

STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION

Northern States Power Company
Advance Prudence – 200 MW Heartland Divide Wind II
Application

Case No. PU-20-433

ADVOCACY STAFF'S RESPONSE TO NSP'S POST-HEARING BRIEF

I. INTRODUCTION

[¶ 1] NSP has requested an advance determination of prudence for the Heartland Divide PPA as a system resource based on anticipated “cost savings”¹ to customers. Advocacy Staff recognizes there are some anticipated “cost savings” and potential benefits to the Heartland Divide II PPA. However, unlike NSP,² Advocacy Staff believes the Commission should also consider the potential negative impacts associated with the project. If the Commission grants prudence, Advocacy Staff recommends several conditions.

¹ Notably, “cost savings” does not mean a reduction in the amount of customer bills. Rather, it simply means the anticipated cost of the resource will be less than the anticipated cost of energy in the market in the future. The asserted “cost savings” also do not take into account the basis risk associated with the project being in a different zone or speculation over North Dakota savings accruing from future changes to the jurisdictional allocator as a result of increased load shifting costs away from North Dakota.

² In its post-hearing brief, NSP argues any concerns raised by Advocacy Staff are irrelevant and the only focus of a prudence determination should be on the benefits of having the resource addition. This argument, and the other arguments raised in NSP's post-hearing brief, simply go too far. Advocacy Staff has not made a recommendation on prudence in this case because the prudence determination largely results from the weight the Commission places on the potential positive and potential negative aspects of the project. However, Advocacy Staff strongly disagrees with NSP's argument in its post-hearing brief that only benefits can be considered and the project must be approved because Dakota Range III was granted prudence (with conditions).

II. ARGUMENT

[¶ 2] NSP's application must be put into context. In its application, NSP evaluated the project's economic impact as a system resource (independent of the Honeycrisp Retail Electric Service Agreement (RESA)). *Application* at p. 11. Under this analysis, NSP asserted the Heartland Divide II PPA is prudent because it will result in anticipated "cost savings" for customers. *Id.* at p. 15. Despite "cost savings" on a system-wide basis being the primary assertion for requested prudence, NSP seeks to carve out 25% of the project to serve only a select portion of customers, i.e. Renewable*Connect. *Krug Testimony* at 17:23-18:2 (testifying the "primary basis for the prudence of this PPA is that it will result in customer savings.") Despite the fact that Renewable*Connect customers "pay a small premium" to acquire "clean" energy, NSP desires to shift the asserted "cost savings" associated with this project to Renewable*Connect customers and away from the system. *Krug Testimony* at 21:22-22:14. In other words, NSP argues this project should be granted prudence as a system resource because of "cost savings", but does not want to provide all the "cost savings" to its customers.

[¶ 3] NSP also asserts the Heartland Divide II PPA is needed to fulfill the company's obligations under the Honeycrisp RESA. *Application* at p. 15. NSP asks the Commission to wholly ignore that the energy and capacity from the project is not necessary to meet a current need, customer demand, or any other driving force necessary to "keep the lights on" for its customers. In fact, the energy is not even needed to serve the Honeycrisp RESA should that load materialize. *Krug Testimony* at p. 13:3-8 (testifying "We certainly do have adequate energy to serve Honeycrisp, but the renewable

energy credits are needed pursuant to the contract.”) Instead, this project is being sought for one reason, and one reason only. A potential large customer wants “new” green energy only, and NSP is apparently willing to cede its system resource planning decisions to fulfill this customer’s wishes. *Krug Testimony* at 13:20-23 (“I believe this particular customer wanted, was interested in a new renewable project, meaning a greenfield project, part of their own corporate policies.”)

[¶ 4] While NSP takes issue with Mr. Heidell’s testimony that it is “betting on the market,” this is precisely what is occurring. With no system need for the energy or capacity for the project, NSP is betting that it will be able to sell the energy in the future for more than the cost associated with the project. This is precisely what results in the asserted “cost savings.” See *Krug Testimony* at 28:1-4 (“while our model clearly shows that there are savings based on our best estimates, we can’t completely predict the future price of energy.”) While there are minimal anticipated “cost savings,” the question remains whether such minimal “cost savings” outweigh the potential negative aspects of adding an unneeded wind resource in Zone 3 because Google only wants “new” green energy. As NSP’s brief makes clear, approval of this PPA will be interpreted by it as approval of not just this project, but also the Honeycrisp RESA and any other similar projects associated with the Honeycrisp RESA in the future.³

³ At page 14 of its post-hearing brief, NSP asserts the “Commission already approved the Dakota Range III PPA (with conditions), pursuant to which the Company acquired the first 150 MW required under the Honeycrisp RESA. The Commission has thus already considered the Honeycrisp RESA and determined that it is appropriate for the Company to acquire wind generation resources to meet the requirements of that agreement.” The overbreadth of NSP’s argument is concerning. The Dakota Range III prudence determination was simply based on the evidence available at that time for that resource. It was nothing more, and is not a basis for approving Heartland Divide II, especially when the application seeks approval as a system resource.

[¶ 5] If the Commission grants prudence, Advocacy Staff requests the following conditions be placed on prudence:

1. Limit the total PPA costs as NSP identified them in its Application, with any additional costs allowed only upon further Commission review;
2. Require NSP to provide North Dakota customers with their share of the project's Renewable Energy Credits;
3. Insulate ND customers from any potential costs associated with NSP needing to purchase RECs to satisfy its commitments under the Honeycrisp RESA; and
4. Require NSP to treat the full 200 MW of the PPA as a system resource.

There really should be no dispute about the first condition. If the costs exceed those identified in the application, NSP should have to justify any additional costs are prudent. Given the justification for the project is anticipated "cost savings," such a condition is necessary.

[¶ 6] NSP should also be required to provide North Dakota customers financial compensation for their share of RECs associated with the project in the same manner and form as North Dakota customers receive financial compensation for their share of RECs for other NSP projects. The benefit of the RECs is part of what North Dakota customers will be paying for and North Dakota customers should receive their full benefits of the bargain whether the Google load materializes or not.

[¶ 7] Similarly, North Dakota customers should not have to pay any potential costs associated with NSP purchasing RECs to satisfy its commitments under the Honeycrisp RESA. Traditional cost causation principles support this condition as any

purchase of RECs will not be caused by North Dakota customers, but rather by Google. As a result, North Dakota customers should be shielded from any costs associated with RECs necessary to cover the Honeycrisp RESA.

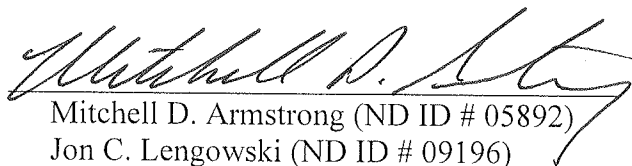
[¶ 8] Advocacy Staff's final recommended condition if the Commission grants prudence is to require NSP to treat the full 200 MW as a system resource. Because the basis of the requested prudence determination is "cost savings," there is no reason to pass only part of the cost savings to NSP customers. The Renewable*Connect program is designed for certain customers to elect to pay a small premium for the type of energy they desire. It is not designed to carve out "cost savings" from the system as a whole. It is an odd position for NSP to take that this PPA is prudent because it will result in customer savings as a system resource and attempt to pass only some of those savings along to the system.

III. CONCLUSION

[¶ 9] For the foregoing reasons, Advocacy Staff requests the Commission evaluate the potential positive and negative impacts of this project to determine whether it is prudent. If the Commission grants an advance determination of prudence, Advocacy Staff requests such approval be subject to the conditions identified above.

Dated this 7th day of September, 2021.

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