

Rebuttal Testimony
Kurtis J. Haeger

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___(KJH-2)

Rebuttal of Advocacy Staff (Polich) Testimony

September 11, 2015

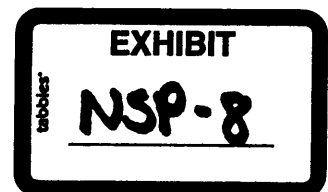


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1 I. INTRODUCTION AND SUMMARY

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Q. PLEASE STATE YOUR NAME AND TITLE.

A. My name is Kurtis J. Haeger. I am the Area Vice President of Resource Planning for Xcel Energy Services Inc. (XES), the service company subsidiary of Xcel Energy Inc. In that role I coordinate the resource planning function for Northern States Power Company-Minnesota (NSP, Xcel Energy or the Company).

Q. HAVE YOU PROVIDED OTHER TESTIMONY IN THIS CASE?

A. Yes. I submitted prefiled written Direct Testimony in this proceeding (Exhibit ___(KJH-1)). That testimony provided the Commission with the Company's view of the resource planning context that supports granting an Advance Determination of Prudence (ADP) for the Power Purchase Agreement (PPA) with Calpine for the expansion project at the Mankato Energy Center (the Mankato PPA).

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. I respond to the Direct Testimony of Commission Advocacy Staff witness Mr. Richard A. Polich. I also address the value of the Mankato PPA to the overall NSP System as well as the challenges inherent in operating a multi-state system in light of divergent energy policies and the impact that this proceeding could have on these challenges.

While Mr. Polich provides a helpful review of the resource planning considerations, I am concerned that his analysis does not address the full set of circumstances the Commission should take into account when it considers

1 whether to grant the requested ADP. Additionally, I address my concerns with
2 respect to the accuracy of his analysis and important real world resource
3 planning considerations that go beyond Mr. Polich's analysis.

4
5 More specifically, Mr. Polich's testimony does not fully take into account the
6 reasonable need to preserve some system length to address the very real
7 variability of the numerous components of our load and resource calculations.
8 Such variables include, evolving reserve margin requirements, changing
9 coincident or non-coincident peaks, changing economic conditions, and the
10 impact of the reliability of plant operations on our capacity accreditation. Mr.
11 Polich also incorrectly concludes that the impact of adding the Mankato PPA to
12 the system will be greater than the total cost the Company will pay to Calpine for
13 the years in question. Mr. Johnson explains in greater detail the error that Mr.
14 Polich makes in his testimony relative to the cost impacts of the Calpine PPA.
15 As a result, Mr. Polich's recommendation does not fully take into account all of
16 the considerations that support the prudence of the Company's decision to
17 pursue the Mankato PPA.

18
19 Last, Mr. Polich's recommendation carries with it certain implications and risks
20 that should also be taken into account as the Commission is contemplating the
21 requested ADP.

22
23 Q. HOW IS YOUR REBUTTAL TESTIMONY STRUCTURED?

24 A. My Rebuttal Testimony provides the Company's perspective on the issues raised
25 by Mr. Polich and our analysis of the implications of his recommendation. More
26 specifically, I address the following:

- 27
- The complexity of the Company's resource planning efforts, its underlying

1 principles and the importance of this resource to our overall system;

- 2 • The value of the Mankato PPA to our overall system; and
- 3 • The difficulties in operating a multi-state integrated system in the face of
- 4 divergent state energy policies and the challenges to that system should
- 5 the Commission choose to deny the requested ADP.
- 6 • Finally, I provide a brief update on the status of the ongoing Restack
- 7 negotiations with Staff.

8

9 **II. RESOURCE PLANNING ANALYSIS**

10

11 Q. MR. POLICH CONCLUDES THAT THE MANKATO PPA IS NOT NEEDED PRIOR TO

12 2025 BASED ON HIS ASSESSMENT OF THE COMPANY'S LOAD AND RESOURCE

13 CHARTS. HOW DO YOU RESPOND?

14 A. I generally accept the legitimacy of Mr. Polich's high level analysis and agree that

15 standard resource planning methodologies are an important analytical construct

16 for assessing the selection and timing of new generation resources. However, it

17 is my view that Mr. Polich tends to ignore the potential variability of key

18 resource planning inputs when reaching his conclusion that the Company has

19 adequate generation resources through 2024.

20

21 In performing his analysis, Mr. Polich appears to have relied upon only the

22 Company's Loads and Resources tables. While these high level summaries of

23 Load Obligation, Reserve Margin, Existing Resources, and Net Positions provide

24 a quick view into the Company's generation portfolio, they do not tell the full

25 story. As a result, I do not agree with Mr. Polich's conclusions. Rather, given the

26 excellent pricing for this resource addition and the flexibility and optionality it

27 provides for the Company, I conclude that the Mankato PPA is a prudent

1 purchase beginning in 2019.

2
3 Q. PLEASE SUMMARIZE HOW MR. POLICH'S ANALYSIS FALLS SHORT OF THE FULL
4 ANALYSIS THAT YOU THINK IS CRITICAL TO CONSIDER WHEN SELECTING NEW
5 GENERATION RESOURCES ?

6 A. The resource planning principles Mr. Polich considered are valid, but are not the
7 only criteria that should be considered in deciding whether the resource addition
8 is prudent. Not only should the Company consider the projected Net Position
9 of the Company's generation portfolio (whether it is long or short), but one
10 should take into account a whole host of additional factors including:

- 11
12 1) The history and variability around key resource planning variables:
- 13 a. Energy and demand forecasts;
 - 14 b. Reserve margin and methodology;
 - 15 c. Reliability criteria (coincident or non-coincident peak methodologies);
 - 16 d. Generation accreditation values and methodologies;
 - 17 e. Viability of on-going programs (load management);
- 18 2) The age of the existing fleet and key risks to the end of life of those assets;
- 19 3) The price of the resource;
- 20 4) The availability of alternative resources in the market;
- 21 5) Construction timing and availability of key generation components;
- 22 6) Transmission availability and timing;
- 23 7) Availability of fuel supply (natural gas);
- 24 8) Potential future environmental regulation; and
- 25 9) Contingency planning and the optionality that a resource can provide.

26
27 All of these factors need to be addressed when considering the need and cost of

1 adding a new generation resource, especially in periods of high uncertainty.

2

3 Q. DO YOU CONSIDER THIS A PERIOD OF GREAT OR HIGH UNCERTAINTY?

4 A. Yes. As demonstrated by Mr. Polich, the values for load obligation, reserve
5 margin, coincident/non-coincident peak factor, existing accredited capacity
6 having been moving significantly year by year. Through no fault of the
7 Company, the key variables in determining the forecast for overall net position
8 of the generation portfolio have been moving continuously throughout the last
9 five years. While the Company has continued to keep up with these changes,
10 and present updated summaries to the Commission, the fact remains that there
11 has been and will likely continue to be changes to these key variables.

12

13 Q. PLEASE PROVIDE A LITTLE MORE DETAIL ON THE ISSUES ASSOCIATED WITH
14 THESE KEY VARIABLES?

15 A. Key variables that we must take into account as we determine our load and
16 resource capabilities are:

17

18 1) *Energy and demand forecasts* – these forecasts are driven primarily by existing sale
19 trends and a forecast of future economic conditions. As the historical trends
20 begin to change and the forecast of future economic activity change, the
21 Company's forecast for future energy and demand will also change. Since the
22 great recession of 2008, the forecasting of demand and energy sales has also
23 been impacted by increased energy efficiency of a number of electronic
24 products and a changing demographic. That said, we recognize that our most
25 recent four years of data (from our 2010 Resource Plan until our 2015
26 Resource Plan) indicate a slackening of customer demand in the NSP System.
27 However, the volatility in demand forecasts we experienced indicate a need to

1 preserve some system length should economic conditions suddenly change.
2 In fact, North Dakota has experienced these types of swings with the boom
3 and bust cycle in the oil and gas producing regions of the State.
4 Consequently, these factors have made forecasting rather difficult, with the
5 expectation that these uncertainties will continue into the near future.

6
7 2) *Reserve margin and methodology* – MISO has been significantly changing the
8 methodology for calculating the reserve margins. While MISO has indicated
9 that they are trying to provide a little more long-term stability in their reserve
10 margin numbers, there is concern that the changing make-up of the
11 generation fleet within MISO – due to the retirement of coal plants and the
12 addition of much more wind and solar – we believe that MISO’s reserve
13 margin and other planning requirements will be in a continuing state of flux
14 while the evolution of the generation mix continues to occur. While NSP is
15 becoming more comfortable with the reserve margin ranges MISO is using
16 over the past few years, we still do not have a great deal of history with the
17 new MISO process. Again, this argues for maintaining some reasonable
18 amount of length on the system to absorb any changes to MISO’s
19 requirements as they may arise.

20
21 3) *Reliability criteria (coincident or non-coincident peak methodologies)* – In 2013 MISO
22 implemented a methodology change that allowed NSP to measure its peak
23 demand requirements based on the timing of the peak of the entire MISO
24 system (non-coincident peak factor). This process of establishing the
25 reduction in the NSP peak demand (currently 5% reduction) is a process that
26 is conducted annually and is subject to change from year to year. After just a
27 couple of years of experience with this new methodology, we are still

1 evaluating the stability of the annual process. Again, should the NSP System
2 peak change in relation to the MISO peak, this could impact the need for
3 additional generation. By conservatively maintaining some additional system
4 length, we can absorb any sudden changes.
5

6 4) *Generation accreditation values and methodologies* – MISO has an annual process to
7 determine the actual capacity accreditation for existing units for the up-
8 coming year. All of our existing resources are subject to this annual process
9 which is based on the actual operational characteristics of the unit in the
10 previous year(s). This means that the amount of capacity that NSP can
11 actually count on can, and does, fluctuate from year-to-year. Therefore, as
12 our fleet ages and our plants perform differently from year-to-year, our
13 accredited capacity does tend to fluctuate. This is especially the case should
14 one of our plants have a high forced outage rate in a particular year, or, as
15 with the catastrophic failure of our Sherco 3 plant, not operate at all for some
16 particular reason. If and when this occurs, our capacity accreditation for that
17 plant is affected for a three year period going forward. In addition, MISO
18 has continuously been updating the capacity accreditation they have awarded
19 wind and solar as they continue to gain more experience with these resources.
20 As a result, the capacity value of our existing fleet has continued to change
21 over time, as noted by Mr. Polich.
22

23 5) *Viability of on-going programs (load management)* – While NSP's load management
24 resource (demand response and interruptible sales) has historically been fairly
25 steady over time, MISO is reviewing how these customers should participate
26 in the market going forward. Also as more customers employ solar and as
27 rate structures and the value of these services change over time, there is the

1 potential that the amount of load management services will change over time.
2 An example of these possible changes occurred on our Southwest Public
3 Service Company system (in Texas and New Mexico) where nearly 200 MW
4 of load recently notified us that they were no longer interested in
5 participating. In a matter of months, the demand on that system went up by
6 nearly 200 MW on a system that is roughly 60% of the size of the NSP
7 system. If NSP experienced a comparable shift, it could result in about 300
8 MW of increased demand, roughly the size of the Mankato PPA.
9

10 Q. WHAT ABOUT THE OTHER POTENTIAL ISSUES ON YOUR LIST?

11 A. The other issues on my list relate to resource selection to meet a need or
12 maintain a conservative capacity cushion on the system. The majority of those
13 issues revolve around specific projects or alternatives. In the case of the
14 Mankato plant, the site already has natural gas access, it already has transmission
15 access, is permitted and we have a fixed price. Therefore, rather than face the
16 risk of having to go through years of MISO interconnection studies, or build
17 significant gas infra-structure, we have the opportunity to have a project that has
18 full assurance on all of these critical issues.
19

20 Q. HOW DO ALL THESE VARIABLES AFFECT THE COMPANY'S RESOURCE PLANNING
21 EFFORTS?

22 A. As you can see from the brief discussion above, a number of the rules that
23 govern our business are relatively new or have been in a state of flux over the
24 last five years. Since the future is not very clear on a number of these issues,
25 NSP has to stand ready to compensate for potential significant changes in our
26 resource requirements with minimal notice. This argues for maintaining a
27 reasonable amount of system length through conservative resource planning.

1

2 Q. WHAT IS A REASONABLE AMOUNT OF SYSTEM LENGTH?

3 A. It depends on the circumstances and the level of uncertainty that exists. In
4 general, with the number of changes we have experienced over the last five years
5 and the high level of uncertainty that currently exists, maintaining an additional
6 reserve margin of 250 to 300 MW for changes in demand forecasts and then an
7 additional margin for the remainder of the potential concerns, above and beyond
8 MISO's minimum requirements, is reasonable in my opinion for the near-term
9 period. The ultimate answer to this question is also highly influenced by the
10 price and lumpiness of the alternatives that are being considered to supply
11 additional flexibility. If the long-term price of the resource in question is very
12 competitive, then I would lean to a higher level of resource acquisition. If the
13 price of the resource is relatively high compared to historic levels for a similar
14 resource, I may suggest staying closer to the 300 MW flexibility level. Since the
15 price of the Mankato PPA is very economic from a comparable basis and it is
16 not that lumpy (certainly not 500 MW to 700 MW lumpy), I would include this
17 generator in my overall plan for system flexibility. In conclusion, for the NSP
18 System and this generation resource, this translates into considering holding
19 between 300 and 500 MW of additional length at this time. Given the evolving
20 utility landscape and the aging of our fleet, I believe that it is reasonable for the
21 Company to stay on the high side of this equation for some period of time, or
22 until such time that the level of uncertainty subsides.

23

24 Q. DOESN'T MISO TAKE INTO ACCOUNT ALL OF THE VARIABILITY OF THESE ISSUES
25 AND FACTORS WHEN IT SETS ITS RESERVE MARGIN?

26 A. No. MISO's reserve margin calculations are based on the concept that the
27 utilities' forecasts will be reasonably accurate and that the utilities generation

1 model and outage rates will be similar to what they have been in the past. The
2 MISO reserve margin is really intended to compensate for the unplanned
3 outages and reduced availability of generation resource in the very next year,
4 along with higher loads due to temperatures (such as loads at the 90%
5 temperature probability level that can occur on very hot days) that are greater
6 than the load forecast at the median level (temperature levels at the 50%-50%
7 probability level) that are the basis for the resource planning criteria.
8

9 Q. HOW DOES THE AGE OF THE EXISTING FLEET IMPACT THE POTENTIAL NEED FOR
10 GENERATION RESOURCES?

11 A. The age of the existing fleet becomes more critical to our ability to meet our load
12 obligation as large assets in that fleet approach their end of their lives. Looking
13 to the future, a number of significant assets are approaching the end of their
14 lives, including Sherco units 1 and 2, our nuclear units and a number of our old
15 combustion turbines. While some of these assets will not retire for 10 to 15
16 years, the closer we come to the end of their lives the more likely that a major
17 equipment failure has the potential to bring a pre-mature end to a unit's life.
18 Due to the age of a number of units in our fleet, one has to start thinking about
19 additional contingencies in the case we need to shut a unit earlier than expected.
20

21 Q. WHAT DO YOU CONCLUDE FROM A REVIEW OF MR. POLICH TESTIMONY ON
22 THESE TYPES OF ISSUES AND YOUR ASSESSMENT OF THE CALPINE PROJECT IN
23 REGARDS TO THESE ISSUES?

24 A. It appears Mr. Polich attempts to suggest that a simplistic review of the
25 Company's Loads and Resources Table is all that one must take into account.
26 While he mentions that our forecasts have been updated, that we have continued
27 to update our existing resource capacity values, that MISO's requirements have

1 continued to evolve in regards to reserve margin and peak day design
2 requirements, and that we have continued to show these changes over the four
3 year resource plan evaluation and approval process, he seems to dismiss all of
4 these on-going uncertainties as if they are immaterial to determining the
5 prudence of making a resource addition at this time.

6
7 Certainly with the evolving utility landscape due to changing technologies,
8 potential emerging federal environmental regulation (including the Clean Power
9 Plan), along with all of the issues listed above, the decision to acquire additional
10 generation resources should not boil down to simply looking at a single number
11 on a Loads and Resources Table.

12 13 **III. VALUE OF MANKATO PPA TO SYSTEM**

14
15 Q. PLEASE SUMMARIZE THE BENEFITS OF THE MANKATO PPA FROM YOUR
16 PERSPECTIVE?

17 A. The Mankato PPA beginning in 2019 gives the Company significant optionality
18 and system flexibility at a very advantageous price. This value is particularly
19 important as we enter a period of increasing uncertainty due to increasing federal
20 environmental restrictions on coal generation and the number of issues I raised
21 earlier.

22
23 Q. WILL THE EXTRA CAPACITY REPRESENTED BY THE MANKATO PPA BE WASTED
24 FROM 2019 THROUGH 2024?

25 A. No. That capacity will be available to the Company for our use in the event our
26 forecast rebounds or one of the numerous other risks I identified becomes real
27 and the capacity is needed for our system.

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Q. ARE THERE LOCATIONAL BENEFITS FROM THE MANKATO PPA'S CAPACITY?

A. Yes. There are three.

First, building at the Mankato Energy Center allowed Calpine to take advantage of a preexisting site and to maximize the existing infrastructure. This efficient use of resources was largely responsible for the advantageous pricing. Mr. Johnson discusses the pricing benefits further in his testimony.

Second, the location is optimal from a system stability perspective. This plant is near Xcel Energy's largest load center which contributes to system stability. Further, if in the future, Xcel Energy is called upon to retire one or more of its Twin Cities coal plants, it will be important to have this capacity available in the vicinity.

Third, the Calpine project has low cost natural gas access and existing transmission rights.

Q. YOU MENTIONED THE POTENTIAL RETIREMENT OF ONE OR MORE UNITS AT THE COMPANY'S COAL PLANTS. HAS THE COMPANY DECIDED TO RETIRE ANY OF THOSE UNITS?

A. At this time, no decision has been made. However, interested stakeholders have raised the issue in our current Resource Plan (2015 RP) with some requesting that one Sherco unit be closed as early as 2021. The Company is evaluating the potential for us to retire Sherco Unit 1 and/or Sherco Unit 2 potentially in the next 10 years. We will be filing comments in our current resource plan docket (Case No. PU-15-19) soon and expect to provide a more detailed discussion of

1 the Company's proposed plans for its Sherco units. In any case, it is prudent for
2 the Company to plan for a variety of outcomes; having the Mankato PPA
3 available to us provides substantial flexibility in a number of circumstances.
4

5 Q. IF THE COMPANY DOES NOT RETIRE EITHER OF THESE SHERCO UNITS, IS THE
6 MANKATO PPA STILL VALUABLE TO CUSTOMERS?

7 A. Yes. As I mentioned above, this capacity will be useful whether or not we retire
8 a unit at Sherco. The Mankato PPA capacity will provide a hedge against the
9 large number of uncertainties that we face and could be available to market to
10 other utilities if we ultimately do not need the incremental capacity in the
11 relevant timeframe.
12

13 Q. IS THE COMPANY SUPPORTING THE MANKATO PPA SIMPLY BECAUSE THE
14 MINNESOTA PUBLIC UTILITIES COMMISSION (MPUC) SELECTED THIS RESOURCE
15 IN THE CAP CON PROCEEDING (MPUC DOCKET NO. E-002/CN-12-1240)?

16 A. No. We acknowledge that a number of the issues I listed above were concerns
17 raised in the proceeding in Minnesota. In general the MPUC came to the
18 conclusion that by taking into account a number of the issues mentioned above,
19 including the demand forecasts, MISO reserve margins, non-coincident peak
20 reduction factors, and the potential changes to the future generation portfolio,
21 that it made sense to go ahead and acquire one of the most economical
22 combined cycles assets that had full gas availability and transmission access, in
23 2019 rather than wait and see what else may come along at a later date. The
24 MPUC had a very similar dilemma as the one that now faces this Commission.
25

1 Q. CAN THE COMPANY TERMINATE THE MANKATO PPA IF THE COMMISSION DOES
2 NOT DETERMINE IT IS PRUDENT?

3 A. Yes. The Mankato PPA contains a condition precedent that required that we
4 obtain regulatory approval from the Commission by a date certain.

5

6 We value the Commission's perspective on the prudence of this resource to our
7 overall integrated system. Further, we want to work constructively with the
8 Commission to balance the sometimes divergent energy policies among the
9 states in which we serve. To provide the Commission with the time necessary to
10 fully analyze this matter, the Company and Calpine agreed to extend that
11 condition precedent by several months. This means that the Commission's
12 decision can be obtained and fully internalized prior to that contractual deadline.

13

14 Q. CAN THE COMMISSION DENY AN ADP FOR RESOURCES PROPOSED BY THE
15 COMPANY THAT MEET A NEED IDENTIFIED BY ANOTHER STATE?

16 A. The Commission is charged to protect the interests of customers in North
17 Dakota and has the authority to consider the value of resources to our North
18 Dakota customers. However, when considering the overall value of the
19 resource, we think the Commission should include all of the considerations to
20 assess the value of the resource.

21

22 I note that the Commission recently denied our request for an ADP for the 187
23 MW solar portfolio (Case No. PU-14-810) and the Aurora solar project (Case
24 No. PU-15-95). The Company has not challenged the Commission's decision in
25 those cases.

26

27 Q. IF THE COMPANY ACCEPTS THE OUTCOME IN THE 187 MW AND AURORA SOLAR

1 PROJECTS, CAN IT ACCEPT A DENIAL IN THIS CASE AS WELL?

2 A. Unfortunately, Commission denial of this ADP would create a very difficult
3 situation for the Company to manage in a way that would better serve our North
4 Dakota customers. This is a very different situation than what we faced in the
5 solar projects and it is important to recognize that this different situation will
6 require different treatment.

7

8 Q. PLEASE EXPLAIN.

9 A. The Company worked hard to accommodate the Commission's concerns in the
10 187 MW portfolio and Aurora solar projects. We recognized the Commission's
11 energy policy concerns over the choice of relatively expensive solar generation
12 driven by Minnesota's solar energy standard is the archetypical type of resource
13 selection driven by the divergence of state energy policies. We accept that this
14 Commission will not approve these resources unless there is a solid economic
15 rationale behind them.

16

17 In the current Case, however, the issue at hand is not a divergence of state
18 energy policies but rather the prudence of the timing of making the Mankato
19 PPA resource addition now. As addressed in the record in this case, we believe
20 that weighing of all relevant factors argues for the prudence of this resource
21 addition now given its advantageous pricing and the uncertainty created by the
22 evolving utility landscape.

23

24 I urge the Commission to not view this resource as indicative of divergent
25 energy policies merely because it was selected through a different regulatory
26 process in Minnesota. While the CAP/CON process deviates from how
27 resources are evaluated and selected in North Dakota, its ultimate purpose is

1 consistent with North Dakota policies. Through the competitive bidding
2 mandated by the CAP/CON process the Company is able to evaluate both need
3 and cost in the selection of resource additions to its system. While the selection
4 of the Aurora project was driven by Minnesota specific considerations, the
5 selection of the Mankato PPA was not: it was selected as a least cost resource.

6
7 I also note that the CAP/CON process also resulted in the selection of the Black
8 Dog 6 combustion turbine project, which was also approved by this
9 Commission prior to the MPUC's decision.

10
11 Q. COULD THE COMPANY COME UP WITH A CREATIVE SOLUTION IN THIS CASE TO
12 ADDRESS THE TIMING OF THE MANKATO PPA?

13 A. The Company is open to creative solutions but at this time we have not
14 identified a viable one. First, the Mankato PPA is a capacity resource so should
15 be included in base rates. There is no special tariff or other program we could
16 divert this capacity to. Second, the financial impact of a rejection in this case
17 would be substantial and we do not believe could be reasonably absorbed.
18 Third, because of the capacity nature of the resource, attempting to carve out
19 this resource from the capacity balance for just the North Dakota share to reflect
20 the Commission's rejection, would potentially compel us to address the North
21 Dakota Loads and Resource Balance going forward differently than we would as
22 if it was part of the integrated system.

23
24 Fourth, in light of the significant value the Mankato PPA provides to our system,
25 it is important that this value be recognized. Granting the requested ADP would
26 be the best way to ensure that value is recognized and our North Dakota
27 customers obtain all of the benefits of their aliquot share of that capacity.

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Q. WHAT WILL HAPPEN TO THE CAPACITY IF THE COMMISSION DENIES THIS ADP?

A. Conceptually, for any resource that the Commission rejects, the Company should be free to use the capacity to its own account, without any residual rights back to North Dakota. Any contrary outcome would give North Dakota a free option to call on the capacity it has rejected.

However, because of the nature of the integrated system and the regulatory construct underlying how capacity is shared throughout the system, we are concerned that an ADP denial in this instance could effectively strand the capacity until North Dakota called upon it. This would be an inequitable outcome that requires more systemic changes to fully address and which cannot be addressed without significant changes to the rate making practices in North Dakota and the other states we serve.

IV. INTEGRATED SYSTEM CHALLENGES

Q. MR. POLICH CONCLUDES THAT THE MANKATO PPA IS NOT NEEDED TO SERVE THE COMPANY'S CUSTOMERS IN NORTH DAKOTA. DOES HIS TESTIMONY HAVE IMPLICATIONS ON THE COMPANY'S INTEGRATED SYSTEM?

A. Yes. While it is entirely appropriate for the Commission to focus on North Dakota considerations and the impact on North Dakota customers in assessing the requested ADP, I am concerned that relying exclusively on those in-state considerations may potentially create a detriment for the very same North Dakota customers.

Q. BUT IF THE COMMISSION CONCLUDES THAT THIS RESOURCE IS NOT NEEDED

1 UNTIL 2025, IT COULD DENY THE ADP, COULD IT NOT?

2 A. Yes. The Commission could find that the Company does not need the Mankato
3 PPA to serve its North Dakota customers. However, we are concerned that
4 such an outcome would make it increasingly difficult for the Company to
5 maintain its multi-state integrated system. We believe that the challenges
6 incumbent with that outcome are more appropriately addressed on a more
7 holistic basis and not through the assessment of prudence of a particular
8 resource.

9

10 Q. WHAT WILL HAPPEN IF THE COMMISSION DENIES THE ADP?

11 A. It remains unclear. At the very least, if the Commission denies the ADP, we will
12 be left with two difficult choices – terminate the Mankato PPA or proceed with
13 it and somehow carve the North Dakota share of the capacity out of the
14 contract. Neither of these choices is consistent with the long-term interests of
15 our customers, and in particular the interests of our North Dakota customers.

16

17 Q. BUT IF YOU DO NOT NEED THE CAPACITY, THEN ISN'T TERMINATING THE PPA
18 THE BEST OUTCOME?

19 A. One could extrapolate that from Mr. Polich's Testimony. However, Xcel
20 Energy disagrees with him on his ultimate conclusion. We conclude that the
21 Mankato PPA is in customers' overall interest under the totality of the
22 circumstances presented here. We think this resource further provides value to
23 our North Dakota customers in the form of the optionality and flexibility it
24 provides.

25

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3 **IV. UPDATE ON RESTACK**

4 Q. PLEASE SUMMARIZE THE RESTACK CONCEPT FOR THE COMMISSION.

5 A. As part of the settlement we reached with Staff in our last rate case (Case No.
6 PU-12-813), we agreed with Staff to develop a negotiated agreement that adjusts
7 rates charged to North Dakota customers based on a resource mix that is more
8 consistent with North Dakota energy policies. The settlement included a
9 framework and list of general principles to guide the negotiations and imposed a
10 deadline of June 30, 2015 for the Company and Staff to complete the negotiated
11 agreement. Subsequently the Commission extended the deadline for completing
12 the negotiated agreement to September 30, 2015.

13 Q. WHAT IS THE STATUS OF THE NEGOTIATED AGREEMENT?

14 A. The Company and Staff have worked diligently to implement the principles in
15 the settlement. We have explored options for “restacking” the supply portfolio
16 to better match our resources to North Dakota’s policy preferences. This task
17 has proved challenging to implement within reasonable financial constraints. As
18 a result, the Company and Staff are exploring additional broader options that
19 could, if successful, provide additional incentives for the Commission. We
20 expect to file a “Negotiated Agreement” on September 30, 2015.

21
22 **VI. CONCLUSION**

23
24 Q. WHAT DO YOU RECOMMEND?

25 A. I recommend that the Commission accept the Mankato PPA. The combination
26 of advantageous pricing and the flexibility this resource provides the overall
27 system outweigh the timing concerns raised by Mr. Polich. Further, the cost and

1 other implications of denying this resource raise serious questions about the
2 long-term viability of the Company's integrated system. As a result, the
3 Company respectfully urges the Commission to grant the requested ADP and
4 facilitate the long-term success of the integrated system to the overall benefit of
5 our North Dakota customers.

6

7 Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

8 A. Yes, it does.

