

DIRECT TESTIMONY  
BRIA E. SHEA

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

NORTHERN STATES POWER COMPANY  
ADVANCE PRUDENCE – 151.2 MW  
DAKOTA RANGE III WIND FACILITY

CASE NO. PU-18-\_\_\_\_

**Policy Testimony**

Exhibit \_\_\_\_ (BES-1)

December 27, 2018

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1                   **I.     INTRODUCTION AND QUALIFICATIONS**

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Q.   PLEASE STATE YOUR NAME AND TITLE.

A.   My name is Bria Shea. I am the Director, Regulatory and Strategic Analysis, for Northern States Power Company – Minnesota (NSP or Xcel Energy or the Company).

Q.   PLEASE DESCRIBE YOUR QUALIFICATIONS AND EXPERIENCE.

A.   I have worked for Xcel Energy since 2009, in the regulatory and resource planning areas, and have been in my current role since February of 2017. I currently oversee the Company’s regulatory strategy for resource planning and resource acquisitions for the NSP System. This includes the development, preparation, and regulatory support of the Company’s resource plans and resource acquisition filings in Minnesota, North Dakota, and South Dakota, as well as assisting the Company in making reasonable and prudent acquisition decisions for electric generation resources. I am also responsible for the regulatory strategy and filings for grid modernization and distribution planning, as well as working with stakeholders in the Upper Midwest.

Q.   WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A.   The purpose of my testimony is to provide support for the Company’s request for an Advance Determination of Prudence (ADP) for a power purchase agreement (PPA) between the Company and Dakota Range III, LLC for new wind energy generation from a 151.2 megawatt (MW) facility (Dakota Range III). In my testimony, I detail the transaction and discuss the

1 policy issues related to the matter and the prudence of the Company's  
2 request, supporting the ADP Application (Application).

3  
4 Q. HOW IS YOUR TESTIMONY STRUCTURED?

5 A. My testimony covers the following topics:

- 6 • Regulatory Matters;
- 7 • Description and Purpose of Dakota Range III;
- 8 • Prudence of the Dakota Range III Project; and
- 9 • Presentation of Witnesses.

10  
11 **II. REGULATORY MATTERS**

12  
13 Q. PLEASE DESCRIBE THE COMPANY'S REQUIREMENTS WITH RESPECT TO THIS  
14 ADP.

15 A. North Dakota Century Code section 49-05-16 allows a public utility to seek  
16 an ADP from the Commission at the utility's discretion. However, pursuant  
17 to the Settlement Agreement in Case No. PU-07-776, the Company is  
18 obligated to file an Application for an ADP for its acquisition of generating  
19 resources above 50 MW.<sup>1</sup> Xcel Energy has committed to filing its ADP  
20 applications within fourteen days of seeking similar approvals in Minnesota.<sup>2</sup>

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<sup>1</sup> *N. States Power Co. Elec. Rate Increase Application*, Case No. PU-07-776, ORDER ADOPTING SETTLEMENT AGREEMENT at 6 of settlement agreement (Dec. 31, 2008).

<sup>2</sup> *N. States Power Co. Advance Prudence – Geronimo Wind Application*, Case No. PU-12-59, LETTER OF COMMITMENT (Nov. 5, 2012).

1 Q. IS THE COMPANY MEETING NORTH DAKOTA FILING REQUIREMENTS WITH  
2 THIS APPLICATION AND SUPPORTING TESTIMONY?

3 A. Yes. This Application complies with the requirements of N.D.C.C. § 49-05-  
4 16 and the Settlement Agreement in Case No. PU-07-776. Additionally, the  
5 Company is submitting the Application within fourteen days of filing a  
6 petition seeking approval for the Dakota Range III PPA in Minnesota,  
7 which occurred on December 13, 2018. Finally, the Application and  
8 supporting testimony demonstrate the prudence of the PPA.

9

### 10 **III. DESCRIPTION AND PURPOSE OF DAKOTA RANGE III**

11

#### 12 **A. PROJECT BACKGROUND AND DESCRIPTION**

13 Q. PLEASE DESCRIBE THE PROPOSED DAKOTA RANGE III PROJECT.

14 A. Dakota Range III is a 151.2 MW wind facility located in Grant and Roberts  
15 counties, South Dakota, the same general area as the Dakota Range I and II  
16 wind facilities the Company has recently agreed to purchase from Apex  
17 Clean Energy (Apex). The project will include forty-five Vestas V136 4.2 SE  
18 Wind Turbines. The facility is expected to produce approximately [**TRADE**  
19 **SECRET BEGINS . . . . . . . . . . TRADE SECRET ENDS**] of  
20 wind energy annually for the duration of the PPA term.

21

22 Dakota Range III will be placed in-service in 2020 and will therefore qualify  
23 for a 100 percent production tax credit (PTC). Also, like Dakota Range I  
24 and II, the point of interconnection and delivery for the Dakota Range III  
25 wind facility will be the Twin Brooks 345 kilovolt (kV) substation.

26

1 Q. YOU MENTIONED THAT THE COMPANY RECENTLY AGREED TO PURCHASE  
2 DAKOTA RANGE I AND II. HAS THE COMMISSION PREVIOUSLY DETERMINED  
3 THAT THE DAKOTA RANGE I AND II PROJECT IS PRUDENT?

4 A. Yes. On December 6, 2018, the Commission approved a settlement in Case  
5 Nos. PU-17-120 (1,550 MW Wind Portfolio) and PU-17-372 (302.4 MW  
6 Dakota Range Wind) finding the Dakota Range I and II project prudent.<sup>3</sup>

7

8 Q. WHAT ENTITY CURRENTLY OWNS DAKOTA RANGE III?

9 A. Until recently, Dakota Range III, LLC was a wholly-owned subsidiary of  
10 Apex, one of the leading developers of renewable energy facilities in the  
11 country. In November 2018, Apex sold Dakota Range III, LLC to ENGIE  
12 IR Holdings LLC, a subsidiary of ENGIE (ENGIE), one of the world's  
13 largest electricity providers.

14

15 **B. NEED FOR DAKOTA RANGE III**

16 Q. WHY IS THE COMPANY PROPOSING TO ADD DAKOTA RANGE III TO THE  
17 NSP SYSTEM?

18 A. The Company recently reached agreement with a very large commercial and  
19 industrial customer (C&I Customer) regarding the terms of providing  
20 electric service to a site (C&I Site) planned for construction on a portion of  
21 the Company's Sherco property in Becker, Minnesota. The Dakota Range  
22 III Project is being proposed to help ensure the Company can meet its  
23 electric service obligations under the agreement to serve this C&I Customer.

24

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<sup>3</sup> N. States Power Co. *Advance Prudence – 302.4 MW Dakota Range Wind Application*, Case No. PU-17-372, ORDER ON SETTLEMENT (Dec. 6, 2018).

1 Q. PLEASE DESCRIBE THE SERVICE THAT THE COMPANY WILL PROVIDE TO THE  
2 C&I CUSTOMER.

3 A. The Company has committed to provide electric service at a negotiated rate  
4 for up to [TRADE SECRET BEGINS ... ... TRADE  
5 SECRET ENDS] of load for an initial term of ten years. [TRADE  
6 SECRET BEGINS ...

7

8 ... TRADE SECRET ENDS].

9

10 Q. IS THERE A PARTICULAR CONDITION IN THE AGREEMENT WITH THE C&I  
11 CUSTOMER THAT NECESSITATES THE DAKOTA RANGE III PPA AT THIS  
12 JUNCTURE?

13 A. Yes. A condition of the C&I Customer locating at the C&I Site is  
14 satisfaction of the C&I Customer's objective to offset its operations' energy  
15 usage with renewable energy. To meet this objective, the C&I Customer  
16 required procurement of incremental renewable energy resources for the  
17 NSP System to match energy usage at the C&I Site. While the Company has  
18 committed to provide electric service at a negotiated rate for up to [TRADE  
19 SECRET BEGINS ... ... TRADE SECRET ENDS] of load  
20 for an initial term of ten years, the C&I Site's load growth is difficult to  
21 predict with certainty. The Company, therefore, has negotiated the flexibility  
22 to procure renewable resources early in the term that will allow the Company  
23 to "bank" the renewable energy credits (RECs) early and retire them later in  
24 the term.

25

26 Initially, Xcel Energy intends to procure 300 MW of wind energy before the  
27 C&I Site's commercial operation date (COD) to capture the federal PTC

1 pricing available today to cover future load growth. The Company then  
2 intends to use the RECs from the project to retire against the C&I Site. The  
3 Dakota Range III PPA is the Company's first step in procuring the  
4 incremental renewable energy needed to meet the C&I Customer's  
5 objectives.

6  
7 Q. HAVE THE AGREEMENTS WITH THE C&I CUSTOMER BEEN EXECUTED?

8 A. Yes. The Company will next be seeking approval of the agreements to serve  
9 the C&I customer from the Minnesota Public Utilities Commission (who  
10 has sole jurisdiction over those agreements as the regulatory agency  
11 responsible for overseeing electric service in that state) in early 2019 and will  
12 supplement this proceeding with courtesy copies of the filing.

13  
14 Q. HOW WILL THE ADDITION OF THE C&I CUSTOMER AFFECT NSP SYSTEM  
15 COSTS ALLOCATED TO NORTH DAKOTA?

16 A. Because the C&I Customer's load will be based in Minnesota, North Dakota  
17 customers will benefit from the impact that the Minnesota load has on the  
18 allocation of the NSP System costs. The addition of this large customer will  
19 result in shifts in the percentages of system costs paid for by North Dakota  
20 under the 12CP demand allocator. Company witness Mr. P.J. Martin  
21 discusses the estimated North Dakota dollar impact resulting from the  
22 demand allocator shift caused by the addition of the C&I Customer in his  
23 Direct Testimony.

24



1 damages equal to **[TRADE SECRET BEGINS ...**  
2 **... TRADE SECRET ENDS]**.

3  
4 Q. DOES THE PPA INCLUDE CURTAILMENT PROVISIONS?

5 A. Yes. The PPA includes provisions under which the Company will pay for  
6 the curtailment of generation or delivery of energy due to scheduling issues,  
7 market participation activities, economic curtailments and curtailments due  
8 to locational marginal pricing, or any other reason the Company so  
9 determines. In the event a wind curtailment is determined to be  
10 compensable, the incremental cost above the energy purchase cost would be  
11 approximately **[TRADE SECRET BEGINS ...** **...  
12 TRADE SECRET ENDS]**.

13  
14 Q. ARE THERE ANY COMPANY PURCHASE OPTIONS OF THE WIND FACILITY  
15 INCLUDED IN THE PPA?

16 A. Yes. The PPA outlines several purchase options of the wind facility for the  
17 Company. First, beginning six months after the COD, the Company will  
18 have a right of first offer (ROFO) option in the event Dakota Range III  
19 proposes to sell the facility (or a majority of the equity interest in Dakota  
20 Range III) to an unaffiliated third party, permitting the Company to acquire  
21 the wind facility on the terms set forth in any notice of the ROFO. Second,  
22 the Company has a pending facility transaction (PFT) option, whereby the  
23 Company has the right to discuss and negotiate the possible sale of the wind  
24 facility with Dakota Range III upon receiving a notice of a PFT. Third, the  
25 Company has the option to acquire the wind facility upon termination of the  
26 PPA due to an uncured default by Dakota Range III, based on the fair  
27 market value of the wind facility, as determined by an independent appraiser.

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Q. ARE THE COMPANY'S OBLIGATIONS UNDER THE PPA CONDITIONED ON AN ADP FROM THE COMMISSION?

A. No. **[TRADE SECRET BEGINS . . .**

**. . . TRADE SECRET ENDS].**

Q. SHOULD THE LACK OF A CP RESULT IN DISMISSAL OF THE ADP APPLICATION?

A. No. While the Company understands that NSP's ADP application filed in Case No. PU-12-59 was dismissed because the Company requested an ADP after the transaction was fully committed,<sup>4</sup> the subsequent settlement reached in Case No. PU-12-813 requires an ADP for all PPAs over 50 MWs before such costs are included in the Company's Fuel Cost Rider (FCR) for recovery.<sup>5</sup> As a result, the Company must seek an ADP to recover the costs of a project through the FCR regardless of whether there is a CP in the

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<sup>4</sup> *N. States Power Co. Advance Determination of Prudence – Geronimo Wind Application*, Case No. PU-12-59, FINDINGS OF FACT, CONCLUSIONS OF LAW AND ORDER at 3 (Dec. 21, 2012).  
<sup>5</sup> *N. States Power Co. 2013 Elec. Rate Increase Application*, Case No. PU-12-813, ORDER ADOPTING SETTLEMENT at p. 10 of settlement agreement (Feb. 26, 2014).

1 contract such that a CP requiring a Commission prudence determination is  
2 not necessary or required.

3  
4 It would, therefore, be inappropriate to dismiss the Company's ADP  
5 Application in this case due to the lack of CP, thereby ultimately delaying  
6 cost recovery associated with the PPA until the Company's next rate case. If  
7 this is nonetheless the route the Commission prefers, then the Company  
8 would request that all costs of the PPA receive deferred accounting  
9 treatment until recovery of the PPA costs can be addressed in the  
10 Company's next rate case.

11  
12 **IV. PRUDENCE OF THE DAKOTA RANGE III PROJECT**

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14 Q. IS THE PROPOSED DAKOTA RANGE III PPA PRUDENT?

15 A. Yes. The Commission has historically stated that its primary considerations  
16 in assessing the prudence of resource additions is that they be needed and  
17 least cost. With respect to need, Dakota Range III is necessary for  
18 facilitating the addition of a very large new customer to the NSP System,  
19 which itself should provide significant benefits to the Company's customers.  
20 The Dakota Range III PPA is also a least-cost resource, as the attractive  
21 price of energy under the PPA will lower the Company's overall fuel costs,  
22 benefitting customers. The economical pricing of the wind alone in the PPA  
23 is enough to drive down NSP System costs, supporting the prudence of the  
24 transaction.

25

1 Q. HOW DOES THE DEMAND ALLOCATOR SHIFT RESULTING FROM THE  
2 ADDITION OF THE C&I CUSTOMER BENEFIT NORTH DAKOTA CUSTOMERS?

3 A. As explained in Section III.B, above, North Dakota customers benefit from  
4 the demand allocator shift caused by the increased Minnesota contribution  
5 to the overall NSP System load, which decreases the cost of service in North  
6 Dakota. The Direct Testimony of Mr. Martin shows the estimated North  
7 Dakota dollar impact resulting from the demand allocator shift.

8

9 I note, however, that should the C&I Customer not go into service and the  
10 demand allocator benefits do not materialize, the Dakota Range PPA is still  
11 prudent in light of the low cost energy it is providing to the system and  
12 thereby saving customers money.

13

14 Q. IF THE COMMISSION DECLINED TO MAKE A DETERMINATION OF PRUDENCE  
15 WITH RESPECT TO THE DAKOTA RANGE III PPA, WOULD NORTH DAKOTA  
16 CUSTOMERS STILL BENEFIT FROM THE SHIFT IN DEMAND ALLOCATION?

17 A. No. Without a determination that the Dakota Range III PPA is prudent, the  
18 Company will not be able to include this resource in its FCR calculations and  
19 the low-cost energy, therefore, will not “average down” the Company’s  
20 overall fuel costs. This will result in North Dakota customers being unable  
21 to benefit from the associated decreased cost of service in North Dakota.

22

23 Moreover, it would be inequitable for our North Dakota customers to enjoy  
24 the benefits of the increased load associated with the C&I Customer through  
25 the demand allocator if North Dakota customers are not also paying the  
26 resource costs needed to support the C&I Site.

27

1 Q. IF THE C&I SITE DID NOT USE THE ENTIRETY OF DAKOTA RANGE III'S  
2 WIND GENERATION, WOULD CUSTOMERS STILL BENEFIT FROM THE PPA?

3 A. Yes. Notwithstanding the need for Dakota Range III's wind generation to  
4 support the C&I Site, the Company's economic analysis of the PPA,  
5 discussed in detail in Mr. Martin's Direct Testimony, shows that the addition  
6 of Dakota Range III as a low-cost energy addition will lower the Company's  
7 overall fuel costs, supporting the cost-effectiveness of the resource addition.  
8 The economical pricing of the wind alone in the PPA is enough to drive  
9 down NSP System costs, further supporting the prudence of the transaction.

10

11 Q. ASIDE FROM THE COST-EFFECTIVENESS AND NEED FOR THE DAKOTA  
12 RANGE III PPA, ARE THERE OTHER INDICATIONS THAT THE COMPANY'S  
13 PROPOSAL IS PRUDENT?

14 A. Yes. Aside from the cost-effectiveness of and need for the transaction, the  
15 PPA is structured to protect the interests of customers through several  
16 safeguards. These include specific milestone dates (and penalties for failing  
17 to meet these dates), default provisions, security fund requirements, and  
18 insurance requirements.

19

20 **V. PRESENTATION OF WITNESSES**

21

22 Q. WHO ARE THE WITNESSES FOR THE COMPANY IN THIS PROCEEDING?

23 A. In addition to my Policy Testimony, the Company sponsors the following  
24 witness:

25

- 1           • Philip Joseph “P.J.” Martin details economic analysis and expected  
2           cost savings the Company expects to achieve by entering into the  
3           PPA for Dakota Range III.

4

5

## VI. CONCLUSION

6

7 Q. DOES THIS CONCLUDE YOUR PRE-FILED DIRECT TESTIMONY?

8 A. Yes, it does.

