

Kurt Haeger Opening Statement

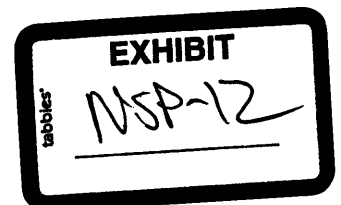
I am Kurt Haeger, Area Vice President of Resource Planning for Xcel Energy. I coordinate the resource planning function for the Company and have worked in the area of resource planning for more than 20 years. I provided Direct, Rebuttal and Supplemental Rebuttal testimony in this Case, focusing primarily on the resource planning principles that support the Company's requested ADP. In this opening statement, I want to focus on a couple of important items for the Commission's consideration.

There has been quite a lot of discussion on this record about divergent energy policies between North Dakota and Minnesota. The message in my and the other Company witnesses' testimony, however, is that this case is not really about divergent energy policies. Rather, this case is about the timing of deploying very low-priced combined-cycle generation that was selected through a robust competitive process that found the Mankato expansion PPA to be a least-cost resource. In many ways, the process we went through that resulted in selecting the Mankato PPA is fully consistent with North Dakota's policy preferences to focus on least-cost principles and identified needs.

The Company does not dispute that the proposed 2019 start date for this PPA is somewhat earlier than is reflected in the Company's Load and Resources Tables. While L&R tables should be considered, it is only one data point in any analysis. Overall, the record is clear that, in light of the Company's recent Resource Plan update, the Mankato PPA is needed no later than 2023. Even Staff's witness, Mr. Polich, recognizes that the project is needed in 2025.

The Company acknowledges that the 2019 start date for this resource is less than ideal. But that timing was driven by the bid we received from Calpine. Calpine has made it clear that it will not hold the project or its advantageous pricing open for us indefinitely. Thus, we were left with the choice of accepting the project somewhat earlier than shown on our L&R Tables or foregoing the advantageous pricing and system flexibility this project offers us.

The data point provided by our L&R Tables is an important input into the Commission's consideration of this Case. Indeed, Staff's testimony focuses almost exclusively on this single criterion. But I believe the L&R Tables provide only a single data point that should be weighed among a number of important factors. Other variables that are described in more detail in my testimony include, evolving reserve margin requirements, changing coincident or non-coincident peaks, changing



economic conditions, and the impact of the reliability of plant operations on our capacity accreditation.

My testimony provides a discussion of some of the other factors that should go into the Commission's consideration. These include:

1. Most importantly, the advantageous pricing offered in the Mankato PPA – this PPA offers us combined-cycle capacity and energy for the same overall cost of less efficient combustion turbines;
2. Enhanced optionality that allows the Company the ability to accelerate the retirement of some of our oldest and least-efficient peakers;
3. Having a modest amount of length on the system in the early 2020s provides us significant system flexibility to react to evolving circumstances, such as (a) anticipated MISO-wide capacity retirements; (2) the planned 2023 retirement of coal operations at Sherco Unit 2; (3) an uncertain environmental regulatory environment; and (4) overall low capacity surplus margins.

I want to reinforce that last point. Overall our capacity surplus is really not very large, taking into consideration the 10,000 MW NSP System. Under the new and evolving MISO capacity protocols, we are required to carry approximately 7.1% in planning reserves. But the MISO rules do not account for all types of variables and contingencies. MISO's reserve margin calculations are based on the concept that the utility knows their load with perfect foresight, and that the utilities generation model and outage rates will be similar to what they have been in the past. The MISO reserve margin is really intended to compensate for the unplanned outages and reduced availability of generation resource in the very next year, along with higher loads due to temperature variation than loads in utility forecasts used to determine the planning reserve margin. It does not consider any additional cushion to address changes in individual utility issues. Further, the MISO rules continue to evolve as MISO refines its processes. Over the past couple of years, their planning reserve margins have moved around a fair amount.

Since the Company cannot afford to be caught short, this all means that we need to plan for greater reserves than the bare minimum. In my opinion NSP should have an additional 200-500 MW of reserve capacity above and beyond the bare minimum required by MISO, based on the level of uncertainty we are experiencing today, from NSP that is used for MISO-wide capacity reserve needs. The Mankato PPA provides a modest amount of additional capacity that is consistent with ensuring we have enough to address all reasonable contingencies. This in addition to the advantageous pricing we were able to capture, further supports capturing this low cost combined cycle resource in 2019, when it was offered.

Further, we expect our system to continue evolving and changing significantly over the next two decades as several significant generation sources reach the end of their operating lives. We believe that a view of the future composition (make-up) of our system will help to demonstrate the prudence of adding the competitively-priced combined-cycle energy provided by the Mankato PPA at the time it is being made available by the vendor.

In my Supplemental Rebuttal, I discuss the Company's updated resource plan and some of the significant generation changes we are expecting. In the coming decade we are faced with a number of major decisions about our aging system and impact of future environmental compliance costs. In particular, a number of these changes are necessitated by our aging system and the increasing difficulties we have maintaining baseload coal generation in a cost-effective manner.

In our updated resource plan we describes our proposed plan to cease coal operations at our Sherco Unit 2 and Unit 1 coal plants in 2023 and 2026 respectively. The Mankato PPA as well as adding a large combustion turbine generator in eastern North Dakota would contribute significant capacity towards the ability to replace this 1,400 MW of capacity. Based on our proposed plan, the Mankato PPA is needed no later than 2023. Based on the advantageous pricing and other benefits I've described, I think it is appropriate to capture this capacity in 2019, when it was offered, and have it available to support our plan.

Finally, I discuss the Company's concern over what could happen if the Commission denies this ADP. The Company has operated an integrated five-state system for many years and it is our clear preference to continue to do so. While we respect this Commission's right and duty to focus on North Dakota customers and policies, I urge the Commission to do so in the broader context of the overall benefits and economies of being able to participate in a 10,000 MW system. While this ADP proceeding calls for the Commission to focus on a particular resource addition, we think it is important to take into account other factors and developments and that the Commission make its decision in the larger context of the integrated NSP System.

Importantly, I note that the Company has recently committed, subject to Commission approval, to file a Resource Treatment Framework that is intended to address circumstances where all of the jurisdictions in which we serve customers may not agree on particular resources. This Resource Treatment Framework will take into account these issues on a holistic basis and provide a framework for us to address the very challenging ratemaking, accounting, and operational issues that come with such outcomes.

Xcel Energy has worked hard to find ways to accommodate North Dakota policy preferences regarding renewable generation and we found ways to accept the Commission's denial of ADPs for the Aurora and 187 MW portfolio solar projects. It will be much more challenging for us to accept a denial of an ADP in this Case. Given this, we must all be cautious not to make long lasting decisions based on one resource that would provide long lasting benefits to the entire NSP system.

As I mentioned, this case is not actually about divergent energy policies, but rather is about the timing of securing the benefits of a least-cost, combined-cycle expansion at an existing site that was obtained through a robust competitive process. In short you get all the value of this resource for the value of a combustion turbine. Thus, I urge the Commission to agree with the Company that, under the totality of the circumstances (and not just a rote review of our L&R Tables), procuring the Mankato PPA beginning in 2019 is prudent.