

Community-Based Energy Development Acquisition Background

In 2005, the Minnesota Legislature enacted Minn. Stat. § 216B.1612 (C-BED statute), requiring utilities in Minnesota to establish a Community-Based Energy Development (C-BED) tariff and to encourage the development of C-BED projects. At the time of enactment, the Company had already been receiving a large number of proposals for small wind energy projects. We evaluated these existing proposals for consideration as C-BED projects using a threshold screening process that utilized the following three criteria:

- Ownership – Projects needed to demonstrate that they satisfied the ownership criteria set forth in the legislation.
- Locational Diversity – In an effort to support the distribution of wind power projects throughout the state, we looked at project location to exclude projects located in Minnesota counties that have more than 150 MW of nameplate wind generation currently under sale to Xcel Energy. At the time, transmission limitations in southwestern Minnesota lead us to restrict the amount of additional wind to be located in that area.
- Transmission Curtailment – A preliminary screening was performed by the NSP merchant function to assess the likelihood of curtailment because of transmission limitations. Projects that had an expected long-term curtailment of greater than 10 percent or an expected three-year curtailment of more than 50 percent were eliminated.

After application of the threshold screening, the remaining projects were sorted by price. For C-BED projects that were not interconnecting to a MISO-member utility, we added incremental wheeling costs to the purchase price to reflect our estimate of non-MISO wheeling charges.

Next, the Company calculated the net present value rate for each project consistent with the present value criteria outlined in the statute. Based on the resulting rate, we ranked the projects and proceeded to negotiation, starting with the highest-ranking projects. The Ewington and Jeffers Wind projects were selected based on this process.

On March 15, 2007, we sought to expand the list of potential C-BED projects through the issuance of a Request for Proposals (RFP). The Hilltop project was bid into the 2007 RFP and ultimately selected based on price and transmission availability. That said, many of the projects that bid into the 2007 RFP faced significant difficulties related to transmission interconnection (or other obstacles) and were unable to advance through the contract negotiation process.

Accordingly, on June 17, 2008, we issued another C-BED RFP seeking refreshed or new proposals with favorable transmission interconnection positions and firm turbine commitments. We received 23 bids from 12 developers in response. The Grant County, North Community Wind, Uilk, and Valley View projects were selected from the bids received in response to the 2008 RFP.

Finally, in January 2009, we issued an RFP requesting C-BED proposals by February 20, 2009 for projects with a 2010 commercial operation date. We received 45 proposals for a total of 2,275 MW that ranged from 15 MW to 150 MW in size. The Adams, Big Blue, Danielson, Winona County and Woodstock Municipal projects were selected from the bids received in response to the 2009 solicitation.

We note that the Community Wind North (which includes North Wind and North Community) and the Community Wind South (which includes the Zephyr project) were related to the requirement from the Minnesota Commission's Order of March 11, 2003 in Docket No. E002/CN-01-1958, *In the Matter of the Application of Northern States Power Company for Certificates of Need for Four Large High-Voltage Transmission Line Projects in Southwestern Minnesota*, requiring the purchase of 60 MW of wind generation from small, locally-owned, aggregated wind projects. Community Wind North bid into the 2008 solicitation, and we negotiated new PPAs to replace the existing PPAs.