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December 8, 2017

— VIA E-MAIL & FEDERAL EXPRESS —

Darrell Nitschke
Executive Secretary
North Dakota Public Service Commission
State Capitol Building
600 East Boulevard, Dept. 408
Bismarck, ND 58505-0480

RE: APPLICATION FOR CONSIDERATION OF A RESOURCE TREATMENT
FRAMEWORK TO ADDRESS JURISDICTIONAL COST ALLOCATION ISSUES
CASE NOS. PU-12-813, PU-13-706, PU-13-707, PU-13-708, PU-13-742,
PU-13-743, PU-13-194, PU-13-195
OAH FILE NO. 20170091

Dear Mr. Nitschke:

Northern States Power Company, doing business as Xcel Energy (the “Company” or “Xcel Energy”) submits an original and ten (10) copies of our rebuttal testimony in the above-referenced case.

The following rebuttal testimony is being filed:

- Policy – Aakash Chandarana
- Implementation Structures – Richard Starkweather
- Resource Planning – Philip Joseph “P.J.” Martin

Please contact me if you have any questions regarding this filing at david.sedquist@xcelenergy.com or 701-241-8632.

192 PU-13-742 Filed 12/08/2017 Pages: 29
 Prefiled Rebuttal Testimony of Aakash Chandarana

188 PU-13-708 Filed 12/08/2017 Pages: 29
 Prefiled Rebuttal Testimony of Aakash Chandarana

189 PU-13-707 Filed 12/08/2017 Pages: 29
 Prefiled Rebuttal Testimony of Aakash Chandarana

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204 PU-13-743 Filed 12/08/2017 Pages: 29
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 Prefiled Rebuttal Testimony of Aakash Chandarana
 Northern States Power Company
 David Sederquist

Darrell Nitschke
December 8, 2017
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Sincerely,



David H. Sederquist
Sr. Consultant, Regulation & Finance
Northern States Power Company

Enclosures

cc: Via Email:
S. Cardwell
P. Fahn
I. Jeffcoat-Sacco
J. Lein
J. Schuh
ALJ Dawson
Jim Heidell

REBUTTAL TESTIMONY
AAKASH H. CHANDARANA

Before the North Dakota Public Service Commission
State of North Dakota

In the Matter of Northern States Power Company,
a Minnesota Corporation d/b/a Xcel Energy
Jurisdictional Cost Allocation Matters

Case Nos. PU-12-813, PU-13-706, PU-13-707, PU-13-708,
PU-13-742, PU-13-743, PU-13-194, PU-13-195

Rebuttal Policy
Exhibit__ (AHC-2)

December 8, 2017

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1 **I. INTRODUCTION**

2
3 Q. PLEASE STATE YOUR NAME AND TITLE.

4 A. My name is Aakash H. Chandarana. I am the Regional Vice President for
5 Rates and Regulatory Affairs for Northern States Power Company-
6 Minnesota (NSP or Xcel Energy or the Company). The Company provides
7 electric service to customers in Minnesota, North Dakota, and South Dakota
8 (collectively the NSPM States). The Company’s affiliate, Northern States
9 Power, a Wisconsin corporation (NSPW), provides electric service to
10 customers in Wisconsin and Michigan. The Company and NSPW, together
11 under the Interchange Agreement, own and operate the five-state integrated
12 NSP System.

13
14 Q. ARE YOU THE SAME AAKASH H. CHANDARANA WHO SUBMITTED PRE-FILED
15 DIRECT TESTIMONY IN THIS PROCEEDING?

16 A. Yes.

17
18 Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

19 A. In my rebuttal testimony, I provide the Company’s policy response to
20 Advocacy Staff Witness Mr. James Heidell’s Direct Testimony. Through my
21 response, I update the Company’s proposed Resource Treatment
22 Framework (RTF) by:

- 23 • accepting Mr. Heidell’s recommendation to institute a formal North
24 Dakota resource planning process with a rebuttable presumption of
25 integrated planning for North Dakota and the remainder of the NSP
26 System;

- 1 • affirming the need for structural changes because it remains necessary
2 to provide separate generation supply to the various NSP System
3 states; and
- 4 • updating the Company's proposal for the final disposition of the
5 Disputed Resources.

6
7 Q. DO YOU HAVE ANY PRELIMINARY COMMENTS IN LIGHT OF ADVOCACY
8 STAFF'S TESTIMONY?

9 A. Yes. The Company appreciates many of the points made by Advocacy Staff
10 and appreciates the constructive review and comments. While the Company
11 and Advocacy Staff are not entirely aligned, Advocacy Staff's direct
12 testimony makes clear that there is a viable path forward.

13
14 At the outset, I note that the testimony of both Advocacy Staff and the
15 Company acknowledge that there could be times in the future where there
16 may be differences in opinion between jurisdictions as to whether a resource
17 should be added to the System. While Advocacy Staff and the Company
18 may not agree on the magnitude and frequency of those disagreements, Mr.
19 Heidell's testimony recognizes that developing the tools that can enable the
20 provision of separate generation options for different states is advantageous.
21 Said differently, Advocacy Staff agrees that there is a need for an RTF.

22
23 Q. HAS THE COMPANY MODIFIED ITS PROPOSED RTF AS A RESULT OF
24 ADVOCACY STAFF'S TESTIMONY?

25 A. In part. As outlined above, we agree to modify our proposal to incorporate
26 Mr. Heidell's suggestion to implement a forward-looking resource planning
27 process.

1
2 Notwithstanding that modification, we continue to support the creation of a
3 separate operating company as the preferred tool to enable independent
4 resource acquisition because it remains unlikely that all of the states in the
5 NSP System will agree on future resource additions. To address Mr.
6 Heidell's concerns about completely independent jurisdictional planning, we
7 propose that there be a rebuttable presumption that future resource
8 additions will serve all NSP System states, including North Dakota, unless
9 North Dakota indicates that it will not participate in that resource addition at
10 the resource planning stage.

11
12 Third, we propose a specific way forward with respect to the Disputed
13 Resources. In particular, we advance an alternative that would allocate the
14 energy, capacity, costs, and benefits of North Dakota's share of the Disputed
15 Resources to the rest of the NSPM States while allocating the proposed
16 1,850 MW¹ of wind additions to the remainder of the NSPM States. This
17 solution effectuates the Commission's decisions on the Disputed Resources
18 while offsetting the impact of those decisions on the remainder of the
19 NSPM States. I discuss this proposal in more detail in my testimony below.

20
21 Q. HOW IS THE REMAINDER OF YOUR TESTIMONY ORGANIZED?

22 A. First, I provide a brief response to Mr. Heidell and discuss the Company's
23 modified RTF proposal in more detail. Then I discuss the benefits of a
24 North Dakota resource planning process from the Company's perspective
25 and outline why the Company believes this can be an integral part of any
26 forward-looking solution. Next, I discuss the tools available to implement

¹ The 300 MW Dakota Range project is still pending approval in Minnesota in Docket No. E002/M-17-694

1 the RTF and the Company's view of them. I then reiterate the need to
2 resolve past resource disputes and present the Company's proposal to do so.
3 Lastly, I introduce the other witnesses providing rebuttal testimony on
4 behalf of Xcel Energy.

5 6 **II. RESPONSE TO MR. HEIDELL**

7
8 Q. WHY DOES THE COMPANY REQUIRE AN RTF?

9 A. The current system planning and regulatory approval process presumes an
10 integrated system where every resource will serve every state of the NSP
11 System. Planning for an integrated system works well when all jurisdictions
12 make resource decisions at similar times using similar resource planning
13 outlooks. This is not the practical reality, however. Rather, each state
14 assesses resource decisions at different times, according to different
15 considerations, and using varied decision-making processes. As a result,
16 there is a potential for misalignment to occur regarding specific resource
17 additions.

18
19 Xcel Energy's current North Dakota resource addition approval process is
20 premised on the Company's ADP obligation. For a project to be far enough
21 along to reasonably request an ADP from the Commission, the Company
22 must have already made the business arrangements to procure the specific
23 resource. As a result, the Company is implementing resource additions that
24 are sized to serve the entire NSP System before an ADP application is filed
25 in North Dakota.

26

1 If the Commission does not approve that resource, the Company must
2 either cancel the project or obtain approval from other states to absorb the
3 North Dakota share of the resource in order to avoid those costs being
4 borne by the Company's shareholders. Regardless of how costs are assigned,
5 that resource will serve all customers on the NSP System, including those in
6 North Dakota. This effectively provides the Commission an "option" on
7 every resource on the system. In the Company's view, this is an inequitable
8 result given the small size of the North Dakota jurisdiction in relation to the
9 remainder of the NSP System.

10
11 To that end, we are seeking a way to implement regulatory and structural
12 changes to preserve for our North Dakota customers the economies of scale
13 of the NSP System where there is agreement amongst the states and allow
14 for separate resources to serve separate jurisdictions when there is not.

15
16 Q. ARE THE COMPANY AND ADVOCACY STAFF IN AGREEMENT REGARDING THE
17 NEED FOR THE IMPLEMENTATION OF AN RTF TO ADDRESS THESE ISSUES?

18 A. The Company and Advocacy Staff appear to agree that there is a need to
19 establish some kind of Resource Treatment Framework (RTF) to address the
20 potential for misalignment regarding resource additions.

21
22 Q. WHAT ELEMENTS MUST A SUCCESSFUL RTF HAVE?

23 A. For a framework to be feasible, it must satisfy three important requirements:
24 (1) it must ensure that Xcel Energy understands whether North Dakota is in
25 alignment with the other NSPM jurisdictions with respect to resource needs
26 and proposed resource additions at the front end of the resource planning
27 process; (2) it must provide the Company with the tools to plan and

1 implement resource additions when jurisdictional misalignment is present;
2 and (3) it must be implemented through a proposal that remedies the
3 structural impacts of prior Commission decisions on the Disputed
4 Resources.

5
6 Q. WHAT IS THE IMPACT OF STAFF'S PROPOSAL TO INSTITUTE A NORTH
7 DAKOTA RESOURCE PLANNING PROCESS?

8 A. Staff's proposal satisfies the first element of a successful RTF. A forward-
9 looking resource planning process can provide stronger signals to the
10 Company as to when North Dakota resource planning priorities align with
11 the other NSP System states.

12
13 Rather than fully separating our North Dakota operations from the NSP
14 System as we proposed, the suggestion to implement a more formal resource
15 planning process in North Dakota provides the Company with earlier
16 information to assess the potential for jurisdictional alignment. Accordingly,
17 we can presume integration in our planning while also identifying instances
18 where a particular resource addition will be proposed to serve less than the
19 entire NSP System, consistent with Staff recommendations. I provide
20 further discussion on a North Dakota resource planning process later in my
21 rebuttal testimony.

22
23 Q. WOULD THE RTF BE SUCCESSFUL FROM THE COMPANY'S PERSPECTIVE IF ALL
24 THAT WAS IMPLEMENTED IS A FORWARD-LOOKING RESOURCE PLANNING
25 PROCESS?

26 A. No. We need a tool to implement the cost and benefit allocation decisions
27 that North Dakota's resource planning process produce. This same

1 implementation tool can also be used to resolve the Disputed Resources
2 issue.

3
4 Q. DO THE COMPANY AND STAFF AGREE ON WHAT ALLOCATION TOOLS
5 SHOULD BE PURSUED?

6 A. No. The Company continues to propose Legal Separation as the best
7 available option because it will provide the most certainty moving forward.
8 Mr. Heidell recommends an undefined combination of the rate making
9 principles underlying our Pseudo Separation proposal and some form of
10 proxy pricing. A more detailed explanation that makes the case for Legal
11 Separation in favor of Proxy Pricing is presented in my testimony below and
12 in the rebuttal testimony of Company Witness Mr. Richard Starkweather.

13
14 Q. WILL THE COMPANY'S PROPOSED RTF ELIMINATE THE IMPACT OF
15 JURISDICTIONAL MISALIGNMENT ON NORTH DAKOTA AS WELL AS THE
16 OTHER JURISDICTIONS SERVED BY THE COMPANY?

17 A. Yes. By implementing a forward-looking resource planning process with a
18 presumption of system integration in the Legal Separation context, we can
19 customize resource portfolios for NSPM States to the extent necessary. Our
20 RTF will therefore allow us to right-size resource additions for only
21 participating jurisdictions and share large additions where there is consensus
22 about the additions from all of the jurisdictions served by the Company.
23 This will eliminate the potential to shift costs from one jurisdiction to
24 another for resources serving all jurisdictions.

25

1 Q. IS IT NECESSARY TO INSTITUTE A SOLUTION AT THIS TIME?

2 A. Yes. As I discuss in more detail in my Direct Testimony, the NSP System
3 must evolve to replace the five significant PPAs that will expire between
4 2025 and 2027, the eight key energy and capacity units that will reach the end
5 of their useful lives between 2030 and 2037, and the several hundred
6 megawatts of peaking resources that are at, or nearing, the end of their
7 useful lives. These units represent more than 5,400 MW of resources that
8 need to be replaced in the next twenty years. In order to have the regulatory
9 and accounting processes necessary to accommodate jurisdictional
10 misalignment before we enter this period of change, we must timely agree
11 upon and implement a viable solution.

12

13 Q. DO YOU HAVE ANY ADDITIONAL COMMENTS REGARDING MR. HEIDELL'S
14 ANALYSIS OF THE COMPANY'S PROPOSAL?

15 A. Yes. Although we hold a different opinion than Mr. Heidell as to many
16 issues he raises, we appreciate his thoughtful proposals and agree with some
17 of his analysis. I am concerned, however, that he appears to have some
18 misconceptions about our proposal. More specifically, I believe our
19 disagreements with Mr. Heidell appear to come from his assumption that the
20 RTF proposals included in our Application and Direct Testimony were full
21 and final proposals. I try to bring some clarity to those issues in my rebuttal
22 testimony, as does Mr. Starkweather.

23

24 Stated plainly, our Application and Direct Testimony were only intended to
25 demonstrate the viability and reasonableness of both creating a new
26 operating company and applying the allocation methodologies under our
27 Legal and Pseudo Separation proposals. Given the complexity of the issues

1 involved, it has always been our intention to first gather feedback from all of
2 the affected Commissions regarding the components of an RTF that could
3 be acceptable and effective. Only after receiving that feedback had we
4 planned on advancing to an implementation phase where, through further
5 proceedings, we would work through the details necessary to bring forward a
6 framework for implementation. In the Company's view, we remain at Step
7 One, and we believe that the record will reflect sufficient information for the
8 Commission to evaluate the first step in this process.

9
10 **III. NORTH DAKOTA BASED RESOURCE PLANNING**

11
12 Q. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR REBUTTAL TESTIMONY?

13 A. I address Mr. Heidell's recommendation that the Commission implement an
14 active review process for future Company IRPs so that the Commission is
15 provided with information about future resource additions earlier in the
16 resource planning process and the Company obtains more certainty in the
17 treatment of future resources.

18
19 Q. DOES THE COMPANY AGREE WITH MR. HEIDELL'S RESOURCE PLANNING
20 RECOMMENDATION?

21 A. Yes. The Company agrees that a more formalized resource planning process
22 in North Dakota would promote understanding and greater certainty in
23 resource selection.

24

1 Q. PLEASE EXPLAIN HOW THE COMPANY PROPOSES IMPLEMENTING A MORE
2 FORMALIZED RESOURCE PLANNING PROCESS IN NORTH DAKOTA.

3 A. We suggest working with Commission Staff to develop a North Dakota
4 resource planning process so that we may obtain feedback from the
5 Commission to accomplish the following objectives:

6 (1) Determine future resource additions that are consistent with North
7 Dakota objectives and might therefore serve the entire NSP System,
8 including North Dakota, if the resource additions are ultimately made;

9 (2) Determine future resource additions that are not consistent with
10 North Dakota objectives and will therefore not serve North Dakota
11 but rather serve only the remainder of the NSP System (or parts
12 thereof) if the resource additions are ultimately made;

13 (3) Identify alternative resource additions (including making no resource
14 addition) to serve North Dakota customers when North Dakota
15 needs do not align with those of the NSP System; and

16 (4) Formalize North Dakota objectives that can be incorporated and
17 applied to the Company's resource planning activities.

18

19 Q. HOW DO YOU ENVISION THE RESOURCE PLANNING PROCESS WORKING?

20 A. The process should utilize the default assumption that the NSP System be
21 planned on an integrated basis and include service to North Dakota
22 customers from system-wide resources. To the extent that the needs of all
23 states served by the NSP System do not align in the future, however,
24 resource additions need not serve all states.

25

26 We expect that any resource planning process will allow the Commission to
27 advise the Company whether particular types of resources planned for the

1 NSP System should serve North Dakota. This will provide the Company
2 with greater certainty as to whether North Dakota will be included in
3 planned resource additions for the NSP System. If the Commission declines
4 to support a particular resource addition, the Company need not assume that
5 North Dakota be served by that resource addition when planning for the
6 other states.

7
8 Q. DO YOU ANTICIPATE THAT THE DEVELOPMENT OF A NORTH DAKOTA
9 RESOURCE PLANNING PROCESS WILL IMPACT THE COMPANY'S OBLIGATION
10 TO SEEK ADVANCE DETERMINATIONS OF PRUDENCE (ADP) FOR NEW
11 RESOURCES?

12 A. Yes. While Mr. Heidell asserts that the Company should continue to use the
13 ADP process to reduce potential future conflicts so that it has a better
14 indication of what costs will be recoverable in North Dakota, I respectfully
15 disagree with the ongoing benefit of the Company's current ADP obligation.
16 If a new North Dakota resource planning process is adopted, I see less of a
17 role for the ADP process, as it has been historically used. That said, the
18 Company would retain the option to apply for an ADP as provided for in
19 the North Dakota Century Code.

20
21 **IV. STRUCTURAL OPTIONS**

22
23 Q. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR REBUTTAL TESTIMONY?

24 A. In this section of my rebuttal testimony I discuss the structural options
25 available to implement an RTF and address Mr. Heidell's testimony
26 regarding these options.

27

1 Q. IS THE COMPANY MAKING ANY RECOMMENDATIONS WITH RESPECT TO THE
2 APPROPRIATE STRUCTURAL CHANGES TO IMPLEMENT ITS RTF?

3 A. Yes. In direct testimony, the Company analyzed four potential structures to
4 support our RTF: Legal Separation (creating a new operating company to
5 serve North Dakota); Pseudo Separation (implementing cost allocation tools
6 on a generator-specific level to allocate costs and benefits of a particular
7 resource only to certain jurisdictions); proxy-pricing (replacing the cost of a
8 particular generation resource with a proxy price); and regulatory alignment
9 (seeking to discover ways for all states to fully participate in the NSP
10 System).

11

12 Q. IS THE COMPANY RECOMMENDING A PARTICULAR STRUCTURAL OPTION BE
13 USED FOR THE RTF?

14 A. Yes. We continue to propose the creation of a new operating company to
15 serve our North Dakota electric customers as the best structure to
16 implement. That said, we also believe that implementing the mechanics
17 underlying our Pseudo Separation proposal would be feasible. We do not
18 believe that proxy pricing is a viable option and we believe that Mr. Heidell's
19 testimony indicates Regulatory Alignment is unlikely.

20

21 **A. Creation of a Separate Operating Company (Legal Separation)**

22

23 Q. WHY IS THE COMPANY STILL RECOMMENDING THE CREATION OF A
24 SEPARATE OPERATING COMPANY AS THE APPROPRIATE TOOL TO IMPLEMENT
25 ITS RTF?

26 A. I, and Company Witness Mr. Starkweather, discuss this at length in our
27 respective direct testimonies. In short, creating a separate operating

1 company can still allow us to plan with a presumption of integration, but it
2 also ensures that the costs and benefits of each state's decisions are fully
3 realized by that state's customers and does not shift costs to other states or
4 put Company shareholders at risk. Mr. Starkweather discusses this further in
5 his rebuttal testimony.

6
7 Q. HOW DO YOU RESPOND TO MR. HEIDELL'S ANALYSIS OF THE COST
8 IMPLICATIONS OF CREATING A NEW OPERATING COMPANY TO SERVE NORTH
9 DAKOTA CUSTOMERS?

10 A. I agree with Mr. Heidell that this path is not without some cost and risk to
11 North Dakota ratepayers. Ultimately, restructuring the Company will shift
12 costs both to and from our North Dakota customers. Our analysis indicates
13 that these shifts will be within a band of reasonableness. It is not yet
14 possible to determine the precise magnitude or net impact of these costs.
15 What is clear is that it is a viable option and would not have a significant
16 impact, either positive or negative, on any particular state.

17
18 I believe that the benefits of Legal Separation outweigh the costs and
19 uncertainties. Mr. Starkweather discusses this further in his rebuttal
20 testimony.

21
22 Q. MR. HEIDELL ALSO FOCUSES ON THE IDEA THAT RESTRUCTURING THE
23 COMPANY TO CREATE A NEW OPERATING COMPANY WOULD NECESSARILY
24 MEAN THAT THE COMMISSION WOULD CEDE REGULATORY AUTHORITY TO
25 FERC. HOW DO YOU RESPOND?

26 A. I respectfully disagree with Mr. Heidell's conclusion that FERC jurisdiction
27 must be imposed on our North Dakota customers in lieu of the

1 Commission's ratemaking responsibilities. Under our proposal for
2 restructuring the Company, FERC would have jurisdiction over any
3 wholesale contract providing supply to our North Dakota customers either
4 by the Legacy System (described below) or any future wholesale contracts.
5 Contrary to Mr. Heidell's assertions, however, the Commission would have
6 the authority to approve or reject the Company's decision to enter into new
7 contracts in most circumstances.

8
9 Mr. Heidell also indicates that the Company has not committed to seeking
10 Commission agreement for initial power contract terms before seeking
11 FERC approval. The Company will, however, make this commitment in
12 order to alleviate the Commission's concerns regarding jurisdiction over
13 future power contracts. As a result, the Commission will retain control over
14 future resource additions through both its legal jurisdiction over the matters
15 and the Company's commitment to first seek Commission approval for any
16 transactions that may fall within FERC's jurisdiction.

17
18 **B. Modification to Resource Cost Allocations (Pseudo Separation)**

19
20 Q. WHAT DID MR. HEIDELL CONCLUDE WITH RESPECT TO THE CONCEPTS
21 UNDERLYING THE COMPANY'S PSEUDO SEPARATION PROPOSAL?

22 A. Mr. Heidell acknowledges that the mechanisms we propose to allocate the
23 costs and benefits for particular resources could be useful to prevent or
24 mitigate disputes about future resource additions. Additionally, many of the
25 concerns he has with creating a separate operating company can be mitigated
26 through implementing the cost allocation and ratemaking methodologies
27 underlying our Pseudo Separation proposal.

1

2 Q. DOES THE COMPANY BELIEVE THAT USING THE RATEMAKING TOOLS
3 UNDERLYING THE PSEUDO SEPARATION PROPOSAL IS A VIABLE WAY TO
4 EFFECTUATE A FORWARD-LOOKING RTF?

5 A. Yes. If we can achieve alignment in all of the NSP System jurisdictions as to
6 how to effectuate and implement the cost allocation methods, it can be a
7 viable structure to support our RTF.

8

9 **C. Proxy Pricing**

10

11 Q. WHAT DID MR. HEIDELL CONCLUDE WITH RESPECT TO PROXY PRICING?

12 A. Mr. Heidell recommends proxy pricing as a feasible structure if it is also
13 combined with a mechanism to procure resources solely for North Dakota
14 in the future if they serve the needs and policies of the state.

15

16 Q. DOES THE COMPANY AGREE WITH MR. HEIDELL'S PROXY PRICING
17 ASSESSMENT?

18 A. No. The Company believes that proxy pricing is unworkable given that the
19 RTF is intended to seek a solution for each and every resource disagreement
20 that occurs now and into the future, and proxy pricing is most effective
21 when there is a limited set of well-defined resources. Mr. Starkweather
22 further expands on this in his Rebuttal Testimony.

23

24 Q. MR. HEIDELL NOTES THAT THE COMPANY HAS IMPLEMENTED A PROXY
25 PRICING MECHANISM IN SOUTH DAKOTA AND THAT ITS AFFILIATE,
26 SOUTHWESTERN PUBLIC SERVICE (SPS), HAS INSTITUTED THIS IN TEXAS AND

1 NEW MEXICO. DOES THIS NOT DEMONSTRATE THAT PROXY PRICING COULD
2 BE IMPLEMENTED IN NORTH DAKOTA AS WELL?

3 A. No. Proxy pricing has not been implemented in South Dakota as a
4 comprehensive, forward-looking solution. It has been proposed, among
5 other options, as a framework to address cost recovery for a limited amount
6 of PPAs. The Company has not proposed that proxy pricing be available as
7 an option for future resource additions. Similarly, the SPS proxy pricing
8 structure is limited to a small, defined subset of resources; I also note that
9 the proxy pricing methodology was proposed and approved by New Mexico,
10 the state imposing the solar energy standard. These conditions do not
11 appear to be applicable here. Therefore, these examples are not comparable
12 for the present case and we continue to believe proxy pricing is not a
13 workable solution for North Dakota. Mr. Starkweather discusses this
14 further in his rebuttal testimony.

15
16 **V. THE LEGACY SYSTEM AND DISPUTED RESOURCES**

17
18 Q. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR REBUTTAL TESTIMONY?

19 A. In this section of my rebuttal testimony I respond to Mr. Heidell's
20 suggestions with respect to the Disputed Resources and propose a resolution
21 how to address the Disputed Resources to develop the Legacy System.

22
23 Q. WHAT IS THE LEGACY SYSTEM?

24 A. The Legacy System is discussed in our Application. In general, we use the
25 term Legacy System to describe the existing NSP System resources that will
26 be serving all of the NSP System jurisdictions at the conclusion of this
27 proceeding.

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Q. WHAT ARE THE DISPUTED RESOURCES?

A. The Disputed Resources are defined in our Application. At a high-level, the Disputed Resources are resources for which the Commission has disallowed cost recovery, or has rejected, or dismissed ADP applications; or, resource additions for which the Company is not otherwise recovering all of the costs or is recovering the costs subject to refund. The Disputed Resources include certain renewable energy power purchase agreements (PPAs) such as CBED wind, biomass, and solar projects as well, and the expansion of the Mankato Energy Center (MEC II).

Q. DO YOU AGREE WITH MR. HEIDELL’S RECOMMENDATION THAT THE DISPUTED RESOURCES NEED NOT BE ADDRESSED IN THIS PROCEEDING?

A. No. This proceeding arose, in part, because the Company has been unable to fully recover the costs of the Disputed Resources in North Dakota or the remainder of the NSP System. Although the Commission’s Disputed Resources decisions were made in the past, the financial repercussions for the Company exist today and will continue into the future. The purpose of the RTF is to provide an equitable framework to address these types of disagreements into the future. This cannot be accomplished without clearing the slate of the impact of these decisions on the Company. Accordingly, it will be difficult for a forward-looking RTF to be successful without first resolving the impact of past resource decisions.

1 Q. WHAT DOES MR. HEIDELL RECOMMEND WITH RESPECT TO THE DISPUTED
2 RESOURCES?

3 A. Mr. Heidell recommends that the Commission continue its current decisions
4 regarding the Disputed Resources.

5

6 Q. HOW DO YOU RESPOND?

7 A. Generally, the Company agrees. We are not seeking to reverse any of the
8 Commission's prior decisions related to the Disputed Resources. The
9 Company has implemented the Commission's decisions and internalized the
10 associated costs relating to: the C-BED projects; the 187 MW solar
11 portfolio; and its treatment of the biomass power purchase agreements
12 (PPAs). None of these resources are currently assigned to the North Dakota
13 jurisdiction or are being recovered subject to refund; and the Company has
14 not sought to change that in this proceeding. The Company also recognizes
15 that the Commission dismissed without prejudice its application for an ADP
16 for the expansion of MEC II.

17

18 The Company proposes that the Disputed Resources, including MEC II, be
19 fully allocated (*i.e.*, the capacity, energy, revenues, costs, and other benefits)
20 to the remainder of the NSPM States. This will give full effect to the
21 Commission's decisions regarding the Disputed Resources. With respect to
22 MEC II, the Company acknowledges that the capacity will not be needed at
23 the time the contract commences and, therefore, consistent with the
24 Commission's need plus least cost planning paradigm and the concerns
25 raised in the ADP proceeding, we propose to fully allocate this resource to
26 the remainder of the NSPM States.

27

1 To equitably give effect to the impact of the Commission’s decisions
2 regarding the Disputed Resources on our customers in the other NSPM
3 States, we propose to fully allocate the costs of our proposed 1,854.5 MW of
4 wind being proposed in Case Nos. PU-17-120 and PU-17-372 to the
5 remainder of the NSPM States. We note that, like MEC II, the wind
6 resources do not satisfy the Commission’s need plus least cost planning
7 paradigm. The long term cost savings from these wind projects help offset
8 the impact of shifting the costs of North Dakota’s share of the Disputed
9 Resources to the other NSPM States.

10
11 This outcome will reset the table and allows a clean starting point from
12 which to begin new resource planning cycles in North Dakota and
13 Minnesota.

14
15 Q. THE COMPANY HAS SOUGHT ADPS AND DEFERRED ACCOUNTING
16 TREATMENT FOR THE COSTS OF TERMINATING SEVERAL OF ITS BIOMASS
17 PPAS IN CASE NOS. PU-17-270, PU-17-271, AND PU-17-322. HOW DOES
18 THE COMPANY PROPOSE ALLOCATING THOSE COSTS?

19 A. In the Negotiated Agreement adopted by the Commission in Case Nos. PU-
20 12-813, *et al.*, the Commission allowed for the recovery of the North Dakota
21 portion of the costs associated with the biomass PPAs in exchange for the
22 Company’s commitment that it would construct generation in North
23 Dakota. The Negotiated Agreement also included a penalty provision equal
24 to 50 percent of the incremental excess cost of the biomass generation in
25 North Dakota if the Company does not fulfill its commitment to construct
26 generation in North Dakota.

27

1 The Company is now taking steps to terminate or restructure some of its
2 biomass PPAs. The Commission is currently considering the termination of
3 the Pine Bend, Fibrominn and Laurentian biomass PPAs, which were
4 included as Disputed Resources and in the Negotiated Agreement. Once
5 those PPAs have been terminated, there will no longer be payments under
6 those contracts.

7
8 We are proposing that no biomass PPAs serve our North Dakota customers.
9 Instead, the costs and energy of the biomass resources will be fully allocated
10 to the remainder of the NSPM States for the remainder of their term. We
11 believe it would equitable to allocate the termination payments for the
12 biomass PPAs to the remainder of the NSPM States to whom we propose to
13 allocate these contracts and who will therefore enjoy the cost savings from
14 their termination.

15
16 Q. WHAT ABOUT THE COMPANY'S COMMITMENT TO CONSTRUCT GENERATION
17 IN NORTH DAKOTA AS DESCRIBED IN THE NEGOTIATED AGREEMENT?

18 A. The Company reaffirms its commitment to construct natural-gas generation
19 in North Dakota by 2025 as described in the Negotiated Agreement. I
20 would point out that our proposal to reallocate the biomass PPAs to the
21 remainder of the NSPM States calls into question the ongoing need for the
22 refund provision of the Negotiated Agreement since we are proposing to no
23 longer recover these costs from our North Dakota customers.

24

1 Q. PLEASE SUMMARIZE THE COMPANY’S PROPOSAL WITH RESPECT TO THE
2 DISPUTED RESOURCES AND OTHER COSTS.

3 A. To allow for an equitable resolution of the Disputed Resources for all of our
4 customers, the Company is proposing the following:

5 (1) All Disputed Resources will serve the remainder of the NSPM States
6 (*i.e.*, all costs, revenues, capacity, energy, renewable attributes and
7 other costs and benefits will not be allocated to North Dakota
8 customers);

9 (2) To mitigate the impact of assigning the Disputed Resources to the
10 remainder of the NSPM States, the Company’s 1,550 MW wind
11 portfolio that is the subject of Case No. PU-17-120 and the Dakota
12 Range project that is the subject of Case No. PU-17-372 will be
13 allocated to the remainder of the NSPM States (*i.e.*, all costs,
14 revenues, capacity, energy, renewable attributes and other costs and
15 benefits will not be allocated to North Dakota customers); and

16 (3) The ADPs in Case No. PU-17-270 will be withdrawn and the costs
17 requested to be deferred pursuant to Case Nos. PU-17-271 and PU-
18 17-322 will not be recovered from North Dakota customers, but
19 rather, from the remainder of the NSPM States.

20

21 Q. HAS THE COMPANY ANALYZED THE COST IMPACT OF ITS PROPOSED
22 RESOLUTION TO THE DISPUTED RESOURCES?

23 A. Yes. We believe the impact will be close to net neutral to all of our
24 customers on a present value basis. We expect that North Dakota
25 customers will see an immediate rate decrease when we stop recovering the
26 costs of the biomass PPAs in North Dakota and that the remainder of the
27 NSPM States will see no net rate impact as our wind projects go into service.

1
2 As Mr. Martin discusses further, our analysis indicates that North Dakota
3 will see significant savings over the first four years as a result of reallocating
4 the Disputed Resource costs to the rest of the NSPM States. Once the
5 1,850 MW of new wind resources all come online in the early 2020s and
6 PTCs begin to accrue, the rest of the NSPM States will begin realizing the
7 cost and tax benefits of the wind resources. The increase in the annual
8 impact to North Dakota during that time is largely driven not by actual cost
9 increases, but rather by lost opportunity cost associated with not
10 participating in the wind projects. The modeling indicates that the proposed
11 reallocation of North Dakota's share of the Disputed Resources and the
12 dedication of the 1,850 MW in wind resources solely to the rest of the
13 NSPM States would result in North Dakota's PVRr cost increasing by \$31
14 million and the rest of the NSPM States' PVRr cost decreasing by \$12
15 million.

16 17 **VI. INTRODUCTION OF WITNESSES**

18
19 Q. WHO ARE THE COMPANY'S WITNESSES PROVIDING REBUTTAL TESTIMONY
20 AND WHAT ARE THE TOPICS BEING ADDRESSED BY EACH?

21 A. The Company is sponsoring the Rebuttal Testimony of the following
22 witnesses:

23
24 I provide policy support for our response to Mr. Heidell's Direct Testimony.
25 I also provide a potential proposal for moving forward in a way that
26 addresses Mr. Heidell's concerns while, at the same time, addresses the

1 Company's legitimate need to recover its actual cost of service in North
2 Dakota.

3
4 Company witness Mr. Richard "Rick" Starkweather provides a more detailed
5 response to many of the points in Mr. Heidell's testimony. Mr. Starkweather
6 analyzes the benefits and costs of the structures described by Mr. Heidell
7 and responds to his concerns over North Dakota's authority over the
8 Company's North Dakota operations in various scenarios. Mr. Starkweather
9 provides supporting detail on a number of the policy issues that I discuss in
10 this testimony.

11
12 Company witness Mr. P.J. Martin provides additional information regarding
13 the impact of our proposed resolution for the Disputed Resources.

14
15 **VII. CONCLUSION**

16
17 Q. DOES THIS CONCLUDE YOUR PRE-FILED REBUTTAL TESTIMONY?

18 A. Yes, it does.

19

**STATE OF NORTH DAKOTA
BEFORE THE
NORTH DAKOTA PUBLIC SERVICE COMMISSION**

Northern States Power Company
2013 Electric Rate Increase Application **Case No. PU-12-813**

Northern States Power Company
Advanced Determination of Prudence –
Courtenay Wind Application **Case No. PU-13-706**

Northern States Power Company
Advanced Determination of Prudence –
Odell Wind Application **Case No. PU-13-707**

Northern States Power Company
Advanced Determination of Prudence –
Pleasant Valley Application **Case No. PU-13-708**

Northern States Power Company
Advanced Determination of Prudence –
Border Winds Application **Case No. PU-13-742**

Northern States Power Company
150 MW Border Winds Project – Rolette
County, ND Public Convenience & 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 Unites 1&2 – Hankinson,
ND Public Convenience & Necessity **Case No. PU-13-195**

