

STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION

**Northern States Power Company
Advance Determination of Prudence – Manitoba Hydro
Application**

Case No. PU-12-70

ORDER ON ADVANCE DETERMINATION OF PRUDENCE

August 1, 2012

Appearances

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

Matthew P. Loftus, Assistant General Counsel, Xcel Energy, 414 Nicollet Mall, Fifth Floor, Minneapolis, Minnesota 55402, attorney for Northern States Power Company, a Minnesota corporation.

Mark E. Gruman, Legal Counsel, Public Service Commission, State Capitol, 600 East Boulevard Avenue, Bismarck, North Dakota 58505, Public Service Commission Advocacy Staff.

Illona A. Jeffcoat-Sacco, General Counsel, Public Service Commission, 600 E. Boulevard Avenue, Dept. 408, Bismarck, North Dakota 58505, Public Service Commission Advisor.

Preliminary Statement

On February 8, 2012, Northern States Power Company (NSP) filed an application for an Advance Determination of Prudence for three power purchase agreements and associated transactions with the Manitoba Hydro Electric Board (collectively referred to as "Manitoba Hydro PPAs").

On February 29, 2012, the Public Service Commission issued a Notice of Opportunity for Hearing with petitions to intervene due by April 15, 2012 and comments and requests for a hearing due by April 22, 2012. No petitions, comments, or requests were received. The Notice identified the issue to be considered is whether the agreements are reasonable and prudent and in the best interests of customers.

On May 18, 2012, NSP submitted direct testimony of Laura McCarten in further support of the reasonableness and prudence of the Manitoba Hydro PPAs.

On June 12, 2012, Staff filed its response to NSP's application supporting the Manitoba Hydro PPAs as being reasonable, prudent and in the best interest of NSP's customers.

On July 11, 2012, the Commission held an informal hearing to discuss NSP's application.

Discussion

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

The proposed Manitoba Hydro PPAs fulfill a need for base load capacity that will begin in 2015 when the existing 500 MW system power and 350 MW diversity exchange PPAs with Manitoba Hydro will expire. The new Manitoba Hydro PPAs are comprised of three separate agreements. One is a 375/325 MW system power agreement whereby NSP purchases 375 MW of capacity during the summer and 325 MW of capacity during the winter. The second is a system power agreement whereby the 375/325 MW agreement may be increased by NSP by 125 MW in 2021 if Manitoba Hydro follows through with plans to construct new hydro power plants. The third is a diversity exchange agreement whereby NSP receives 350 MW of capacity in the summer and provides 350 MW of capacity to Manitoba Hydro in the winter. These three agreements work together to form a single overall transaction to provide reliable and predominantly hydroelectric capacity and energy for NSP's customers, and essentially extends the current contracts for an additional 10 years, i.e., from 2015 to 2025.

NSP compared the Manitoba Hydro PPAs to generation alternatives through the Strategist resource-planning model to determine the economic impact of the new PPAs. In addition to having reasonable costs in comparison to other alternatives, the Manitoba Hydro PPAs provide further benefits such as: diversification of generation supply, a hedge against possible fuel cost volatility, and maximization of existing transmission infrastructure. In addition, interested parties were given the opportunity to submit competing proposals to the Manitoba Hydro PPAs; however, none were provided.

The Commission has jurisdiction in this matter.

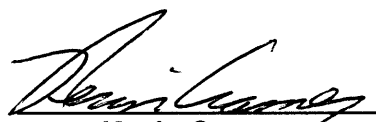
The Manitoba Hydro power purchase agreements are prudent.

Having considered this matter, the Commission makes its:

Order

The Commission orders that Northern States Power Company's request for an advance determination of prudence for three power purchase agreements and associated transactions with the Manitoba Hydro Electric Board is granted.

PUBLIC SERVICE COMMISSION



Kevin Cramer
Commissioner



Brian P. Kalk
Chairman



Bonny M. Fetch
Commissioner