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VIA ELECTRONIC FILING

January 31, 2014

Dr. Burl W. Haar
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, Minnesota 55101

RE: XCEL ENERGY'S REPLY TO EXCEPTIONS TO ALJ REPORT
IN THE MATTER OF THE PETITION OF NORTHERN STATES POWER COMPANY TO INITIATE A COMPETITIVE RESOURCE ACQUISITION PROCESS
MPUC DOCKET NO. E002/CN-12-1240
OAH DOCKET NO. 8-2500-30760

Dear Dr. Haar:

Northern States Power Company, doing business as Xcel Energy, submits its Reply to Exceptions to ALJ Report.

Please contact me at james.r.denniston@xcelenergy.com or (612) 215-4662 if you have any questions regarding this filing.

Sincerely,

/s/ James Denniston

JAMES R. DENNISTON
ASSISTANT GENERAL COUNSEL

In the Matter of the Petition of Northern States Power Company to Initiate a Competitive Resource Acquisition Process	**CERTIFICATE OF SERVICE** **MPUC Docket No. E002/CN-12-1240** **OAH Docket No. 8-2500-30760**

Rachel Rolseth certifies that on the 31st day of January, 2014, she filed a true and correct copy of the following document:

Xcel Energy's Reply to Exceptions to ALJ Report

by posting 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.

/s/ Rachel Rolseth

Rachel Rolseth

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STATE OF MINNESOTA

BEFORE THE

MINNESOTA PUBLIC UTILITIES COMMISSION

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

IN THE MATTER OF THE PETITION OF NORTHERN STATES POWER COMPANY TO INITIATE A COMPETITIVE RESOURCE ACQUISITION PROCESS

DOCKET NO. E002/CN-12-1240

REPLY TO EXCEPTIONS TO ALJ REPORT

Northern States Power Company, doing business as Xcel Energy, respectfully submits this Reply to the Exceptions to the Administrative Law Judge's ("ALJ") Findings of Fact, Conclusions of Law and Recommendation ("ALJ Report") filed in the above-captioned matter by the Department of Commerce, Division of Energy Resources; Calpine Corporation; Invenergy Thermal Development LLC; Geronimo Energy; and Great River Energy. After reviewing the comments of the parties, we agree with the Department that the record in this case supports the selection of two of the natural gas proposals. We continue to recommend Black Dog Unit 6 in combination with either Calpine's Mankato or Invenergy's Cannon Falls proposal, subject to delay or cancellation as determined through competitive PPA negotiations, which provides the greatest protection to our customers. We also respectfully request the Commission hold open the possibility of selecting the Company's Red River Valley Unit 1 to help meet the identified need in the event the PPA negotiations with Calpine and Invenergy do not result in terms acceptable to the Commission.

To ensure appropriate flexibility, we propose to provide the Commission updates on our capacity need in the Fall of 2014 and 2015. If our projected need level deteriorates, the Commission will be able to revisit its resource selection and delay or cancel one or more projects as circumstances warrant.[1]

Even though we believe the record supports selecting natural gas generation, we note our ongoing support for solar development. However, we believe the lowest-cost solar opportunities should be pursued through a solar-specific competitive process. Geronimo's solar proposal should be considered in the context of other competing solar proposals so the Commission can determine which solar projects would be most appropriate in helping the Company meet its obligations under Minnesota's new solar energy standard ("SES").[2] We are in the process of developing a competitive solar resource acquisition plan to meet our SES obligations, as proposed by the Department. We anticipate making a filing that will set out the general parameters and timing of our plan so that the Commission, the Department, and stakeholders can provide input on our process to assure we are pursuing the best opportunities for our customers.

The balance of this reply addresses the following: 1) the record confirms there is a potential need that appears will be best met through a combination of gas proposals; 2) contrary to the arguments of Calpine and Invenergy, the Commission should not select only the Mankato project or the Cannon Falls project to proceed to PPA negotiations; and 3) the reasons the Company disagrees with the exceptions submitted by Geronimo and GRE.

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[1] We initially proposed Black Dog Unit 6 with the flexibility to be built in 2017, 2018, or 2019, and have agreed to the Commission delaying or cancelling the project, subject to recovery of costs incurred prior to the Commission's action, if it is determined from our need updates that building the project is no longer warranted. Ex. 49 (Alders Direct) at 8; Xcel Energy Initial Post-Hearing Brief at 14.

[2] Minn. Stat. 216B.1691, subd. 2f.

I. REPLY

A. The Need is Supported by the Record

In our last resource plan docket, the Commission found that the Company will need an additional 150 MW in 2017, increasing up to 500 MW by 2019.[3] This formed the basis for the current proceeding, which is to confirm there is a need and identify the resources to meet the need.[4] As confirmed in the record, there is a range of potential need which must be met.

Both the Company and the Department analyzed the resource proposals against a wide range of need. While the Company analyzed the proposals against a range of potential need of 300 MW to 500 MW,[5] the Department analyzed them against an even broader range.

The results of these analyses led to the same conclusion: some combination of Black Dog Unit 6, Calpine's Mankato Expansion, and Invenergy's Cannon Falls Expansion is the appropriate selection to meet the potential range of need shown in the record of this proceeding.[6] This recommended combination of resources is stable, that is, the top resources to meet our need did not change significantly under different sets of assumptions, including high and low sales forecasts.

Even if one agreed with the ALJ's conclusion that our need is likely to be in the lower end of the range identified in the record evidence, the resources recommended by the ALJ fail to address that lower need. Our September 2013 Update included the

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[3] *In the Matter of Xcel Energy's 2011-2025 Integrated Resource Plan*, Docket No. E-002/RP-10-825, ORDER APPROVING PLAN,FINDING NEED at 6 (March 5, 2013)

[4] *In the Matter of the Petition by Northern States Power Company d/b/a Xcel Energy to Initiate a Competitive Resource Acquisition Process*, NOTICE AND ORDER FOR HEARING at 5 (June 21, 2013)

[5] Ex. 46 (Wishart Direct) at 10-11.

[6] Ex. 46 (Wishart Direct) at 40-41; Ex. 86 (Rakow Rebuttal) at 15.

solar resources needed to meet our SES obligations,[7] so the selection of Geronimo's proposal would not contribute any capacity to address the range of need in the Update. And GRE's capacity credit proposal expires in 2019, while the need it would address will continue forward. This means that well before the expiration of the credit, replacement resources will have to be planned, permitted, and constructed. This could take over 3 years, and inappropriately assumes that the top bidders in this proceeding will be willing to propose the same projects at a later time and at the same favorable prices as are being proposed now to meet the need.[8]

The ALJ's recommendation did not consider the range of need shown in the record evidence. Based on that record, we continue to recommend that the Commission adopt the resource selection proposed by the Company.

B. Company's Proposal in Best Interest of Customers

Based on the independent Strategist analyses of all the proposals, both Calpine's Mankato project and Invenergy's Cannon Falls project should move forward to the PPA negotiation phase of this proceeding. In their Exceptions, Calpine and Invenergy each continue to advocate for revisions to the ALJ Report that would support the selection of their respective project to the exclusion of the other's. Their proposed revisions are based on certain differences between Cannon Falls' combustion turbine (CT) technology versus Mankato's combined cycle (CC) technology, including:

- levelized cost;
- emissions profile;
- operation on firm versus interruptible gas supply;

[7] Ex. 46 (Wishart Direct) at 7-8, Table 2 (showing the impact on our need of adding solar resources to our September 2013 Update to meet the new SES).

[8] Xcel Energy Exceptions at 16.

- hedging against possible resource retirements;
- integrating renewable resources; and
- complementing existing resources on Xcel Energy's system[9]

We respectfully disagree that these differences distinguish either proposal sufficiently to warrant the outright selection of one over the other.

The Strategist modeling takes into account the performance characteristics of CT and CC technology that are relevant to determining the relative cost of adding each type of resource to our system. We used the data provided by each bidder as inputs to the Strategist model, which includes a detailed hourly generation dispatch simulation where generators are ranked from lowest to highest based on generation costs and then dispatched one by one in order to meet customers' hourly demand.[10] Through this simulation Strategist tracks total fuel costs, total generating hours, and associated air emissions, thereby establishing the relative costs of all the generators with respect to one another and total system costs.[11] The Strategist analysis was modeled in the same manner and with consistent assumptions for Invenergy's, Calpine's, and the Company's proposals.[12]

This provides an 'apples-to-apples' comparison of the costs and benefits of the natural gas proposals, and therefore provides a sound basis for choosing among the alternatives. Further, the record shows that despite the differing assumptions between the Company's Strategist modeling and the Department's three rounds of Strategist modeling, the Cannon Falls and Mankato projects were determined to be

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[9] Calpine Exceptions at 16-31; Invenergy Exceptions, Exhibit A. We addressed all these claims by Calpine and Invenergy in our Post-Hearing Reply Brief at 17-26.

[10] Ex. 46 (Wishart Direct) at 21, 23.

[11] Ex. 46 (Wishart Direct) at 23.

[12] Ex. 46 (Wishart Direct) at 23; Ex. 83 (Rakow Direct) at 4.

too close in cost for either to be declared the outright winner over the other.[13] Therefore it is important to competitively negotiate PPAs with both of them as part of the resource selection process to identify which project is able to provide the greatest cost benefit for our customers.

The record also does not support the contention that the Company's Black Dog Unit 6 proposal will impose unnecessary costs on our customers.[14] We proposed a MERP-style cost recovery method that will incentivize the Company to avoid capital cost increases while simultaneously offering customers the opportunity to share in any savings the Company realizes.[15] We believe this cost recovery mechanism is the best overall proposal for our customers. Alternatively, we do not object to the Department's proposal that we be held to the capital costs in our proposal and then be allowed to realize all of the benefits of any savings.[16] Finally, we are a rate regulated utility, and as such our Black Dog Unit 6 does not raise the construction, operation, maintenance, financial accounting, and financial security risks that need to be addressed in the negotiations of the Cannon Falls and Mankato PPAs, which are risks that could affect the pricing of Invenergy's and Calpine's projects.[17]

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[13] Ex. 46 (Wishart Direct) at 23-24; Ex. 86 (Rakow Rebuttal) at 15.

[14] Invenergy Exceptions at 1-2.

[15] Ex. 49 (Alders Direct at 5-6). The fixed and variable O&M costs for Black Dog Unit 6 were included in the trade secret version of Appendix C of our proposal, at Table C3 and pages C-9 through C-23. These costs will be subject to prudence review and disallowance as is the O&M costs for all Company-owned generating units.

[16] Xcel Energy Post-Hearing Reply Brief at 36.

[17] *Id.*

II. THE GERONIMO AND GRE PROPOSALS SHOULD NOT BE SELECTED

Geronimo filed Exceptions that, among other things, clarified Finding No. 115 to state that both of the proposed pricing structures for Geronimo's solar energy project would include all solar energy credits generated by the project.[18] This clarification coupled with Finding No. 118, which correctly states that the Company would use all the solar energy credits it obtained from Geronimo's project to meet its SES obligations, demonstrates that the Company will not have any RECs to sell in the market to reduce the cost of its proposal, as the ALJ erroneously concluded.[19] As a result, it was error for the ALJ to impute separate value for the RECs as an offset to the cost of the solar proposal.

GRE's Exceptions were limited to the ALJ's recommendation that Geronimo's solar proposal be selected first to meet our need, followed by GRE's capacity credit proposal.[20] While the ALJ found that Geronimo's proposal was least cost based on MWh, GRE argues that its proposal is least cost based on MW and therefore should be the first resource selected based on cost and other considerations.[21]

GRE's argument misses the point. As the Energy Information Agency recently stated in its 2013 Annual Energy Outlook, the levelized-cost-of-energy analysis upon which the ALJ based its finding that Geronimo's proposal was the least cost resource is "misleading as a method to assess the economic competitiveness of various

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[18] Geronimo Exceptions at 3. Geronimo also filed exceptions to correct the ALJ's findings regarding (i) the in-service dates for the Company's recently approved wind acquisitions (*id*. at 2); (ii) the meaning of PVRR (*id*. at 3); and (iii) the Department's Strategist modeling of the resource proposals against the Company's need (*id*. at 4).

[19] Xcel Energy's Exceptions at 22-24 (taking exception to Finding No. 156).

[20] Great River Energy Exceptions at 1-2.

[21] Great River Energy Exceptions at 2-4.

generation alternatives."[22] It is the Strategist analyses in this proceeding that establish the least cost resource to meet the Company's range of potential need, and GRE's proposal was not as cost-effective as Black Dog Unit 6 in combination with Mankato or Cannon Falls.[23] More importantly, GRE's capacity credit proposal is merely a stop-gap measure. If selected, the credit would expire in 2019 while the Company's need would not. GRE's proposal fails provide for sufficient energy infrastructure so that the Company not only can meet its customers' needs on a short-term basis, but also over time.

III. <u>CONCLUSION</u>

The Company respectfully disagrees with the ALJ's recommendation in this case because it is not supported by the record. The least cost resources that meet the range of need demonstrated in the record are Black Dog Unit 6 in combination with either Calpine's Mankato plant expansion or Invenergy's Cannon Falls plant expansion. We therefore respectfully request that the Commission select Black Dog Unit 6 to meet our need, and direct Calpine and Invenergy to proceed to PPA negotiations to determine which of the two can provide contract terms that maximize the benefits of their respective projects for our customers. This would include options for their projects to be delayed or cancelled as determined by the Commission upon reviewing the need assessment updates we propose filing in this docket in Fall 2014 and 2015. In the event neither PPA emerging from negotiations is acceptable to the Commission, the Company's Red River Valley Unit 1 should be selected in combination with Black Dog Unit 6 to address the Company's need.

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[22] Ex. 48 (Wishart Rebuttal) at 16.

[23] Ex. 46 (Wishart Direct) at 26.

Dated: January 31, 2014

Respectfully submitted,

By /s/ James Denniston
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