

Before the North Dakota Public Service Commission
State of North Dakota

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| Northern States Power Company
2013 Electric Rate Increase Application | Case No. PU-12-813 |
| Northern States Power Company
Advanced Determination of Prudence – Courtenay Wind Project Application | Case No. PU-13-706 |
| Northern States Power Company
Advanced Determination of Prudence – Odell Wind Project Application | Case No. PU-13-707 |
| Northern States Power Company
Advanced Determination of Prudence – Pleasant Valley Wind Project Application | Case No. PU-13-708 |
| Northern States Power Company
Advanced Determination of Prudence – Border Winds Project Application | Case No. PU-13-742 |
| Northern States Power Company
150 MW Border Winds Project – Rolette County
Public Convenience and Necessity | Case No. PU-13-743 |
| Northern States Power Company
Advanced Determination of Prudence – NG Generators Application | Case No. PU-13-194 |
| Northern States Power Company
Red River Valley NG Units 1 & 2 – Hankinson, ND
Public Convenience and Necessity | Case No. PU-13-195 |
| Northern States Power Company
Advance Determination of Prudence – 345 Mankato Energy Center Application | Case No. PU-15-96 |

Policy Testimony Supporting Negotiated Agreement

122 PU-13-706 Filed 12/15/2015 Pages: 25
Exhibit 2
Northern States Power Company

Exhibit____(CBC-1)
November 30, 2015

140 PU-13-195 Filed 12/15/2015 Pages: 25
Exhibit 2
Northern States Power Company

125 PU-13-742 Filed 12/15/2015 Pages: 25
Exhibit 2

123 PU-13-194 Filed 12/15/2015 Pages: 25
Exhibit 2

121 PU-13-708 Filed 12/15/2015 Pages: 25
Exhibit 2

133 PU-13-743 Filed 12/15/2015
Pages: 25
Exhibit 2

122 PU-13-707 Filed 12/15/2015 Pages: 25
Exhibit 2

261 PU-12-813 Filed 12/15/2015 Pages: 25
Exhibit 2

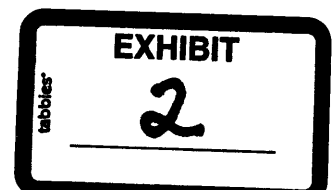


TABLE OF CONTENTS

I.	Introduction and Qualifications	1
II.	Resource Treatment Framework	4
III.	Future of the Integrated System.....	14
IV.	Introduction of Witnesses.....	20
V.	Conclusion and Summary	21

1 **I. INTRODUCTION AND QUALIFICATIONS**

2

3 Q. PLEASE STATE YOUR NAME AND OCCUPATION.

4 A. My name is Christopher B. Clark. I am the President of Northern States
5 Power Company – Minnesota (Xcel Energy or NSP).

6

7 Q. PLEASE SUMMARIZE YOUR QUALIFICATIONS AND EXPERIENCE.

8 A. I have over 20 years of experience in energy and regulation. I joined NSP in
9 1999 as a Senior Attorney and then served as a Managing Attorney. In that
10 role, I was responsible for Xcel Energy’s state public utility law and power
11 purchase agreement issues for its operations in North Dakota, South
12 Dakota, Minnesota and Wisconsin. After that I had the role of Regional
13 Vice President for Rates and Regulatory Affairs for Xcel Energy, in which I
14 was responsible for Xcel Energy’s regulatory matters in the States of North
15 Dakota, South Dakota and Minnesota.

16

17 In December 2014 I was appointed to the position of NSP President. In my
18 current role, I am accountable for the overall planning and performance of
19 NSP, with direct oversight of the customer, community, regulatory, and
20 legislative areas. This includes responsibility for overseeing NSP’s
21 performance in North Dakota. My team and I are charged with working
22 with the Commission, Staff and stakeholders to develop and maintain strong
23 regulatory relationships and to address any Commission concerns to the
24 fullest extent possible.

25

1 Q. PLEASE STATE THE PURPOSES OF YOUR TESTIMONY.

2 A. First, I provide the policy support for our request that the Commission
3 approve the Negotiated Agreement Relating to North Dakota Generation
4 Resource Policy (the Negotiated Agreement or the Agreement) executed
5 between Advocacy Staff and Xcel Energy on September 30, 2015, which
6 arose out of our last rate case (Case No. PU-12-813). As I discuss in my
7 Direct Testimony, the Negotiated Agreement replaces the repricing or
8 “Restack” approach that was previously contemplated in the rate case. The
9 Agreement contains (i) a solution for addressing generation resources already
10 on the Company’s five-state integrated “NSP System” that were identified as
11 inconsistent with the Commission’s energy preferences, and (ii) a path to a
12 sustainable long term approach to address divergent state energy policies
13 related to new generation resources (a “Resource Treatment Framework” or
14 RTF) on a going forward basis.

15
16 Recognizing this Commission’s interest in ensuring that there is generation
17 reasonably near Xcel Energy’s North Dakota load, the Negotiated
18 Agreement also provides a firm commitment by us – backed up by a strong
19 financial incentive -- to place into service a combustion turbine of at least
20 200 MW in eastern North Dakota by 2025.

21
22 I explain in my testimony how this Agreement provides value to customers
23 and Xcel Energy, and is an important step toward addressing past
24 differences and collaboratively developing a future framework that advances
25 the interests of our North Dakota customers, Xcel Energy, the Commission,
26 and our stakeholders in the other states in which we do business. We
27 appreciate Staff’s willingness to work with us constructively to identify a

1 solution for certain existing resources and a sustainable path forward for the
2 future.

3
4 Second, as president of NSP I wish to reaffirm our strong commitment to
5 North Dakota and our customers in this State, and to underscore North
6 Dakota's important place in the five-state integrated NSP System. We have
7 successfully provided safe and reliable service in this State for more than 100
8 years and I am personally committed that we continue to do so by finding a
9 solution that benefits customers across the NSP System and is workable for
10 Xcel Energy and our investors as well. Being part of the large, multi-state
11 integrated NSP System has for decades provided the State of North Dakota
12 and our North Dakota customers with significant synergies and economies
13 of scale and it has benefited our customers in other states by having a larger
14 pool of customers over which to allocate costs. I believe those benefits can,
15 and should, be retained in a way that also allows North Dakota energy
16 policies and priorities to guide how we serve our North Dakota customers.

17
18 At the same time, we recognize that there are difficult decisions on the
19 horizon. We are dedicating resources to address the Commission's
20 concerns, identifying solutions to benefit North Dakota, and looking for
21 ways to overcome obstacles to achieving creative solutions. As the largest
22 utility in North Dakota, we recognize the importance of constructive
23 regulatory relationships. We also believe that compromise can be an
24 effective tool to reaching beneficial outcomes for all stakeholders. It is my
25 hope that this Agreement will resolve some of the past differences and
26 provide a springboard toward a more workable approach to addressing
27 resource policy differences in the future.

1 Q. HOW SHOULD THE COMMISSION VIEW YOUR PARTICIPATION IN THIS CASE?

2 A. When I took this job in December of 2014, it was clear to me that action
3 was needed to address the increasingly disparate policy views of the States
4 that the integrated NSP System serves. I began a concerted effort to explore
5 opportunities to address the Commission's concerns and to demonstrate our
6 commitment to North Dakota. Through this testimony, I want to
7 underscore the importance of a strong and constructive relationship with
8 our North Dakota customers, this Commission, Staff and other stakeholders
9 in this State.

10

11 I appreciate the willingness of the Commission and Staff to help us find
12 workable and constructive solutions to the issues we have been facing. The
13 Negotiated Agreement we are presenting is but one of many examples of a
14 collaborative approach. In the future, balance and compromise will be
15 necessary to achieve a long-term workable solution.

16

17 **II. NEGOTIATED AGREEMENT**

18

19 Q. WHY IS THE COMPANY PRESENTING A NEGOTIATED AGREEMENT TO THE
20 COMMISSION AT THIS TIME?

21 A. The Negotiated Agreement represents the latest phase in Xcel Energy's and
22 Staff's ongoing efforts to ensure the generating resources being paid for by
23 North Dakota customers are reasonably consistent with the Commission's
24 energy preferences. The Negotiated Agreement advances this goal by
25 identifying a permanent resolution related to existing resources that have not
26 meet with Commission approval, achieving what we understand to be a key
27 Commission policy priority of meeting future system capacity and reliability

1 needs by installing thermal generation in eastern North Dakota, and
2 identifying a path that will also address future resource additions.

3

4 Q. THE COMPANY FREQUENTLY MENTIONS “DIVERGENT ENERGY POLICIES”
5 AMONG THE STATES IT SERVES. DO YOU AGREE THAT THE STATES IN NSP’S
6 INTEGRATED SYSTEM HAVE DIVERGENT ENERGY POLICIES?

7 A. Yes. While we plan for our integrated system as a whole, each of our states
8 has its own policy preferences and imperatives regarding the approach to
9 generation resource development. The potential for divergent energy
10 policies has always existed, but in the last 20 years or so it has become
11 increasingly difficult to balance North Dakota’s focus on least cost planning
12 with Minnesota’s interest in including environmental and economic
13 development priorities in its overall approach to least cost planning.

14

15 Q. YOU STATED ABOVE THAT THE NEGOTIATED AGREEMENT IS THE “LATEST
16 PHASE” IN THE ONGOING EFFORTS TO FIND A LONG-TERM BALANCE IN
17 MEETING NORTH DAKOTA’S ENERGY PREFERENCES. WHAT DO YOU MEAN
18 BY THIS?

19 A. The Negotiated Agreement stems from Xcel Energy’s and Staff’s Revised
20 Second Amended Comprehensive Settlement Agreement (Rate Settlement)
21 in Case Nos. PU-12-813, PU-13-706, PU-13-707, PU-13-708, PU-13-742,
22 PU-13-743, PU-13-194 and PU-13-195 (collectively, the Rate Case) adopted
23 by the Commission on February 26, 2014. The Rate Settlement sought to
24 address divergent state energy policies among the States in which we provide
25 service by repricing in ND certain generation resources that were selected
26 primarily on the basis of meeting Minnesota requirements or commitments.

27

1 Since that time, however, several issues that were not fully fleshed out when
2 we entered into the Rate Settlement began to become of concern to the
3 Company and Staff as we were negotiating the Restack. First, we filed
4 several applications for Advanced Determinations of Prudence (ADP) for
5 resource additions that were acquired to meet Minnesota's Solar Energy
6 Standard (SES) while also meeting forecasted capacity needs. Second, the
7 Company began our 2015 Resource Plan (Case No. PU-15-19) process. This
8 process identifies the Company's plans over the next 15 years to meet the
9 challenges of a changing utility industry and our aging fleet. Further, the
10 utility industry is entering a period of significant uncertainty. This
11 uncertainty includes addressing new federal environmental regulation of
12 carbon dioxide emissions.

13
14 As NSP and Staff were negotiating the terms of the Restack, we concluded
15 that the Restack concept was not sufficiently robust to balance the interests
16 of ratepayers, the State and Xcel Energy given the challenges of the utility
17 landscape. Mr. Sederquist's Direct Testimony provides more information
18 about the Restack concept and the parties' concerns in light of this new
19 information and additional discussions between the parties.

20
21 Q. DID THE PARTIES GIVE UP ON THE OBJECTIVE OF THE RATE CASE
22 SETTLEMENT AND RESTACK?

23 A. No. Our objective to respect North Dakota energy policies as part of our
24 resource selection process and maintain North Dakota's participation in the
25 integrated system remains as important today as it was in December 2013
26 when the Settlement was made. We believe that the Negotiated Agreement
27 will meet that objective while accelerating a key North Dakota energy

1 objective of installing thermal generation in eastern North Dakota for the
2 integrated NSP System.

3

4 Q. HOW DOES THE NEGOTIATED AGREEMENT ADVANCE THE RESOLUTION OF
5 THESE ISSUES?

6 A. The Negotiated Agreement addresses these issues by first resolving
7 differences about certain existing resources and then providing needed time
8 to design and implement a future solution through the RTF.

9

10 The Negotiated Agreement fully addresses differences about certain energy
11 resources by (1) compromising on the existing (and pending) resources to be
12 excluded from cost recovery in North Dakota; (2) addressing a portion of
13 the capacity need we have identified for 2025 and advancing our
14 commitment to deploy thermal generation in North Dakota by constructing
15 at least 200 MW of thermal generation in eastern North Dakota by 2025;
16 and (3) extending our 2016 rate case moratorium for an additional year while
17 committing to refund any overearnings to customers during the moratorium
18 period. These exchanges of value effectively resolve the differences
19 regarding our current supply portfolio, creating a clean slate as we look
20 ahead to the future.

21

22 The Negotiated Agreement then requires us, in consultation with Staff and
23 the Commission, to develop and implement a long term solution to the issue
24 of divergent state energy policies, which we are calling the Resource
25 Treatment Framework.

26

1 Q. WHY DOES THE NEGOTIATED AGREEMENT REQUIRE A TWO STAGE
2 PROCESS?

3 A. As negotiations proceeded, it became clear that we needed to fully resolve
4 the issues around the existing resources in order to create a stable platform
5 for designing a future that will balance all stakeholders' legitimate interests.

6
7 The Negotiated Agreement therefore establishes a two step approach to
8 achieve the shared goals of addressing divergent state energy policies by
9 addressing these legacy resources, capturing value for our North Dakota
10 customers, and advancing a key Commission policy goal of installing thermal
11 generation in eastern North Dakota. By clearing these legacy decisions from
12 the discussion, we can then focus on options for the future.

13
14 Q. CAN YOU PROVIDE MORE INFORMATION REGARDING THE AGREEMENT TO
15 ADVANCE THE DEPLOYMENT OF THERMAL GENERATION IN NORTH
16 DAKOTA?

17 A. Yes. We previously committed to deploy thermal generation in North
18 Dakota by 2036 as part of the Rate Settlement. Under the Negotiated
19 Agreement, we will accelerate that commitment and build at least 200 MW
20 of thermal generation in eastern North Dakota by December 31, 2025.
21 Importantly, that generation will be a system resource and we would expect
22 its cost allocated across the five states of the integrated NSP System.

23
24 I want to underscore that this is a firm commitment. To ensure that we will
25 meet this commitment, we have incorporated a significant alternative
26 resolution of the existing resources in the event we are unable to develop

1 thermal generation in North Dakota by 2025. I describe this further later in
2 my Direct Testimony.

3
4 Q. AS A NSP SYSTEM RESOURCE, WILL XCEL ENERGY'S DEVELOPMENT OF
5 NORTH DAKOTA BASED THERMAL GENERATION REQUIRE THE APPROVAL OF
6 OTHER JURISDICTIONS?

7 A. Yes, I believe so. Our commitment is subject to acquiring all necessary
8 approvals and permits from this Commission, Minnesota and all other
9 regulatory bodies.

10
11 Q. CAN YOU ALSO PROVIDE MORE INFORMATION REGARDING HOW THE
12 NEGOTIATED AGREEMENT ADDRESSES EXISTING RESOURCES?

13 A. Yes. As an additional facet of the overall compromise, the Negotiated
14 Agreement excludes certain power purchases, such as community-based
15 economic development (C-BED) projects and early solar resources, while
16 allowing cost recovery for the Company's six biomass power purchase
17 agreements (PPAs) and two low cost wind projects (the Odell PPA and
18 Pleasant Valley Project) to capture the value of these projects for our
19 customers.

20
21 Excluding the premium costs of the C-BED and solar projects from
22 recovery reflects the Company's recognition that these projects were selected
23 primarily to fulfill obligations in Minnesota and in the case of C-BED
24 projects, were required to be located in Minnesota. As described in Mr.
25 Haeger's Direct Testimony, excluding the premium costs of C-BED and
26 early solar resources from cost recovery creates a revenue shortfall of
27 approximately \$1.6 million beginning in 2016 and a total of approximately

1 \$19 million through 2030. Consistent with cost causation principles, we
2 expect to seek recovery of these costs in Minnesota.

3
4 The Negotiated Agreement does not seek to disturb the Commission's
5 decisions concerning the Aurora and 187 MW Solar Portfolio projects.
6 Since those projects were before the Commission while negotiations were
7 ongoing, we view them, again, as part of meeting a Minnesota mandate and
8 recognize their conflict with the Commission's perspective on resource
9 selection. We have sought alternative forms of recovery in Minnesota for
10 these resources. Similarly, the Negotiated Agreement leaves the Calpine
11 Mankato Expansion PPA (Calpine PPA) for resolution in Case No. PU-15-
12 96. The compromise in the Agreement is intended to address existing
13 resources, rather than to prejudge future resources that the Commission has
14 not acted on yet. Since that case is currently under consideration, we believe
15 it is appropriate for the Commission to decide that case on the record before
16 it.

17
18 Balanced against these commitments, we have asked that the costs of six
19 biomass contracts be recovered. Together, these resource provide more
20 than 140 MW of baseload-type capacity and energy for the entire NSP
21 System. Additionally, while there was substantial disagreement as to the
22 appropriateness of these resources, there was recognition by NSP and Staff
23 that they were part of an overall plan to allow for continued fuel storage for
24 our nuclear fleet, which has historically been supported by the Commission.
25 As described by Mr. Haeger's Direct Testimony, the financial impact of
26 losing recovery of the six Biomass PPAs is not sustainable, resulting in
27 foregone revenue in 2016 of about \$5.6 million and a total of approximately

1 \$50 million through 2025. The Company recognizes that those costs are
2 significant but recovery is necessary in order for the Agreement to be viable.

3
4 Additionally, based on the Commission's decision in the Border Winds Case
5 (Case No. 13-742) and the Courtenay Wind Case (Case No. 15-181), we have
6 reevaluated the treatment of the low cost Odell Wind PPA and Pleasant
7 Valley Wind Project, both located in Minnesota. Because the Commission
8 has generally supported the addition of cost-competitive wind projects that
9 will generally lower the overall cost of service, we have included them for
10 recovery as part of the Negotiated Agreement. This will help to mitigate the
11 financial impacts of the biomass PPAs while allowing us the ability to
12 recover the costs of those resource additions.

13
14 Last, recognizing continued concern with recovery of the biomass contracts,
15 in lieu of rejecting the cost of this Minnesota policy priority, the Negotiated
16 Agreement advances a significant North Dakota energy policy priority of
17 locating dispatchable, thermal generation in eastern North Dakota the costs
18 of which will be allocated across the integrated NSP System. Additionally,
19 we have extended the rate moratorium that was a key feature of the Rate
20 Settlement an additional year in recognition of the ongoing efforts that the
21 Negotiated Agreement require. It is this type of compromise that we hope
22 can be a foundational element of the RTF.

23
24 Q. WHY SHOULD THE COMMISSION ADOPT THESE TERMS?

25 A. Overall, the Negotiated Agreement is a fair and balanced outcome that
26 provides customers with significant near- and long-term value by extending
27 the rate moratorium and excluding cost recovery for C-BED and solar

1 generation that the Commission has made clear are inconsistent with its
2 energy policy preferences. It also provides the State assurances that we will
3 further North Dakota energy policy goals by deploying thermal generation in
4 eastern North Dakota supported by the integrated NSP System.

5
6 Q. WHAT HAPPENS IF XCEL ENERGY DOES NOT FOLLOW THROUGH WITH ITS
7 COMMITMENT TO DEPLOY THERMAL GENERATION IN NORTH DAKOTA?

8 A. This was a key concern for Staff and the Negotiated Agreement provides
9 that if we do not comply with our commitment, Xcel Energy will refund to
10 its North Dakota customers 50 percent of the excess costs of the six
11 biomass PPAs. This condition is without qualification and will be exercised
12 against the Company if thermal generation is not in-service in eastern North
13 Dakota by December 31, 2025. This provides a strong incentive to follow
14 through with our commitment.

15
16 Q. YOU NOTED THAT MANY ASPECTS OF THE NEGOTIATED AGREEMENT
17 ADDRESS THE PAST. HOW DOES THE AGREEMENT PROPOSE TO FIND A
18 RESOLUTION OF DIVERGENT ENERGY POLICIES FOR THE FUTURE?

19 A. In the Agreement, NSP and Staff committed to develop a “Resource
20 Treatment Framework” or “RTF” process over the coming year, to be filed
21 for Commission approval by January 1, 2017 and implemented by January 1,
22 2018 if approved. The purpose of the RTF concept is to address divergent
23 state energy policies on a going forward basis, while allowing NSP a
24 reasonable opportunity to earn its authorized rate of return. Because of the
25 complexities involved in managing resource acquisition needs, divergent
26 State energy policies in how to meet those needs, and the work needed to
27 understand how any long-term solution would work, the parties agreed to

1 take the time necessary to develop this process in a thoughtful and careful
2 manner. At the same time, the extension of the rate moratorium holds
3 customers harmless during the extended period needed to resolve these
4 long-term energy issues.

5
6 Q. WHY DID YOU NOT INCLUDE A COMPLETED RTF AS PART OF THE
7 NEGOTIATED AGREEMENT?

8 A. As Mr. Sederquist describes, we discussed the issue with Staff in our
9 negotiations. It became clear that the issues facing Xcel Energy and the
10 industry are highly complex. This suggested that the parties take a deliberate
11 approach to designing a process in a thoughtful manner to minimize
12 unintended consequences. As a result, NSP and Staff agreed that the
13 Company should take a year to develop a robust proposal. Our
14 commitment is that we will develop the RTF over the next year in
15 collaboration with the Commission and Staff. We will file it by January 1,
16 2017 and request Commission approval. Assuming we receive Commission
17 approval, the RTF will be designed to be implemented beginning in 2018.

18
19 Q. WHY DOES THE NEGOTIATED AGREEMENT PROVIDE A YEAR FOR NSP TO
20 FILE A RTF?

21 A. This was a compromise with Staff to provide us with sufficient time to work
22 through the complex issues involved with an RTF and to provide us with
23 time to achieve a little more clarity with respect to the uncertainty
24 surrounding the utility industry, especially the uncertainty related to the
25 Clean Power Plan. While much of this uncertainty will continue through this
26 one year period – for example, we expect state implementation plans for the
27 Clean Power Plan to be at least on a three year path – we hope that that this

1 additional time can provide us with the framework to better move through
2 that uncertainty.

3
4 **III. RESOURCE TREATMENT FRAMEWORK**

5
6 Q. WHAT WILL THE RTF CONTAIN?

7 A. The Negotiated Agreement provides significant latitude regarding what the
8 RTF must contain. We believe this latitude will allow us the ability to craft a
9 workable long term solution.

10
11 While we have not yet developed the detailed terms of the RTF, Mr.
12 Sederquist's Direct Testimony discusses the concepts that were identified in
13 the negotiations, why these issues are complex and require thoughtful
14 deliberation and discussion, and our goals for a long-term, viable solution.
15 We frankly hope to overcome the difficult debate regarding certain resources
16 we have deployed as a result of Minnesota's energy policy preferences and
17 requirements, while at the same time providing us with reasonable
18 assurances that we can recover the cost of its legitimate investments for the
19 integrated NSP System. In short, we want to bring the Commission a
20 thorough, viable, appealing solution for the long term. To accomplish these
21 goals, we will need time and a thorough examination of options to develop
22 an RTF that has sufficient scope and reach to address future resource
23 choices in a manner that works for the North Dakota Commission.

24
25 Q. WHY IS AN RTF NECESSARY?

26 A. The current status quo is not a workable long-term solution. As Mr. Haeger
27 discusses in greater detail, the accounting mechanisms and regulatory

1 structures that are in place do not allow us to separate the North Dakota
2 portion of a specific resource from the rest of the system in any simple way.
3 Because the mechanisms integrating our system generally assume that all
4 jurisdictions will participate fully in all resources, and the costs and revenues
5 from all resources are fully allocated under these mechanisms, should one
6 jurisdiction choose not to participate in a system resource, these mechanisms
7 would still require that the capacity and energy from that particular resource
8 serve the non-participating jurisdiction. Because of this an RTF is necessary.
9

10 Q. WHY IS THIS IMPORTANT?

11 A. I raise this issue because it is important to make clear that the NSP System is
12 wholly integrated and that all of the mechanisms that keep the system
13 integrated are implicated by resource additions that are not fully shared by
14 each jurisdiction of the system. We require an RTF so that we have a long
15 term solution in place to adjust the mechanisms needed to accommodate
16 that outcome.
17

18 Q. HAVE YOU CONSIDERED MORE SPECIFIC CONCEPTS THAT WILL LIKELY BE
19 INCLUDED IN THE RTF?

20 A. Yes. Our experience negotiating the Restack concept and our view of the
21 future have significantly informed our view of potential outcomes. We see
22 three potential paths: (1) a solution that allows our North Dakota customers
23 to continue to participate in the integrated NSP System while accounting for
24 some divergence in state energy policy; (2) a solution that ultimately
25 separates our North Dakota jurisdiction from the integrated NSP System so
26 that our North Dakota customers pay for energy and capacity consistent
27 with North Dakota's policies goals while no longer participating in the

1 integrated NSP System; and (3) some hybrid solution that will emerge while
2 we engage in discussions with the Commission as to an RTF.

3

4 Q. WHICH OF THE THREE RTF CONCEPTS DOES NSP CURRENTLY SUPPORT?

5 A. I believe that a solution that allows our North Dakota customers to continue
6 to remain a part of the integrated NSP System is the best possible outcome
7 for our customers, Xcel Energy and the Commission. But the task of
8 accomplishing that while also giving deference to the Commission's energy
9 preferences is a challenging one that will require the time provided by the
10 Negotiated Agreement to develop.

11

12 Q. WHY DO YOU BELIEVE THAT KEEPING THE NORTH DAKOTA JURISDICTION
13 AS PART OF THE INTEGRATED NSP SYSTEM IS THE BEST OPTION?

14 A. The integrated NSP System has nearly 10,000 MW of load spread over five
15 states – North Dakota, South Dakota, Minnesota, Michigan and Wisconsin.
16 This situation results in tremendous economies of scale. As such, for
17 example, through our NSP System our North Dakota customers get to take
18 advantage of Xcel Energy's nuclear, large fossil, and hydroelectric generation
19 resources. These are all resources that might otherwise not be available to a
20 small 500 MW utility. The economies of scale provided by the large utility is
21 a benefit to North Dakota that would be lost if our North Dakota customers
22 leave the integrated system. Likewise, our customers in other states benefit
23 from having the costs of the NSP System spread over more customers.

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Q. IS IT POSSIBLE TO STRUCTURE AN RTF THAT WOULD ADDRESS DIVERGENT STATE ENERGY POLICIES WHILE MAINTAINING THE INTEGRATED NATURE OF THE NSP SYSTEM?

A. I believe it is. I acknowledge that this will not be easy but I do believe it is in the best interest of all of our customers, including in both North Dakota and Minnesota, as well as the other three jurisdictions served by the NSP System. I also believe it is in the best interest of Xcel Energy and our investors. The time provided by the Negotiated Agreement will be helpful for us to shape a constructive solution to a very challenging issue. In fact, the Negotiated Agreement provides a template for how to address this and provides a good example of how compromise and leveraging the integrated NSP System can help further North Dakota energy policy goals.

While the financial consequences of the resources that we have currently identified as due to divergent energy policies are significant, they still make up only a small part of the integrated NSP System. I believe as we move forward it may be possible to identify with greater specificity the types of resource additions that manifest divergent energy policies and work with the cost causative jurisdiction toward accepting responsibility for those costs when other jurisdictions will not but also find ways of valuing some system diversity and other resource planning principles. Narrowing the scope of affected resources and finding an interjurisdictional solution to address them is similar to solutions that our affiliate Southwestern Public Service Company has implemented to address divergent energy policies between the states of New Mexico and Texas.

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That said, there may be instances where there may be a difference of opinion about a particular resource addition that is not necessarily due to divergent state energy policies. We would hope to find constructive ways to address these types of circumstances.

Last, such an outcome would require us to leverage the integrated NSP System to identify and implement investment opportunities in North Dakota to ensure that North Dakota continues to be an integral part of the NSP System. Our current resource plan identifies many investment opportunities that can take advantage of North Dakota's excellent wind resources as well as the positive investment climate in the State.

Ultimately, as we face an uncertain future through an evolving utility industry and the aging of our generation fleet, maintaining the economies of the integrated NSP System accrues to the benefit of all of our customers, including those in North Dakota. The large size of our system also provides opportunities to most economically address the impact of evolving environmental regulations such as the Clean Power Plan, regardless of how these regulations ultimately affect utilities.

Q. IS THE COMPANY OPEN TO CONSIDERING A RTF THAT WOULD RESULT IN ITS NORTH DAKOTA CUSTOMERS LEAVING THE INTEGRATED NSP SYSTEM?

A. Yes. As I mentioned earlier, I do not want to prejudge what a RTF might ultimately look like and I certainly want to make sure we have had sufficient dialogue with the Commission and our regulators in all of the states that we serve before proposing any final outcome. That said, I recognize that an

1 RTF may fundamentally begin the process of our North Dakota jurisdiction
2 exiting the integrated NSP System.

3
4 Now is the appropriate time to begin these discussions. NSP's Resource
5 Plan describes how our aging fleet is requiring us to take a holistic view of
6 how we want to address the challenges of the future. Should North Dakota
7 choose not to participate in that vision, the turnover of our generation
8 resources provides opportunities for us to gradually separate North Dakota
9 from the integrated NSP System.

10
11 As part of development of the RTF, we can explore the mechanics of doing
12 so, such as fundamental changes to the Interchange Agreement as well as
13 adjustments to our operations, business practices and potential corporate
14 structures. It will also provide us the opportunity to analyze non-generation
15 implications of the integrated NSP System such as transmission service and
16 other support matters. We can also use this time to identify the ways that
17 our North Dakota system, which is mostly distribution, can obtain its power
18 supply.

19
20 The Negotiated Agreement's proposed one year development phase for an
21 RTF provides us with an opportunity to discuss the benefits and burdens of
22 our North Dakota customers leaving, or staying in, the integrated NSP
23 System with the Commission so that we can all make an informed decision.

24
25 Q. WHAT WOULD A HYBRID RTF COMPRISE?

26 A. I mention a hybrid approach because, at this time, we do not have all of the
27 answers. Taking the time to thoughtfully develop an RTF, without past

1 resource decisions clouding those discussions, could lead to a RTF that we
2 currently have not contemplated. I look forward to having an open and
3 constructive dialogue with the Commission and all our stake holders over
4 the next year so that we can develop a long-term workable plan to meet the
5 best interests of our customers.

6
7 **IV. INTRODUCTION OF WITNESSES**

8
9 Q. PLEASE INTRODUCE THE OTHER WITNESSES PROVIDING DIRECT TESTIMONY
10 IN SUPPORT OF THE AGREEMENT.

11 A. In addition to my Policy Testimony, Xcel Energy sponsors the following
12 witnesses:

13
14 • Mr. David H. Sederquist. Mr. Sederquist was directly involved with the
15 negotiation of the Negotiated Agreement and explains why NSP and
16 Staff moved from the former Restack concept to the current Negotiated
17 Agreement and provides a robust discussion of its terms. He also
18 discusses our efforts to address North Dakota's evolving energy policy to
19 date, and describes the genesis of the Negotiated Agreement. Mr.
20 Sederquist also discusses why the Negotiated Agreement is beneficial to
21 North Dakota customers and the state in general.

22
23 • Mr. Kurtis J. Haeger. Mr. Haeger describes the financial impact of the
24 terms of the Negotiated Agreement and provides the resource planning
25 context for the Negotiated Agreement. He also describes the
26 development work to date and additional issues regarding Xcel Energy's
27 commitment to develop a 200 MW combustion turbine in eastern North

1 Dakota. Mr. Haeger also provides the resource planning information
2 supporting a need for at least 200 MW of capacity in 2025 and the
3 selection of the 200 MW combustion turbine (CT) we have committed to
4 deploy in eastern North Dakota to meet that need. Finally, Mr. Haeger
5 describes the nature of the integrated system and its relationship to
6 forward-looking resource treatment framework for North Dakota.

7
8 In addition to the Xcel Energy witnesses, Commission Advocacy Staff
9 member Mike Diller provides Staff's perspective on the Negotiated
10 Agreement. Mr. Diller personally negotiated the Agreement and supports its
11 approval. The Company appreciates Mr. Diller's constructive approach to
12 the negotiations and his willingness to consider creative alternatives and a
13 constructive outcome.

14 15 V. CONCLUSION AND SUMMARY

16
17 Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS.

18 A. This Case raises difficult and complex issues. I appreciate the attention the
19 Commission and Staff have given to it and I particularly appreciate Staff's
20 constructive approach to the negotiations and the reasonable compromise
21 that has been achieved.

22
23 As I have worked with my team to identify solutions to difficult resource
24 and energy policy issues, I believe the Negotiated Agreement is a reasonable
25 way to resolve issues of concern. It wipes the slate clean by addressing how
26 existing (and pending) resources are to be treated. This allows us to focus
27 on the future. The extension of the rate case moratorium, the commitment

1 to deploy thermal generation in eastern North Dakota, and our commitment
2 to develop the RTF for Commission consideration by 2017, all look forward
3 to a successful long-term relationship.

4
5 This Case presents an important opportunity for the Commission to signal
6 how it wants to interact with Xcel Energy for the future. I urge the
7 Commission to approve the Negotiated Agreement, as its immediate and
8 long-term benefits and thoughtful RTF approach allow the Company and
9 the Commission to address divergent energy policy issues in a constructive
10 manner.

11

12 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

13 A. Yes, it does.

