

Rebuttal Testimony
Christopher B. Clark

Before the North Dakota Public Service Commission
State of North Dakota

In the Matter of Northern States Power Company's
Advance Determination of Prudence for its 345 MW Power Purchase Agreement
with Mankato Energy Center, LLC

Case No. PU-15-96
Exhibit___(CBC-1)

Rebuttal of Advocacy Staff (Polich) Testimony

September 11, 2015

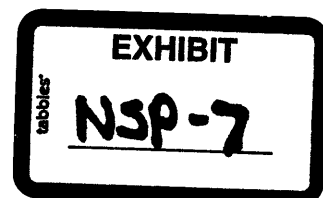


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1 I. INTRODUCTION AND QUALIFICATIONS

2

3 Q. PLEASE STATE YOUR NAME AND OCCUPATION.

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

6

7 Q. PLEASE SUMMARIZE YOUR QUALIFICATIONS AND EXPERIENCE.

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

16

17 In December 2014 I was appointed to the position of President of the
18 Company. In my current role, I am accountable for the overall planning and
19 performance of the Company, with direct oversight of the customer,
20 community, regulatory, and legislative areas.

21

22 Q. PLEASE STATE THE PURPOSE OF YOUR TESTIMONY.

23 A. I have two purposes for my Rebuttal Testimony.

24

25 First, Ms. Laura McCarten is a Regional Vice President of the Company and
26 one of my direct reports. She submitted Direct Testimony in this matter. I
27 am adopting that testimony and I provide this Rebuttal Testimony to

1 underscore the Company's and my commitment to seeking a path forward
2 that respects North Dakota energy policy and that provides the best overall
3 value to the customers we serve in North Dakota and across the NSP
4 integrated system. I will be available to answer any questions Commissioners
5 or Staff may have arising out of this matter.

6

7 Second, my Rebuttal Testimony responds to the testimony of Advocacy Staff
8 witness Mr. Richard D. Polich. I respond to Mr. Polich's conclusion that the
9 Company has sufficient capacity to serve our customers through 2024 and his
10 opinions about whether the Power Purchase Agreement for the Mankato
11 Energy Center natural-gas, combined-cycle expansion project (Mankato PPA)
12 commencing in 2019 is a prudent resource addition under the circumstances.
13 Company witnesses Mr. Kurt Haeger and Mr. Paul B. Johnson provide
14 additional analysis and testimony and respond to some of the specific issues
15 raised in Mr. Polich's testimony.

16

17 Finally, I am concerned about the implications of denial of this ADP request.
18 If our North Dakota customers do not participate in the Mankato PPA, the
19 feasibility of continuing integrated system planning will be challenged and
20 could lead to consequences we haven't determined how to address. I do not
21 believe that this is in the best interests of our North Dakota customers or the
22 Company. Mr. Haeger's Rebuttal Testimony provides additional context on
23 those concerns. But from my perspective, I recommend that the Commission
24 accept the Mankato PPA as an important part of the Company's long-term
25 plans that will provide good value to our North Dakota customers.

26

27 Q. WHY IS THE PRESIDENT OF THE UTILITY TESTIFYING IN THIS MATTER?

1 A. I am testifying in support of the Company's request for an Advance
2 Determination of Prudence (ADP) for several reasons. First, and most
3 important, I am here because I want to reinforce the Company's commitment
4 to foster and maintain positive relationships with the Commission and
5 stakeholders in North Dakota.

6

7 We operate a five-state integrated system, and maintaining positive
8 relationships with stakeholders throughout our system is important. Through
9 this testimony, I want to underscore the importance of the Company's
10 relationship with our North Dakota customers, this Commission and other
11 stakeholders in this State.

12

13 Second, as the Commission is aware, we must take into account the energy
14 policies and preferences of each State served by our integrated system and we
15 must seek a balance that respects the States' policies and that also allows us to
16 continue to provide adequate and reliable service to all customers we serve.
17 Overall, the Company has been successful at this and has been able to bring
18 good value to our customers in North Dakota and elsewhere. However, in
19 recent years, we have experienced increasing challenges in achieving this
20 balance as States energy policies have increasingly diverged.

21

22 Q. WHAT IS YOUR PERSPECTIVE ON THE CHOICES THAT ARE AVAILABLE TO THE
23 COMMISSION IN THIS CASE?

24 A. I appreciate that the Commission faces difficult legal and energy policy issues
25 presented by the changing utility landscape, including the evolution of the
26 Company's generation portfolio over the next several decades and recent
27 federal environmental initiatives. While I recognize that some of those federal

1 initiatives are not final, may be revised, and may be challenged, it is clear that
2 the utility landscape is changing. The Company is mindful of this landscape
3 and strongly believes that our customers will be best served if we pursue
4 prudent options when planning for this uncertain future.

5
6 This case is integral to addressing the evolving utility landscape as well as the
7 future of the Company's existing resource portfolio.

8
9 Q. DO YOU AGREE WITH MR. POLICH'S CONCLUSION THAT THE COMMISSION
10 SHOULD REJECT THE COMPANY'S REQUEST FOR AN ADP FOR THE MANKATO
11 PPA?

12 A. No. While I appreciate Mr. Polich's analysis and believe it provides the
13 Commission with a valuable perspective, I do not reach the same conclusion.
14 When factoring in all of the relevant circumstances, the Mankato PPA is an
15 important resource addition that can cost-effectively serve our customers'
16 long-term needs and that will prepare the NSP system for the future.

17
18 **II. RESPONSE TO "NEED" CONCLUSION**

19
20 Q. MR. POLICH CONCLUDES THAT NSP DOES NOT NEED TO ADD ANY
21 GENERATION RESOURCES PRIOR TO 2025 (P. 7, LINE 9-10, P. 17, LINE 22, P. 26,
22 LINE 5). HOW DO YOU RESPOND?

23 A. Company witnesses Mr. Haeger and Mr. Johnson address specific aspects of
24 Mr. Polich's analysis. I will focus on the fundamental question of "need" and
25 how the combination of circumstances show the Mankato PPA to be a
26 prudent resource choice. Mr. Polich's analysis does not give adequate weight
27 to other important factors that I will discuss later in my Testimony.

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Q. DO YOU DISAGREE WITH MR. POLICH'S OPINION THAT THE COMPANY DOES NOT NEED THIS CAPACITY BEGINNING IN 2019?

A. I recognize that the basis for Mr. Polich's opinion is tied to traditional resource planning concepts of matching load forecasts with capacity additions. However, the question of need is broader and more complex than just assessing the load and capability levels without accounting for other considerations and variables. When those other considerations and variables are factored in, the Mankato PPA commencing in 2019 is a prudent purchase. I detail these additional considerations later in my testimony. In summary, the totality of the pricing, flexibility, and optionality offered by the Mankato PPA outweigh the timing concerns addressed by Mr. Polich.

III. SELECTION OF MANKATO PPA

Q. PLEASE SUMMARIZE THE CIRCUMSTANCES UNDER WHICH THE COMPANY CHOSE TO PURSUE THE MANKATO PPA.

A. In our prior 2010 resource plan (Case No. PU-10-0989), the Company identified a need for up to 500 MW of incremental capacity by 2019 based on the Company's 2011 forecast. Based on this identified need, the Company determined that it would be prudent to add capacity to its system. I note that it was this same identified need that led us to propose the addition of a new combustion turbine at our existing Black Dog facility, for which the Commission granted an ADP.

In light of this identified need, the Company undertook a competitive process to fill that capacity need. This "Competitive Acquisition Process" is

1 commonly referred to as the "CAP/CON" Proceeding (MPUC Docket No.
2 E-002/CN-12-1240). As part of the CAP/CON Proceeding, the Company
3 obtained approval for capacity additions to meet the identified need of up to
4 500 MW of capacity by 2019 consistent with our 2010 Resource Plan. The
5 Mankato PPA was bid into this CAP/CON Proceeding and was selected as a
6 least cost resource through this process to meet our up to 500 MW of need.
7 Then, ultimately, the Company entered into the Mankato PPA and is now
8 seeking an ADP from the Commission.

9
10 Q. DID THE COMPANY OPPOSE SELECTING THE MANKATO PPA AS A NEW
11 CAPACITY RESOURCE IN THE CAP/CON PROCEEDING?

12 A. In general the Company took the position that, while the Mankato PPA was
13 reasonably priced, it was not needed in the 2017-19 timeframe. The Company
14 went on to suggest that due to uncertainty of an aging fleet, that the MPUC
15 keep the bids under review open and provide more time to evaluate data and
16 cost changes associated with delaying the in-service dates of the proposed
17 projects. More specifically, the Company proposed to have the Mankato PPA
18 and Black Dog prices updated to reflect a 2019 in-service date with the
19 flexibility for further delay.

20
21 Q. WHAT DID THE MPUC DECIDE?

22 A. While the MPUC recognized the variation in forecasts and the changing
23 dynamics of the resource planning process, the MPUC ultimately decided to
24 take a conservative approach to the underlying need analysis and rely on the
25 2011 forecast showing that the Company needed up to 500 MW of
26 incremental new capacity by 2019. The MPUC did agree with the Company
27 that a conservative approach to resource planning is appropriate and adopted

1 the view that it is prudent to be long on capacity rather than potentially falling
2 short.

3

4 Through the CAP/CON Proceeding, the MPUC selected both the Mankato
5 PPA and Black Dog Unit 6 as least-cost, prudent resources to fill the up-to
6 500 MW of identified capacity need. The MPUC also selected the Aurora
7 Solar Project that was the subject of Case No. PU-15-95.

8

9 Q. IS THE COMPANY'S POSITION DIFFERENT NOW IN THIS PROCEEDING IN
10 COMPARISON TO WHAT IT WAS IN THE CAP/CON PROCEEDING?

11 A. In the CAP/CON Proceeding we asked for pricing for a 2019 in-service date,
12 and pricing that would reflect a delay of that in-service date. Consistent with a
13 conservative view toward resource planning, the Mankato PPA has been
14 delayed to 2019. We are not currently anticipating further delay at this time.

15

16 Over the last year the landscape in which we are operating has continued to
17 evolve with several issues coming to the forefront. In August, the EPA issued
18 their final Clean Power Plan rule, our 2015 Resource Plan process is
19 underway, and the Company has begun to evaluate its aging fleet. These
20 changes to the industry have highlighted the uncertainty attendant in making
21 resource additions during a time of evolving usage and environmental
22 requirements. Major resource additions are long-lead-time investments that
23 require several years to plan, permit and implement. This heightens the
24 uncertainty as conditions continue to evolve during the planning and
25 permitting stages.

26

1 Because factors affecting need are continually changing, resource decisions
2 must necessarily be made in the midst of flux and the decision whether or not
3 to pursue a particular resource must be made based on the totality of all of the
4 circumstances. While it is possible to abandon a project in the face of
5 changing forecasts, that is not a step that should be taken lightly as it could
6 require starting over if circumstances shift or the forecast rebounds
7 unexpectedly.

8
9 In this instance, it really boils down to what criteria are to be applied to the
10 decision to pursue the Mankato PPA. In the CAP/CON Proceeding, the
11 Company focused on many of the same types of resource planning criteria
12 relied upon by Mr. Polich, with an eye, however, toward the evolving utility
13 landscape. Similar to Mr. Polich, the Company thought it was appropriate to
14 rely on updated forecasts and, focusing on narrow load and capacity
15 considerations, concluded that customers could be served adequately with
16 other resources. However, we also recognized that other factors could justify
17 a different decision and we accepted that reasonable minds could differ on the
18 question of whether to pursue the Mankato PPA in addition to Black Dog
19 Unit 6.

20
21 Q. HOW HAS THE COMPANY'S VIEW OF THE MANKATO PPA CHANGED SINCE THE
22 CAP/CON PROCEEDING?

23 A. Since the selection of this resource in the CAP/CON Proceeding, we have
24 integrated the Mankato PPA into our resource planning efforts and we have
25 internalized the benefits and costs of this resource. We have concluded that
26 this is an important resource for our long-term plans and that when all
27 relevant factors are considered, this is a prudent investment. Obtaining

1 combined-cycle capacity at favorable pricing provides us with flexibility to
2 address the evolving utility landscape and, although the timing is imperfect,
3 the deal presented by the Mankato PPA is a good resource addition to our
4 system that we should not pass up. While we appreciate Mr. Polich's resource
5 planning analysis, we conclude that other factors override his conclusions on
6 the need for this resource.

7

8 This proceeding is an important opportunity for us to obtain the input of the
9 Commission as we make our decision about this resource. We believe that the
10 resource addition is prudent and hope the Commission will agree. However,
11 in light of the procedural schedule of this case, we have amended the Mankato
12 PPA to extend our ability to cancel the contract until March 31, 2016 should
13 the Commission not grant us the requested ADP.

14

15 **IV. DISCUSSION OF CRITERIA**

16

17 Q. WHAT FACTORS DOES MR. POLICH FOCUS ON IN HIS ANALYSIS?

18 A. Mr. Polich focuses primarily on standard planning principles and criteria.
19 Based on those criteria, I must point out that Mr. Polich does not disagree
20 with the overall system value of the Mankato PPA.

21

22 I note that he acknowledges (p. 10, Line 9-13) that “[o]ther factors, such as
23 changes in Midwest ISO (“MISO”) rules, government regulation such as the
24 Clean Power Plan, state regulatory agency rejection of resources additions, and
25 market factors such as the declining cost of solar energy, need to be factored
26 into” the decision whether and when to add resources. I agree with his
27 observation that other criteria need to be factored into the analysis.

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Q. PLEASE EXPLAIN THE FACTORS THAT THE COMMISSION SHOULD INCLUDE IN ITS CONSIDERATION OF THIS MATTER.

A. There are several considerations that make purchasing the capacity and energy under the Mankato PPA a prudent investment. They are: (i) advantageous pricing that is available beginning in 2019; (ii) optionality that the Mankato PPA provides for the Company to optimize its system; and (iii) flexibility to have combined-cycle capacity and energy available before 2020 to help bridge potential tight capacity MISO-wide due to anticipated coal plant shutdowns that are projected in the next decade as well as to address evolving environmental requirements.

Q. DOES MR. POLICH'S TESTIMONY ACCOUNT FOR THESE VARIABLES?

A. It does not appear that he did. While he mentions the "Clean Power Plan" on page 10, Line 10-11, he does not explicitly factor this into his assessment. His testimony does not address the pricing, efficiencies or flexibility afforded by the Mankato PPA.

1. Advantageous Pricing

Q. PLEASE DESCRIBE THE ADVANTAGEOUS PRICING UNDER THE MANKATO PPA.

A. The pricing for the capacity under the Mankato PPA is favorable. By taking advantage of a developed site and adding a second unit using largely existing infrastructure, Calpine was able to offer competitive pricing.

1 Q. IS COMBINED-CYCLE CAPACITY BETTER THAN COMBUSTION TURBINE
2 CAPACITY?

3 A. It depends upon the purpose of the resource addition and the pricing of the
4 proposals.

5

6 Generally combustion turbine capacity is cheaper. Thus, if the only need
7 identified is for capacity (with low energy production) a combustion turbine
8 might be the appropriate choice. Combustion turbines are less efficient to
9 operate, though, and therefore each unit of energy they produce is
10 comparatively more expensive than other types of generation resources.
11 Because of this, combustion turbines typically operate around five percent of
12 the hours of the year.

13

14 On the other hand, combined-cycle plants can be operated efficiently, making
15 each unit of energy cheaper to produce than that of a combustion turbine.
16 Therefore, combined cycle plants are available to operate 30-50 percent or
17 more of the time to serve energy needs. However, to obtain this more
18 efficient operation, combined cycle plants are generally more expensive to
19 build on a per-kW of capacity basis.

20

21 Q. WHY IS THIS IMPORTANT IN EVALUATING THE PRUDENCE OF THE MANKATO
22 PPA?

23 A. The Mankato PPA gives us the best of both worlds with efficient, and
24 cheaper, combined-cycle energy production at pricing competitive with
25 combustion turbines. In light of this, and the potential for the retirement of
26 baseload plants (which combined cycle generation is expected to replace due
27 to evolving federal environmental regulatory requirements) throughout the

1 region in the near future, it is prudent to capture this efficient generation
2 resource at bargain pricing now, while it remains available.

3

4 Q. COULD YOU HAVE DEFERRED THE MANKATO PPA FOR AN ADDITIONAL SIX
5 YEARS UNTIL 2025 TO ADDRESS MR. POLICH'S CONCLUSION THAT THE
6 CAPACITY IS NOT NEEDED IN 2019?

7 A. I do not believe so. Calpine bid this project as part of the competitive bidding
8 required by the CAP/CON and made it available to us only for potential 2018
9 or 2019 in-service dates. This pricing would likely not be available for an
10 equivalent combined-cycle plant in 2025.

11

12 Q. HOW CAN CALPINE MAKE THIS PRICING AVAILABLE?

13 A. At base, the Mankato PPA is an expansion of an existing power plant. When
14 the original Mankato Energy Center was built more than 10 years ago, it was
15 designed with the potential for expansion already in mind. Common facilities
16 were designed to accommodate the expansion efficiently, natural gas pipeline
17 facilities were sized to support higher flows, and the need for additional
18 electric transmission capacity was foreshadowed. All of this put Calpine in a
19 position to offer the expansion proposal to Xcel Energy or another utility in
20 the 2017-19 timeframe.

21

22 Additionally, because Calpine was required to bid this project into the
23 CAP/CON, the competitive bidding nature of the CAP/CON process
24 mandated that Calpine provide its best bid to be evaluated. This allowed us to
25 have confidence that we were receiving good pricing for this resource
26 addition.

27

1 Q. WOULD THOSE SAME INFRASTRUCTURE BENEFITS HAVE BEEN AVAILABLE TO
2 XCEL ENERGY HAD YOU WAITED TO PROCURE THE MANKATO PPA FOR 2025
3 CONSISTENT WITH MR. POLICH'S OPINION OF THE TIMING OF THE COMPANY'S
4 NEED?

5 A. We cannot count on that capacity being available to us another six years out.
6 Also, we could not assume that we would be able to procure that capacity at
7 comparable pricing. Waiting an additional six years to lock in this capacity
8 would have left us at the risk of market forces and the risk that Calpine would
9 sell the expansion capacity to someone else.

10

11 Q. WHAT MARKET FORCES ARE YOU CONCERNED ABOUT?

12 A. I am concerned the cost of combined-cycle capacity will increase substantially
13 over the next decade due to a substantial increase in demand for combined-
14 cycle plants in line with the evolving utility landscape. Mr. Johnson provides
15 some context for this concern.

16

17 Q. WHAT IS YOUR CONCERN THAT CALPINE MIGHT HAVE SOLD THE MANKATO
18 EXPANSION PROJECT TO SOMEONE ELSE?

19 A. We did not have exclusive rights to the expansion capacity, nor did we control
20 Calpine's ability to market the project to others in the region who may also
21 need advantageously-priced capacity.

22

23 I note that other utilities also have capacity needs in the 2020 timeframe and it
24 is certainly possible that Calpine could sell the Mankato expansion capacity to
25 someone else if we do not buy it in the timeframe offered. Because of the
26 advantageous pricing, we concluded it was better for Xcel Energy to take the
27 capacity in 2019.

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2. *Optionality*

Q. PLEASE DESCRIBE THE OPTIONALITY BENEFITS THAT YOU MENTIONED.

A. As Mr. Polich points out (p. 17, Line 12-17), the Company has plans to retire some of our oldest and least-efficient peakers in the 2024 timeframe. Adding the Mankato PPA to the system in 2019 allows us optionality to consider accelerating those retirements, which will allow us to optimize our system. Mr. Johnson's Rebuttal Testimony provides some analysis showing that, with the addition of the capacity associated with the Mankato PPA, we could shut down our older peakers earlier than Mr. Polich assumes.

Q. WHY WOULD IT BE BENEFICIAL FOR CUSTOMERS TO ACCELERATE THE RETIREMENT OF THESE UNITS?

A. We would be able to better optimize our system by replacing older generators that have reached the end of their useful life with new and advantageously-priced capacity.

Q. WHAT OTHER OPTIONALITY BENEFITS WOULD ARISE FROM DEPLOYING THE MANKATO PPA IN 2019?

A. The nature of our system is changing. Our resource plan covers the period to 2030 and in that timeframe we see the potential for significant changes in our generation portfolio. Some of our older coal plants will likely be retired in the planning horizon absent major upgrades. Our PPA with Manitoba Hydro expires in 2025. The operating licenses for our nuclear units expire in the early 2030s, just after the current planning horizon. Further, the generation mix in the MISO footprint is changing as older coal plants retire. All of these factors suggest that having additional combined-cycle capacity available to

1 serve our customers is appropriate, particularly in light of the advantageous
2 price of the Mankato PPA.

3

4 Q. IF THE COMPANY IS LONG ON CAPACITY FROM 2019 THROUGH 2024 AS
5 SUGGESTED BY MR. POLICH, WOULD THAT CAPACITY BE WASTED?

6 A. No. In addition for potential to optimize our system, the Company could also
7 make the length in our system available to other utilities through the market.
8 The Company shares the margins it receives from capacity sales with our
9 customers, thereby creating value for customers in that scenario.

10

11 3. *Flexibility*

12 Q. WHAT ARE THE FLEXIBILITY CONSIDERATIONS THAT SHOULD BE TAKEN INTO
13 ACCOUNT?

14 A. There are several, but they all relate to the advantages of having combined-
15 cycle capacity available on the system to adapt to a variety of evolving
16 circumstances.

17

18 Q. WHAT ARE THE ENVIRONMENTAL CONSIDERATIONS THAT SUPPORT
19 DEPLOYING THE MANKATO PPA IN 2019?

20 A. The electric utility industry is in a period of significant uncertainty in light of
21 tightening environmental regulations. Tightening mercury emissions
22 requirements and likely CO₂ regulation under the Clean Power Plan as well as
23 other environmental initiatives all point to the need to adapt and be flexible
24 with our resource portfolio. Having a significant increment of combined-cycle
25 capacity on our system facilitates that flexibility.

26

1 Q. HOW DOES THE MANKATO PPA FIT INTO THE COMPANY'S ENVIRONMENTAL
2 COMPLIANCE PLAN?

3 A. The Mankato PPA facilitates regional planning and provides us with flexibility
4 to respond to these evolving environmental regulations. Having additional
5 combined-cycle generation available in the 2019 timeframe will likely mitigate
6 the potential negative impacts to our customers of projected coal plant
7 shutdowns in the MISO region.

8
9 Recent federal environmental actions create conditions that will likely result in
10 a significant number of near-term coal plant retirements. Best Available
11 Control Technology (BACT) and other limitations make it increasingly
12 difficult for older coal plants to keep operating. Combined-cycle natural gas
13 generation is the only reasonable fossil-fuel alternative to retiring coal plants.
14 The recent Supreme Court ruling on the Mercury and Air Toxic Standards
15 (MATS) rule, and EPA's recent announcement of the Clean Power Plan
16 simply add to that uncertainty and put further pressure on existing coal
17 generation.

18
19 These emerging requirements and the pressure to retire coal plants will
20 increase competition and pricing for replacement combined-cycle units. As a
21 result, we could not assume that the Mankato PPA pricing would remain
22 available to us for later deployment.

23
24 Q. DOES XCEL ENERGY HAVE ANY COAL PLANTS THAT MAY BE RETIRED IN THE
25 NEXT DECADE?

26 A. Yes. The potential retirement of one or two units at our Sherco facility has
27 been discussed at great length in our pending resource plan (Case No. PU-15-

1 19) and elsewhere. We will be filing an update of our resource plan proposal
2 on October 2 and that update will be available for consideration in this case.

3
4 While no decisions have been made at this time, we continue to evaluate a
5 decision to retire either Sherco Unit 1 or Sherco Unit 2 or both of them
6 before 2025. Each of those Sherco units is approximately 750 MW. Some
7 stakeholders have proposed shutting down one of those units as early as 2021.
8 If that were to happen, the Mankato PPA provides significant replacement
9 capacity as well as efficient combined-cycle energy (as opposed to expensive
10 combustion turbine energy) to address any potential capacity shortfall.

11
12 **V. BENEFITS OUTWEIGH TIMING CONCERNS**

13
14 Q. HOW DO YOU RESPOND TO MR. POLICH'S CONCLUSION (P. 17, LINE 22-P. 8
15 LINE 1) THAT "NSP SHOULD NOT INCREASE GENERATION CAPACITY UNTIL
16 2025. IT WOULD NOT BE PRUDENT TO ADD CAPACITY THROUGH A 20-YEAR
17 PPA STARTING IN 2019 BECAUSE 30% OF THE PPA CONTRACT PERIOD WILL
18 HAVE EXPIRED PRIOR TO THE ANTICIPATED NEED FOR THE CAPACITY."?

19 A. I acknowledge that the timing of the Mankato PPA is not ideal. However, Mr.
20 Polich's analysis does not consider the factors I described above. Under the
21 totality of the circumstances, it is better to accept the Mankato PPA beginning
22 in 2019. Not accepting the Mankato PPA will create significant uncertainties
23 for the integrated system and would forego capturing the benefits that I have
24 outlined. Mr. Haeger's Rebuttal Testimony provides additional discussion of
25 the uncertainties that would occur if the Mankato PPA is rejected.

26

1 Q. WOULD IT BE BETTER TO WAIT UNTIL THE CUSTOMER DEMAND DEVELOPS TO
2 ADD NEW GENERATION?

3 A. Under the circumstances we were presented with, no. First, we were
4 presented with the Mankato PPA in response to an RFP for generation
5 resources in the 2017-19 timeframe that we initiated due to our own resource
6 planning efforts in the 2010-2011 time frame. This was the Company's good-
7 faith effort to respond to an identified need shown in our 2011 forecast.
8 While the Company acknowledges that updated forecasts suggested that our
9 capacity need might be somewhat less than the initial projection, we always
10 recognized that new capacity on the system was appropriate, particularly when
11 all of the other factors are considered. At the advantageous pricing offered,
12 we conclude that it is more appropriate to accept the earlier in-service
13 obligation than to wait to undertake a more expensive project in 2024.

14
15 Second, we do not agree with Mr. Polich that it would be better to wait under
16 the circumstances. Planning and implementing new generation takes several
17 years. In the case of a combined-cycle plant, six to eight years are needed to
18 fully plan for and permit such a plant. A lot can happen during that planning
19 period. The demand forecast could rebound; coal plant retirements could
20 create a near-term need for additional capacity; and other market and
21 environmental factors could drive up the cost. Additionally, the advantageous
22 pricing that can only be obtained from the Mankato PPA may not be available
23 requiring us to choose between cheaper combustion turbine capacity and the
24 resultant more expensive energy or more expensive combined cycle capacity
25 and the resultant cheaper energy. From all of this, the Company believes it is
26 prudent for us to move forward with a combined-cycle plant at this time in
27 order to meet the projected timelines.

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Third, Xcel Energy is the largest utility in North Dakota with an obligation to provide reliable service. I take this obligation seriously. To ensure that the Company never finds itself in a shortfall position, we plan our integrated system to ensure sufficient capacity to satisfy our customers' needs in all reasonable circumstances. Thus, when an advantageously-priced combined-cycle proposal such as the Mankato PPA is presented, we must evaluate the overall value of that proposal despite the timing to ensure that it is, overall, in the best interests of our customers.

As shown by Mr. Johnson's analysis, if we retire our older and inefficient peakers in the 2019-20 timeframe (which can happen only if we have the Mankato PPA available to us) our system is only long by no more than 450 MW beyond the minimum MISO required reserves during the 2019-24 timeframe, or only about four to five percent. While that is somewhat more than the minimum requirements set by MISO, it is a relatively small amount compared to our 10,000 MW system and is a prudent "cushion" to maintain above our reserve margin obligations. Mr. Haeger discusses this issue in greater detail. Further, having a modest amount of additional capacity available gives us the flexibility to bridge other utilities' capacity needs.

- Q. DOES THE COMPANY CONCLUDE THAT THE MANKATO PPA IS IN THE BEST INTERESTS OF CUSTOMERS OVERALL?
- A. Yes. We conclude that accepting the Mankato PPA in 2019 is more advantageous to our customers than waiting for an alternative proposal in the 2024-25 timeframe. Mr. Johnson's Rebuttal Testimony provides the Company's analysis on why the economics of this proposal made sense.

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VI. CONCLUSION AND SUMMARY

Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS.

A. I recommend that the Commission approve the ADP for the Mankato PPA. While we accept that this PPA represents capacity that could be deferred under some circumstances (as identified by Mr. Polich's testimony), on balance we believe that approving the Mankato PPA is in our customers' interest overall.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes, it does.

