

1 BEFORE THE OFFICE OF ADMINISTRATIVE HEARINGS
2 FOR THE PUBLIC SERVICE COMMISSION
3 OF THE STATE OF NORTH DAKOTA

4 In the Matter of the Application of Northern States Power
5 Company For an Advance Determination of Prudence For
6 Three Natural Gas Combustion Turbine Generators

7 DOCKET NO: PU-13-194

8 In the Matter of the Application of Northern States Power
9 Company For a Certificate of Public Convenience and
10 Necessity For Two Natural Gas Combustion
11 Turbine Generators

12 DOCKET NO: PU-13-195

13 Public Service Commission Hearing Room
14 12th Floor
15 State Capitol
16 Bismarck, North Dakota

17 Met, pursuant to notice, at 8:30 in the
18 morning on November 26, 2013.

19
20
21 BEFORE: Patrick Ward, ALJ

22
23 The following proceedings were
24 tape-recorded by the parties and transcribed by
25 Angie D. Threlkeld, Court Reporter.

I N D E X

	WITNESSES	PAGE
1		
2		
3	LAURA MCCARTEN	14
4	Direct Examination by Mr. Simpser	14
5	Cross-Examination by Mr. Norrell	20
6	Cross-Examination by Mr. Armstrong	24
7	Examination by Chair Kalk	32
8	Examination by Commissioner Christmann	37
9	Examination by Commissioner Fedorchak	40
10	Further Examination by Commissioner	44
11	Christmann	
12	Further Examination by Commissioner Fedorchak	46
13	Further Cross-Examination by Mr. Norrell	47
14	Further Cross-Examination by Mr. Armstrong	47
15	Further Examination by Commissioner Fedorchak	49
16		
17	JIM ALDERS	52
18	Direct Examination by Mr. Simpser	53
19	Cross-Examination by Mr. Norrell	57
20	Examination by Commissioner Christmann	58
21	Examination by Commissioner Fedorchak	59
22	Further Direct Examination by Mr. Simpser	62
23	Further Cross-Examination by Mr. Norrell	65
24	Cross-Examination by Mr. Armstrong	77
25	Redirect Examination by Mr. Simpser	86

1	Further Examination by Commissioner Fedorchak	90
2	Examination by Chair Kalk	97
3	Examination by Commissioner Christmann	103
4	Recross-Examination by Mr. Norrell	106
5	Recross-Examination by Mr. Armstrong	107
6	Further Examination by Chair Kalk	112
7	Further Examination by Commissioner Fedorchak	113
8	Further Examination by Commissioner	117
9	Christmann	
10	Further Examination by Commissioner Fedorchak	118
11	Further Recross-Examination by Mr. Norrell	120
12	Further Recross-Examination by Mr. Armstrong	120
13		
14	STEVEN WISHART	126
15	Direct Examination by Mr. Simpser	126
16	Cross-Examination by Mr. Norrell	138
17	Cross-Examination by Mr. Armstrong	154
18	Examination by Chair Kalk	163
19	Examination by Commissioner Christmann	167
20	Examination by Commissioner Fedorchak	171
21	Further Examination by Chair Kalk	185
22	Redirect Examination by Mr. Simpser	189
23		
24	GREG FORD	192
25	Direct Examination by Mr. Simpser	192

1	Cross-Examination by Mr. Norrell	193
2	Cross-Examination by Mr. Armstrong	194
3	Examination by Commissioner Fedorchak	199
4	Recross-Examination by Mr. Norrell	207
5	Further Examination by Chairman Kalk	208
6		
7	MIKE DILLER	211
8	Direct Examination by Mr. Norrell	211
9	Cross-Examination by Mr. Simpser	216
10	Cross-Examination by Mr. Armstrong	224
11	Examination by Chair Kalk	233
12	Examination by Commissioner Christmann	239
13	Examination by Commissioner Fedorchak	243
14	Redirect Examination by Mr. Norrell	249
15		
16		
17		
18		
19		
20		
21		
22		
23		
24		
25		

1 JUDGE WARD: Good morning. My name is
2 Pat Ward. I'm the administrative law judge pursuant
3 to temporary appointment designated by the Office of
4 Administrative Hearings upon the request of the
5 Public Service Commission to serve as the procedural
6 hearing officer for this consolidated hearing.

7 This is the hearing on the application of
8 NSP for, one, an advance determination of prudence
9 for three natural gas generators; and, two, a
10 certificate of public convenience and necessity for
11 two natural gas combustion turbines. This is
12 North Dakota Public Service Commission Case Number
13 PU-13-194 and PU-13-195.

14 The record will show it is a little past
15 8:30 a.m. central standard time, Tuesday,
16 November 26, 2013, at the PSC Commission Hearing
17 Room, 12th Floor, State Capitol, Bismarck,
18 North Dakota, the time, date, and place set by the
19 notice of filing and consolidated notice of hearing
20 issued by the North Dakota Public Service Commission
21 on October 9th, 2013.

22 On April 26, 2013 NSP filed its
23 application for an advance determination of prudence
24 to add three 215-megawatt gas-fired combustion
25 turbine generators to assist them; one unit, known

1 as Black Dog 6, to be constructed in Burnsville,
2 Minnesota, and two in Hankinson, North Dakota to be
3 known as Red River Valley Units 1 and 2.

4 NSP also requested on April 26, 2013 in
5 case PU-13-195 a certificate of public convenience
6 and necessity for Red River Valley Units 1 and 2.

7 The application requests are set forth in
8 a notice of filing and notice of hearing; and the
9 proposed location is shown by the map, which is part
10 of the notice.

11 The notice of filing and notice of
12 hearing for this hearing specified the following
13 issues to be considered and determined upon this
14 hearing. The issue regarding the ADP is, one,
15 whether NSP's proposed investment in the three CTs
16 is prudent. The issues regarding the certificate of
17 public convenience and necessity are whether public
18 convenience and necessity will be served by the NSP
19 construction and operation of the combustion
20 turbines; and, two, whether Applicant is fit,
21 willing, and able to provide the service.

22 I have previously entered a trade secret
23 protection order in this case dated November 13th,
24 2013.

25 We'll state our appearances for the

1 record.

2 Mr. Simpser.

3 MR. SIMPSEY: Zev Simpser, Briggs &
4 Morgan, on behalf of Northern States Power Company.

5 MS. ARCHER: Alison Archer with Xcel
6 Energy.

7 JUDGE WARD: Thank you.

8 And for the Commission?

9 MR. NORRELL: Thank you, Your Honor. On
10 behalf of Commission Advocacy Staff, Ryan Norrell.
11 And with me at the table are Mike Diller and Sarah
12 Cardwell, utility analysts.

13 JUDGE WARD: Any other appearances today?

14 MR. ARMSTRONG: Mitch Armstrong, Special
15 Assistant Attorney General, Advisory Staff for the
16 Commission. With me is Jerry Lein, a public utility
17 analyst with the Commission.

18 JUDGE WARD: Thank you.

19 If there is anyone present today other
20 than witnesses for NSP or the Commission who will or
21 may testify or comment concerning this matter,
22 please identify yourself.

23 Looking around the room, it doesn't
24 appear that there is. If someone does show up,
25 we'll take care of that later.

1 Any opening remarks by the commissioners
2 before we start the actual proceedings?

3 CHAIR KALK: Thank you, Your Honor.
4 The -- just thank the company for putting this case
5 together. Always appreciate that. Same as both
6 sides of staff, all the work. I've read the -- of
7 course the prefiled testify, and Mitch and Jerry and
8 I have talked about this one a lot.

9 Just a couple of quick thoughts is that
10 my comments about this particular case when I first
11 heard about it was that this is as close to a lay-up
12 as they come. And so -- I mean, that's what I said.
13 I still believe that. But I will have a few
14 additional questions today that one of the things
15 that I picked up at MISO last week or when I was out
16 at NARUC was that MISO is predicting they're eight
17 gigawatts short of power in the 20 -- I don't
18 remember the exact time frame, but it was like 2020.
19 It was very near term to what this case is. And so
20 I'd be very curious to know if you have an idea what
21 slice at eight gigawatts that might be Xcel
22 Energy's, because my concern is maybe this isn't
23 enough to be built. If you're eight gigawatts short
24 in the MISO region, somebody needs to start building
25 stuff pretty quick. And that was a concern I

1 expressed with MISO. And it was interesting that --
2 I think MISO serves as a function, but their an --
3 their answer was quickly to spin it back around,
4 well, it's up to the investor-owns to build the
5 generation. Well, it is, but it's up to MISO to be
6 able to predict what the demand is so the companies
7 can then go back and build the generation.

8 So that, I guess, is the one line of
9 questioning I would have. And just thank you all
10 for your work.

11 JUDGE WARD: Commissioner Christmann.

12 COMMISSIONER CHRISTMANN: Thank you, Your
13 Honor. You know, I guess my thoughts on this
14 initially right now are -- came from a situation
15 that is -- is not even really very close to NSP's
16 service area, but it has to do with -- with
17 electrical power in general.

18 Both the last couple of years as a -- as
19 a hopeful and then sitting commissioner and then for
20 almost two decades before that in the Senate, I
21 talked a lot about dependable, affordable power as
22 opposed to power that is done for economic
23 development goals or to -- to meet some kind of
24 social programs or anything like that. And over the
25 years I've built some strong relationships.

1 This didn't come to me as a commissioner,
2 but, you know, people who looked at me as someone
3 they came to with various problems and in the ag
4 community both. And when we had the big snowstorm
5 six weeks or so ago and a good part of southwest
6 North Dakota was without power and a huge part of
7 western South Dakota was without power, I thought a
8 lot about my common line of dependable, affordable
9 power. Like that's one thing, as opposed to
10 separable things. And during that whole episode not
11 one person contacted me and said, geez, what do you
12 think this is going to do to my rates by the time
13 they get these power lines built back up or anything
14 about the cost even. It was all about the
15 reliability and making sure that that power was
16 really on at the time.

17 And so, you know, sometimes I think we
18 maybe even underemphasize the importance of
19 reliability, having power in -- in -- you know, in
20 more than one region being produced and -- and
21 having it close by to population centers and that
22 type of thing. And so that's why I brought that up
23 at this point, because I think it really fits in
24 with this case and the thought of having a -- a
25 power generation supply in the Red River Valley.

1 So that's all I have at this point.

2 Thank you.

3 JUDGE WARD: Thank you, Commissioner.

4 Commissioner Fedorchak.

5 COMMISSIONER FEDORCHAK: Good morning. I
6 will keep my comments brief. But this hearing today
7 is something that the company, I think, views more
8 as a big-picture issue. And it sort of hits home --
9 a little closer to home for all of us because of the
10 potential for bringing some generation into our
11 state close to our largest population center.

12 And so while I'm still -- you know, am
13 interested in hearing all the facts and very much
14 undecided on this case -- on this case at this
15 point, it -- it does resonate -- the issues in this
16 case really hit home to all of us, I think, because
17 of that -- because of that reliability component
18 that Commissioner Christmann talked about and the
19 fact that our state is really growing.

20 We have, you know, huge power demands out
21 west. Our -- our communities even in the valley are
22 growing at a much brisker rate than those areas
23 in -- in Minnesota. And so we feel the need to make
24 sure that we have all the power infrastructure in
25 place to serve the growing needs of our state.

1 So a lot of important issues to consider
2 in this case as well, and I look forward to the rest
3 of the hearing.

4 JUDGE WARD: Thank you, Commissioner.

5 Mr. Simpser, any opening remarks or any
6 business you want to take care of before we proceed?

7 MR. SIMPSE: We'll defer opening remarks
8 to our initial witness, Ms. McCarten.

9 The company would like to move entry into
10 the record of its application and all its prefiled
11 testimony as well as, if advisory staff counsel will
12 permit me, advisory staff's prefiled testimony per
13 previous stipulations.

14 JUDGE WARD: Any objection to the motion?

15 MR. NORRELL: No objection, Your Honor.

16 JUDGE WARD: Mr. Armstrong?

17 MR. ARMSTRONG: No objection.

18 JUDGE WARD: Those items will be
19 received.

20 Mr. Simpser -- or, Mr. Armstrong, you
21 wanted to make a motion?

22 MR. ARMSTRONG: Yes, Your Honor. The
23 Commission intends to take official notice of
24 filings in several other cases in reviewing this
25 case. And those filings are PU-13-706, PU-13-708,

1 PU-13-707, PU-13-742, PU-13-743, and PU-12-813.

2 So I move that the Commission be allowed
3 to take official notice of the filings and pleadings
4 in those cases.

5 JUDGE WARD: Mr. Simpser, any objection
6 to that proceeding?

7 MR. SIMPSE: No objection, Your Honor.

8 JUDGE WARD: In that case, PU-13-706,
9 707, 708, 742, 743, and 12-813 will be admitted and
10 allowed to be used as -- or for reference in this
11 matter.

12 Mr. Simpser.

13 MR. SIMPSE: We have no further -- oh,
14 one item. We have -- Exhibit 5 is finally printed
15 out, the public version. And we can distribute
16 that, as -- as necessary, throughout the proceeding.

17 JUDGE WARD: Okay. Are you moving
18 admission of that then, or have we already admitted
19 it?

20 MR. SIMPSE: We've -- we've moved
21 admission of that already. With that, we have no
22 other cleanup items, and we're ready to call our
23 first witness.

24 JUDGE WARD: Okay. Please proceed.

25 MR. SIMPSE: The company calls Ms. Laura

1 McCarten to the stand.

2 JUDGE WARD: Ms. McCarten, I'm required
3 by law in North Dakota to advise you of the law
4 regarding perjury. Perjury is a false statement
5 under oath of a material fact made by a person who
6 knows or does not believe the statement to be true
7 at the time it is made. Perjury is a Class C
8 felony. A Class C felony is subject to a maximum
9 penalty of five years in prison, a fine of \$5,000,
10 or both may be imposed.

11 Having been advised of the penalty for
12 perjury, please raise your right hand so I can
13 administer the oath.

14 LAURA MCCARTEN,
15 after having been first duly sworn, was
16 examined and testified on her oath as follows:

17 JUDGE WARD: Thank you.

18 You may proceed, Mr. Simpser.

19 DIRECT EXAMINATION

20 BY MR. SIMPSE:

21 Q Good morning, Ms. McCarten.

22 A Good morning.

23 Q I understand you have an opening statement you'd
24 like to give?

25 A I do.

1 Q Please proceed.

2 A Thank you. Good morning, Chairman Kalk,
3 Commissioner Christmann, and Commissioner Fedorchak,
4 and thank you for the opportunity to appear before
5 you today.

6 This hearing involves the company's
7 request for an advance determination of prudence for
8 our bid proposal to construct three natural gas
9 turbines, or CTs. Our proposal was intended to meet
10 a capacity need in the 2017 to '19 time frame, as I
11 identified in our most recent resource plan.

12 To meet this need we propose to construct
13 three 200-megawatt combustion turbines that we could
14 deploy individually so we could match the expense to
15 the customer need as it developed over time.

16 We propose to first construct the
17 200-megawatt unit at our existing Black Dog site,
18 the so-called Black Dog Unit 6, because this is the
19 lowest cost of the three units. We also propose to
20 construct up to two additional 200-megawatt units at
21 a new greenfield site near Hankinson, North Dakota.

22 Our proposal is intended to capture the
23 cost savings available from using the existing
24 infrastructure at the Black Dog site. Units in the
25 Red River Valley were the next most cost-effective

1 additions or alternatives we found on our system and
2 were not proposed just because they are in
3 North Dakota.

4 We have filed this ADP now consistent
5 with our commitments to make a filing in
6 North Dakota around the same time we make similar
7 filings in Minnesota. Our proposal in this
8 proceeding before you is the same proposal we
9 submitted to the Minnesota Public Utilities
10 Commission.

11 In the Minnesota process third parties
12 are allowed to propose alternatives to company own
13 -- company-owned proposals, and we're required to
14 analyze all proposals in order to identify the best
15 options for our customers. As a result of our
16 analysis of all the proposals received, we believe
17 that one of two third-party proposals could be a
18 better deal for our customers than the Hankinson
19 units. Both these third-party proposals entail
20 adding a new combustion turbine at an existing site.
21 We have recommended that we negotiate concurrently
22 with those two bidders and ultimately select the
23 lowest-cost outcome, along with the Black Dog
24 Unit 6.

25 The company continues to believe that new

1 additions -- new -- that the addition of new
2 generation in North Dakota can be a cost-effective
3 addition to our system. In this circumstance,
4 however, new generation could not overcome the cost
5 advantage of developing at existing sites that
6 already have important infrastructure in place.

7 If we reach agreement with one of the
8 third-party bidders, we will file for an ADP with
9 this Commission, consistent with our prior
10 commitments. However, if we're unable to reach
11 agreement, our proposal to build CTs at the
12 Hankinson site remains a viable project to pursue;
13 and we are, therefore, holding the development of
14 the Hankinson CTs in reserve.

15 Even as we are taking steps -- these
16 steps today to select resources for our anticipated
17 needs, there continues to be uncertainty around the
18 timing and level of the future need, as well as the
19 best options to meet that need. Our initial
20 forecast of capacity need has now been revised
21 downward to approximately 300 megawatts, as a result
22 of soft -- continuing soft demand growth as well as
23 changing MISO reserve margin calculations.

24 It's possible we may see a further
25 reduction of the forecast of capacity need in the

1 2017 to '19 time frame. In light of this
2 uncertainty, the Commission may consider that now is
3 not the time to decide on this. We could come back
4 in 2014 and 2015 to continue to update the
5 Commission on how that future demand need is
6 developing.

7 At today's hearing we also look forward
8 to addressing the Commission's interest in our
9 development of generation in North Dakota. We
10 appreciate advocacy staff's recognition that our
11 wind proposal and the Hankinson proposal
12 demonstrates our commitment to developing --
13 developing generation in North Dakota. The company
14 devoted considerable time and resources to develop
15 our Hankinson proposal. We continue to believe
16 generation near our North Dakota load centers is
17 viable over time and may become even more cost
18 competitive as new gas and electric transmission
19 infrastructure is added in the Red River Valley
20 area.

21 We also recognize advocacy staff's
22 interest in ensuring generation development in
23 North Dakota for energy security purposes; but it's
24 important to be clear that the transmission system
25 that serves the Fargo, Grand Forks, and Minot areas

1 does provide reliable service to our communities and
2 our customers that we serve. We plan and manage our
3 system to maintain such reliable service. And, for
4 example, the addition of the CapX Fargo line will
5 provide a robust additional source into the region
6 to support reliability.

7 While adding generation in the region
8 intuitively appears to provide a reliability
9 benefit, it is not a panacea. Regional reliability
10 requires robust transmission. For example, the
11 Hankinson site is about 70 miles away from Fargo,
12 and it relies on the 230 kV transmission system --
13 or would rely on that to provide support to the
14 Fargo area.

15 If the Commission would like to explore
16 the reliable -- reliability benefits of local
17 generation resources in North Dakota, a thorough
18 record should be developed to ensure the Commission
19 can make a fully-informed decision, and the record
20 of this proceeding is not sufficient for that
21 purpose.

22 That said, we're very willing to work
23 with staff to explore the development of generation
24 in the region consistent with overall system needs
25 perhaps as part of the settlement of this case.

1 Finally, I'd like to take this
2 opportunity to note that the company's proposal to
3 add 750 megawatts of wind does not affect our
4 proposal in this proceeding. As was discussed at
5 the wind ADP hearing, our wind proposal is to secure
6 a low-cost energy resource. Moving ahead with those
7 wind projects will lock in attractive pricing for
8 energy that, when available, will offset higher
9 marginal cost generation. In contrast, the proposal
10 before us today is intended to meet a capacity need.
11 That is a need for additional system generation that
12 we can bring on line at any moment to meet customer
13 demand.

14 Thank you. And I look forward to your
15 questions.

16 MR. SIMPSER: The witness is available
17 for cross.

18 JUDGE WARD: Mr. Norrell, any questions?

19 MR. NORRELL: Yes, Your Honor. Thank
20 you.

21 CROSS-EXAMINATION

22 BY MR. NORRELL:

23 Q Good morning, Ms. McCarten.

24 A Good morning, Mr. Norrell.

25 Q Could you give us a brief update of where the

1 current status is with -- in -- with the Minnesota
2 competitive acquisition resource process?

3 A I would ask you to -- to direct that question to Jim
4 Alders. He's directly involved in that process, and
5 I am not as up to speed on exactly where that
6 process is. I know we did file comments last
7 Friday. But, beyond that, I think Jim would be the
8 best person to speak to.

9 Q Would the company have any concerns if the
10 Commission, as a result of this hearing or this
11 process, came back to the company with a different
12 recommendation in regards to the size, the type, the
13 timing requirements to meet this need that we're
14 talking about here?

15 A Well, I -- you know, I'm going to -- I would ask you
16 to direct that to Jim Alders. In general I would
17 say that we would very much be interested in the
18 Commission's input on that. That's part of what
19 this process is all about. So we certainly do seek
20 that information through the course of this
21 proceeding, and then the question is how do we
22 stitch together two regulatory processes. But we
23 would want to work with this Commission to -- to try
24 to accomplish that.

25 Q Along the lines of stitching together two regulatory

1 processes, can you give us, from an overall policy
2 standpoint, how would the company go about keeping
3 the Commission informed through the negotiation
4 process that's going to be developing in Minnesota
5 in regards to this docket here as well?

6 A To be clear, to make sure I understand, the
7 negotiation process you're referring to, is that the
8 one that I mentioned about negotiating concurrently
9 with those two third party --

10 Q That would be correct.

11 A Okay. We would want to come up with a process to
12 keep the Commission informed that meets the
13 Commission's needs. So I think we would just --
14 whatever would be appropriate here, we would be more
15 than willing to do that.

16 Q Do you happen to know why -- if the company stated
17 its need was for three combustion turbines -- one of
18 the proposals in Minnesota, I believe it's the
19 Calpine proposal, is for a combined-cycle combustion
20 turbine. If you need simple cycle, why are you
21 looking at combined cycle?

22 A I would direct you to ask that question of Steve
23 Wishart. I believe he would be the right person.

24 Q In the testimony there's a lot of talk about the
25 cost, and you mentioned it as well on the stand.

1 What role, in your opinion, does energy security
2 proximity to load centers, what role does that play
3 in determining the need -- or determining resources
4 to meet need?

5 A Well, I think we start with what does it take to
6 ensure reliable service. And I appreciate
7 Commissioner Christmann's remarks in that regard,
8 and I think that is the very first need that we have
9 to serve is to ensure that we provide reliable
10 service to our customers and how we do that. I
11 think there's many ways of getting to that point.
12 There's not just one solution. So we try to look
13 for the circumstances that achieves that first goal
14 of reliable service in a way that's also cost
15 effective over time and meets, you know, any other
16 requirements.

17 So I don't know that location is like the
18 first decision point. I think it's really how do we
19 achieve reliable service and how do we do so cost
20 effectively.

21 Beyond that, I think perhaps Steve
22 Wishart could -- would be another person that could
23 explore that further with you.

24 MR. NORRELL: I have no further
25 questions. Thank you.

1 JUDGE WARD: Mr. Armstrong, any
2 questions?

3 MR. ARMSTRONG: Yes. Thank you.

4 CROSS-EXAMINATION

5 BY MR. ARMSTRONG:

6 Q I just wanted to follow up on that last question
7 first. As far as the location of the generation,
8 would you at least agree that, all other things
9 being equal, that reliability is better when the
10 generation is closer to its service center?

11 A I'm -- I don't know that I can answer that because
12 I'm just not a system planning engineer. I think it
13 just -- it's such a -- you know, all other things
14 being equal, I suppose it would be.

15 Q Could you just give me in plain English why the
16 company thinks that these projects that we're here
17 for today are prudent?

18 A So our proposal was three combustion turbines, and
19 we felt that these are -- well, it's -- it's a --
20 it's a bit -- it's a bit challenging because the ADP
21 before the Commission is for three projects. The
22 first one, the Black Dog Unit 6 -- we think all of
23 our analysis has confirmed of all the alternatives,
24 not just the ones that the company has proposed, but
25 even other alternatives proposed by other parties,

1 Black Dog Unit 6 is the best option to move forward
2 with first.

3 With respect to the other two projects, I
4 think I would go -- I think they're prudent as -- as
5 proposed. They could be prudent in the future,
6 depending upon how customer demand plays out. But
7 given what I mentioned in my remarks, that customer
8 demand has been changing, in fact, has been reduced,
9 it may be that now is not the time for a decision,
10 an advance determination of prudence on all of
11 these. We could revisit it in the future.

12 So I think from the time we started and
13 the filing that we made that was consistent with our
14 commitments to make this filing here before this
15 Commission at the same time as we make it -- similar
16 findings in Minnesota, we -- we made this filing.

17 Circumstances have shifted some since
18 then. So it may be that acting on all three
19 projects today isn't necessary. Perhaps the
20 Commission would want to revisit how demand is
21 playing out in the future before acting on those.

22 Q In the -- in the legal jargon, what I hear you
23 saying is that maybe the Red River Valley turbines
24 aren't ripe for a decision on prudence yet, aren't
25 ready for one. Is that what you're saying?

1 A I don't know, since I'm not a lawyer, whether I can
2 go there. But I think that, with the change in
3 future -- in our forecast of when customer demand is
4 going to actually materialize and at what level, it
5 may be that we hold these projects and revisit them
6 in the future.

7 Q And then revisit -- but that's -- isn't that what
8 you asked for in the application, though, too, is to
9 build Black Dog and then see where you're at and
10 then maybe build Red River Valley 1 and then see
11 where you're at and then maybe build Red River
12 Valley 2 and see where you're at? Is -- isn't
13 that...

14 A You're correct, we did offer a -- an approach that
15 would allow us to deploy them sort of as needed,
16 which we think is prudent. And what we've heard
17 from this Commission and others is to spend the
18 money when it's needed or to incur the expense.

19 The difficulty here is the ADP before
20 this Commission is for the company-owned proposals.
21 However, as we evaluated all of those relative to
22 other alternatives that could meet our customer
23 need, the -- the two Hankinson units weren't as cost
24 effective as other units. And so to come up with
25 the most cost-effective option to serve our

1 customers, we believe that Black Dog unit plus one
2 of those other power purchase agreements would be
3 the ones to act on at this time.

4 Q Isn't it -- so there's a recognized need for more
5 power in the 2017 to 2019 time frame?

6 A For more demand, yes.

7 Q For more --

8 A Or to meet -- to meet growing demand, yes.

9 Q Isn't it better to own rather than to enter these
10 other agreements for the company?

11 A Well, again, I think that that question is fairly
12 complicated, and it looks at -- it can look at a lot
13 of factors of a mix of ownership or power purchase
14 agreements, what gets good prices for customers,
15 what also serves reliability needs. So I don't know
16 that it's just -- it always depends on the
17 circumstances and the alternatives you're looking
18 at. And in this case we would propose one of those
19 projects would be a company owned. That's the Black
20 Dog Unit 6. And then we could secure lower-cost
21 energy, which we think would be reliable energy --
22 or demand, I should say, from one of those other two
23 power purchase agreements.

24 Q So is -- what I hear you saying is Black Dog 6 is
25 more cost effective in the company's view than the

1 Red River Valley units?

2 A Correct.

3 Q And that's because it's less expensive to build?

4 A I think Greg Ford could answer that question exactly
5 for you. He was the person who was involved in
6 actually developing the cost estimate for the
7 Hankinson units.

8 Q Picking out -- well, I'm going to try and avoid
9 maybe getting into trade secret stuff; but, you
10 know, we can close the hearing if we need to. But
11 can you tell me the difference between the cost in
12 the Black Dog and the Red River Valley units?

13 A I would not be the person to speak to that. So I
14 think that between -- I think Greg Ford would be the
15 person to speak to that. There's two things.
16 There's what's the cost and then what's the result
17 of the full system analysis, which is the Strategist
18 type of analysis that looks at all costs over a long
19 period of time.

20 Q And I'm trying to get into what -- you know, you've
21 got cost, and then you've got the other factors
22 you've talked about. Where does location of the
23 generating facility play in -- play into that
24 equation?

25 A The -- well, again, I think we start with are we

1 providing reliable service? And we believe we are.
2 We believe that the transmission system that serves
3 our communities in North Dakota provides reliable
4 service. Adding generation locally could provide
5 some incremental additional reliability. The
6 question is do you do that at a higher cost if
7 you're already providing reliable service?

8 So I don't think location in and of
9 itself as just a pure thing is a factor. We -- we
10 are looking at are we able to serve reliably and at
11 what cost.

12 Q At least as I -- and maybe this is a better question
13 for Mr. Alders because it comes from the table in
14 his testimony. But as I kind of read the table, the
15 options being considered in the Minnesota
16 proceedings, it looked like it was a relatively
17 minor additional cost for the Red River Valley unit,
18 which may provide additional reliability to that
19 region.

20 How do you -- how do you weigh how much
21 cost is too much for additional reliability?

22 A I think that Steve Wishart could walk through the
23 analysis that shows if you take a deeper dive into
24 the costs, you understand where the cost differences
25 are in early years versus later years, which we

1 think is a relevant piece of information that was
2 part of our decision making, I think, in
3 understanding that the Hankinson units would be more
4 costly than some of the others. So there is a level
5 of detail that Steve Wishart would be the
6 appropriate person to take you to to better answer
7 that question.

8 If I may also add that the -- as I -- as
9 I said in my opening remarks, we recognize the
10 Commission's interest -- advocacy staff's interest
11 in local generation, and we would like to work with
12 the staff and -- and come up with something perhaps
13 in a settlement that could be responsive to that.
14 Perhaps not right today, but sometime over a future
15 period, by which I mean the settlement discussions
16 today. Just I'm kind of being Mr. Haney, but...

17 Q Oh, the -- after 2019, okay, what is the expected
18 use of these projects and need for them? And maybe
19 I can help you out. Okay? As I was reading the
20 testimony, I mean, there was a lot of focus on we
21 need this additional power in 2017 to 2019. And
22 I -- I imagine that these aren't being built just to
23 provide power during that time frame; is that
24 correct?

25 A Correct.

1 Q Okay. So what -- after that are they -- what's kind
2 of the long-term plan, if you will?

3 A Well, I think that the 2017-'19 time period is when
4 we see that the growth in customer demand requires
5 new resources to come on. So that demand level
6 doesn't just fall off after '19. So you continue to
7 keep those resources to meet that customer demand.

8 Q And what's the life of these projects?

9 A I would direct you to Steve Wishart and Greg Ford to
10 speak to the company-owned proposals and some of the
11 PPAs in terms of what the lives of those would be.

12 Q And the other two that are being negotiated in
13 Minnesota, do you know the length of those
14 agreements, what it's likely to be?

15 A I'm not certain, but I think Greg Ford would be the
16 person who could tell you what the likely term of
17 those PPAs would be --

18 MR. ARMSTRONG: That's all the
19 questions --

20 THE WITNESS: -- what was proposed.

21 MR. ARMSTRONG: That's all the questions
22 I have.

23 JUDGE WARD: Okay. Mr. Simpson, any
24 redirect?

25 MR. SIMPSON: Not at this time, Your

1 Honor.

2 JUDGE WARD: Commissioners, any questions
3 for this witness?

4 CHAIRMAN KALK: Thank you -- thank you,
5 Your Honor.

6 EXAMINATION

7 BY CHAIR KALK:

8 Q Thank you, Laura, for your testimony. The -- I'll
9 try to choose my words wisely. The -- or carefully,
10 maybe. The -- just wrap my head around this.
11 You've got a current rate case in front of this
12 Commission with Xcel Energy; correct?

13 A Correct.

14 Q And we have a whole bunch of wind projects that
15 you're asking for ADP in front of this Commission;
16 correct?

17 A Correct.

18 Q And we've got this project that your company filed
19 for an ADP in this cast request?

20 A Yes.

21 Q But now you're telling me that you don't really need
22 all this stuff?

23 A Commissioner, when we filed the ADP, we did it,
24 again, consistent with our commitments to do it
25 basically concurrently with Minnesota. And at the

1 time that -- the proposals that we put together and
2 developed were to respond to an identified capacity
3 need or demand need in the 2017 to '19 time frame.

4 Q Your words said, Laura, that now is not the time to
5 decide. Then why didn't you just withdraw your
6 request?

7 A Since we --

8 Q Or modify it?

9 A Yeah. So -- so we filed --

10 Q Why have this hearing today if you don't want us to
11 do anything?

12 A Well, I'm -- perhaps my words were not well spoken
13 there, Commissioner. I apologize for that. We --
14 the ADP is a process that we committed to, so we're
15 following through on our commitments. Even over
16 time as things change, it could be that -- I mean,
17 it's the Commission's choice. If the Commission
18 wanted to act on these, that's within --

19 Q Okay. Just one --

20 A -- the Commission's --

21 Q -- more --

22 A -- purview.

23 Q -- quick -- and I know this is not the case about
24 this third-party projects, but the -- can you give
25 me a little bit more about what this third-party

1 intervention is? Is it -- are they asking for 8,000
2 solar plants, are they asking for a bunch of wind
3 turbines, or just a -- I mean, what is this -- what
4 is this third-party proposal that -- that has been
5 discussed by you?

6 A Okay. Other parties are able to submit their
7 proposals. There was a proposal to add one party.
8 The one proposal was for a company called Invenergy
9 that proposed to build a new combustion turbine at
10 one of its existing sites and sell the power output
11 to us through a power purchase agreement.

12 Another alternative that was submitted in
13 that process was from a company called Calpine.
14 That was also to build additional units at an
15 existing site and to sell that power to us through a
16 PPA.

17 There were also alternatives that were
18 submitted in the -- in the Minnesota process,
19 including a solar proposal. And I'm not -- I'm not
20 sure if I know all the others.

21 Q So when the company files a request for an ADP for
22 two plants in North Dakota, didn't you flush out
23 some of these other proposals before you'd ever even
24 throw out there the two plants in North Dakota? I
25 mean, it seemed to me that you would do some

1 planning ahead of time before you just say we're
2 going to have two of these in North Dakota; that you
3 would have done -- looked at North Dakota's tax
4 code, that -- that there would be a good reason why
5 you'd already flushed out other alternatives. So
6 that wasn't done; you just said we're just going to
7 build some in North Dakota?

8 A No. We -- we approached it very carefully,
9 Commissioner. We put together the best proposals we
10 could from -- across our system, and that included
11 two proposals -- two units in North Dakota. We
12 submitted our company-owned proposals into this
13 competitive acquisition process. We did not know
14 what other people would submit at what price under
15 what terms.

16 So all of those came in basically at the
17 same time into the Minnesota process. And then we
18 were required to analyze all the proposals that were
19 received. We knew what the cost of our proposals
20 were because we developed them. And then when we
21 looked at the alternatives that were submitted by
22 third parties, we had to go through and evaluate
23 those costs as well and then compare --

24 Q How do you --

25 A -- all of them.

1 Q How do you weigh -- if at 4:00 today we have a
2 special meeting and we approve these ADPs as they
3 were submitted, how does that weigh against a
4 third-party proposal that you've already got an
5 approved decision from another jurisdiction? How do
6 you weight that?

7 A You know, and I -- I might ask Jim Alders to be --
8 to kind of walk through what that process is.

9 Q My next -- so apparently, I mean, if the Commission
10 in North Dakota decision is not weighted heavily or
11 weighted higher, then we have less jurisdiction than
12 the third-party intervening in Minnesota?

13 A I wouldn't say the third party has any jurisdiction.
14 The third party can offer --

15 Q Or --

16 A -- an alternative.

17 Q -- whatever the word is I'm looking for.

18 A Well, they can offer an alternative. And if that
19 alternative provides the best value to customers,
20 then -- excuse me. If our analysis shows that that
21 alternative provides the best alternative to
22 customers or the best value, then we would want to
23 present that information to all of our commissions
24 and say this is why we think that is the case --

25 Q Okay.

1 A -- and hopefully land at the same point.

2 CHAIR KALK: Thank you, Laura.

3 JUDGE WARD: Any questions, Commissioner
4 Christmann?

5 COMMISSIONER CHRISTMANN: Yes, thank you.

6 EXAMINATION

7 BY COMMISSIONER CHRISTMANN:

8 Q The third-party recommendations, or whatever the
9 term is for them, have -- have you evaluated them
10 and determined that you believe that they are a
11 better alternative than the Red River Valley units
12 or have you not got -- is it still too new to have
13 made that decision?

14 A Well, Commissioner, we have taken all of those
15 alternatives through a very rigorous analysis. And
16 Steve Wishart can speak to what that analysis is.
17 But based upon our analysis, we looked at the -- our
18 own company-owned proposals and the alternatives and
19 proposals that came in from third parties. Our
20 judgment is that the best option for our customers
21 would be to build the Black Dog Unit 6 and then to
22 concurrently negotiate with two of those other
23 alternatives to get the best possible price. Both
24 of those looked to be low cost -- lower-cost
25 alternatives to meet our customers' needs than the

1 Hankinson units. And we would propose to go through
2 negotiations to get the best possible price out of
3 those two, perhaps even better the price that --
4 than what we saw with what they proposed in that
5 process.

6 Q So they had a price proposal, but it's not firm; it
7 still has to be negotiated or -- I'm trying to
8 figure out how, when you don't know the price, you
9 know something's a better alternative?

10 A Based upon what they submitted, it appears to be the
11 lower-cost option. We would have to go through
12 negotiation to confirm that, once you kind of work
13 out all of the contractual details that you can't
14 really get into until you actually sit across the
15 table and negotiate, would have to say are they
16 indeed, after all of that, the best cost
17 alternatives to our customers. If they're not, we
18 would not intend to proceed with them. And that's
19 why I mentioned that we would want to keep the
20 Hankinson CT units in reserve, in case those
21 negotiations don't pan out or lead us to a point
22 where they're really not the most cost effective
23 option for our customers after the Unit 6 Black Dog.

24 Q When you originally did an RFP for additional power,
25 there were many suggestions -- wind, solar, one

1 related to a coal company -- and you narrowed it
2 down basically to about four wind farms; correct?

3 A I'm sorry, Commissioner, I'm not following you. Are
4 you speaking to the RFP that we did for the wind
5 resources --

6 Q Yes.

7 A -- or --

8 Q Yes.

9 A -- that began in February?

10 Q Yes.

11 A Which is separate from the alternatives that came
12 in to this process.

13 Q But you didn't -- as I recall, you didn't do an RFP
14 for wind resources; you did an RFP for additional
15 generation --

16 A Commissioner --

17 Q -- regardless of source, was it not?

18 A Commissioner, in the wind -- earlier this year we
19 did a request for proposals for wind projects only.
20 With this competitive acquisition process, there
21 wasn't an RFP issued, but there was a notice that
22 was -- a public notice that said, if other parties
23 want to submit proposals to meet this identified
24 demand or capacity need for Xcel Energy in the
25 2017-'19 time frame, you may do so on --

1 Q When did that go out?

2 A I'm not sure. I think that Jim Alders could speak
3 to that. Sometime earlier this year.

4 Q Okay.

5 A Several months ago. And --

6 Q And --

7 A And that would have been whatever proposals --
8 within sort of the timing and type of need that was
9 identified, people could submit proposals.

10 Q And the two third-party proposals that have come to
11 light now in the Minnesota ADP cases, were those
12 submitted back then as part of that process?

13 A Those two alternatives were submitted as part of the
14 competitive acquisition process, once that was
15 noticed in that -- that that process was open and
16 submit -- and receiving alternative proposals.
17 Those came in at that time. And, again, I'm
18 probably getting beyond my knowledge of the exact
19 process, and Jim Alders could for sure answer
20 this -- your questions as well.

21 COMMISSIONER CHRISTMANN: Okay. I'll get
22 into more detail on that. Thank you.

23 JUDGE WARD: Commissioner Fedorchak.

24 EXAMINATION

25 BY COMMISSIONER FEDORCHAK:

1 Q Thank you, Laura.

2 A Good morning.

3 Q So tell me what -- what it really is the company's
4 seeking today. Via its original application seeks
5 for ADP on the proposal for Black Dog and the two
6 Red River units, and then the November 14th filing
7 goes into a lot of detail about this competitive
8 acquisition process and how all the different
9 proposals shake out and points to, you know, a very
10 modest cost difference between Black Dog and
11 Red River Valley and the other two top proposals,
12 in -- in -- Invenergy and Calpine with the Black
13 Dog.

14 So are you seeking approval from us on
15 Black Dog and the alternative proposals or the Black
16 Dog and Red River Valley?

17 A Commissioner, this is a very confusing process. I
18 appreciate this. What's before you is just action
19 on the Black Dog Unit 6 and the two Hankinson units.
20 We are not asking you at this time to act on those
21 third-party projects. We would bring those back to
22 you. If we proceeded with the negotiation and found
23 that one of those does meet our customers' needs, we
24 would bring that back to you.

25 Q Okay. So then help me understand the Minnesota

1 process. Their eval -- the Minnesota Commission is
2 evaluating the competitive acquisition proposals,
3 right, this CAP; and they will then make a decision
4 saying here's what we think you guys need to do or
5 here's what we approve you to do or direct you to
6 do? What will they be deciding?

7 A Commissioner, I would ask that those questions go to
8 Jim Alders. He's very --

9 Q Okay.

10 A -- familiar with the process. So that I don't
11 create confusion by not being fully responsive.

12 Q Okay. Then -- and maybe this should go to Jim too,
13 but I'll ask you to help me refresh my memory on how
14 all this fits together, because the -- the wind
15 proposals that are part of a different proceeding,
16 they were to address a certain need, and I can't
17 remember what it was; and this is to address
18 capacity need for 2017 to 2019. So help me
19 understand what those other -- the wind proposals
20 are doing. What was that intended to address?

21 A Okay. Commissioner, I would say that the wind
22 proposals don't affect a need; they represent an
23 opportunity. We -- because we saw the market for
24 wind projects really kind of driving costs very low,
25 we decided to test whether there would be projects

1 out there, wind projects, that if we secured them,
2 would help lower our cost to serve our customers.
3 So the wind projects were an opportunity. We did
4 find that there were several projects, as you
5 recall, up to 750 megawatts that would lower our
6 customers' costs because they would provide energy
7 to our customers and offset higher marginal cost
8 generation. So it wasn't a need; it was an
9 opportunity to help lower customers' costs.

10 Before you is a proposal to address a
11 need. The need is to have power plants built and
12 ready to turn on when the customer demand is such
13 that it's needed. So it -- two different types of
14 things, energy and demand.

15 Q Okay. But they aren't entirely unrelated, if I'm
16 understanding this correctly, because the wind -- a
17 lot of this need is reserve margin directed by
18 MISO -- or some of it. What we're addressing today
19 is to make sure you have the right reserve margin;
20 right? And MISO will give you, what, 13 percent for
21 all that wind? So does that -- do those wind
22 proposals somewhat decrease your need for the
23 2017-2019, the capacity need, to the extent that
24 MISO will allow you to account a percentage of the
25 wind?

1 A Commissioner, my understanding is it does not -- the
2 wind does not, because even if we get capacity -- we
3 expect to get capacity accreditation for that wind
4 after this time period, that it would come, but it
5 would be later than 2019.

6 COMMISSIONER FEDORCHAK: I see. Okay. I
7 think that's all my questions. Thank you.

8 JUDGE WARD: Commissioner Christmann.

9 COMMISSIONER CHRISTMANN: Thanks, Your
10 Honor.

11 FURTHER EXAMINATION

12 BY COMMISSIONER CHRISTMANN:

13 Q What's in 2017 to '19 that's so special? You know,
14 is it just kicking the can down the road, that the
15 economy in your region -- not in North Dakota, but
16 in your region is bad right now, no reason to see
17 it's going to be real good next year or the next
18 year, but we hope by '17 to '19 it's better? Or is
19 there something really definable that causes us --
20 causes you to -- to have this recognized need in
21 that time frame?

22 A Commissioner, it's part of how we try to forecast
23 what the future is so that we can take steps to be
24 ready to meet our customers' needs. And we have,
25 you know, long lead times. Typically with natural

1 gas combustion turbines the lead times are probably
2 the shortest of any infrastructure, you know, that
3 we add to our system. But it's just part of how we
4 go about our business, is we're always forecasting
5 out over time, 5 years, 10 years, 15, 20 years, so
6 that that -- that forecast tells us decisions we
7 should start making today or actions we should start
8 taking today.

9 And so what's actually driving that
10 capac -- that demand or that capacity need in '17
11 and '19, my understanding is it's -- although the
12 economy's been sort of soft, we do see growth
13 continuing. The effect of the MISO reserve margins,
14 what's required there, plays in there as well. But
15 I think it is just, you know, steady sort of growth.

16 It's lower than we thought it would be if
17 you -- even a year ago that has dropped further
18 because of economic conditions and some of the
19 uncertainty around how MISO will calculate --
20 calculate the reserve margin. But it's what -- it's
21 our best view of what our customers' needs or our
22 system needs will be in that time frame.

23 COMMISSIONER FEDORCHAK: I have a
24 follow-up to that.

25 JUDGE WARD: Commissioner Fedorchak.

FURTHER EXAMINATION

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BY COMMISSIONER FEDORCHAK:

Q I was going to ask this to Steve or Jim, but I'll throw it out here for you. I'm looking at your resource need assessment in the chart that's included. I think it's in Jim Alders' supplemental testimony. And he -- it shows a growth in your peak projected from 2017 to 2019. Do you break that down as to who -- where that growth is coming from? I'd be curious if North Dakota is driving that growth. Do you break down where the load growth is?

A I think that is a question for Jim Alders.

Q Okay.

A Yeah. Yeah.

COMMISSIONER FEDORCHAK: Okay. We'll ask him. All righty.

JUDGE WARD: Okay. Mr. Simpser, anything else you want to follow up on with this witness before she steps down?

MR. SIMPSEY: No, Your Honor.

JUDGE WARD: Mr. Armstrong, I'll give you one more.

Mr. Norrell, do you have something?

MR. NORRELL: Yes, Your Honor. I just --

JUDGE WARD: Okay. Why don't you go

1 first.

2 MR. NORRELL: -- a question.

3 FURTHER CROSS-EXAMINATION

4 BY MR. NORRELL:

5 Q Ms. McCarten, you had made a comment about this may
6 be prudent in the future. If the company is before
7 the Commission today saying this is prudent -- this
8 is a prudent acquisition for 2017 to 2019, could you
9 say it would also be prudent in 2023, '25, 10 years
10 down the road?

11 A I couldn't say that, because I don't know what the
12 situation will be that far down the road.

13 MR. NORRELL: I have no further
14 questions.

15 JUDGE WARD: Mr. Armstrong?

16 MR. ARMSTRONG: Just a couple.

17 FURTHER CROSS-EXAMINATION

18 BY MR. ARMSTRONG:

19 Q I want to make sure I understand this correctly
20 because, as I understand it, there's -- with this
21 Minnesota process, right now you're in the process
22 of negotiating two agreements plus Black Dog to meet
23 your need?

24 A We -- I would -- I don't think we've begun the
25 negotiations. We have proposed to enter into

1 concurrent negotiations.

2 Q That's the current plan of the first option? I
3 mean, that's the current plan of what your first
4 next step is; and then, if you can't negotiate those
5 agreements, then Red River Valley 1 and Red River
6 Valley 2 come back on the table?

7 A Yeah. Generally speaking, yes.

8 Q Okay. And maybe I'm oversimplifying it, but what I
9 kind of hear you saying is Red River Valley 1 and
10 Red River Valley 2 are only considered prudent if we
11 can't negotiate good enough agreements on -- with
12 the other, Calpine Cannon Falls and the other one
13 that -- am I wrong there?

14 A Well, I believe that -- and I'm not sure what the
15 right words are. But based upon the information we
16 received from all of those bidders, we believe that
17 the best cost options for our customers are Black
18 Dog Unit 6 and to negotiate one of those other two
19 PPAs. If the negotiation process on those other two
20 PPAs shows we can't close the deal or it costs more
21 than we thought, then my understanding is the next
22 most cost-effective option is a Hankinson unit.

23 Q But if you do close the deal on those other PPAs,
24 are Red River Valley 1 and 2 just off the table as
25 far as the company's concerned?

1 A We would say they wouldn't be needed in the '17 to
2 '19 time frame, wouldn't be needed to meet that --
3 that identified need.

4 Q But they may be needed sometime in the future?

5 A They're very good proposals. And as I said at the
6 beginning, we would be very willing to work with
7 staff and with the Commission to figure out how to
8 hold those and -- and look at a future development.

9 MR. ARMSTRONG: That's all I had.

10 JUDGE WARD: Commissioner Fedorchak.

11 COMMISSIONER FEDORCHAK: You mean
12 Ms. Fedorchak.

13 UNIDENTIFIED SPEAKER: I was waiting for
14 that.

15 COMMISSIONER FEDORCHAK: I hoped.

16 (Inaudible.)

17 JUDGE WARD: I said Commissioner
18 Fedorchak.

19 COMMISSIONER FEDORCHAK: Oh, I heard
20 mister. Okay. Oh, I lost my train of thought here.
21 What I was going to ask?

22 FURTHER EXAMINATION

23 BY COMMISSIONER FEDORCHAK:

24 Q No, I was talk -- I asked this earlier and I kind of
25 got sidetracked. Tell me what the Minnesota

1 Commission will be doing and how they're -- what
2 they ultimately do will influence the company's
3 choice. They're -- they're acting on this or you
4 have the CAP projects in front of them and they're
5 reviewing them. What will they -- what's their next
6 move?

7 A It's my understanding that we will -- their next
8 move is to direct us on -- to react to the comments
9 the parties have filed. Xcel Energy filed comments
10 saying we propose to negotiate concurrently with one
11 of -- and choose one of these two PPAs if it -- if
12 it becomes good. So we were -- and other parties
13 have submitted comments saying different things. So
14 the Commission's got to sort through the comments
15 that they've received, and the next action is direct
16 us on what to do with all the alternatives that are
17 before us and to respond to our recommendation.

18 I think it -- kind of carrying through
19 what the rest of that process is, Jim Alders could
20 walk you through that very well.

21 Q But they will make your choice for you?

22 A They -- they will approve -- they -- they do have an
23 approval authority, yes.

24 Q So if they approve the two PPAs and Black Dog, is
25 this a done deal? I mean, is there any

1 reconsidering, saying, well, wait a minute, the Red
2 River Valley is only \$2.2 million less and
3 there's -- may be some other factors, perhaps the
4 fact I'd like to know if North Dakota is kind of
5 driving the load growth and maybe it makes more
6 sense? Is there any of that discussion happening
7 with them or is that over and done and they'll --
8 they'll make their decision, and then -- then you
9 guys are kind of obligated at that point?

10 A I do think that Jim Alders would be the person --

11 Q Okay.

12 A -- to walk through that, yes.

13 COMMISSIONER FEDORCHAK: All right.

14 Okay. Thank you.

15 JUDGE WARD: Ms. McCarten, you may step
16 down.

17 THE WITNESS: Thank you, Your Honor.

18 (Witness excused.)

19 JUDGE WARD: Mr. Simpser, I guess I'd
20 like to keep moving with the next witness and not
21 take a break until we're done with that one, if it's
22 okay with everybody? Okay.

23 MR. SIMPSEY: The company calls Jim
24 Alders.

25 JUDGE WARD: The man with the answers to

1 the questions.

2 COMMISSIONER FEDORCHAK: I hope we can
3 remember all of them.

4 MR. SIMPSEY: Good morning, Mr. Alders.
5 How are you?

6 THE WITNESS: Good. Thank you.

7 JUDGE WARD: You may proceed.

8 MR. SIMPSEY: Oh. Do you want to swear
9 him in?

10 JUDGE WARD: Oh, I'm sorry.

11 UNIDENTIFIED SPEAKER: He's so darn
12 honest.

13 Mr. Alders, you were here when I gave the
14 admonition about perjury, so I'll just remind you
15 that perjury is a Class C felony. Class C felony is
16 subject to a maximum penalty of five years
17 imprisonment, a fine of \$5,000, or both may be
18 imposed.

19 Having been advised of the penalty for
20 perjury, please raise your right hand so I can
21 administer the oath.

22 JIM ALDERS,

23 after having been first duly sworn, was
24 examined and testified on his oath as follows:

25 JUDGE WARD: Thank you.

1 Mr. Simpson.

2 DIRECT EXAMINATION

3 BY MR. SIMPSON:

4 Q Mr. Alders, you've been involved in both the
5 preparation of the ADP that we're here discussing
6 today as well as the Minnesota competitive
7 acquisition process?

8 A I have.

9 Q And I think there -- if you could please take a few
10 moments and help describe the -- the Minnesota
11 process, where the company is in the Minnesota
12 process, and how the company is working to try to
13 fit together the North Dakota process that we're
14 here today discussing and the Minnesota process.

15 A The -- some time ago, in 2007 or '8, the Minnesota
16 Commission established a -- what's been called a
17 competitive acquisition process. The Minnesota
18 Commission requires that we go through this process
19 instead of issuing RFPs when we identify the need
20 for -- for new generation.

21 The first step in the process that's
22 outlined in the Commission order is that they issue
23 a resource plan order that identifies the potential
24 need for new power and new generation. And they did
25 that in November of 2012 and then a follow-up order

1 in March of 2013.

2 The next step in that process is to issue
3 notice letting any third-party independent power
4 provider know that they -- they can compete to
5 construct and operate that new generation. That
6 notice was issued, as I recall, in late February or
7 early March. The notice let third-party independent
8 power producers know that they could file their
9 proposal, which is very much like a bid, by
10 April 15th. And there were four parties that
11 submitted proposals on April 15th; Calpine proposing
12 the build-out of their existing combined-cycle
13 facility in Mankato; Invenergy proposing to add a
14 combustion turbine at their facility in Cannon Falls
15 or to build a new plant near Hampton, Minnesota;
16 Geronimo Energy proposed 100 megawatts of solar
17 power spread across our system at 20 sites; Great
18 River Energy proposed capacity credits. They have
19 excess capacity during this time frame, and they
20 proposed to offer capacity credits to meet the
21 reserve requirements and resource requirements that
22 we have.

23 The process also requires then that if
24 the utility wants to build that it file its proposal
25 at the same time. And as you can start to see, the

1 reason for this process is so that the utility
2 doesn't have the advantage of seeing competing
3 proposals when it files. And another purpose is to
4 set a process in place where the utility isn't
5 evaluating and making decisions about competing
6 proposals from others. Instead, the process
7 contemplates that all prospective developers bring
8 their proposal to the Minnesota Commission.

9 We go through a contested case proceeding
10 to evaluate and hear from all the parties on which
11 proposals they think are best, and at the end of
12 that process the Minnesota Commission selects a
13 winner. We have not gotten to that point yet.

14 We have gone through the contested case
15 process where the part -- competing parties have
16 made their case for why their projects should be
17 chosen. As Laura mentioned, our testimony in that
18 contested case hearing was that we thought either
19 Calpine or Invenergy, along with Black Dog 6, would
20 be the most economical and most cost effective set
21 of resources for our customers.

22 The hearing has been completed. The
23 parties are into the post-hearing briefs.
24 Post-hearing briefs or initial set of comments were
25 filed last Friday. Rebuttal briefs will be filed

1 next week, Friday, December 6th. All of this takes
2 place in front of a hearing examiner who prepares a
3 report summarizing the testimony and making a
4 recommendation to the Minnesota Commission. His
5 report will be issued right around New Years. Then
6 the matter goes to the Commission for a decision on
7 which of these five projects or which combination of
8 these five projects that have been offered should be
9 selected.

10 Once that happens, then there's the
11 negotiation phase. If the Commission says, yes, go
12 ahead and engage in a power purchase agreement with
13 a third party, then the utility is obligated to
14 negotiate a contract for a power purchase from that
15 third-party developer. The Commission's order
16 specifies four months to get that done. And at the
17 end of that four months, the utility is supposed to
18 bring back that power purchase agreement for
19 Minnesota Commission approval.

20 In this case, because the Calpine and
21 Invenergy proposals were very close and because we
22 felt that they -- the ultimate outcome could be
23 affected by the terms that get negotiated, we've
24 proposed, as Laura outlined, to bring both the
25 Calpine and Invenergy projects to negotiation,

1 negotiate contracts with both of them during that --
2 that process, and then have the Minnesota Commission
3 make a final selection between the two, along with
4 Black Dog 6, at the end of the process.

5 I hope that helps for starters, and I'd
6 be glad to expand.

7 JUDGE WARD: Before you go on,
8 Mr. Simpson, do you have NSP Exhibit 5 ready now
9 to --

10 MR. SIMPSON: We do.

11 JUDGE WARD: -- provide? Thank you.

12 COMMISSIONER FEDORCHAK: Is this new?

13 MR. SIMPSON: It is the public version of
14 Jim's testimony.

15 COMMISSIONER FEDORCHAK: Okay. So we
16 have this.

17 MR. SIMPSON: Your Honor, if it's okay
18 with the other parties, I would propose to give the
19 other parties an opportunity to ask questions about
20 the Minnesota process before we move on to other
21 topics.

22 JUDGE WARD: Okay. Let's do it that way.
23 Mr. Norrell.

24 MR. NORRELL: Thank you.

25 CROSS-EXAMINATION

1 BY MR. NORRELL:

2 Q Could you just again -- I think you briefly touched
3 on it. Could you just tell us where we're currently
4 at in the -- in the process?

5 A We've completed the formal contested case hearings
6 in the matter and are going through the briefing
7 stage where the parties are making recommendations
8 to the hearing examiner. The matter has not gotten
9 to the Minnesota Commission yet.

10 MR. NORRELL: Thank you.

11 JUDGE WARD: Mr. Armstrong?

12 MR. ARMSTRONG: I'll reserve my questions
13 till he's done with his other testimony.

14 JUDGE WARD: Okay. Chairman Kalk?

15 CHAIRMAN KALK: No, Your Honor.

16 JUDGE WARD: Commissioner Christmann?

17 COMMISSIONER CHRISTMANN: Your Honor.

18 EXAMINATION

19 BY COMMISSIONER CHRISTMANN:

20 Q When the Minnesota state government, as you say,
21 picks the winners, do they take into consideration
22 like economic development values or environmental
23 issues or anything like that?

24 A Commissioner, yes, they do. The process is designed
25 around Minnesota's certificate of need rules.

1 Q Okay. So then, really, by allowing this process
2 that you've laid out where Minnesota government
3 picks the winners, it's being done really in
4 violation of North Dakota law?

5 A I'm not qualified to respond. I -- whether it is or
6 is not in violation of North Dakota law. It's --
7 it's the Minnesota process for acquiring resources
8 in -- affecting customers in the state. As a
9 multistate utility, we're in this difficult spot
10 where we have to try and harmonize the requirements
11 of all of our jurisdictions.

12 COMMISSIONER CHRISTMANN: Thank you.

13 JUDGE WARD: Madam Commissioner
14 Fedorchak.

15 COMMISSIONER FEDORCHAK: Thank you.

16 EXAMINATION

17 BY COMMISSIONER FEDORCHAK:

18 Q I hope this doesn't get off track, and if you want
19 to wait and respond later. But since you're talking
20 about the Minnesota process, why didn't the company
21 advocate more for the Red River Valley, your
22 original proposal?

23 A I think Steve Wishart can give you a lot more detail
24 showing you how the Red River Valley units compared
25 from a cost perspective. At the end of the day it

1 was primarily the issue of -- of cost -- relative
2 cost to the proposals from the third parties
3 compared to the Red River Valley units. And we
4 could keep our customers' costs lower by selecting
5 those -- one of those projects, if indeed the power
6 purchase agreement is consistent with their bid.

7 Q Hum. Even at 2.2 million? And maybe Steve's the
8 one to talk about the other potential benefits of
9 the North Dakota base generation, but it's
10 disappointing to me that with the cost so close and
11 you know the interests that this state has in having
12 the generation and the need close to our demand load
13 centers that the company didn't advocate more
14 strongly with the Minnesota Commission for your
15 original proposal, which I think you probably could
16 have found some extra benefits that you could have
17 used on the Minnesota side to advocate for that, and
18 I'm sure there's plenty of other people advocating
19 the opposite way in Minnesota.

20 A Thanks to you, Commissioner. I appreciate that
21 feedback. One of the things you'll hear from Steve
22 is that that close comparison between the Hankinson
23 units and the other alternatives relied heavily on
24 assumptions about what the cost of gas and the cost
25 of energy are going to be 15 or 20 years from now.

1 And so it was a more uncertain outcome compared to
2 what we know about what the cost difference will be
3 in the '19 to '20 time frame. And so not only do
4 you look at the result of that Strategist model
5 which takes a 20- or 30-year view, but you also need
6 to take a look at how confident you are in some of
7 the results that that model is giving you. And
8 Steve can give you more on that and show you some
9 of the cost differences that were much higher than
10 2 million in the early years.

11 Q But didn't the other proposals rely on gas
12 predictions as well?

13 A They do.

14 Q Were those somehow more secure than the ones for the
15 North Dakota plants, the prices included for the gas
16 in the Calpine and Invergy -- Invenergy proposal?

17 A They do, but the -- the model, as I understand it,
18 also shows some potential benefits in earlier years.
19 And that was a judgment call on our part, you're
20 correct.

21 COMMISSIONER FEDORCHAK: Okay. All
22 right.

23 JUDGE WARD: Okay. Mr. Simpson, you want
24 to proceed with the rest of the testimony?

25 MR. SIMPSON: Sure. Thank you, Your

1 Honor.

2 FURTHER DIRECT EXAMINATION

3 BY MR. SIMPSON:

4 Q Mr. Alders, you've mentioned that the Minnesota
5 process is built around the certificate of need
6 process in Minnesota. I just -- the company is
7 committed to filing ADPs. And I was wondering if
8 you could walk through why and how the company's
9 proposal to this Commission was for the three CTs,
10 yet the Minnesota process is moving in a different
11 direction?

12 A It's -- it's the issue of timing. Our commitment to
13 the North Dakota Commission has been to file ADP
14 applications at the same time that we're filing for
15 approvals from the Minnesota Commission so that we
16 can not only work with our north -- our Minnesota
17 Commission, but we can also get feedback from --
18 from this Commission. And when you file both at the
19 same time at the front end of the process, you can't
20 anticipate what some of the outcomes of those
21 processes might be. And so we're in this kind of
22 chicken-and-egg situation.

23 Q And consistent with the company's commitments,
24 should it -- should it deviate from its proposals to
25 build the three CTs, it would come back to this

1 Commission and seek approvals for some other
2 alternative proposals?

3 A Correct. If -- if the outcome of the competitive
4 acquisition process is the Calpine or Invenergy
5 proposal that would fit within our ADP commitment to
6 the -- to the Commission here and -- we'd be back
7 with those proposals in an ADP proceeding.

8 Q And so that means the Commission would have another
9 opportunity to review how the company looks forward
10 with its resources?

11 A Correct.

12 Q One more question before moving off of the Minnesota
13 process. And certainly you've recognized in both
14 this process and in the Minnesota process the at
15 least qualitative reliability benefits that building
16 generation can have in North Dakota. I'm wondering
17 if you can just help describe how you've -- how
18 you've mentioned those issues and describe those
19 issues to the Minnesota Commission and -- and any
20 other information regarding that as part of the
21 Minnesota process?

22 A The Minnesota Commission received our proposal back
23 on April 15th. And as part of that proposal, we
24 provided information, both qualitative and
25 quantitative information, with regard to all three

1 of the combustion turbine units we proposed. And we
2 made the same kinds of arguments for
3 qualitatively-enhanced reliability associated with
4 bringing generation closer to load centers. In that
5 proceeding in Minnesota, we made those same sorts of
6 arguments as we've made in our ADP application here.

7 It's -- it's certainly not a panacea to
8 have generation close to our load centers. The
9 system depends heavily on the transmission network
10 throughout our region. It is true we do not -- we
11 have generation in the vicinity of load centers in
12 other parts of our region and not in the Red River
13 Valley; but, nonetheless, adding generation to the
14 Red River Valley intuitively increases or enhances
15 reliability, but still depends heavily on the
16 transmission system to ensure that you have
17 redundant sources of power to serve load.

18 The Hankinson -- when we were first
19 looking at options for North Dakota generation and
20 comparing them to other places on our system, we
21 explored doing so in the -- right in the Fargo area,
22 but that required a long gas pipeline extension that
23 would have cost something like 20- to \$30 million,
24 making a Red River Valley proposal that much less
25 competitive.

1 And so as we looked around, the best
2 place we could find that was an intersection of gas
3 and trans -- transmission infrastructure was near
4 Hankinson; and that was a much more economical,
5 cost-effective proposal as the result. Downside, of
6 course, is Hankinson's about 70 miles from our Fargo
7 load center; and so even Hankinson relies on the 230
8 kV transmission system in the Red River Valley to --
9 to export its power to our system. And in the event
10 of an outage, it would be at the end of a long 230
11 kV extension cord before it could get power to the
12 Fargo and Grand Forks area.

13 MR. SIMPSON: I have nothing further,
14 Your Honor, reserving the right to redirect.

15 JUDGE WARD: Mr. Norrell.

16 MR. NORRELL: Thank you very much, Your
17 Honor.

18 FURTHER CROSS-EXAMINATION

19 BY MR. NORRELL:

20 Q Good morning, Mr. Alders.

21 A Morning.

22 Q I have just a couple questions to start off with
23 about your testimony. On page 4 of your testimony,
24 which is Exhibit 5, you had stated that Calpine's
25 proposal is to expand its existing energy center --

1 existing Mankato Energy Center from a single
2 combustion turbine to a combined-cycle facility. Is
3 the Mankato Energy Center currently a combined-cycle
4 facility?

5 A Yes, it is.

6 Q And so this would be adding a second combined-cycle
7 turbine?

8 A The Mankato Energy Center was originally designed as
9 a -- as an expandable facility. They sized the heat
10 recovery steam generator and some of the other
11 equipment so that they could expand the facility at
12 minimum cost. And so they're not proposing to add a
13 separate new combined-cycle facility; they are
14 proposing to add combustion turbines and, I think,
15 steam gen -- steam turbines to take full advantage
16 of the rest of the equipment at the site.

17 Mr. Ford can give you a much better
18 description of what that actually is.

19 Q Okay. And just to clarify too, the project that the
20 company is negotiating with Invenergy, is that only
21 the Cannon Falls proposal or is that Hampton as
22 well?

23 A Our proposal is to negotiate for the second
24 150-megawatt unit at Cannon Falls with Invenergy.

25 Q Do you happen to know what the proposed in-service

1 dates are for the Calpine and Invenergy projects as
2 a (inaudible)?

3 A Yes. The proposal offered by Calpine is for a 2017
4 in-service date. The proposal from Invenergy is for
5 a 2016 in-service date. However, both parties have
6 indicated willingness to discuss in-service dates as
7 part of negotiation.

8 Q What would the proposed in-service date be for Black
9 Dog -- Black Dog 6, I should say?

10 A In our original proposal we provided the
11 flexibility. We said we could put the unit in
12 service in '17, '18, or '19 and suggested that the
13 in-service date should be selected based on the best
14 combination of resources that -- that minimized
15 cost.

16 And so in evaluating proposals, we found
17 the best combination so far to be putting Invenergy
18 or Calpine in service in that '16-'17 time frame and
19 then putting Black Dog in service either '18 or '19.

20 Q Do you happen to know how long the term of the PPAs
21 that are proposed by Calpine and Invenergy?

22 A I believe they are 20 years, but Steve Wishart could
23 confirm.

24 Q And there's no concerns over the variability of gas
25 prices over the length of those contracts, but there

1 are with Hankinson?

2 A I think there's (sic) always important to consider
3 the risk of gas prices in the future not being what
4 current forecasts project. It's not so much
5 variability as it is how accurate are our forecasts
6 today about what might happen 10 or 15 or 20 years
7 from now. The analysis -- as I understand it, and
8 Steve Wishart can give you more detail, the analysis
9 of the Black Dog -- or, I'm sorry, of the Hankinson
10 units relies heavily on the out-years of the
11 analysis. The analysis of the two proposals that
12 are competing with it less so.

13 Q Do you know how long the expected life would be of
14 the proposed CTs, of all three of them?

15 A Typically it's 25 or 30 years, from a depreciation
16 financial perspective. The units, depending on how
17 they perform and how they are maintained, may be
18 able to operate longer.

19 Q You brought up financial issues and -- or from a
20 financial standpoint, and it jogged my memory here.
21 In Mr. Wishart's testimony, which was provided as a
22 schedule to your testimony in North Dakota -- and
23 I'm talking his Minnesota testimony. I apologize.
24 And this might be more appropriate for Mr. Wishart.
25 But there's a concern addressed with the -- with

1 what would be termed a capital lease and that -- how
2 that could adversely affect customers. Are you
3 familiar with that at all? Can you address that
4 issue?

5 A I am generally familiar with the issue. Projects
6 like this de -- like those offered by these third
7 parties, Invenergy or Calpine, depend heavily on the
8 power purchase agreement that they enter into with
9 the utility in order to be -- for the project to be
10 financed. And so in many respects they rely on the
11 utility's balance sheet as -- to back whatever
12 financing they need to do. And as I understand it,
13 accounting rules, as the result, require that major
14 power plant -- or major PPAs like would be in this
15 case need to be recognized as leases under some
16 circumstances. And the circumstances have to --
17 have to do with how much control the utility has
18 over the plant, to what extent we're purchasing
19 energy, to what extent we're purchasing capacity,
20 and several other factors that I -- I don't
21 understand the detail around. And if it's
22 category -- categorized as a capital lease, the PPA
23 is recognized as debt to the utility, which changes
24 our -- our capital structure, which has the
25 potential to create costs for customers if the cost

1 of our debt goes up.

2 And so we -- we look very closely at the
3 capital lease issue in negotiation with other util
4 -- other independent power suppliers, and we try and
5 structure that PPA so that we don't have that kind
6 of problem.

7 Q What would be some of the triggers for capital
8 lease?

9 A I'm -- I don't know the details of what those
10 triggers actually are.

11 Q Would Mr. Wishart? Or is there another witness who
12 could?

13 A Steve might be able to help you a little more than I
14 can. But if this is a significant issue, we can get
15 some of our finance people to get you information.

16 Q I think the concern would be is -- I guess the
17 question is, even though it might look cheaper on
18 paper, could it end up hurting customers in the long
19 run because they're paying more for it?

20 A That potential problem exists. We've been
21 successful in structuring PPAs to avoid the problem
22 in the past. But that's one of the reasons we are
23 recommending that both Calpine and Invenergy go to
24 negotiation before Minnesota makes a final
25 selection; because this capital lease, if we can't

1 overcome it, could have a significant affect on
2 the -- on the PPAs.

3 Q On page 7 of your testimony, which again is
4 Exhibit 5, it shows a need of approximately
5 307 megawatts in 2019. On page 9 of your testimony,
6 there's another table that shows kind of all the
7 projects compared. And it looks like the
8 Invenergy/Black Dog project would be about
9 358 megawatts of capacity, and the Calpine and Black
10 Dog combined would be 486 megawatts. Is it possible
11 that the outcome from this negotiation leads to too
12 much capacity?

13 A Well, anytime you add generation to your system, it
14 comes in increments associated with the size of the
15 generators. And so you're never going to perfectly
16 match available unit sizes of generators to
17 307 megawatts. The incremental addition of
18 generation is lumpy in large increments. Typically
19 the economies of scale apply to generation, and it's
20 the size of the units help keep the cost of energy
21 from those units lower than smaller units.

22 And so, yes, it -- it's possible that we
23 will have more generation than would be required by
24 demand and reserve requirements, but the good news
25 is you'll just have a more robust generation system

1 that can respond to circumstances better than having
2 less generation. It's not a matter of having too
3 much; it's a matter of finding the most cost
4 effective way to meet the threshold, even if by
5 acquiring additional generation you're above that
6 threshold.

7 Q On -- in both your testimony and in Mr. Wishart's
8 testimony from the Minnesota case that was provided
9 as a schedule to yours, there's discussion about the
10 MISO reserve margin changing; that there could -- it
11 looks like it may reduce the company's need to only
12 26 megawatts by 2019. Can you give us any odds as
13 to how much confidence you would place on whether or
14 not MISO's going to change this or what -- what are
15 we looking at there?

16 A I believe Mr. Wishart can get into a lot more
17 detail. Let me just say that I -- I think the
18 reserve margin calculation is in flux. And based on
19 what we see today, it's probably going to be lower
20 than what we anticipated going into this process.
21 But you can't count on that. When you're in the
22 business of providing electricity to customers,
23 you've got to be in a position to meet demand
24 regardless. And you can't store the electricity, at
25 least not cost effectively. And it's an

1 instantaneous demand, so you've got to be in a
2 position to meet customers' needs. So that causes
3 us to be very cautious and conservative when it
4 comes to adding resources.

5 Now, the flip side of the coin is can we
6 deploy generation -- can we line -- first of all,
7 can we line up generation to meet that 300 or so
8 megawatt need? But then on the flip side of that,
9 can we do it in a way that we can delay some of that
10 generation if new information indicates that we
11 really don't need it? And the only reason we do
12 that is we can save our customers some money by
13 deferring major capital commitments a year or two.
14 So it's very advantageous to customers to do that,
15 as long as we can maintain reliability of the
16 generation to serve the entire system.

17 So it's a balancing act. That's why
18 we've made -- put together a proposal that meets the
19 anticipated 300-megawatt need; at the same time
20 we've strongly recommended that we may -- that we
21 include some flexibility in any power purchase
22 agreement to defer or even cancel units, if new
23 information says that's the right thing to do for
24 our customers.

25 Q Earlier when we were discussing the in-service dates

1 for Calpine and Invenergy, it sounded like the
2 company would be willing to enter into agreements
3 and the Calpine and/or -- I guess it would be or --
4 Invenergy unit would go on line first, then the
5 company would be willing to defer putting in its
6 own -- updating its own Black Dog 6 or installing
7 that unit; is that correct?

8 A With regard to Black Dog, you are correct, we have
9 proposed flexibility around placing that in service.
10 We've recommended that we go back to the Minnesota
11 Commission in the fall of next year with an updated
12 resource need assessment. We've recommended that we
13 do that again 2015. We have also said to the
14 Minnesota Commission that there ought to be
15 provisions in any contract with Calpine or Invenergy
16 allowing us the option to delay their plant as well
17 or even cancel it if the need completely disappears.

18 We recognize that they're going to have
19 to have some cancellation fees to cover whatever
20 commitments they make up until a certain time,
21 and -- but that flexibility has the potential to
22 provide our customers quite a bit of benefits, so we
23 think it's important.

24 Q When -- you had said you committed to the Minnesota
25 Commission to file a resource plan within next year.

1 Do you know when that will be going in to the
2 Commission?

3 A As a matter of fact, the Minnesota Commission will
4 decide when our next resource plan filing will be
5 required at their meeting next week, Thursday.

6 Q So will -- the negotiations with Calpine or
7 Invenergy, will they have -- what kind of impact
8 will they have on the resource plan?

9 A Well, if the outcome of this competitive acquisition
10 process is to establish, you know, 350 or
11 400 megawatts of new generation, that will be taken
12 into account when we evaluate when the next resource
13 need starts to surface. We will also then have to
14 take a look at what impact the flexibility I talked
15 about might have on future acquisitions.

16 Q So will the negotiations drive the resource plan
17 then?

18 A Not necessarily drive the resource plan overall.
19 But, yeah, it will have an impact. And as -- the
20 Minnesota Commission recognized that, and they're
21 currently talking about requiring us to file our
22 next plan no earlier than May and perhaps in July.

23 Q What's the company's plans going forward for keeping
24 this Commission advised and up to date with
25 negotiations? How is that going to work on a

1 practical level?

2 A The Commission and the staff will have the benefit
3 of orders coming out of this next step in the
4 Minnesota process where they agree or don't agree
5 with us on which projects to take to negotiation. I
6 think we can be very flexible in providing progress
7 reports to this Commission as we go through
8 negotiation, if you would like. And at the end of
9 that negotiation process, the -- we will be filing
10 the power purchase agreements that result from
11 negotiation with Minnesota Commission. We can do
12 the same for this Commission, along with our
13 perspective on which should be chosen or, if we're
14 unable to reach satisfactory terms, why our
15 Hankinson proposals should be reconsidered.

16 Q One last question on the -- just a second. One last
17 question. On page 9 you've got the table of the top
18 20 proposals in this matter. I looked through these
19 20 plans. I don't see Red River 2 anywhere on here.
20 Is it anywhere in the company's plans to build a
21 Red River 2 in between 2017 and 2019? And would all
22 of these 20 plans have to fall through before that
23 comes to fruition?

24 A I think Steve Wishart can give you a lot more detail
25 about what are in these various combinations of

1 options. I don't want to confuse the group with my
2 higher-level understanding.

3 MR. NORRELL: No further questions, Your
4 Honor.

5 JUDGE WARD: Mr. Armstrong.

6 MR. ARMSTRONG: Thank you.

7 CROSS-EXAMINATION

8 BY MR. ARMSTRONG:

9 Q Mr. Wishart -- or, Mr. Alders, excuse me, you want
10 to just keep page 9 available to you, for a few
11 moments here anyway? As I understand it, Black
12 Dog 6 has basically been determined to be an option
13 pretty much no matter what to the company?

14 A That's our view, yes. But the Minnesota
15 Commission's not yet acted on that.

16 Q And right now where it stands with the Minnesota
17 Commission is you're looking at plan 1 and plan 2,
18 which you testified to were very close, and so
19 you're going to probably enter into negotiations
20 between Calpine and Invenergy to get the best
21 price -- best terms?

22 A That's our recommendation, yes.

23 Q And if that doesn't work, then I presume you would
24 proceed to plan 3?

25 A We -- we drew the line at plans 1 and 2. We did not

1 recommend just moving down this list of
2 alternatives, because what they represent is
3 different combinations of generators analyzed over a
4 long period of time. Mr. Wishart can provide you a
5 lot more detail about why we drew the line there and
6 some of the pros and cons associated with Great
7 River, Geronimo, and the comparisons between the
8 Red River Valley units and those other PPAs.

9 Q What's your understanding of why the line's drawn
10 there?

11 A We looked at those two proposals as having the best
12 potential long-term benefits for customers. When we
13 looked at the other individual proposals -- for
14 example, Great River Energy made a proposal for
15 capacity credits. We felt the cost of those
16 capacity credits was relatively high and didn't
17 defer other resources for -- for a long enough
18 period of time to justify the purchase compared to
19 what you can get those credits for on the market.

20 Q When you say it's to the benefit of customers, which
21 customers are you talking about? All customers?

22 A All customers across the five-state system that is
23 served by generation --

24 Q Is there --

25 A -- that --

1 Q -- a ben --

2 A -- we provide.

3 Q Is there a benefit to your North Dakota customers of
4 having generation located in North Dakota?

5 A Overall, no.

6 Q Why not?

7 A Because we can maintain system reliability with the
8 network of transmission that serves those customers
9 today and with transmission additions like the Twin
10 Cities to Fargo line that's being -- that's under
11 construction. As I discussed earlier, there is some
12 unquantifiable benefit associated with having
13 generation close to load centers, depending on the
14 characteristics of that generation.

15 Q So it's unquantifiable in what sense? In a money
16 sense?

17 A I wouldn't know how to assign cost to the issues
18 since --

19 Q Taking --

20 A -- outages are rare.

21 Q Taking money out of it, what's the benefit?

22 A In the event of significant storm outages, the
23 take-out the transmission system of multiple
24 transmission lines serving the load center like
25 Fargo, having generation that can sync up with the

1 load in the Fargo area may be able to allow us to
2 restore power more quickly or may allow us to
3 provide service to small groups of customers while
4 restoration is taking place. It all depends on the
5 circumstances. On one hand, conceptually that's the
6 case. On the other hand, if a storm's so severe
7 that it takes out three or four transmission lines
8 that are serving Fargo, it seems to me in all
9 likelihood there's going to be damage to the system
10 within the Fargo area as well. So it -- while you
11 may be able to have local generation, you may not be
12 able to get it to customers in the city because of
13 problems within the city.

14 Q Well, it seems to me that those problems are going
15 to exist whether there's generation in North Dakota
16 or outside North Dakota; correct?

17 A Correct.

18 Q But if there's problems that extend beyond the city,
19 such as the lines leading to the city, a shorter
20 line providing power to the city should be able to
21 be repaired faster than a longer line providing
22 power to the city.

23 A It depends on what the problem is.

24 Q Well, we're talking about a regional problem.

25 A If you're talking about a problem that -- a tornado

1 or major storm that took out tens of miles of
2 transmission but for some reason didn't affect,
3 let's say, Fargo and the transmission in the
4 immediate vicinity of Fargo, then in all likelihood
5 there are other transmission lines from different
6 directions that are also serving Fargo providing
7 that redundancy.

8 Q Doesn't having generation close by just add one more
9 option for getting the power restored sooner?

10 A It -- conceptually I agree. It's a matter of how
11 much redundancy do you add to the system at what
12 cost.

13 Q And as we're talking about cost anyway, you had
14 testified plan 1 and plan 2 were very close. Plan 3
15 is only .4 million more than plan 2 and 2.2 million
16 more than plan 1. Isn't that number very close
17 also?

18 A Over that long-term view, yes, it is.

19 Q And, actually, plan 2 and plan 3 provide more total
20 long-term capacity too, don't they, than plan 1?

21 A They do.

22 Q Is it -- I'm going to try to walk through this.
23 Okay. Ms. McCarten testified and in your written
24 testimony the need now is -- appears to be around
25 300 megawatts?

1 A That's our view, yes.

2 Q If MISO changes their reserve margins, it may be as
3 low as 26 megawatts?

4 A It could narrowly disappear in this time frame,
5 correct.

6 Q Help me -- help -- I don't know if you can tell my
7 confusion from that. But help me understand then
8 why, you know, having more power for what you said
9 were very close additional costs is -- is not a
10 better thing.

11 A Again, it's judgments about not only what the net
12 present value of our system over the next 30 or
13 40 years is, which is what these numbers are; it's
14 judgments about to what extent that analysis relies
15 on uncertain assumptions far out in the future
16 versus assumptions we have more confidence about in
17 the near term.

18 Q Assumptions about what?

19 A Price forecasts for natural gas. Load growth over
20 that time frame. Several other assumptions I think
21 Mr. Wishart could help you with better than I.

22 Q And that's what -- but what I'm trying to get at is,
23 you know, we were here a month or so ago, and, I
24 mean, it seemed like everybody was pretty confident
25 that the forecasts for natural gas were -- were what

1 they were and were safe to assume that's about what
2 the price was going to be. So what assumptions
3 about natural gas, as far as these options go,
4 are so concerning that they change your judgment
5 call on which one is plan 1, plan 2, or plan 3?

6 A Again, I think you ought to talk to Mr. Wishart. I
7 don't want to confuse the matter.

8 Q Who makes that judgment call?

9 A Our resource planning group is primarily responsible
10 for our recommendations, and that's Mr. Wishart's
11 group.

12 Q I'll tell you what I'm hearing, and you can tell me
13 where I'm wrong. Okay? What I'm hearing is that
14 almost to determine what is prudent, the company
15 needs to either negotiate something with Invenergy
16 and Calpine Mankato, and then we would have to
17 evaluate that versus almost Red River Valley 1 and
18 Red River Valley 2. Tell me why I'm mistaken there.

19 A I think in large part you're correct. We find
20 ourselves in a situation where we don't have a
21 definitive outcome to present to you.

22 Q Because you may -- I mean, hypothetically, you may
23 be able to negotiate something with Invenergy or
24 Calpine that the company believes is the most
25 cost-effective option, but we may think it's more

1 prudent for .4 million more to have some generation
2 in North Dakota; correct?

3 A Correct. The only observation I'd make is that
4 we're in the situation where we have two
5 jurisdictions looking at how we should add
6 resources, and somehow we've got to harmonize them.
7 And so early on we -- we pointed out that the
8 Minnesota process is going to have a large impact on
9 this decision and encouraged both the Commission and
10 the staff to provide their perspective so that
11 Minnesota can -- could consider it as well.

12 Q So, I mean, it really is -- comes down to an issue
13 of timing and if we're even ready at this point for
14 Red River Valley 1 and 2?

15 A That's what we tried to allude to in Ms. McCarten's
16 opening statement, that's right.

17 Q What happens in the Minnesota process if, say,
18 you're able to negotiate something favorable with
19 Invenergy and plan 1 is the choice there? Can the
20 company still build Red River Valley 1 and 2 without
21 Minnesota approval?

22 A My understanding is the Minnesota Commission's order
23 is prescriptive that we could not without going back
24 to them for a change in their approval. Most
25 certainly we would risk our ability to recover costs

1 if they found one outcome to be prudent and we
2 embarked on another outcome.

3 Q Can you tell me the benefits of owning the
4 generation versus a power purchase agreement?

5 A Both can provide reliable service. The critical
6 issue is whether we can negotiate terms in a power
7 purchase agreement that will adequately cover risks
8 and -- and insulate our customers from undue risk.
9 So both can be reliable power supplies.

10 Q I'm not asking what the benefit of both of them can
11 be. I'm asking you what's -- what are benefits of
12 owning the generation that don't exist when you have
13 a power purchase agreement?

14 A From a reliability standpoint, I can't think of any
15 offhand.

16 Q From any standpoint?

17 A From an operating standpoint, I don't believe
18 there's significant differences. I'm sorry, I'm not
19 identifying any particular ones as I sit here.

20 Thank you for that pause. One thought
21 does occur to me. Power purchase agreements have
22 fixed terms. In this case, conceptually 20 years.
23 A company-owned facility doesn't have a fixed term.
24 And if it continues to be a cost-effective resource,
25 we can extend its life at lower cost to our

1 customers over time.

2 Q And these turbines that we're here with today, I
3 mean, they have a longer lifespan than -- expected
4 lifespan than 20 years; correct?

5 A I think Mr. Ford can probably give you more
6 information about the technology.

7 Q What's your --

8 A I would assume so.

9 Q I'll just -- Commissioner Fedorchak had asked
10 where -- Ms. McCarten where the load growth is at,
11 and I think she deferred to you. So where -- do you
12 know where the load growth is at?

13 A The short answer is no, I don't know the particular
14 load growth areas. I know our forecasters take a
15 look by state. I don't know what -- I don't know
16 that information in this case. We roll everything
17 up to a system basis.

18 MR. ARMSTRONG: Thank you.

19 JUDGE WARD: Mr. Simpser, is there
20 anything you want to redirect before I move to the
21 commissioners?

22 MR. SIMPSE: Just a couple of quick
23 items, Your Honor.

24 REDIRECT EXAMINATION

25 BY MR. SIMPSE:

1 Q You and Mr. Norrell talked quite a bit about the
2 capital lease issue with the Calpine proposal, I
3 think it was. You know, just -- are there similar
4 concerns with the Invenergy proposal?

5 A I don't believe that the concerns are as
6 significant, because it's a smaller unit, operate
7 fewer hours given the role of peaking power on our
8 system. But it's most certainly an issue that would
9 need to be explored during power -- during
10 negotiation, and we'd need to confirm that.

11 Q And -- and I guess with the Invenergy proposal, are
12 there other proposed terms that may cause some
13 concerns with completing the deal, like the capital
14 lease would for Calpine?

15 A As you get into these large capital proposals, you
16 learn pretty quickly that there's no such thing as a
17 fixed bid. Parties do specify a fixed price for
18 energy and capacity, but they often take exceptions.
19 And one of the exceptions in the Calpine -- or, I'm
20 sorry, the Invenergy case is how to treat
21 transmission interconnection costs. They've made
22 some assumptions in their proposal that may or may
23 not turn out to be accurate when they go through the
24 MISO interconnection process and have proposed an
25 adjustment factor. And so that would be an

1 important negotiation.

2 Q Would it be fair to say that there really is a lot
3 of work to be done in these negotiations and that
4 getting to a PPA is not really a done deal?

5 A That is correct.

6 Q And so leaving the Hankinson plants in reserve is --
7 is actually a real -- a real possibility?

8 A Well, in my view it's a very prudent way to proceed,
9 given the uncertainty.

10 Q You also talked about lumpy generation development?

11 A Yes.

12 Q Just to be -- just to make sure that we're clear
13 here, while generation development is lumpy because
14 it's almost impossible to meet the capacity need
15 with available resources, it still doesn't mean you
16 should way overbuild or way underbuild; correct?

17 A Correct. And that's what we're trying to capture
18 with the analysis that Mr. Wishart did, is to find
19 the combination of resources, regardless of size,
20 that will meet the resource need and minimize
21 customer cost.

22 Q And as part of that, is that -- is that a driver, as
23 need is still in flux, for wanting to have
24 cancellation terms for any of the PPA terms you may
25 enter into?

1 A Yes.

2 Q And then consistent with your proposal in Minnesota,
3 you would -- the company would be willing to come
4 back and provide whatever updates the Commission or
5 staff would request with respect to the development
6 of need in the '17 to '19 time frame?

7 A Absolutely, yes.

8 MR. SIMPSON: I have nothing further.

9 JUDGE WARD: Okay. I'm going to go to
10 the Commissioners now, and then we'll come back to
11 the staff attorneys, and then we'll take a little
12 break.

13 So, Mr. Chairman Kalk.

14 CHAIRMAN KALK: I think Commissioner
15 Fedorchak maybe wanted a chance to talk to Counsel,
16 you said, or --

17 COMMISSIONER FEDORCHAK: No. But I would
18 like a break, if we could take --

19 JUDGE WARD: Would you like to --

20 COMMISSIONER FEDORCHAK: -- take one now.

21 JUDGE WARD: -- take a break now?

22 COMMISSIONER FEDORCHAK: Yeah.

23 JUDGE WARD: Okay. Let's take ten
24 minutes now. Using the clock in the back of the
25 room, we'll be back at 25 to 11:00.

1 (Break.)

2 JUDGE WARD: Okay. Back on the record.
3 We've got the mics open again. Everybody just
4 settle into their chairs. The witness is back on
5 the stand.

6 We were moving to commissioners'
7 questions. And Chairman Kalk deferred, at least
8 temporarily, to Commissioner Fedorchak.

9 Commissioner Fedorchak.

10 COMMISSIONER FEDORCHAK: Oh, I get to go
11 first?

12 CHAIRMAN KALK: Go ahead.

13 JUDGE WARD: He deferred --

14 COMMISSIONER FEDORCHAK: Really?

15 JUDGE WARD: -- to you.

16 COMMISSIONER FEDORCHAK: Wow.

17 CHAIRMAN KALK: You wanted the break, so
18 you're all fresh and ready to go.

19 COMMISSIONER FEDORCHAK: Okay. All
20 right. Let's see here. I've just got to review my
21 questions really quick here to make sure.

22 FURTHER EXAMINATION

23 BY COMMISSIONER FEDORCHAK:

24 Q Can -- Ms. McCarten talked a bit about the
25 difference between the purchase -- the power

1 purchases and the capacity need now with the wind,
2 the wind power purchases and the need with these
3 proposals to address capacity between 2017 and 2019.
4 Can you tell me if any of the wind proposals will
5 provide some of the need on capacity? Those
6 purchase agreements, will they address a capacity
7 issue as well to a certain percentage?

8 A Commissioner, they -- they will. You are correct
9 that it's something like 13 or 14 percent of the
10 nameplate capacity of wind power will receive
11 capacity credit. However, in this case, as
12 Ms. McCarten pointed out, because of transmission
13 constraints in the region, we're not able to get
14 credit for that wind capacity until about 2020.

15 Q Okay. We've talked a fair amount, especially with
16 Mitch, about the analysis on these projects. And
17 you've said that the Hankinson projects, the
18 Red River gas plant projects, relied more heavily on
19 outer years. And so since you guys are directing
20 the terms of analysis, why didn't you make them the
21 same so that you could compare them more accurately?

22 A In essence, that's what the model tries to do.
23 It -- rather than just isolate each individual
24 generation proposal and try to compare them, the
25 model takes a look at how that generator performs

1 along with the rest of our generation over an
2 extended period of time. The model tries to
3 anticipate when we'll need to add that next
4 generator as load continues to grow. It looks at
5 all of the ins and outs of adding and maintaining
6 and operating our system over an extended period of
7 time. And so we are trying to do an
8 apples-to-apples comparison rather than trying to
9 compare a peaking unit with a combined-cycle unit
10 that have very different roles in that generation
11 fleet.

12 And so when you look at it on a system
13 basis, that whole business about when do the
14 benefits show up starts to reveal itself. And,
15 again, I think Steve Wishart can help you in more
16 detail --

17 Q Okay.

18 A -- with that.

19 Q And then along the same lines, I realize that you
20 just need to address this capacity in the near term,
21 2017 to 2019; but in both the power purchase
22 agreements, which would be 20 years, and if you're
23 investing in a plant, which would be, you know,
24 indefinitely, you have to consider much longer than
25 that. So why the focus on the first few years?

1 It's not really -- doesn't seem relevant to just
2 focus on the first few years as being your primary
3 factors to drive the decision.

4 A We agree. And, again, that's what that Strategist
5 model is trying to do is take a 30- or 40-year look
6 instead of just a few-year look. The '17 to '19
7 time frame is when the problem surfaces, not a
8 constraint on how you evaluate various proposals.
9 It's -- it's the threshold of when do we have to
10 have something in service to maintain enough
11 generation to meet peak demand. And so the -- it's
12 the threshold or the trigger. Whereas when
13 evaluating and comparing the alternatives, we try to
14 do exactly as you outlined, take a longer view.

15 Q So in making a choice, you should be looking at what
16 makes the most sense for the long view?

17 A That's our perspective, yes.

18 Q And do you feel that you have done that in
19 advocating with the Minnesota Commission, to go with
20 the power purchase agreements versus the Red River
21 Valley units?

22 A That was our motivation and judgment, yes.

23 Q I disagree. Let's see here. Then one more question
24 on the Hankinson -- or the plan number 3, I'm going
25 to call it. So you -- you need about 300 megawatts

1 by 2019, according to your charts. And it looks to
2 me like you're getting more than you need, which
3 we've talked before already. But if you -- you said
4 earlier that the GRE capacity credits were probably
5 not that great of a deal; they seem sort of
6 expensive compared to what you can buy on the
7 market. So I'm curious, A, why didn't you find
8 cheaper ones on the market? Oh, you can't. They
9 come to you. Okay. Never mind that.

10 What about just not having that? You'd
11 still have -- take those out, you'd still have
12 316 megawatts, which is more than you need, and then
13 surely this would have reduced the differential in
14 costs to be more competitive with plan 1 and 2.

15 A It's my understanding that Mr. Wishart evaluated
16 something very similar to that, and he can probably
17 give you better detail than I can.

18 Q All right. The GRE capacity credits, can you -- are
19 those based on some of their coal-fired units, extra
20 capacity at their coal-fired units?

21 A It's a systemwide number.

22 Q Okay.

23 A They add up the total generation available to them
24 and decide what they need to meet their peak demand
25 and reserve requirements. And anything above that

1 is excess capacity credits, and it's not specific to
2 any power plant.

3 Q Would the Minnesota Commission allow you to buy
4 coal-fired -- additional coal-fired power from them?

5 A We wouldn't be buying power.

6 Q Well, obviously --

7 A These credits do not have any electric energy
8 associated with them.

9 Q Do you just have to have --

10 A They're simply a paper -- I'm sorry.

11 Q You just have to have it on paper. But what if you
12 needed them? You've talked about this needing to
13 be, you know, available instantaneously for customer
14 demand. If you actually needed that power, they
15 must have to have it to back it up.

16 A Mr. Wishart can give you a lot better detail than I
17 can about how MISO accounts for reserve requirements
18 and adequate capacity. But my understanding is that
19 they're simply paper credits that can be applied
20 toward meeting resource adequacy requirements as
21 part of that reserve margin. And so there's no
22 actual energy production associated with it.

23 Q Hum. Okay. Then can you provide -- you talked a
24 bit about the cancellation, that there would be
25 cancellation terms available in these power purchase

1 agreements. What kind of -- if it's a 20-year
2 contract, there must be a pretty stiff penalty for
3 canceling early, since they're building on --
4 they're adding units to meet these. Am I
5 understanding cancellation correctly, where you
6 could actually get out of the contract?

7 A Not so much get out of the contract during the
8 entire 20-year term, but get out of the contract for
9 a short period of time between now and 2018 or '19.

10 Q Oh, I see. So before you actually really start
11 that?

12 A So we can react to changing circumstances before the
13 unit is placed in service.

14 Q But there's no conditions that would allow you to
15 back out once you're -- the unit is built; then
16 you're committed for 20 years then, even if things
17 change?

18 A Correct. Typically not.

19 Q Okay. And then I have some questions about this
20 Minnesota solar mandate and that role in this. But
21 would those be best for Steve or for you?

22 A Steve knows those in detail. So...

23 COMMISSIONER FEDORCHAK: Okay. I think
24 that's all my questions for you, Jim. Thank you
25 very much.

1 JUDGE WARD: Chairman Kalk.

2 CHAIRMAN KALK: Thank you, Your Honor.

3 EXAMINATION

4 BY CHAIR KALK:

5 Q Just -- thank you for your testimony, Jim. Just a
6 couple, I guess, probing questions. You said
7 something -- I don't remember exactly who it was to.
8 It was something about a, well, it's a judgments
9 call -- judgment call that weighs more than maybe
10 Strategist does. Something to that -- I don't get
11 it. Sometimes the -- you put all your weight in
12 Strategist and you say it's Strategist this, so it's
13 got to be. And then you tell me, well, but it's my
14 judgment call; it ain't right.

15 I mean, so do you use Strategist when you
16 want and then you use your judgment when it fits
17 your needs because it makes other commissions happy?

18 A I hope I have never said that Strategist says, so
19 therefore it's got to be the right answer.

20 Q It's certainly heavily implied in many proceedings
21 that we've had with this company.

22 A Well, on occasion it can be easy shorthand. But
23 that's never really the case, Commissioner, I agree.

24 Q So when you said that judgment so you -- I think
25 your answer was the people in resource planning had

1 that judgment, or does it go all wait up to the top,
2 the head of the company? To me if it's a judgment
3 call, if I was in charge of the company I'd want to
4 be making the judgment call.

5 A Commissioner, we have a steering committee of senior
6 executives that -- that reviews all of the
7 information that we're presenting here and our
8 recommendations. And...

9 Q Fair enough. The -- Commissioner Christmann teed
10 something up that I'd never thought of before about
11 how the Minnesota process as it plays out may
12 violate North Dakota state law on the lowest-cost
13 alternative. Had you ever heard that in any other
14 jurisdictions before?

15 A There is always this friction between the policies
16 of jurisdictions. The whole question of whether one
17 state's decision violates law in another state is
18 something I've not heard much about.

19 Q But Minnesota does have the ruling on no new
20 coal-fired generation that North Dakota's been very
21 active against Minnesota on. And I'm not even sure
22 where that's at right now, the final on that, but
23 you must be aware of that.

24 A I'm generally aware of that.

25 Q Okay.

1 A That's right.

2 Q Well, we'll just see how that plays out. The -- do
3 you know if X -- I'm sure you do, actually. Does
4 Xcel Energy have any generation in South Dakota?

5 A Yes.

6 Q Do you have any generation in Wisconsin?

7 A Yes.

8 Q So how could North Dakota be the outlier in that? I
9 mean, it just -- why?

10 A To date it's been about how to best locate
11 generation that takes advantage of existing
12 resources to the benefit of all our customers. And
13 we've always faced circumstances where we can
14 minimize costs by placing generation in other
15 locations.

16 Q The MISO -- I know it's a moving target. The --
17 their thoughts last week in their public discussion
18 with commissioners throughout the MISO region is
19 eight gigawatts short. I'm just curious how they
20 can say eight gigawatts short. And I think they've
21 tied it to some events, coal retirement, because of
22 the CO2 proposed rule. That it -- it lends me to
23 think that you're going to need everything you
24 can -- you want to build and everything -- you're
25 going to have to build and more. But you're saying,

1 though, that you might not even need hardly any of
2 this?

3 A When Xcel Energy looks at its customers' peak demand
4 and compare that to our generation, we get this
5 300-megawatt potential resource need. The eight
6 gigawatts is in the larger MISO market, which
7 doesn't change our resource assessment internally,
8 but to me does suggest that it may be prudent not to
9 rely on the MISO wholesale market, which reinforces
10 the idea that we probably should think hard about
11 being prepared to add generation so that we can
12 self-generate to meet our customers' needs.

13 Q Are you comfortable with MISO's forecast?

14 A I think there's going to be a lot of moving parts in
15 that eight-gigawatt prediction. Those are, as I
16 understand it, coal-fired power plant retirements in
17 situations where the utility hasn't yet declared
18 what they're going to replace that generation with.
19 But normal utility practice would be to replace
20 existing generation with similar amounts of new
21 generation as part of the retirement process.

22 Q Sure. Just a last -- just to your thoughts. You've
23 been doing this a long time. And I'm just still
24 trying to follow the logic here of Xcel Energy files
25 a request for ADP for the Black Dog in Minnesota and

1 the two plants in North Dakota, which are
2 presumed -- rebuttable presumption that -- unless
3 you make your case that they're not prudent, they're
4 prudent. And now you're trying to make your case
5 that they're not prudent at this time. I mean, why
6 didn't you just -- why don't you now pull back this
7 whole request and say, you know what, there's not
8 enough information; let's just pull it back now?
9 Because you're asking us to make a decision with no
10 information whatsoever that can be -- can be nailed
11 upon.

12 A Commissioner, if that's the Commission's preference,
13 we certainly can do that. That's what we tried
14 to -- or what Ms. McCarten tried to communicate in
15 her opening remarks is that, with regard to the
16 Red River Valley units, we don't need an ADP
17 decision imminently.

18 Q But you asked for it.

19 A It could come -- at the time we asked for it, we
20 didn't know what the competition was.

21 Q But still why have a hearing when the first thing
22 out of your -- the company is going to be, you know
23 what, we don't need it now? Why not just send us a
24 letter ahead of time, as opposed to having a
25 hearing, and then we're not -- we don't have

1 information to make decisions on that's concrete
2 information?

3 A Commissioner, in my view this hearing is an
4 opportunity to inform Minnesota as much as it is to
5 help you make decisions.

6 Q So you view the Minnesota Commission would pay
7 attention to what happens in this hearing?

8 A Yes.

9 Q And how would -- do you think the Minnesota -- and I
10 know you can't speak for them, but you have had
11 experience in front of them and I haven't. If this
12 Commission approved all three plants as prudent
13 right now, we went completely the other way, how do
14 you think the Minnesota Commission would view that?

15 A You're correct, I cannot speak for -- for them. I
16 don't know. This is a -- we're all plowing --

17 Q How would you --

18 A -- new ground.

19 Q How would you testify to them of -- of the
20 importance of this Commission's decision to sway
21 their decision that those Red River plants are good
22 ideas? Because the numbers are really close. I --
23 I could make a strong case that these numbers are
24 within error rate, and there's a lot of variables in
25 it. These numbers are almost identical when you

1 take out some of the mathematical rounding up and
2 down.

3 A Throughout our testimony we have tried to make
4 points similar to that. We are on the record with
5 our recommendations, so I don't think we can change
6 our recommendations to the Minnesota Commission.
7 But I would think they'd pay attention.

8 CHAIRMAN KALK: Okay. Thank you.

9 JUDGE WARD: Commissioner Christmann.

10 FURTHER EXAMINATION

11 BY COMMISSIONER CHRISTMANN:

12 Q How old is the Strategist model?

13 A Commissioner, I don't know. Mr. Wishart might.

14 Q Is it -- is that something that do you -- like
15 license that you buy and use?

16 A Correct.

17 Q And can you adjust it?

18 A I don't believe you adjust the actual mechanics of
19 the model itself. You provide it with input
20 assumptions.

21 Q So the assumptions that you input, with each
22 proposal that you're going to look at or each idea
23 you're going to -- to look at, do you always, as
24 a -- whoever is running the -- operating the
25 program, does someone always kind of go through

1 manually and look at how it -- the model is
2 weighting different circumstances and variables to
3 see if, based on new things, that -- I'm sure
4 there's new things that come up in every case -- to
5 see whether this thing is still accurate or if
6 there's something in there that defies logic, based
7 on new circumstances and variables?

8 A Commissioner, we -- we spend a great deal of time
9 doing, in essence, that, is testing what the impact
10 is if you change input assumptions; testing what the
11 impact is with regard to whether the model is
12 predicting benefits early or late in the process, as
13 I talked about earlier; error checking, because it
14 requires a ton of data to be inputted to make sure
15 that what's coming out is based on as good of
16 assumptions as we can put together without errors.

17 I mean, yes, there's a lot of sensitivity
18 testing and evaluating the results that Steve
19 Wishart can give you a lot more detail.

20 Q And so would I be right in assuming then that in
21 preparing for the Minnesota case, in the case of
22 GRE's capacity credit proposal, you would have
23 weighed in the externality costs that Minnesota
24 wants used?

25 A We did both, with and without, yes.

1 Q But what did you use when you calculated -- you said
2 that there were -- it was a more expensive proposal?

3 A When looking at the actual cost of the capacity
4 credits, we compare them without adding externality
5 values.

6 Q Is -- is it your testimony then that construction of
7 new generation in the Fargo area would not enhance
8 local reliability?

9 A I think if we could locate generation in the Fargo
10 area, it would in some qualitative manner enhance
11 reliability. Whether generation 70 miles away in
12 Hankinson provides that kind of benefit is a little
13 more uncertain. 70 miles away it's exposed to the
14 reliability of the transmission system in between.

15 Q Okay. I get the second part about the 70 miles. I
16 don't really understand what some qualitative manner
17 means. So does the Fargo area -- would they have
18 greater reliability if you went with the Hankinson
19 proposals than they would if you went with the
20 third-party proposals that -- that are now being
21 suggested or a tie?

22 A I have a great deal of difficulty boiling it down to
23 a yes or no. It would depend on the circumstance.
24 In the very -- in what seems to me to be an
25 extremely unlikely event that you'd lose all of the

1 transmission providing reliability to Fargo, are you
2 still going to have a Hankinson unit and the 230 kV
3 line between there and Fargo. If that very unlikely
4 scenario were to occur, you might have some
5 additional enhanced ability to minimize outages or
6 to restore the system after the problem.

7 Q So it would be a very unlikely scenario where the --
8 where the Red River Valley units would provide
9 additional --

10 A It's an extreme --

11 Q -- reliability?

12 A -- outage circumstance, yeah.

13 COMMISSIONER CHRISTMANN: Okay. Thank
14 you. No further questions.

15 JUDGE WARD: Mr. Norrell?

16 MR. NORRELL: Yeah.

17 RECROSS-EXAMINATION

18 BY MR. NORRELL:

19 Q I'll go back to -- I just -- in your opinion,
20 Mr. Alders, is the Black Dog CT, is that a prudent
21 resource addition?

22 A Yes, it is. Very cost effective. We can utilize an
23 existing power plant site with all of its
24 infrastructure, add -- add 200 megawatts at very low
25 cost.

1 Q How about the Hankinson ones? Because it sounded
2 like Commissioner Kalk asked you that it might not
3 be a prudent -- are the Hankinson CTs a prudent --
4 prudent resource acquisition?

5 A I think they're going to be at some point. Our
6 judgment is not as the result of this acquisition.

7 MR. NORRELL: Thank you.

8 JUDGE WARD: Mr. Armstrong.

9 RECROSS-EXAMINATION

10 BY MR. ARMSTRONG:

11 Q How do the third party -- how do the third-party
12 negotiations, if they do at all, affect the prudence
13 of Black Dog?

14 A We don't believe they will. We believe the Black
15 Dog 6 unit is the most cost effective thing to do
16 regardless.

17 Q If I'm reading page 9 -- the table on page 9
18 correctly, the plan 1 and plan 2 that were -- we've
19 been talking about, under plan 1 Black Dog would go
20 into service in 2018, under plan 2 it would go into
21 service in 2019; is that correct?

22 A That's correct.

23 Q Assuming that, when would you need to pull the
24 trigger on building Black Dog?

25 A It's approximately a three-year development period

1 for building a unit. So 2018 would be in the two
2 thousand --

3 Q '15?

4 A -- '17, '16 -- early in 2015. So the end of next
5 year, in essence.

6 Q And I guess the reason for my question is it seems
7 like a lot of this is timing. But why do you need
8 or want ADP on Black Dog now with all that's going
9 on?

10 A Because we believe it's a prudent addition to our
11 system under all circumstances, with the exception
12 of the scenario where the resource need
13 significantly -- is significantly reduced. And even
14 then it becomes a question of timing more than
15 whether or not it's prudent to add the resource.

16 Q That's -- I don't want to oversummarize here. But
17 in Ms. McCarten's testimony -- and I think it's in
18 several people's testimony; I just have a note of it
19 on hers -- but there's discussion about continually
20 evaluating the need and additional information
21 coming in 2014 and 2015 and that may change plans,
22 which may change whether any of these are prudent;
23 correct?

24 A Correct.

25 Q So tell me why it wouldn't possibly be jumping the

1 gun to determine they're prudent now when we know
2 there's additional information that could affect
3 that decision before the decision is needed.

4 A That's always the situation we find ourselves in.
5 The long lead time associated with making decisions
6 and then building resources is such that there's
7 always change. And so you're always in the
8 circumstance of reevaluating and trying to determine
9 whether or not it continues to be prudent to
10 proceed. The decision in two thou -- in early 2014
11 is necessary so that we can have resources in place
12 in that '17 to '19 time frame should it be necessary
13 to build all 300-some megawatts. That's not
14 mutually exclusive from the proposition that it's
15 also important to have flexibility and adjust as
16 time passes, if it's -- if -- if that's the thing to
17 do.

18 We're in a situation where we're asking
19 the Commission for an ADP, in large part because
20 that's the vehicle we have available to get
21 North Dakota Commission's input on these kinds of
22 decisions. And you're absolutely right, at the end
23 of the day something might change. But is it
24 prudent to make a decision to proceed with all of
25 the built-in flexibility is the question on the

1 table, I think, today.

2 Q Have you -- are you familiar with Mr. Diller's
3 testimony?

4 A Yes.

5 Q I may be over -- oversummarizing it or
6 oversimplifying it, but my general summary of it
7 would be determine Red River Valley 1 and 2 are
8 prudent and require them to be built in, I think,
9 2025 and then 2035. Is that fair enough for the
10 purposes of what he said?

11 A That seems to be the general sentiment to me.

12 Q What are your thoughts on that?

13 A In some ways it is similar to our current thinking.
14 We see gas and transmission infrastructure
15 developing in the Fargo area over coming years that
16 may make a Red River Valley unit very cost effective
17 out in that '20 to '25 time frame. We currently
18 project the resource need, I think, out in that time
19 frame generally. Mr. Wishart can give you more
20 detail.

21 And so there could be the need for
22 additional generation on our system in that time
23 frame. The difficulty we have is trying to
24 translate that into a hard and fast requirement.
25 And that's where we are very much interested in

1 trying to work with staff to develop some language
2 around the policy that's trying to be achieved,
3 without creating a -- a problem over a commitment
4 that needs to be changed and will -- will create
5 problems because of unforeseen circumstances.

6 Q What would the process be in Minnesota -- and maybe
7 you know this and maybe you don't. If there was a
8 requirement that some generation be built in
9 North Dakota, what would -- what would have to
10 happen in Minnesota for the company to do that, do
11 you know?

12 A Any -- the process in Minnesota is laid out so that
13 we would have to go through a competitive
14 acquisition process similar to the one we're
15 currently in in order to add generation, since on a
16 system basis roughly 75 percent of that generation
17 is -- serves Minnesota customers and is paid by
18 Minnesota customers.

19 MR. ARMSTRONG: That's all the questions
20 I have.

21 JUDGE WARD: Mr. Simpser, any redirect on
22 any -- any follow-up on any of the questions?

23 MR. SIMPSEY: Mitch covered most of my
24 questions. So, no, Your Honor.

25 JUDGE WARD: Okay. Anything else from

1 the commissioners?

2 CHAIRMAN KALK: Just a thought if I
3 could, Your Honor.

4 FURTHER EXAMINATION

5 BY CHAIR KALK:

6 Q I appreciate your discussion with Mr. Armstrong just
7 now about the changing dynamics of the Fargo gas
8 market, because that is one thing that there's -- I
9 mean, this Commission is working on gas lines that
10 are running through Fargo all the time. So if -- if
11 this plant could be built right next to the Mapleton
12 sub, would it then add reliability to the Fargo
13 system?

14 A Again, it would -- it would enhance in reliability
15 in the sense that you're closer to customers and
16 there's fewer things to go wrong between you and the
17 customer. But if something does go wrong between
18 you and the customer, you still got the problem.

19 Q The -- and I should have asked this before. But the
20 whole Minot as an outlier, when you look at your
21 resource planning, what are you going to be doing
22 about Minot? You don't own any generation up there.
23 You -- you basically buy everything to serve the
24 Minot load from somebody else. Are you looking at
25 building something up in Minot to meet your

1 generation needs up there?

2 A We have not looked at generation in the Minot area.
3 Currently we are part of a three-party transmission
4 planning effort to ensure reliability. WAPA and --
5 I'm sorry, what's the other utility in this area?

6 Q MDU, Otter Tail --

7 A MDU, sorry -- are conducting a study to make sure
8 that the transmission system can reliably meet
9 resource needs out there.

10 CHAIR KALK: Okay. Thank you.

11 COMMISSIONER FEDORCHAK: I have a couple
12 more.

13 JUDGE WARD: Commissioner Fedorchak.

14 FURTHER EXAMINATION

15 BY COMMISSIONER FEDORCHAK:

16 Q The -- and I apologize because I know you talked a
17 little bit about this earlier. But tell me again,
18 in the -- in your testimony you filed, you talked
19 about Black Dog being the common denominator as --
20 as clearly a prudent choice and then the --
21 negotiating the power purchase agreements with
22 Calpine or Invenergy. But you're doing those first.
23 Why not do Black Dog first if it's the -- clearly
24 the top choice?

25 A The proposals that were presented by those -- by

1 Calpine and Invenergy had specific in-service dates
2 in those proposals. So that's what we evaluated.
3 And when you evaluate based on those in-service
4 dates, the best packages included Black Dog 6 in '18
5 or '19.

6 We raised the question that you're
7 alluding to as part of the Minnesota process and
8 said that we would like to explore adjusting
9 in-service dates and what impact on cost that might
10 have to see if we could have a better combination of
11 resources that -- to test that very question; would
12 it make more sense to build Black Dog first and then
13 give those other projects time to build later. It's
14 going to have an impact on their price, and so we
15 need to evaluate that. But our recommendation is to
16 explore that very question.

17 Q And what pos -- what positives do you see from a
18 company standpoint of going forward with Black Dog
19 first?

20 A Time is starting to run out to get that unit in
21 service by '17. So that's going to be one -- one
22 consideration. We have to retire the existing coal
23 units at that site before we can get in there with a
24 new unit. So '18 may be a practical earliest point
25 in time, depending on how long this process takes.

1 But then I think it's primarily a cost question
2 after that.

3 Q Okay. And then going back a little bit again. In
4 your -- page 10 of your testimony you say that --
5 you're talking about Invenergy and Calpine's
6 projects. The net present value difference is so
7 small that the top two plants should be considered
8 to have essentially the same net present value.

9 So I'm curious. Does the company have a
10 threshold whereby you can consider them the same?
11 So like \$1.8 million difference is essentially the
12 same, but 2.2 million is not? Or what is the
13 threshold where you consider them essentially the
14 same?

15 A Commissioner, that's a good question. I don't think
16 we have a specific threshold, per se. I think it's
17 a judgment call. I think that the total present
18 value of the various plans is shown back on page 9
19 in the column that says 2013 to 2050 PVSC in
20 millions.

21 Q Um-hum.

22 A So the total costs are in the \$45 billion range.
23 And so it's just a qualitative judgment that plus or
24 minus a few million out of 45 billion is not a
25 strong differentiator. When you get that kind of

1 close sort of stuff, that's where you start looking
2 into the details of the model, as we discussed
3 earlier, to see what's -- what's driving those
4 results and --

5 Q Do you feel that the Red River Valley Unit 1 should
6 be kind of thrown in there too, or plan 3?

7 A Just on a pure difference of present value --

8 Q Yes.

9 A -- they all are relatively small, and you need to
10 look into the details of the model to see what you
11 can learn, yes.

12 Q Okay. And if the company had -- did the company
13 consider advocating for plan 3 or even just plan 1,
14 2, and 3 equally with the Minnesota Commission?

15 A We certainly considered it. Thought about
16 continuing to advocate for our proposal without
17 change and tried to balance the total cost of energy
18 for our customers with a lot of the issues that have
19 been debated here and, at least this time around,
20 leaned toward proposing to negotiate those PPAs.

21 Q And I realize you can't predict the future, but how
22 big a difference do you think that would make with
23 the Minnesota Commission?

24 A If a strong enhanced reliability case could be made,
25 I think there's room for debate. As you've heard

1 from us, we have -- at least I have a tough time
2 articulating how strong that -- that case is.

3 COMMISSIONER FEDORCHAK: Okay. That's
4 all for me.

5 COMMISSIONER CHRISTMANN: One question.

6 JUDGE WARD: Go ahead, Commissioner
7 Christmann.

8 FURTHER EXAMINATION

9 BY COMMISSIONER CHRISTMANN:

10 Q If there were a critic of this Commission that
11 was -- felt that we're not taking reliability into
12 consideration enough and said that the Red River
13 Valley gas plants were just dangled in front of us
14 so we would approve the Courtney wind farm, how
15 would you recommend we respond to that critic?

16 A I would strongly object. Again, the Red River
17 Valley units were selected not because they're in
18 North Dakota, but because they're part of the lowest
19 cost set of additions we could find on our system,
20 regardless of location.

21 I'm very hopeful -- well, first of all,
22 they -- it ain't over. The outcome of the Minnesota
23 process and our ability to negotiate contracts is
24 still in front of us. And so those are solid backup
25 proposals, in our view, at this point.

1 We may be in even better position to
2 provide generation in the Fargo area as new
3 infrastructure develops. And so we certainly intend
4 to continue to look at those units for future
5 resource needs if they're not chosen in this
6 circumstance.

7 COMMISSIONER CHRISTMANN: Thank you.

8 FURTHER EXAMINATION

9 BY COMMISSIONER FEDORCHAK:

10 Q That -- that's been referenced a couple of times
11 both by you and Laura that, you know, we want to
12 negotiate in the future. But if you don't have the
13 load, you don't have the load. I mean, you barely
14 can demonstrate the need for this. So I don't know
15 what that means, that you want to keep in
16 negotiation with us on, you know, some generation in
17 the valley, when there doesn't appear to be. And
18 now is the time that you have some sort of need. So
19 why would we say, okay, well, down the road? It
20 could be 15 more years.

21 A Commissioner, you are correct, that on a system
22 basis our load is growing fairly slowly. But,
23 nonetheless, we -- we do anticipate additional
24 resource needs out in that '20-'25'ish time frame.
25 You get that far out, and there is some uncertainty,

1 you're right.

2 Q So you're talking 2020, not like something in
3 addition to what we're already seeing; just at the
4 next potential point of load growth, having that
5 built in somehow that we'd have, you know, priority?

6 A That's our view, correct, Commissioner. The
7 additions that we see coming out of this process
8 should take us into that mid '20s time period before
9 we need additional generation.

10 COMMISSIONER FEDORCHAK: Okay.

11 CHAIRMAN KALK: Your Honor, I just had
12 one more thought. I have to pile on a little bit to
13 Commissioner Fedorchak's point. It was, I believe,
14 Commissioner Wefald, Commissioner Kramer, and
15 Commissioner Clark were given assurances prior to
16 2008 that Xcel Energy would someday build something
17 in North Dakota. So I just put that back out there
18 for anyone that didn't happen to be here, which was
19 a whole different Commission. So that was a
20 commitment by the company a long time ago that still
21 has not been met today.

22 Thank you.

23 JUDGE WARD: Okay. Mr. Norrell, anything
24 else?

25 MR. NORRELL: Yes, Your Honor.

1 FURTHER RECROSS-EXAMINATION

2 BY MR. NORRELL:

3 Q Mr. Alders, do you have your testimony in front of
4 you?

5 A Yes.

6 Q On page 10 -- this is -- Commissioner Fedorchak had
7 highlighted this. And lines 7 and 8 it states that
8 the top two plans should be considered to have
9 essentially the same net present value. On page 9,
10 under the column 2013-2050 PVSC in millions, could
11 you read that dollar amount under plan 2?

12 A 45,368,000,000.

13 Q Could you read the dollar amount under plan 3?

14 A 45,368,000,000 is what it reads.

15 Q Would these two be considered to have essentially
16 the same net present value?

17 A Pretty close, yes.

18 MR. NORRELL: Thank you.

19 JUDGE WARD: Mr. Armstrong?

20 Are you done, Mr. Norrell?

21 MR. NORRELL: Yeah.

22 JUDGE WARD: Okay. Mr. Armstrong.

23 FURTHER RECROSS-EXAMINATION

24 BY MR. ARMSTRONG:

25 Q Mr. Alders, what is PVSC?

1 A Present value of social costs. Typically it
2 includes the value for the risk of future carbon
3 regulation.

4 Q And it includes environmental externalities?

5 A Yes.

6 Q Did you evaluate the PVRR?

7 A Yes, we did.

8 Q Is that somewhere in the records?

9 A I'm not certain that it's in anything we provided
10 you in this record or not.

11 Q What is PVRR?

12 A It's the same, present value of revenue requirements
13 calculation, but without externalities or carbon
14 risk.

15 MR. ARMSTRONG: And I think we'll be
16 requesting that as a late-filed exhibit if it's not
17 in.

18 MR. SIMPSEY: It's -- it's in the record
19 as Schedule 1 to Mr. Alders' testimony on page 39.
20 It's Table 9 of Strategist input sensitivities
21 tests. One of the columns has a zero CO2 number.

22 MR. ARMSTRONG: So that --

23 COMMISSIONER FEDORCHAK: What was the
24 schedule?

25 MR. SIMPSEY: Sorry. It would be

1 Schedule 1 of Mr. Alders' testimony on page 39 of
2 that schedule.

3 (Inaudible.)

4 COMMISSIONER FEDORCHAK: Schedule 1 in
5 mine is -- is Mr. Alders' resume.

6 MR. SIMPSON: Mr. Alders -- oh, sorry,
7 Schedule 2 then. My apologies.

8 COMMISSIONER FEDORCHAK: Oh, okay.

9 BY MR. ARMSTRONG:

10 Q Could you -- Mr. Alders, are you on page 39 of your
11 testimony?

12 A I am. This is the --

13 Q So your --

14 A -- the attachment 2 schedule, yes.

15 Q So it says -- at least on mine it says Table 9,
16 Strategist input sensitivity test --

17 A Yes.

18 Q -- on that table there? Okay. And that table has
19 the 20 plans that correspond with what we've been
20 talking about on page 9?

21 A Correct.

22 Q And there's a column that says zero dollars CO2. Do
23 you see that? It's kind of in the middle more
24 towards the right side of that page.

25 A I do.

1 Q Would that be the PVRR analysis?

2 A Yes.

3 Q Could you help me how to interpret that? For
4 instance, number 2 says plus 23 and number 3 says
5 plus 3. What does that mean? Let me tell you --

6 A This schedule is -- is Mr. Wishart's testimony in
7 the Minnesota case. I think he can give you a lot
8 more detail than I can.

9 Q Am I reading it wrong anyway that as far as with
10 zero dollars for the CO2 that plan number 3 is
11 actually less -- less of an increase to plan 1 than
12 plan number 2?

13 A I believe that's correct. I think it's -- I lose
14 track of what it's relative to, though.

15 Q I think you testified that Black Dog is a result of
16 retiring coal -- the Black Dog CT is a result of
17 retiring coal at the plant right now; is that
18 correct?

19 A That's correct.

20 Q Why is the coal being retired?

21 A We have two coal-fired units remaining at the Black
22 Dog plant, Units 3 and 4. They are subject to the
23 new air quality rules coming out, and it would
24 require something on the order of 200 or
25 \$250 million in pollution control equipment to keep

1 them running. They were built back in the city --
2 '60s. And when we evaluate the cost of control
3 versus the alternative of replacing them, it's more
4 economical to replace.

5 Q One of the questions I've had -- we've been talking
6 about plan 1 and plan 2. And plan 1 is Invenergy
7 with Black Dog, and plan 2 is Calpine with Black
8 Dog. And as I understand it, there will be
9 negotiations with Calpine and Invenergy to see
10 what's more cost effective. Is there the potential
11 that those negotiations would result in Invenergy
12 and Calpine being put together versus either one or
13 each with Black Dog?

14 A There is that potential. In fact, the Department of
15 Commerce, who is the consumer advocate in Minnesota,
16 has, in essence, said you ought to pick from all
17 three proposals once you have those PPAs drafted.

18 Q Have -- has Calpine and Invenergy as a plan been
19 modeled? I don't see it in...

20 A As I recall, it was modeled, but it didn't reach the
21 top 20. Mr. Wishart can give you more detail there.

22 MR. ARMSTRONG: Thank you. That's all I
23 have.

24 JUDGE WARD: Okay. Mr. Simpser, anything
25 that you want to follow up on?

1 MR. SIMPSON: No, Your Honor.

2 JUDGE WARD: Okay. Then I'm going to ask
3 the witness to step down.

4 (Witness excused.)

5 JUDGE WARD: Call your next witness. The
6 plan would be to go till about 10 to 12:00, and then
7 take a break for lunch till about 1:15.

8 CHAIRMAN KALK: Your Honor, do you
9 think -- not that -- just maybe we just take a break
10 now, come back at 1:00, rather than just try to
11 start 15 minutes into it, because it's --

12 JUDGE WARD: If that's what you prefer.

13 CHAIRMAN KALK: If that's okay with you,
14 Your Honor.

15 JUDGE WARD: Okay. Sure.

16 CHAIRMAN KALK: Is that okay with
17 everyone?

18 JUDGE WARD: Till about 10 after 1:00.

19 COMMISSIONER FEDORCHAK: 1:00?

20 CHAIRMAN KALK: What time, Your Honor?

21 JUDGE WARD: About 10 after.

22 CHAIRMAN KALK: Ten after 1:00. Okay.

23 COMMISSIONER FEDORCHAK: All right.

24 CHAIRMAN KALK: Thank you, Your Honor.

25 (Break.)

1 JUDGE WARD: Okay. Back on the record.

2 Mr. Simpson, call your next witness.

3 MR. SIMPSON: The company calls

4 Mr. Steven Wishart.

5 JUDGE WARD: Mr. Wishart, you've been
6 here the whole time, so you've heard the admonition.

7 I'll just have you raise your right hand.

8 STEVEN WISHART,

9 after having been first duly sworn, was
10 examined and testified on his oath as follows:

11 JUDGE WARD: Thank you.

12 DIRECT EXAMINATION

13 BY MR. SIMPSON:

14 Q Mr. Wishart, I don't have much by way of questions.
15 But Mr. Alders did mention, as we were going through
16 some of the company's decisions today, that at some
17 point, you know, the company has exercised its
18 judgment as to what makes the best resource to meet
19 its needs.

20 As director of resource planning, I was
21 wondering if you could walk us through the company's
22 analysis of the different options it had as far as
23 the Minnesota proceedings and how it arrived at its
24 recommendation.

25 A Sure. You're correct in my role. I was heavily

1 involved in the analysis and making recommendations
2 to upper-level management regarding which projects
3 we were identifying as being the least cost for
4 customers.

5 I think the best place to probably start
6 would be in -- it's the second attachment to
7 Mr. Alders' testimony.

8 Q So that would be Schedule 2 to Exhibit 5.

9 A I'll take your word for it. Schedule 2 to
10 Exhibit 5. And then going back even further --
11 maybe you can help me out with --

12 Q I believe it's Schedule 4 to Schedule 2 to
13 Exhibit 5.

14 COMMISSIONER FEDORCHAK: What?

15 MR. SIMPSON: It would be Mr. Alders'
16 testimony, and it would be --

17 UNIDENTIFIED SPEAKER: In Minnesota?

18 MR. SIMPSON: -- his direct in Minnesota.

19 UNIDENTIFIED SPEAKER: No, it isn't.

20 MR. SIMPSON: And it will have the
21 Schedule 4 on the top right corner.

22 COMMISSIONER FEDORCHAK: I'm going
23 through the stuff you handed out.

24 UNIDENTIFIED SPEAKER: Yeah, it should be
25 in there.

1 MR. SIMPSON: It should be in there.

2 COMMISSIONER FEDORCHAK: Schedule 2 to
3 Alders' supplemental. Page what?

4 UNIDENTIFIED SPEAKER: This would be
5 Schedule --

6 UNIDENTIFIED SPEAKER: 89.

7 UNIDENTIFIED SPEAKER: -- 4, so it would
8 be 89.

9 COMMISSIONER FEDORCHAK: Okay.

10 CHAIRMAN KALK: What page?

11 COMMISSIONER FEDORCHAK: The page numbers
12 jump all over.

13 THE WITNESS: Page num -- pages (sic)
14 numbers are listed in the upper right-hand corner.
15 Page 3 of 10 is where I'd like to start. It says 3
16 of 10 in the upper right-hand corner and page 91 of
17 98 in the upper left-hand corner.

18 The title of the chart is Calpine Mankato
19 versus Black Dog 6. Okay. Starting with our
20 comparison of Calpine Mankato versus Black Dog 6,
21 I'd like to start off by saying the price of the
22 Calpine Mankato project was the lowest
23 combined-cycle pricing that I've seen in any of the
24 jurisdictions within Xcel that I've worked in. I've
25 been in resource planning seven, eight years now,

1 working in all of our jurisdictions, including
2 Colorado and Texas and New Mexico; and the price of
3 the Calpine project was well below what we thought
4 market price for combined cycle was.

5 Part of that is -- as discussed earlier,
6 is that it's -- it was essentially a half-built
7 plant at that point. They designed it to be a
8 certain size, built it halfway, and so they only had
9 this incremental addition to put on. And, you know,
10 my educated opinion is that that's really why they
11 were able to offer such a low price, is because they
12 were halfway to the finish line already.

13 So what this chart shows, the line and
14 bar chart at the top attempts to illustrate the
15 year-by-year cost impacts that we're seeing. And it
16 illustrates the difference in cost between the
17 Calpine offering and our Black Dog 6 project. The
18 periodic bars represent annual costs. The red line
19 is cumulative net present value of those bars.

20 What you'll see is in the years 2019
21 through 2035, when both the Black Dog CT and the
22 Calpine project are in play, that Black Dog has a
23 small cost savings over Calpine in those years.
24 Those small bars going up represent a small savings
25 for the Black Dog project. The reason Black Dog's

1 lower cost is because, because it's only a CT, we
2 can build it a little bit cheaper than they can.
3 Calpine's competitive because, although the annual
4 fixed costs might be a little bit higher, the
5 efficiency of their unit brings it back into close
6 competition.

7 The second thing to notice on this graph
8 is all the large bars on the far right. This is the
9 long-term natural gas assumption that Mr. Alders or
10 Ms. McCarten alluded to earlier. And what this is
11 this shows our baseline assumption about what
12 happens when Calpine PPA contract retires. At the
13 end of 20 years, what do we do about that expiring
14 PPA? Our customers will still be on our system.
15 We'll still have to meet our reserve margin
16 standards. So what I did in my analysis is I had
17 the model add a brand-new CT to replace that. So --
18 and by that time a brand-new CT -- you can imagine
19 in 2037 a brand-new power plant is going to be
20 considerably more expensive than they are today just
21 based on general inflation. So we see this big line
22 of bars on the far right. We've been calling it the
23 fan.

24 So based on this analysis, I concluded to
25 myself and presented to management at our company

1 that over the contract life Black Dog is competitive
2 with this combined cycle. And then we have these
3 long-term benefits that we're also seeing.

4 Moving on to the analysis of the Red
5 River 1 Valley project. If you flip a few pages
6 forward, it's pages 7 of 10. The title of it is
7 Red River Valley Unit 1 versus Calpine Mankato.
8 Now, you have to kind of flip your access of
9 orientation here because the first one was Calpine
10 versus Red River; this one's Red River versus
11 Calpine. So the axis is flipped.

12 When you see those small bars in the 2019
13 through 2035 time frame, those are actually higher
14 costs for the Red River Valley units. So during the
15 lifetime of the Calpine contract, based on our
16 baseline analysis, we actually show Red River Valley
17 to be higher cost. You know, those lines or those
18 bars appear to be in between the 10 and 0 line. So,
19 you know, anywhere from -- I'd eyeball it as 7 to
20 \$2 million per year. Over the life of a 20-year
21 contract, you can see how that could add up to
22 upwards of a hundred million dollars nominal.
23 You'll notice that red line, it's hidden behind the
24 box in the middle, but that's in the -- you know, a
25 positive net impact of about 40 to 30 -- \$40 million

1 in the 2035 time frame.

2 It's not until we get to that long-term
3 benefit when the contract expires and I made the
4 assumption that it gets replaced by a brand-new unit
5 out in that time frame where you really see that red
6 line start to come down significantly. That's how
7 we get to the long-term conclusion that the PVRR or
8 NPV is only a \$2 million difference. So I -- I see
9 the Black Dog and the Red River as very different,
10 although it may be the PVRRs are not all that
11 different.

12 I can -- from our analysis I concluded
13 that Black Dog can be a savings in every year of the
14 20-year contract, whereas Red River Valley would
15 actually be a cost adder for the first 20 years and
16 we'd be relying on some of these very long-term
17 benefits to justify the economics of the unit.

18 And that assumption that I make about the
19 long-term is uncertain and I think was alluded to
20 earlier. It's not so much the price of natural gas
21 as a commodity; it's the cost of replacement
22 capacity in that time frame, because it's really
23 replacement of the PPA that's driving those big
24 bars.

25 One possibility, and it's something I

1 show on the sensitivity table, is that it's possible
2 that the PPAs will renew their contract at the end
3 of those 20 years. At the end of 20 years those
4 still should be viable plants, if they kept them in
5 good working order, and they'd probably be in line
6 for another ten-year extension or so, which would
7 significantly decrease those long-term benefits that
8 we're seeing out there and, therefore, significantly
9 increase the NPV impact of the Red River Valley
10 units. Does that help?

11 BY MR. SIMPSON:

12 Q Yeah.

13 A Good.

14 Q That is very helpful, Mr. Wishart. Would that same
15 analysis with the Calpine Mankato that you just
16 walked through apply to what's on page 6 of 10 with
17 the Red River Valley Unit 1 versus Invenergy Cannon
18 Falls?

19 A Very similar analysis. You will see on the previous
20 page, page 6 of 10, Red River Valley Unit 1 versus
21 Invenergy Cannon Falls, that Red River Valley does
22 catch up in a few years. Years 2032 through 2035
23 Red River Valley did manage to overtake the
24 economics of Invenergy, but we still see those front
25 end loaded costs -- especially the front end loaded

1 costs. 2019 it looks like an incremental
2 \$10 million, and that's a \$10 million rate case that
3 we'd have to bring in front of the Commission, and
4 that's something we -- you know, we do strive to
5 avoid. We do try to keep our total costs as low as
6 possible. And these near-term cost impacts are, you
7 know, something we try to keep an eye on.

8 Q Mr. Wishart, I notice in both of these, in 2049
9 there seems to be a reversal. What -- what is that
10 indicating?

11 A 2049?

12 Q Yeah.

13 A It's the changing around of some of the generic
14 units in the tale. One plan would be building one
15 unit, while another plan would be delaying building
16 that unit by one year.

17 Q And is it this year on -- year-end impact that
18 really is also driving some of the company's choices
19 for recommendations for how to meet its resource
20 needs?

21 A Can you repeat the question?

22 Q Sure. It's -- is this type of analysis where you
23 look at the impact in each year and how that may
24 have an impact on rates and customers an important
25 part of your analysis when selecting resources?

1 A It is. The -- when we come up with the single PVRR
2 or PVSC number, that's convenient to put into a
3 chart and into testimony. When we really make our
4 decision-making process, we do look at these
5 year-by-year details. Below you'll notice I've
6 classified all the costs into different buckets. So
7 we'll try to identify when cost impacts are
8 occurring, what the cost impacts -- what the drivers
9 are, whether it's the capacity payments or whether
10 it's fuel savings. So we do look at all these
11 things when we make a decision. We don't simply
12 just jump to the single NPV number, although that is
13 a convenient way to communicate our analysis.

14 Q In addition to those analyses that you've just
15 walked through, you do also perform a sensitivity
16 analysis; correct?

17 A Correct. Back on page 39, I believe it was. And
18 this is a table of -- the sensitivity analysis we
19 conducted in the case of this competitive
20 acquisition process. We don't change every variable
21 in the model. There's literally hundreds. What we
22 do try to do is identify the ones that we know will
23 have the most impact on -- on the results.

24 And I'd like to draw your attention to
25 the second-from-last column on the right. It's

1 titled PPA Extensions. Oh, page 39.

2 Q Of --

3 COMMISSIONER FEDORCHAK: Of your
4 testimony?

5 MR. SIMPSON: Of the Exhibit 5, Schedule
6 2, page 39. It's page 41 of 98.

7 COMMISSIONER FEDORCHAK: Okay. I got it.

8 THE WITNESS: Okay. So the column second
9 to the far right, it's called PPA Extension. And
10 instead of making the assumption that once the PPAs
11 retire they're replaced with a brand-new unit in
12 2037, we make the assumption that the PPAs are
13 extended for another ten years after their -- their
14 original expiration date. And what you will see is
15 that on the third line, the Red River Valley, the
16 cost of that really increases. And that's not the
17 only piece of information we based our decision on;
18 but that gave us an indication that there's a
19 possibility, if those PPAs are extended at the end
20 of their lives, that the Red River Valley unit could
21 lose a significant amount of its value on an NPV
22 basis.

23 Also on this table, on the second column
24 from the left, titled High Gas, you'll see in line 2
25 a negative \$27 million. This indicates that under a

1 high gas scenario that Calpine Mankato combined
2 cycle has a significant cost advantage. The reason
3 being combined cycles are more fuel efficient.
4 Therefore, if natural gas prices are high, those
5 units become more valuable because they'll burn less
6 gas per megawatt hour. That's another item that we
7 based our decision making on.

8 We all know fracking has brought a lot of
9 natural gas to the market. Currently prices are
10 low, you know. But we all lived through, you know,
11 2005 through 2007 or '8 when prices, you know,
12 spiked all the way up to \$10. And that's not a
13 lesson that's lost on us yet at this point. We keep
14 that in our mind; and we always, you know, think
15 about a rebound in gas prices as a potential issue
16 for our customers that we try to manage.

17 BY MR. SIMPSON:

18 Q And -- and just to be clear, Mr. Wishart, what this
19 Table 9 is showing is the -- if you were to change
20 one of your assumptions, the delta in -- in
21 perceived cost of that -- of that plan; is that
22 correct?

23 A That's correct. These -- this illustrates what
24 happens to the net results when we change one
25 assumption at the time. And we recognize that all

1 the variables can change all at once; but to really
2 identify what the impact of just changing one, we do
3 it one at a time.

4 Q And project 1 is your baseline for that?

5 A Correct.

6 Q So it would be the cost of Invenergy plus Black Dog
7 6 plus whatever the number is on the chart?

8 A Correct.

9 MR. SIMPSON: I have no further
10 questions, Your Honor.

11 JUDGE WARD: Mr. Norrell.

12 MR. NORRELL: Thank you, Your Honor.

13 CROSS-EXAMINATION

14 BY MR. NORRELL:

15 Q Good afternoon, Mr. Wishart.

16 A Afternoon.

17 Q We're -- we're talking about 20-year PPAs in the
18 Minnesota CAP process; is that correct?

19 A The two PPAs that we're considering right now,
20 Invenergy Cannon Falls and Calpine Mankato, yes,
21 those are 20-year PPAs. The GRE proposal was
22 shorter. That was two or three years. I think we
23 had an option on that one.

24 Q Okay. That actually -- you kind of jogged my memory
25 on that one too. Why if -- you know, we've heard

1 some talk from the company about waiting to see.
2 Why doesn't the company look at going with that GRE
3 short-term purchase of credits and -- and addressing
4 this in another year or two?

5 A Yeah. You'll see in the results that the GRE plans
6 or portfolios that contain the GRE proposal are near
7 the top. And what that -- you know, that reflects
8 the fact that the price of these credits are about
9 the price of these contracts that are under
10 consideration. And in the company's decision-making
11 process, we think, well, we can have a pile of paper
12 credits that really add nothing to the system or we
13 can actually have some steel in the ground that can
14 be turned on to meet peak demand. And when we --
15 you know, looking at that, to go with paper credits
16 we'd really want to see a much more substantial
17 discount, you know, maybe half the cost of building
18 an actual plant, because the paper credits don't
19 really help you for anything but complying with your
20 MISO reserve margin. So we wanted to see a much
21 bigger discount on the GRE capacity credit option.

22 Q What's -- what's the length -- in a model what's the
23 proposed length of the CTs that we're looking at
24 here for Black Dog 6 and both Red River Valley
25 units?

1 A We did model those with a 35-year life.

2 Q 35-year life. What's the oldest combustion turbine
3 in the company's fleet right now?

4 A I can speak about Minnesota specific or the NSP
5 system specific. On page -- here we go again. My
6 rebuttal testimony?

7 MR. SIMPSON: That would be Schedule 3 of
8 Mr. Alders' testimony.

9 THE WITNESS: Schedule 3 on page 11. It
10 says 11 on the bottom and page 13 of 47 in the upper
11 left-hand corner. Sorry about that.

12 COMMISSIONER FEDORCHAK: Why are there so
13 many numbers? It's so funny. Okay.

14 THE WITNESS: On the -- you have it? On
15 that page I do list five peakers that are currently
16 operating on the NSP system. You can see that their
17 in-service dates range between 1969 and 1974.

18 BY MR. NORRELL:

19 Q So it -- it would be possible that Black Dog 6 and
20 the two Red River Valley units could even exceed the
21 25-year proposal?

22 A If we modeled with the 35-year lifetime and -- I
23 think it's possible. That question is probably
24 better directed to Greg. He's our ENC expert.
25 Knows more about power plants than I do. He'll

1 probably be able to elaborate better than I can.

2 Q One of the -- one of the questions that's been
3 brought up earlier was -- was the driver of -- the
4 drivers of growth -- load growth in the system, in
5 the company's system. Do you know where those would
6 be located? Are those Minnesota? North Dakota?
7 How are those broken out?

8 A In our load forecasting we do break it into
9 jurisdiction. And all the jurisdictions are
10 growing. We're seeing positive load growth in all
11 of them. Actually, South Dakota on a percentage
12 basis is seeing the largest growth. But I think
13 that has a lot to do with it starts off very small.
14 So a few megawatts growth there, it turns into a big
15 percentage. And the same with Wisconsin,
16 Wisconsin's seeing healthy growth from -- from all
17 the sand mines to support some of the fracking. So
18 we are seeing load growth in all of our
19 jurisdictions.

20 Q The company came before the Commission with looking
21 for combustion turbines, ADP on combustion turbines;
22 but you guys are looking at a combined cycle with
23 Calpine. What -- why are you willing to accept a
24 combined cycle there instead of self-building
25 combined cycle? You showed in one of the earlier

1 tables the economic benefits (inaudible).

2 A Sure. It all started with our resource plan.
3 Through our resource planning process, we identified
4 that actually the economics of peaking and
5 intermediate were fairly close together. When we
6 looked at which combined-cycle intermediate-type
7 plants that we could build internally versus what
8 kind of peaking units we could build internally, we
9 identified that our best proposal could be a peaking
10 unit, although we continue to acknowledge that
11 combined cycle versus peaking remain relatively
12 close.

13 And the reason the peaking was the best
14 offer that we could propose is we've talked a lot
15 about timing and certainty. Right? The nice thing
16 about these CTs is that we can build them in
17 200-megawatt increments and kind of slide the
18 in-service dates to best match load.

19 With the combined cycle, we think our
20 most cost-effective combined-cycle alternative would
21 be a big 800-megawatt two-on-one plant. So that's
22 big, 800 megawatts, that all have to come on line
23 all at once to be cost effective. And we thought,
24 you know, to do our best to mitigate, you know, rate
25 increases, that this CT proposal was the best option

1 that we have, but all along recognize that
2 intermediate wasn't -- combined cycle wasn't far
3 off. And when we opened up the competitive process,
4 we did acknowledge that fact and, you know, thought
5 it was okay for peaking and intermediate, to bid
6 that.

7 Q What's -- what's the size of the Calpine
8 combined-cycle unit that's being proposed?

9 A They're build -- they're proposing an incremental
10 addition of 345 megawatts winter. And then the
11 summer-rated capacity I believe is 298? 289? I had
12 it listed here in one of my tables. And there was
13 some discussion in our hearing in Minnesota
14 regarding exactly what the summer number, but --
15 was, but -- 289.

16 Q Do you know how many minutes it would take to get
17 that unit up to full power from a cold start or
18 completely off line?

19 A Combined -- combined cycles do take longer to get up
20 to full load. I think the -- the metric we really
21 like to look at is how fast can they get
22 synchronized to the grid, up and running
23 synchronized to the grid, which is about 50 percent
24 capacity. And for a combined cycle like that, it
25 can take over 30 minutes to reach that point.

1 Q And what are the size of the units the company's
2 planning to install at Black Dog and Red River
3 Valley? Is that 210? Two --

4 A Their summer-rated capacity is two hundred and --
5 well, there's lots of ways to measure this.
6 Summer-rated capacity, 215.

7 Q How many minutes does it take these simple-cycle
8 units to get up and running?

9 A My understanding is that it's about five minutes.
10 But, again, Greg Ford can probably tell you a little
11 bit more about their starting capability.

12 Q In February of 2002 in Colorado there was a major
13 wind ramp-down event. Are you familiar with this
14 event?

15 A Vaguely, yes.

16 Q There was an estimated about 500 megawatts of wind
17 that tripped off line in about 30 minutes. With a
18 C -- with a combined cycle, how could you respond to
19 that?

20 A If you only had combined cycle, it would be very
21 difficult. Actually, I think it's an interesting --
22 interesting situation. In Colorado the Denver area
23 is very rich in local generation resources but very
24 limited in its outside transmission line
25 infrastructure. If you just had a combined cycle

1 alone, it would be very difficult. Peaking
2 resources will contribute to your ability to react
3 to changes in variable generation resources. But
4 also your transmission interconnection helps
5 immensely.

6 MISO is such a large interconnected grid
7 that one single unit really won't make or break the
8 whole system's ability to react to wind. And what
9 we found since joining MISO is MISO has been
10 fantastic at integrating variable wind generation
11 resources. The amount of spinning reserves that we
12 keep on line -- spinning reserves are kind of
13 keeping one unit at half speed so it can quickly
14 react to any changes. We've actually found that
15 those -- our spinning reserve requirements have gone
16 down because we can rely on our MISO neighbors in
17 that way.

18 Q I -- I just had a question kind of going back to our
19 conversations in the rate case. There was some
20 discussion in your testimony about meeting MISO's
21 regional peak, and I was kind of confused about it.
22 Is that a single peak or is that -- what is that
23 regional peak? What does that mean? Is that an
24 annual? Quarterly?

25 A Oh, okay. What we plan to in the NSP region is to

1 meet our peak during summer. So it's the annual
2 peak. We do plan around other months, and we do
3 this in a few ways. I can give examples.

4 We have a diversity contract with
5 Manitoba Hydro where, recognizing that our winter
6 needs are lower, in the summer we get 350 megawatts
7 from them and in the winter, recognizing we don't
8 need as many megawatts, we send several --
9 350 megawatts to them. In the winter we also have
10 several units that don't have firm gas supply;
11 therefore, they're unavailable during the winter.
12 Blue Lake 7 and 8 and Anson 4, we recognize that
13 paying the extra firm gas contracts on those
14 wouldn't be economic for our customers because we
15 would have excess length in the winter that really
16 isn't needed. And also maintenance scheduling comes
17 into that a lot.

18 I just recently, just for regular
19 maintenance, I noticed on our -- one of our daily
20 reports that we had about 200 megawatts of units out
21 for their fall, you know, regular maintenance. All
22 plants have to go through them. But we schedule
23 them in nonpeak months so we can, you know, balance
24 our reliability throughout the year. But it is just
25 one peak that -- one summer peak that we plan to.

1 Q That's what the capacity factor is based off of is
2 that one summer peak?

3 A That's the capacity need, yes.

4 Q Okay. At other points in your testimony you have
5 talked about demand side management. And I was just
6 wondering what kind of programs does the company
7 have currently with its North Dakota ratepayers for
8 DSM? And you had also mentioned there's -- looking
9 at DSM going forward, do you know what they're
10 looking at?

11 A Sorry, actually I'm not familiar with what specific
12 programs we offer in North Dakota. I know moving
13 forward we are concerned that all the easy DSM has
14 been taken. You know, you -- we changed out all the
15 really inefficient lighting that we could. And
16 there's also federal standards coming down that
17 says -- you know, that completely outlaws some of
18 the old technology as far as lighting and motors.
19 And that makes it hard for us to find new stuff that
20 we can do. So we're always going to be looking
21 in -- if there's additional opportunities in
22 North Dakota, I think we'd explore those.

23 Q Do you think that the -- that the Commission -- is
24 it appropriate for the Commission to try and order
25 demand side management or is that something that

1 should be entered into with the customers and the
2 companies separately from the Commission?

3 A I think the Commission could establish kind of a
4 goal or a target; but then on an individual basis,
5 you know, it really has to be a one off. We looked
6 at, you know, your cooling system in your warehouse
7 to determine what kind of motors that we could help
8 you install and what kind of rebate level would be
9 appropriate. So there's a lot of customer to
10 company one-on-one contact that needs to happen
11 there.

12 Q We've heard a lot about the cost savings about going
13 with these PPAs. And, again, I'd asked this
14 question of Ms. McCarten earlier, and I'll ask it to
15 you. Does cost drive everything or what -- what
16 role does the energy security -- the grid
17 stabilization proximity to load, what role does that
18 play in determining what type of resource?

19 A When we -- we're looking to add a resource, it's
20 really the singular company peak that we need to
21 meet. So that's a first objective. But we do look
22 at, you know, regional/local reliability issues.

23 One example I have is northern Wisconsin.
24 Northern Wisconsin's served by a fairly weak 115 kV
25 transmission system, and it's currently -- there is

1 currently some generation there. It's called
2 Bayfront. It's an old coal unit. Total about
3 50 megawatts actually converted to biomass --
4 actually it burns everything like old railroad ties.
5 It's kind of an amazing old plant. And -- but it
6 was facing the same MATs and EPA rules that our
7 Black Dog 3 and 4 units were looking at. And under
8 normal circumstances, we may have chosen to retire
9 that unit; but because it does -- it is critical to
10 the local grid, we decided to keep that unit
11 running.

12 We had another example in -- it's not in
13 the NSP's service territory, but down in our SPS
14 service territory, a town called Tucumcari. That
15 was served by a single radial line. Just one line
16 going into the city, which not -- is not the
17 situation we have in Fargo. Fargo is served by
18 seven or eight different incoming transmission
19 lines. Recognizing that having just one single
20 transmission line would be an issue, we made sure
21 there was a generator in Tucumcari.

22 So regional reliability does come in --
23 come into play in our decision-making process, but
24 it's just that we haven't identified the Fargo area
25 as being critically in need of additional generation

1 to ensure reliability. Currently we're meeting all
2 reliability metrics around the area. So while local
3 generation does enhance reliability, we haven't
4 identified a need to enhance local reliability at
5 this point. But we'd be open to exploring this
6 issue further.

7 Q So enhanced reliability. What other kind of
8 benefits would there be of local generation?
9 Specifically I guess with Fargo? Can you -- can you
10 testify to any that there might be?

11 A Yeah, I -- job creation wouldn't be very high on the
12 list. The plants like that employ just a handful of
13 people. During construction you'd get a few more
14 construction jobs, but those would only be
15 short-lived. So other -- other than, you know, a
16 minor increase in reliability -- from a level of
17 reliability that we already think is pretty good, I
18 can't identify any additional.

19 Q I think it was in the rate case you and I had a
20 conversation about line loss. And in that
21 conversation, I think it was -- correct me if I'm
22 wrong, but it was determined that North Dakota has a
23 higher rate of line loss than Minnesota and
24 South Dakota. Can you recall, is that correct?

25 A The further distance energy has to travel through a

1 line, the more the losses will be. I will note that
2 the -- most of line losses that you experience are
3 actually in the distribution system. Going through
4 the high, you know, 345 kV system, you lose a
5 relatively small amount of energy. It's really --
6 most of the losses occur in the distribution system,
7 just because you have smaller lines and lower
8 voltages.

9 Q Wouldn't it stand to reason, though, that local
10 generation would lead to lower line loss in
11 North Dakota?

12 A When the units are running -- these are peaking
13 units. We don't expect these to run very much.
14 Maybe 5 percent of the year. So the other
15 95 percent of the year the line losses, I don't
16 think, would be changed.

17 Q Did you happen to factor in the decrease in line
18 loss in your Strategist models for that high
19 percent, though?

20 A We did not. We do not attempt -- line losses would
21 be represented by the local marginal price for
22 energy, the LMPs. And we do not attempt to do
23 long-term forecasts of LMPs at each specific place
24 in our system for the simple fact that it's very
25 suspect. And right now we're seeing fairly

1 consistent LMPs within our service territory. We
2 don't see the diverging.

3 Q We had -- the tables that you had shown earlier on
4 Schedule 4 to Exhibit 2 to -- or Schedule 4 to
5 Schedule 2 to Exhibit 5, yes, yes, those had used
6 the term PVSC. Could you explain for us what PVSC
7 is?

8 A Present value of societal costs. And because this
9 was originally filed in Minnesota, we are required
10 to add some carbon hedge numbers and some small
11 externalities associated with SO2 and some other
12 particulates. So when we include those, PVRR
13 becomes PVSC.

14 Q On Table 9, which is page 39 of Schedule 2 to
15 Mr. Alders' -- to Exhibit 5 --

16 A Yes, sir.

17 Q -- can you identify which column in there would be
18 the PVRR?

19 A In page 9?

20 Q Table 9.

21 A Table 9.

22 Q Which is on page 39.

23 A Okay. Yes, the sensitivity analysis table, the
24 closest thing would be the zero CO2.

25 Q And which the baseline would still be Invenergy

1 Cannon Falls; is that correct?

2 A The baseline would be a combination of Invenergy and
3 Black Dog, correct.

4 Q And then number 2, which is the proposed PPA with
5 Calpine Mankato, what's that plus 23 mean in that
6 column?

7 A It means that if you do Calpine instead of Invenergy
8 but still doing Black Dog in both situations that
9 the total net NPV cost would be \$23 million higher.

10 Q And what about plan number 3, which includes
11 Red River Valley 1?

12 A That would show that Red River Valley would be --
13 plus that GRE short-term purchase, would be
14 \$3 million more expensive than the Invenergy
15 project.

16 Q So under PVRR a Red River Valley 1 plan would be
17 very competitive with --

18 A With the Invenergy? It would be. That has the same
19 long-term versus short-term issue that we discussed
20 before when we were looking at the bar charts. That
21 \$3 million of closeness does depend on that
22 long-term assumption that at the end of 20-year PPA
23 with Invenergy that it gets replaced with expensive
24 new -- brand-new 2037 plant.

25 Q Do you happen to have any of those long-term charts

1 just showing PVRR as opposed to PVSC?

2 A I do not. Overall I expect that the -- the
3 emissions cost in there would be relatively small.
4 I don't know if we could pick up a visual change
5 even. But we could work on developing those for
6 you.

7 Q That would be very helpful, because one of the
8 concerns is that, as was discussed with the Big
9 Stone II ADP years ago, these external -- these
10 environmental externalities are illegal to be
11 considered by the Commission. And so I just would
12 like the Commission to take note of that as well.
13 And I'm sure the company was aware of that.

14 A Understood. But when we're comparing gas to gas, we
15 find these -- these other numbers for environmental
16 factors to be considerably smaller than maybe in a
17 coal case.

18 MR. NORRELL: I think that concludes all
19 of my questions.

20 JUDGE WARD: Mr. Armstrong.

21 CROSS-EXAMINATION

22 BY MR. ARMSTRONG:

23 Q If we could just stay on the sensitivity chart for
24 now. Looking at plan number 5, that Black Dog 6
25 with just Red River Valley 1 not doing the GRE short

1 term, and under the zero dollars CO2, which I think
2 is the closest to PVRR, that also appears to be
3 \$13 million less expensive than plan 2; is that
4 correct?

5 A Number 5 versus number 2 under zero CO2? I -- that
6 would indicate that the Red River Valley is
7 \$13 million less expensive than the Calpine Mankato
8 unit but 10 million more expensive than the
9 Invenergy Cannon Falls project.

10 Q And what -- I didn't catch all of the tables right
11 at the beginning of your testimony --

12 A Sorry.

13 Q -- (inaudible). I didn't see in any of them those
14 at page 2 in comparison to plan 3 or even plan 5.
15 Did I miss that or...

16 A There may have been. My purpose of creating those
17 tables was really try to create head-to-head
18 match-ups between each one of the project proposals.
19 So there should be -- there should be a table that
20 compares -- this would be a direct comparison
21 between Red River Valley and the Calpine Mankato
22 project, and that is one of the tables I went
23 through. So we -- the comparison is in there
24 somewhere.

25 Q So would -- could you just maybe just explain to us

1 why, I guess, you think Calpine is better than the
2 Red River Valley?

3 A I think -- why I think Calpine's better than Red
4 River Valley. Over the first initial 20-year
5 contract life and just in every year, the Calpine
6 will be lower cost than the Red River Valley unit,
7 based on my analysis. It's not until after the
8 contract term ends that we see the Red River Valley
9 unit creating some substantial benefits and bringing
10 the result closer together. And that doesn't start
11 till 2037. And that's based on an assumption that
12 the Calpine contract will be -- have to be replaced
13 with an expensive brand-new greenfield unit.

14 When I looked at the possibility of the
15 Calpine contract being extended, then it started to
16 display clearer economic superiority over the
17 Red River Valley unit.

18 Q And that's under the PVSC. Would that change at all
19 with the PVRR?

20 A No, I don't believe it will.

21 Q What's included in the PVSC that is not included in
22 the PVRR exactly?

23 A It's going to be those CO2 prices. And then there's
24 also a small amount of cost assigned to NOX, PM 10,
25 lead, and carbon monoxide.

1 Q Where do those numbers come from?

2 A Those are established by the Minnesota Public
3 Utilities Commission.

4 Q All of -- where does Red River -- you're in resource
5 planning; correct?

6 A Yeah. Yes, sir.

7 Q Where does Red River Valley 2 fit in right now in
8 the resource plan?

9 A I like the Red River Valley concept. I think Black
10 Dog is about the last site that we can develop from
11 a brownfield perspective. It looked really good.
12 It had all the transmission and gas we needed. We
13 thought that -- and it had land becoming available
14 with retirement of units. So we thought that was a
15 really good-looking place.

16 But moving forward, I think the Red River
17 Valley campus, rather at the originally-proposed
18 Hankinson or if we -- you know, the gas pipeline
19 development changes, if it can be moved closer to
20 Fargo, I think is probably going to remain at the
21 company's fore of our preferred projects moving
22 forward. I don't see us proposing a new baseload
23 plant anytime soon. I don't see us moving to
24 combined cycling. And even if we did move to
25 combined cycle, a Red River site could easily

1 support a combined-cycle type project.

2 So I think Red River Valley 1 and 2 are
3 going to continue to be, you know, at the fore of
4 our next company build preferred projects. It just
5 so happens that -- and I think this is good -- we're
6 in a competitive process right now. A competitive
7 process is going to ensure the least cost for our
8 customers. And, quite frankly, we just got some
9 really, really strong competition, especially from
10 this Calpine plant that's in a really unique
11 economic position that it's half built already and
12 it just needs to do a little bit more to get a lot
13 more power out of it.

14 Q And the reason I had asked specifically, though,
15 about Red River Valley 2 is we're -- that's one of
16 the projects here today, and it's really not showing
17 up anywhere on the plans 1 through 20 or anything.
18 And --

19 A And --

20 Q -- is it going to be built?

21 A Yeah, I think it's maybe a little bit misleading to
22 look at these top 20 plans and not see it. Here's
23 the situation. The way we set up our model and the
24 way these top 20 plans were created was based on our
25 resource need assessment. We showed a small need in

1 2017 growing to that 307 by 2019. And to meet --
2 and we don't think we could get Red River Valley
3 developed by 2017. That means it had to be combined
4 with something else. And when you combine it with
5 something else, either Black Dog or the other PPAs,
6 by the time you build one of those three plus Red
7 River Valley 1, Red River Valley 2 is really more
8 capacity than the model was needing. That's why
9 you're not seeing it in any of these -- in any of
10 these top 20 plans. If we had maybe put in a re --
11 different resource need that showed that we didn't
12 need capacity in two -- 2018, I think you'd see
13 Red River Valley somewhere in these rankings. I
14 don't think they would be right at the top, but I
15 think you'd start seeing them in there.

16 And after we build Red River Valley 1,
17 Red River Valley 2 would be much more attractive.
18 Red River Valley 1 has to bear some of the
19 incremental up-front costs of developing the land,
20 getting the site, getting the transmission, getting
21 the gas. So once -- actually, once Red River Valley
22 1 is built, Red River Valley 2 becomes much more
23 attractive.

24 Q I assume resource planning involves considerations
25 of where to locate generation?

1 A Somewhat. Our main driver is meeting our peak
2 customer demand plus the MISO required reserve
3 margin. Actually in our resource plan we were
4 fairly silent on the issue of specific locations.
5 We really think that it's more this type of process,
6 a competitive acquisition process where you have
7 actual projects on the table, where that discussion
8 happens a little bit more.

9 Q I think -- there's been a lot of discussion today
10 about a desire anyway or some discussion in the
11 past, whatever have you, about locating some
12 generation in North Dakota. You've heard that;
13 correct?

14 A Correct.

15 Q Where does that fit in your job?

16 A Actually, it would fit within this context. If --
17 if we -- if -- in this resource acquisition process,
18 if we had identified, you know, abnormally high
19 outages in the Fargo area that we thought could be
20 resolved by additional generation in the area, we
21 would be, you know, much more strongly advocating
22 that you have to move beyond this PVRR; look,
23 there's regional reliability issues that we have to
24 tackle here, and we would have been much more
25 forceful about that. But the fact that, you know,

1 we're just not seeing, you know -- you know, rolling
2 brownouts or we haven't had, you know, the town loss
3 due to an ice storm. So we just couldn't, you know,
4 make that justification that it's -- reliability in
5 Fargo is really good, but we want to make it really,
6 really good. We just had a hard time making that
7 case.

8 Q What is your closest generation to Fargo?

9 A I wouldn't know off the top of my head. I'm sorry.
10 I'm -- it wouldn't surprise me if we answered that
11 in discovery at some point.

12 Q I think Mr. Alders referred this question to you,
13 but I had asked him if -- with the Invenergy plus
14 the Calpine, if during negotiations those prices got
15 so low that if those two could maybe take over Black
16 Dog. Do you recall when I asked him that?

17 A I do.

18 Q Have you modeled that?

19 A We haven't in the modeling process thus far. We
20 have modeled the PPAs at the price as was bid. I
21 don't expect there to be that much change in the PPA
22 prices. If there's a change, I only expect it to be
23 5 to 10 cents per kW a month, which would result in
24 maybe a million dollar change. The intention really
25 is that the prices in the final PPAs will look very,

1 very close to the prices that are in the PPAs as
2 currently offered.

3 What we're really going to be negotiating
4 around is more terms and conditions, you know,
5 very -- adjustments in the in-service date and
6 things like that. We don't expect the prices of the
7 PPA to change much, if at all.

8 Q Can you explain what's happening with the reserve
9 margin at MISO?

10 A I can try. Two years ago MISO proposed a very
11 fundamental change to the way they calculate your
12 reserve margin. We used to apply a certain
13 percentage to our peak customer demand. That
14 changed. What we now do is apply a different
15 percentage to our customers' demand at the time when
16 MISO as a whole entire region is hitting its peak
17 customer demand. And through an historic analysis,
18 we identified that our load is actually 5 percent
19 down off our peak when MISO's hitting its peak.
20 That essentially allowed us to reduce our reserve
21 margin by about 5 percent. And, consequently, it
22 was a reduction on the order of about 300 megawatts
23 of capacity need.

24 It's one of the benefits that MISO
25 promised when we joined. The concept was, if we all

1 pool our resources together, each one of us
2 individually don't have to carry as much backup
3 because we can share it. And it's actually a MISO
4 promise come to fruition.

5 Since that time -- we went through one
6 summer of that last summer, and recently they
7 completed their annual reserve margin analysis and
8 have since increased the reserve margin requirement
9 by 1 percent. Doesn't sound like a whole lot; but
10 if you have a 10,000-megawatt system, that's 100
11 megawatts right there. So they came down one large
12 step, and now they're taking a little tick back up.

13 MR. ARMSTRONG: Nothing further.

14 JUDGE WARD: Commissioners?

15 Chairman Kalk?

16 CHAIRMAN KALK: Thank you, Your Honor.

17 EXAMINATION

18 BY CHAIR KALK:

19 Q Thank you for your testimony. The -- to follow up a
20 little bit on what Mitch was just talking about, so
21 the -- MISO changing things as they go along, and
22 that's just the way it goes. How do you anticipate,
23 when MISO South gets fully integrated, how this
24 might change what you were just talking about?

25 A You know, I'm not totally up to speed on how the

1 rules are going to be implemented, whether we'll
2 have to have a -- whether we're supposed to be
3 (inaudible) with just MISO North or with MISO as a
4 whole, because the transmission link between MISO
5 North and MISO South is pretty weak. So my
6 expectation is that they'll probably separate them.
7 And if that's the case, we wouldn't have much change
8 at all.

9 Q But if transmission is built from the two, that
10 will -- that could benefit -- that would benefit?

11 A That would probably further diversify the system,
12 lowering our reserve margin potentially, yes.

13 Q Okay. The -- and Mitch and Ryan actually did a very
14 good job of asking most of the questions that I had.
15 The -- Grand Forks, we haven't talked much about
16 Grand Forks. That's a big load area for you. How
17 does the power get in and out of Grand Forks? You
18 talked about Fargo having a lot of paths in there.

19 A And I looked at a transmission map of -- I'm not a
20 transmission expert, but I did look at a
21 transmission map of the Grand Forks area, and it
22 does have multiple transmission lines in and out.
23 It's definitely not on the end of just one radial
24 line. I counted about four large transmission lines
25 going in and out of Grand Forks.

1 Q Okay. And it was interesting -- you brought up --
2 and the viewpoints are always different, of
3 course -- about reliability in Fargo not being an
4 issue. And it was a huge issue in the last rate
5 case we had. And so it's interesting how different
6 parts of the company look at things differently.
7 Because it was -- it was such a big issue that we
8 ended up giving Xcel a lot more money to install
9 these Intelliteam switches, and the -- Xcel has
10 agreed to certain triggers to give customers
11 rebates. So I would view reliability in Fargo as a
12 big issue.

13 A And I think it is a -- different parts of the
14 company view reliability in different ways. My
15 understanding is that -- well, my perspective
16 functions on a generator and a transmission level.
17 Once you get down to the distribution level, that's
18 where my job responsibilities really stop.

19 Q That makes sense. Okay.

20 A And I think -- I think most of the reliabilities,
21 from what I understand, that have been occurring in
22 the Fargo area are really -- are associated with
23 the, you know, local distribution system, you know,
24 the lines running down your alley and things like
25 that.

1 Q That's a fair point. Okay. The -- I think I'm
2 tracking the discussion about the aggressive DSM
3 programs. You're saying that there's not a lot more
4 going forward. You've really got what you call most
5 of the low-hanging proof right now?

6 A That -- that's a concern that's on our radar. We
7 always had very aggressive DSM goals, and we've
8 always achieved those goals. And I think we've
9 always even set the expectation that will even
10 achieve more than our target. And right now --

11 Q How do you set that? Is there some -- is there some
12 goal that you've been given by Minnesota on DSM like
13 renewables or --

14 A As part of the resource planning process, there is a
15 state goal set forth in the Next Generation Act.
16 But it's really a function in the resource planning
17 process. We try to estimate how much DSM do we
18 think we can achieve, what are the cost impacts of
19 going -- of that going to be, and is that a good or
20 not good a deal for our customer. That's a high
21 level.

22 And then we do a three-year plan that's a
23 lot more detailed that looks like, okay, resource
24 plans set a target of about 50 megawatts; the
25 three-year plan will go program by program by

1 program, cost of benefit analysis of each one of
2 those programs, to lay out how we're going to meet
3 that 50.

4 CHAIRMAN KALK: Okay. Thank you very
5 much.

6 JUDGE WARD: Commissioner Christmann.

7 EXAMINATION

8 BY COMMISSIONER CHRISTMANN:

9 Q When you talked about power purchase agreements, at
10 one point you mentioned making an assumption at the
11 end of 20 years the power purchase agreements would
12 be renewed another 10 years. What price did you
13 figure on those?

14 A That is a sensitivity test that we did. And all the
15 PPAs that we've been offered have a gradually
16 increasing monthly charge, And we assume that it
17 continued to increase at its current escalation
18 rate. So if at the end of the contract it was \$10
19 per kW month escalating at 2 percent, we just kept
20 on that 2 percent.

21 Q Is that how you figure maintenance and repair costs
22 on facilities that you own, because it will always
23 just keep escalating at the same rate, or -- or is
24 there a different way of looking at that where it
25 occurs and, as they get older, the costs are going

1 to go up?

2 A Actually, I have kind of the counter-expectation
3 when it comes to PPAs. At the end of 20 years, my
4 understanding is that the plants will largely be
5 paid for by the independent power producer. That
6 the -- if it's Calpine, their book value will be
7 fully depreciated, they will have recovered the cost
8 to construct the thing. And so they'll have, you
9 know, essentially a free plant sitting there.

10 But going back to your specific question
11 about how we do it for our own plants, we do have a
12 small -- a regular escalating assumption for regular
13 maintenance, but we also include periodic overhauls.
14 So you'll see our costs for a known plant kind of
15 decline over time as it gets older. We'll put in a
16 major overhaul. So it's kind of this sawtooth
17 pattern, actually.

18 Q At some point the maintenance costs must start to
19 rise or you wouldn't only figure 20 or 30 years life
20 expectancy, it would just seem to me.

21 A Oh, I think I understand what you're saying. At
22 some point it becomes uneconomic to replace, I
23 believe. But I don't believe that's within the
24 20-year window. I believe it's considerably further
25 beyond. We pointed you to a few plants earlier that

1 are now -- I guess I'm 40, so they must be 40-some
2 too. And they're still -- they're still operating
3 and serving our system.

4 Q Do you agree with Mr. Wishart's (sic) -- the way he
5 phrased the answer, that it's an extremely unlikely
6 scenario where construction of new generation in the
7 Fargo area would enhance the local reliability as a
8 power grid?

9 A I think it's -- my perception is that it won't have
10 a significant improvement. My perception is that
11 whenever you add either more transmission lines
12 coming in even or local generation coming in or
13 local programs to control load directly, contracting
14 with, you know, large industrial customers to have
15 them reduce their load if something bad happens, any
16 of those measures can enhance the local reliability.
17 But I think -- I think that we are -- we're in
18 agreement that the incremental -- that enhancement
19 to any kind of reliability might be, you know, too
20 small to economic -- to justify the economic
21 investment.

22 Q So now you say it's too small to justify the
23 economic investment. But I believe this is your
24 testimony in Minnesota, talking about the fact that
25 the Red River Valley units compare favorably to the

1 Calpine and Invenergy proposals, and then going on
2 to say, An additional consideration is that the
3 company currently does not have generation resources
4 located near its load centers in North Dakota;
5 construction of new generation in the Fargo area
6 would enhance the local reliability of the power
7 grid.

8 That sounds like a whole different answer
9 than what you just gave me.

10 A My -- I did agree that adding generation would
11 enhance reliability. And I have to say, since I've
12 been in this position about a year and -- a year and
13 three-quarters, and one of the first things I did
14 was come up here to testify on the Prairie Rose
15 matter. And I received the message loud and clear
16 that generation in North Dakota is important,
17 natural gas generation near your load centers are
18 important, and we're trying to carry that message
19 forward for you. Whether I --

20 Q But did -- did you deliver that message and then
21 they told you, no, forget that message and here's
22 the message you send back to North Dakota or --
23 because, like I say, now it sounds like a different
24 story than what I read earlier.

25 A No, no. In my testimony the point I was trying to

1 get across is that -- well, all these -- all these,
2 you know, options are fairly good. These are all
3 fairly close together. This is fairly close space
4 competitive process. But what I couldn't say in my
5 testimony is that I can justify that extra
6 incremental year-by-year costs over the first
7 20 years for Red River Valley just for local
8 reliability reasons. I couldn't make that economic
9 justification. It doesn't say that if you don't add
10 generation in your load it doesn't enhance things.
11 But my message was that without -- I didn't say
12 this, but if asked I would have said I can't justify
13 spending that extra money to build Red River Valley
14 just in the name of local reliability, because we
15 believe reliability in our Fargo area from the
16 transmission and generation perspective is fairly
17 strong at this point.

18 COMMISSIONER CHRISTMANN: No other
19 questions.

20 JUDGE WARD: Commissioner Fedorchak.

21 EXAMINATION

22 BY COMMISSIONER FEDORCHAK:

23 Q Okay. I've got a variety of questions, Steve, so
24 bear with me.

25 A Not a problem.

1 Q I think I'll start with these resource need
2 assessment tables. There's a few of them, and I --
3 I think I'm looking at the most recent one, which is
4 probably the one we should look at, from September
5 of 2013. It was updated from your original
6 testimony. And I've got one on the Alders'
7 supplemental, so the stuff -- I think this is what
8 he filed on November 14th, and it's page 7. But I
9 also have from yours, this is from the Minnesota
10 docket, and it's page 4 of yours, and it goes
11 back -- it starts a little sooner. So --

12 A Oh, yes.

13 Q -- it includes 2016. So, anyway, what I'm looking
14 at is the -- I'm just curious about a couple of
15 things, and it will help me better understand how
16 you guys use this. But you break down the -- this
17 is your estimated demand, right, or load? This is
18 what you're estimating needing?

19 A Yes, the top line is our peak customer demand, and
20 that second portion below it is the resources we
21 think we'll have to meet that load.

22 Q Okay. So how do you break those down? Because I
23 see that over time the gas goes from 2017 --

24 JUDGE WARD: Commissioner --

25 BY COMMISSIONER FEDORCHAK:

1 Q -- and drops a little?

2 JUDGE WARD: -- just so everybody's on
3 the same page, we're looking at page 6 of 98 in the
4 upper left-hand corner? That's the Wishart direct
5 testimony, page 4 on the bottom?

6 COMMISSIONER FEDORCHAK: Well, that will
7 work too. I'm actually looking at page 7 of the
8 Alders' supplemental.

9 THE WITNESS: Which is page 9 of 98 for
10 some reason.

11 BY COMMISSIONER FEDORCHAK:

12 Q It is? Not in mine.

13 A It's 7 down on the bottom, and then it's 9 of 98 in
14 the upper left hand.

15 UNIDENTIFIED SPEAKER: There are two.

16 THE WITNESS: Oh, they're all over the
17 place.

18 JUDGE WARD: Okay. Just so we're all on
19 the same page.

20 BY COMMISSIONER FEDORCHAK:

21 Q Okay. So, anyway, I'm looking at the gas line, and
22 it's showing 2017. It drops a little bit. And then
23 the -- I'm surprised more by the wind hydro and bio
24 that drops, you know, 50 megawatts or so more. How
25 do you guys decide this, what's going to -- how you

1 split those up among those various --

2 A Sure.

3 Q -- resources?

4 A The changes that you're seeing in that table are
5 really a reflection of the capacity accreditation
6 that MISO gives us. Every spring we go through a
7 process where MISO looks at the tested unit rating,
8 which can vary by several megawatts per year, and
9 then MISO also has reliability rating that it also
10 applies to it known as UCAP. So I think the changes
11 that you're seeing are really a reflection of
12 differences in the rated capacity and the UCAP. And
13 specifically under that wind hydro/bio, we had a
14 Goodhue wind PPA that was on the table at the time,
15 but in between those two loads and resource analysis
16 it -- the project was canceled. So I think that
17 would account for some of that drop too.

18 Q Okay. And then is this where we see this -- the
19 line on solar, the solar mandate, you guys are just
20 assuming you have to have this on line there?

21 A Correct. That was our preliminary first cut of what
22 we think the accredited capacity will be associated
23 with that solar mandate. Similar to wind, because
24 it's a variable generation resource, it doesn't
25 account for 100 percent.

1 Q Um-hum.

2 A Wind's at about 13. We think solar will be about
3 50 percent.

4 Q Okay. Okay. Then moving to this page 39, that
5 chart with the sensitivity testing on the PVSC.
6 It's page 39 of your Wishart direct is what it says
7 on the bottom.

8 A Um-hum.

9 Q On top, page 41 of 98. So you've got the low gas
10 assumption -- you talk about the high gas assumption
11 in Calpine on the scenario too being, you know, a
12 money saver under high gas. But it also looks to me
13 like it's expensive with low gas. So most of the
14 predictions are for low gas. Why would you put so
15 much emphasis on the high gas being like an
16 important consideration when it's more expensive
17 than low gas?

18 A You're right, it is -- it's a symmetric
19 relationship. And that's why, you know, we tend to
20 gravitate to the base case first, because that's in
21 the median. Maybe it might be just a reflection of
22 when I started resource planning. I started when we
23 were going through those severe natural gas price
24 spikes, and I remember the dissatisfaction from our
25 customers when gas was that expensive and we didn't

1 have anything to do to control it. So, you're
2 right, it's a symmetric relationship. It's just as
3 possible gas is low as gas is high. So I guess it's
4 more, you know, a reflection of personal experience.

5 Q Well, if you would look at most of the predictions,
6 I think it's not just as likely that gas is going to
7 be high versus, as most people are suggesting, it's
8 going to be low.

9 A We do -- we use a --

10 Q We're banking a lot on it.

11 A Yeah. We do consult with three national forecasting
12 agencies. They have big national models of not just
13 electricity, but the entire energy system. And we
14 use an average of those three different forecasts to
15 develop our median, which is in the base forecast.
16 So I think we are taking into account different
17 perspectives on high versus low.

18 Q Okay. And then just so I understand the differences
19 here a little bit too, under the zero CO2 column why
20 is Calpine not as competitive as the Red River
21 Valley as -- so 2 versus 5, why is that? What's
22 different about those projects?

23 A You know, well, the difference between the Invenergy
24 and the Calpine and why you see a bigger difference
25 under the zero CO2 scenario, Calpine's an

1 intermediate combined-cycle unit, meaning we expect
2 it to operate, you know, up to 35 percent of the
3 hours. Invenergy kind of falls as a peaker. We
4 expect that to operate much less. Maybe 5 percent.
5 Maybe less.

6 The difference in where that energy comes
7 from is primarily made up from MISO market purchases
8 that we have simulated in our model. And MISO
9 market purchases, because MISO is a predominantly
10 coal system, it looks like it has a high coal type
11 emission rate.

12 So under the base case, the Calpine
13 contract helps to avoid some of that CO2 and looks
14 relatively closer under the zero CO2. The model's
15 not recognizing the avoidance of that MISO energy
16 purchase; and, therefore, Calpine looks more
17 expensive relative.

18 Q Okay. All right. In some of this testimony I read
19 that Calpine or Invenergy, one of them uses fuel
20 oil?

21 A Invenergy Cannon Falls does have a fuel oil backup
22 system. They have two existing units that currently
23 operate off the existing future oil tank. This
24 would be a third unit, and they haven't specified
25 any additional tankage. So now we have three units

1 sharing a tank that was originally designed for two,
2 so we didn't give that a whole lot of credit in the
3 analysis.

4 Q So how does the fuel oil affect the costs, the
5 environmental issues, all that? I mean, is that a
6 viable long term...

7 A No, it's only used as a backup fuel, in case of only
8 emergencies. The primary gas unit, it will burn
9 natural gas 99 percent of the time. Kind of like
10 having a fuel oil backup there, just in case
11 something goes really wrong with the natural gas
12 system.

13 Q Got it. Also Calpine and Invenergy have
14 unidentified transmission costs or just one of them?

15 A Invenergy has the transmission issue. Calpine,
16 because it's mostly built constructed plant, I think
17 it's looking in really good shape from a
18 transmission perspective. Invenergy Cannon Falls
19 does have to go a few miles on -- they have to
20 figure out some right-of-way issues to get their
21 plant interconnected, and they propose to pass those
22 costs through to customers. And that's one of the
23 things we're going to strongly oppose through
24 negotiations. If they're going to be the ones
25 making the profits off the projects, we want them to

1 take all the risks.

2 Q And so if customers are going to be paying for that,
3 will you be rerunning the models to see if that's
4 still the lowest-cost option?

5 A Our position's going to start off being: Your price
6 is what it is, we don't like this provision, just
7 take it out. So that's going to be our baseline
8 negotiations. If they, you know, say -- if they
9 propose a price increase to take out that provision,
10 we have the Calpine project sitting there as a
11 second stocking horse. Then we also have Red River
12 Valley. So I think we're in a strong negotiating
13 position with Calpine to win on that one --

14 Q Okay.

15 A -- or Invenergy, rather.

16 Q And is Invenergy's a -- where does the energy from
17 Calpine and Invenergy currently go? Those are
18 independent power producers?

19 A Correct. And they're currently under long-term PPAs
20 with us. Those were signed up in the early 2000s.

21 Q Okay. And so the one that's half built, if you guys
22 don't do this, then what happens? I'm --

23 A We have a contract for the first 350 megawatts of
24 it. It operates fine. And our contract with them
25 would continue on as is.

1 Q They just won't expand?

2 A They just won't expand, correct.

3 Q Are there any other extra costs that aren't included
4 in the power purchase agreement that customers might
5 have to pay for on those proposals?

6 A No. We've been trying -- through our review of the
7 proposal and try to be very comprehensive about
8 identifying all the costs that could potentially be
9 associated with these. Outside the contract costs,
10 there are gas delivery charges. The typical
11 arrangement is that, even for an independent power
12 producer, we're in charge of supplying the natural
13 gas. We developed internal cost estimates for that
14 and assigned them to the projects. But other than
15 that, there wouldn't be any additional costs from
16 these projects.

17 Q The fuel cost is included as a set price or...

18 A It -- the fuel cost is two components. One is the
19 commodity; just kind of every unit of gas you take,
20 we include that in the model. And then there's an
21 annual fixed charge for kind of the supply line.
22 We've included that too.

23 Q All right. A couple other questions here. If you
24 -- if you sign one or both of these power purchase
25 agreements and you turn out not needing the pow --

1 the actual power from the Black Dog unit that you're
2 going to convert, what will you do with that unit,
3 the coal unit that needs to be shut down and...

4 A The coal unit needs to be shut down irrespective of
5 what the outcome of this is. EPA signed -- or
6 established the MATs rule, mercury and other air
7 toxins rule, which is going to shut -- force
8 shutdown of that unit in early 2015. Spring of 2015
9 to be precise. And that's going to happen no matter
10 what.

11 We did mention the analysis earlier. The
12 cost of retrofitting a 1950s vintage small coal
13 plant located in a metro area, along with the
14 necessary equipment to comply, was much higher than
15 any kind of replacement cost. So that's going to
16 move forward no matter what.

17 Q Is there some efficiencies gained by retro -- or
18 converting it to gas?

19 A We do -- did look at retrofitting that unit to gas a
20 little bit. It'd essentially be, you know, like
21 melting -- or boiling a pot of water on your stove.
22 It would be very inefficient and very inflexible.
23 So we did look at that, but we didn't think that
24 would be a viable option from a cost effectiveness
25 perspective.

1 Q Then this is just a little mor forward thinking.
2 But in our last discussion with your company on the
3 power purchase agreements, we talked about the need
4 around the corner, maybe five years from now, of
5 replacing some of your baseload units. How much are
6 you looking at that with this in looking, like,
7 bigger at the long term of starting? Let's say a CT
8 in the Red River Valley that could be converted to a
9 combined-cycle bigger plant down the road that fits
10 all of those needs --

11 A That's --

12 Q -- it has more expandible capability.

13 A That's an interesting perspective. You know, we
14 recently did do a big study on our Sherco 1 and 2
15 baseload coal plants. Those would probably be first
16 in line of anything that would be retired. The
17 conclusion coming out there is there's no compelling
18 reason to retire those right now. I think -- and I
19 don't expect -- I don't expect significant federal
20 carbon legislation that would require those to shut
21 down anytime soon. So that it really did not play
22 into this analysis a whole lot.

23 We were operating under the assumption
24 that those units are going to be on line for the
25 foreseeable future. But in the event that something

1 does happen to those units, either NOX regulations
2 or CO2 regulations, we could quickly move to
3 building a combined cycle at Red River Valley,
4 whether we had one existing CT already or not.
5 Actually, the most cost effective thing would
6 probably be to build it all in one fell swoop. So
7 that's staged approaches; something that's feasible.
8 But I don't know if it would buy us a whole lot of
9 economics.

10 Q Okay. And then I think -- can you be more specific
11 at all about the load growth? You said your load
12 growth is growing in your entire system, but you
13 didn't -- and most as a percentage wide -- wise in
14 South Dakota. But talk a little bit about what you
15 know about what's happening in North Dakota.

16 A In North Dakota I believe we -- we do file a
17 ten-year annual report with North Dakota that lists
18 our projections of peak demand growth in
19 North Dakota. I believe the peak demand growth is
20 about half a percent per year. And on the basis of
21 North Dakota being about 5 percent of our load, that
22 will translate into 60 or 70 megawatts worth of
23 demand growth over the next ten years.

24 Q Do you know, when was the last time you -- what year
25 are those numbers from?

1 A That would have been filed yet earlier this year. I
2 think --

3 Q Okay.

4 A -- it was a July filing.

5 Q All right. And then Ms. McCarten talked a little
6 bit about the -- if we were to make some ruling
7 based on reliability or -- that we would need a
8 fully-developed reliability record. What would that
9 be?

10 A You know, to -- we would want to establish the fact
11 that somehow the reliability in the region's
12 lacking. We would look at -- we would look at
13 historical outage data for our load centers in
14 North Dakota, and we would have to disentangle what
15 was distribution level versus what was transmission
16 and generation; and we'd have to compare that to
17 other areas on our system, Twin Cities area,
18 Wisconsin, et cetera. I think you would need that
19 type of information to be able to establish the fact
20 that reliability in the region is somehow lacking
21 and needs to be addressed.

22 COMMISSIONER FEDORCHAK: Okay. All
23 right. That's -- that concludes my questions.
24 Thank you.

25 THE WITNESS: Thank you.

1 JUDGE WARD: Commissioners, anything
2 else?

3 Chairman Kalk.

4 CHAIRMAN KALK: Just a couple more.
5 Thank you for your -- for your time.

6 THE WITNESS: Not a problem.

7 FURTHER EXAMINATION

8 BY CHAIR KALK:

9 Q Just I made very direct questions, I guess. The --
10 you were talking about it's hard to justify the
11 cost -- increased cost for local reliability. Okay.
12 That's what you said. But how do you -- how do I
13 justify to North Dakota ratepayers the increased
14 cost North Dakota pays for renewable energy
15 standards in Minnesota, Minnesota's Metropolitan
16 Emissions Reduction Project, Minnesota's
17 Community-Based Energy Development programs? How do
18 I justify those to North Dakota customers?

19 A That's a good question, Commissioner. You know, we
20 comply with the rules that are given us to the best
21 and least cost of our abilities. Those were --

22 Q It looks like it all works one way, though.

23 A Is there a rule that you've established for us that
24 we haven't complied with?

25 Q There may be an order when we're done here that says

1 that. I mean, does that -- is that what it takes?

2 A Well, the best we can do is try to comply with the
3 rules that are given to us in the least-cost
4 fashion.

5 Q Okay. That's fair. That's a fair statement. The
6 rules that you're given in the least cost. So then
7 the next thing is do you think it's fair, equitable
8 treatment perhaps, that North Dakota pays 5 percent
9 of everything and there's no generation in this
10 jurisdiction?

11 A I think that the electrons we deliver to our
12 North Dakota customers are just as reliable as
13 electrons that we deliver all over our service
14 territory, not only Minneapolis, but also Wisconsin
15 and a little bit of Michigan.

16 Q Did you know that North Dakota was the only state
17 that you didn't have generation in before today?

18 A I was well aware of that. We've been receiving your
19 message for a while.

20 Q No. But, I mean, doesn't that just seem odd?

21 A No. There's lots of places in America that are
22 served by transmission and --

23 Q Given all the generation that's available in
24 North Dakota, from the full suite of coal to wind to
25 natural gas to hydro, the most energy-rich state in

1 your service area, and you still don't have
2 generation here?

3 A I think you make a point that you are energy rich.
4 I mean, just because we don't own the generation
5 doesn't mean there's not generation in the region
6 that's -- the electrons are actually flowing to our
7 customers. The way the grid is interconnected, it
8 doesn't necessarily have to be our unit to -- to add
9 to the reliability of our customers in North Dakota.
10 It's all interconnected. So as long as there is
11 generation, I think there's -- there's a generation
12 reliability benefit there.

13 Q That's a fair point. So you put it back the other
14 way, saying that there's so much generation here
15 that you can have access to it through shared
16 contracts like you serve up in Minot?

17 A It's a similar concept, yes. I mean, it wouldn't
18 make -- if there was a big coal plant right next to
19 Fargo that was reliably serving Fargo, even though
20 we didn't own it, it wouldn't make much sense for us
21 to build a redundant, duplicate plant right next
22 door.

23 Q We do have a transmission constraint from central
24 North Dakota to eastern North Dakota.

25 A Central North Dakota. Eastern North Dakota.

1 Q So it's not as easy as our --

2 A Right. Right. Right. It's not that we can export
3 energy from Bismarck right over to --

4 Q Right.

5 A Understood.

6 Q Back to what you said before, I want to make sure
7 that I'm semiclear on what you said. You said you
8 do your best -- the company does it's best to do the
9 least cost given the rules it must follow?

10 A That's true. And we've also heard your message. I
11 mean, we've taken your message about North Dakota
12 generation very seriously and worked really hard at
13 developing --

14 Q If this order comes out and it says that you will do
15 this by this time, how much weight will that carry
16 and will you then comply with it or will you just
17 say, nah, we ain't gonna do it?

18 A I don't believe that's my call. Like you said, I
19 recommend decisions; I don't make them at the
20 company, unfortunately.

21 Q Who --

22 A We would --

23 Q Who should I ask that question to that's here today?
24 Do I get back to Laura then to --

25 A I think Laura would be the most appropriate. I know

1 we would take it seriously. I know we would --

2 Q Don't shoot --

3 A -- bring it forward.

4 Q -- the messenger. That wasn't my goal here. But
5 I've just been quiet all morning, and I'm not quiet
6 anymore. So thank you.

7 A Sure.

8 COMMISSIONER FEDORCHAK: You've been
9 quiet?

10 JUDGE WARD: Commissioner Christmann, did
11 you --

12 COMMISSIONER CHRISTMANN: I have no
13 follow-up.

14 JUDGE WARD: Okay. Mr. Simpson, any
15 follow-up?

16 MR. SIMPSON: Just some minor issues for
17 the record, Your Honor.

18 REDIRECT EXAMINATION

19 BY MR. SIMPSON:

20 Q Mr. Wishart, would it be possible to provide some of
21 the same data here with the externality items
22 deleted just to make sure we have a complete record
23 as a late-filed exhibit?

24 A Absolutely. It would maybe take a week to get
25 together the data, but we could file that for sure.

1 MR. SIMPSON: Then we'd propose to enter
2 that as a late-filed exhibit.

3 JUDGE WARD: I don't think --

4 UNIDENTIFIED SPEAKER: No objection.

5 JUDGE WARD: -- there's any objection to
6 that. Anything else?

7 MR. SIMPSON: Just one more question.

8 BY MR. SIMPSON:

9 Q Mr. Wishart, when you do your resource planning on
10 the system, you essentially assume deliverability
11 wherever you might locate the generation systemwide;
12 is that a fair assumption?

13 A When we do our resource planning process, correct,
14 we use generic units that are assumed to be able to
15 deliver to anywhere in our service territory.

16 Q And if there are problems with deliverability,
17 that's when you start addressing other measures?

18 A Correct. If there's a local reliability issue, then
19 that would be handled fairly separately.

20 Q And as of right now, as you do your resource
21 planning for the system, you aren't aware of any
22 within North Dakota?

23 A Correct. Moving into our next resource planning
24 phase, we wouldn't identify reliability in the
25 North Dakota region as a critical factor that

1 needs -- you know, that needs special -- special
2 issues to address.

3 Q And so from a resource planning perspective, would
4 that mean that you would look to try to find the
5 most cost-effective generation you can -- you can
6 find; and if that would be in North Dakota, then you
7 would locate resources in North Dakota?

8 A Absolutely. Without specific, you know, local
9 issues that are, you know, needed to be addressed,
10 then we would go least cost first.

11 MR. SIMPSON: All right. I have nothing
12 further.

13 JUDGE WARD: Mr. Norrell, any questions?

14 MR. NORRELL: No, Your Honor.

15 JUDGE WARD: Mr. Armstrong?

16 MR. ARMSTRONG: No.

17 JUDGE WARD: Okay. Mr. Wishart, you can
18 step down.

19 (Witness excused.)

20 JUDGE WARD: I think we'll take about a
21 ten-minute break here. As I understand it, we still
22 have two more NSP witnesses; is that correct.

23 MR. SIMPSON: We have Mr. Ford in reserve
24 and then Ms. McCarten if the Commission wishes to
25 speak to her.

1 JUDGE WARD: All right. Ten minutes.

2 CHAIRMAN KALK: And then, Ryan, Mike's
3 your only witness?

4 MR. NORRELL: Yes.

5 (Break.)

6 JUDGE WARD: Okay. Back on the record.

7 Mr. Simpser, call your next witness.

8 MR. SIMPSEY: Oh, Your Honor, we've been
9 informed by advisory staff counsel that the company
10 does not need to recall Ms. McCarten. So,
11 therefore, we're going to call Mr. Greg Ford to the
12 stand.

13 JUDGE WARD: Mr. Ford. Mr. Ford, I think
14 you were in the room earlier when I gave the perjury
15 admonition. So if you'd just raise your right hand.

16 GREG FORD,

17 after having been first duly sworn, was
18 examined and testified on his oath as follows:

19 JUDGE WARD: Thank you.

20 DIRECT EXAMINATION

21 BY MR. SIMPSEY:

22 Q Mr. Ford, I have no prepared questions for you. I
23 just want to make -- you're -- just make everyone
24 aware, you are the person who put together the cost
25 estimates and sort of the viability and feasibility

1 of the Hankinson plant on behalf of the company?

2 A I am.

3 MR. SIMPSON: I have no further
4 questions.

5 JUDGE WARD: Mr. Norrell.

6 MR. NORRELL: Thank you, Your Honor.

7 CROSS-EXAMINATION

8 BY MR. NORRELL:

9 Q Good afternoon, Mr. Ford.

10 A Afternoon.

11 Q I just -- my question's kind of straightforward,
12 simple is, is it safe to say the CTs proposed in
13 this ADP would outlast the PPAs that are being
14 proposed in the Minnesota process?

15 A Absolutely.

16 Q And do you know about how many years a CT is
17 expected to last?

18 A It depends on how they're operated. Number of hours
19 of operation and number of starts are what we
20 usually use as a factor in their life. For these
21 large-frame combustion turbines, the general rule of
22 thumb at this point is 5,000 starts for a peaker
23 unit. If we assume 6 hours per start and the
24 capacity factors of 5 percent, it's about 75 starts
25 a year. It's roughly 67 years. It's -- it's really

1 three major overhauls is what you aim to get to with
2 the machine. After that, you can inspect the
3 machine; and if it's been properly handled, in good
4 condition, it likely could run another eight to
5 ten years, maybe more.

6 MR. NORRELL: Okay. Thank you very much.
7 I have no further questions.

8 JUDGE WARD: Mr. Armstrong.

9 CROSS-EXAMINATION

10 BY MR. ARMSTRONG:

11 Q What is your position, Mr. Ford?

12 A I'm the director of engineering. That's the short
13 title.

14 Q Are you an engineer?

15 A Yes, sir.

16 Q Okay. I'm here with Mr. Lein. He's also an
17 engineer. So I feel like I'm a go-between between
18 two engineers here, so bear with me.

19 A Good luck.

20 Q What are the engineering advantages of having
21 generation closer to load?

22 A It's a really difficult and complicated question.
23 As the electric industry developed, there were a lot
24 of municipal utility plants that served individual
25 municipalities with their own generation, their own

1 distribution. Over the years the transmission grew
2 to interconnect all of those municipals, and most of
3 that small generation disappeared. And that was
4 purely an economic decision.

5 The economics of generation tend to go to
6 larger units, central station facilities with
7 extensive transmission and distribution. As long as
8 you can provide good transmission to a location,
9 multiple lines, high reliability, I see no reason to
10 require generation in any one location. It then
11 becomes more of an issue of availability of fuel,
12 water, land, and transmission access.

13 Q But are there some advantages, though, to having
14 generation closer?

15 A There are some. As Steve indicated earlier, I
16 believe locational market pricing is a reported
17 number from MISO on a regular basis. Some areas do
18 show higher costs than others, due to transmission
19 congestion primarily. But it's a -- it's a
20 constantly-changing number.

21 Q Does it help with stability?

22 A It can.

23 Q How so?

24 A I'll use Denver as an example. We recently
25 installed a synchronous condenser at our Cherokee

1 station just north of downtown Denver. It is
2 actually the heart of the area in Denver, not out in
3 a rural area. But that plant had historically been
4 running at pretty significant power factors for
5 voltage support and power factor correction. We
6 converted an old generator on a unit we were
7 retiring, 100-megawatt unit, to a synchronous
8 condenser to provide the power factor support. And
9 it currently provides roughly 80 Mva of power factor
10 support.

11 Q So would -- would a CT help address power factor
12 issues caused by relying too heavily on
13 transmission?

14 A It can, yes. But as a peaker, since it's not on
15 line more than a few hours at a time, it's probably
16 not what I would call a good resource for power
17 factor support. You need something that's available
18 continuously.

19 Q Such as?

20 A Either a synchronous condenser or capacitor banks.

21 Q Would you agree that voltage stability has been a
22 significant operational issue in North Dakota?

23 A I've been told that, yes.

24 Q Haven't there been operating agreements between the
25 utilities to manage the voltage stability problems?

- 1 A Yes, I believe there are.
- 2 Q Are you familiar with index?
- 3 A No.
- 4 Q Go to export constraint?
- 5 A I've heard the term, but I don't know anything about
6 it.
- 7 Q So I suppose you wouldn't know if adding generation
8 at Hankinson would increase the index limits?
- 9 A No, I do not.
- 10 Q Wouldn't more generation help address the voltage --
11 more local generation help address the voltage
12 stability problems?
- 13 A Potentially it could, yes.
- 14 Q What do you mean by that, potentially?
- 15 A Well, again, it's --
- 16 Q Well, let me rephrase that. Why -- why wouldn't it?
- 17 A As a peaking unit, I would tend to say it's going to
18 be more difficult to provide voltage support. You
19 really need intermediate -- intermediate or baseload
20 unit to do that.
- 21 Q Isn't the problem on-peak, though?
- 22 A Not always.
- 23 Q Is it usually?
- 24 A That I'm not sure of.
- 25 Q So it would at least help during peak times?

- 1 A Probably, yes.
- 2 Q What happens to system stability if we lose a bunch
3 of transmission lines from, say, an ice storm?
- 4 A Well, you have issues with power supply in total.
5 You may get to the point of having some
6 instabilities in the remaining grid, voltage
7 infrequency problems, power -- power factor
8 problems. Primarily it would be load handling
9 capability, is my understanding.
- 10 Q And couldn't a significant result of that be
11 Red River Valley going black?
- 12 A It could. That could apply to almost anywhere.
- 13 Q And that's come close to happening in the past,
14 hasn't it?
- 15 A That I don't know.
- 16 Q Wouldn't a generation plant close by be a good
17 option to have if that event occurred?
- 18 A I guess I would recommend multiple units, not one,
19 if that was what was the desire. Having one unit
20 doesn't really improve much reliability in any
21 system.
- 22 Q How about two?
- 23 A Two doubles it. Three might triple it. But you get
24 my point. It would help to have multiple, not one.
- 25 Q Well, and I think maybe you get the point too that

1 for -- you know, maybe even if it's not something
2 that's likely to happen, or happen often I should
3 say, it's something that could happen, and there is
4 some benefit, isn't there, to having some generation
5 in the service area in North Dakota, whatever that
6 may be?

7 A Well, I believe Mr. Wishart answered that to some
8 extent. There are significant generation resources
9 in the state. They don't happen to belong to
10 Northern States Power Company, but those do provide
11 some of the redundancy in the system overall.

12 Q Are they located in the Red River Valley?

13 A I believe there's a couple small generators in the
14 Red River Valley. I think most of the generation is
15 west.

16 MR. ARMSTRONG: That's all the questions
17 I have.

18 JUDGE WARD: Commissioners, questions for
19 Mr. Ford?

20 CHAIR KALK: None, Your Honor.

21 COMMISSIONER FEDORCHAK: None?

22 JUDGE WARD: Commissioner Fedorchak.

23 EXAMINATION

24 BY COMMISSIONER FEDORCHAK:

25 Q Well, Mr. Ford, you've been sitting here most of the

1 day --

2 A Yes.

3 Q -- listening to this discussion, and we've asked and
4 several times questions have been kicked to you. So
5 I'm just going to ask you generally --

6 A Thank you.

7 Q -- what have you heard that you would like to
8 comment on or refute or add to in the discussion
9 this morning about the issues we're considering
10 here?

11 A I would have to say I generally agree with
12 everything that was put forward today. I didn't
13 write down the questions specifically that were
14 redirected toward me. So if you would like to ask
15 any of those questions directly, I'd be willing to
16 answer them. I -- I don't remember each one of
17 those direct --

18 Q I can't remember them either. I was hoping you
19 might have something you were just dying to add that
20 you haven't been able to say yet.

21 A No. I think I pretty much addressed it with the
22 life of the units. That was one of the keys, I
23 think.

24 Q So you helped evaluate the -- did you develop the
25 proposal -- the company's proposal for the

1 Red River -- Red River --

2 A Yes.

3 Q -- Valley? And how did you feel when the
4 competitive proposals came in and you took a look at
5 them? Do you feel that, you know -- how do you feel
6 about the competitive ones, as compared to the
7 Red River Valley?

8 A I'll start by saying I'm not allowed to look at the
9 competitive proposals. I am treated internally in
10 the company like an outside proposal party.

11 Q Okay.

12 A It's completely independent. We developed the
13 proposals in our engineering construction group and
14 submitted them to resource planning in parallel with
15 the outside parties. And complete independence was
16 the intent.

17 Q So these had value to you. You came up with them?
18 And now the company is kind of leaning away, it
19 sounds like here, in their testimony to the
20 Minnesota Commission. What are they going to be
21 losing as a result of that?

22 A Well, obviously, I'm in the engineering and
23 construction group. We like to build things. We
24 provide capital project services to all of our
25 operating fleet, generating fleet, including our

1 renewables. We would like to continue to develop
2 the fleet, expand the fleet, replace retiring units.
3 That's not always possible.

4 It is our aim to be cost competitive, and
5 I believe with Black Dog 6 we were able to show that
6 we are. We're not always able to be competitive.
7 In this case we had a couple of proposals that were
8 apparently quite good from competing parties, again
9 on existing sites, which does provide some, again,
10 benefit, as we've also shown with the Black Dog
11 project.

12 Q What attracted you to the Red River Valley? Why did
13 that location appeal to you?

14 A Well, we -- we looked at a number of different sites
15 in addition to the Black Dog sites. We looked at
16 two additional units at Black Dog, potentially. We
17 looked at another site, and it's titled Blue Lake.
18 We -- we talked about the Granite City, which is
19 near St. Cloud, as a possible site, and dropped it
20 because of space constraints.

21 We looked at several locations in
22 North Dakota, partly in response to requests to at
23 least consider North Dakota; and what we found was
24 there were some attractive potentials for siting.
25 We started in the Fargo area, west side of Fargo

1 primarily, and the sites generally looked good
2 somewhere along the 345 line that's currently in
3 construction. The problem we ran into was the gas
4 supply was somewhat limited. And this was before
5 WBI announced their major line expansion. We didn't
6 know about that far enough in advance to take
7 advantage of it, although we had talked to WBI in
8 the process.

9 We moved farther south along the 345 line
10 to Henderson as a possible site, and we would have
11 needed to bring a line from the Alliance gas
12 pipeline north to that location. And we looked at
13 close to the Alliance pipeline, which is adjacent to
14 a 230 kV Otter Tail line. That appeared to be more
15 cost effective to us at that time, and that's why we
16 chose that location. When we compared that against
17 the others that we had been evaluating, it appeared
18 to be the best additional option for the second and
19 third units that we needed to offer into the
20 resource plan process.

21 Q Best just on cost?

22 A Lifecycle costs. Our expectation of lifecycle
23 costs, not just capital costs.

24 Q Okay. What were your marching orders when you were
25 assigned this task of coming up with propo --

1 proposals for the company?

2 A Propose up to 600 megawatts of peaking capacity.

3 Q Without any consider -- that's it?

4 A Yes.

5 Q Anyplace?

6 A Find some sites, generate the proposals for the
7 projects, and get them submitted within a -- roughly
8 six-month time period.

9 Q Okay. And so your role was just to look at sites'
10 costs, not system operations, how it integrates and
11 the factors that it might play one location over
12 another on system operation?

13 A Well, we did work with the transmission access group
14 within the company to evaluate the transmission
15 impacts at the very sites. That was a factor in our
16 selection process. We had done a lot of preliminary
17 work at the Black Dog site over the last six years
18 trying to come up with various options to repower
19 that facility. We knew what the costs would be for
20 transmission access there very well.

21 We went out and studied a number of other
22 areas. When we established a potential site, we
23 would talk -- well, we actually talked to
24 transmission access first and said where are good
25 locations; are there some substations we can tie

1 into that would make sense? And then we'd tie that
2 in with possible gas pipeline options to establish
3 general locations for sites.

4 Q The transmission impacts you were considering,
5 again, were those just related to ease and cost of
6 accessing the grid or what do -- what do you mean by
7 transmission impacts?

8 A We actually hired an outside firm, McColl
9 Engineering, to take the transmission grid model
10 that they work with with MISO and to do some
11 preliminary studies on what the potential grid
12 impacts and costs would be at various locations.
13 And that's what we used to help determine what sites
14 we would put forward.

15 Q What were the benefits or the value? What were --
16 what did that study show about the location in -- in
17 Hankinson?

18 A What it showed is that unit 1, we can build a switch
19 yard to interconnect with the 230 kV line; and there
20 were two impacts that possibly would show up on the
21 grid. One would be a 345 kV build-out that was
22 already in MISO's plan; therefore, no cost to us.
23 And the other would be a -- an upgrade of the 230 kV
24 line if we went to the second unit, but not for the
25 first.

1 Q Okay. Does MISO have any input or do they care one
2 way or another where this power comes on line?

3 A Oh, sure. We would have to file a generation
4 interconnection request --

5 Q But from --

6 A -- with MISO, which we have not yet done on any of
7 these sites.

8 Q But from system stability, have they provided any
9 input at all in terms of --

10 A We file that study request. They --

11 Q Okay.

12 A -- don't do any work on it.

13 COMMISSIONER FEDORCHAK: All right. I
14 think that's all my questions. Thank you.

15 THE WITNESS: Thank you.

16 JUDGE WARD: Commissioner Christmann.

17 COMMISSIONER CHRISTMANN: Commissioner
18 Fedorchak got to it, so I'm good.

19 JUDGE WARD: Okay. Commissioner Kalk?

20 CHAIRMAN KALK: No, sir.

21 JUDGE WARD: Okay. Mr. Simpson,
22 anything?

23 MR. SIMPSON: Nothing further.

24 JUDGE WARD: Mr. Norrell?

25 MR. NORRELL: Yes, Your Honor.

RE CROSS-EXAMINATION

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BY MR. NORRELL:

Q Mr. Ford, your testimony -- prefiled testimony up from the stand there was a lot of talk about cost efficiencies. You've now seen the other proposals. The company's negotiating on those. Is there any way that you can go back and cut costs \$2.2 million in your proposal?

A Actually, I'm not allowed to.

Q For what reason?

A I haven't seen those proposals directly. I've seen the public version of them that's filed with the Commission only. I'm not allowed to see the trade secret version. So I don't know all the details. Probably never will. But part of the conditions that the Minnesota Commission put in place was that any proposal we put forward we're stuck with. We're not allowed to change it.

Q So there's no way you guys can go back in and cut costs here and there in your proposal to make this more cost effective?

A There may be with some additional work. That -- that's a possibility.

Q What -- what kind of contingency amounts are set in sight for the Red River Valley project, do you

1 recall?

2 A Yeah, I know what they are. I guess I have to ask,
3 is that part of our trade secret --

4 MR. SIMPSON: They are.

5 THE WITNESS: -- area?

6 MR. SIMPSON: That data is trade secret.
7 It is reflected in the trade secret record now,
8 those contingencies. But if you want to close the
9 hearing, we can discuss them.

10 MR. NORRELL: I think we're -- I think
11 we're fine without them.

12 MR. SIMPSON: Okay.

13 MR. NORRELL: That concludes my
14 questions.

15 JUDGE WARD: Mr. Armstrong?

16 MR. ARMSTRONG: Nothing further.

17 CHAIRMAN KALK: Your Honor, I had a
18 follow-up to ask to Mr. Norrell's question.

19 JUDGE WARD: Chairman Kalk.

20 FURTHER EXAMINATION

21 BY CHAIRMAN KALK:

22 Q I had to put -- I tried not to throw it out there,
23 but it is an intriguing scenario, though, where if
24 the North Dakota legislature decides that continue
25 to cut taxes, one of the things that I understand

1 that made this project so enticing in North Dakota
2 was just our low tax base.

3 A Um-hum.

4 Q And so if we -- if our tax policy changes, going
5 down like it has been, and Minnesota's keeps going
6 up like it is, those -- those benefits will never be
7 seen. So the reality is we haven't -- we don't
8 have -- we have -- Minnesota's created a -- in my
9 opinion, a scenario that they'll always win. What
10 do you think about that; they'll always win an
11 out-of-state greenfield scenario?

12 A My plan would be to resubmit the next resource plan
13 and take advantage of those, if possible.

14 Q But don't you think there's a scenario that, given
15 the constraints that are built in, that you can't go
16 back and adjust what's in the ground; you've got a
17 scenario where Minnesota will always be able to pick
18 their in-state resources?

19 A No, I don't believe so.

20 Q They know what the price is, and they can continue
21 to get down to whatever they need to do to beat your
22 price.

23 A Sometimes I feel like that's the case, yes.

24 Q And -- and -- and back to my jar head days. You
25 have a cost to build something for a hundred bucks,

1 and you go to buy it, and there would be 51 change
2 orders. And so if you enter into a cost with these
3 people and that's the way the deal gets inked, my
4 guess is that if the change orders come that you
5 have to pay.

6 A We have had instances where we've refused to accept
7 those --

8 Q Well, you've also --

9 A -- and the projects have failed as a result.

10 Q But you've had instances where you've paid for those
11 change orders too, I believe?

12 A I believe so, yes.

13 CHAIR KALK: Thank you.

14 THE WITNESS: Thank you.

15 JUDGE WARD: Okay. Mr. Ford, I think
16 we're done with you.

17 THE WITNESS: Thank you.

18 JUDGE WARD: Anything else for Mr. Ford?
19 Okay.

20 COMMISSIONER FEDORCHAK: Thank you.

21 JUDGE WARD: Thank you.

22 (Witness excused.)

23 JUDGE WARD: Mr. Simpser.

24 MR. SIMPSE: Oh. The company has
25 completed its direct case. We reserve the right to

1 recall witnesses on rebuttal from advocacy staff's
2 case.

3 JUDGE WARD: Okay. Mr. Norrell.

4 MR. NORRELL: Thank you, Your Honor. I
5 would like to call Mr. Mike Diller to the stand as
6 our witness. And, Your Honor, do you happen to have
7 a copy of --

8 JUDGE WARD: I do.

9 MR. NORRELL: -- Staff Exhibit 1? Okay.

10 JUDGE WARD: It was -- is it the same
11 that was delivered --

12 MR. NORRELL: Yes, Your Honor.

13 JUDGE WARD: -- to me yesterday or the
14 day before?

15 Mr. Diller, you've also been here the
16 whole time. So just ask you to raise your right
17 hand, take the oath.

18 MIKE DILLER,

19 after having been first duly sworn, was
20 examined and testified on his oath as follows:

21 JUDGE WARD: Thank you.

22 MR. NORRELL: Thank you, Your Honor.

23 DIRECT EXAMINATION

24 BY MR. NORRELL:

25 Q Mr. Diller, I believe you have before you what has

1 been marked as Staff Exhibit 1, which is your
2 testimony; is that correct?

3 A That's correct.

4 Q Do you have any changes or adjustments that you need
5 to make to that?

6 A Well, you know, not any significant changes, but
7 it -- it probably wouldn't hurt to make it more
8 accurate, I guess.

9 That one's not material enough. This
10 one's probably too picky too. But on page 10, line
11 5, I -- part of the externality values I list there,
12 I wrote nitrous oxides; and I think the more correct
13 term is nitrogen oxides. I think everyone got what
14 I was saying.

15 Then on page 11, just to be technically
16 correct, line 20, I wrote the difference in PVRR --
17 you know, we can leave that. We can leave that
18 alone because, as Mr. Wishart testified, PVRR and
19 PVSC for these things really aren't much different.
20 Let's just leave that one alone. But line 21 I
21 believe I should have used 50 million, not 60
22 million. And that's base --

23 COMMISSIONER FEDORCHAK: Which page?

24 THE WITNESS: I'm sorry, what's that?

25 COMMISSIONER FEDORCHAK: Which page was

1 that?

2 THE WITNESS: Oh, still --

3 JUDGE WARD: Page 11.

4 THE WITNESS: -- on page 11, line 21,
5 instead of 60 million, 50 million. And I base that
6 on Steve Wishart's direct testimony before the
7 Minnesota Public Utility Commission Schedule 4, page
8 9. I think we may have looked at that during his
9 testimony.

10 And I guess the only other change I would
11 make is on page 12 at the bottom there, I saw a
12 sentence last night when I was reading through my
13 testimony that really didn't make much sense to me,
14 and it's my testimony. So I thought at least I'd
15 try to make a little more sense of it for you. And
16 so I would maybe rewrite the last sentence something
17 to the effect of perhaps the issue of gas
18 availability and the price --

19 BY MR. NORRELL:

20 Q This is at line 25 and 6; is that correct?

21 A 25 and -- right, beginning on 25. And I'm just
22 going to kind of rewrite it for you. Perhaps the
23 issue of gas availability and the price of gas near
24 Fargo will be resolved so that the plant could be --
25 and scratch out a lot of words there till you get to

1 located, leave located in -- located closer to NSP's
2 largest load center. I think that will make more
3 sense than what was written there. And that
4 concludes my changes.

5 Q Other than that, would all the answers that you've
6 provided in the prefiled testimony be the same today
7 if I asked you each and every one of them?

8 A Yes.

9 MR. NORRELL: I would move admission of
10 the amended testimony as provided by Mr. Diller on
11 the stand.

12 MR. SIMPSON: No objection.

13 MR. ARMSTRONG: No objection.

14 JUDGE WARD: Staff 1 will be received.
15 (Staff Exhibit 1 offered and received.)

16 MR. NORRELL: Thank you. Your Honor.

17 BY MR. NORRELL:

18 Q Mr. Diller, do you have any opening statements for
19 the Commission?

20 A You know, I don't -- I don't think I need to make a
21 big opening statement here. We've been here for six
22 hours. NSP has laid out its case.

23 I guess I can say that it's -- it's been
24 a very unusual hearing. It appears that I'm in the
25 position of advocating for the company's case; and

1 the company is arguing with me about it, arguing
2 against their case. And so it's a rather unusual
3 hearing, a very unique one.

4 And I would just say that I still think
5 that my solution for getting generation built in
6 North Dakota makes sense from a lot of perspectives.
7 It offers a lot of flexibility to NSP and timing of
8 building generation. And it -- and it -- and it
9 does kind of put a -- it -- I'm asking for a hard
10 decision from the Commission so that Minnesota
11 Commission knows that that's just going to take
12 place. It's just going to take place just like
13 their -- the things they've ordered just took place,
14 and now we're paying for them. And so, you know, I
15 want that to happen.

16 On the other hand, I don't want to harm
17 NSP. I want to give them plenty of time to
18 acquiesce to the Commission's desires and the needs
19 of its citizens. And I think that 20 years to do
20 that is -- seems pretty fair-handed, from my
21 perspective.

22 I guess I could kind of address some of
23 the things I've heard today. It seems like the
24 company has spent most of its effort telling you all
25 the things that could go bad with -- with the ADP

1 that they've asked for. You -- you know, you can
2 also have good things that happen if you build
3 Red River Valley. And so I -- I guess I'll just
4 make my points as we go along through
5 cross-examination and -- and questions from the
6 Commission rather than just talk.

7 MR. NORRELL: All right. Thank you.
8 With that, I tender the witness for
9 cross.

10 JUDGE WARD: Mr. Simpson.

11 CROSS-EXAMINATION

12 BY MR. SIMPSON:

13 Q Mr. Diller, thank you, and thanks for sitting here
14 for all six hours. I just have a few questions. I
15 do appreciate your testimony and your interest in
16 both ensuring generation gets built in North Dakota,
17 but also providing the flexibility. It's -- it's
18 those issues that I think I'd like -- I'd like to
19 talk to you about.

20 Your main purpose behind your
21 recommendation is this concept of energy security.
22 And when you're talking about energy security, are
23 you really just saying that one more energy resource
24 in the region would just help keep the system
25 reliable?

1 A I believe local generation does provide a benefit to
2 energy security and energy reliability, yes.

3 Q And you also believe that the CapX Fargo line will
4 also provide additional support for that?

5 A Indeed.

6 Q Okay. And you are aware that the company's proposal
7 to build in Hankinson is still some distance from
8 Fargo and Grand Forks?

9 A 70 miles is my understanding.

10 Q And there is generation -- currently intermittent
11 generation closer than that to the Fargo load
12 centers?

13 A If you're talking about Otter Tail's Hoot Lake
14 plant, I think it's a few miles closer, yes.

15 Q Now, that's a --

16 A That's a rather small coal plant that would never
17 meet the needs of Fargo or Grand Forks. But,
18 nevertheless, it is a few miles closer.

19 Q Okay. And I guess all I'm trying to get at really
20 is you would agree that no matter where the
21 generation is located that it still requires a
22 robust transmission system to -- to keep the area
23 reliable?

24 A Certainly. We -- we need both.

25 Q Oh, I think that's fine. Now, let's talk about the

1 company's proposal.

2 A Sure.

3 Q You know, it's -- would you believe it fair to say
4 that the company is proposing to add capacity
5 resources to its system to meet some sort of
6 forecasted demand?

7 A That's why you would have peakers. So, yes.

8 Q And, you know, would it also be fair to say that you
9 agree with the company's proposal to move forward
10 with Black Dog first because of its significant cost
11 savings?

12 A Well, as -- as you know, we can't afford to pay
13 \$60,000 for a Strategist model, and none of us would
14 know how to run it if we could. And -- and so I
15 have to take Mr. Wishart's work and -- I mean, we
16 can ask him and cross-examine him and ask for
17 different scenarios, and we can do those kinds of
18 things. But -- so when I say that I think Black Dog
19 is -- is the next unit that should be built because
20 of the relative difference in cost, it's based on --
21 a large part on the work that he's done. We've
22 asked lots of questions of Steve, and -- and I don't
23 have any reason to doubt that, given -- given the
24 fact that you -- it's a green -- a brownfield site
25 and there's a lot of -- a lot of equipment and

1 building structures and transmission lines already
2 in place. I don't have any reason to doubt that, I
3 guess.

4 Q And so does that really mean that cost effectiveness
5 should be part of our considerations with all this?

6 A Cost effectiveness should always be considered, yes.

7 Q All right. Let's talk about some of the flexibility
8 your proposal provides to the company.

9 A Okay.

10 Q I think your prefiled testimony fairly characterizes
11 that -- well, tell me if you agree -- that my read
12 of your prefiled testimony is that you do give the
13 company some credit for trying to build generation
14 in North Dakota?

15 A Yes. I mean, it's in my testimony. The company's
16 trying to -- trying to own wind generation in
17 North Dakota, and you're -- I don't -- I think
18 you've maybe already entered into the PPA agreement
19 in North Dakota for wind generation. And you
20 started out with a strong position on Red River
21 Valley. And so, yeah, I -- I think the company is
22 hearing our desires and needs for North Dakota.

23 Q And do you think part of the flexibility you're
24 looking to build into your recommendation is based
25 on the company making efforts to try to move towards

1 building additional generation in North Dakota?

2 A Well, I would hope -- yeah, I would hope so.

3 It's -- it's hard to tell sometimes. This -- this
4 proceeding makes it hard to tell just, you know,
5 exactly how serious the company is. And even if the
6 company is absolutely serious and Red River Valley
7 is its number one goal, without support from the
8 Minnesota Commission, I just don't see how we can
9 ever expect anything different than what we've
10 received in the past. It's kind of like the
11 definition of insanity; if you keep doing the same
12 thing, get the same results every time, you might
13 consider it insanity.

14 So I'm trying to come up with something
15 different than what we've done the last 105 years.
16 And so I tried to provide a solution that I thought
17 NSP could live with and the Commission could live
18 with, the consumers of North Dakota could live with.

19 I mean, there's more punitive solutions
20 to things like this. But, you know, we're from the
21 Midwest; we try to work with people and -- and if
22 you can get to a situation where both sides win,
23 then that's -- that's a good thing. But eventually
24 that's exhausted. And so whether we're there or
25 not, that will be the commissioners' decisions.

1 Q Absolutely. And you've heard Mr. Ford's testimony
2 and other testimony throughout the day that shows
3 that as the new infrastructure is being built in
4 North Dakota, that proposals in the state can become
5 more cost effective than they have been in the past.
6 Would you agree with that?

7 A I -- I think that that's probably true. The
8 Williston Basin pipeline that we've talked about
9 would add to that. And -- and, again, that's the
10 flexibility that's in my proposal, to provide for
11 those kinds of things.

12 Q And I guess, in addition to timing and what I
13 believe I hear from you is cost, I think the
14 other -- you know, you mention in your prefiled
15 testimony is that the amount of time that you are
16 proposing to give the company would allow it to
17 integrate it into its resource plan. I guess my
18 question for you is, would that include, you know,
19 making sure that whatever generation we do add to
20 the system is consistent with a capacity need that
21 we may have, to make sure that those match up?

22 A We don't want to build capacity that we don't need.
23 However, we don't want to get in a situation where
24 Minnesota keeps ordering capacity in Minnesota and
25 so we never get to the point where capacity is

1 needed. Right?

2 Q And, I mean, it sounds like what -- would you be
3 willing to work with the company -- and Ms. McCarten
4 has made offers to sort of work with staff -- to set
5 the parameters about how we can implement your
6 recommendation in a way that makes sense for
7 everybody? Is that something you'd be willing to
8 consider?

9 A Well, I think I told you the answer on the telephone
10 yesterday, and I don't know that I've changed my
11 opinion since. I -- I'm always willing to work,
12 always willing to work with people and try and find
13 solutions. I feel like I'm a fairly creative
14 person, and -- and have been able to do that in the
15 past. This one I'm not -- I'm not sure I see a way
16 to do this to the -- sufficient enough to impact
17 what Minnesota might or might not do, absent a
18 direct order from the Commission or legislative
19 action in the chambers to require something.

20 I mean, I'll work with you, Zev, and
21 Laura and anyone else, but I don't -- I don't see --
22 I don't see how a settlement would accomplish that.
23 But I'll work -- I'll work with anybody on anything.

24 Q Well, fair enough. I just have one last question
25 just to complete out the record and -- when -- as

1 you were putting together your testimony, did you
2 review any reliability studies with respect to
3 deliverability in the Red River Valley?

4 A Well, you'd have to define study. I've been
5 studying this for 25 years.

6 Q I -- any particular study with respect to the level
7 of reliability in the Fargo/Grand Forks area?

8 A Well, I have -- I have 25 years of life study on
9 this. I've met with your engineers. I've -- I've
10 handled customer complaints. I've -- I've receive
11 emails from Mr. Sederquist and Mark Nesbit when the
12 system has got some reliability problems. I
13 provided you a real-life experience living out in
14 the middle of nowhere and the value of -- of, you
15 know, local generation. An exam -- it seemed -- I
16 mean, there's -- there's a few cases where -- and I
17 think that Mitch Armstrong made the case for Jerry
18 that there have been times where the reliability of
19 energy in the Fargo area was very suspect and the
20 company was worried about it, and CapX is part of
21 the solution to that. So it's not like we can
22 pretend that we never had any concerns in the
23 Red River Valley.

24 Not too long ago, a year or two ago, NSP
25 was replacing and/or refurbishing towers with their

1 transmission lines that run into town. The
2 particular poles had two of their three own
3 transmission lines running into Fargo. And
4 unbeknownst to them, a contractor decided to work on
5 a substation in Fargo and tripped the last
6 transmission line. And as a result, over lunch hour
7 Fargo -- most of Fargo did not have energy. And so
8 would a -- would one or two gas turbines located
9 near Fargo have prevented that, I'm -- I don't know.
10 I haven't -- I haven't studied that. My whole --
11 my -- all of my testimony is not based on a
12 technical engineer's study of the system; it's just
13 based on my 25 years of working here at the
14 Commission.

15 MR. SIMPSON: Nothing further.

16 JUDGE WARD: Mr. Armstrong, do you have
17 any questions for Mr. Diller?

18 MR. ARMSTRONG: I do.

19 CROSS-EXAMINATION

20 BY MR. ARMSTRONG:

21 Q You talked about your 25 years working here at the
22 Commission. What's -- what's your role been during
23 that time? More specifically involved with your
24 concerns about reliability in the Fargo area?

25 A Okay. Well, I've been a public utility analyst the

1 whole time I've been here. I mean, I've had some
2 other jobs along the way, like taking care of the
3 Commission's accounting, internal accounting and
4 things like that. But -- but, you know, the most
5 recent example of reliability has already been
6 talked about by Commissioner Kalk, and that was
7 working with the company to develop some goals and
8 some rewards and penalties for reliability.

9 I've met lots of times with their people
10 to talk about the robustness of transmission or, you
11 know -- more recently than 25 years ago. But I'm
12 not sure what you're looking for.

13 Q Well, what I hear you saying is you haven't, you
14 know, gone to some detailed study, but your
15 on-the-ground experience leads you to have some
16 concerns about reliability?

17 A Right.

18 Q And do you think those concerns would be addressed
19 or at least improved on by having local -- more
20 local generation?

21 A That's -- that's the basis of my whole testimony. I
22 do believe that there is some value to having local
23 generation. You know, I think that Mr. Ford finally
24 kind of got to that a little bit. You know, in my
25 discussions with engineers and -- there's some value

1 to local generation to provide kind of a frequency
2 anchor to keep the cycles at -- at 60 Hertz. You
3 know, there's -- we talked about lower line losses
4 already. You know, and own -- these -- this issue
5 of own generation, we think about it, we've heard
6 some of the witnesses say that the costs are more
7 expensive for these owned generation units up front.
8 Well, yeah, they are, because you own them, and then
9 you write them off over time. And so the cost
10 declines over time.

11 You just -- we just heard them talk about
12 some of their older CT units of 39 to 44 years old.
13 Wouldn't that be great to have an asset paid for
14 after year 35 and then have them still working for
15 you 9 years later? And running. These are current.
16 They're not -- they haven't expired or anything.
17 They're still going.

18 And so there's value in local generation.
19 There's value in hard steel in the ground that you
20 own that you get to flip the switch on. Yeah, I --
21 there are values to local generation, and...

22 Q Can I gather the problem that you're seeing in your
23 role is, because of the two jurisdictions involved
24 and the different processes involved in each, that
25 the Minnesota locations keep getting priority over

1 greenfield spaces in North Dakota?

2 A Yeah, I'm -- Mitch, that's a good question. It's
3 not an easy spot to be in for a staff member working
4 with a company that has 5 percent of its business in
5 North Dakota. It's not easy. It's not easy for
6 them. It's not easy for me, because I have to
7 swallow hard when we spend a billion dollars or more
8 for Metro Emission Reduction Programs. You know,
9 you think about it, 5 percent of a billion dollars
10 is \$50 million. It's not a small thing. You know,
11 that's our share of the Metropolitan Emission
12 Reduction Plan.

13 CBED, you know, the company -- the
14 company committed, I think in 2010, to get
15 500 megawatts of CBED in Minnesota. Community-Based
16 Energy Development. It's for -- for the Commission,
17 because you guys are fairly new. You probably do
18 know --

19 COMMISSIONER FEDORCHAK: Not CBED --

20 THE WITNESS: -- what it is.

21 COMMISSIONER FEDORCHAK: -- no.

22 THE WITNESS: Okay. Basic -- for the
23 most part -- there can be bigger ones, but for the
24 most part business wants to put a windmill, you
25 know, on its building or a farmer wants to put a

1 windmill in its field or -- and so they're very
2 small units and of course you might imagine,
3 expensive. If you just build one windmill, it's a
4 lot more expensive than if you build a farm of them.
5 And that's why utilities build farms of them.
6 But -- and those CBED costs are running through the
7 fuel cost adjustment. We're paying for 5 percent of
8 those. Yeah, over time you get to -- you get pretty
9 tired of the one-way street. And -- and so I tried
10 to take this -- take the biggest swing I could on
11 this one. And I -- I don't -- I'm not -- I'm not
12 backing down, if that's what you're asking me to do.

13 BY MR. ARMSTRONG:

14 Q I want to make sure that I understand, though, kind
15 of maybe the reason for the issue. And it's
16 probably going to be maybe one of the longest
17 questions you've heard in your life. But at least
18 how I've heard the testimony today from the
19 witnesses and through the testimony is they go
20 through an ADP on these three projects, but they
21 have to go through the Minnesota capital acquisition
22 process. And, actually, that includes a bidding
23 process that, at least as far as these projects go,
24 includes a bunch of third parties proposing
25 generation in Minnesota. And then NSP is at least

1 proposing the Red River Valley. Now, there's no
2 existing generation in North Dakota, so the stuff in
3 Minnesota is brownfield, which is generally cheaper
4 to build than greenfield, which, as I guess
5 logically have kind of concluded, as long as it's
6 all continuing to be brownfield versus greenfield,
7 then cost effectiveness is the main factor, you're
8 always going to go default to the brownfield. Am I
9 missing something there?

10 A No, I think you'd be wrong. And that's what a lot
11 of this discussion has been about. I mean, those
12 brownfield sites are really the same price as a
13 greenfield site in Hankinson. I mean, for all
14 practical purposes, \$2.2 million difference between
15 the cheapest one and -- and the Red River Valley
16 unit. To me there's no difference in price.

17 Q And so the difference then from your perspective
18 would be get some generation here because it does
19 stabilize the system some for not too much
20 difference in price?

21 A Well, I mean, if I could just paraphrase --
22 paraphrase maybe the company's position here today
23 is we don't think \$2.2 million is worth
24 generation -- giving you local generation in
25 North Dakota. I mean, that -- that doesn't make

1 sense to me. And I -- and I gave you ideas of -- I
2 gave you some very specific examples of -- of maybe
3 just how, if I can -- you know, \$2.2 million out of
4 45 billion worth of present value costs. I mean,
5 think about that. You'd have to -- what is it?
6 That would be 1/200th of a percent. You know, you
7 think about the rate case that is in process right
8 now. One ROE, one ROE is worth more than
9 \$2.2 million just in their 5 percent business in
10 North Dakota.

11 So maybe what the Commission should do is
12 give them 10 percent on the rate case instead of the
13 9 they were probably thinking about, and you'd pay
14 for the whole difference right there.

15 I mean, I could give you, I guess -- I
16 tried to -- I tried to give you some very specific
17 reference points to show just how insignificant this
18 is. And -- and so -- do you have any other
19 questions for me?

20 Q It sounds to me like you think the Red River Valley
21 portion of it should be higher than included in plan
22 3, 4, 5 or 6 and should be higher towards the top?

23 A Indeed, there -- there is no difference between all
24 these proposals. And I suspect that Gerald Ford
25 (sic) would find a way to save \$2.2 million if he

1 was given the project, to build --

2 Q Greg?

3 A -- the project. What's that?

4 Q Gregory Ford.

5 A Greg. Oh, Gerald.

6 COMMISSIONER FEDORCHAK: The president.

7 UNIDENTIFIED SPEAKER: That kind of is
8 like the museum in Grand Rapids, Michigan.

9 COMMISSIONER FEDORCHAK: I was, like, is
10 he here?

11 THE WITNESS: Well, his presence is like
12 that of Gerald Ford. So -- and so -- I'm sorry, I
13 lost my train of thought. What...

14 BY MR. ARMSTRONG:

15 Q Okay. So trying -- I'm going to try and -- our
16 issues for today are ADP and PC & N.

17 A Right. I believe the Commission should grant the
18 ADPs the company has requested and the PC & N that
19 goes along with Red River Valley with -- with some
20 direction as to how that's to be carried out.
21 That -- that is my testimony.

22 Q Because you -- you want the generation built in
23 North Dakota?

24 A Absolutely. And right now the only -- the only unit
25 that I would show deference to, preference to is

1 Black Dog Unit 6 because of the cost differential.
2 I think -- I think that's a lot of money, a lot of
3 cost difference.

4 Q One of the -- you've heard the questions today of
5 the way the company's proceeding through this with
6 the Calpine and the Invenergy and then going to the
7 Red River Valley?

8 A I have heard that, yes.

9 Q And it's obviously too early to tell whether either
10 Calpine or Invenergy is prudent. They're not even
11 asking for that at this point; correct?

12 A Yes, they haven't asked -- they haven't asked for an
13 ADP on those, yes.

14 Q My question for you is if -- if -- in an ADP -- ADP
15 proceeding, if we cannot just order them to build
16 it, does your opinion change?

17 A Then I would -- I think I -- I guess I -- you caught
18 me off guard a little bit here, but I -- I probably
19 would suggest that you grant ADP nonetheless, but
20 the -- the requirements might be different. You
21 might order some protections for customers, require
22 that the company inform us immediately of when they
23 start incurring costs to -- to build Red River
24 Valley station so that we -- so that we know what
25 the company's told us we don't know in the future.

1 And I agree, we don't know all the answers. It's a
2 tough business. Right? If we had a crystal ball,
3 then we'd all be rich and we wouldn't be here today.
4 But we don't, and so we work hard at making our best
5 guesses. And I appreciate the best guesses that the
6 company has made, and I've accepted their best
7 guesses. I've just -- I've just turned a little
8 bit. My -- in my opinion \$2.2 million is not enough
9 to not build in North Dakota.

10 MR. ARMSTRONG: That's all the questions
11 I have.

12 JUDGE WARD: Questions from the
13 commissioners?

14 Chairman Kalk.

15 CHAIRMAN KALK: Thank you.

16 EXAMINATION

17 BY CHAIR KALK:

18 Q Thank you, Mike, for your testimony. You and I have
19 visited a lot over the last five years, haven't we?
20 I've only heard your voice the same way as today one
21 other time. We were in the MDU rate case and the
22 same kind of issues. It was tough issues. But
23 that -- that rate case with the MDU set the stage
24 for a changed MDU, and so we'll see what ends up
25 happening here.

1 A couple of follow-ups to what Mitch was
2 asking about, the -- not so much Mitch, I guess all
3 of it. But you've talked about -- obviously you've
4 got good experience in the job you do. And there's
5 some questions you had from their counsel about how
6 the CapX line is going to help Fargo. But wouldn't
7 it also work the other way; that by putting this gas
8 plant somewhere in North Dakota, that CapX electrons
9 can flow into western Minnesota to help out the
10 western part of the Minnesota grid?

11 A Yeah, I thought -- I thought -- I thought that maybe
12 the company was --

13 (Witness' phone.)

14 THE WITNESS: Whoops, sorry about this.
15 This -- I think the company was a little -- little
16 shortsighted on -- on their view of Red River Valley
17 when they were talking about it will only run 5
18 percent of the time. When you put those gas
19 turbines in Fargo, then there's going -- the next
20 step is going to be -- are going to convert those to
21 combined-cycle units that you'll run a lot more than
22 5 percent of the time. And so in answer -- you --
23 were you part of Big Stone I?

24 BY CHAIR KALK:

25 Q I lived --

1 A You lived --

2 Q -- it.

3 A -- and breathed Big Stone I. Well, as you may
4 recall then in that hearing, the engineers told us
5 that when you have hundreds of miles of line between
6 the coal fields of North Dakota and the Twin Cities
7 and Chicago --

8 Q You need your clothes pin in there?

9 A -- you want -- you want something to pick that
10 system up in the middle of that long run. And so
11 true combustion turbine might not add to our export
12 capabilities immediately, but long-term certainly
13 has the potential to do that.

14 Q But you would contend that this plan would also
15 benefit customers in Minnesota as well because of
16 the reliability it could gain to western Minnesota?

17 A Yes, I -- I really haven't thought about the
18 Minnesota side, I guess. But...

19 Q Okay. The -- you said something, Mike, too about
20 the -- you said this Commission could have more
21 punitive solutions. I was just curious what you
22 meant by that, because I -- I'd like to know what
23 you're thinking.

24 A Well, what I'm -- what I'm thinking there is, you
25 know, the Commission has been given the authority

1 not -- not over -- not only over service but over
2 rates, and -- and it's been designed that way. So
3 if you don't get the type of service that you think
4 your people in North Dakota need, then you have some
5 recourse. And so you don't -- you really don't want
6 to punish companies through hard rate decisions.
7 You'd only do that -- you'd only do that if -- if
8 they refused to provide the kind of service, the
9 level of service that you feel is important and good
10 for the citizens of North Dakota.

11 I mean, a real specific example might be,
12 let's say you're in a rate case and you think 1 CP,
13 12 CP, ah, you know, I could go either way on that.
14 Well, there's \$20 million worth of difference
15 between ordering 1 CP and 12 CP. And so it's a
16 rather large hammer. I'd call it -- what they say
17 in Congress, I'd call it the nuclear option to some
18 degree. But -- but you have rate authority, and
19 it's been given to you for a purpose. It's a
20 monopoly service provider, and sometimes you have to
21 use that authority.

22 Q So in your testimony you made -- this is
23 paraphrasing, basically North Dakota Commission
24 previously has always played nice with Minnesota
25 Commission on things that they put in Minnesota rate

1 design that we've -- we've allowed North Dakotans to
2 pay for; maybe it's time we quit using that
3 North Dakota nice until it comes back our way.
4 That's the way I think you paraphrased it or you
5 said it.

6 A I -- I think that's fair. I'm -- I'm that kind of a
7 person. I can be pushed a long time; and then when
8 I finally have enough, I push back a little bit.
9 And so this is kind of a culmination of a lot of
10 water that's gone under the bridge. And I think the
11 Commission's in a position to take a hard position
12 if it chooses to do so.

13 Q Fair enough. The -- you were here when -- I don't
14 remember which witness it was I asked the question
15 about how they use the Strategist model, but then
16 they always use their own gut and intuition in the
17 end; that if the Strategist model doesn't quite play
18 out what they think because of their experience,
19 they may go a different way. Do you remember that
20 testimony?

21 A Well, I don't -- I don't think I was quite as brash
22 as that, but --

23 Q No, what I'm saying is that you heard --

24 A Not my testimony you're talking about.

25 Q No, I'm talking about we heard the company say that.

1 A Oh.

2 Q And I'm trying to take it a step farther, is that
3 what I'm hearing from you is you've been telling me
4 you've been working this 25 years and you feel,
5 based on all your experience, all your work on all
6 the different cases we've done, that you really
7 think these gas plants are what we really need for
8 long-term reliability, based on all your experience.
9 That's what I'm really hearing.

10 A Well, let me be fair to NSP. There are lots of
11 transmission lines in the Fargo area. I'm more
12 familiar with that than Grand Forks. And that --
13 that provides a lot of energy security. I don't
14 want to be -- I don't want to -- I don't want to be
15 that one-sided. But local generation, I mean, that
16 to me is almost a common sense kind of -- I don't
17 need a study to tell me that local generation is a
18 good thing to have. And my experience for 30 years
19 now tells me that. And my experience is based on
20 talking to NSP and MDU and Otter Tail and engineers
21 and I go to conferences and seminars. And, yeah, so
22 I -- I've been around the block a couple of times.

23 Q Okay. And the last question, Mike, do you have any
24 just thoughts on -- on why -- let me back up. Let
25 me rephrase that. The -- have you dealt with cases

1 like this before with the commissioners you've
2 worked with previously where you've got this quasi
3 where the company will come in and ask for ADP on
4 something and then something will pop up in
5 Minnesota that kind of derails the whole generation?
6 Is this the first time that you've found yourself in
7 this scenario?

8 A It's -- it's -- I've never -- never been a part of a
9 hearing like this and a case like this. This is
10 rather unusual, yeah.

11 CHAIRMAN KALK: Okay. Thank you, Mike.

12 JUDGE WARD: Commissioner Christmann.

13 COMMISSIONER CHRISTMANN: Thank you, Your
14 Honor.

15 EXAMINATION

16 BY COMMISSIONER CHRISTMANN:

17 Q Mike, in those trips around the block over 25 or
18 30 years, has Minnesota state government, between
19 their Commission and their legislature and
20 governors, always been quite assertive or is this a
21 new phenomenon over the last decade or so or what?

22 A Well, as far as -- I mean, a lot -- let's say a lot
23 -- a lot of assertiveness has been around the
24 environment. And -- and when -- and when the
25 environmental movement kind of took over in

1 Minnesota, I don't know if I can give you dates
2 specific or anything, but in the earlier years we
3 didn't -- this is -- it's a fairly new phenomenon, I
4 would say, in the last 10 years of my work life here
5 at the PSC out of 26. I don't remember too many of
6 these issues before that.

7 Q From working with NSP as well as Otter Tail Power
8 being in Minnesota too, do you feel like you really
9 understand Minnesota's environmental goals and
10 strategies?

11 A Well, I understand what they are.

12 Q Because I really don't. And I sit here and I look
13 at NSP representatives and I feel sorry for them
14 trying to work effectively in a multijurisdictional
15 area like this. And we sit here and we talk about
16 all these actions by Minnesota. And you mentioned
17 the Metropolitan Emission Reduction Plan. I'm more
18 familiar with the externality issues. They have the
19 requirement for a certain amount of renewable
20 energy. And -- and so they seem to be so worried
21 about fossil fuels, and yet what I see here is them
22 covering North Dakota's landscape with wind turbines
23 and every time there's any fossil fuel production in
24 discussion, they not only insist on it being in
25 Minnesota, they plop it right down the heart of the

1 biggest metropolitan area in several states. And so
2 it would seem to me, based on all their
3 environmental efforts, they would be the ones
4 wanting the gas plants out of there and the wind
5 farms in Minnesota.

6 So I don't even know what their goal is
7 here that -- that the people that are before us
8 today are trying to achieve for them. And I can't
9 imagine what it's like being on NSP's side here.

10 A I -- I think it -- I think it's just as frustrating
11 for them, if not more so, than it is for me. I've
12 complained about my own feelings today, but they are
13 between a rock and a hard place. But I caution the
14 Commission to -- to -- to get in the position of we
15 can't do this because it -- it might not work in
16 Minnesota, because Minnesota does not think about
17 what North Dakota wants when it's in its
18 deliberations. And so -- as a matter of fact NSP
19 has chosen to provide service in two different --
20 very different jurisdictions. We didn't -- they've
21 chosen that. They could very well sell their
22 North Dakota operations to perhaps a company that is
23 more in line with the environmental concerns of
24 North Dakota compared to Minnesota. I mean,
25 there's -- there's -- there's lots of solutions to

1 this problem.

2 And so to -- to your question, though,
3 I'm sure they're frustrated. They're frustrated
4 sitting here listening to me and you talk and -- and
5 rightfully so. They're not in a good position.
6 But -- but you know what, North Dakota has to get
7 its due sometimes. And so...

8 Q And if you were writing the order, would -- and
9 requiring the Red River Valley facilities -- there
10 was discussion -- I don't remember which witness
11 brought it up, really, about availability of gas
12 when the proposals were being developed, as opposed
13 to what might be available within these next coming
14 years. So would you -- are you recommending an
15 order be written that there be those facilities
16 built in the valley, or do you think that it needs
17 to be clarified that it is this Hankinson facility?

18 A Right. Well, you can tell that I -- that I was a
19 little cloudy on -- on that issue right at the end
20 of my testimony. I'm not a lawyer, and I didn't
21 want to -- I didn't want to do something that
22 would -- that would bring the whole -- the whole
23 case in -- into some kind of legal problem. And so
24 my recommendation is to just approve the ADP as
25 filed with -- with some kind of language that

1 provides flexibility and further consideration down
2 the road. I know it's -- that's where you'll have
3 to work with your counsel and my attorney will to
4 write a brief and maybe provide a proposed order
5 that -- after more thought has been put into it.

6 But I agree it's -- it's a little
7 challenging. But on the other hand, I wouldn't -- I
8 wouldn't -- I wouldn't steer away from it just
9 because it might be challenging or that the lawyers
10 can appeal it. In fact, you know, appealing the
11 order would tell you something about where the
12 company is. So...

13 COMMISSIONER CHRISTMANN: Okay. I have
14 nothing further. Thanks, Mr. Diller, for bringing
15 your creativity to this process.

16 JUDGE WARD: Commissioner Fedorchak.

17 EXAMINATION

18 BY COMMISSIONER FEDORCHAK:

19 Q A couple of questions for you, Mr. Diller. First of
20 all, just playing devil's advocate a bit on your
21 proposal. Do you have any concerns requiring
22 construction by a date certain?

23 A There's always concerns when you require something
24 when you don't -- when you don't really know what
25 need will exist. There's -- there's always concern

1 there. What I tried to point out in my testimony is
2 that -- and we've talked here today, MISO changes
3 its reserve margin calculation when you're -- and it
4 swings it by more than one of these CTs. I mean,
5 there's so many different things that can affect
6 need in the future.

7 But if you look back over time, generally
8 capacity needs have increased over time. And so 10,
9 20 years out I think it's fairly safe to think that
10 the company's going to need another 430 megawatts of
11 power. And -- and if that's a concern, you can play
12 with the numbers. Quite frankly, I pulled the
13 numbers out of the air. I thought 20 years, that's
14 a good number. If you wanted to make it 25 years,
15 you could do that and give them more flexibility.
16 But -- but my desire is that it be certain --
17 whatever the number is chosen, that it be certain so
18 that -- remember when they were doing IRPs awhile
19 back and they'd tell us they're forcing wind into
20 the model? Force Red River Valley into the model.
21 Done.

22 Q Okay. What do you make of the company's assertion
23 that the -- after we looked at the head to heads on
24 the Red River versus Calpine and Red River versus
25 in -- Invenergy -- I cannot say that word; it's a

1 weird name -- where it shows that -- the assumption
2 that the power purchase agreement goes away and then
3 there's this huge cost for building a new -- a new
4 gas plant -- or gas generation at that point or
5 new -- new generation of some sort, brand new, that
6 kind of weighted to the Red River model, gave that
7 extra weight or made it more valuable, do you -- do
8 you have any concerns about that assumption?

9 Because you could also look at it assuming they
10 could renegotiate that power purchase agreement,
11 which would then, therefore, make the Red River
12 project more expensive?

13 A We -- we don't know if that would be possible or
14 not. We don't know what the value of electricity
15 would be at that time. So -- I mean, it's just
16 another scenario that they've -- they've brought to
17 your attention in this case to disfavor Red River
18 Valley. But you could easily just make the
19 opposite; that if energy prices change between now
20 and 20 years later, it could be -- you know, it
21 could turn out differently.

22 Q Okay. Is this the -- is this type of a proceeding,
23 this ADP, is this the best place to facilitate and
24 to try to order this action, or is there a different
25 time that this might be more effective?

1 A I don't know when that time would be. I don't -- I
2 think this is the time.

3 Q Okay. So the ADP. Then do you have -- Mr. -- you
4 talked a little bit about this with Ryan, but the
5 CTs I notice the 5 percent, you know, capacity or 5
6 percent -- what do they call it -- that they were
7 only running 5 percent of the time basically. So --
8 and Mr. Ford talked a bit about this in terms of if
9 your goal is to stabilize the grid, the peakers are
10 not the thing to do that. So why wouldn't we hold
11 out for when they're replacing some of their
12 baseload and then make the big case for
13 North Dakota?

14 A If -- if that's your decision, I would respect that.
15 I guess I just --

16 Q But tell me why we shouldn't do that.

17 A A lot of times these kinds -- these kinds of moments
18 are few and far between, moments when you have some
19 authority and some pressure and some reason to stand
20 up and say we -- we want something for North Dakota.
21 Those moments don't come around very often, and so I
22 would be worried with that in that I certainly will
23 be gone and you might be gone and -- and will the
24 next people be able to carry the ball? I don't
25 know. I know -- I know you can right now.

1 So I -- I think -- I think, Commissioner
2 Fedorchak, that a combustion turbine in the
3 Red River Valley, if you get it, there will be lots
4 of reasons to convert that to combined cycle in the
5 future, and so you really -- you really want to get
6 that thing located in North Dakota.

7 Q Okay. And then my final question. The Minnesota
8 proceeding on this is moving forward, and we
9 intervened -- well, we didn't. You did intervene on
10 that. Will advocacy be doing anything more on that?
11 Has our case been made? Is there anything more that
12 can be done to make the case more pointedly to the
13 Minnesota Commission about where we stand on this
14 and what we think is important for them to consider?

15 A Well, you -- you, Commissioners, travel in circles
16 that I don't. And so whenever you catch them, you
17 should talk to them about it. I didn't go and
18 actually testify in the Minnesota case because it's
19 in front of a -- not to -- not to disparage hearing
20 examiners, but -- but it was in front of a hearing
21 examiner, and I wouldn't have had the attention of
22 the commissioners themselves. And so it was just a
23 cost-of-time/cost-of-traveling decision that the
24 parties accepted my testimony. It's in the record.
25 It's -- it's there for anyone that wants to read it.

1 right. Thank you. That's all my questions.

2 JUDGE WARD: Okay. Mr. Norrell, this is
3 your witness, so I'm going to give you the chance to
4 redirect.

5 MR. NORRELL: Sure. Thank you.

6 REDIRECT EXAMINATION

7 BY MR. NORRELL:

8 Q Mr. Diller, you're here today as an advocate for the
9 ratepayers of the state of North Dakota; is that
10 correct?

11 A That's correct.

12 Q We've heard a lot of talk today about the state of
13 Minnesota and the process that's going on there.
14 Irrespective of that process, do you think that the
15 Black Dog CT and the two Red River Valley units
16 proposed by the company that are here for ADP today
17 are prudent investments on behalf of the company?

18 A Yes.

19 MR. NORRELL: Thank you. No further
20 questions.

21 JUDGE WARD: I'm going to give
22 Mr. Armstrong the next chance, and then I'll go to
23 you, Mr. Simpser.

24 Mr. Armstrong.

25 MR. ARMSTRONG: I have nothing further.

1 JUDGE WARD: Okay. Mr. Simpson.

2 MR. SIMPSON: I have nothing.

3 JUDGE WARD: Okay.

4 MR. SIMPSON: I have nothing, Your Honor.

5 JUDGE WARD: Okay. Then you may step
6 down, Mr. Diller.

7 THE WITNESS: Quick end. All right.

8 JUDGE WARD: Thank you.

9 COMMISSIONER FEDORCHAK: Thank you.

10 JUDGE WARD: Thank you for your
11 complimentary remarks about hearing officers.

12 THE WITNESS: That was part of my
13 evaluation yesterday by commissioners, that I needed
14 to work on that. So I only had a few hours to work
15 on it.

16 (Witness excused.)

17 MR. NORRELL: With that, Your Honor,
18 advocacy staff closes its portion of the case.

19 JUDGE WARD: Mr. Armstrong, are you -- is
20 your case closed as well?

21 MR. ARMSTRONG: I have no case, Your
22 Honor.

23 JUDGE WARD: Okay. Mr. Simpson, anything
24 in rebuttal?

25 MR. SIMPSON: No, we -- we don't plan on

1 recalling any witnesses, so we rest.

2 JUDGE WARD: Okay. And so as far as
3 anything else for the good of the order, we're going
4 to have at least one late-filed exhibit; is that
5 right?

6 MR. SIMPSON: We'll have one late-filed
7 exhibit, which includes all of our analysis with
8 externalities excluded, just to make sure that the
9 record's clear on that issue.

10 And then I would request discussions with
11 counsel as to briefing the next steps as they may
12 deem appropriate. And we can work -- work that out,
13 if that's okay with Your Honor.

14 JUDGE WARD: Why don't we take about five
15 minutes so you can do that. Then we'll come back,
16 and we'll have closing remarks from the
17 commissioners, and we'll finish up.

18 (Break.)

19 JUDGE WARD: We took a break so that
20 Counsel could work out a briefing schedule. Any --
21 any agreements we want to announce on the record,
22 Counsel?

23 MR. SIMPSON: You -- you guys want to --
24 I defer to Mr. Armstrong.

25 MR. ARMSTRONG: I talked with counsel for

1 advocacy staff and for the company; and the parties
2 have agreed to file closing briefs, along with
3 proposed findings of fact, by -- simultaneously by
4 December 16th and any replies simultaneously on
5 December 30th.

6 JUDGE WARD: Okay. That sounds good.
7 Any -- anything else for the good of the order?

8 MR. ARMSTRONG: Nothing from advisory
9 staff.

10 MR. SIMPSON: No, Your Honor. No, Your
11 Honor.

12 JUDGE WARD: Okay. Closing remarks from
13 the commissioners?

14 Commissioner Chairman Kalk.

15 CHAIRMAN KALK: Thank you, Your Honor.
16 Just thank everyone today for their work in getting
17 this far. The main things that -- the commissioners
18 just did a quick scheduling check. Just kind of a
19 path going forward, I guess, is the -- we're going
20 to be scheduling -- we thought we had it scheduled,
21 but we didn't have it officially scheduled. We're
22 going to be scheduling our work session for
23 December 2nd at 10:00 a.m. to be the ADP for the
24 wind and then followed immediately on the ADP for
25 the natural gas. So you'll be able to, I guess,

1 hear our thoughts for the first time, as the three
2 of us discuss it, very quickly. I think that ties
3 in with the briefing schedule. My goal would be to
4 find out where my colleagues are at at those work
5 sessions and move as quickly as possible for
6 decisions on the ADP for the wind as well as ADP for
7 the natural gas. And Commissioner Fedorchak has the
8 lead on the rate case, but I think --

9 COMMISSIONER FEDORCHAK: It's upcoming --

10 CHAIRMAN KALK: We have a work session on
11 that scheduled as quick. So the goal here is -- I
12 know that everybody's got a lot going on with
13 holidays; but the sooner we can get this information
14 decided I think is the best for everyone. So I just
15 appreciate everyone's work. I look forward to the
16 work session that we've got scheduled. I think that
17 that will lay a path forward that we will hopefully
18 execute very quickly.

19 So thank you.

20 JUDGE WARD: Commissioner Christmann.

21 COMMISSIONER CHRISTMANN: I -- I sit here
22 and I'm kind of stunned. You know, for my whole
23 life I've considered these utility companies to be
24 kind of a rock of stability, if you're thinking of
25 it from an investor's perspective. You know, they

1 have a monopoly, they have a product that people
2 want, and is -- I mean, there are efficiency things
3 happening, but generally the demand for it is
4 growing, and there's government regulation over it
5 that gives the ratepayers some comfort that they're
6 not being taken advantage of. And so I -- I had
7 this image of our utility companies being this big
8 stable ship that just chugs along and very well
9 planned and not sudden reactions to this and that
10 and just moves along in such a stable way.

11 So now we sit here with an ADP and CPCN
12 for Black Dog and the two Red River plants only to
13 have you come here with the message that the
14 Minnesota Commission has picked the winners and the
15 Red River plants are not among them.

16 A few weeks ago we had the hearings where
17 an RFP had went out for -- I forget what it was, 150
18 or 200 megawatts of wind, and the company comes in
19 wanting to build 750. And, I mean, it reminded me
20 more of a Black Friday shopping frenzy than -- than
21 a well thought out strategic plan.

22 So when Chairman -- and I agree with
23 you -- says that it would be in everyone's best
24 interest and we want to move quickly, I'm a little
25 confused here how we write orders and -- and make a

1 good plan that we owe our constituents who put us in
2 these positions when we're kind of shooting at a
3 moving target. It seems like every time we have a
4 hearing, Minnesota has changed the company's plans
5 again. And so I'm not really sure how quickly we
6 are able to hit a moving target here.

7 But I do agree that it is in the best
8 interests, and we're going to have to try to figure
9 out some way through the work sessions. And -- and
10 hopefully the company can figure out some way to
11 properly navigate this multijurisdictional quandary
12 that they find themselves in.

13 JUDGE WARD: Commissioner Fedorchak.

14 COMMISSIONER FEDORCHAK: Okay. Well, I'm
15 going to end a little bit more optimistic than that.
16 I -- I don't like uncertainty, so my brain tries to
17 find ways to find certainty. And I see this a
18 little bit different. I appreciate and understand
19 the company's awkward position right now where you
20 presented these proposals, you're following along on
21 a Minnesota-required process that requires
22 competitive proposals to be considered, and they
23 will decide. And I understand that that decision
24 hasn't been made yet. And so in my mind the red --
25 the North Dakota plants aren't off the table, and --

1 and it's, A, they could be chosen. It's unlikely
2 probably by the Minnesota Commission, but they could
3 be. And, furthermore, if the power purchase
4 agreements don't move forward as smoothly as some
5 might think that they will, the Red River projects
6 are still on the table. So I think it's in our best
7 interests to move quickly and -- and act.

8 And I appreciate the fact that you did
9 not pull this request, because our goal is to -- is
10 to have the generation in North Dakota and -- and in
11 a prudent way that makes sense for ratepayers here.
12 And so I -- I appreciate that you've kept this on
13 the table and that you're moving forward with this
14 process and -- and -- and we'll do our best to -- to
15 move forward as well.

16 If I do have one complaint, I've already
17 expressed it, and it is a big one; it's my
18 frustration that you didn't advocate harder for the
19 North Dakota projects, because I think you clearly
20 could have and without much of a stretch. And so
21 had you done that, we could be in a very different
22 position today. And I think it would be good for
23 North Dakota customers, and it would be just fine
24 for your system as a whole. In fact, long term it
25 might have been better.

1 So that's my big regret in that there's
2 been a lot of discussion today outside of the whole
3 issue of the PC & N on these two -- on these three
4 projects, that perhaps that will be of value down
5 the road. And if we have to see these again, we
6 understand more about the competitive proposals that
7 have been put forward and their strengths and
8 weaknesses. So at any case it helped us to better
9 understand Minnesota's process and how -- how you
10 interact with that and how it correlates to us and
11 how we might navigate and have a stronger position
12 ourselves in that whole mix.

13 So thank you very much. Hopefully we'll
14 have some resolution here soon on this and a bunch
15 of other issues affecting your company. We do have
16 a work session next Thursday on the rate case. So
17 thank you.

18 JUDGE WARD: I think that's it. Anything
19 else from anybody? We started out talking about
20 almost a lay-up. And as a person who missed a few
21 lay-ups, it's more like somebody backed off and
22 tried to take a three-pointer instead of a lay-up.
23 But we'll close the hearing at about 4:37 p.m. And
24 thank you all. Case number PU-13-194 and PU-13-195
25 are closed, subject to the filing of late-filed

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exhibits.

Thank you all.

(Proceedings concluded.)

1 STATE OF MINNESOTA)
2 COUNTY OF DAKOTA) ss.

3
4
5 REPORTER'S CERTIFICATE

6
7 I, Angie D. Threlkeld, do hereby certify
8 that the above and foregoing transcript, consisting of
9 the preceding 258 pages is a correct transcript of the
10 tape-recorded proceeding, and is a full, true, and
11 complete transcript of the proceedings to the best of my
12 ability.

13 Dated December 4, 2013.

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17 _____
18 Angie D. Threlkeld
19 Court Reporter
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