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December 1, 2015

**- Via Email and Federal Express -**

Darrell Nitschke, Executive Director  
North Dakota Public Service Commission  
State Capitol Building, Dept 408  
600 East Boulevard  
Bismarck, ND 59505-0480

RE: REQUEST FOR APPROVAL OF AN ADVANCE DETERMINATION OF PRUDENCE  
FOR A POWER PURCHASE AGREEMENT WITH MANKATO ENERGY CENTER,  
LLC FOR APPROXIMATELY 345 MW OF COMBINED-CYCLE NATURAL GAS  
GENERATION  
PROPOSED FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDER  
CASE NO. PU-15-096

Dear Mr. Nitschke:

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

Please contact me if you have any questions regarding this filing at [dave.sederquist@xcelenergy.com](mailto:dave.sederquist@xcelenergy.com) or 701-241-8632.

Sincerely,

A handwritten signature in blue ink that reads 'David H. Sederquist'.

DAVID H. SEDERQUIST  
Sr. Consultant, Regulation & Finance  
Enclosures

**STATE NORTH DAKOTA  
PUBLIC SERVICE COMMISSION**

Northern States Power Company -  
Advance Prudence Mankato Energy Center  
Application

Case No. PU-15-96

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

**Appearances**

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

Alison C. Archer, Xcel Energy Services Inc., 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.

Mitchell D. Armstrong and Brian D. Schmidt, Special Assistant Attorneys General, 112 East Broadway Avenue, P.O. Box 460, Bismarck, North Dakota 58502, 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.

Blaine T. Johnson, Crowley Fleck PLLP, 100 West Broadway, Suite 250, P.O. Box 2798, Bismarck, North Dakota 58501, on behalf of Calpine Corporation, Intervenor.

Janet Demarais Seaworth, Administrative Law Judge, Office of Administrative Hearings, 2911 North 14th Street - Suite 303, Bismarck, North Dakota 58507.

**Preliminary Statement**

On February 13, 2015, Northern States Power Company (NSP or the Company) filed an Application with the North Dakota Public Service Commission (Commission) for an Advanced Determination of Prudence (ADP) for 345 MW of capacity and associated

energy to be added to the NSP System through a 20-year power purchase agreement (PPA) with Mankato Energy Center, LLC, an affiliate of Calpine Corporation for the purchase of the capacity and energy from an approximately 345 MW expansion of an existing combined cycle generating facility located near Mankato, Minnesota (the Calpine Project PPA).

On May 12, 2015, NSP filed the executed Calpine Project PPA as a compliance filing, which included revisions from the draft PPA that was filed with NSP's initial Application.

On July 8, 2015, the Commission issued a Notice of Hearing, scheduling a hearing for October 15, 2015. The Notice specified the issue to be considered was whether NSP's PPA should receive an ADP from the Commission.

On August 28, 2015, NSP filed an amendment to the PPA, under which the condition precedent date was extended to April 1, 2016, allowing NSP to terminate the PPA pending all necessary regulatory approvals. Also on August 28, 2015, NSP filed an application for trade secret protection, which was granted by Administrative Law Judge Janet Demarais Seaworth on October 15, 2015.

On September 25, 2015, Calpine Corporation filed a Petition to Intervene, which was granted by Administrative Law Judge Janet Demarais Seaworth on October 15, 2015.

The Commission held a hearing on the Application on October 15, 2015, in the Commission Hearing Room, State Capitol, 12th Floor, 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 electric utility authorized to provide public utility service in North Dakota subject to the jurisdiction of the Commission.
2. NSP has service territory in five upper Midwest states including North Dakota. NSP serves retail electric customers in and around Fargo, Grand Forks, and Minot, North Dakota.
3. 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. In Case No. PU-07-776, NSP was required to file ADP applications for all resource additions 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 was required to obtain Commission approval of such acquisitions before including the associated PPA costs in its monthly Fuel Cost Rider (FCR).

4. In Case No. PU-13-194, NSP sought an ADP for its proposal to meet a capacity need of 150-500 MW in the 2017-2019 time frame by adding the Black Dog Unit 6 combustion turbine and Red River Valley Units 1 and 2 combustion turbines to its system. The Commission granted NSP's requested ADPs in those Cases.
5. In those Cases, NSP indicated that whether or when the Black Dog and Red River Valley Units would be constructed was not clear because of fluctuations in forecast demand and the possibility the Minnesota Public Utilities Commission's (MPUC) Competitive Acquisition Process (CAP) would result in more competitive proposals from independent power producers.
6. NSP simultaneously sought approval from the MPUC for Black Dog Unit 6 and the Red River Valley Units through the Minnesota CAP process in MPUC Docket No. E002/CN-12-1240.
7. The Calpine Project PPA was first identified through the MPUC CAP process through a proposal from Calpine Corporation. Additional proposals were also submitted by Invenergy (Cannon Falls combustion turbine), Geronimo Energy (Aurora Solar 100 MW PPA), and Great River Energy (short term capacity sale). Ultimately, the MPUC proceeding led to the selection of three capacity resources to meet the up to 500 MW of capacity need that had been identified in Xcel Energy's Fall 2011 Forecast: the Calpine Project PPA, Black Dog Unit 6, and the Geronimo Solar Project.
8. On February 13, 2015, NSP filed an Application in this Case for a determination that the Calpine Project PPA is a prudent resource selection.
9. The Calpine Project is located in Mankato, Minnesota and will add approximately 278 MW of accredited capacity to the existing 375 MW (nameplate) Mankato Energy Center. The new combined cycle unit will be located on the same site and incorporated into the existing footprint of Mankato Energy Center's existing combined cycle unit. By taking advantage of a developed site and adding a second unit using largely existing infrastructure, Calpine was able to offer very attractive pricing.
10. Under the PPA, the Calpine Project's capacity and associated energy would be acquired through a 20-year purchase beginning in 2019.
11. NSP is obligated to serve all of its customers' needs under all reasonable circumstances and must have resources available to meet those needs.
12. NSP's forecasts since the 2011 fall forecast submitted with the Company's 2010 Resource Plan have varied relatively significantly and have indicated that the NSP system could need additional generation capacity to meet customer demand between 2017 and 2024.

13. On January 5, 2015, in Case No. PU-15-019, NSP submitted an updated forecast to support its 2015 Resource Plan. That forecast suggested the possibility the Company would not need additional capacity until approximately 2024.
14. On October 2, 2015, NSP submitted an update in Case No. PU-12-019 reflecting a proposal to cease coal operations at Sherco Unit 2 in 2023 and at Sherco Unit 1 in 2026. As a result of this update, NSP projected a need for additional capacity beginning no later than 2023.
15. Advocacy Staff and NSP are in agreement that additional capacity is projected to be needed by at least 2024, even if coal generation at Sherco Unit 2 is extended beyond 2023.
16. The terms of the Calpine Project PPA require that NSP agree to a 2019 in-service date and commencement of the 20-year PPA.
17. While delaying making any resource decision until the timing and size of capacity need is more certain could be advantageous, delay could also result in NSP needing to add resources very near to the time of need in order to avoid a capacity deficit, and could result in significantly higher costs to add additional required capacity at that time.
18. NSP presented testimony to support its position that adding the Calpine Project to NSP's integrated system provides a prudent path forward in light of forecast variability; the need for flexibility in responding to upcoming retirements of intermediate and baseload resources; the significant uncertainty of the qualitative impacts of potential environmental regulations; the overall cost of acquiring new resources in the future; and evolving market conditions.
19. Advocacy Staff and NSP are in agreement that for purposes of future cost recovery of the Calpine Project PPA from North Dakota ratepayers, the total cost recovery should not exceed the North Dakota allocation of the actual cost of the project.

### **Conclusions of Law**

1. The Commission has jurisdiction in this matter.
2. 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.
3. 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.

4. The Calpine Project PPA is a prudent and cost-effective resource for NSP to add to its system to meet anticipated future need and will likely result in net cost benefits for NSP’s customers during the term of the PPA.
5. Considering variability of NSP’s forecast projections, changes in Midwest ISO rules, and evolving environmental regulations, the Calpine Project PPA commencing in 2019 is a prudent acquisition by NSP. The totality of obtaining combined-cycle capacity and energy at attractive pricing, the operational flexibility inherent in combined-cycle generation, and optionality offered by the Calpine Project PPA outweigh the costs in the short term of obtaining the additional combined-cycle capacity slightly in advance of any forecasted need.
6. The record reflects that it is unlikely that the favorable pricing terms offered by the Calpine Project PPA would be available in the future for similar combined cycle generation.
7. The record reflects a range of possible economic costs or benefits of the Project. If there is an incremental cost for the Project, the record establishes that the amount of that cost is reasonable due to: its size; ability to obtain combined-cycle capacity and energy at essentially combustion turbine pricing; and the offsetting qualitative benefits of the Project.
8. The record reflects several qualitative benefits of the Project, including providing competitive pricing that adds combined-cycle capacity to an existing site and provides strategic benefits to the overall system, flexibility and lower priced energy that is derived from a combined-cycle facility that will ensure adequate supply to meet future load growth, flexibility to address anticipated retirements of existing generation, and hedging against emerging environmental regulations.
9. Given the possible benefits of the Project as well as the possible costs in light of the qualitative benefits of the Project, the resource addition and timing of the proposed PPA are prudent.

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

**Order**

The Commission orders that the Applicant's request for an advance determination of prudence of its Power Purchase Agreement the Calpine Project is hereby GRANTED.

**PUBLIC SERVICE COMMISSION**

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**Randy Christmann**  
Commissioner

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**Julie Fedorchak**  
Chairman

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**Brian P. Kalk**  
Commissioner