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**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF NORTH DAKOTA**

NORTHERN STATES POWER COMPANY  
DEFERRED ACCOUNTING – LAURENTIAN PPA TERMINATION  
APPLICATION

CASE No. PU-17-\_\_\_\_\_

**APPLICATION FOR  
AUTHORITY FOR DEFERRED ACCOUNTING**

**INTRODUCTION**

Northern States Power Company, doing business as Xcel Energy (NSP or Xcel Energy or the Company), submits to the North Dakota Public Service Commission this Application for authority for deferred accounting to allow the Company to defer recognition of the costs of terminating the Laurentian Energy Authority, LLC (Laurentian) Power Purchase Agreement (PPA). This Application is consistent with, and was foreshadowed in, the Company's recently filed Applications for an Advanced Determination of Prudence (Case No. PU-17-270) and Authority for Deferred Accounting (No. PU-17-271), which sought permission to defer accounting for the costs of terminating or renegotiating similar biomass PPAs.<sup>1</sup>

We entered into negotiations with Laurentian with the objective of lowering our energy costs for customers. The proposed transaction achieves that result. Specifically, the Company is proposing to terminate the PPA with Laurentian early by buying out the contract and, if necessary, replacing the power through existing resources or in the market. This transaction will achieve over \$87 million in net present value (NPV) cost savings for customers served by the NSP System over the next 9 years. North Dakota customers should realize about 5.49 percent of these savings, or approximately \$4.8 million NPV.

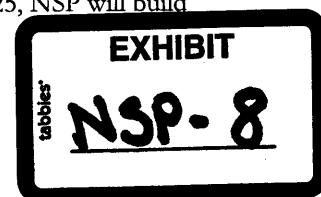
The cost savings from terminating the Laurentian PPA will benefit North Dakota customers even if the Company must make the refund for half of the premium costs of the Laurentian PPA as provided for in the Commission approved Negotiated Agreement in Case Nos. PU-12-813, *et. al.*<sup>2</sup> Consequently, early termination of the

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<sup>1</sup> The Company does not seek an advance determination of prudence for the early termination of the Laurentian PPA because it does not appear to qualify as a "Resource Addition" as defined in N.D.C.C. 49-05-16.

<sup>2</sup> See *N. States Power Co. 2013 Elec. Rate Increase Application*, Case Nos. PU-12-813, *et al.*, ORDER APPROVING FIRST REVISED NEGOTIATED AGREEMENT (N.D.P.S.C. Mar. 9, 2016) (By the end of 2025, NSP will build

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Exhibit NSP-8 - Application for Authority for Deferred Accounting - Laurentian PPA Termination Application - redacted  
Northern States Power Company



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Laurentian PPA is prudent.

If all contingencies are met and termination of the Laurentian PPA proceeds, Xcel Energy will incur PPA buyout and other associated costs that are unusual and non-recurring and were not contemplated by the Commission when setting current rates. These costs are reasonable and prudent for the achievement of the net cost savings contemplated by the early termination.

So as not to delay our ability to execute on the Laurentian PPA termination, the Company is requesting that the Commission authorize the Company to treat these costs as a regulatory asset and defer accounting so that they can be recovered in the future, after the Company, working with Staff, develops and proposes an appropriate cost recovery mechanism. Due to the nature of this petition, the Commission may wish to consolidate this request into the related and pending deferred accounting case (PU-17- 271) to achieve regulatory review efficiencies.

In sum, the Laurentian PPA termination presents another significant opportunity to drive down overall system costs and reduce our North Dakota customers' energy expenses. The Company respectfully requests that the Commission grant our request for deferred accounting treatment for the transaction costs.

The remainder of this Application addresses the following:

- Compliance Matters;
- Background of the Laurentian PPA;
- Key Terms of the Laurentian PPA Early Termination
- Economic Analysis of the Laurentian PPA Early Termination;
- Request for Deferred Accounting Authority; and
- Request to Consolidate Cases for hearing.

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or have located in eastern North Dakota a natural gas-fired electric generation facility with a capacity of at least 200 MW...If the combustion turbine is not in-service by December 31, 2025, NSP will refund to its North Dakota customers 50 percent of the revenues collected from 2016 through 2025 from North Dakota customers that exceed the revenues that would have been collected if North Dakota customers had paid an adjusted system average cost for fuel, and energy and associated capacity, for the six biomass PPAs identified in the Negotiated Agreement.).

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**II. COMPLIANCE MATTERS**

**A. DESCRIPTION OF APPLICANT**

Northern States Power Company 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, a Minnesota corporation  
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, and are incorporated herein by reference.

Xcel Energy has service territory in five upper Midwest states including North Dakota. We presently serve approximately 94,000 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.

**B. COMMUNICATION 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:

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**C. AUTHORITY FOR RELIEF REQUESTED AND STANDARD OF REVIEW**

The Commission may authorize deferred accounting and amortization of unusual and non-recurring expenses that were not contemplated when setting the current rates.<sup>3</sup> By doing so, the Commission allows a utility to designate unusual and infrequent expenses as “regulatory assets” that will be amortized over future accounting periods.<sup>4</sup> Additionally, some of the expenses at issue in this application are associated with resources that are implicated in a previously approved settlement agreement that permits Xcel Energy to petition the Commission for special accounting treatment.<sup>5</sup>

The Federal Energy Regulatory Commission (FERC) and this Commission allow deferred accounting when the amounts are sufficiently large that they could accelerate the timing of a rate case, and when the utility does not have excess earnings that should first be used to offset the higher costs.<sup>6</sup> The costs of early termination of the Laurentian PPA meet these standards. Accordingly, the Company requests authorization to defer the Laurentian PPA early termination expenses so that they can be addressed in the Company’s next rate filing.

**III. BACKGROUND OF THE LAURENTIAN PPA**

**A. XCEL ENERGY’S BIOMASS PORTFOLIO**

Xcel Energy has been developing its biomass portfolio for many years. As the service provider for five states with large agricultural and timber product industries, development of biomass fueled generation has been an interest of the Company and our stakeholders. To that end, the Company has developed a portfolio of biomass projects totaling almost 180 MW.

The Company’s Applications in Case Nos. PU-17-270 and PU-17-271 provide a more detailed background of Xcel Energy’s biomass portfolio. This Application will focus on the Laurentian PPA, which was entered into pursuant to the Minnesota Biomass Mandate.

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<sup>3</sup> N.D. Admin. Code § 69-09-05.1-03 (adopting the accounting practices set forth in the Uniform System of Accounts (“USOA”) prescribed by the Federal Energy Regulatory Commission (“FERC”), as set forth in 18 U.S.C. § 101); see also N.D.C.C. § 49-05-16.

<sup>4</sup> USOA, Definitions No. 31, Balance Sheet Accounts No. 182.3.

<sup>5</sup> *N. States Power Co. 2013 Elec. Rate Increase Application*, Case Nos. PU-12-813, et al., ORDER APPROVING FIRST REVISED NEGOTIATED AGREEMENT (N.D.P.S.C. Mar. 9, 2016).

<sup>6</sup> See 18 C.F.R. § 101; *Re Montana- Dakota Utilities Company, a Division of MDU Resource Group, Inc.* Case No. PU-399-92-564, Findings of Fact, Conclusions of Law and Order (March 24, 1993) 141 P.U.R. 4 th 286, 1993 WL 174126 (N.D.P.S.C.); and Order on Reconsideration (January 18, 1994), 1994 WL 61075 (N.D.P.S.C.).

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A significant amount of the Company's biomass resources have been driven by Minnesota legislative requirements arising out of the Company's nuclear power program. In 1994, the Minnesota Legislature passed the Prairie Island Cask Storage Authorization Act. As part of this legislation, Xcel Energy was mandated to construct and operate, or contract to construct, 125 MW of installed capacity generated by farm grown closed-loop biomass (Biomass Mandate). This mandate was subsequently reduced to 110 MW by the Minnesota Legislature in 2003.

This legislation was a requirement for the Company's continued operation of its Prairie Island nuclear power station. The Company was running out of space to store spent nuclear fuel and needed authority to construct on-site spent nuclear fuel storage. Without Minnesota authorization to construct on-site storage, Prairie Island would have been forced to close. The Minnesota legislation authorized the construction of on-site storage. As part of that legislative package, the Company was mandated to construct and operate, or contract to obtain, 125 MW of biomass resources. The legislation also included a wind-energy mandate as well as a requirement to implement and administer the Renewable Development Fund (RDF) in exchange for the right to keep the Prairie Island nuclear power plant operational.

After the initial Biomass Mandate legislation was passed, the Company sponsored a series of competitive processes to seek qualifying projects to help us fill the mandate requirements. The Company encountered difficulties in finding projects that were financially viable or cost-effective, given the state of technology at the time. We encountered situations where projects were proposed that, for one reason or another, did not advance to commercial operation.

In an effort to facilitate compliance, the Minnesota legislature modified the Biomass Mandate each legislative session for several years. This helped vendors refine their proposals in an effort to achieve projects that would advance to commercial operation. Since initial enactment of the Biomass Mandate in 1994, the biomass statute (Minn. Stat. § 216B.2424) has been amended fifteen times, including (1) a reduction of the total biomass capacity requirement from 125 MW to 110 MW, and (2) an amendment of the definition of "biomass" which expanded the number of acceptable fuel sources. Many of the statutory amendments over the years were driven by the challenges the industry encountered in developing feasible projects given the state and cost of the technology at the time.

The Company met its requirements under the Biomass Mandates by entering into PPAs with Benson Power (55 MW) (FibroMinn's successor in interest), which is the subject of Case Nos. Pu-17-270 and PU-17-271, Laurentian Energy Authority (35 MW), and St. Paul Cogeneration (25 MW).

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In the 2017 legislative session, Minn. Stat. § 216B.2424 was amended to add subdivision 9. This section provides that the Minnesota Public Utilities Commission (MPUC) may approve an amended PPA, the early termination of a PPA, or the purchase and closure of a biomass facility if: (1) all parties to the PPA agree to the terms and conditions of the amended/terminated PPA/ purchase and closure of a facility; and (2) the action is in the best interest of the customers. We supported this legislative change in Minnesota as we believed it would provide an opportunity for the Company to pursue cost savings that would positively impact customers in all of our states.

With the recent legislative change, the Company began pursuing opportunities to lower customer costs by renegotiating or buying out high cost biomass PPAs. The Company's Applications in Case Nos. Pu-17-270 and PU-17-271 seek the early termination of the Benson and Pine Bend PPAs. Shortly after those Applications were filed, the Company was able to come to early termination terms with Laurentian and filed this Application for deferred accounting. The Company continues to seek opportunities to renegotiate or buy out other high-priced PPAs, and if successful believes that similar deferred accounting authorization from the Commission for early termination payments and other appropriate costs would be appropriate.

**B. THE LAURENTIAN PPA**

Laurentian owns and operates electric generating equipment which utilizes biomass and other fuels, including a 20 MW thermal steam unit in Hibbing and a 15 MW thermal steam unit in Virginia, Minnesota. Laurentian is a Minnesota Limited Liability Company with headquarters located in Mt. Iron, Minnesota.

The history of the Laurentian project began on December 30, 1998 when Xcel Energy entered into a PPA with EPS/Beck Power, LLC for the construction and operation of a 25 MW electric generating plant fueled by whole tree closed-loop biomass in the St. Peter, Minnesota area. The facility was subsequently increased to 50 MW as part of an amendment to the original PPA. However, the project failed to move forward for a variety of reasons and EPS/Beck subsequently transferred the contract, with Company approval, to the NGP Power Corporation (NGP Power). NGP Power then assigned its interest in the project as developer to NGPP Minnesota Biomass, LLC (NGPP), a wholly owned subsidiary of NGP Power.

In 2003, the Minnesota State legislature amended the Biomass Statute and, among other things, directed the MPUC to approve a pending request to reduce the contract for power from a facility that uses short-rotation, woody crops as its primary fuel source from 50 MW to 35 MW, and to approve related price provisions, subject to the concurrence of the project developer (NGPP). In addition, the project developer

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transferred its project to Laurentian Energy Authority, LLC, a joint venture company created and owned by the Hibbing Public Utilities Commission and Virginia Public Utilities Commission (the City Utilities), both Minnesota municipal utilities. The new location for the project was selected due to ownership by the City Utilities of coal burning generation facilities suitable for conversion to biomass fuels and the proximity to a supply of qualifying fuel (wood).

In 2009, the Minnesota Legislature further amended the biomass statute to direct the Company to negotiate and execute an amendment modifying the average price for energy from the Laurentian project for the remaining 18 years of the PPA. The effect of the statutory revision provided Laurentian with an energy price increase not to exceed \$104 per MWh by more than five percent over the term of the PPA. The contract was most recently amended in 2013 by the Minnesota State Legislature to adjust the PPA contract pricing and also add a fuel adjustment clause for fuel procured by Laurentian. The fuel adjustment clause allows Laurentian to pass along any costs for fuel procurement and transportation exceeding \$3.40/MMBtu for energy supplied to NSP via the PPA.

**C. NORTH DAKOTA TREATMENT OF THE LAURENTIAN PPA**

The Commission has allowed the Company to recover the costs of the Laurentian PPA since its inception. In the Company's 2013 test year rate case (Case No. PU-12-813), Commission Advocacy Staff raised issue with six key biomass contracts: (1) KODA Energy LLC, (2) WM Renewable Energy (MN Methane), (3) Pine Bend, (4) Benson (Fibrominn), (5) Laurentian Energy Authority I, and (6) St. Paul Cogeneration. Pursuant to the Negotiated Agreement approved by the Commission on March 29, 2016 in Case Nos. PU-12-813. *et. al.*, the Company is currently recovering the cost of these six biomass PPAs subject to a potential refund of fifty percent of all revenues exceeding those that would have been collected for the power using the Company's system average fuel costs. The refund would be triggered if the Company fails to construct a natural gas fired power plant in eastern North Dakota by the end of 2025.

**IV. KEY TERMS OF THE LAURENTIAN PPA EARLY TERMINATION**

The current PPA between Laurentian and NSP has a 20-year term that runs through December 31, 2026. The Company has negotiated a deal with Laurentian to terminate the PPA. If the PPA is terminated, we expect NSP System customers will see a NPV savings of \$87 million over the life of the PPA. That results in North Dakota customers, who represent approximately 5.49 percent of system customers, realizing a savings of approximately \$4.8 million NPV over the life of the contract. To obtain these savings, the Company has agreed to pay Laurentian \$108,500,000

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(divided into six equal annual payments of \$18,083,333). An additional \$34 million (\$6,800,000 per year for five years) of RDF funds will also be paid to Laurentian. This additional \$34 million is intended to cover repayment of Laurentian's bondholder debt as well as support the conversion of Laurentian's facilities to thermal units. North Dakota customers are not impacted by the RDF expenditure as they do not contribute to the fund.

The key terms of the Termination Agreement between Laurentian and NSP are as follows:

- Upon satisfaction or waiver of all Required Conditions Precedent set forth in this Termination Agreement, (i) the PPA shall terminate and be of no further force and effect as of the first business day of the first month immediately following satisfaction or waiver of all Required Conditions Precedent (Termination Date). Simultaneously with the occurrence of the Termination Date NSP shall make payment of the first installment of the Termination Payment at a closing on such date.
- In consideration for termination of the PPA, NSP will pay Laurentian \$108,500,000.00 (the Termination Payment), divided into six equal annual payments in the amount of \$18,083,333.33. No interest will accrue on the unpaid installments. The obligation of NSP to pay the full Termination Payment shall arise upon the Termination Date, and Laurentian's agreement to accept installment payments does not defer the commencement or diminish the amount of that immediate and present obligation in any way
  - The first installment of the Termination Payment will be paid to Laurentian upon the Termination Date. NSP shall make such payment to Seller by wire transfer of immediately available funds to an account designated by Seller in writing. If required pursuant to the trust instruments for the Laurentian Bonds, some or all of any such installments may be designated in writing by Laurentian for payment directly to an account designated by the trustee for the Laurentian Bonds.
  - Each of the five subsequent payments shall be due on each of the successive anniversaries of the first payment.
- The Parties acknowledge that the occurrence of the Termination Date is a condition precedent to the effectiveness of the [RDF] Grant Contract. Further, the two contracts require that the first payment be made to Laurentian as part of the PPA termination. Essentially, Laurentian has advised that in order to terminate the PPA, it requires the first payments under both contracts to be available to fund repayment of the bonds.

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**V. ECONOMIC ANALYSIS**

The Company negotiated the early termination of the Laurentian PPA in an effort to save customers money and optimize pricing for the overall NSP System portfolio. To analyze the economic impact of terminating the Laurentian PPA, we compared the projected cost of the Laurentian PPA for the remainder of its term (through 2026) with the cost of replacement market energy during that same period plus the costs of the PPA termination. As required by North Dakota statute, no environmental externality costs are included in the analysis.<sup>7</sup>

The \$34 million in payments from the RDF have not been included in our analysis because North Dakota ratepayers do not contribute to the RDF and we will not seek to include these costs in our deferral or request their recovery from our North Dakota customers in a future cost recovery proceeding.

We performed mark-to-market modeling in Microsoft Excel to calculate the cost savings to customers. We used this methodology instead of using Strategist for five main reasons. First, the total nameplate capacity of Laurentian totals 35 MW which is very small relative to the total nameplate capacity on our system (over 10,000 MW). Second, the contract at issue is a “must take” contract and therefore the volumes are generally predictable on an annual basis. Accordingly, because production levels stay relatively flat, the analysis did not require a full system model to simulate the dispatch of these resources relative to others. Third, the NSP System is currently projected to be long on capacity until the mid-2020s. As a result, eliminating this contract has a limited impact on our capacity position and does not change our expansion plan. Fourth, because the Laurentian PPA early termination only impacts energy/fuel—as opposed to capacity—a simple comparison to the Minnesota Hub forward curve provides a good proxy alternative to a full Strategist run. Fifth and finally, our analysis assumes all avoided contract MWh are replaced with market energy purchases, which is likely a conservative assumption as there are many hours in which the system is long on energy and replacement may not be necessary.

**A. COST OF CONTINUING THE EXISTING LAURENTIAN PPA**

The current PPA between Laurentian and NSP has a 20-year term that runs through December 31, 2026. The pricing for 2017 through the end of the contract is provided in Table 1 below. Annual production at the facility is approximately [*TRADE SECRET BEGINS* *TRADE SECRET ENDS*].

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<sup>7</sup> See N.D.C.C. § 49-02-23.

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**Table 1: Laurentian Existing PPA Pricing**

| Year | PPA Price<br>/MWh               |
|------|---------------------------------|
|      | <i>[TRADE SECRET<br/>BEGINS</i> |
| 2018 |                                 |
| 2019 |                                 |
| 2020 |                                 |
| 2021 |                                 |
| 2022 |                                 |
| 2023 |                                 |
| 2024 |                                 |
| 2025 |                                 |
| 2026 |                                 |
|      | <i>TRADE SECRET<br/>ENDS]</i>   |

From 2018 through 2026, total contract costs are expected to amount to a net present value (NPV) of \$226 million. These costs include both the expected contract energy costs as well as costs associated with the recent statutory fuel adjustment.

**B. COST OF PPA TERMINATION**

The cost of replacement power that may be needed if the PPA is terminated was calculated using a market analysis of projected energy prices through 2026. This allowed a comparison of the cost of power from the PPA against current market estimates. The estimates were based on Minnesota Hub pricing from Spring 2017 and range from about \$24/MWh to \$34/MWh during the same timeframe that the PPA levelized cost is estimated to be *[PROTECTED DATA BEGINS PROTECTED DATA ENDS]*.

Our analysis used a market pricing stream that excluded replacing capacity due primarily to the small size of the plant and the fact that the NSP system forecasts sufficient capacity through most of the remainder of the contract. This resource provides 35 MW of creditable capacity to the NSP system. As a result, termination of the PPA is not expected to have a material impact on capacity needs in the mid-2020s.

The cost of replacement energy is a conservative assumption as there will be many hours during the year that market replacement energy is not needed because the NSP

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system generation production is sufficient to meet load needs. The NSP system is generally long on energy today and in many cases this increment of energy would not need to be replaced, at least not before major baseload retirements.

Replacement costs for the energy provided by Laurentian over the life of the PPA are expected to total \$49 million (NPV). To the extent the Company does not need to buy replacement power, our customers will realize even greater savings.

After extensive negotiations with Laurentian, NSP agreed to pay \$108.5 million in equal installments of just over \$18 million over six years to buy out the PPA, which equates to approximately \$90 million NPV. The termination payment and market replacement costs are expected to amount to \$139 million NPV versus the \$226 million in NPV costs associated with the existing contract. System wide customer savings are therefore expected to amount to be \$87 million in NPV. North Dakota customers, who represent approximately 5.49 percent of the system, should realize approximately \$4.8 million (NPV) savings due to the early termination.

**C. IMPACT ON REFUND PROVISIONS OF NEGOTIATED AGREEMENT**

In 2016, the Company and Commission Advocacy Staff entered into the First Revised Negotiated Agreement (Negotiated Agreement) that, among other things, addressed the biomass PPAs at issue in this Application.<sup>8</sup> In the Negotiated Agreement, we agreed to either (i) build or have located in eastern North Dakota a natural gas-fired electric generation facility (North Dakota Facility) with the capacity of at least 200 MW by the end of 2025, or if the facility is not in service by that time (ii) refund to our North Dakota customers 50 percent of the revenues collected from them in excess of the revenues that would have been collected if North Dakota customers had paid an adjusted system average cost for fuel and energy, and associated capacity for the six biomass PPAs identified in the Negotiated Agreement. The Laurentian PPA was specifically named.

The Company is in the process of developing its next Integrated Resource Plan, which it will file with the Commission in February 2019. Through this work, we hope to identify opportunities to meet this commitment.

Even if the refund required by the Negotiated Agreement is triggered in the future, it would still be in North Dakota customers' best interest for the Company to move forward with the Laurentian PPA early termination. Below are two tables showing the forecasted biomass PPA costs to North Dakota customers above adjusted system

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<sup>8</sup> See *N. States Power Co. 2013 Elec. Rate Increase Application*, Case Nos. PU-12-813, *et al.*, ORDER APPROVING FIRST REVISED NEGOTIATED AGREEMENT (N.D.P.S.C. Mar. 9, 2016).

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average costs with and without the Laurentian termination. Both tables assume that the previously proposed changes to the FibroMinn (Benson) and Pine Bend contracts are approved.

**Table 2: ND Biomass Costs Above Adjusted System Average Without Termination of Laurentian PPA**

| Biomass (\$000)                  | 2016                  | 2017             | 2018             | 2019             | 2020             | 2021             | 2022             | 2023             | 2024             | 2025             | Total             |
|----------------------------------|-----------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|-------------------|
|                                  | (TRADE SECRET BEGINS) |                  |                  |                  |                  |                  |                  |                  |                  |                  |                   |
| Laurentian                       |                       |                  |                  |                  |                  |                  |                  |                  |                  |                  |                   |
| FibroMinn                        |                       |                  |                  |                  |                  |                  |                  |                  |                  |                  |                   |
| St Paul Cogen                    |                       |                  |                  |                  |                  |                  |                  |                  |                  |                  |                   |
| KODA Energy LLC                  |                       |                  |                  |                  |                  |                  |                  |                  |                  |                  |                   |
| WM Renewable Energy (MN Methane) |                       |                  |                  |                  |                  |                  |                  |                  |                  |                  |                   |
| Pine Bend                        |                       |                  |                  |                  |                  |                  |                  |                  |                  |                  |                   |
|                                  | TRADE SECRET ENDS]    |                  |                  |                  |                  |                  |                  |                  |                  |                  |                   |
| <b>Total</b>                     | <b>(\$5,714)</b>      | <b>(\$5,698)</b> | <b>(\$4,595)</b> | <b>(\$4,131)</b> | <b>(\$3,963)</b> | <b>(\$3,900)</b> | <b>(\$3,698)</b> | <b>(\$2,499)</b> | <b>(\$1,992)</b> | <b>(\$1,944)</b> | <b>(\$38,135)</b> |

**Table 3: ND Biomass Costs Above Adjusted System Average With Termination of Laurentian PPA**

| Biomass (\$000)                  | 2016                  | 2017             | 2018             | 2019             | 2020             | 2021             | 2022             | 2023             | 2024           | 2025           | Total             |
|----------------------------------|-----------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|----------------|----------------|-------------------|
|                                  | (TRADE SECRET BEGINS) |                  |                  |                  |                  |                  |                  |                  |                |                |                   |
| Laurentian                       |                       |                  |                  |                  |                  |                  |                  |                  |                |                |                   |
| FibroMinn                        |                       |                  |                  |                  |                  |                  |                  |                  |                |                |                   |
| St Paul Cogen                    |                       |                  |                  |                  |                  |                  |                  |                  |                |                |                   |
| KODA Energy LLC                  |                       |                  |                  |                  |                  |                  |                  |                  |                |                |                   |
| WM Renewable Energy (MN Methane) |                       |                  |                  |                  |                  |                  |                  |                  |                |                |                   |
| Pine Bend                        |                       |                  |                  |                  |                  |                  |                  |                  |                |                |                   |
|                                  | TRADE SECRET ENDS]    |                  |                  |                  |                  |                  |                  |                  |                |                |                   |
| <b>Total</b>                     | <b>(\$5,713)</b>      | <b>(\$5,698)</b> | <b>(\$4,182)</b> | <b>(\$3,730)</b> | <b>(\$3,528)</b> | <b>(\$3,477)</b> | <b>(\$3,399)</b> | <b>(\$2,207)</b> | <b>(\$717)</b> | <b>(\$666)</b> | <b>(\$33,318)</b> |

If the North Dakota Facility is completed by 2025, in which case no refund will apply, and the Laurentian PPA is not terminated, the cost to North Dakota customers above the system average cost of fuel is estimated to be approximately [TRADE SECRET BEGINS TRADE SECRET ENDS]. If the Laurentian PPA is terminated, the cost is estimated to decrease to about [TRADE SECRET BEGINS TRADE SECRET ENDS]. Therefore, net savings from the termination of the Laurentian PPA amount to approximately [TRADE SECRET BEGINS TRADE SECRET ENDS] if the North Dakota Facility is built and the refund obligation is not triggered. These results are summarized in Table 4 below.

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**Table 4: 2016-2025 ND Biomass Costs Assuming a ND Facility Is Built by 2025**

| <b>ND share of Laurentian PPA costs if ND CT built by 2025 (\$000)</b> |
|------------------------------------------------------------------------|
| <b>(TRADE SECRET BEGINS</b>                                            |
| No termination                                                         |
| Early termination                                                      |
| Termination savings                                                    |

**TRADE SECRET ENDS]**

If the North Dakota Facility is not completed by 2025, the 50 percent refund will be triggered. In the case that the Laurentian PPA is not terminated, the cost to North Dakota customers above the system average cost of fuel is estimated to be only **[TRADE SECRET BEGINS                      TRADE SECRET ENDS]**. If the Laurentian PPA is terminated, the cost is estimated to decrease to about **[TRADE SECRET BEGINS                      TRADE SECRET ENDS]** (reflecting the refunding of half of the termination costs). Therefore, net savings if the North Dakota Facility is not built amount to **[TRADE SECRET BEGINS                      TRADE SECRET ENDS]**. Table 5 below summarizes these results.

**Table 5: 2016-2025 ND Biomass Costs Assuming ND Facility Is Not Built by 2025**

| <b>ND share of Laurentian PPA costs if ND CT not built by 2025 (\$000)</b> |
|----------------------------------------------------------------------------|
| <b>(TRADE SECRET BEGINS</b>                                                |
| No termination                                                             |
| Early termination                                                          |
| Termination savings                                                        |

**TRADE SECRET ENDS]**

In sum, early termination of the Laurentian PPA will benefit North Dakota customers regardless of whether NSP meets the 2025 electric generation facility deadline provided for in the Negotiated Agreement. In either event, customers will realize savings from our cost-saving initiative and these savings will be realized sooner than 2025.

**VI. REQUEST FOR DEFERRED ACCOUNTING AUTHORITY**

The costs associated with terminating the Laurentian PPA are above and beyond both what the Company has budgeted for normal utility operations and what was reflected in the costs of service that were used to set current rates. It would be inappropriate to expense these costs as they occur due to the nature and materiality of the expenses.

**PUBLIC DOCUMENT**  
**TRADE SECRET DATA EXCISED**

These one-time extraordinary expenditures are most appropriately accounted for through the creation of a regulatory asset.

The Company is specifically requesting that it be authorized to accumulate the costs incurred to terminate the Laurentian PPA in a regulatory asset in Account 182.3. The Company also requests that it be allowed to include a cost of capital return on the asset. The costs to be deferred in the regulatory asset for the Laurentian plant relate only to the North Dakota share of the PPA termination payments totaling \$108,500,000. The Company will propose mechanisms to recover these costs sometime in the future, potentially in its next rate case.

The size and magnitude of this transaction is sufficiently large that it could potentially require the Company to file a rate case and the Company does not have excess earnings to offset the higher costs. The Commission has previously allowed deferred accounting when the amounts are sufficiently large that they could accelerate the timing of a rate case, and when the utility does not have excess earnings that should first be used to offset the higher costs. The Commission should allow the Company to defer the costs of terminating the Laurentian PPA early for the benefit of the customers.

In the alternative, the Company respectfully requests that the Commission order additional testimony be filed to address the ratemaking and recovery mechanisms to provide for recovery of these extraordinary costs.

**VII. REQUEST TO CONSOLIDATE CASES FOR HEARING**

Pursuant to N.D. Admin. Code § 69-02-04-04, Xcel Energy respectfully requests that the Commission consolidate for hearing the Company's Application for Deferred Accounting with its Application for an Advanced Determination of Prudence (Case No. PU-17-270) and Application for Deferred Accounting (Case No. PU-17-271). These Applications contain similar issues of law and fact and the public interest will not be prejudiced by their consolidation.

**VIII. CONCLUSION**

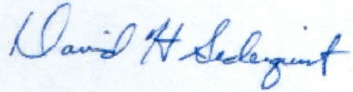
For all of the reasons set forth above, NSP respectfully requests the Commission authorize the Company to designate the specified transactional costs of the Laurentian PPA early termination as regulatory assets.

**PUBLIC DOCUMENT**  
**TRADE SECRET DATA EXCISED**

Dated: August 10, 2017

Northern States Power Company

Respectfully Submitted,

A handwritten signature in blue ink that reads "David H. Sederquist". The signature is written in a cursive style with a large initial 'D'.

DAVID H. SEDERQUIST  
Sr. Consultant, Regulation & Finance