

**STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION**

Northern States Power Company
Advance Determination of Prudence –
Solar Portfolio Application

Case No. PU-14-810

APPLICANT'S PROPOSED ORDER

Appearances

Commissioners Julie Fedorchak, Randy Christmann, and Brian P. Kalk.

Alison C. Archer, Xcel Energy, 414 Nicollet Mall, 5th Floor, Minneapolis, Minnesota 55401-1993, and Zeviel T. Simpser, Briggs and Morgan, P.A., 2200 IDS Center, 80 South Eighth Street, Minneapolis, Minnesota 55402-2157, appearing on behalf of Northern States Power Company.

John Schuh, Public Service Commission, State Capital, 600 E. Boulevard Ave., Bismarck, North Dakota 58505, on behalf of the Public Service Commission Advocacy Staff.

Illona Jeffcoat-Sacco, General Counsel, Public Service Commission, State Capitol, 600 E. Boulevard Ave., Bismarck, North Dakota 58505, on behalf of the Public Service Commission Advisory Staff.

Wade C. Mann, Administrative Law Judge, Office of Administrative Hearings, 2911 North 14th Street – Suite 303, Bismarck, North Dakota 58503.

Preliminary Statement

On November 7, 2014, Applicant Northern States Power Company, a Minnesota corporation operating in North Dakota (NSP or the Company), submitted an application with the North Dakota Public Service Commission (Commission) seeking an Advance Determination of Prudence (ADP) for a 187 MW solar energy Portfolio. The 187 MW Solar Portfolio consists of Power Purchase Agreements (PPA) to purchase the output of the 62.25 MW Marshall Solar project, located near Marshall, Minnesota; the 24.75 MW MN Solar I project, located near Tracy, Minnesota; and the 100 MW North Star Solar project, located near North Branch, Minnesota (collectively, the Project or Solar Portfolio). The application included Direct Testimonies of Company Witnesses Ms. Laura McCarten and Mr. Kurtis Haeger.

On February 20, 2015, the Commission's Advocacy Staff filed the Direct Testimony of Mr. Mike Diller.

On March 11, 2015, the Commission issued a notice of Hearing for May 6, 2015. The Notice specified that the issue to be considered is whether NSP's solar power purchase agreements should receive an advance determination of prudence from the Commission. Noting that, if granted, NSP would be able to enter into the contracts with the expectation of cost recovery for a portion of the solar costs assigned to North Dakota.

On April 17, 2015, the Company filed Rebuttal Testimony for Company Witness Mr. Kurtis Haeger.

On May 4, 2015, the Commission's Advocacy Staff filed the Surrebuttal Testimony of Mr. Mike Diller.

On May 6, 2015, the Commission held the hearing as scheduled in the Commission Hearing Room, 12th Floor, State Capitol, Bismarck, North Dakota 58505.

Having allowed all interested persons an opportunity to be heard and having heard, reviewed and considered all testimony and evidence presented, the Commission makes the following:

Findings of Fact

1. NSP is an investor-owned utility headquartered in Minneapolis, Minnesota, authorized to provide public utility service in North Dakota.
2. On April 22, 2014, NSP issued a Request for Proposal (RFP) seeking utility-scale solar resources in order to help cost-effectively fulfill its obligation under the Minnesota Solar Energy Standard (SES) requirements under Minn. Stat. § 216B.1691, subd. 2f(a)-(c). The RFP sought bids for solar photovoltaic resources of 5 MW or larger. The RFP process was designed to help ensure any project selected could meet the December 31, 2016 deadline for receiving the Federal 30 percent Investment Tax Credit (ITC).
3. NSP received over 100 proposals totaling over 2,100 MW, submitted by 36 developers. The Company then narrowed the selections down to the 15 most cost-effective proposals. After an analysis of transmission system impacts and additional due diligence, the Company selected three bids totaling an additional 187 MW of solar generation to the NSP System.
4. The Solar Portfolio is comprised of three utility-scale solar generation projects, which offer significant benefits to customers through economies of scale and as a hedge against fluctuating fossil fuel based generation. Purchasing the Solar Portfolio now allows the developers to utilize and North Dakota ratepayers to realize the benefits of the Federal 30 percent ITC. The three solar generation projects constituting the proposed Solar Portfolio are:

a. *Marshall Solar* – a 62.25 MW project located near Marshall, Minnesota to be developed by NextEra;

b. *MN Solar I* – a 24.75 MW project located near Tracy, Minnesota to be developed by juwi solar, Inc.; and

c. *North Star Solar* – a 100 MW project located near North Branch, Minnesota to be developed by Community Energy Resources.

5. In late September, the Company completed PPA negotiations with the three developers of the accepted bids. All the PPAs require the Commission grant an ADP for the solar generation project before the Company is required to perform under the contract.

I. Standard for Determining Prudence

6. North Dakota Century Code § 49-05-16 provides that a public utility that intends to make a resource addition (including the purchase of energy and/or capacity through a PPA) may file an application with the Commission for an advance determination that the investment is prudent.

7. In Case No. PU-07-776, NSP agreed to file ADP applications for all resource acquisitions larger than 50 MW. In Case No. PU-12-59, NSP agreed to file all ADP applications in a timely manner. In Case No. PU-12-813, NSP affirmed these commitments and agreed to obtain ADP approval before including any PPA costs in its monthly Fuel Cost Rider (FCR) rate. Consistent with these commitments, the Company made the instant Application.

8. Costs of PPAs, such as those for the Solar Portfolio, are passed through to customers through the Company's monthly FCR. Consistent with the commitments discussed above, the Company may not recover costs through the FCR without the Commission affirmatively granting an ADP.

9. The Commission may issue an order approving the prudence of an electric resource addition if the public utility files with its application a projection of costs to the date of the anticipated commercial operation of the electric resource addition, and the Commission determines that the resource addition is reasonable and prudent. NSP has provided the required information in its Application and Testimony.

10. North Dakota Century Code § 49-05-16(4) instructs that "[t]he commission's order determining prudence of the resource addition is binding for ratemaking purposes." Consequently, an ADP proceeding is much like any other rate proceeding before the Commission, and the Commission's ratemaking standard apply. Pursuant to North Dakota Century Code § 49-06-02, the ratemaking standard is the "honestly and prudently invested" standard.

II. Quantitative Considerations

A. NSP Position

11. NSP uses the Strategist modeling tool for its quantitative modeling efforts. The tool is widely used by both utilities and utility commissions in the United States.
12. The Strategist tool is an appropriate tool to model the economic impacts of the Project.
13. NSP's modeling efforts indicate that the Project will have a \$14 million system wide impact on a Present Value of Revenue Requirement (PVRR) basis over the lives of the three projects. Consistent with North Dakota Century Code § 49-02-23, this analysis does not reflect any environmental externality costs.
14. NSP also conducted Strategist analysis factoring in various sensitivities, including low natural gas prices, a scenario where the system cannot make market purchases to meet increasing demands, and scenarios with higher and lower capacity factors than expected.
15. The results of these analysis indicates that the largest benefit of the proposed Project to North Dakota customers is the displacement of future fuel and other energy purchases.
16. NSP's analysis indicates that the annual net costs/benefits associated with adding the Solar Portfolio moves from net cost to net saving over the 25-year term of the PPAs.
17. NSP's analysis further indicates that the Project will only result in minor rate impacts and the net rate impact will be nearly offset by decreases in the cost of fossil fuel and other purchased energy.

B. Advocacy Staff Position

18. Advocacy Staff believes that NSP does not need this resource addition because its most recent load forecasts indicate that NSP will be able to meet its load obligations without any additional generation facilities until 2024.
19. Advocacy Staff believes that NSP is only considering the Project in order to meet its Minnesota SES requirements, and as such North Dakota ratepayers should not subsidize Minnesota's energy policy choices.
20. Advocacy Staff further argues that NSP should not invest in additional generation resources absent need in order to take advantage of the Federal 30 percent ITC.

21. Advocacy Staff does not believe the \$14 million PVRR impact reflects a prudent investment.

III. Qualitative Considerations

A. NSP Position

22. The utility industry and the NSP System is in a period of great change and significant uncertainty and resource decisions should take these changes and uncertainties into consideration. Fuel price hedging and resource diversity is exactly the types of considerations the Commission should take into account.

23. The Commission has been taking these types of qualitative considerations into account since 2008 and should continue to do so.

24. NSP States that a number of qualitative benefits further demonstrate the Project's prudence, including the produces emissions free energy that can position the Company for environmental compliance performance for current and future environmental laws and regulations through reductions in annual emissions, including that of carbon dioxide. Further, making this resource addition now preserves gas generation expansion potential for future baseload unit replacement generation.

25. The Project will increase the overall resource diversity of the NSP System and provide a hedge against impending federal carbon regulations if they do in fact become mandatory.

B. Advocacy Staff Position

26. Advocacy Staff argues that the Project is contrary to North Dakota energy policy, which prioritizes least cost planning and does not allow the Commission to consider the value of solar as a hedge against future environmental regulation.

27. Advocacy Staff notes that the Commission filed comments against the proposed Environmental Protection Agency (EPA) carbon emissions reduction regulations and that taking into consideration these potential carbon regulations would be contrary to the Commission's position in the EPA proceedings.

28. Advocacy Staff also believes that there is no benefit to being an earlier adopter of solar, and that solar will continue to become more cost-effective, so even with the Federal 30 percent ITC, there is no need to buy solar generation at this time.

29. While solar does provide a hedge against rising natural gas costs and other fossil fuel costs, wind generation is less expensive than solar and also provides this hedge.

30. Advocacy Staff believes the Commission should not approve the Project and that any additional generation resources approved by the Commission will decrease the likelihood of North Dakota based thermal generation resources.

Conclusions of Law

1. The Commission has jurisdiction over this matter.
2. Given the possible economic benefits of the Project as well as the possible costs in light of the qualitative benefits of the Project, the electric resource addition is reasonable and prudent.
3. The Commission agrees that the Solar Portfolio Project will provide a hedge against the volatility of natural gas prices; create a more diverse resource mix for the benefit of the entire NSP System; and provide a hedge against potential carbon dioxide regulation.

From the foregoing Findings of Fact and Conclusions of Law, the Commission makes its:

Order

The Commission orders that the Applicant's request for an Advance Determination of Prudence of its 187 MW Solar Portfolio is hereby GRANTED.

PUBLIC SERVICE COMMISSION

Randy Christmann
Commissioner

Julie Fedorchak
Chair

Brian P. Kalk
Commissioner