonpublic direct and only a
 15 public rebuttal. Okay. Okay, I think we're set.
 16 BY MS. BRAMA:
 17 Q Mr. Oye, if you could state your name and spell it
 18 for the record and give your title as well, please.
 19 A My name is Randall L. Oye. First name is
 20 R-A-N-D-A-L-L, middle initial L, last name, O-Y-E.
 21 I'm a transmission analyst for NSP.
 22 Q Okay. And, Mr. Oye, you should have Exhibit 7
 23 public and Exhibit 7 nonpublic there with you. Are
 24 those copies of your rebuttal testimony in this
 25 proceeding?

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1 A Yes, they are.
 2 Q And you did not submit direct testimony, correct?
 3 A No, I did not.
 4 MS. BRAMA: Just noting for the record as
 5 well that Schedule 2 to Mr. Oye's rebuttal, in the
 6 nonpublic version, is on a disk. It's a very thick
 7 document, a lot of data in it, we don't intend to
 8 refer to it, so in the interest of saving paper you
 9 should have a disk attached to the nonpublic version
 10 of his testimony.
 11 BY MS. BRAMA:
 12 Q Mr. Oye, could you please provide your opening
 13 statement?
 14 A Yes. Thank you.
 15 I provided rebuttal testimony in this
 16 proceeding. I have a bachelor's of science degree
 17 from North Dakota State University in electrical
 18 engineering and have worked for NSP both as a direct
 19 employee and as a consultant since 1990.
 20 I have worked as a transmission analyst
 21 for nearly six years and currently am the chair of
 22 the MISO Interconnection Process Task Force and
 23 former chair of the Midwest Reliability
 24 Organization, Wind Generation Modelling Task Force.
 25 I provided testimony in this matter on

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1 several transmission-related issues. I believe we
 2 have reached an understanding with Commission
 3 Advocacy Staff on one of those issues regarding why
 4 we did not select a particular bid identified by
 5 Mr. Hahn in our 2010 wind request for proposal.
 6 As a result of that understanding, this
 7 opening statement is focused on the status of the
 8 net zero Interconnection concept at the Federal
 9 Energy Regulatory Commission, or FERC, and how
 10 Prairie Rose works as a net zero project.
 11 FERC has approved the concept of net
 12 zero, but ordered that MISO add additional tariff
 13 provisions to ensure that net zero is administered
 14 in a transparent and nondiscriminatory manner.
 15 Following six months of development and
 16 stakeholder discussions, MISO completed the
 17 additional net zero procedures and submitted them to
 18 FERC at the end of September.
 19 It is my opinion that the revised
 20 procedures accomplish the FERC requirements that the
 21 net zero process be fair and transparent as
 22 possible. FERC is expected to rule on the filing
 23 before the end of November 2012.
 24 Separately, FERC has addressed the
 25 Prairie Rose generator interconnection agreement, or

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1 GIA, in two other proceedings. FERC has accepted
 2 the GIA for filing subject to the additional MISO
 3 tariff procedures I just mentioned. In addition,
 4 FERC staff and the ALJ have recommended acceptance
 5 of a resolution of all claims with respect to
 6 Prairie Rose's use of the net zero concept.
 7 The agreement FERC is considering
 8 explicitly provides that there was no undue
 9 discrimination in the selection of the Prairie Rose
 10 project. As a result of these proceedings,
 11 questions regarding the general concept of net zero
 12 service and its specific application to Prairie Rose
 13 are being addressed in the FERC jurisdiction.
 14 My rebuttal testimony also addressed
 15 Mr. Hahn's suggestion that net zero implementation
 16 might mean there are times when Prairie Rose and
 17 Anson could not deliver energy simultaneous to the
 18 grid. While it is correct that the nature of net
 19 zero creates this possibility, the amount of time
 20 and the number of megawatt-hours in which this may
 21 occur is quite small. This is because peaking
 22 generation plant operation does not normally overlap
 23 with high wind generation conditions.
 24 This was illustrated in the study
 25 discussed in my rebuttal testimony that compared

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1 historical Angus Anson operation with our Fenton
 2 wind farm. That's the disk that is included in the
 3 nonpublic.
 4 In addition, the allowed interconnection
 5 capacity being assigned to the Prairie Rose Wind and
 6 the Angus Anson generating facility of 392 megawatts
 7 is enough to accommodate the full output of Prairie
 8 Rose, along with Anson Unit 4, which is our newest
 9 and most efficient gas peaking facility.
 10 Lastly, I agree with Mr. Haeger that if
 11 the Prairie Rose project is converted to a
 12 conventional interconnection in the future, it seems
 13 reasonable to conclude that the cost associated with
 14 such a transition would likely not be significant
 15 given the current transmission expansion plans in
 16 the midwest.
 17 This concludes my testimony.
 18 MS. BRAMA: Mr. Oye is available for
 19 questions.
 20 JUDGE WARD: Mr. Gruman.
 21 MR. GRUMAN: Thank you.
 22 EXAMINATION
 23 BY MR. GRUMAN:
 24 Q I understand some of this is in the record, but
 25 maybe it's just for the benefit of all that we'll do

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1 some reiteration.
 2 Before -- It was just testified that from
 3 modeling, the modeling standpoint, there was going
 4 to be a MISO accredited capacity beginning 2016.
 5 Why 2016?
 6 A I think he said 2018.
 7 Q Okay. Why 2018, then?
 8 A MISO is in the process of -- well, the region,
 9 there's a number of major transmission lines being
 10 built. The CapX lines, the one from Fargo to the
 11 Twin Cities, there is one from southwest Minnesota
 12 to the Twin Cities. And in addition to those,
 13 there's some that are called multi-value projects,
 14 which is, you know, again, a number of 345 lines.
 15 Those connect Ellendale here in North Dakota to the
 16 Brookings. And then there's also a number that
 17 connect parts of Iowa and near Anson to the rest of
 18 MISO.
 19 The thinking is is it's going to create a
 20 lot of transmission capacity. It's going to create
 21 it in the areas around Prairie Rose, and that should
 22 open up transmission to allow them to get a
 23 traditional interconnection.
 24 Q From an engineering standpoint, the Prairie Wind
 25 project is fairly proximate to Angus Anson; is that

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1 correct?

2 A Yes.

3 Q How many miles, approximately, of transmission line

4 are there between Angus Anson and the Prairie Rose

5 Wind?

6 A It's around 25, I believe.

7 Q And that transmission line, is that -- that being

8 paid for by Prairie Wind, or is that something that

9 NSP has purchased?

10 A It's Anson -- or, excuse me, Prairie Rose is

11 building it. It's basically a collector line. It

12 comes into the interconnection point where Anson is

13 interconnected.

14 Q Now, you had mentioned that you currently have a

15 FERC filing for approval of NZI, specifically, I

16 believe, Attachment X to the tariff; is that

17 correct?

18 A Yes.

19 Q Now, is there a discrimination finding as part of

20 whether or not that's going to be approved or not

21 approved?

22 A I'm not sure what you mean.

23 Q What is -- what's all included with FERC approving

24 this NZI tariff? What are some of the findings that

25 they're going to have to determine?

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1 A They -- they approved it conditional -- I'll back up

2 a little bit. MISO put together, you know, the

3 Attachment X is generation interconnection

4 procedures. We submitted queue reform a year, you

5 know, I think -- I don't remember the dates, but

6 November 11, I think, that changed the queue and

7 added net zero. FERC ruled on it that they agreed

8 with the concept, they thought it was a good

9 addition to the system to, you know, for allowing

10 additional options for interconnection. But they

11 said MISO needed to change their tariff to make sure

12 it's nondiscriminatory and visible.

13 And so what is happening, or what

14 happened, FERC gave us 180 days, the IPTF

15 commission -- or task force with MISO, 180 days to

16 rewrite the tariff to make it fair and transparent.

17 And MISO just finished that in the end of September.

18 So what happens now is FERC will rule, you know,

19 usually within 60 days, on the MISO filing.

20 Q How has Prairie Wind been benefited by this NZI

21 approach?

22 A How has it benefited?

23 Q Um-hum.

24 A By utilizing the existing transmission of Anson, it,

25 you know, we're sharing existing transmission. So

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1 it provided a benefit that, you know, it's cheaper,

2 you know, they're using an existing transmission. I

3 shouldn't say using, sharing. So it should have

4 drove the cost down of the project. Plus, it

5 allowed them to interconnect a little quicker.

6 Q Would it be true to assume with your RFP,

7 specifically since it was focused upon wind, and the

8 NZI component, which, of course, was given to all,

9 to anyone who wants to bid, wouldn't it be true that

10 really those entities that are most going to benefit

11 from NZI are going to be approximately located to a

12 CT peaking unit, wouldn't that be correct?

13 A Correct.

14 Q One of the questions that I have is, is that going

15 back to the benefit by Prairie Rose Wind, was that

16 realized in this contract price? If could you

17 please explain to us. I know it was in the record.

18 A You know, I'm -- I'm transmission. I, you know, I

19 really can't speak to that.

20 Q Okay.

21 MR. SIMPSON: Our witness, Mr. Haeger,

22 does discuss that.

23 MR. GRUMAN: Okay. Very good.

24 BY MR. GRUMAN:

25 Q Well, one question that I have is that now if NZI is

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1 approved, certainly it's going to be utilized by

2 Prairie Rose Wind, but my question is, if you go to

3 a traditional interconnect to 2016, if some other

4 entity were wanting to use that NZI, since it's

5 already been used once and it's been approved by

6 FERC, you as a company would actually have to allow

7 them to interconnect in that approach, wouldn't that

8 be correct?

9 A Are you asking if Prairie Rose abandons that NZI

10 connection?

11 Q Correct.

12 A The way the tariff language is written, NSP has the

13 option, but they're not going to be obligated. The

14 FERC, you know, it's -- they've chosen, you know,

15 they allow the existing generator to choose to do it

16 or not to do it. The only thing they said is you

17 have to do -- if you choose to do it, you have to be

18 open and nondiscriminatory.

19 Q So, I mean, really it's the case that since this has

20 been done, if anyone else in the future wants to use

21 this NZI interconnection, you would have to offer it

22 to them, that would be correct?

23 A No.

24 Q How could you refuse it? I guess that's my

25 question.

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1 A Because the FERC -- you know, it's optional. FERC
 2 has made this -- it's not mandatory that an existing
 3 generator do a net zero, it's optional for a net
 4 zero to do. Or, excuse me, an existing generator to
 5 do a net zero.

6 MR. GRUMAN: Okay. One moment, Your
 7 Honor.

8 BY MR. GRUMAN:

9 Q Well, I guess, again, for the benefit of the record,
 10 if you could please explain, if there is that
 11 changeover from NZI to traditional interconnect,
 12 from an engineering standpoint what's all involved
 13 in that scenario?

14 A Prairie Rose would have to request a new generator
 15 interconnection. They'd have to submit a new
 16 generator interconnection request with MISO. MISO,
 17 they would pay deposits and study fees, and MISO
 18 would process it in their normal procedure. And
 19 upon, you know, MISO runs a system impact study
 20 first and that identifies any upgrades. Following
 21 that, then they run a facilities study, which
 22 calculates the cost of those upgrades. The next
 23 step is they enter a generation interconnection
 24 agreement. So Prairie Rose would have to follow
 25 that process. If there were transmission upgrades,

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1 they would have to pay those upgrades and then, you
 2 know, that's a process.

3 Q Do you envision, if the MVP projects do come to
 4 fruition, a quick process, both from an engineering
 5 and a cost standpoint?

6 A The process now from -- with the revised queue
 7 reform, you know, they're saying a year. So you
 8 should be able to go from your interconnection
 9 request to executive -- an executed generation
 10 interconnection agreement in a year. So, you know,
 11 that process is pretty quick. The transmission
 12 needs, you know, it's dependent, MVPs are scheduled
 13 for the '18, you know, '19 time frame today. You
 14 know, that could slip, that could, you know, be
 15 improved on. So, you know, they're kind of at the
 16 mercy of that.

17 And if any upgrades were identified, they
 18 would need to pay for those. And, you know, that'll
 19 add time. At this time we, you know, as I said in
 20 my testimony, it's uncertain, you know, that they'll
 21 be -- we don't know if there's going to be upgrades
 22 that'll be found in the studies because everything
 23 is fluid. There might be a lot of interconnections
 24 that come into, you know, into the queue before
 25 Prairie Rose, so it's kind of a function of timing.

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1 Based on their location and the robust system at
 2 Sioux Falls where they interconnect, it seems
 3 reasonable that there won't be a lot of additional
 4 stuff beyond the MVPs.

5 Q Under the contingency that, as you indicated, if it
 6 does, there is a changeover from an NZI
 7 interconnection to traditional interconnect, who
 8 pays those costs?

9 A Prairie Rose would. Or the interconnection
 10 customer, whoever requests the interconnection.

11 MR. GRUMAN: Okay. No further questions.

12 JUDGE WARD: Ms. Jeffcoat-Sacco.

13 MS. JEFFCOAT-SACCO: No questions, or has
 14 been answered, thanks.

15 JUDGE WARD: Questions from the
 16 Commissioners.

17 Chairman Kalk.

18 CHAIRMAN KALK: Just a couple. I think
 19 Mr. Gruman did a very good job of getting the
 20 questions out there, a lot of them that I had.

21 EXAMINATION

22 BY CHAIRMAN KALK:

23 Q The follow-up of, I think it was Mr. Haeger's
 24 testimony, that some of the potential options for a
 25 purchase power agreement, or getting a wind farm in

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1 North Dakota just didn't work because the
 2 transmission lines weren't there; is that correct?

3 A That's one of two reasons, yeah. Two of the main
 4 reasons.

5 Q Okay. So tell me this, so tell me how a customer,
 6 if the power can't flow out of the state, how can
 7 the power flow into the state to meet Xcel's
 8 customers and Minot's needs?

9 A We have agreements with different utilities to
 10 provide that.

11 Q So could you also get similar type agreements to
 12 move the power out of the state?

13 A Yes.

14 Q So it could have been done, then?

15 A Well, the question is at what cost.

16 Q Was that studied, then, the cost?

17 A Yes. Just to back up. Serving our load, NSP was a
 18 member of MAPP, Midwest Area Planning Pool, along
 19 with Minnkota, Basin, WAPA, Otter Tail. And
 20 during -- and this is before I was real involved.
 21 But we had agreements with those companies to, you
 22 know, we serve some of their load, they serve some
 23 of ours over transmission and so we had shared
 24 agreements.

25 Not all of those companies joined MISO.

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1 Otter Tail did, MDU did, NSP. But, so there's, you
 2 know, the interconnection issue is -- is, you know,
 3 the way it works now is if you're going to
 4 interconnect and use their system you have to pay
 5 them for it because they're not part of MISO. If
 6 they were part of MISO it's all together, you know,
 7 the funding is, you know -- again, I am not familiar
 8 with how it works, but --
 9 Q I follow most of it, not to your level, but the
 10 MISO.
 11 A But to answer your question is to do it we would
 12 have had to pay an additional. And we calculate it
 13 at somewhere around \$10 a megawatt-hour more to
 14 utilize non-MISO facilities to get our energy.
 15 Q So if that's the case, then, even though, if this
 16 was somehow approved, the cost overall to North
 17 Dakota customers, the North Dakota customers in the
 18 western edge of the state would not be benefiting
 19 from this by any of the energy created?
 20 A I'm not sure --
 21 Q It doesn't work that way?
 22 A Well, no, I don't -- can you elaborate on your
 23 question?
 24 Q I'm just trying to figure out how a resource way on
 25 the eastern -- not the eastern edge, farther east is

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1 going to benefit customers in the western edge of
 2 the MISO region, and North Dakota, where we are, how
 3 this benefits them when the energy can't be moved to
 4 that level because of all these constraints?
 5 A Again, I guess it's a function of which way is, you
 6 know, where do you need the energy. You know,
 7 historically the energy from North Dakota flowed
 8 into Minnesota, you know, it flows west to east.
 9 With loads growing in North Dakota, you know, the
 10 energy might not flow as much in that direction.
 11 Q Sure.
 12 A So.
 13 CHAIRMAN KALK: I think that was it.
 14 Thank you.
 15 THE WITNESS: You're welcome.
 16 JUDGE WARD: Commissioner Cramer.
 17 EXAMINATION
 18 BY COMMISSIONER CRAMER:
 19 Q Yeah. Geronimo, this project is part of the
 20 vicinity of the Buffalo Ridge; is that correct?
 21 A Yes.
 22 Q The original transmission lines that were built for
 23 the first projects at Buffalo Ridge -- well, the
 24 regional projects that started Buffalo Ridge, were
 25 they not built there in Minnesota as a part of the

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1 Minnesota mandate to build wind in the state of
 2 Minnesota? And would those transmission lines have
 3 been built had that mandate not been in place in the
 4 first place?
 5 A I believe they were built as part of that mandate.
 6 Q So really now, all the benefits that we sort of
 7 supposedly realize, transmission and otherwise,
 8 really come from the original mandate that the first
 9 farm be built in Minnesota, because but for that
 10 mandate perhaps the first farm would have been built
 11 somewhere else? Is that fair?
 12 A Buffalo Ridge was the best, you know, wind resource.
 13 Again, this was a little before my time. But the
 14 company chose that area to develop because it had
 15 the best wind resource in the state.
 16 Q In the state, yeah.
 17 A Yeah.
 18 Q Not necessarily the region, perhaps.
 19 A Some of the best in the region, but, yeah.
 20 Q Sure. With regard to -- and maybe I should have
 21 asked this in the context of economics rather than
 22 transmission. But in the last eight years or so,
 23 nearly 1,500 megawatts of wind capacity have been
 24 built in North Dakota by various entities, purchased
 25 by various entities, some by critically integrated

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1 utilities, others by, you know, merchants with
 2 contracts.
 3 How does all that work if Xcel, who is a
 4 big player in energy in the region and has
 5 transmission lines and comes to us for prudence of
 6 other ones and siting, how is it they can't do it?
 7 Are all these other people just dumb or how do they
 8 get it done?
 9 A Well, my understanding is a high percentage of that
 10 was built by non-MISO utilities. The MISO utilities
 11 that have built some had deliverability to their
 12 loads. So it's very difficult. You know, again, it
 13 adds, you know, 10, you know, our calculation is \$10
 14 per megawatt-hour if they're not connected to MISO.
 15 So, you know, that's the big thing. You know, I
 16 don't think a lot of that is purchased by MISO. And
 17 if it is MISO, they have, you know, like a DC line
 18 to deliver it to their --
 19 Q Okay. Boy, it seems like a DC line might have a lot
 20 of capacity on it into Minnesota for others.
 21 COMMISSIONER CRAMER: But, at any rate, I
 22 have nothing further. Thanks.
 23 THE WITNESS: You're welcome.
 24 JUDGE WARD: Commissioner Fetch.
 25 COMMISSIONER FETCH: Nothing, thank you.

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1 JUDGE WARD: Counsel.

2 CHAIRMAN KALK: Your Honor, if I could

3 just have a quick one.

4 FURTHER EXAMINATION

5 BY CHAIRMAN KALK:

6 Q And I know you may not know this, but you probably

7 know MISO better than I do. What does Great River

8 Energy belong to? Are they in a power pool?

9 A They're in MISO.

10 Q They are in MISO?

11 A Yeah.

12 Q And Minnkota Power, are they also part of MISO?

13 A No, Minnkota is not.

14 Q Does Minnkota belong in a power pool?

15 A They were in MAPP, but they're kind of -- I'm not --

16 I'm a little familiar, but, you know, they

17 participate somehow in the MISO, but they are not a

18 MISO member.

19 Q But Great River Energy is in MISO?

20 A Great River Energy is, yes.

21 Q Just -- that was kind of my earlier point, I think

22 Commissioner Cramer followed up on it maybe a little

23 better than I did in the beginning, was that Great

24 River Energy has got a big footprint in North

25 Dakota, and it just seems like -- it seems like a

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1 transmission diagram could have been put together to

2 move power from the central part of North Dakota

3 into Minnesota. But you're saying that, no, cost?

4 A Well, there are -- there are lines, there's not a

5 significant number of lines. MISO has built, you

6 know, and is building a lot to the Fargo area, you

7 know. And, you know, as with the MVPs to Ellendale.

8 It's -- you know, we've looked at a lot of different

9 locations in North Dakota for wind. And there's a

10 lot of times one line that runs, one MISO line that

11 runs from, you know, Ellendale to Bismarck, just one

12 little, you know, not little, but a 230 line.

13 There's MISO lines all over there, but a lot of

14 times they're islands, they're not contiguous, they

15 don't go all the way from North Dakota continuously

16 to MISO. So there's not a lot of MISO

17 infrastructure in North Dakota. And that has --

18 that has impacted.

19 The other issue with some of the

20 projects, they're really -- the way the studies are

21 done and, you know, the way things are done, there's

22 not a lot of outlet today available out of North

23 Dakota to sink into Minnesota.

24 Q So should Xcel Energy have a line of their own

25 running from somewhere in Fargo or Grand Forks to

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1 Minot to meet Minot future needs for transmission?

2 A You know what, I -- that's not a question I can

3 answer. We have arrangements to serve our loads

4 with different utilities that's been, you know,

5 worked and has seemed adequate, but I'm probably not

6 the right one to --

7 CHAIRMAN KALK: Okay, thank you. Thanks,

8 Your Honor.

9 JUDGE WARD: Anything further, counsel?

10 MS. BRAMA: No, thank you, Your Honor.

11 JUDGE WARD: Mr. Gruman.

12 MR. GRUMAN: No, Your Honor.

13 JUDGE WARD: Ms. Jeffcoat-Sacco.

14 MS. JEFFCOAT-SACCO: No, Your Honor.

15 JUDGE WARD: You may step down.

16 THE WITNESS: Thank you.

17 CHAIRMAN KALK: Your Honor, I think

18 the -- can we have maybe a quick five-minute break,

19 would that be possible? 'Cause I'd like to talk to

20 Mr. Lein a little bit and maybe come back to that

21 witness right away.

22 JUDGE WARD: Sure. We'll take about a

23 five-minute break.

24 CHAIRMAN KALK: Thank you.

25 JUDGE WARD: Back at 11:00.

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1 (Break taken.)

2 JUDGE WARD: Okay. It's about five after

3 11:00, we're back on the record on the hearing on

4 case number PU-12-059.

5 We have Mr. Oye on the stand. Does

6 anybody have any additional questions for Mr. Oye?

7 Chairman Kalk.

8 CHAIRMAN KALK: I would just ask him just

9 one question.

10 BY CHAIRMAN KALK:

11 Q So if you can work out a project to where you

12 interconnect with Otter Tail in North Dakota, there

13 would be no interconnection, the \$10 that you're

14 talking about wouldn't apply?

15 A Correct.

16 Q Would that be the same if you could work it with

17 Great River Energy?

18 A Correct -- yes, assuming that there's transmission,

19 you know, the interconnection project has the

20 transmission.

21 Q And the same thing with MDU, if you could work out a

22 project with MDU, you would have to --

23 A Yes.

24 CHAIRMAN KALK: Okay. Thank you. That

25 was all I had, Your Honor.

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1 JUDGE WARD: Any other questions for
 2 Mr. Oye? Counsel?
 3 Go ahead, Ms. Brama.
 4 MS. BRAMA: Yes, Your Honor.
 5 FURTHER EXAMINATION
 6 BY MS. BRAMA:
 7 Q Mr. Oye, we've passed out in the hearing room here a
 8 document marked as Exhibit 11 nonpublic, and have
 9 stipulated with counsel as to the admission of this
 10 document, but maybe you could identify what it is
 11 before we go ahead and talk about it. At least on a
 12 conceptual level, understanding some of the detail
 13 is protected.
 14 A This is a -- this is a map of MISO region, the
 15 western area, that we had a consultant put together.
 16 The highlighted lines are these planned MVP lines.
 17 And -- excuse me -- the MVP and the CapX lines. So
 18 these are all new lines that are being planned and
 19 these have been discussed about going in.
 20 And the reason we wanted to show this is
 21 just to show that there is significant
 22 infrastructure being built into North Dakota that's
 23 going to facilitate, you know, expansion, you know,
 24 of generation up there.
 25 Q So when you talk about the limited transmission

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1 available now, how might that change in the future?
 2 A Well, these lines create, you know, they're 345 kV
 3 lines, there's essentially two of them, two new ones
 4 coming out of North Dakota. I should clarify. I'm
 5 a transmission analyst, but I'm on the generation
 6 side, the energy market side, I'm not a transmission
 7 planner. The groups were separated, you know, a few
 8 years ago, so I don't have planning knowledge. I
 9 have knowledge obtained through public means.
 10 But, from my understanding, you know,
 11 this will increase the outlet out of North Dakota,
 12 you know, some 1,000, you know, the lines are rated,
 13 you know, 1,000 megawatts and stuff, so it should
 14 create significant outlet out of North Dakota.
 15 Q It might be helpful just for this group to clarify
 16 why the two groups are separated, transmission
 17 planning and transmission access?
 18 A This was a FERC 888, I believe. And NSP, it was
 19 difficult, FERC 888, when it first came out,
 20 prevented the planning side from talking to the
 21 generation side. So the generation side formed a
 22 group of transmission experts, of which I am, you
 23 know, like to think I'm one, so we could follow what
 24 was being done publicly with transmission, what was
 25 known publicly so we could make decisions with our

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1 generation.
 2 Q And I mention that in case there are further
 3 questions from the Commissioners about transmission
 4 planning, we'd be happy to follow up with that. We
 5 don't have a transmission planning witness here with
 6 us today, but obviously we're happy to answer any
 7 questions that may come up.
 8 I do want to follow up, Mr. Oye, you
 9 mentioned an additional \$10 charge for the use of
 10 non-MISO transmission. Could you elaborate on what
 11 that means for any given project? How does that
 12 affect the cost of the project overall?
 13 A Well, the \$10 is a pancake tariff. If you
 14 interconnect to a different -- a non-MISO utility,
 15 you're going to have to pay that utility a pancake
 16 rate to use their transmission system. And the \$10
 17 is, you know, calculated based on, you know, a
 18 capacity factor, I think we used 40 percent. That
 19 \$10 would be on top of what we had to pay for the
 20 energy. So essentially it's, you know, can be like
 21 25 percent. It's an additional cost of 25 percent
 22 to the generation subject to the pancake tariff.
 23 Q Thank you.
 24 MS. BRAMA: I understand this exhibit may
 25 draw some more questions, we're happy to have others

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1 ask any questions they may have.
 2 JUDGE WARD: Mr. Gruman.
 3 COMMISSIONER FETCH: Excuse me. Before
 4 we proceed, did you say this exhibit was nonpublic?
 5 MS. BRAMA: It's nonpublic from a
 6 security or CEII.
 7 COMMISSIONER FETCH: Okay, I have in
 8 front of me public, it says. So do I have the
 9 correct exhibit?
 10 CHAIRMAN KALK: I think so.
 11 COMMISSIONER FETCH: Okay.
 12 MS. BRAMA: You might just have the wrong
 13 sticker.
 14 COMMISSIONER FETCH: Okay. Thank you. I
 15 just wanted to clarify.
 16 JUDGE WARD: Thank you, Commissioner
 17 Fetch.
 18 MR. GRUMAN: And, Your Honor, I have no
 19 questions.
 20 JUDGE WARD: Ms. Jeffcoat-Sacco is away,
 21 Commissioners?
 22 CHAIRMAN KALK: I have none.
 23 JUDGE WARD: Okay. Ms. Jeffcoat-Sacco,
 24 do you have any questions?
 25 MS. JEFFCOAT-SACCO: No questions.

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1 JUDGE WARD: Okay. All right. You may
 2 step down, sir.
 3 THE WITNESS: Thank you.
 4 (Witness excused.)
 5 JUDGE WARD: And, again, let's bear in
 6 mind the caveat that that is a nonpublic document,
 7 the map.
 8 You may proceed, Ms. Brama.
 9 MS. BRAMA: All right. Thank you, Your
 10 Honor.
 11 We would call Kari Clark at this time.
 12 JUDGE WARD: Ms. Clark, you've heard the
 13 perjury admonition and, again, I must remind you
 14 that perjury is a Class C felony, a Class C felony
 15 is subject to a maximum penalty of five years
 16 imprisonment, a fine of \$5,000, or both may be
 17 imposed.
 18 Please raise your right hand.
 19 Do you promise to tell the truth, the
 20 whole truth, and nothing but the truth in this
 21 proceeding?
 22 MS. CLARK: I do.
 23 JUDGE WARD: Thank you.
 24 KARI CHILCOTT CLARK
 25 EXAMINATION

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1 BY MS. BRAMA:
 2 Q Ms. Clark, could you please state and spell your
 3 whole name for the record in this proceeding, and if
 4 you could give your title as well, please?
 5 A Yes. My name is Kari Chilcott Clark. K-A-R-I,
 6 Chilcott is C-H-I-L-C-O-T-T, Clark, C-L-A-R-K. And
 7 I manage the renewable energy portfolio.
 8 Q Okay. Do you have there with you copies of
 9 exhibits -- Exhibit 8 public and Exhibit 8
 10 nonpublic?
 11 A I do.
 12 Q And are those your rebuttal testimony submitted in
 13 this proceeding?
 14 A They are.
 15 Q And you did not have any direct testimony in this
 16 proceeding, correct?
 17 A That is correct.
 18 Q Okay. Could you please share your opening
 19 statement?
 20 A As I said, I am the renewable energy portfolio
 21 manager for Xcel Energy Services, the service
 22 company for the NSP entity that serves North Dakota.
 23 I have a bachelor's degree in mathematics
 24 and a master's degree in applied mathematics. I
 25 have been with Xcel Energy for over 14 years and I

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1 have been responsible for managing the renewable
 2 energy credit, or REC portfolio for all of Xcel's
 3 jurisdictions since 2008.
 4 I submitted rebuttal testimony in this
 5 proceeding focusing on the company's strategy to
 6 maximize REC value for our North Dakota customers.
 7 It is our view that selling all RECs as they are
 8 generated gives us no ability or opportunity to
 9 maximize the value of the North Dakota REC
 10 portfolio.
 11 While conducting market analysis,
 12 actively managing our REC portfolio, and looking for
 13 opportunities across the entire United States, we
 14 can utilize our expertise to earn more value from
 15 the marketplace.
 16 The REC market is still maturing.
 17 Liquidating all RECs immediately likely would not
 18 achieve the benefits of market maturation. Upon
 19 discussion with Commission Advocacy Staff after our
 20 rebuttal testimony was submitted we believe we have
 21 found a mutually agreeable future course of action
 22 concerning the REC issue.
 23 Xcel Energy will continue to manage its
 24 REC portfolio in the manner described in my
 25 testimony, working to achieve value for our North

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1 Dakota customers. At the same time, we will provide
 2 greater transparency to this Commission by including
 3 monthly indicative REC pricing and information about
 4 any REC sales we made in the prior year in our
 5 annual North Dakota REO filing.
 6 This will enable the Commission to track
 7 general REC pricing trends in the marketplace, as
 8 well as the details of any sale we actually make.
 9 We hope this is satisfactory.
 10 This concludes my opening statement.
 11 MS. BRAMA: And Ms. Clark is available
 12 for further questions.
 13 JUDGE WARD: Mr. Gruman.
 14 MR. GRUMAN: Thank you.
 15 EXAMINATION
 16 BY MR. GRUMAN:
 17 Q Ms. Clark, do you have access to Exhibit 4? Thank
 18 you. Could you refer --
 19 A This is 3.
 20 Q Okay. Thank you, Mr. Simpser.
 21 If you could refer to the very back of
 22 that document, there is a schedule, specifically
 23 Schedule 1?
 24 A Yes, I see it.
 25 Q Okay. Are you familiar with this schedule?

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1 A Yes.

2 Q Okay, I'm looking at these ever increasing prices
3 of a buck 29 --

4 MR. SIMPSEY: Excuse me. I believe this
5 is a nonpublic schedule.

6 MR. GRUMAN: Oh.

7 MR. SIMPSEY: If we're going to be
8 discussing that.

9 MR. GRUMAN: That's interesting, because
10 I had wondered about that. I have the public
11 version. And I have the schedule in here, so
12 maybe --

13 JUDGE WARD: Is there any way we can just
14 treat that as nonpublic?

15 MR. GRUMAN: Okay. Let's --

16 MS. JEFFCOAT-SACCO: Excuse me. Before
17 we continue, we would clear the room of people that
18 have not signed the form.

19 MR. GRUMAN: Okay. I'm familiar with the
20 protocol, I'd like to just discuss internally here
21 whether or not we want to continue with these
22 questions.

23 JUDGE WARD: Okay. Before we get into
24 the specifics of it, let's sort out -- I also have
25 an Exhibit 4 public that does have attached to it at

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1 the back a table. Is that the table you're
2 referring to, Mr. Gruman?

3 MR. GRUMAN: It is, Your Honor, so maybe
4 the company wants to react.

5 MS. BRAMA: Maybe if we could confer for
6 just a minute with our witnesses and see --

7 MR. SIMPSEY: One of the things we need
8 to also consider is whether this is prefiled
9 (inaudible).

10 MS. BRAMA: Yep.

11 MR. GRUMAN: I'll look in the docket.
12 Thank you.

13 UNIDENTIFIED: Is that public or
14 nonpublic, I don't know.

15 MS. BRAMA: Kari, do you want to --
16 (Discussion held off the record.)

17 JUDGE WARD: -- on the record, and for
18 the benefit of anyone out there listening, we did
19 make a determination that, in fact, the particular
20 chart or table being referred to is a public
21 document, not a nonpublic document.

22 MR. GRUMAN: Thank you.
23 If I may proceed, Your Honor?

24 JUDGE WARD: You may.

25 MR. GRUMAN: Thank you, Your Honor.

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1 BY MR. GRUMAN:

2 Q I guess essentially my question is, are current REC
3 prices substantially lower than what is anticipated
4 in this model as formalized in this schedule? If
5 you could please explain?

6 A Actually, the \$1.29 REC price that's shown in 2013
7 is very similar to an RFP. Not an RFP, a broker
8 deal that we are looking at right now for 2013 wind.
9 So I think these prices are right in line with what
10 we're seeing in the market.

11 Q And it's increasing, if you could please explain for
12 the record why it's increasing every year?

13 A It's forward looking. So as you sell farther into
14 the future, there's a higher risk, and so those RECs
15 are worth -- they have a slightly higher value.

16 Q So there's a risk component to that, it's not just
17 pure inflation?

18 A The way that we -- the risk is that those RECs will
19 be entered into a transaction and they will never be
20 created, so there is certainly a risk there.

21 MR. GRUMAN: Okay. Any further
22 questions? One moment, Your Honor. I'll wait for
23 Mr. Simpser.

24 MR. SIMPSEY: Okay. We're just
25 clarifying with Mr. Haeger, to whose testimony this

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1 is attached.

2 Now, I believe, correct me if I'm wrong,
3 but I do believe actually this 1.9 percent inflation
4 rate is what's imputed to these numbers?

5 MS. CLARK: After --

6 MR. HAEGER: -- 2016, it's a market
7 price, and at '17 it's just a straight inflation.

8 MR. GRUMAN: Okay. May I proceed, Your
9 Honor?

10 JUDGE WARD: You may.

11 MR. GRUMAN: Thank you, Your Honor.

12 BY MR. GRUMAN:

13 Q From Advocacy Staff's understanding, you had just
14 testified to a, quote, unquote, broker deal to be
15 established under this buck 29. It's our
16 understanding that's not currently within the
17 record. And if our understanding is correct, could
18 that be included into the record for consideration?
19 Assuming that, essentially, these prices are rolled
20 into the least cost scenario for this project?

21 A The -- the broker deal that I'm talking about has
22 not been executed. It's being routed internally
23 through Xcel, so it's -- it's not a completed
24 transaction. But it is certainly showing us what
25 the market prices available out there are, if we

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1 have the right -- if we have the relationships and
 2 we're diligent about looking for the -- the higher
 3 prices.
 4 MR. GRUMAN: Thank you. One moment, Your
 5 Honor.
 6 I have no further questions, Your Honor.
 7 JUDGE WARD: Ms. Jeffcoat-Sacco.
 8 MS. JEFFCOAT-SACCO: We have no
 9 questions.
 10 JUDGE WARD: Commissioners?
 11 CHAIRMAN KALK: A couple, Your Honor.
 12 JUDGE WARD: Chairman Kalk.
 13 EXAMINATION
 14 BY CHAIRMAN KALK:
 15 Q Thank you, Kari, for your testimony. The -- walk me
 16 through -- you said eight states, so that's all the
 17 Xcel states, I would presume, right? Of those
 18 eight, do you know off the top of your head which
 19 ones have renewable goals and which ones have
 20 mandates?
 21 A Yes. They all have mandates except for North Dakota
 22 and South Dakota.
 23 Q Okay. That's easy enough.
 24 A As the goals.
 25 Q All right. You said one of your jobs is ensuring

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1 compliance with renewable portfolio standards and
 2 developing compliance plans, retirement plans. So
 3 what does that mean, exactly? I mean, you develop a
 4 plan for each state?
 5 A Yes.
 6 Q So what does your current plan for North Dakota
 7 include? Your current plan.
 8 A The current plan for North Dakota is no RECs would
 9 be retired until 2015 when the renewable energy
 10 objective starts, and then we would start retiring
 11 RECs at that point in time. And we would retire the
 12 oldest RECs that we have in the portfolio for
 13 compliance with that objective.
 14 Q Sure. Do you talk with other agencies in the state,
 15 such as Basin Electric, and compare at all what your
 16 plan, if you will, is, compared to what their plan
 17 is, so the state is uniform, or is each one treated
 18 differently?
 19 A I have not had any discussions with other utilities.
 20 My hope is that there would be a workshop for all of
 21 the North Dakota utilities so we can get some
 22 guidance on how all this will look as we get closer
 23 to 2015.
 24 Q Okay. And then the M-RETS board, are you part of
 25 that board and that discussion?

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1 A I am -- I am part of the subscriber group and I have
 2 chaired the subscriber group of the M-RETS board in
 3 the past. And I also serve as the chairperson of
 4 the enhancement committee for M-RETS. So we're
 5 working on improving the M-RETS system.
 6 Q Okay. Has the M-RETS undergone some changes
 7 recently as to who manages them?
 8 A Yes.
 9 Q Could you walk me through what those changes are?
 10 A Yes. M-RETS originally was managed by the Wisconsin
 11 PSC. They took care of the -- the oversight of
 12 M-RETS. And the past year, year and a half, that
 13 was transitioned to form a nonprofit entity, M-RETS,
 14 Inc. It still has the M-RETS board, but now they
 15 are the board of a nonprofit organization and they
 16 are taking more of a substantial role in the policy
 17 of M-RETS.
 18 Q To your knowledge, do all the states have members on
 19 this M-RETS board, all the eight that you talk
 20 about?
 21 A Not the eight Xcel states. Because only four -- or
 22 three of our states in NSP are in the M-RETS system.
 23 Q All right.
 24 A Um-hum. But I do know that North Dakota PSC has a
 25 member on that board.

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1 Q We had some discussion about that, whether that's
 2 appropriate going forward since it's changed scope,
 3 if you will.
 4 A Right. And I'm sorry, I misspoke. There's four
 5 states NSP serves that are on M-RETS. Michigan is
 6 not.
 7 CHAIRMAN KALK: Okay. Thank you, that
 8 was all I had. Thank you, I appreciate it.
 9 JUDGE WARD: Commissioner Cramer.
 10 COMMISSIONER CRAMER: I have no
 11 questions, thank you.
 12 JUDGE WARD: Commissioner Fetch.
 13 COMMISSIONER FETCH: Thank you, no
 14 questions.
 15 JUDGE WARD: Ms. Brama.
 16 MS. BRAMA: No further questions, Your
 17 Honor.
 18 MR. GRUMAN: No, Your Honor.
 19 MS. JEFFCOAT-SACCO: I have -- excuse
 20 me -- one follow up.
 21 JUDGE WARD: You bet.
 22 MS. JEFFCOAT-SACCO: Please.
 23 EXAMINATION
 24 BY MS. JEFFCOAT-SACCO:
 25 Q What is your plan for the South Dakota credits, if

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1 any? How is the company proposing to handle South
 2 Dakota credits?
 3 A The same plan as North Dakota for 2015, we'll start
 4 retiring RECs in 2015.
 5 MS. JEFFCOAT-SACCO: Thanks.
 6 JUDGE WARD: Anything further?
 7 (Witness excused.)
 8 JUDGE WARD: Okay. Ms. Brama, where do
 9 we go from here?
 10 MS. BRAMA: At this point we have offered
 11 all the witnesses we intended to initially. I think
 12 we are -- we would reserve the right to recall our
 13 witnesses after Advocacy Staff puts on their case,
 14 so to speak.
 15 JUDGE WARD: Okay. So you're ready to
 16 shift over to their presentation of their case?
 17 MS. BRAMA: Yes, Your Honor.
 18 JUDGE WARD: Mr. Gruman, do you want to
 19 start now or do you want to take a lunch break now
 20 and start afterwards?
 21 MR. GRUMAN: It's up to the
 22 Commissioners, what do you want to do? I'll defer.
 23 CHAIRMAN KALK: Let's go eat and come
 24 back.
 25 JUDGE WARD: We'll take a break now, try

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1 to have everybody back in the room by 12:15.
 2 (Lunch break.)
 3 JUDGE WARD: Okay. We're back on the
 4 record, it's after the lunch break, case number
 5 PU-12-059, Northern States Power Company request for
 6 Advance Determination of Prudence regarding Geronimo
 7 Wind Application.
 8 And it's about 12:20, we took a break
 9 about 11:30. We concluded with the initial
 10 testimony of the company witnesses. It's now your
 11 turn, Mr. Gruman.
 12 Do you have anything else, Ms. Brama,
 13 before we --
 14 MS. BRAMA: No, not with regard to our
 15 case -- oh, pardon me, my microphone wasn't on.
 16 Not with regard to our case earlier. I
 17 understand we're going to have a PowerPoint
 18 presentation, I just want to make sure there isn't
 19 any trade secret material in the PowerPoint that we
 20 would need to close the room for.
 21 MR. GRUMAN: No, there is not.
 22 MS. BRAMA: Okay. That's all I have.
 23 Thank you.
 24 JUDGE WARD: Mr. Gruman, you may proceed.
 25 MR. GRUMAN: Thank you, Your Honor.

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1 Advocacy Staff calls Richard Hahn.
 2 JUDGE WARD: Mr. Hahn, you've heard the
 3 perjury admonition, it's incumbent on me to remind
 4 you that in this state perjury is a Class C felony.
 5 A Class C felony is subject to a maximum penalty of
 6 five years imprisonment, a fine of \$5,000, or both
 7 may be imposed.
 8 Having been advised of the penalty for
 9 perjury, please raise your right hand so I can
 10 administer the oath.
 11 Do you promise to tell the truth, the
 12 whole truth, and nothing but the truth in this
 13 proceeding?
 14 MR. HAHN: Yes, I do.
 15 JUDGE WARD: Thank you. You may proceed.
 16 RICHARD HAHN
 17 EXAMINATION
 18 BY MR. GRUMAN:
 19 Q Mr. Hahn, could you please state your name for the
 20 record?
 21 A Yes. First name Richard, middle initial S, last
 22 name Hahn, H-A-H-N.
 23 Q Mr. Hahn, have you prepared an opening statement
 24 today?
 25 A Yes.

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1 Q And is that through a slide show presentation
 2 currently on the smart board?
 3 A Yes, it is. I thought I would take advantage of the
 4 wonderful high technology here.
 5 Q Absent objection, please proceed.
 6 JUDGE WARD: You may.
 7 THE WITNESS: Okay. Thank you very much,
 8 Mr. Gruman. I'll try to be very efficient here and
 9 be very brief.
 10 I thank the Commission for the
 11 opportunity for allowing me to appear here today.
 12 I'd like to accomplish three things. One
 13 is to provide a very brief summary of my direct
 14 testimony. The second is to provide a very brief
 15 summary of the company's rebuttal testimony. And
 16 the third is to provide a very brief response to
 17 some of the issues that were raised in the company's
 18 rebuttal testimony.
 19 And let's see if this -- wonderful.
 20 In my direct testimony I stated the
 21 following. I did not see a definitive need for this
 22 project. It appeared to me, and this is confirmed
 23 by the company, it was an opportunity purchase. The
 24 company's economic analysis showed a loss even with
 25 the project receiving capacity credits. Without