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August 12, 2019

VIA HAND-DELIVERY

Public Service Commission
Attention: Steve Kahl
600 East Boulevard Avenue, Dept. 480
Bismarck, ND 58505-0480

In re: Northern States Power Company
Advance Prudence –Mankato Energy Center
PU-18-403

Dear Mr. Kahl:

Enclosed for filing in the above-referenced matter please find Advocacy Staff's proposed Findings of Fact, Conclusions of Law, and Order along with the Affidavit of Service.

Thank you for your attention to this matter.

Respectfully,

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

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enclosures
cc: ALJ Ward (Via U.S. Mail, w/ enc.)
Zachary Pelham (Via U.S. Mail, w/ enc.)
Zeviel Simpser (Via U.S. Mail, w/ enc.)

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Proposed Findings of Fact, Conclusions of Law and Order
Public Service Commission Advocacy Staff Counsel
Mitch Armstrong, SAAG

STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION

Northern States Power Company
Advance Prudence – Acquisition of the 375MW Mankato Energy Center and the 345MW Mankato Energy Center II Application

Case No. PU-18-403

ADVOCACY STAFF'S PROPOSED

FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDER

August 6, 2019

Appearances

Commissioners Brian Kroshus, Julie Fedorchak, and Randy Christmann.

Zeviel T. Simpser, Attorney, Dorsey & Whitney LLP, 50 South 6th Street, Suite 1500, Minneapolis, Minnesota 55402, and Ryan J. Long, Assistant General Counsel - Lead, Xcel Energy Services Inc., 414 Nicollet Mall, Minneapolis, Minnesota 55401, on behalf of Northern States Power Company, a Minnesota corporation.

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

Zachary E. Pelham, Special Assistant Attorney General, 314 East Thayer Avenue, Bismarck, North Dakota 58502, on behalf of Public Service Commission Advisory Staff.

Patrick Ward, Administrative Law Judge, c/o Zuger Kirmis &Smith, P.O. Box 1695, Bismarck, North Dakota 58502-1695, as Procedural Hearing Officer.

Preliminary Statement

On December 7, 2018, Northern States Power Company (NSP), d/b/a Xcel Energy, filed an application with the North Dakota Public Service Commission (Commission) seeking an advance determination of prudence (ADP) under North Dakota Century Code (N.D.C.C.) section 49-05-16 for acquisition of the 375 MW Mankato Energy Center and the 345 MW Mankato Energy Center II (together, "MEC").

On May 29, 2019, the Commission issued a Notice of Hearing, scheduling a public hearing for July 16, 2019 at 8:00 a.m. in the Commission Hearing room, 12th Floor, State Capitol, Bismarck, North Dakota. The Notice specified the issue to be whether NSP should be granted an advanced determination that its proposed resource additions are prudent.

On July 16, 2019, the public hearing was held as noticed.

Having allowed all interested persons an opportunity to be heard and having heard and considered all testimony and evidence presented, the Commission makes the following:

Findings of Fact

1. NSP is an investor-owned electric utility headquartered in Minneapolis, Minnesota, authorized to provide public utility service in North Dakota under the regulatory jurisdiction of the Commission.

2. In NSP Electric Rate Case Application, Case No. PU-07-776, NSP agreed to file an application for an advanced determination of prudence for any proposed resource addition larger than 50 MW. In NSP Advance Prudence — Geronimo Wind Application, Case No. PU-12-59, NSP committed to file all advance determination of prudence applications within 14 days of seeking similar approvals in Minnesota.

3. NSP filed its petition seeking approval for the MEC acquisition in Minnesota on November 27, 2018 (MPUC Docket No. E002/PA-18-702).

4. MEC is a two-on-one combined cycle (CC) generation facility located in the city of Mankato in Blue Earth County, Minnesota. MEC is currently owned by Southern Power Company (Southern). The 375 MW Mankato Energy Center (MEC I) was completed in 2006 and the 345 MW Mankato Energy Center II (MEC II) was completed in June, 2019.

5. On November 5, 2018, NSP and Southern executed a Membership Interest Purchase Agreement under which NSP would acquire the two limited liability companies (LLCs) that own MEC I and MEC II. The total purchase price of the transaction is $650,000,000, which NSP testified is approximately $100 million more than the present value of NSP's capacity payment obligations under the MEC I and MEC II PPAs.

6. MEC is already committed to the NSP System via power purchase agreements (PPAs) held by NSP for MEC I and MEC II, which expire in 2026 and 2039, respectively.

7. NSP uses the Strategist modeling tool for quantitative resource planning modeling efforts.

8. NSP's modeling indicates that the MEC acquisition will provide a net cost savings on a Present Value of Revenue Requirements (PVRR) basis to customers of $142 million under its "Modified IRP Scenario" and $66 million under its "85-by-30 Scenario."

The Modified IRP Scenario provides an analysis based on assumptions carried forward from NSP's last resource planning cycle, while the 85-by-30 Scenario takes into account NSP's recently stated goal of obtaining 85 percent of NSP's generation from carbon-free resources by 2030. NSP testified the 85-by-30 Scenario is more consistent with its present plans and what it expects to occur in the future.

9. NSP used a 6.53 percent discount rate to calculate the present value of modeled costs, a number which is based on its weighted average cost of capital across NSP jurisdictions.

10. NSP testified that its purchase of MEC will keep the MEC asset on the NSP System for a substantially longer period of time than provided for under the current PPAs. NSP testified that it expects the operational life of MEC I to extend to 2046 and the operational life of MEC II to extend to 2054, and its modeling reflects these assumptions.

11. On May 20, 2019, NSP submitted an informational filing notifying the Commission that NSP will seek approval in its 2020-2034 Integrated Resource Plan (IRP) to be filed before the Minnesota Public Utilities Commission to retire a number of dispatchable resources, including the Allen S. King plant by 2028 or earlier and the Sherburne County Generating Station (Sherco) Unit 3 by 2030 or earlier. NSP is also proposing to offer Sherco Unit 2 into MISO on a seasonal basis until its retirement in 2023. In total, NSP testified that it projects a reduction of approximately 4,900 MW of generation capacity on the NSP System over the next 15 years, due to these and other expected resource retirements.

12. Given these resource retirements, NSP testified that beginning in 2025, just before the MEC I PPA expires, NSP projects a capacity need extending through at least 2039.

13. NSP testified that acquiring MEC will result in net additions of capacity beginning in 2027, due to the approximately 350 MW of capacity from the MEC I PPA that will otherwise terminate in 2026. According to NSP, acquiring MEC will provide NSP with flexible, dispatchable capacity at a low cost, while renewing the existing PPAs may be more costly depending on future capacity prices.

14. The parties disagreed as to whether future capacity prices will be higher or lower than the current PPA prices. NSP testified that due to a material amount of upcoming baseload resource retirements, a backlogged MISO interconnection queue, and high upgrade costs for new greenfield projects, capacity could be significantly more expensive relative to the proposed MEC acquisition. Advocacy Staff testified that broader structural forces, including falling demand and market forces, are likely to keep the cost of capacity low in the future.

15. NSP testified that the levelized cost of acquiring MEC under the agreement with Southern is generally equivalent to NSP's assumed cost of a new combustion turbine,

which are less efficient and have higher marginal dispatch costs than CC facilities like MEC. NSP further testified that the purchase price of the MEC resource addition is generally equivalent to other comparable purchase prices – both within and outside of MISO – for combined cycle facilities on a per kW installed basis.

16. NSP testified that the net book value of the MEC resource addition is approximately $547 million resulting in an acquisition adjustment of approximately $96 million. NSP testified that the acquisition adjustment is reasonable given the market comparables on the record.

17. Advocacy Staff testified that it was "troubling" that NSP did not provide original cost information for MEC as calculated under the Federal Energy Regulatory Commission's (FERC) Uniform System of Accounts (USOA). NSP testified that, as unregulated assets, MEC I and MEC II are exempt from USOA requirements.

18. Advocacy Staff testified that the MEC resource addition is not prudent and that the $650,000,000 purchase price is excessive. Ultimately, Advocacy Staff concluded that a competitive company would not purchase MEC because it is not economic, and a "bad deal".

19. Advocacy Staff testified that in lieu of purchasing MEC, NSP should have at least attempted renegotiate the MEC I PPA. NSP testified that this was not feasible nor would it likely result in a preferable outcome to purchasing the MEC facility.

20. Advocacy Staff testified that NSP's 2057 end point for its Strategist models is unreasonable, and that the analysis should be limited to, at most, the term of the MEC II PPA. NSP testified that it uses a 40-year modeling window in order to capture the full value of the asset.

21. Advocacy Staff testified that the present value of modeled costs for MEC and other utility investments should consider the customer's discount rate, because different NSP customers have different discount rates. Advocacy Staff calculated its customer's discount rate by applying a 17 percent interest rate for NSP's individual customers, a number based on the average interest rate on credit card debt nationwide, and NSP's discount rate for NSP's demand customers. This resulted in a "customer's discount rate" of 11.27 percent.

22. Applying its customer's discount rate, Advocacy Staff testified that the MEC acquisition would generate savings of $44 million PVRR under the Modified IRP Scenario, and costs of $7 million PVRR under the 85-by-30 Scenario.

23. Advocacy Staff's customer discount rate analysis provides a low range view of the cost of the MEC facility to customers which is essentially a break-even analysis. Consequently, the Commission will consider this analysis to provide a reasonable book-end to the overall impact of this transaction.

24. Advocacy Staff further testified that NSP's load growth forecasts overestimate load growth, and thus project a larger and earlier capacity need which makes the MEC acquisition appear more necessary. Ultimately, Advocacy Staff testified that NSP can wait until its resource planning cycles in the late 2020s and early 2030s to address any capacity needs that may exist at that time. NSP disputes this, testifying that the resource retirements on its System alone create a capacity need that must be filled, and that it may not have the opportunity to buy MEC again in the future.

25. Advocacy Staff testified that NSP's generation capacity forecasts are understated, in part because they assume all three of NSP's nuclear units will not have their Nuclear Regulatory Commission licenses renewed. NSP conceded that it has proposed to renew the license for one of its nuclear units, but maintains that other resource retirements on its system create a future capacity need, regardless of forecasted load growth.

26. Advocacy Staff testified that assuming there is a future capacity need, the future capacity secured by acquiring MEC is not likely to be significantly less costly than market or PPA prices due to falling demand as well as market mechanisms which will encourage adequate generation capacity.

27. Advocacy Staff conducted a buy vs. lease analysis, under which it compared the costs of the existing PPAs versus the costs of purchasing MEC for the price agreed with by NSP. Advocacy Staff testified that in all comparisons modeled, the net present value of the Own assumption is more costly than the Lease assumption. NSP testified that the Advocacy Staff buy vs. lease analysis was flawed because it captures the entire cost of the Own assumption but assumes no costs of leasing following the termination of the MEC II PPA in 2039.

28. NSP testified that MEC will be a key component of their generating fleet for its life and that obtaining the flexibility of combined cycle generation will allow for more economic dispatch of the NSP System generating fleet to follow load as the penetration of intermittent resources continues to increase throughout MISO. NSP further testified that MEC II would likely dispatch before the Sherco coal units demonstrating the value of the unit.

29. After considering all of the testimony and other evidence, the Commission finds NSP has not established this proposed acquisition is prudent. NSP asserts the acquisition is prudent based on the need for additional resources, the flexibility provided by adding a combined cycle facility to the NSP System, the infeasibility of renegotiating the underlying PPAs, and the key role the MEC facility will play in the NSP System for the foreseeable future. However, the anticipated "need" for the acquisition is contributed to by early retirements or accelerated closures resulting from NSP's decision to shift away from carbon resources. Granting prudence would not only countenance this self-inflicted need, but would also result in customers paying for this acquisition while still being impacted by depreciation for facilities whose closures are

accelerated. Further, while NSP testified the PPAs could not be renegotiated, the evidence indicates NSP has made no attempt to renegotiate or extend the PPAs, particularly the PPA for MEC I which expires in 2026. Certainly, it is possible the MEC I PPA can be extended beyond 2026 by renegotiating the PPA prior to its expiration. Further, a renegotiation or extension would also likely include consideration of the impacts of the TCJA, which could result in lower costs for a future PPA. And, while the resource is "flexible", it is flexible whether it is owned or subject to a PPA.

30. In addition, the evidence indicates that, under the most likely scenario, the acquisition will not result in significant cost savings even though NSP asserts long term savings as a basis for the acquisition. NSP did not conduct a breakeven analysis. But, NSP's analysis shows customer costs will increase into the mid-2030's. Almost all of the cost savings NSP asserts occur near the end of the useful life. Yet, as NSP's testimony and the evidence shows, it is willing to accelerate closures of still useful facilities when such facilities become "unpopular." It is a real possibility that by the time customer savings begin to occur with this acquisition (under NSP's analysis) that some other technology or resource will be more "popular" resulting in a loss of the PVRR savings NSP advocates. Even if such a situation did not materialize, the evidence indicates a likely breakeven point for customers paying for this acquisition as the year 2042. A customer paying for this acquisition now would have to remain an NSP customer for over 22 years before the potential cost savings were realized. It is more prudent and fairer to the paying customer to pay for energy at market rates existing at or closer to the time of usage than hoping the project savings will materialize 22 years in the future. Given the rapid advances in technology, the fluctuation in energy prices, the downward trend in customer demand, and NSP's everchanging preferences for its System makeup, it is unlikely the PVRR cost savings NSP asserts will actually materialize. Approving this acquisition, at this price, would result in customers paying for an accelerated capacity need created by NSP and a loss of future ability to obtain energy at a lower cost based on changes in technology. It is not prudent to burden customers with this acquisition for which the anticipated breakeven point is not until approximately 2042 and NSP has not even explored the possibility of renegotiating or extending the PPAs. There are simply too many uncertainties to consider it prudent to make this purchase now in the hopes that the benefits NSP projects will actually materialize so far in the future.

Conclusions of Law

1. The Commission has jurisdiction in this matter.

2. NSP has complied with the provisions of N.D.C.C. section 49-05-16 as well as the Settlement Agreement in Case No. PU-07-776 and NSP's commitments in Case No. PU-12-59.

3. NSP has not demonstrated the prudence of its acquisition of the 375 MW Mankato Energy Center and the 345 MW Mankato Energy Center II.

From the foregoing Findings of Fact and Conclusions of Law, the Commission issues the following:

Order

1. NSP's application for an advanced determination of prudence for its acquisition of the 375 MW Mankato Energy Center and the 345 MW Mankato Energy Center II is DENIED.

PUBLIC SERVICE COMMISSION

Julie Fedorchak **Commissioner**	**Brian Kroshus** **Chairman**	**Randy Christmann** **Commissioner**

STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION

Public Service Commission
Northern States Power Company
Advance Prudence –Mankato Energy Center
Siting Application

Case No. PU-18-403

AFFIDAVIT OF SERVICE

STATE OF NORTH DAKOTA)
)ss
COUNTY OF BURLEIGH)

Anna Heinen states under oath as follows:

1. I swear and affirm upon penalty of perjury that the statements made in this affidavit are true and correct.

2. I am of legal age and on the 12th day of August, 2019, I served the attached **Advocacy Staff's Proposed Findings of Fact, Conclusions of Law, and Order** upon the following, by mailing a true and correct copy to the following, by mailing a true and correct copy to:

Patrick J. Ward
Administrative Law Judge
P.O. Box 1695
Bismarck, ND 58502-1695

Zachary Pelham
Attorney at Law
P.O. Box 400
Bismarck, ND 58502-0400

Zeviel Simpser
Attorney at Law
50 South Sixth Street, Suite 1500
Minneapolis, MN 55402-1498

and depositing the same, with postage prepaid, in the United States mail at Bismarck, North Dakota.

Anna Heinen

Subscribed and sworn before me this 12th day of August, 2019.

TIFFANY KNOPIK
Notary Public
State of North Dakota
My Commission Expires June 29, 2022

Notary Public
Burleigh County, North Dakota