

January 31, 2014

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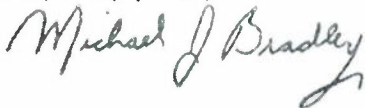
Dr. Burl W. Haar
Minnesota Public Utilities Commission
121 Seventh Place East, Suite 350
St. Paul, MN 55101-2147

Re: 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
Docket No. ET-002/CN-12-1240

Dear Mr. Haar:

Enclosed for e-Filing, please find Great River Energy Reply to Exceptions in the above-referenced docket. Also Enclosed is a Certificate of Service.

Very truly yours,



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MJB/keb
cc: Parties of Record
2452739v1

STATE OF MINNESOTA
BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Beverly Jones Heydinger	Chair
Dr. David Boyd	Commissioner
J. Dennis O'Brien	Commissioner
Nancy Lange	Commissioner
Betsy Wergin	Commissioner

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

MPUC Docket No.:
E002/CN-12-1240

GREAT RIVER ENERGY REPLY TO EXCEPTIONS

A. INTRODUCTION

Great River Energy (“GRE”) will reply to the Department of Commerce, Division of Energy Resources (the “Department”) and Xcel Energy’s assertions that GRE’s proposal is not a least-cost alternative. We will also respond to these two parties’ assertions that new generation resources should be constructed to meet Xcel Energy’s capacity needs in the 2017-2019 time period, the timing under consideration in this proceeding. GRE’s proposal, when considered as a standalone resource, is the lowest cost alternative for up to 200 MW, which is sufficient capacity to meet Xcel Energy’s needs in 2017. Depending on the Commission’s determination of the capacity need for 2018 and 2019, GRE’s proposal may also be the lowest cost resource to meet Xcel Energy’s capacity needs in those years. Further, the Commission has determined that

Xcel Energy's identified need is for capacity only, not energy,¹ and that need is fully satisfied by GRE's capacity credit proposal. Owning GRE's capacity credits is equal to Xcel Energy owning its own capacity in the Midcontinent Independent System Operator ("MISO") market for the purpose of meeting MISO's reliability requirements. Therefore, GRE's proposal should be selected for 2017 and included in the next round of negotiations for consideration until Xcel Energy's capacity needs in 2018 and 2019 are better determined.

B. GRE's Proposal, When Considered As A Standalone Resource, Is The Least-Cost Alternative

GRE's offer was intended to avoid having to build new generating facilities for at least one year, and perhaps longer. GRE's proposal can also be combined with other proposals, if more capacity than provided by GRE's offer is required. As explained below, the record demonstrates that GRE's proposal is, when used as a standalone resource, the least cost alternative for up to 200 MW. When GRE's 100 MW proposal for all three years (2017-2019) is combined with other proposals, that alternative ranks third in cost.² It is only when the cost for all three years of GRE's proposal is combined with the cost of additional resources that GRE's offer ceases to be the least cost alternative. GRE's proposal should not be burdened by the additional cost of other

¹ *In the Matter of Xcel Energy's 2011-2025 Integrated Resource Plan*, Docket No E002/RP-10-825, Order Approving Plan, Finding Need, Establishing Filing Requirements, and Closing Docket, at p. 6, Order Point 2 (March 5, 2013) ("March 2013 Order").

² Xcel Energy Initial Brief at p. 25, Table 4 – Strategist Top 20 Proposal Combinations (PVSC); Ex. 46, Wishart Direct at pp. 19-20, 24 and 26.

proposals where GRE's proposal, on a standalone basis, meets Xcel Energy's capacity needs in at least 2017.

The Department and Xcel Energy required proposals to provide at least 300 MW. In order for GRE's proposal to meet Xcel Energy's 300 MW threshold, Xcel Energy considered GRE's proposal in conjunction with other projects. Similarly, the Department added the cost of generic units to its model to supplement GRE's proposal.³ Neither evaluated GRE's proposal on a standalone basis for meeting Xcel Energy's capacity need in 2017. Thus, both parties disregard GRE's low-cost alternative for 2017, which proposal also provides an efficient hedge against the uncertainties in Xcel Energy's forecasted need in the 2017 to 2019 timeframe. As GRE explained in its Rebuttal Testimony, its proposal is scalable both in terms of capacity (100 MW or 200 MW) and also in years. This means that its offer can be selected for one, two or three years.⁴ Therefore, there is no need to add the cost of another project to GRE's proposal in order to meet Xcel Energy's capacity need in 2017.

The Commission found that Xcel Energy needs capacity of 150 MW in 2017 increasing to 500 MW in 2019: "For purposes of Xcel's competitive bidding docket, the Commission finds it appropriate to solicit proposals for an *additional* 150 MW in 2017, increasing *up to* 500 MW by 2019."⁵ While Xcel Energy is authorized to acquire more

³ ALJ Report Finding 181; Ex. 46, Wishart Direct at pp. 22-26; Ex. 83, Rakow Direct at pp. 29-33; and Ex. 86, Rakow Rebuttal at 3.

⁴ Ex. 64, Selander Rebuttal at pp. 3-4.

⁵ March 2013 Order at p.6 (emphasis original).

than 150 MW of capacity in 2017,⁶ there is no reason to add 300 MW in 2017, as assumed by the Department and Xcel Energy, because GRE provides a lower cost alternative for meeting all of Xcel Energy's needs in 2017. The appropriateness of addressing Xcel Energy's lower capacity needs in 2017 independent from the higher capacity needs in 2018 and 2019 is reflected in the following Commission directive: "In particular, Xcel should invite proposals for meeting all of the forecasted need, *or any part of it.*"⁷

There is also a very real probability that Xcel Energy will need less capacity in 2018 and 2019 than contemplated at the time of the Commission's March 2013 Order authorizing up to 500 MW of additional capacity in 2019. The following Table identifies the potential for dramatically lower Xcel Energy capacity needs than previously assumed. The lower forecasted September 2013 capacity needs are the result of using an updated Xcel Energy demand forecast ("Base"), and two possible changes in MISO established reserve requirements ("7.3 percent" and "6.2 percent").

⁶ *Id.*

⁷ *Id.* (emphasis added).

Table 1
Comparison of Xcel Energy Forecasts

Forecast Vintage	Surplus / (Deficit) MW		
	2017	2018	2019
Resource Plan Order ⁸ / Spring 2013 ⁹	(153)	(318)	(443)
September 2013 – Base ¹⁰	(93)	(218)	(307)
September 2013 – 7.3% Reserve Margin ¹¹	84	(40)	(128)
September 2013 – 6.2% Reserve Margin ¹²	183	60	(26)

Depending on which forecast the Commission uses to select the appropriate resources, GRE’s proposal is, at a minimum, the lowest cost resource for 2017, and may be the lowest cost resource for 2018, or even for 2019. Until more information is known about Xcel Energy’s capacity needs for 2018 and 2019, GRE’s proposal should be selected for 2017 and included in the next round of negotiations for 2018 and 2019. If events develop such that GRE’s proposal is not needed for 2017 or will not be the least cost alternative for 2018 or 2019, it can be eliminated.

Both the Department and Xcel Energy agree that capacity forecast updates should be provided by Xcel Energy in its 2014 Resource Plan and again in the Fall of 2014 and 2015 for the purpose of delaying, as needed, the addition of new resources.¹³ As Xcel Energy observes: “the cost of delaying or canceling Black Dog Unit 6, which the Company would seek to recover, would be small compared to the potential cost of adding

⁸ *Id.* at p. 6 and Order Point 2.

⁹ Ex. 46, Wishart Direct at pp. 4, 7.

¹⁰ *Id.* at pp. 7.

¹¹ *Id.* at p. 10.

¹² *Id.*

¹³ Xcel Energy Exceptions to ALJ Report at pp. 2, 14 (hereinafter “Xcel Energy Exceptions”); Ex. 86, Rakow Rebuttal at pp. 7-8; Ex. 49, Alders Direct at pp. 8-9.

a resource before it is needed.”¹⁴ GRE’s proposal matches perfectly the strategy of adding new generation capacity for Xcel Energy only when actually needed. GRE has offered up to 200 MW of existing capacity that is already available to meet Xcel Energy’s needs without requiring the construction of new generation.

C. GRE’s Proposal Reliably Meets Xcel Energy’s Capacity Needs

Both the Department and Xcel Energy incorrectly assert that GRE’s proposal should not be selected because MISO indicated a possible future regional shortage in capacity starting in 2016.¹⁵ This argument was not made on the record; it ignores that each utility need only meet its own MISO established capacity requirements; and the Commission did not identify a shortfall in the MISO market as a need to be addressed in this proceeding.

A potential MISO regional resource shortfall does not change the capacity requirements of either Xcel Energy or GRE. Nor does a potential regional capacity shortfall prevent GRE from selling its excess capacity. To the contrary, the very purpose of MISO resource credits is to allow a utility, like GRE, that owns more capacity than it needs to meet its capacity requirements, to sell the excess capacity to a utility that has a capacity shortfall, like Xcel Energy. As stated by Department witness Dr. Rakow:

¹⁴ Xcel Energy Exceptions at p 15; Xcel Energy Initial Brief at p. 14.

¹⁵ Xcel Energy Exceptions at p 12; ; Department Exceptions to the ALJ Recommendations of the Minnesota Department of Commerce, Department at p. 12 (hereinafter “Department Exceptions”). GRE objects to the Department’s request to take administrative notice of a prior MISO statement that there could be a shortfall in future regional capacity. MISO’s statement in this regard is irrelevant to this proceeding. The potential shortfall does not change the capacity requirements of either Xcel Energy or GRE.

A ZRC [MISO Zone 1 Resource Credits] is a credit for resources that count towards MISO's resource adequacy requirements. By selling ZRCs GRE would provide Xcel resources that would be counted for reliability purposes.¹⁶

The Commission also did not identify energy as a need to be addressed in this proceeding. This is acknowledged by the Department, which observes that "the Commission's 2013 Resource Planning Orders stated Xcel's need in terms of MW [capacity], not MWh [energy]."¹⁷ That Xcel Energy's need is for capacity, not energy, is further reflected by the Commission's direction that the capacity shortfall could be met by: "[p]eaking resources, intermediate resources, or a combination of the two; and [r]esources that rely on new or *existing generators*."¹⁸ The level of energy supplied by these diverse types of resource varies dramatically; demonstrating that it is capacity, not energy, that is at issue in this case.¹⁹

Xcel Energy does not need to build new generation to meet its capacity needs as identified in this proceeding. Xcel Energy's capacity needs can be met through existing generators (as expressly acknowledged by the Commission). Xcel Energy's ownership of GRE's capacity credits would be equal to Xcel Energy owning its own capacity in the MISO market. Purchased capacity credits can and are being used to meet MISO reserve margin requirements in Minnesota utilities' integrated resource plans. Xcel Energy must

¹⁶ Ex. 86, Rakow Direct at p. 2, footnote 1; also Department Initial Brief at p. 9, note 26.

¹⁷ Department Exceptions at p. 11.

¹⁸ March 2013 Order at p. 6 (emphasis added).

¹⁹ The assertion of Invenergy that the Commission identified only dispatchable peaking or intermediate capacity to meet Xcel Energy's capacity needs ignores the language of the March 2013 Order identifying a capacity, not energy, shortfall, and allowing existing generation to meet Xcel Energy's capacity needs. Exceptions to the Findings of Fact, Conclusions of Law and Recommendation of the Administrative Law Judge by Invenergy Thermal Development LLC at pp. 2, 11.

demonstrate to MISO that it has the exclusive right to sufficient capacity to meet its demand plus the reserve margin required by MISO. Xcel Energy does not have to physically own the capacity it relies on to satisfy the MISO reliability requirements.²⁰

GRE has capacity beyond what is required to serve its load, including MISO's reserve requirements associated with that load, in the time frame under consideration in this proceeding. Consequently, GRE can dedicate capacity for use by Xcel Energy, in the form of MISO Planning Resource Zone credits, to meet Xcel Energy's MISO capacity requirements.

Finally, GRE's proposal is intended to delay the need for higher cost new generating capacity for up to three years, not to replace its eventual addition. Whatever Xcel Energy's needs for capacity and energy are beyond 2019, those needs are not impacted by the selection of GRE's proposal in this current proceeding.

D. Conclusion

GRE's proposal, on a standalone basis, is the least cost alternative for meeting Xcel Energy's capacity needs in 2017. GRE's proposal also provides additional capacity to meet Xcel Energy's capacity needs of up to 200 MW in 2018 and 2019. Depending on which capacity need is approved by the Commission for 2018 and 2019, GRE's proposal may also be the lowest cost resource to meet Xcel Energy's capacity needs in those years. GRE's proposal matches perfectly the strategy of building new generation capacity for Xcel Energy only when actually needed. Until more is known about Xcel Energy's

²⁰ Ex. 86, Rakow Direct at p. 2, footnote 1; *also* Department Initial Brief at p. 9, note 26.

actual capacity needs in and after 2017, we ask the Commission to accept GRE's proposal and include it in the next round of negotiations.

Dated: January 31, 2014

Respectfully Submitted

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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

MPUC Docket No.: ET-002/CN-12-1240

Karen E. Berg certifies that on the 31st day of January, 2014, she filed a true and correct copy of **Great River Energy Reply to Exceptions**, by positing it on 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 and attached hereto.

/s/ Karen E. Berg

Karen E. Berg

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