

Memorandum

To: Darrell Nitschke

From: Mike Diller, Advocacy Staff

MRD

Date: July 13, 2016

Re: Response to Northern States Power Company's Compliance Filing
2015 Power Purchase Agreement Costs
Case No. PU-16-458

On June 10, 2016, Northern States Power Company (NSP) filed a Compliance Filing in accordance with Section I.B.1 of the Comprehensive Settlement Agreement (CSA) in Case Nos. PU-12-813, et al. as approved by the commission's February 26, 2014 Order. Section I.B.1 requires the Company to annually provide a list of new Power Purchase Agreements (PPA) less than 50 MW in size that have been included in the Company's Fuel Cost Rider (FCR) during the previous year. NSP must file for an Advance Determination of Prudence (ADP) from the commission for any new PPA's or owned generation of at least 50 MW as ordered in Case No. PU-07-776 on December 31, 2008.

This filing states that one new PPA was added in 2015 for a .718 MW solar facility identified as the School Sisters of Notre Dame (Sisters). The price of this project is significantly greater than the Company's average system cost; advocacy staff has successfully argued for denial of ADP for similarly priced solar projects in Case Nos. PU-14-810 (Solar Portfolio) and PU-15-95 (Aurora).

The new PPA with the Sisters is not material and will have virtually no effect on the FCR. However, NSP states in its January 29, 2016 Supplement to its 2015 Upper Midwest Integrated Resource Plan that it plans to add nearly 700 MW of small solar to its system at a cost of 12 cents per kWh with 259 MW coming into service in 2016. While a single project may be immaterial, a thousand such projects will be material and so staff opposes the inclusion of the Sisters project to begin the denial process for projects that are expensive but nevertheless mandated in Minnesota. Staff does not object to the Sisters project based on the Minnesota mandate but on the principle of least cost planning and the lack of need for such resources.

In the past, staff failed to address PPAs that were not least cost options because of immateriality. However, the culmination of many non-least cost projects resulted in the commission issuing an Order on March 9, 2016, approving a settlement in Case Nos. PU-12-813, et al. that excluded all costs associated with fifteen Community-Based Energy Development projects and two small solar PPAs from the calculation of NSP's North Dakota FCR. Given this history and the direction NSP plans to pursue, staff will not ignore high cost resources on the basis of immateriality.

Further, per the CSA, if the commission does not commence a review of the new PPA within 6 months of the filing, the new costs will be recoverable from North Dakota customers automatically through the FCR for the life of the PPA. The CSA does not describe what constitutes a "review" but for purposes of this one small PPA, staff will presume that this memo constitutes a review.

Staff will provide the Company 30 days to request a hearing in this matter. Absent such a request, staff will propose that the Commission deny recovery of the Sisters costs through its FCR. Because of the immaterial nature of this one project (less than .01 cents per month for customer using 750 kWh's per month), staff believes that it is not necessary or reasonable to go through the administrative process of retroactively adjusting the FCR. Instead, the Sisters project should be removed prospectively should the commission agree with staff and decide to deny recovery.

cc: Dave Sederquist, NSP