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July 30, 2015

— Via Email and Federal Express —

Mr. Darrell Nitschke, Executive Secretary
North Dakota Public Service Commission
State Capitol Building – 12th Floor
Bismarck, North Dakota 58505

Re: APPLICANT'S PROPOSED ORDER AND LATE FILED EXHIBITS
REQUEST FOR APPROVAL OF AN ADVANCE DETERMINATION OF PRUDENCE
(ADP) FOR A POWER PURCHASE AGREEMENT WITH AURORA SOLAR, LLC FOR
UP TO 100 MW OF SOLAR GENERATION (CASE NO. PU-15-095)

Dear Mr. Nitschke:

Northern States Power Company, doing business as Xcel Energy, submits to the North Dakota Public Service Commission in the above-referenced matter, the Company's Proposed Order and the following late filed exhibits:

NSP-LF1 – MISO Cost Benefit Analysis

NSP-LF2 – Minnesota Law and Goals, Dates – cheat sheet

*NSP-LF3 – How Does Solar Cost Flow to Wisconsin Company
(Wisconsin Interchange Agreement Whitepaper)*

*NSP-LF4 – Table 1, p. 10 update – (ND view of table 10)
(Fall 2014 Forecast, 2016-2030 Resource Plan Charts)*

NSP-LF5 – Advanced Determination of Prudence Issue Timeline

*NSP-LF6 – Minnesota Competitive Bid Process Overview
(force or impact of ND law)*

Darrell Nitschke
July 30, 2015
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An original and four (4) copies of the Proposed Order and late filed exhibits are being provided via Federal Express. Please contact me if you have any questions regarding this filing.

Sincerely,



DAVID H. SEDERQUIST
Sr. Consultant, Regulation & Finance

Enclosures

cc: Mike Diller
Illona Jeffcoat-Sacco
Victor Schock
Jack Schuh
Jerry Lein

**STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION**

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

Case No. PU-15-95

APPLICANT'S PROPOSED ORDER

Appearances

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

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.

Patrick J. Ward, Administrative Law Judge, Zuger Kirmis & Smith, P.O. Box 1695, Bismarck, ND 58502-1695.

Preliminary Statement

On February 13, 2015, Applicant Northern States Power Company, a Minnesota corporation operating in North Dakota (NSP or the Company), submitted an application to the North Dakota Public Service Commission (Commission) seeking an Advance Determination of Prudence (ADP) to add up to 100 MW of solar generation to the NSP System through a 20-year Power Purchase Agreement (PPA) with Aurora Solar, LLC, and affiliate of Geronimo Energy, LLC. The up to 100 MW of solar generation will be provided by distributed solar generation facilities to be located at up to 24 sites in Minnesota that interconnect with various NSP distribution substations (collectively, the Project). The application included Direct Testimonies of Company Witnesses Ms. Laura McCarten, Mr. Kurtis Haeger, and Mr. Paul Johnson.

On May 27, 2015, the Commission issued a notice of Hearing for July 21, 2015. The Notice specified that the issue to be considered was whether NSP's solar power purchase agreement (PPA) 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 June 17, 2015, the Commission's Advocacy Staff filed the Direct Testimony of Mr. Mike Diller.

On July 13, 2015, the Company filed Rebuttal Testimony of Company Witness Mr. Kurtis Haeger.

On July 21, 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. The Project was selected through the Minnesota Competitive Acquisition Process (CAP) Docket. Both North Dakota and Minnesota require pre-approval for any resource additions to the NSP System. The pre-approval processes resulted in divergent outcomes. North Dakota originally approved up to three company-owned natural gas combustion turbine resource additions, while Minnesota only accepted one company-owned natural gas CT, in combination with a combined-cycle project PPA and the Aurora Solar PPA.
3. The Company determined the capacity benefits of the Project, as well as the ability to meet Minnesota's solar energy goals as well as the Company's goal to significantly reduce carbon dioxide and other fossil fuel emissions made the Project an appropriate acquisition at this time.
4. The Project is comprised of up to 100 MW of nameplate capacity from distributed solar facilities, ranging in size from 2 MW to 10 MW and located at up to 24 sites in Minnesota. Purchasing the output of the Project now allows developers to utilize, and North Dakota ratepayers to realize the benefits of, the federal 30 percent investment tax credit.
5. The PPA is based upon the Company's Model Solar PPA, which has been used in several jurisdictions to procure solar energy. This allowed the Company to utilize standardized terms and conditions that it has used with other solar generation, resulting in enhanced certainty and consistency with other Company contracts. The PPA

requires the Company seek an Advance Determination of Prudence from the Commission and the Company retains the right to terminate the PPA if the Commission does not approve the PPA, or denies the Company recovery of the costs incurred under the PPA as currently allocated to North Dakota customers by ratemaking mechanisms currently in effect.

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 Commission approval of such acquisitions before including the associated PPA costs in its monthly Fuel Cost Rider (FCR). Consistent with these commitments, the Company made the instant Application.

8. Costs of PPAs, such as those for the Aurora PPA, are passed through to customers through the Company's monthly FCR. Consistent with the commitments discussed in Finding of Fact 7, the Company may not recover costs of resources larger than 50 MW through the FCR without the Commission affirmatively granting an ADP.

9. The Commission may issue an order approving the advance determination of prudence of an electric resource addition if 1) the public utility files with its ADP application a projection of costs to the date of the anticipated commercial operation of the electric resource addition, and 2) 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 applies. 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 throughout 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 an approximately \$62 million system wide impact on a Present Value of Revenue Requirement (PVRR) basis over the life of the Project. Consistent with North Dakota Century Code § 49-02-33, this analysis does not reflect any environmental externality costs.

14. NSP also conducted Strategist analysis factoring in various sensitives, 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. NSP also provided Strategist analysis factoring in combinations of the three resources the Company plans to acquire: a combustion turbine project at the Company's existing Black Dog generating facility, a PPA for the output of a new combined cycle unit at the existing Calpine Mankato generating facility, and the Project. The combination the three resource additions results in a net reduction in overall PVRR in all scenarios except the low gas price case.

16. 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.

17. NSP's analysis indicates that the annual net costs/benefits associated with adding the Project moves from net cost to net saving over the 20-year term of the PPA.

B. Advocacy Staff Position

18. Advocacy Staff believes that NSP does not need this resource addition because NSP's 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 does not believe that the proposal represents least cost planning, rather Advocacy Staff believes the Project is only being proposed by the Company in order to satisfy Minnesota's Solar Energy Standard requirements.

20. Advocacy Staff points out that the Minnesota Public Utilities Commission approved or is expected to approve five generation resources additions, or approximately 727 MW of additional generation even though NSP has a generation surplus through 2023 and does not believe NSP needs the additional capacity reserve margin.

21. 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 investment tax credit.

22. Advocacy Staff does not believe the \$62 million PVRR impact reflects a prudent investment.

II. Qualitative Considerations

A. NSP Position

23. The utility industry and the NSP System is in a period of change and significant uncertainty and that therefore resource decisions should take these changes and uncertainties into consideration. The Company argues that fuel price hedging and resource diversity are some of the types of considerations the Commission should take into account.

24. As noted above, Strategist modeling indicates that the primary benefit of the Project to North Dakota customers is the displacement of future fuel and other energy purchases. This benefit also provides a qualitative hedge against both future environmental regulations and increases in natural gas prices.

25. The Project also provides a hedge against the risk of capacity deficit. Current projections show a modest capacity excess on a system-wide basis between 2015 and 2018, between 1 and 2.5 percent. If projected loads change by even a small amount there could easily be a capacity deficit. The Project helps hedge against such a situation and avoids reliance on short-term purchases from the MISO voluntary capacity market.

26. NSP argues that the Project is not for the purpose of meeting Minnesota's Solar Energy Standard, rather was the result of the CAP process to meet a previously identified need in the 2017 to 2019 timeframe, and its selection was not related directly to a specific solar need.

27. Rather, when viewed under the totality of circumstances including the potential need for capacity as well as the existing solar energy requirements and goals in Minnesota, the Project is a prudent resource addition.

B. Advocacy Staff Position

28. 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 regulations.

29. Advocacy Staff also believes 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 investment tax credit, there is no need to buy solar generation at this time.

30. Advocacy Staff argues that if the Commission wants to hedge against future carbon dioxide emission regulations, wind is a much more cost-effective resource.

31. Advocacy Staff believes that 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 resource addition is reasonable and prudent.
3. The Commission agrees that the Aurora Solar 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

1. The Commission orders that the Applicants request for an Advance Determination of Prudence of its up to 100 MW Aurora Solar PPA is hereby GRANTED.

PUBLIC SERVICE COMMISSION

Randy Christmann
Commissioner

Julie Fedorchak
Chair

Brian P. Kalk
Commissioner