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BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF NORTH DAKOTA

NORTHERN STATES POWER COMPANY
APPLICATION FOR AN ADVANCE DETERMINATION OF
PRUDENCE FOR THE ACQUISITION OF THE 98.9 MW
MOWER COUNTY WIND FACILITY

CASE NO. PU-19-____

APPLICATION FOR
ADVANCE DETERMINATION OF PRUDENCE

I. INTRODUCTION

Northern States Power Company, doing business as Xcel Energy (Xcel Energy or the Company), submits to the North Dakota Public Service Commission (Commission) this Application for an Advance Determination of Prudence (ADP) for the Company to acquire, own, and operate the repowered Mower County Wind Facility (Facility or Project).

The Project is a 98.9 megawatt (MW) wind energy facility located in Grand Meadow, Mower County, Minnesota and currently owned by FPL Energy Mower County, LLC, (FPL or Seller), which is ultimately owned by NextEra Energy, Inc. The Company initially entered into a Power Purchase Agreement (PPA) with FPL on November 18, 2005. The PPA has been included in the Company's Fuel Cost Rider (FCR) since it began commercial operation, and the 20-year term of the existing PPA will expire in December 2026.

In late 2018, FPL approached the Company expressing interest in completing a partial repowering of the Project's existing wind turbine generators by replacing several key components, and then selling the repowered project to the Company. Recognizing that customers could benefit from the Company purchasing, owning, and operating the repowered Project, we negotiated and executed a Purchase and Sale Agreement (PSA) to acquire the Facility. The proposed PSA is consistent with our most recent Upper Midwest Integrated Resource Plan,¹ and the wind procurement strategies we have discussed therein.

¹ As filed in Case No. PU-19-220 (July 1, 2019).

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The proposed repowering and purchase is cost-effective and will provide customers value because it will result in lower energy costs for customers beyond the term of the existing PPA, compared to our current Resource Plan projections. The estimated present value savings to customers resulting from the repowering and purchase is approximately \$48-49 million.² By completing the repowering work prior to the end of 2020, the Project is expected to qualify for 100 percent of the existing federal renewable electricity Production Tax Credit (PTC).

Given the economic benefits to customers associated with the proposed acquisition, as we describe further in this Application, Xcel Energy respectfully requests that the Commission grant an ADP for the Mower County acquisition.

In support of our Application, Xcel Energy provides the following Direct Testimony:

- Policy Testimony – Bria E. Shea
- Resource Planning – Philip Joseph “P.J.” Martin

The remainder of this Application addresses the following:

- Compliance matters
- Background history and Project description
- Pricing and terms information under the PSA
- Economic analysis of the PSA
- Discussion of the proposed acquisition’s prudence

II. COMPLIANCE MATTERS

A. Description of 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:

² On a present value of revenue requirements (PVRR) basis.

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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 on January 11, 2019, and are incorporated herein by reference.

Xcel Energy has service territory in five upper Midwest states including North Dakota. The Company presently serves approximately 95,000 retail electric customers in and around Fargo, Grand Forks, and Minot, North Dakota, and owns about 1,400 conductor miles of transmission and 3,800 conductor miles of electric distribution lines in North Dakota.

B. Communication and Service

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

David H. Sederquist
Senior Consultant, Regulation and Finance
Xcel Energy
2302 Great Northern Drive
Fargo, North Dakota 58102
dave.sederquist@xcelenergy.com

Lynnette Sweet
Regulatory Administrator
Xcel Energy
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Minneapolis, Minnesota 55401
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C. Standard of Review

North Dakota Century Code section 49-05-16(1)(d) authorizes the Commission to issue an ADP if it “determines that the resource addition is prudent.” This standard is similar to the “honestly and prudently invested” standard that the Commission uses for ratemaking.³ The general prudence standard calls for determining whether the utility action was reasonable at the time it was taken under all relevant circumstances.⁴ 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 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.

D. Authority for Relief Requested

North Dakota Century Code section 49-05-16 allows a public utility to seek an ADP from the Commission at the utility’s discretion. Pursuant to the Settlement Agreement in Case No. PU-07-776, the Company is obligated to file an application for an ADP for its acquisition of generating resources above 50 MW.⁵ In Case No. PU-12-59, Xcel Energy committed to filing its ADP applications within 14 days of seeking similar approvals in Minnesota.⁶

³ See N.D.C.C. § 49-06-02.

⁴ 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).

⁵ *N. States Power Co. Elec. Rate Increase Application*, Case No. PU-07-776, ORDER ADOPTING SETTLEMENT AGREEMENT at 6 of attached Settlement Agreement (Dec. 31, 2008).

⁶ *N. States Power Co. Advance Prudence – Geronimo Wind Application*, Case No. PU-12-59, LETTER OF COMMITMENT (Nov. 5, 2012).

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With this Application, the Company has met its filing obligations. This Application complies with the requirements of N.D.C.C. § 49-05-16 and the Settlement Agreement in Case No. PU-07-776. Additionally, the Company is submitting the Application within 14 days of filing an application in Minnesota (which occurred on August 30, 2019) seeking approval of the acquisition of the Mower County Wind Facility.

III. DESCRIPTION AND PURPOSE OF FILING

A. Mower County Facility and PPA Background

The Facility currently consists of 43 Siemens 2.3 MW MKII turbine generators. The existing PPA was the result of an all-source bidding process initiated in 2001, as required by the Minnesota Public Utilities Commission's (MPUC) Order in the Company's 2000 Resource Plan docket.⁷ At the time, the Company was seeking to fill a capacity need of approximately 1,000 MW with a mix of resources.⁸

The Company and FPL executed the PPA on November 18, 2005. The Company has been purchasing the output from the Mower County Facility since it was placed in service on December 3, 2006, and the current PPA extends through December 2, 2026. The PPA has been included in and recovered through the Company's FCR since power purchases commenced.

FPL Energy Mower County, LLC is the sole owner of the Project. ESI Energy, LLC currently owns 100 percent of the interests in this entity. Both are ultimately owned by NextEra Energy, Inc.

B. Repowering Project Overview

In late 2018, Seller approached the Company regarding its interest in repowering the Mower County Wind Facility and selling the refurbished Facility to the Company. Seller plans to repower each of the 43 2.3 MW turbine generators with *[TRADE SECRET BEGINS*

⁷ MPUC Docket No. E002/RP-00-787.

⁸ This all-source bidding process was not undertaken in order to meet any mandated renewable energy requirements.

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TRADE SECRET ENDS]. Some existing components, such as towers, concrete platforms, and other balance of plant (BOP) infrastructure, will continue to be utilized going forward. The repowered Project is expected to qualify for 100 percent of the existing federal PTC, as it will be placed in service by December 31, 2020. The repowering will allow for more efficient energy generation and extend the useful life of the Facility for an additional 25 years. The 25-year useful life expectation for the repowered facility is consistent with industry and Company experience.

Section 3.3 of the existing PPA requires the Seller to maintain the Facility for all 20 years of the Agreement term according to “Good Utility Practices,” which, as defined in the PPA (Section 1.4), includes taking reasonable steps to perform preventive, routine, and non-routine maintenance and repairs to ensure reliable, long-term, and safe operation. Section 5.4 of the PPA requires the Seller to meet a Peak Production Availability requirement and use commercially reasonable efforts to maximize the amount of net energy produced as well as minimize forced outages.

Nothing in the PPA precludes the Seller from repowering the Project to continue meeting its contractual requirements, so long as the repowering leaves the Facility within the designated nameplate capacity and does not result in any material change in Xcel Energy’s obligations under the PPA.

IV. TERMS OF THE PROPOSED ACQUISITION

On June 17, 2019, the Company executed a PSA for the Mower County Wind Facility with ESI Energy, LLC, (ultimately owned by NextEra Energy, Inc.) which owns 100 percent of the membership interests of FPL Energy Mower County, LLC.

The Company will purchase the Facility for a price of approximately *[TRADE SECRET BEGINS* *TRADE SECRET ENDS]*.⁹ The proposed repower and purchase results in a levelized cost of energy for the Facility of approximately *[TRADE SECRET BEGINS* *TRADE SECRET ENDS]* over the expected 25-year life of the repowered Facility. This price was the

⁹ *[TRADE SECRET BEGINS*

TRADE SECRET ENDS].

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result of a series of negotiations between the parties. In the event the Company successfully completes the purchase, the existing PPA terminates.¹⁰

The closing of the PSA and completion of the repowering project is anticipated to occur on or before December 31, 2020, which is the completion date deadline required to capture 100 percent of the PTCs. The PSA sets forth a number of provisions including, but not limited to, *[TRADE SECRET BEGINS*

TRADE SECRET ENDS].

V. ECONOMIC ANALYSES

A. PVRR Analyses

Below we provide economic analyses evaluating the effect of the proposed PSA on a Present Value of Revenue Requirements (PVRR) basis. To evaluate these benefits, we analyzed the Project in a pro forma model as well as conducted a traditional Strategist analysis. The Project-specific pro forma helps us understand the Project's expected benefits relative to the existing Facility PPA. Strategist helps us evaluate the proposed repowering and acquisition in the broader context of the integrated Northern States Power system and our most recent Integrated Resource Plan's Preferred Plan.¹¹

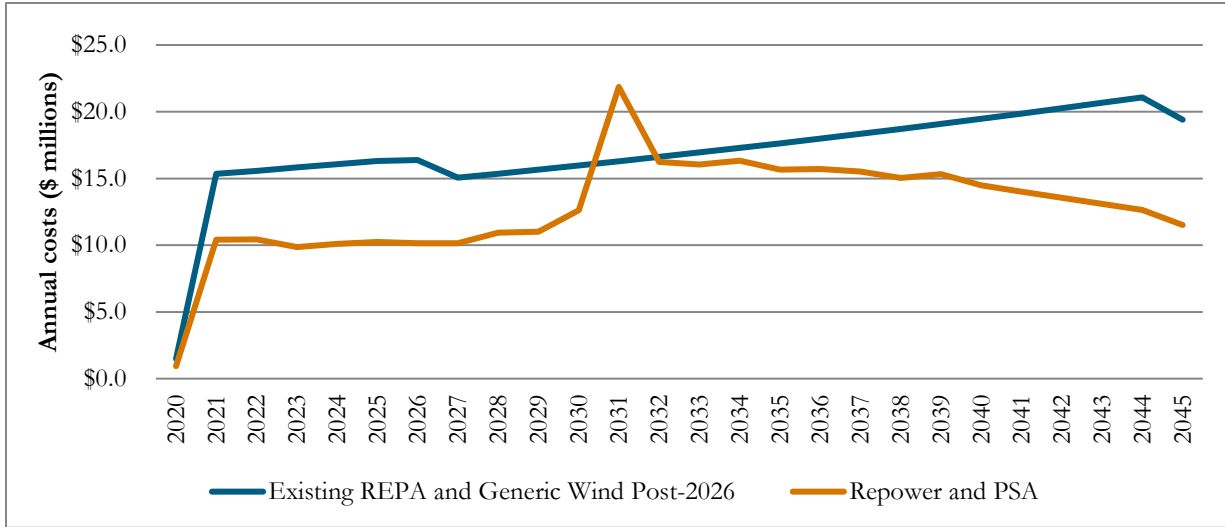
Overall, the analyses show that customers will benefit from the Company purchasing, owning and operating the Project, relative to the Base Case. This holds true both in the pro forma and Strategist analyses, showing approximately \$48-49 million of PVRR

¹⁰ The Company has also executed a First Amendment to the PPA, which will take effect in the event the acquisition is not approved. This Amendment includes enhanced customer protections and other updates consistent with modern power purchase contract terms. In particular, the Amendment includes excess generation provisions, to ensure customers do not incur substantial incremental costs as a result of the Project's increased capacity factor (and thus increase in expected generation). In contrast, the existing PPA requires the Company to purchase all energy the Facility generates. The First Amendment to the PPA also includes a narrower definition of compensable curtailment than what is defined in the existing PPA, consistent with more modern contract provisions. We note that the PSA provides substantial customer benefits, as described in Section IV, and this outcome is superior to either the First Amendment to the PPA or continuing the existing PPA.

¹¹ Filed as Case No. PU-19-220. Company Witness Mr. P.J. Martin discusses the Base Case assumptions in his Direct Testimony.

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Figure 1: Annual Estimated Costs for Mower County Repower and PSA, Relative to Existing PPA and Generic Wind Replacement (\$ millions)¹³



2. *Strategist Analysis Approach and Results*

As discussed previously, we also used the Strategist resource planning model to evaluate the proposed acquisition. Strategist simulates the operation of the integrated NSP System and estimates the cost to serve our load through the life of the Project, within the context of our current long-term resource plan. The scenarios presented simulate ownership of the Facility through 2045 compared to continuation of the existing PPA and eventual replacement with another wind resource.

a. *Strategist Base Case*

The Company’s goal to reduce our carbon emissions across the Xcel Energy footprint 80 percent below 2005 levels by 2030—and ultimately to provide entirely carbon-free energy by 2050—is a key factor in our Upper Midwest Integrated Resource Plan. This vision for the future means that, as renewable resources retire or PPAs terminate, the Company will endeavor to replace them with other renewable or carbon-free generation. This approach ensures that we will sustain the progress we have made toward integrating substantial amounts of cost-effective renewable energy onto our system, for both the benefit of customers and achievement of our clean energy objectives.

¹³ Note that values for 2020 reflect a December COD for the repowered Project.

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In essence, the Company will add renewable energy to the NSP System in amounts equal to the renewable resources that retire or reach the end of their PPA terms. Thus, our resource plan modelling includes an assumption that existing wind and solar resources will be replaced by generic wind and solar resources, respectively. This supposition was referred to in our Upper Midwest Integrated Resource Plan as the “no going back” approach.

More specifically, to achieve our objectives the Resource Plan contemplates the addition of approximately 1,200 MW of generic new wind generation on our system by 2034¹⁴ (which would produce approximately 5,270 gigawatt hours (GWh) of electricity annually by 2034) to replace the wind resources on our system that reach the end of their contract or operating lives during the planning period. However, we also realize that potential significant transmission constraints for greenfield sites,¹⁵ and potential cost efficiencies associated with repowering existing sites, may offer opportunities to achieve the projected replacement wind energy with a mix of new and repowered resources. The Mower County Project discussed herein is an example of such a repowering opportunity.

With respect to the Mower County repowering and PSA, we have evaluated the economic impacts of purchasing the Facility as a partial fulfillment of the wind replacement need identified in our Resource Plan. In other words, the Base Case includes an assumption that the wind energy purchased under the existing PPA is replaced after the contract term ends in December 2026 with a generic wind PPA beginning at \$38.81/MWh, consistent with generic wind cost assumptions in our most recent Resource Plan. We further clarify that this approach indicates the proposed Project does not represent an incremental resource in addition to the 5,270 GWh of unspecified new wind energy proposed in our Resource Plan.

b. Key Assumptions in the Resource Plan

The following outlines key assumptions included in the Base Case (or the Resource Plan *Preferred Plan*):

¹⁴ See PU-19-220, *Upper Midwest Integrated Resource Plan 2020-2034*, at 6.

¹⁵ We note that the most recent Midcontinent Independent System Operator (MISO) Definitive Planning Phase (DPP) study identified high costs associated with required transmission upgrades, such that nearly all studied wind projects withdrew from the interconnection queue. One of the withdrawn projects includes the final 200 MW phase of the Company’s Crowned Ridge wind project. The Company continues to work to identify paths forward, including alternate transmission queue positions and project configurations.

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- *Nuclear* – Operation of the Monticello plant is assumed to be extended through 2040. Prairie Island I and II licenses expire in 2033 and 2034, respectively.
- *Coal* – Sherco Unit 2 is assumed to retire in 2023 and Sherco Unit 1 is assumed to retire in 2026. As proposed in our current Preferred Plan, the A.S. King Plant retires in 2028 and Sherco Unit 3 retires in 2030.
- *Combined Cycle Plants* – A combined cycle unit is assumed to be added at the Sherco site, beginning operation by 2027. The Mankato Energy Center is assumed to be Company-owned.
- *PPAs* – All existing PPAs are assumed to expire at the end of their current terms.
- *Energy Efficiency* – Energy efficiency is treated as a supply-side resource available for adoption in “bundles” of achieved efficiency levels, and the first two bundles are included. Energy efficiency achieves 2-3 percent annual energy savings over the analysis timeframe.
- *Demand Response* – Consistent with the MPUC’s Order in our last resource plan, 400 MW of incremental demand response is added by 2023.
- *Distributed Solar* – The modeling assumes distributed generation (DG) solar additions based on our most recent forecast of distributed solar, which includes 673 MW of Community Solar Gardens by 2020.
- *Utility-Scale Solar* – In addition to the DG solar, an incremental 4,000 MW of utility-scale solar is added by 2034, with additions starting in 2025.
- *Wind* – The modeling includes the 1,850 MW of wind generation approved by the Commission in Case Nos. PU-17-120 and PU-17-372, and the Dakota Range III resource currently under consideration in Case No. PU-18-430.¹⁶ The modeling also assumes wind generation retiring from our system would be replaced with an equivalent amount of new or repowered wind.
- *Reliability Requirement* – The Plan includes a level of firm, dispatchable capacity resources our system may not fall below. This Reliability Requirement results in approximately 1,700 MW of firm, dispatchable resource additions in the post-2030 timeframe.¹⁷
- *Congestion* – The modeling includes an updated congestion assumption since our last wind acquisition filing based on MISO Transmission Expansion Plan (MTEP) 2018 models and comparing the average congestion costs between

¹⁶ Remains pending in North Dakota PU-18-430.

¹⁷ Currently the costs of these resources are based on expected costs of a new combustion turbine gas unit. However, any firm, dispatchable resource may be used to fill this need, including non-emitting resources such as demand response and energy storage.

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representative wind bus locations and NSP. A congestion cost of \$3.43 per MWh in 2020 was used, escalating at 2 percent per year.

- *Market Interaction.* During periods of the Company’s fleet transition, when generation exceeds native load requirements, we are likely to make energy sales into the MISO market. Revenues from those sales will be credited to customers through the monthly Fuel Cost Rider. Assumptions regarding the value of these sales are an important factor in predicting the likely rate impact of the proposed wind portfolio. The Company’s analysis indicates it will be able to access markets and sell some of our excess energy at a wholesale rate that is reflective of the modeling. However, a limit on the maximum amount of market sales was included, based on historical data. As a result, a portion of the incremental wind generation is “dumped” and does not receive any value.

Further details on the Company’s Strategist assumptions are included in the Schedules to the Direct Testimony of Company Witness Mr. P.J. Martin.

c. Strategist Results

As noted above, we evaluated the Project assuming the Resource Plan’s *Preferred Plan* as our Base Case. The results of the Strategist analysis show that the purchase of this Facility under the PSA terms, in partial fulfillment of the replacement wind indicated in our Resource Plan, is expected to result in net savings for our customers of approximately \$48.8 million on a PVRR basis. The analysis assumes the Project is operational for 25 years and will be eligible to receive 100 percent of the existing renewable PTC, as noted above. Table 1 below shows the components of the overall PVRR result.

Table 1: PVRR Impact Relative to the Base Case

Cost Category	PVRR Impact (\$2019 millions)
Mower PPA / Generic Wind PPA (post-2026) Payments	(184.8)
Market Transactions	(6.2)
Fuel	(2.4)
Variable O&M	(0.4)
Acquisition-related Expenses	145.0
Total	(48.8)

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Additionally, the Company performed several sensitivities to test the benefits of purchasing the Facility under different potential future market conditions, including variation around fuel prices and interactions with the MISO energy market. The results of these analyses are shown in Table 2 below. Note that the Company’s acquisition of the Facility results in PVRR benefits in all sensitivities presented.

Table 2: PVRR Impact by Sensitivity Relative to the Base Case

Market Sensitivity Case	PVRR Impact (\$2019 millions)
Baseline (no CO ₂ Costs)	(48.8)
Low Gas and Coal Prices	(48.3)
High Gas and Coal Prices	(49.4)
No Market Sales	(44.6)

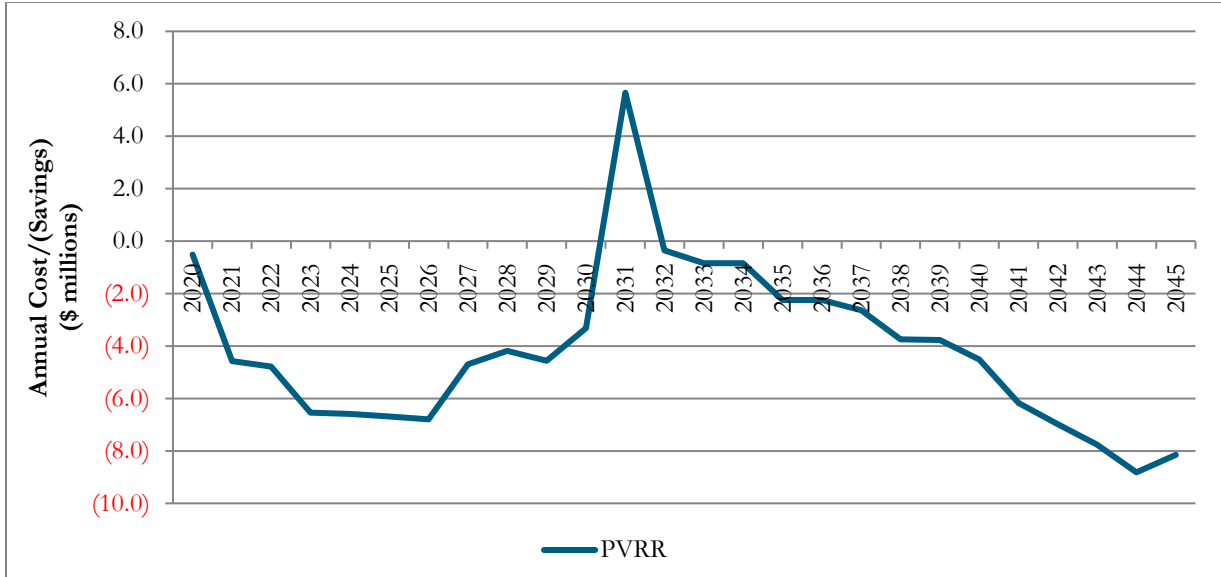
To understand how the costs or savings change over time, we also examined the proposed repowering and acquisition costs annually. These perspectives show that customers will benefit from our purchase and operation of the repowered facility, relative to the Base Case (i.e., the IRP *Preferred Plan*).

Figure 2 below portrays the annual *NSP system* cost impacts of the contemplated repower and acquisition compared to the Base Case where the existing PPA is sustained through its term and replaced with generic wind energy thereafter.¹⁸ The analysis shows savings accruing to customers in most years. The cost trajectories evident in the 2030-31 timeframe are driven by the PTC expiration and associated tax implications discussed previously. Post 2031, however, customers accrue benefits each year from the Company’s lower cost of ownership, as compared to new generic wind costs.

¹⁸ Per our Preferred Plan scenario in our most recent Resource Plan, as discussed above.

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Figure 2: PVRR Impact of Mower County Wind PSA on Annual System Costs Relative to Base Case (\$ millions)



B. Customer Bill Impacts Analysis

With the decrease in PVRR, the Company expects that customers’ overall bills will be lower than they otherwise would be as a result of the proposed repowering and acquisition (relative to the Base Case assumptions). Consistent with the Company’s Strategist modeling, the cost of the Company owning and operating the Project will be offset by decreases from the avoided PPA purchases.

To develop the bill impact analysis, the Company began with the incremental savings, relative to the Base Case, as determined by the Strategist modeling discussed above. Specifically, the Company used the outputs from the PVRR sensitivity including market interactions. Using the annual system-wide costs impact from Strategist, the Company then applied a jurisdictional allocator based on our current sales forecast to determine the costs allocated to the North Dakota jurisdiction. Jurisdictional costs were then allocated to classes based on class cost of service study allocation factors approved in the Company’s last North Dakota rate case Order. The results of these computations are shown in Table 3 below:

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Table 3: Estimated Impact of PSA on Average Monthly Bills in North Dakota (\$)

Year	Residential	Small Commercial (Non-Demand Metered)	Large Commercial (Demand Metered)
2020	0.01	0.01	0.47
2021	(0.02)	(0.04)	(1.21)
2022	(0.04)	(0.06)	(2.18)
2023	(0.08)	(0.13)	(4.55)
2024	(0.08)	(0.13)	(4.62)
2025	(0.09)	(0.15)	(5.05)
2026	(0.09)	(0.16)	(5.48)

VI. PRUDENCE OF THE MOWER COUNTY WIND FACILITY REPOWER AND ACQUISITION

The proposed purchase of the Mower County Wind Facility is prudent. It will provide customers with substantial value because it keeps this resource on the NSP System at a relatively low cost. The economic analysis summarized above and detailed in the Company’s testimony shows that the repowered Project will provide savings for our customers, and this finding is robust under potential future market scenarios over the expected useful life of the Project. These economic benefits begin accruing to customers in the near term. The repower and purchase of the Facility will allow us to include a more efficient and longer-lived wind resource in our portfolio at a lower cost than forecasted for the PPA price and generic wind purchases thereafter. Further, it avoids significant incremental transmission interconnection costs, while preserving the site and its rights well into the future.

There are two key factors that drive our findings that the proposed PSA is prudent, will create savings for customers and is in the interest of North Dakota customers. First and primarily, the Company’s ownership and operation of the Project will reduce costs relative to the PPA rate. As the existing PPA is recovered through the FCR, North Dakota customers will benefit from these costs declining even as we incorporate the costs of ownership into the Renewable Energy Rider and/or base rates. Should the proposed acquisition not move forward, the Company will be required to continue purchasing power from the Project and customers would not benefit from reduced costs.

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Further, wind is a zero marginal cost fuel, which will be scheduled in the MISO market ahead of other generation types that have positive marginal costs. To the extent any incremental generation from the repowered Project displaces other generation we would have otherwise produced or purchased in the market, customers will benefit from the avoidance of these marginal costs.

Second, in light of the Company's clean energy objectives, any incremental generation from this repowered wind facility would displace future generic new wind procurement included in our Resource Plan that is expected to be at a higher cost. The economic analysis presented above shows the customer benefits associated with this proposal, as there will be customer savings even in the years beyond 2026 when the existing PPA expires. As discussed above, we expect the acquisition to result in customer savings, relative to this Base Case, overall and in nearly every year.

VII. CONCLUSION

For all the reasons set forth above, Xcel Energy respectfully requests the Commission grant an ADP for the Company's proposed acquisition of the Mower County Wind Facility.

Dated: August 30, 2019

Northern States Power Company

Respectfully submitted,

/s/ *Bria E. Shea*

BRIA E. SHEA

DIRECTOR, REGULATORY AND STRATEGIC ANALYSIS