



# Public Service Commission

## State of North Dakota

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### COMMISSIONERS

Brian P. Kalk  
Randy Christmann  
Julie Fedorchak

Executive Secretary  
Darrell Nitschke

September 27, 2013

600 East Boulevard, Dept. 408  
Bismarck, North Dakota 58505-0480  
Web: [www.psc.nd.gov](http://www.psc.nd.gov)  
E-mail: [ndpsc@nd.gov](mailto:ndpsc@nd.gov)  
Phone: 701-328-2400  
ND Toll Free: 1-877-245-6685  
Fax: 701-328-2410  
TDD: 800-366-6888 or 711

The Honorable Judge Eric L. Lipman  
Assistant Chief Administrative Law Judge  
Office of Administrative Hearings

600 North Robert Street  
P.O. Box 64620  
St. Paul, MN 55164-0620

**Re: In the Matter of the Petition of Northern States Power Company (NSP) to  
Initiate a Competitive Resource Acquisition Process  
Docket No. E002/CN-12-1240  
OAH Docket No. 8-2500-30760  
Direct Testimony**

Dear Judge Lipman:

Pursuant to the dates established in your Second Pre-Hearing Order in this case, the North Dakota Public Service Commission Advocacy Staff (NDPSC Advocacy Staff) on its own behalf and on behalf of the North Dakota customers of NSP, hereby submits its Direct Testimony in the above referenced proceeding.

Sincerely,

/s/ Mike Diller  
Mike Diller  
North Dakota Public Service Commission  
Advocacy Staff

**BEFORE THE  
MINNESOTA PUBLIC UTILITIES COMMISSION**

***In the Matter of the Petition for Northern States Power Company  
to Initiate a Competitive Resource Docket***

***Docket No. E-002/CN-12-1240***

**DIRECT TESTIMONY**

**OF**

**MIKE DILLER**

**ON BEHALF OF THE**

**NORTH DAKOTA PUBLIC SERVICE COMMISSION  
ADVOCACY STAFF**

**September 27, 2013**

1 Q: Provide your name and position at the North Dakota Public Service  
2 Commission.

3 A: My name is Mike Diller and I am the Director of Economic Regulation.

4

5 Q: What kind of work do you provide to the North Dakota Public Service  
6 Commission?

7 A: I am a public utility analyst and provide direction to a small staff.

8

9 Q: Provide a summary of your educational background and public utility  
10 regulatory experience.

11 A: I have more than 28 years of public utility regulatory experience including  
12 service to both the Oklahoma Corporation Commission and the North  
13 Dakota Public Service Commission. I received a Bachelor of Science  
14 Degree in Accounting from Oklahoma Christian College in Edmond,  
15 Oklahoma in 1981. I am a Certified Public Accountant and I am a member  
16 of the American Institute of Certified Public Accountants.

17

18 Q: Have you provided testimony to the Minnesota Public Utility Commission?

19 A: No. I have testified before the North Dakota Public Service Commission on  
20 acquisition proposals, rate cases, settlement offers, advance determination  
21 of prudence cases and rule changes but nothing in front of the Minnesota  
22 Public Utilities Commission (Minnesota Commission) other than to  
23 occasionally file comments in some of its cases.

24

25 Q: What is the purpose of your testimony?

26 A: Northern States Power Company (NSP) assigns approximately 5% of its  
27 investments in generation facilities to North Dakota ratepayers as part of its  
28 integrated resource cost allocation system. Therefore, as has been the  
29 case in the past, the decision in this proceeding will impact costs to North  
30 Dakota ratepayers. For instance, North Dakota currently pays for a portion

1 of resource costs related to the Minnesota Renewable Energy Standard,  
2 the Metropolitan Emissions Reduction Project, Minnesota's Community-  
3 Based Energy Development (CBED) program, projects stemming from the  
4 Renewable Development Fund and other investments ordered by the  
5 Minnesota Commission. My goal in submitting testimony is to provide the  
6 Minnesota Commission with a North Dakota perspective so that the  
7 interests of North Dakota ratepayers can be considered in this proceeding.  
8 I plan to argue for reciprocity, fairness and equality.

9  
10 Q: Provide a snap shot of North Dakota's interest in this proceeding.

11 A: NSP is the largest electric service provider in the state of North Dakota.  
12 NSP serves four of our five largest cities including Fargo, West Fargo,  
13 Grand Forks and Minot. None of these cities have generation facilities near  
14 them in the event the few transmission lines feeding them are disrupted.  
15 NSP has provided service to North Dakota for more than a century but  
16 remains un-invested in generation facilities located in or near North Dakota.

17  
18 Q: Why are you concerned with the lack of generation facilities near these  
19 cities?

20 A: I lived in a rural homesteader's house for many years. Backup generation  
21 was necessary not only for convenience but survival. I once went without  
22 power for almost two weeks when an ice storm took down a large  
23 transmission line as well as distribution lines in the area. NSP's North  
24 Dakota service territory is on the outer edges of NSP's system and not all  
25 that different to the situation described. Our largest city of Fargo is served  
26 by three transmission lines some of which run on top of the same poles.

27  
28 Q: Won't the large CapX line to Fargo negate the need for local generation?

1 A: The CapX line will improve reliability and stability in the Fargo area but it will  
2 not continue on to Grand Forks or Minot. As valuable as CapX is to North  
3 Dakota, it is not the same as having local generation. NSP tells us that  
4 CapX is better than a generator located near Fargo because it will be tied  
5 into many different generators. I think there is some validity to their  
6 argument but I don't buy it entirely. We live in a dangerous time. The  
7 threat against cyber security and terrorist attacks on physical properties  
8 continues to increase. Whether the stoppage of service comes from these  
9 more ominous scenarios or by natural storms, cities with local generation  
10 have more energy security than do cities stranded by miles of transmission  
11 line.

12

13 Q: Aren't you being a little over-dramatic?

14 A: I don't think so. In the spring of this year, South Dakota experienced a  
15 terrible ice storm leaving a wide swath of electric outages that lasted for  
16 days. During that ice storm, which impacted the Sioux Falls service  
17 territory, the Angus Anson generators located in Sioux Falls were initially  
18 brought online as a precautionary measure to help maintain system  
19 reliability. When the ice began melting causing additional transmission  
20 lines to trip, Angus Anson units were brought online again to meet energy  
21 requirements of the area.

22

23 Q: Of all the states Xcel Energy serves including its southern operations, do  
24 you know if the major city served by Xcel Energy in each state has local  
25 generation?

26 A: Yes I do. The largest city served by the Company in every state has local  
27 generation except for North Dakota.

28

29 Q: How is NSP's Minnesota operations positioned for the future?

1 A: Very well. Most of its major cities and densely populated areas have  
2 generation units nearby providing energy security that we would like for the  
3 eastern part of North Dakota. NSP's Minnesota operations has coal and  
4 nuclear base load units, intermediate combined cycle units, peaking plants,  
5 CBED, solar, biomass, hydro and even a great big battery.  
6

7 Q: Why is there such a large discrepancy in generation investment between  
8 Minnesota and North Dakota?

9 A: To be fair, the Minnesota jurisdiction makes up about 75% of NSP's overall  
10 operation and so you would expect more generation to be located near its  
11 larger load centers. Beyond that, I think there is a natural Company bias  
12 towards Minnesota because NSP is headquartered in Minneapolis. It is  
13 somewhat natural to give more consideration to those states where  
14 company management spends more of their time and effort. We don't see  
15 NSP's upper management at local events or social gatherings nor do they  
16 attend very many of our hearings or information exchanges. I don't think it  
17 is because they think they are too big and important to spend time with us  
18 in North Dakota; it is just a matter of time and space. Further, I think it is  
19 easier for NSP to simply acquiesce to the desires of its largest jurisdiction  
20 because in doing so it eliminates 75% of its risk of recovery.  
21

22 Q: Has NSP made more of an effort to address the lack of jurisdictional  
23 equality?

24 A: Yes. I believe the officers of the Company are beginning to listen to us.  
25 The Company has entered into a purchased power agreement to purchase  
26 wind and also another agreement to own a wind farm in North Dakota.  
27 They even proposed building the gas turbines in Hankinson that are part of  
28 this proceeding. Yes, they are listening but that will only progress to the

1 extent the Minnesota Commission allows it. NSP will not build generation in  
2 North Dakota without Minnesota blessing it as a 75% stakeholder.

3  
4 Q: Should the Minnesota Commission approve the Hankinson turbines if other  
5 projects appear to be cheaper?

6 A: Maybe, maybe not.

7 Brown field sites are generally cheaper because a sharing of existing  
8 infrastructure is possible. But if you took that to its ultimate conclusion, you  
9 would never build a unit anywhere other than wherever the first one was  
10 built. Naturally, there are reasons to build units that are geographically  
11 dispersed throughout NSP's service territory, including North Dakota.

12  
13 The ratepayers of North Dakota care about reliability more than price.  
14 While price is important in today's society, electricity is an essential service.  
15 How comfortable would St. Paul and Minneapolis be if NSP's nearest non-  
16 intermittent generation facility was 200 miles away? The honest answer:  
17 unacceptable.

18  
19 NSP has long argued that its Integrated Resource Plan (IRP) provides  
20 guidance to the Company. It is not a silver bullet nor is it the end all be all.  
21 If it were, you wouldn't need upper management or even the Minnesota  
22 Commission to review it or approve it. No, instead we are told that  
23 management discretion is necessary and that we should look for the best  
24 resource, not always the least cost resource. In such presentations, we  
25 often hear that a \$10 or \$20 million difference in the Present Value  
26 Revenue Requirement (PVRR) of the total system is immaterial and  
27 inconsequential. If that long standing argument is still the case, I believe  
28 that the Hankinson project should supplant a slightly lower cost alternative

1 especially if the lower cost alternative is simply adding another generator to  
2 a generator rich region.

3  
4 Q: Do you know the difference in the PVRR of the Calpine proposal compared  
5 to that of the Hankinson proposal?

6 A: I do not. We requested that information from NSP but due to confidentiality  
7 issues it appears we will not receive it until after the filing period for this  
8 testimony. That said, my point remains that if the proposed project  
9 differences are less than \$10 to \$20 million, the Hankinson site should be  
10 approved using the same decision making principles...maybe more given  
11 the lack of generating resources in North Dakota. Further, Calpine's  
12 proposal is for a combined cycle unit, not a peaking unit as is the case for  
13 the Hankinson proposal. Adding another intermediate gas unit will diminish  
14 the more efficient use of the existing NSP intermediate load facilities.

15  
16 Q: Do you have any thoughts on whether or not 600 megawatts of gas power  
17 is still necessary?

18 A: I think the Minnesota Commission should exercise a fair bit of caution. NSP  
19 decided to purchase 750 megawatts of wind power in the last few months.  
20 How this impacts the need for 600 megawatts of gas turbine peaking power  
21 is not clear in my mind. They are different types of resources but some  
22 capacity value will be ascribed to the wind farms by MISO. I know that  
23 some of our North Dakota wind farms have been assigned 30% capacity  
24 factors by MISO so surely some of the original 600 megawatts of planned  
25 peaking power has been offset by this opportunity buy of wind. I should  
26 note that the North Dakota Advocacy Staff will be arguing before the North  
27 Dakota commission that it should disallow a portion of these new wind  
28 projects and therefore Minnesota's share of the new wind might be more



1 than the traditional 75%. I point this out here so the Minnesota Commission  
2 is not unaware of additional potential resources at its disposal.

3  
4 Q: Do you have any thoughts what the Minnesota Commission should do if it  
5 does not choose to endorse the Hankinson project?

6 A: I think the Minnesota Commission should take a wait and see approach.  
7 Let's take a "time out" and see where the market may be heading. Right  
8 now, energy prices on the market are cheap. MISO's reserve margin is  
9 huge. Minnesota's economy isn't that great. The economy has been in this  
10 stalled pattern for several years and continued economic problems are just  
11 as likely as is resurgence. NSP ratepayers in all of its states are growing  
12 weary of year after year rate increases. NSP's rates have gone from being  
13 one of the cheapest in the region to not much better than average. I don't  
14 think we should aim for the most expensive rates as that is never good for  
15 economic recovery. Taking a slower approach might very well lead to  
16 better solutions down the road. If I were in the shoes of the Minnesota  
17 Commission, I would take a fresh look at this in the next IRP, soon to be  
18 filed, which would include new forecasts of need and modeling for the new  
19 large wind resources.

20  
21 Q: Does this conclude your testimony?

22 A: Yes it does.

23

## CERTIFICATE OF SERVICE

**In the Matter of the Petition of Northern States Power  
Company d/b/a Xcel Energy for Approval of  
Competitive Resource Acquisition Proposal and  
Certificate of Need**

**OAH Docket No. 8-2500-30760  
MPUC Docket No. E002/CN-12-1240**

STATE OF NORTH DAKOTA  
COUNTY OF BURLEIGH

**Sara Cardwell** certifies that on the 27th day of September, 2013, she filed a true and correct copy of the **North Dakota Public Service Commission Advocacy Staff's** Testimony in this docket by posting it on [www.edockets.state.mn.us](http://www.edockets.state.mn.us). Said document was also served via U.S. Mail and e-mail as designated on the Official Service List on file with the Minnesota Public Utilities Commission.

/s/ Sara J. Cardwell  
Sara J. Cardwell

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Julia	Anderson	Julia.Anderson@ag.state.mn.us	Office of the Attorney General-DOC	1800 BRM Tower 445 Minnesota St St. Paul, MN 551012134	Electronic Service	Yes	OFF_SL_12-1240_Official CC Service List
Thomas	Bailey	tbailey@briggs.com	Briggs And Morgan	2200 IDS Center 80 S 8th St Minneapolis, MN 55402	Electronic Service	No	OFF_SL_12-1240_Official CC Service List
Christina	Brusven	cbrusven@fredlaw.com	Fredrikson & Byron, P.A.	200 S 6th St Ste 4000 Minneapolis, MN 554021425	Electronic Service	No	OFF_SL_12-1240_Official CC Service List
Kodi	Church	kchurch@briggs.com	Briggs & Morgan	2200 IDS Center 80 South Eighth Street Minneapolis, Minnesota 55402	Electronic Service	No	OFF_SL_12-1240_Official CC Service List
James	Denniston	james.r.denniston@xcelenergy.com	Xcel Energy Services, Inc.	414 Nicollet Mall, Fifth Floor Minneapolis, MN 55401	Electronic Service	No	OFF_SL_12-1240_Official CC Service List
Sharon	Ferguson	sharon.ferguson@state.mn.us	Department of Commerce	85 7th Place E Ste 500 Saint Paul, MN 551012198	Electronic Service	Yes	OFF_SL_12-1240_Official CC Service List
Burl W.	Haar	burl.haar@state.mn.us	Public Utilities Commission	Suite 350 121 7th Place East St. Paul, MN 551012147	Electronic Service	Yes	OFF_SL_12-1240_Official CC Service List
Linda	Jensen	linda.s.jensen@ag.state.mn.us	Office of the Attorney General-DOC	1800 BRM Tower 445 Minnesota Street St. Paul, MN 551012134	Electronic Service	Yes	OFF_SL_12-1240_Official CC Service List
Michael	Krikava	mkrikava@briggs.com	Briggs And Morgan, P.A.	2200 IDS Center 80 S 8th St Minneapolis, MN 55402	Electronic Service	No	OFF_SL_12-1240_Official CC Service List
Eric	Lipman	eric.lipman@state.mn.us	Office of Administrative Hearings	PO Box 64620 St. Paul, MN 551640620	Electronic Service	Yes	OFF_SL_12-1240_Official CC Service List

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Thomas	Melone	Thomas.Melone@AllcoUS.com	Ecos Energy, LLC	222 South 9th Street Suite 1600 Minneapolis, Minnesota 55120	Electronic Service	No	OFF_SL_12-1240_Official CC Service List
Brian	Meloy	brian.meloy@leonard.com	Leonard, Street & Deinard	150 S 5th St Ste 2300  Minneapolis, MN 55402	Electronic Service	No	OFF_SL_12-1240_Official CC Service List
Ryan	Norrell	rnmorrell@nd.gov	North Dakota Public Service Commission	600 E. Boulevard Avenue State Capital, 12 th Floor Dept 408 Bismarck, ND 58505-0480	Electronic Service	No	OFF_SL_12-1240_Official CC Service List
Kevin	Reuther	kreuther@mncenter.org	MN Center for Environmental Advocacy	26 E Exchange St, Ste 206  St. Paul, MN 551011667	Electronic Service	No	OFF_SL_12-1240_Official CC Service List
Donna	Stephenson	dstephenson@grenergy.com	Great River Energy	12300 Elm Creek Boulevard  Maple Grove, MN 55369	Electronic Service	No	OFF_SL_12-1240_Official CC Service List
Eric	Swanson	eswanson@winthrop.com	Winthrop Weinstine	225 S 6th St Ste 3500 Capella Tower Minneapolis, MN 554024629	Electronic Service	No	OFF_SL_12-1240_Official CC Service List
SaGonna	Thompson	Regulatory.Records@xcelenergy.com	Xcel Energy	414 Nicollet Mall FL 7  Minneapolis, MN 554011993	Electronic Service	No	OFF_SL_12-1240_Official CC Service List