

BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF NORTH DAKOTA

IN THE MATTER OF THE APPLICATION  
OF NORTHERN STATES POWER  
COMPANY FOR AN ADVANCE  
DETERMINATION OF PRUDENCE FOR  
THE 200 MW COURTENAY WIND  
FARM PROJECT

Case No. PU-15-\_\_\_\_\_

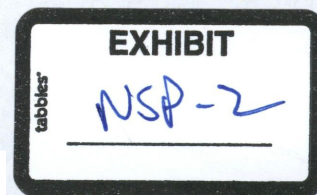
APPLICATION FOR ADVANCE DETERMINATION OF PRUDENCE

I. INTRODUCTION

Northern States Power Company, doing business as Xcel Energy, respectfully submits to the North Dakota Public Service Commission this Application for an Advance Determination of Prudence (ADP) pursuant to North Dakota Century Code Section 49-05-16, the Settlement Agreement in Case No. PU-07-776, and the Company's commitments in Case No. PU-12-59. This ADP request is for 200 MW of wind generation to be added to the NSP System through the Company's development, construction, ownership, operation, and maintenance of the Courtenay Wind Farm Project (Courtenay Project). This 200 MW resource addition represents a prudent opportunity for the Company to ensure development of generation in North Dakota and to continue to meet the needs of all the customers we serve within our five-state integrated system in a cost-effective manner.

The Courtenay Project is a 200 MW wind resource in Stutsman County, North Dakota that the Company identified for acquisition through its February 2013 Request for Proposals (RFP) for additional wind resources. On July 26, 2013, the Company requested an Advance Determination of Prudence (ADP) for purchasing the output of the Courtenay Project through a power purchase agreement (PPA) in Case No. PU-13-706. On February 26, 2014, the Commission granted the requested ADP.<sup>1</sup>

<sup>1</sup> *Northern States Power Company Advanced Determination of Prudence – Courtenay Wind Project Application*, NDPSC Case No. PU-13-706, ORDER ADOPTING SETTLEMENT, Revised Second Amended Comprehensive Settlement Agreement at 22 (Feb. 26, 2014). Because under the PPA arrangement the Company would not own the Project, no Certificate of Public Convenience and Necessity (CPCN) was requested by the Company or issued by the Commission. The Company has separately requested the issuance of a CPCN in Case No. PU-15-175 for our ownership of this project. The Company has also separately requested in Case No. PU-15-174, the transfer the Certificate of Site Compatibility that had previously been issued in Case No. PU-13-64.



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Circumstances surrounding the Courtenay Project have changed since the PPA was approved. Unfortunately, Geronimo Energy, LLC (Geronimo), the developer of the Courtenay Project, has not been able to secure financing or a third party equity investor for the Project, and all parties have determined in good faith the PPA cannot be performed in accordance with its terms. If the Company does not step in to complete the Courtenay Project, we are concerned that the Project will not be built at all.

Having conducted additional due diligence, and updating our assumptions, in association with the Company's proposed ownership of the Courtenay Project, our analyses indicate that development of this resource addition remains viable under a different arrangement whereby the Company acquires, develops, and owns the Project on behalf of our customers.

Taking steps to remedy the issues threatening the Courtenay Project is consistent with the Company's commitment to seek opportunities to invest in generation within North Dakota. Rather than risk project failure, taking an ownership role will provide benefits to our customers and to North Dakota. Not only are the landowners and nearby communities hosting this Courtenay Project counting on the lease payments, community support, and tax base provided by this Courtenay Project, but the Company is also using North Dakota-based contractors and labor to construct this facility. And the ultimate success of this Project will further enhance the Company's geographic diversity in its supply portfolio.

The proposed transaction will be in the form of the acquisition of a limited liability company (Courtenay Wind Farm LLC), a subsidiary of Courtenay Wind Holdings LLC that holds all the assets of the facility. These companies are, in turn, affiliates of Geronimo. The Company then plans to merge the LLC into the Company and take over development of the Project assets directly. In addition, we recently entered into the turbine supply agreement (TSA) and balance of plant construction (BOP) contract directly with the suppliers. We intend to complete the Project, and own and operate the facility by December 31, 2016 to take advantage of the available federal Production Tax Credit (PTC).

Overall, the Courtenay Project's costs are favorable under this structure, and it remains an important part of our future generation portfolio. With Company ownership, the Courtenay Project offers attractive pricing for our customers and fits within our strategy of having a geographically diverse balance of Company-owned and

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PPA wind resources. Production at this facility will often displace more expensive generation in our system or in the wholesale market.

We estimate that with this 200 MW addition, system costs will be approximately \$97 million lower over time, on a present value of revenue requirements (PVRR) basis<sup>2</sup> than they would be if we abandoned the Project. Moreover, the Company's ownership of the Project offers these benefits to customers over a longer period than would be available under a PPA and at a higher capacity factor now that we have additional information about the specific turbines to be used for the Project. Finally, at the end of the 25-year assumed life, the Company will own the asset and can take advantage of any residual value that remains.

For these reasons, we believe acquiring the Courtenay Project is prudent, and the Commission should grant an ADP after notice and a hearing, if necessary, is held pursuant to Section 49-05-16. To achieve these benefits, it is necessary to place the Courtenay Project in service by December 31, 2016, when eligibility for the PTC is currently set to expire. In turn, this requires us to begin pouring foundations in 2015 to keep the Project on track. We, therefore, respectfully request that the Commission process this Application promptly and issue its decision by August 31, 2015.

In support of this Application, the Company provides the Direct Testimony of Company Witnesses Ms. Laura McCarten, Mr. Paul B. Johnson and Mr. Gregory L. Ford and Ms. Elizabeth M. Engelking from Geronimo, as follows:

- Ms. McCarten's Direct Testimony provides the Company's perspective on the value of acquiring this resource and presents the Company's policy justifications for this purchase;
- Mr. Johnson's testimony provides the resource planning and modeling analyses of the Courtenay Project;
- Mr. Ford's testimony describes the construction process and discusses the critical contracts that comprise the key obligations of the project; and
- Ms. Engelking's testimony provides Geronimo's perspective on the status of the Courtenay Project and why it decided to sell the Project to Xcel Energy.

The remainder of this Application will provide:

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<sup>2</sup> Consistent with N.D.C.C. § 49-02-23, all economic modeling contained in this Application does not quantify environmental and other externality costs.

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- Description of the Applicant;
- Communications and Service;
- Standard of Review;
- Courtenay Project Description;
- Cost Effectiveness of Project;
- Prudence of the Resource Acquisition;
- Reasonable Mitigation of Risks; and
- Conclusion

## **II. DESCRIPTION OF THE APPLICANT**

Xcel Energy is a Minnesota corporation duly authorized to conduct business in the State of North Dakota as a foreign corporation. The Company conducts business in the State of North Dakota as a public utility subject to the jurisdiction and regulation of the Commission pursuant to Title 49 of the North Dakota Century Code. The name and address of Xcel Energy is:

Northern States Power Company  
414 Nicollet Mall  
Minneapolis, Minnesota 55401

Xcel Energy also operates in North Dakota from the following address:

Northern States Power Company  
2302 Great Northern Drive  
Fargo, North Dakota 58102

The Company's Certificate of Incorporation with amendments and Certificate of Authority were filed with the Commission on September 30, 2009 and October 12, 2009, respectively, in Case No. PU-09-664. Current Certificates of Good Standing issued by the North Dakota and Minnesota Secretaries of State were filed in the same case on January 13, 2014, and are incorporated herein by reference.

Xcel Energy has service territory in five upper Midwest states including North Dakota. We presently serve approximately 90,000 retail electric customers in and around Fargo, Grand Forks, and Minot, North Dakota. We own just over 250 miles of transmission lines and 14 substations in North Dakota.

### III. COMMUNICATIONS AND SERVICE

We respectfully request that the following persons be placed on the Commission's official service list for all official communications in this case:

David H. Sederquist  
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### IV. STANDARD OF REVIEW

Section 49-05-16 (1)(d) authorizes the Commission to issue an ADP if it “determines that the resource addition is prudent.” Section 49-05-16 (7) further provides that “[t]here is a rebuttable presumption that a resource addition located in the state is prudent.”

This standard is similar to the “honestly and prudently invested” standard that the Commission uses for ratemaking. *See* N.D.C.C. § 49-06-02. The general prudence standard calls for determining whether the utility action was reasonable at the time it was taken under all relevant circumstances. *See* Charles F. Philips, Jr., *The Regulation of Public Utilities – Theory and Practice* at 292 (Public Utility Reports 1988); *see also* David. J. Muchow, William A. Mogel, *Energy Law and Transactions* at § 4.02[3][b] (2009). Under Section 49-05-16 (1), the Commission may issue an order approving the prudence of a proposed project if four conditions are met:

- a) The public utility files with its application a projection of costs to the date of the anticipated commercial operation of the resource addition;
- b) The public utility files with its application a fee in the amount of one hundred seventy-five thousand dollars;
- c) The commission provides notice and holds a hearing, if appropriate, in accordance with Section 49-02-02; and
- d) The commission determines that the resource addition is prudent. For facilities located or to be

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located in this state the commission, in determining whether the resource addition is prudent, shall consider the benefits of having the resource addition located in this state.

**V. COURTENAY PROJECT DESCRIPTION**

This section provides information on the Courtenay Project including background on the Company's decision to purchase the Courtenay Project, a description of the Project, and an explanation of Project's structuring.

**A. Background**

The Courtenay Project was slated to be developed, constructed, owned, and operated by Geronimo, a wind-project developer with whom the Company has transacted on several occasions. Geronimo undertook activities toward the realization of that project, with an initial anticipated in-service date of December 31, 2014. Activities in support of the Project included obtaining state and local permits needed to construct the Project, purchasing long-lead-time equipment such as the substation transformers and the Project transformers, and substantially developing the real estate rights necessary to construct the Project undertaking continuous activity on the Project sufficient to satisfy the relevant PTC requirements, and entering into a number of contractual relationships designed to facilitate successful development of the Project.

After approval of the PPA and initial activities, the Courtenay Project encountered several delays which adversely impacted the Project's development schedule and caused the Courtenay Project to fail to meet critical milestones and default under the PPA. It appears there were two primary causes for this circumstance: (i) Geronimo priced the PPA assuming it would be able to fully utilize the North Dakota Income Tax Credit; and (ii) the Courtenay Project PPA price turned out to be insufficient to support the construction of the Project and precluded Geronimo from finding another equity partner who could fund the PPA structure on reasonable terms. Geronimo has fallen into default under the PPA.

Under the circumstances, the Company would be justified in terminating the PPA for default and removing this anticipated resource from our plans. However, prior to doing so, we determined it was appropriate to consider whether purchasing the Courtenay Project may be preferable for our customers to terminating the PPA.

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The Company engaged in a detailed review of Project specifics to assess the risks and benefits of assuming Project development and ownership. In particular, we assessed work completed to date, contractual arrangements Geronimo had previously entered into, regulatory requirements, the Project's financial viability and turbine performance, and site suitability. We also conducted a detailed wind and site suitability study (Schedule 2 to the Direct Testimony of Paul B. Johnson) using the selected turbines and project layout, and identified the potential useful life of the Project for our customers' benefits if the Project is Company-owned. Finally, we undertook review and preliminary negotiations for entry into the TSA and BOP contracts to assess the continued viability of completing the Project.

Based on these efforts, the Company reached several important conclusions:

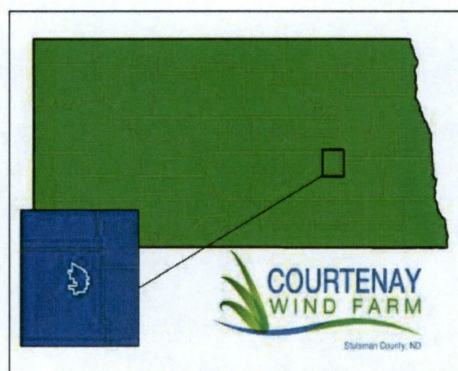
- *The Courtenay Project is not viable on the terms negotiated in the PPA.* The loss of the North Dakota tax benefit had a material adverse impact on the viability of the PPA pricing for the Project. We note that Geronimo's PPA proposal was based on initial estimates that have subsequently been refined, bringing greater clarity to the cost and benefit picture.
- *Geronimo cannot continue to finance construction of the Project and has not identified an alternative partner to do so under the PPA structure.* Geronimo has focused its attention on selling the Project to Xcel Energy and has worked hard to address the Company's concerns about the structure and risks of the transaction. While Geronimo explored the possibility of selling the Courtenay Project (and PPA) to a number of other developers, those efforts have been unsuccessful.
- *Under the contractual terms we have obtained with the TSA and BOP vendors, it makes economic sense to own and operate the wind farm.* As the planned off-taker of the Courtenay Project output and with the ability to add the Project to rate base, the Company can manage the wind farm without the requirement for a minimum, levelized revenue stream over a limited period of operation and can maximize the long-term benefits of the Project.
- *Initiating construction of the Project this construction season facilitates meeting the 2016 PTC deadline at reasonable costs.* This timing requires us to step into the shoes of Geronimo as promptly as reasonably possible and with the Project on a schedule that maximizes the likelihood of success.

## **B. Project Description**

The Courtenay Project is a 200 MW wind energy generation facility. It is located in

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Stutsman County, along the edge of the Missouri Coteau in east-central North Dakota – northeast of Jamestown. The Project covers 24,900 acres. The Commission issued a Certificate of Site Compatibility for the Courtenay Project on November 13, 2013 in Case No. PU-13-64.



Source: Geronimo

Courtenay Project assets are the sole assets of Courtenay Wind Farm LLC. Under our transaction structure, the Company will purchase the membership interest of Courtenay Wind Farm LLC, which we expect will then be merged into the Company upon closing of the Purchase and Sale Agreement (PSA). This process will thereby transfer ownership of Courtenay Wind Farms LLC and all its assets, including real estate, regulatory approvals and permits, to Xcel Energy. The Company will reflect Project assets on its books as it would any other Company-owned generating facility construction work in progress. Xcel Energy will then oversee development and construction of the Project, and will operate the Courtenay Project upon completion.

Consistent with the Commission's Certificate of Site Compatibility,<sup>3</sup> the Courtenay Project will consist of 100 Vestas wind turbine generators and associated infrastructure. Associated infrastructure includes access roads, electrical collection system, meteorological monitoring stations, a project collector substation, a transmission line, and an operations and maintenance facility. The Company has entered into a TSA with Vestas to purchase the turbines (the single largest cost of a wind facility) and contracted with Wanzek Construction from Fargo for BOP construction services.

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<sup>3</sup> This permit was issued by the Commission in Case. No. PU-13-64. On April 29, 2015, Xcel Energy filed a petition is seeking to have this permit transferred to the Company in Case No. PU-15-174)

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An analysis of the site-specific wind data was conducted by the Company's consultant, AWS Truepower, utilizing the specific turbines planned for the Project. The analysis predicted a net capacity factor of 46.1 percent for the wind turbines, which was used in the Company's final levelized-cost analysis (*see* Schedule 2 to the Direct Testimony of Paul B. Johnson). Notably, the initial PPA with Geronimo was based on a generic net capacity factor assumption of [TRADE SECRET BEGINS...  
...TRADE SECRET ENDS] provided in Geronimo's RFP bid since turbines were not yet selected at the time of the bid. We have incorporated this updated information into our economic modeling, discussed in more detail below.

The Courtenay Project will interconnect at Otter Tail's Jamestown substation, which connects to 115 kV transmission lines owned by Otter Tail and to the Center-Maple River Line owned by Minnkota Power Cooperative (Minnkota) and Otter Tail. Xcel Energy is presently working through FERC proceedings to ensure the existing Generator Interconnection Agreement (GIA) for the Project remains viable, and to ensure access to Minnkota's jointly-owned transmission facilities.

To ensure the benefits of the PTC, the Courtenay Project must be placed in service no later than December 31, 2016. To achieve this date, work needs to begin in 2015. The Company notes that its construction of the Courtenay Project cannot start until the Commission issues a CPCN, approves the transfer of Certificate of Site Compatibility No. 36, and confirms that N.D.C.C. § 49-04-06 (Merger Statute) does not apply to this transaction.<sup>4</sup> To help facilitate timely construction of the Project to capture the PTC, the Company respectfully requests that the Commission grant an ADP on this project by August 31, 2015.

### **C. Description of the Transaction**

The Courtenay Project is a distressed asset. However, the Company believes that the purchase and development of the Courtenay Project will provide benefits to our

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<sup>4</sup> We note that Section 49-04-06 requires the Company to obtain the approval of the Commission before acquiring the business of a limited liability company that is incorporated for, organized for, or engaged in "the same or a similar business" as the Company. The Company's analysis of this statute indicates that Commission precedent argues that Courtenay Wind Farm LLC is not engaged in the same and similar business and that, therefore, Commission approval under Section 49-04-06 is not required for the Company to consummate the purchase of Courtenay Wind Farm LLC. On April 29, 2015 we submitted a request for a jurisdictional determination to confirm our understanding of Section 49-04-06 in Case No. PU-15-173. However, to the extent the transaction described above comes within the scope of Section 49-04-06, the Company has requested that the Commission grant its approval of the transaction along with its CPCN. The Commission's application of the public interest standard in the merger context looks to whether the transaction will be "injurious to the rights of the public or adversely affect other utilities." *Re Minot Telephone Company*, FINDING OF FACT, CONCLUSIONS OF LAW AND ORDER at Finding 13, Case No. PU-156-94-11 (March 23, 1994).

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customers over the life of the Project as well as support the development of Company owned generating facilities in North Dakota. Because the proposed transaction will provide benefits to our customers and does not adversely affect other utilities, the public interest standard has been met.

The transaction is structured to allow the Company to step into the shoes of Geronimo and complete development of the Courtenay Project in its current state. To accomplish this, our work is structured around three key contracts.

- The first is the PSA for the purchase of the Project, including the real estate rights, permits, and contracts necessary for completion of the Project.
- The second is the TSA with Vestas for the purchase of the wind turbine generators for the Courtenay Project.
- The third is the BOP contract with Wanzek, a North Dakota based contractor, for the construction of the components of the Courtenay Project.<sup>5</sup>

The PSA has been structured as the purchase of 100 percent the membership interest of Courtenay Wind Farm LLC. After reviewing several potential transaction structures, we determined that this is the most expeditious transaction structure available. Courtenay Wind Farm LLC holds hundreds of leases, permits, and contracts that would be time consuming to transfer individually to the Company. By purchasing the corporate entity that holds these assets and merging the LLC into the Company, the assets transfer to the Company by operation of law. We believe this will allow the transfer of control of all of the Courtenay Project assets more efficiently than assigning these assets individually to the Company and seeking the myriad third-party consents required to do so. This is consistent with how the purchases of the Border Winds Project and Pleasant Valley Project with RES Americas were structured. The main difference is that instead of purchasing an operating wind farm, Xcel Energy will be purchasing the assets necessary to construct, own, and operate a wind farm.

The Company entered into the TSA and BOP contracts directly with our vendors. Because we are stepping into Geronimo's shoes to complete development of the Courtenay Project, we sought to utilize vendors for the wind turbines that were already approved by the Commission for the Courtenay Project when it issued the

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<sup>5</sup> The three main contracts supporting our construction of the Project are several thousand pages long, including schedules. Consequently, for administrative convenience, the Company is not providing copies of these trade secret materials with this Application. The Company is happy to provide these documents upon request.

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Certificate of Site Compatibility No. 36. Also, Geronimo had previously selected Wanzek as their BOP contractor. We believe there are many benefits in engaging a qualified North Dakota contractor for a project located in the State. Developing a relationship with a BOP contractor such as Wanzek can provide the Company with additional market options for future projects.

We estimate that the total capital expenditures for the Courtenay Project will be approximately \$300 million (plus AFUDC), including Xcel Energy's anticipated development oversight and ownership transfer closing costs. Our PSA with Geronimo calls for payments of approximately [TRADE SECRET BEGINS TRADE SECRET ENDS] for purchase of the Courtenay Wind Farm, LLC and all of its assets. We further anticipate that our costs will include approximately [TRADE SECRET BEGINS... ..TRADE SECRET ENDS] in turbine supply costs, and [TRADE SECRET BEGINS... ..TRADE SECRET ENDS] in balance of plant contract costs.

Our development of the Project is contingent on several regulatory approvals. These include: (1) receipt of a Certificate of Public Convenience and Necessity from the Commission; (2) transfer of the Certificate of Site Compatibility from Courtenay Wind Farm LLC to the Company; (3) receipt of an ADP from the Commission; and (4) approval of the Minnesota Public Utilities Commission for our ownership of the Courtenay Project under Minnesota Statute Section 216B.1645, subd. 2a.

## **VI. COST EFFECTIVENESS OF PROJECT**

To evaluate the cost effectiveness of the Courtenay Project, we used the Strategist resource planning model. Strategist simulates the operation of the NSP System and estimates the total cost of energy over the life of the Project on a present value basis. We use the model to test results under a range of input assumptions. To assess the Courtenay Project's impact on customer costs, we simulated the operation of the NSP System over the next 40 years with and without the addition of the 200 MW of wind generation from the Project as well as in comparison to purchasing the output of the Project through the PPA.

Wind generation has a zero marginal cost to produce the next unit of energy. In other words, after capital and ongoing operating and maintenance (O&M) costs are accounted for, it costs a wind generator nothing to produce the next MWh of energy. As the result, MISO generally provides for wind production ahead of other, higher marginally-priced, generation such as natural gas- and coal-based generation. Consequently, the more wind on the system and generating, the less traditionally-fired

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generation is operated. When the energy from the 200 MW Courtenay Project is produced, it displaces a similar need for the Company to either produce the energy elsewhere on its system or purchase energy from the MISO market. The Strategist analysis accounts for these cost savings as well as the impact of the capital commitments associated with the Project.

1. Modeling the Courtenay Project

For Company-owned projects, the upfront purchase price must be translated into a projection of annual revenue requirement associated with financing, operations, depreciation, and taxes, including the addition of AFUDC. Projections of upfront and on-going capital investments and annual operating and maintenance expenses must also be developed.

To create a total annual cost of ownership estimate, we used a spreadsheet model with the detailed project-level assumptions and transferred that annual total cost estimate directly into Strategist. The spreadsheet model used cost of capital assumptions consistent with the Company's 2016-2030 Upper Midwest Resource Plan. In addition, the spreadsheet model assumed the Company's forecasted net operating loss (NOL), which is currently expected to dissipate in the 2019-2021 timeframe. Upfront capital investments are well defined. That said, we have also modeled two capital sensitivities that we call Capital Sensitivity 1 and Capital Sensitivity 2, which reflect capital expenditures of [TRADE SECRET BEGINS...  
...TRADE SECRET ENDS] respectively, plus AFUDC. We note that our modeling efforts include the addition of AFUDC to these amounts.

The on-going capital investments and annual O&M expenses projections are subject to some uncertainty due to unforeseen equipment failures or changing costs within the industry. To test how variation from the base forecasts would impact the overall cost-effectiveness of the project, we conducted sensitivity tests in Strategist of plus and minus 25 percent of projected on-going capital investments and O&M expenses.

The economic benefit of an owned wind project is highly dependent on the annual generation from the site. Each additional MWh produced by a Company-owned project increases the value of the project because the higher the production, the lower the average costs will be, and therefore, the larger the benefits. To test how average capacity factors impact the economic value of the Courtenay Project, Strategist modeled this sensitivity using +/- 5 percent of the expected annual generation of 46.1 percent, based on our updated wind study. The base assumption for the life of the

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Project was 25 years (as compared to 20 years under the PPA scenario), and sensitivities were performed for 20-year and 30-year lives.

For our modeling efforts, we utilized our most recent resource planning model, which is the same one used for our 2016-2030 Upper Midwest Resource Plan.

Consequently, several underlying assumptions have changed for our analysis of Company ownership of the Courtenay Project in addition to capacity factor and resource life. We discuss these changes here and, below, provide an analysis of Company ownership of the Courtenay Project under the same assumptions we used when we analyzed the PPA so that our analysis is complete and transparent.

In accordance with the latest MISO effective load carrying capability (ELCC) analysis, we modeled the Courtenay Project having a 14.8 percent accredited capacity value. However, per MISO's tariff and business practices, for the Courtenay Project to receive accreditation as a capacity resource it must have firm delivery rights either with Network Resource Interconnection Service or firm transmission service (Network Integration Transmission Service or Firm Point-to-Point Transmission Service). Our expectation for the Courtenay Project is that these wind resources will not be given this designation until 2021 when various transmission system upgrades, including MISO's MVP projects, are complete. Our modeling efforts reflect the expected capacity accreditation in 2021.

The Strategist model does not explicitly model transmission congestion and line losses for new resources. To ensure that we are accounting for all the costs associated with our wind proposal, we included the congestion and line loss estimates from MISO's 2012 Promod models. The Promod model contains detailed information on the transmission topology in MISO, and has the ability to forecast hourly prices at individual nodes throughout the system. It is the same model that MISO used in their most recent round of transmission planning analysis, and contains all planned upgrades to the transmission system that may impact transmission congestion in the future. The difference in price between any two locations within MISO is interpreted at the combined impact of transmission system congestion and line losses.

Last, we have performed a new wind integration study as part of our most recent Resource Plan. Based on this new study, we utilized wind integration costs of \$1.10/MWh, consistent with our recent Resource Plan filing.

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2. Strategist Results

The results of our Strategist analysis shows that as compared to abandoning the Project, the Courtenay Project will result in net savings for our customers under all sensitivity tests conducted.

**Table 1: PVRR Results (\$millions)**

| PVRR, Current Assumptions (\$M) | Base                   | Low Gas  | High Gas | Markets On | 30 Year Operating Life | 20 Year Operating Life | +5% Energy Production | -5% Energy Production | Capital Sensitivity 1 | Capital Sensitivity 2 | +25% On-Going Ownership Costs | -25% On-Going Ownership Costs |
|---------------------------------|------------------------|----------|----------|------------|------------------------|------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-------------------------------|-------------------------------|
|                                 | Base Case (No Project) | \$46,015 | \$43,248 | \$50,002   | \$45,519               | \$46,015               | \$46,015              | \$46,015              | \$46,015              | \$46,015              | \$46,015                      | \$46,015                      |
| Courtenay Own                   | \$45,918               | \$43,198 | \$49,644 | \$45,447   | \$45,909               | \$45,995               | \$45,872              | \$45,949              | \$45,935              | \$45,952              | \$45,939                      | \$45,897                      |

**Table 2: Incremental PVRR from Base Case (\$millions)**

| PVRR Delta, Current Assumptions (\$M) | Base          | Low Gas | High Gas | Markets On | 30 Year Operating Life | 20 Year Operating Life | +5% Energy Production | -5% Energy Production | Capital Sensitivity 1 | Capital Sensitivity 2 | +25% On-Going Ownership Costs | -25% On-Going Ownership Costs |
|---------------------------------------|---------------|---------|----------|------------|------------------------|------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-------------------------------|-------------------------------|
|                                       | Courtenay Own | (\$97)  | (\$30)   | (\$159)    | (\$72)                 | (\$106)                | (\$20)                | (\$143)               | (\$66)                | (\$80)                | (\$63)                        | (\$76)                        |

Because the Courtenay Project was originally developed as a PPA, we also modeled a comparison of Company Ownership against being an offtaker under the PPA under several sensitivities. Although the PPA option is no longer viable, we believe it may provide a relevant comparison to ownership given there have been several changes in the Project's circumstances. Company ownership compares favorably to the PPA under any sensitivity other than a 20-year life (which is somewhat offset by the residual value of owning the assets comprising the Courtenay Project).

First, we compared Company ownership versus the PPA utilizing the capacity factor assumed in the PPA. As previously noted, this capacity factor was provided in Geronimo's RFP bid and developed before specific turbines were selected and our updated wind study was completed. Second, we compared Company ownership to the PPA utilizing the updated capacity factor identified in our wind study. Utilizing the updated capacity factor and assuming a 25-year life (consistent with our typical assumptions for a Company-owned project), Company ownership compares favorably to the PPA under any circumstance other than a 20-year life sensitivity:

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**Table 3: Incremental PVRR from PPA (\$ millions)**

| <b>PVRR Delta,<br/>Current<br/>Assumptions (\$M)</b> | <b>Base</b> | <b>Low Gas</b> | <b>High Gas</b> | <b>Markets On</b> | <b>30 Year<br/>Operating<br/>Life</b> | <b>20 Year<br/>Operating<br/>Life</b> | <b>+5% Energy<br/>Production</b> | <b>-5%<br/>Energy<br/>Production</b> | <b>Capital<br/>Sensitivity 1</b> | <b>Capital<br/>Sensitivity 2</b> | <b>+25%<br/>On-Going<br/>Ownership<br/>Costs</b> | <b>-25%<br/>On-Going<br/>Ownership<br/>Costs</b> |
|--|-------------|----------------|-----------------|-------------------|---------------------------------------|---------------------------------------|----------------------------------|--------------------------------------|----------------------------------|----------------------------------|--|--|
| <b>Courtenay PPA</b>                                 | (\$62)      | (\$29)         | (\$103)         | (\$42)            | (\$62)                                | (\$62)                                | (\$82)                           | (\$57)                               | (\$62)                           | (\$62)                           | (\$62)   | (\$62)   |
| <b>Courtenay Own</b>                                 | (\$97)      | (\$50)         | (\$159)         | (\$72)            | (\$106)                               | (\$20)                                | (\$143)                          | (\$66)                               | (\$80)                           | (\$63)                           | (\$76)   | (\$117)  |
| <b>Own vs. PPA</b>                                   | (\$35)      | (\$21)         | (\$55)          | (\$31)            | (\$44)                                | \$42                                  | (\$60)                           | (\$9)                                | (\$18)                           | (\$1)                            | (\$14)   | (\$55)   |

Importantly, even with the assumptions we utilized when analyzing the PPA, the Courtenay Project under Company ownership provides absolute savings under all sensitivities when compared to no Courtenay Project.

As indicated in the PVRR tables above, our analysis of the updated circumstances illustrates that the Courtenay Project provides cost savings to our customers even under the conservative sensitivity cases studied.

An alternate way of presenting the Strategist results is by calculating the levelized price of the project and the other costs and benefits associated with it. Levelized prices are a fixed \$/MWh price that have the same NPV as the actual cost streams generated by Strategist. For the sake of comparison, the 20-year levelized cost of the Courtenay PPA was **[TRADE SECRET BEGINS... ...TRADE SECRET ENDS]**. As mentioned previously, in addition to the direct project costs, the Strategist model also adds cost for wind integration, transmission congestion, and line losses. The primary benefit of the project is displaced generation from fossil fuel resources, but the model also tracks benefits from avoided CO2 emissions and capacity credit. Table 4 below illustrates how the levelized costs of the agreements are more than offset by the value of avoided generation.

**Table 4: Levelized Costs Analysis - \$/MWh**

|                           |                                |
|---------------------------|--------------------------------|
|                           | <b>[Trade Secret Begins...</b> |
| Revenue                   |                                |
| Requirements              |                                |
| Wind Integration          |                                |
| Congestion/Line Losses    |                                |
| Avoided Fossil Fuel       |                                |
| Capacity Credit           |                                |
|                           | <b>...Trade Secret Ends]</b>   |
| <b>Net Cost (Benefit)</b> | <b>(\$10.60)</b>               |

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In addition to the economic benefits, adding additional wind at favorable pricing provides a hedge against future increases in natural gas prices, market energy costs, and CO2 regulation. This is primarily because the wind displaces thermal generation or market purchases that are subject to volatility in fuel, power, and emissions costs. To illustrate the benefit of the Courtenay Project, Table 5 below shows the base case volumes of natural gas, market purchases, and CO2 emissions – and the deltas against these factors for the Project.

**Table 5: Hedge Value**

| <b>Total System<br/>2016-2042</b> | <b>CO2<br/><i>Million tons</i></b> | <b>Natural Gas<br/><i>bcf</i></b> | <b>Market<br/>Purchases<br/><i>GWb</i></b> |
|-----------------------------------|------------------------------------|-----------------------------------|--|
| <b>Base Case (No Project)</b>     | 565                                | 2,129                             | 103,811                                    |
| <b>Add Courtenay</b>              | (15)                               | (58)                              | (8,173)                                    |

We recognize, however, that the impacts to our customers will be different under the Company's ownership as opposed to through our purchase of the output of the Project under a PPA. This is mainly due to the different rate treatment for Company owned projects (through rate base or capital riders) and PPAs (through the Fuel Cost Recovery Rider (FCR)). Due to this, there will be a slight increase in expenses (and rates during the interim period while recovery is accomplished through the Renewable Energy Rider (RER)) in the first few years of Company ownership. That said, we expect that soon after initial operation, customers' overall bills will be lower than otherwise as a result of our proposed resource acquisition. Our Strategist dispatch simulation forecasts that the cost of the Project proposed in this Petition will be more than offset by decreases in the cost of fossil fuel and other purchased energy.

To develop our rate impact estimates, we used the output of our Strategist model divided by our forecasted sales volume. Table 6 below estimates how average rates will be affected by the proposed wind project.

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**Table 6: Annual Rate Impact Analysis**

|   | 2015              | 2016              | 2017              | 2018              | 2019              | 2020                |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|---------------------|
| <b>Base Rates</b>                         | 0.00¢/kWh         | 0.02¢/kWh         | 0.09¢/kWh         | 0.06¢/kWh         | 0.06¢/kWh         | 0.04¢/kWh           |
| <b>Fuel Clause</b>                        | 0.00¢/kWh         | 0.00¢/kWh         | 0.01¢/kWh         | 0.01¢/kWh         | 0.01¢/kWh         | 0.01¢/kWh           |
| <b>Avoided Fuel &amp; Purchased Power</b> | 0.00¢/kWh         | 0.00¢/kWh         | (0.05¢/kWh)       | (0.05¢/kWh)       | (0.06¢/kWh)       | (0.05¢/kWh)         |
| <b>Net Rate Impact</b>                    | <b>0.004¢/kWh</b> | <b>0.018¢/kWh</b> | <b>0.040¢/kWh</b> | <b>0.014¢/kWh</b> | <b>0.014¢/kWh</b> | <b>(0.008¢/kWh)</b> |

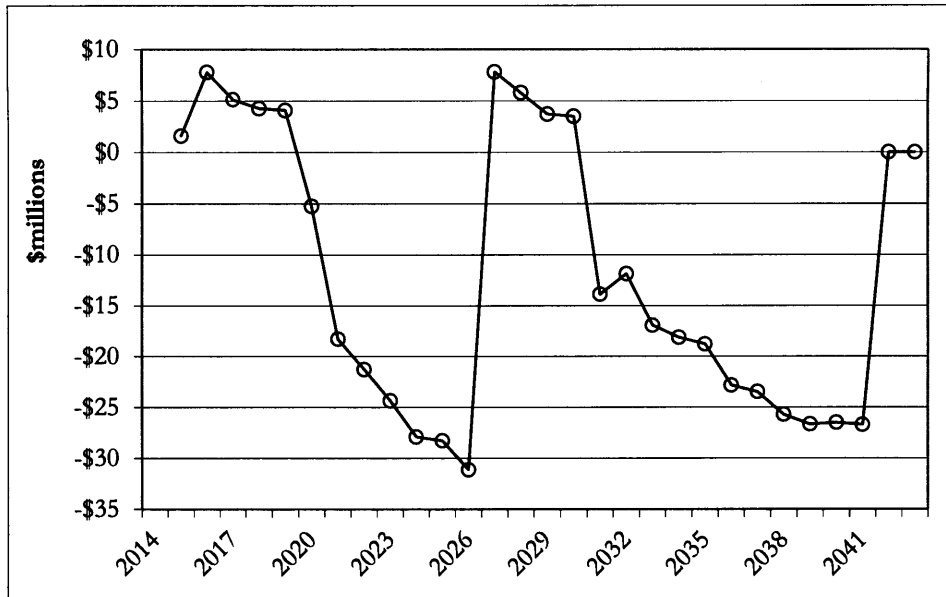
|   | 2021                | 2022                | 2023                | 2024                | 2025                | 2026                |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| <b>Base Rates</b>                         | 0.01¢/kWh           | 0.01¢/kWh           | 0.00¢/kWh           | 0.00¢/kWh           | 0.00¢/kWh           | -0.01¢/kWh          |
| <b>Fuel Clause</b>                        | 0.01¢/kWh           | 0.01¢/kWh           | 0.01¢/kWh           | 0.01¢/kWh           | 0.01¢/kWh           | 0.01¢/kWh           |
| <b>Avoided Fuel &amp; Purchased Power</b> | (0.06¢/kWh)         | (0.06¢/kWh)         | (0.06¢/kWh)         | (0.06¢/kWh)         | (0.06¢/kWh)         | (0.06¢/kWh)         |
| <b>Net Rate Impact</b>                    | <b>(0.038¢/kWh)</b> | <b>(0.042¢/kWh)</b> | <b>(0.050¢/kWh)</b> | <b>(0.055¢/kWh)</b> | <b>(0.056¢/kWh)</b> | <b>(0.062¢/kWh)</b> |

|   | 2027              | 2028              | 2029              | 2030              | 2031                | 2032                |
|---|-------------------|-------------------|-------------------|-------------------|---------------------|---------------------|
| <b>Base Rates</b>                         | 0.08¢/kWh         | 0.08¢/kWh         | 0.08¢/kWh         | 0.08¢/kWh         | 0.08¢/kWh           | 0.07¢/kWh           |
| <b>Fuel Clause</b>                        | 0.01¢/kWh         | 0.01¢/kWh         | 0.01¢/kWh         | 0.01¢/kWh         | 0.01¢/kWh           | 0.01¢/kWh           |
| <b>Avoided Fuel &amp; Purchased Power</b> | (0.06¢/kWh)       | (0.07¢/kWh)       | (0.07¢/kWh)       | (0.07¢/kWh)       | (0.11¢/kWh)         | (0.10¢/kWh)         |
| <b>Net Rate Impact</b>                    | <b>0.028¢/kWh</b> | <b>0.023¢/kWh</b> | <b>0.018¢/kWh</b> | <b>0.018¢/kWh</b> | <b>(0.022¢/kWh)</b> | <b>(0.016¢/kWh)</b> |

|   | 2033                | 2034                | 2035                | 2036                | 2037                | 2038                |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| <b>Base Rates</b>                         | 0.07¢/kWh           | 0.07¢/kWh           | 0.07¢/kWh           | 0.07¢/kWh           | 0.07¢/kWh           | 0.06¢/kWh           |
| <b>Fuel Clause</b>                        | 0.01¢/kWh           | 0.01¢/kWh           | 0.01¢/kWh           | 0.01¢/kWh           | 0.01¢/kWh           | 0.01¢/kWh           |
| <b>Avoided Fuel &amp; Purchased Power</b> | (0.11¢/kWh)         | (0.11¢/kWh)         | (0.11¢/kWh)         | (0.12¢/kWh)         | (0.11¢/kWh)         | (0.12¢/kWh)         |
| <b>Net Rate Impact</b>                    | <b>(0.027¢/kWh)</b> | <b>(0.029¢/kWh)</b> | <b>(0.030¢/kWh)</b> | <b>(0.039¢/kWh)</b> | <b>(0.040¢/kWh)</b> | <b>(0.044¢/kWh)</b> |

We estimate that there will be an initial base rate impact for Company ownership of the Courtenay Project in 2017, which will then rapidly decline through 2026 as the project is depreciated. The cost impacts of this Project will be also further offset by avoided fuel and purchased energy expenses. Upon expiration of the 10-year PTC, a similar pattern occurs beginning in 2027. This is shown graphically in Figure 1 below.

Figure 1: Annual Cost (Savings) of Company Ownership



## VII. PRUDENCE OF THE RESOURCE ACQUISITION

The Company's acquisition of the Courtenay Project is prudent. We have evaluated the Courtenay Project from a long-term perspective and from a near-term rate impact perspective. And we have evaluated the risks associated with the development of the Courtenay Project. Based on all of this analysis, we believe that it is reasonable and in our customer's interests for the Commission to grant the ADP for this Courtenay Project. We note that pursuant to Section 49-05-16 (7), the Courtenay Project is presumed to be prudent.

Our analysis shows that the addition of the Courtenay Project will keep our customers' bills lower than they otherwise would be over the life of the Courtenay Project. Using what we believe are conservative assumptions, our Strategist modeling predicts energy costs for our customers will be \$97 million lower over the life of the Courtenay Project.

Our analysis leads us to conclude that the addition of Courtenay Project to our system is prudent because it will contribute to substantial financial benefits to our customers. These financial benefits are reflected in a lower cost of energy in the near- and long-term, and in a material hedge against future increases in the fuel and government regulation components included in the cost of energy. Thus, the Company is cost-

effectively acquiring a resource necessary to meet the regulatory requirements of all the jurisdictions in which we provide service and saving a North Dakota based project to increase the geographic diversity of its generating portfolio.

## **VIII. REASONABLE MITIGATION OF RISKS**

As with any large generating project, there are risks associated with the development of the Courtenay Project. Before deciding to move forward with the purchase, construction, and ownership of the Project, the Company performed a due diligence investigation to identify risks of moving forward and to determine if these risks could be reasonably mitigated. Our due diligence investigation concluded that the real estate, permits, and contracts necessary to develop the Project were in a reasonably-acceptable state. However, our due diligence investigation also identified risks inherent with moving forward. We discuss each of the primary areas of risk and our mitigating actions in this section.

### **A. Development Risk**

#### **1. Federal PTC Risk**

The December 2014 renewal of the federal PTC provides a tax credit for those projects that began construction activities by December 31, 2014. IRS guidelines consider commencement of construction to have occurred when physical work of a significant nature has started or five percent of the total cost of the facility has been incurred and the developer makes continuous efforts to complete the facility thereafter.<sup>6</sup>

The Company believes the Courtenay Project will meet the requirements necessary to qualify for the PTC, and that the risk has been reasonably mitigated. Under the PSA, Geronimo is required to provide certification that the Project was under construction as defined by the IRS through the end of Geronimo's ownership of the Project.

The Project must then be placed into service by December 31, 2016 to retain reasonable certainty that it will continue to qualify for the PTC. Because the

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<sup>6</sup> See IRS Notice Nos. 2013-29, 2013-60, 2014-46, 2015-25. Under IRS Notice 2015-25, placing a wind facility in service before January 1, 2017 provides certainty that a wind facility can qualify for the PTC if it has met certain threshold requirements that the Courtenay Project has met. Consequently, the Company is seeking to obtain the certainty provided by IRS Notice 2015-25 by placing the Project into service prior to January 1, 2017. That said, the Project could potentially also qualify for the PTC if it misses this in-service date under other provisions of the IRS Code and guidance. However, obtaining the certainty of a 2016 in-service date will mitigate any risks for obtaining the PTC for the benefit of our customers.

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Company is taking over the development and construction of this Project, it is incumbent upon us to ensure that its completion will occur consistent with the requirements for the PTC. We believe our TSA and BOP contracts provide reasonable terms and conditions to help ensure our third-party vendors take the actions needed to meet the PTC deadline.

The other risk related to capturing the PTC relates to obtaining the necessary approvals to commence construction of the Project. In addition to the approval requested in this Application, the Company requires a CPCN and the Commission's approval of the transfer of Certificate of Site Compatibility No. 36 for the Courtenay Project before beginning physical construction. And the Commission needs to decide whether the Merger Statute (N.D.C.C. § 49-04-06) applies. These approvals have been requested in Case No.'s PU-15-173, PU-15-174 and PU-15-175. Failure to timely obtain these approvals could impede our ability to place the Project in-service with sufficient time to capture the PTC. Therefore, we respectfully request that the Commission issue an order on this Application by August 31, 2015.

2. Transmission and Interconnection Risks

When we entered into the PPA for the output of the Courtenay Project, its interconnection to the MISO Transmission System had not been extensively studied and the PPA projections were based on good faith estimates and assumptions. At this time, the interconnection study work is completed and a GIA has been executed for the Project. The GIA identifies the costs of Network Upgrades needed to support the Project as well as the rights and obligations of Courtenay Wind Farm LLC with respect to maintaining its interconnection. As a result, the normal risk of interconnection costs we generally seek to mitigate do not exist in this instance due to the late stage of the Courtenay Project's development. We have incorporated these costs into our economic model analyzing the Project.

However, we have identified two key transmission and interconnection risks related to the Project. We have taken steps to mitigate these risks and will not proceed to construction absent resolution of these issues.

First, MISO filed a Notice with FERC of Termination of the GIA with FERC, which is a necessary prerequisite to terminating the interconnection agreement. MISO is seeking to terminate the GIA due to Courtenay Wind Farm LLC's failure to satisfy

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material milestones under the GIA.<sup>7</sup> Maintaining the GIA for the Courtenay Project is a key component to successful development of the Project. Should the GIA be terminated, the Company will no longer be able to develop the Project in time to capture the PTC. Therefore, we have made the preservation of the GIA a condition precedent to closing the contract with Geronimo for our purchase of the membership interests of Courtenay Wind Farm LLC.

To resolve this issue, Xcel Energy has requested intervention in the FERC proceeding and proposed terms to cure the default.<sup>8</sup> We are pleased to report that MISO accepted the cure and on May 4, 2015, filed a motion with FERC seeking to withdraw its request for termination. Assuming FERC grants MISO's request to withdraw, it should resolve the issue. We expect the FERC proceeding to be resolved by approximately May 24, 2015.

Second, we have identified a transmission risk with respect to the need to deliver power from the Project over transmission lines owned by Minnkota. The Courtenay Project will interconnect at the Jamestown Substation, which is owned by Otter Tail and connects to 115 kV transmission lines owned by Otter Tail and to the Center-Maple River Line owned by Minnkota and Otter Tail. Minnkota informed Geronimo that Minnkota's consent is required before MISO can transmit Courtenay Project wind over the Center-Maple River Line, and that Minnkota must be compensated under its non-jurisdictional Open Access Transmission Tariff (OATT) rather than the MISO Open Access Transmission, Energy, and Operating Reserve Markets Tariff (MISO Tariff).

Geronimo has challenged Minnkota's claims for compensation and has sought declaratory judgment from the FERC regarding Minnkota's claims. The proceeding has been set for settlement procedures by FERC and the Company has been an active participant in those proceeding. Our discussions with the parties to that proceeding continue and we are cautiously optimistic that we can reach a reasonable outcome with Minnkota on this issue. We will keep the Commission informed as these proceedings continue.

We recognize that the deliverability of the Courtenay Project is a key prerequisite to our successful ownership and operation of it. Therefore, resolution of the dispute

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<sup>7</sup> *Midcontinent Independent System Operator, Inc.*, Docket No. ER15-1363-000, Notice of Termination of Generator Interconnection Agreement (March 25, 2015).

<sup>8</sup> *Midcontinent Independent System Operator, Inc.*, Motion to Intervene and Protest of Xcel Energy Services Inc on Behalf of Northern States Power Company, a Minnesota Corporation, Docket No. ER15-1363-000 (April 14, 2015).

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with Minnkota on terms satisfactory to the Company is a conditions precedent to our purchase of the membership interest in Courtenay Wind Farm LLC.

**B. Construction and Capital Risks**

The Company will carry some construction and out-year capital contribution risks for the Courtenay Project since we will own it. However, we have taken several steps to mitigate risks related to construction through contractual provisions with Geronimo and our vendors.

1. Risks Related to Purchase of Courtenay Wind Farm LLC

As noted above, we anticipate total payments to Geronimo of **[TRADE SECRET BEGINS... ...TRADE SECRET ENDS]** to purchase the Project. This amount is a negotiated amount, which we believe is reasonable based on our due diligence.

Due to the unique and changed circumstances of this Project, we have likewise negotiated specific contractual terms with Geronimo to mitigate the risks of assuming development of this Project at this stage.

Given the distressed nature of the Project and Geronimo's investment to date, we concluded that it was important to move forward with the transaction early to ensure that the Company could bring its resources to bear as soon as possible to guide the final development details and complete construction of the Project in a timely manner. By taking ownership of Courtenay Wind Farm LLC, early, we are able to influence the development in a way that we could not accomplish by waiting.

However, we have also instituted several key conditions precedent to closing the contract, meaning that each provision must be satisfied before the closing can occur. These conditions and the efforts being taken to resolve them are discussed below.

- *Applicability of Section 49-04-06.* We must receive a determination from the North Dakota PSC that Section 49-04-06 is not applicable to the Project.
- *Viability of GIA.* Xcel Energy must be assured that the GIA remains viable through a reasonable resolution of the pending FERC docket.

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- *Minnkota Interconnection Tariff.* The issue with respect to Minnkota tariff provisions, described above, must be resolved to the Company's satisfaction.
- *Mitigation of Due Diligence Issues.* Xcel Energy must have adequate opportunity to complete all due diligence, including review of real estate matters, site permits, financial considerations, and the like. Geronimo must use commercially reasonable efforts to cure any issues we have identified during our investigation, including real estate and permitting issues.

Absent satisfaction of such conditions, the PSA with Geronimo will not close and the assets will not transfer to Xcel Energy. The Project entity will continue to be owned by Geronimo and the Company will continue to have the PPA in place, with all defaults preserved.

Conversely, closing the PSA will occur upon completion of these conditions precedent. We note that the above conditions precedent to closing the PSA are related to the continued viability of the Project and legal requirements to consummate the transaction, but are not related to regulatory approvals for the Company's ownership and operation of the Project. We recognize that this is unusual. However, given the need to move quickly and mitigate risk, we believe it is in the Company's interest to assume control of the Courtenay Project as early as is prudent to facilitate project success.

In addition, the PSA provides that **[TRADE SECRET BEGINS...**

**...TRADE SECRET ENDS]**. Accordingly, we have structured the PSA to address the need for regulatory approvals and have added multiple incentives for Geronimo to ensure the Project is in service in a timely manner. We believe we have reasonably mitigated the risks associated with Geronimo's financial position, regulatory approvals outside the Commission's arena, and transmission and interconnection issues.

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2. Turbine Supply Agreement

On April 29, 2015, we entered into the TSA with Vestas for the Courtenay Project. We note that time constraints in selecting vendors and initiating construction require Xcel Energy to effectively step into Geronimo's shoes and assess the viability of contracting with Geronimo's selected suppliers. Furthermore, the Certificate of Site Compatibility limits the acceptable vendors, and the GIA for the Courtenay Project is specific as to Vestas turbines. For these reasons, the Courtenay Project is unlikely to be viable with a different turbine supplier.

Fortunately, we found Vestas to be a positive business partner. We have had positive dealings with them in the past and they have expressed an interest in a longer-term relationship with Xcel Energy, and willingly negotiated favorable pricing and other terms with that goal in mind. Notably, Vestas offered to **[TRADE SECRET BEGINS...**

**...TRADE SECRET ENDS]**. In addition, our updated wind study focused on the Vestas turbine identifies an improved capacity factor of 46.1 percent, as compared to **[TRADE SECRET BEGINS...  
...TRADE SECRET ENDS]** associated with Geronimo's PPA bid. The supplier also has a strong reputation in the industry for production of reliable turbines.

Further, **[TRADE SECRET BEGINS...**

**...TRADE SECRET ENDS]**. Such terms further serve to mitigate risk associated with turbine supply and overall construction.

While the costs of the actual TSA will likely be somewhat higher than Geronimo assumed when it developed its PPA pricing, the overall cost impact results in the energy resource remaining cost effective, particularly in light of the higher net capacity factor we expect to obtain.

3. Wanzek BOP Contract

Wanzek is the construction company Geronimo selected for the Courtenay Project. Wanzek is one of the few BOP vendors in the Midwest for a project of this nature, and operates out of Fargo, North Dakota. Working with Wanzek on this project

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enables us to further diversify our supplier relationships and creates several hundred construction jobs for this North Dakota-based company.

As with the TSA, we have negotiated contract terms that mitigate Company risk while complying with industry standards for contracts of this kind. The BOP contract is stated on a lump sum basis based on an agreed schedule, with underlying costs fundamentally fixed absent the need to accelerate construction to achieve PTC deadlines or other needs. We have further negotiated standard provisions to mitigate general construction risk. That said, risk of completion in time to capture the PTC ultimately rests with the Company as the developer of the Project. While the costs of the Wanzek contract will likely be somewhat higher than Geronimo assumed when it developed its PPA pricing, the overall cost impact results in the Project remaining cost effective as discussed further below.

4. Environmental Risk

To the best of our knowledge, all necessary avian, bat, and protected species surveys have been completed for the Courtenay Project. We will work with the U.S. Fish and Wildlife Service (Service) to finalize an Eagle Conservation Plan (ECP) as well as a Bird and Bat Conservation Plan (BBCP) for the Project. The Company will also pursue application of a programmatic Eagle Take Permit under the Bald and Golden Eagle Protection Act, working closely with the Service on the permitting process. This permitting process will continue concurrent with construction activities for the Courtenay Project. During construction of the Courtenay Project, before a programmatic Eagle Take Permit is obtained, and pursuant to the ECP and BBCP, the Company will follow Service-approved construction best management practices to minimize and avoid potential impacts to eagles.

**C. Operational Risks**

Once in-service, wind projects face operational risks. These risks involve the amount of annual power generation and the real-time delivery of that power to our customers.

The operational risks associated with an owned-project remain with the Company. However these risks are offset by higher estimated benefits from Company ownership. To the extent that annual generation at Courtenay Project is lower than expected, we would be losing energy at no significant change in cost, and the overall cost-effectiveness of the Project would decrease. Conversely, if annual generation is greater than expected, our customers' benefits from the Project would increase.

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Owned projects also have some uncertainty in annual costs for operation and maintenance.

In each of these areas, we have included what we believe to be conservative estimates of the expected on-going costs at Courtenay in our evaluation of the Courtenay Project. Capacity factor assumptions are at the 50 percent probability levels from the most recent wind study for the Project. We quantify both of these potential operating risks above in the Cost Effectiveness section of this Petition.

**IX. CONCLUSION**

We believe that our acquisition of the Courtenay Project will contribute to the substantial benefits to our customers – saving customers approximately \$97 million in energy costs over time – and that we have reasonably mitigated the inherent risks associated with any new resource development.

Therefore, we respectfully request the Commission make an advance determination of the prudence for the acquisition of the Courtenay Project as an appropriate resource of the Company's integrated system.

Dated: May 6, 2015

Northern States Power Company

Respectfully submitted by:

/s/

DAVID SEDERQUIST  
SR. REGULATORY/FINANCIAL CONSULTANT