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Xcel Energy

Docket No.: EL12-046

Response To: SDPUC

Data Request No.

Requestor: South Dakota Public
Utilities Commission

11-1

Date Received: September 26, 2012

Question:

Please refer to the Petition to Intervene by Shetek Wind, Inc. (Shetek) filed on 9/6/2012. On page 2, paragraph 2, Shetek makes the following claim, “[F]rom a ratemaking perspective, now that Xcel has disposed of its generation interconnection rights, the expenses and capital costs related to the Angus Anson plant should be removed from the rate base to the extent of the disposition. Moreover, the value of the rights disposed of should be reflected as income in the rate base accruing to the benefit of ratepayers. Failure to do so will result in ratepayers paying double for the same generation capacity.”

- a. Is it appropriate to remove the expenses and capital costs related to the Angus Anson plant from the test year to the extent that Prairie Rose uses certain interconnection rights associated with the Angus Anson plant under specified circumstances? Please explain.
- b. Is the value of the certain interconnection rights used by Prairie Rose reflected as revenue in the test year accruing to the benefit of ratepayers? Please explain.
- c. Does failure to remove the expenses and capital costs discussed in (a) and reflect the revenue discussed in (b) result in ratepayers paying double for the same generation capacity? Please explain.

Response:

- a. No, it would not be appropriate to remove the expenses and capital costs related to the Angus Anson plant from the test year. The Angus Anson Plant has interconnection rights with MISO, the Transmission Provider, that allow the plant to generate and inject into the transmission grid, up to 392 MW of output during all hours of the year.

The Prairie Rose Wind Farm (“PRW”) through the Energy Displacement Agreement (“EDA”) with the Company, and the Net Zero Interconnection Service (“NZIS”) Generator Interconnection Agreement (“GIA”) with MISO, has the rights to generate and inject into the transmission grid at the Anson Plant up to 200 MW of output as long as the combined output of the Anson Plant and PRW does not exceed 392 MW. Under the NZIS construct, all rights of PRW to utilize the interconnection capacity of the Angus Anson plant are subordinated to the rights of the Anson Plant to utilize the existing interconnection capacity. Therefore, the interconnection rights of the Angus Anson plant remain unaffected by the use of NZIS. This means that the Company has not diminished the value of the interconnection rights for the Anson Plant by allowing PRW to utilize an NZIS for its project. The EDA is included as Attachment A to this response.

- b. No, there is no “value” received from the Prairie Rose interconnection rights. The Company has agreed to purchase the energy from the Prairie Rose wind farm. The energy purchase will be treated as purchased power similar to any other purchased power.
- c. No, the Angus Anson plant is owned 100% by the Company and used as part of the overall generation mix to meet the needs of the system. Since the plant is owned 100% and is used to meet the needs of the system, the full cost and expenses for the plant should be included in the calculations of the annual cost of service revenue requirements. To the extent the Company sells energy from Angus Anson that is not needed for system requirements, 100 % of those revenues are credited to the ratepayers through the fuel clause. The Company does not receive any income from the Prairie Rose facility that is offsetting any of the revenue requirements. No adjustment is warranted.

Response By: Randall L. Oye / Thomas E Kramer
Title: Analyst Transmission / Principal Rate Analyst
Department: Market Operations / Revenue Requirements – North
Telephone: 612-330-2886 / 612-330-5866
Date: October 3, 2012



414 Nicollet Mall
Minneapolis, Minnesota 55401-1993

**Energy Displacement Agreement at
Northern States Power Company's Angus Anson Generating Station**

This Energy Displacement Agreement ("EDA") is entered into as of the 1st day of February, 2012, by and between Prairie Rose Wind, LLC, a Minnesota limited liability company ("PRW") and Northern States Power Company, a Minnesota corporation ("NSPM"). Collectively, PRW and NSPM may be referred to as the "Parties," or individually, as a "Party."

Recitals

WHEREAS, NSPM is engaged in the generation, transmission, distribution, purchase and sale of electric power and energy in the States of Minnesota, South Dakota and North Dakota;

WHEREAS, PRW is constructing and will own and operate a wind-powered generating facility located in Rock and Pipestone Counties, Minnesota ("PRW Facility") with an installed capacity of up to 200 MW;

WHEREAS, the Parties entered into a Wind Energy Purchase Agreement dated June 7, 2011, as amended by the First Amendment to Wind Energy Purchase Agreement dated September 30, 2011 ("PPA") for the sale and delivery of energy from the PRW Facility to NSPM;

WHEREAS, on October 11, 2011, PRW, NSPM (in its capacity as a transmission-owning member of the Midwest ISO) and the Midwest ISO entered into a Provisional Generator Interconnection Agreement designated as Midwest ISO interconnection number J183 ("GIA") in compliance with the Midwest ISO Net Zero Interconnection Policy Statement ("Policy");

WHEREAS, the Policy and GIA require that PRW and NSPM enter into this EDA; and

WHEREAS, the Parties desire to establish this EDA among the Parties to recognize the relationship established as a result of the Net Zero Interconnection ("NZI").

NOW, THEREFORE, for and in consideration of the premises and of the mutual covenants set forth below, the Parties agree as follows:

Article 1

Energy Displacement Standards

1.1 Point of Interconnection. The PRW Point of Interconnection (“POI”) is as provided in the GIA. This POI is the same point of interconnection as for NSPW’s Angus Anson Generating Facility (the “Angus Anson Facility”).

1.2 Combined Output. The total combined generating facility capacity of the PRW Facility and the Angus Anson Facility is currently 592 MW. The combined coordinated total PRW Facility output plus the Angus Anson Facility output cannot exceed the Angus Anson Facility output study limit (currently set at 392 MW), nor can the PRW Facility exceed its maximum 200 MW output. In the event that the combined output of the PRW Facility and the Angus Anson Facility exceeds the Angus Anson Facility’s then-current Interconnection Service as defined in Attachment X of the Midwest ISO Tariff (hereinafter “Interconnection Service”) limit, the PRW Facility’s output will be reduced to zero until a plan is implemented to eliminate the excess production. The commercial consequences of such reduced output shall be addressed between NSPM and PRW in accordance with the PPA.

1.3 Dispatch of PRW Facility. Under the PPA, NSPM has system operation control of the PRW Facility using the AGC Protocols described in the PPA which allows it to control the dispatch of Renewable Energy (as defined in the PPA) from the PRW Facility. NSPM shall, in accordance with the PPA, displace the energy produced by the Angus Anson Facility sufficient to allow the Renewable Energy from the PRW Facility to be injected into the transmission system such that the combined output of the Angus Anson Facility and PRW Facility is no greater than the Angus Anson Facility’s Interconnection Service limit, currently set at 392 MW. NSPM is solely responsible for maintaining the appropriate output level for PRW within the Interconnection Service limit and failure to do so will result in the output of PRW being curtailed to zero (0) MW until a plan is agreed to by the Angus Anson Facility and PRW that is also acceptable to NSPM and MISO.

The PRW Facility shall be operated as a common operation coordinated with the Angus Anson Facility, and PRW shall cooperate reasonably with NSPM’s actions to displace energy from the Angus Anson Facility.

PRW and NSPM acknowledge that any consequence arising out of NSPM’s failure to displace such energy causing Renewable Energy from the PRW Facility to be reduced or curtailed shall be governed in accordance with the PPA.

NSPM agrees to cooperate with PRW and provide PRW such certifications and information necessary for PRW to fully comply with its obligations under the GIA.

This EDA does not amend, modify or supplement any agreement between NSPM and Midwest ISO regarding the interconnection and operation of the Angus Anson Facility,

nor does it modify any tariff, rule or regulation of the Midwest ISO dealing with the safe and reliable operation of the Transmission Provider and Transmission Owner's system.

Article 2

Term and General Conditions of the EDA

2.1 No Amendment to PPA and GIA. This EDA does not constitute an amendment to the PPA or the GIA, each of which shall remain in full force and effect in accordance with their respective terms.

2.2 Governing Law. This EDA shall be governed and construed in accordance with the laws of the State of Minnesota.

2.3 Term. This EDA shall remain in full force and effect throughout the term of the GIA, but the EDA shall terminate when the GIA or the Interconnection Service for the Angus Anson facility terminates. PRW acknowledges and agrees that, unless extended by mutual agreement, after the PPA terminates, PRW shall have the obligation to displace its generation in a manner consistent with Section 1.3 hereof, such that the combined output does not exceed the Angus Anson Facility's Interconnection Service limit and after the PPA terminates PRW shall have no right to require the Angus Anson Facility displace energy in favor of the PRW Facility. NSPM covenants that the Angus Anson Facility will remain in commercial operation at a level not less than 200 MW until termination of the Angus Anson Facility's Interconnection Service, but in any case NSPM will maintain at least 200 MW of Interconnection Service throughout the term of the PPA.

2.4 No Assignment. This EDA may be assigned only on the same terms and conditions as the GIA and may only be assigned along with and at the same time as the GIA

2.5 Counterparts. This EDA may be executed in any number of counterparts, and each executed counterpart shall have the same force and effect as an original instrument.

IN WITNESS WHEREOF, the Parties have caused this Energy Displacement Agreement executed by their duly authorized representatives, as of the day and year first above written.

**NORTHERN STATES POWER COMPANY,
A Minnesota Corporation**

By: Tom McDuff, for

Date: February 1, 2012

Name: Stephen J. Beuning
Title: Director, Market Operations
Xcel Energy Services Inc.,
agent for Northern States Power Company

Acknowledged and Agreed:

PRAIRIE ROSE WIND, LLC

By: [Signature]

Date: February 3, 2012

Name (Print): Blake Nixon

Title: President

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Xcel Energy

Docket No.: EL12-046

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Utilities Commission

11-2

Date Received: September 26, 2012

Question:

Please refer to the Answer of Northern States Power Company to Petition to Intervene by Shetek Wind, Inc. filed on 9/21/12. Referring to page 3, please further describe the “certain interconnection rights” used by Prairie Rose Wind “associated with the Angus Anson plant under specified circumstances”.

Response:

The Angus Anson Generating Plant (“Anson Plant”) has interconnection rights with MISO that allow the Anson Plant to generate and inject into the transmission grid up to 392 MW of output during all hours of the year.

The Prairie Rose Wind Project (“PRW”) (through the Energy Displacement Agreement (“EDA”) with the Company and the Net Zero Interconnection Service (“NZIS”) Generator Interconnection Agreement with MISO) has the rights to generate and inject into the transmission grid at the Anson Plant up to 200 MW of output provided that the combined output of the Anson Plant and PRW does not exceed 392 MW. However, under the NZIS construct, all rights of PRW to utilize the interconnection capacity of the Anson Plant are subordinated to the rights of the Anson Plant to utilize that interconnection capacity. As a result, the interconnection rights of the Angus Anson plant remain unaffected by the NZIS. This means that the Company has not diminished the value of the interconnection rights for the Anson Plant by allowing PRW to utilize an NZIS for its project. The EDA was provided as Attachment A to SDPUC DR 11-1.

Preparer: Randall L. Oye
Title: Analyst Transmission
Department: Market Operations
Telephone: 612-330-2886
Date: October 3, 2012

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Utilities Commission

11-3

Date Received: September 26, 2012

Question:

Please refer to the Reply of Shetek Wind, Inc. to Answer of Northern States Power Company filed on 9/24/2012.

- a. Referring to the bottom of page 3, does NSP agree with Shetek's "Illustration as to how ratepayers pay twice for the same capacity ...". If no, please explain.
- b. Referring to the bottom of page 3, Shetek's illustration of Regular (i.e., Non-net zero Project), please describe the benefits of the increased capacity had Prairie Rose Wind paid for transmission network upgrades and compare it with the estimated cost.
- c. Please explain why it was more cost effective for South Dakota ratepayers for Prairie Rose Wind to use the interconnection rights at the Angus Anson plant rather than paying for the transmission network upgrades.

Response:

- a. Ratepayers are not paying twice for the same capacity. Rather, Shetek's illustration confuses capacity accreditation with energy output. The Angus Anson Generating Plant ("Anson Plant") retains its existing capacity accreditation while Prairie Rose Wind ("PRW") is subordinated to the rights of the Anson Plan and PRW is allowed to generate energy only when the Anson Plant is not being fully utilized. As a result, there is no added payment for capacity by ratepayers and ratepayers benefit by more efficient use of existing interconnection rights.
- b. If PRW had interconnected under a traditional interconnection agreement, PRW would have been responsible for any required network upgrades and

would have qualified as a capacity resource. MISO uses historical wind availability to determine a wind capacity credit. The wind capacity credit varies from year to year. The wind capacity credit for the last two years has been 8% and 12.9% of nameplate respectively. Thus, the capacity accreditation of the PRW 200 MW farm may have resulted in additional capacity of between 16 MW and 25.8 MW. The Company does not have a basis to estimate the cost of the transmission network upgrades that would have been necessary to enable PRW to obtain capacity accreditation.

- c. PRW was bid into the Company's 2010 Wind RFP as a Net Zero Interconnection Service project and was determined to be the least cost project that also met the RFP's transmission requirements. As such, the Company does not have a basis to determine what the PRW bid would have been if a traditional interconnection had been proposed and whether it would still have been the least cost project. As a result, an effort to provide an explanation based on traditional interconnection of PRW would be speculative. .

Preparer: Randall L. Oye
Title: Analyst Transmission
Department: Market Operations
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11-4

Date Received: September 26, 2012

Question:

At the September 25, 2012, South Dakota Public Utilities Commission meeting, Ms. Kari Valley, Assistant General Counsel for Xcel Energy indicated, “[U]nder the NZI arrangement, Prairie Rose will utilize the interconnection rights associated with Angus Anson at times that Angus Anson is not using them.” If Prairie Rose is providing power to the system, does the NZI arrangement allow NSP to back down Angus Anson since the fuel cost of Prairie Rose is zero? Please elaborate on the coordination between the two facilities as a result of the NZI arrangement.

Response:

Yes, the Company has the ability and the authority to back down the Angus Anson Plant (“Anson Plant”) as opposed to backing down Prairie Rose Wind Project (“PRW”) during system conditions where this is necessary to avoid exceeding the Anson Plant Interconnection Service limit, currently set at 392 MW.

Under the Power Purchase Agreement (“PPA”) between the Company and PRW, the Company has system operation control of the PRW Facility using the Automatic Generation Control (“AGC”) Protocols described in the PPA. Having AGC control over both PRW and the Anson Plant allows the Company to displace the energy produced by the Anson Plant sufficient to allow the Renewable Energy from the PRW Facility to be injected into the transmission system so long as the combined output of the Anson Plant and PRW Facility is no greater than the Anson Plant’s Interconnection Service limit (currently 392 MW).

Preparer: Randall L. Oye
Title: Analyst Transmission
Department: Market Operations
Telephone: 612-330-2886
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11-5

Date Received: September 26, 2012

Question:

Please provide the number of hours in 2010, 2011, and 2012 to date that NSP dispatched the Angus Anson Generating Facility.

Response:

The Angus Anson Plant (“Anson Plant”) was dispatched a total of 1,731 hours¹ during the timeframe between January 1, 2010 and September 24, 2012. Broken down by year, in 2010, the Anson Plant was dispatched 707 hours; in 2011, the Anson Plant was dispatched 430 hours and in 2012 through September 24, the Anson Plant was dispatched 594 hours.

Preparer: Randall L. Oye

Title: Analyst Transmission

Department: Market Operations

Telephone: 612-330-2886

Date: October 3, 2012

¹ The 2010 and 2011 values were obtained from FERC Financial Report FERC Form 1: Annual Report of Major Electric Utilities, Licensees and Others and Form 3-Q: Quarterly Financial Report. 2012 value was obtained from historical generation data.

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11-6

Date Received: September 26, 2012

Question:

Please explain the accounting transactions that occur because of the disposition of interconnection rights under a net-zero interconnection arrangement under the MISO Tariff.

Response:

No accounting transactions will be necessary since the interconnection rights of the Angus Anson plant remain unaffected by the use of NZIS for the Prairie Rose Wind Farm and there is no payment from Prairie Rose Wind Farm for those interconnection rights, as explained in the Company's response to SDPUC DR 11-1.

Preparer: Randall L. Oye

Title: Analyst Transmission

Department: Market Operations

Telephone: 612-330-2886

Date: October 3, 2012

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11-7

Date Received: September 26, 2012

Question:

Is it necessary to make a pro forma adjustment to the test year to reflect the net-zero interconnection of the Prairie Rose Wind Farm? Please explain.

Response:

No, there is no need for any pro-forma adjustments associated with the Prairie Rose Wind Farm. As addressed in South Dakota Data Request 11-001 and Data Request 11-002, the Company continues to own 100% of the Angus Anson generating facility the plant is used to meet system requirements, and any asset based margins benefit our ratepayers through the fuel clause. In addition, all rights under the net zero interconnection service (NZIS) agreement for Prairie Rose to utilize the interconnection capacity of the Anson Plant are subordinated to the rights of the Anson Plant to utilize that interconnection capacity. As a result, the interconnection rights of the Angus Anson plant remain unaffected by the NZIS. This means that the Company has not diminished the value of the interconnection rights for the Anson Plant by allowing PRW to utilize an NZIS for its project. Accordingly, there is no basis for any pro-forma adjustments to the test year.

Response By: Thomas E. Kramer

Title: Principal Rate Analyst

Department: Revenue Requirements – North

Telephone: 612-330-5866

Date: October 3, 2012