

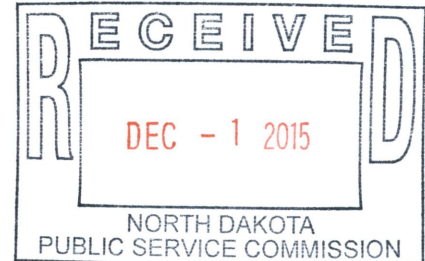
December 1, 2015

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VIA HAND DELIVERY

Darrell Nitschke, Executive Director
North Dakota Public Service Commission
State Capitol Building, Dept. 408
600 East Boulevard
Bismarck, ND 58505-0480



In re: Northern States Power Company
Advance Determination of Prudence Application
Case No. PU-15-96

Dear Mr. Nitschke:

Enclosed for filing in the above-referenced matter please find the original and seven copies of *Advocacy Staff's Proposed Findings of Fact, Conclusions of Law and Order*.

Thank you for your attention to this matter.

Sheldon A. Smith*
Randall J. Bakke***
Scott K. Porsborg***
Suzanne M. Schweigert*
Mitchell D. Armstrong**
Shawn A. Grinolds**
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Brian D. Schmidt*
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Respectfully,



MITCHELL D. ARMSTRONG
Special Assistant Attorney General for
Public Service Commission Advocacy Staff

amh
enclosures

cc: Zev Simpser (via e-mail only)
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PSC.5

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STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION

Norther States Power Company
Advance Prudence – 345 MW Mankato Energy Center

Case No. PU-15-96

**ADVOCACY STAFF'S PROPOSED FINDINGS OF FACT, CONCLUSIONS OF
LAW AND ORDER**

Date _____

Appearances

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

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

Blaine T. Johnson, Crowley Fleck PLLP, 100 W. Broadway, Suite 250, Bismarck, ND 58502-2798, on behalf of Calpine Corporation, Intervenor.

Mitchell D. Armstrong, Special Assistant Attorney General, 122 East Broadway Avenue, Bismarck, ND 58501, on behalf of the Public Service Commission, Advocacy Staff.

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

Janet Demarais Seaworth, Administrative Law Judge, P.O. Box 7127, Bismarck, ND 58502-7127.

Preliminary Statement

On February 13, 2015, Northern States Power Company (NSP), dba Xcel Energy, filed an application with the North Dakota Public Service Commission (Commission) seeking an advance determination of prudence (ADP) under North Dakota Century Code (N.D.C.C.) section 49-05-16 for 345 MW of capacity and associated energy to be added to the NSP System through a 20-year power purchase agreement with Mankato Energy Center, LLC, an affiliate of Calpine Corporation.

On July 8, 2015, the Commission issued a Notice of Hearing, scheduling a public hearing to begin at 8:00 a.m. on October 15, 2015 in the Commission Hearing Room, 12th floor, State Capitol, Bismarck, North Dakota. The notice identified the issue to be considered as whether NSP's power purchase agreement should receive an advance determination of prudence from the Commission.

Findings of Fact

1. NSP is an investor-owned electric utility headquartered in Minneapolis, Minnesota authorized to provide public utility service in North Dakota under the regulatory jurisdiction of the Commission.
2. In NSP Electric Rate Increase Application, Case No. PU-07-776, NSP agreed to file an application for an advance determination of prudence for any proposed resource addition larger than 50 MW. In NSP Advance Prudence – Geronimo Wind Application, Case No. PU-12-259, NSP agreed to file all advance determination of prudence applications in a timely manner. In NSP's most recent general electric rate application, Case No. PU-12-813, NSP agreed to obtain an advance determination of prudence for power purchase agreements greater than 50 MW before recovering the costs of associated energy through its Fuel Cost Rider (FCR).
3. The proposed Calpine PPA was selected through the Minnesota Competitive Acquisition Process (CAP) Docket. Both North Dakota and Minnesota require pre-approval for resource additions to the NSP System.
4. The proposed Calpine PPA is comprised of up to 345 MW of capacity and associated energy from the construction of a new combined cycle natural gas unit to Calpine's existing 375 MW Mankato Energy Center located in Mankato, MN.
5. NSP's ADP application states that the Calpine PPA will help meet a potential need of 250-500 MW on its system in the 2017-2019 time period that was identified in its 2010 Resource Plan.
6. NSP testified that newer projections show the timeframe of potential need is now not expected until at least 2023 or 2024. NSP testified that the Calpine PPA remains prudent because of the advantageous pricing, enhanced optionality that allows NSP to accelerate retirement of some of its oldest and least-efficient peakers, allows a modest amount of length on the system resulting in system flexibility to react to evolving circumstances.
7. NSP testified that, when viewed under the totality of the circumstances, the Calpine PPA is a prudent resource addition.
8. Based on review of NSP's application and assumptions, inputs, and analysis, Advocacy Staff testified that the Calpine PPA is not prudent.

9. Advocacy Staff testified that the Calpine PPA is not prudent because it is not designed to meet an identified need in the near future. Advocacy Staff testified it is not prudent to invest in this resource when the anticipated need is not until 2023 or 2024. Advocacy Staff testified that waiting is more prudent given the various uncertainties relied upon by NSP as justification for approval of the Calpine PPA.

10. Advocacy Staff compared NSP's most recent load and generating capacity forecasts, and testified that NSP expects to have sufficient generating capability to meet its reserve margin obligations through 2023 without the proposed Calpine PPA. This conclusion is also supported by NSP's testimony.

11. Advocacy Staff also testified that the capacity to be provided by the resource addition is in excess of what is necessary to ensure reliability and meet customer load, and therefore the Calpine PPA will cause increased costs to North Dakota customers without corresponding benefits.

12. Testimony regarding the most relevant underlying facts (such as the need, timing, and price) did not materially differ between Advocacy Staff, NSP, and the Intervenor Calpine. However, there is a dispute regarding whether the underlying facts show prudence of the Calpine PPA. NSP agrees the timing of the Calpine PPA is not ideal and there is not an expected need for the project until 2023 or 2024. However, NSP's identified potential need in 2023 depends on its October 2, 2015, Resource Plan Update. In the Supplemental Testimony of Kurtis Haeger, he describes "significant changes" to the NSP's long-term resource planning activities, including NSP's proposal to: cease coal operations at Sherco Unit 2 in 2023; cease coal operations at Sherco Unit 1 in 2026; construct a gas combustion turbine in eastern North Dakota to support system reliability and address capacity needs in the 2023 to 2025 timeframe; and accelerate the addition of renewable energy to the 2018-2010 timeframe. The 2015 Resource Plan is not final and remains subject to change.

13. After considering all of the testimony and other evidence, the Commission finds NSP has not established the Calpine PPA is prudent. There is little or no dispute that there is not a need for this project until at least 2023. However, a need at that time is only based on a recent update to NSP's resource plan, which includes ceasing operations at lower cost facilities and when customers will still be impacted by depreciation of those facilities. The evidence shows a potential need for the energy in this case by 2024 absent ceasing operations at lower-cost facilities. Second, NSP acknowledges the timing of the project is not ideal. There are several years before an identified need, and various uncertainties relied upon by NSP as justification for determining prudence of the project now. Yet, with the amount of time before the potential need arises, it cannot be determined whether those uncertainties will actually arise or whether this project will actually address them. Further, the necessity of the strict timeline does not appear supported. Approval of the project now would require customers to pay for unneeded capacity for many years when it is not needed. While there may be advantageous pricing of the project, paying less for something that is not needed is still paying too much. The

Commission finds the Calpine PPA is not reasonable at this time under all the relevant circumstances.

14. The Commission finds NSP has not shown the Calpine PPA to be a prudent resource addition. Therefore, the Commission declines to grant an advanced determination that NSP's Calpine PPA is prudent.

From the foregoing Findings of Fact, the Commission makes the following:

Conclusions of Law

1. The Commission has jurisdiction in this matter.
2. NSP has not shown that the Calpine PPA merits an advance determination of prudence under N.D.C.C. § 49-05-16.

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

Order

The Commission orders:

1. NSP's application for an advance determination of prudence for the Calpine PPA is denied.

PUBLIC SERVICE COMMISSION

Randy Christmann
Commissioner

Brian P. Kalk
Chairman

Julie Fedorchak
Commissioner