

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

LeRoy Koppendrayer	Chair
Marshall Johnson	Commissioner
Ken Nickolai	Commissioner
Thomas Pugh	Commissioner
Phyllis A. Reha	Commissioner

In the Matter of Northern State Power
Company d/b/a Xcel Energy's Application for
Approval of its 2004 Resource Plan

ISSUE DATE: November 17, 2005

DOCKET NO. E-002/RP-04-1752

ORDER SEEKING MORE DETAILED
PROPOSALS

PROCEDURAL HISTORY

On November 1, 2004, Northern State Power Company d/b/a Xcel Energy (Xcel) filed its 2004 Resource Plan proposing, among other things, to change the manner in which it would acquire resources for supplying electricity and managing demand. On November 12, the Commission solicited comments specifically addressing Xcel's proposed resource acquisition process.

By January 10, 2005, the Commission had received comments from Calpine Corporation (Calpine); Excelsior Energy Inc. (Excelsior); L.S. Power, Inc. (L.S. Power); the Metropolitan Counties Energy Task Force (Metro Counties); jointly from the Izaak Walton League of America - Midwest Office, Minnesotans for an Energy Efficient Economy, and the Minnesota Center for Environmental Advocacy (collectively the Joint Commentors); and from the Minnesota Department of Commerce (the Department). In particular, the Department proposed an alternative resource acquisition process.

By February 25, 2005, the Commission had received reply comments from the Department; the Joint Commentors; L.S. Power; Metro Counties; and Xcel.

On May 24, 2005, the Department filed supplemental comments. On June 15, the Commission received responses to the Department's supplemental comments from Calpine; Excelsior; L.S. Power; Xcel; and the Joint Commentors, now joined by the Union of Concerned Scientists.

On June 25, 2005, Citizens United for Responsible Energy (CURE) filed reply comments.

The matter of Xcel's proposed resource acquisition process came before the Commission on October 13, 2005.

FINDINGS AND CONCLUSIONS

I. Background

A. Resource Planning: Supply, Demand, and Statutory Mandates

In an effort to provide the electricity demanded by its customers in a cost-effective manner, an electric utility considers resources for addressing both demand and supply. A resource plan contains a set of the utility's demand-side and supply-side resource options to meet the forecasted needs of the utility's retail customers.¹

A utility can supply electricity by generating it or purchasing it from other power producers. A utility's forecast will determine the types of power a utility will generate or purchase. If the utility forecasts a need for additional power to serve only occasional periods of high demand, it may seek to acquire "peaking power." Alternatively, if the utility forecasts a need for additional power almost constantly, the utility may seek to acquire "baseload power." And if the utility forecasts some intermediate need, it may seek "intermediate power."

Customer demand is not the only source of demand that affects a utility's resource plan. A utility must also comply with statutory mandates. For example, the Legislature directs Xcel to secure a certain amount of its electricity from generators using renewable sources of energy.² In addition, the Legislature has provided for a developer to create an "innovative energy project," and to enter into a long-term contract with Xcel to provide 450 megawatts (MW) of baseload capacity and energy.³ Excelsior is developing this project.

¹ Minn. Stat. § 216B.2422, subd. 1(d).

² For example, Xcel has the objective of obtaining enough electricity from qualifying renewable energy technologies to represent 10% of total retail electric sales by the year 2015. Minn. Stat. § 216B.1691.

³ Minn. Stat. § 216B.1694; *In the Matter of the Request of Northern States Power Company d/b/a Xcel Energy for Approval of Selected Projects for the Second Funding Cycle of the Renewable Development Fund*, Docket No. E-002/M-03-1883, Order Approving and Directing Fund Expenditures, Giving Guidance on the Treatment of Innovative Energy Project, Requiring Consultative Process, and Requiring Compliance Filings (February 23, 2005).

B. All-Source Bidding

In pursuing an adequate supply of electricity, Xcel has publically solicited bids from people who control electric generators, or are willing to build new ones.⁴ The process was intended to reduce supply costs, increase technological innovation, diversify Xcel's fuel supply, and ensure fair consideration of electricity generated from renewable sources. In the interest of soliciting the broadest range of bids, Xcel's resource plan has avoided categorizing its needs in terms of peak, baseload, or intermediate power.

Despite several efforts to improve the process,⁵ however, all-source bidding has not resulted in the selection of many generation projects that have come to fruition. Xcel failed in its initial efforts to use the bidding process to obtain 100 MW of peaking capacity.⁶ Xcel's lengthy 1999 All-Source bidding process resulted in the extension of an existing power-purchase agreement (PPA).⁷ The process to select resources to replace the Prairie Island Nuclear Facility⁸ ended when the Minnesota Legislature changed the law to permit Xcel to continue operating that plant. And by the end of the lengthy 2001 All-Source bidding process, so many alternative proposals had been eliminated from consideration that Xcel elected to build its own generators.⁹

⁴ “[A] utility may select resources to meet its projected energy demand through a bidding process approved or established by the commission.” Minn. Stat. § 216B.2422, subd. 5. See, for example, *In the Matter of an Investigation into Establishing a Bidding Process to Select Resources to Meet the Future Capacity Needs of Northern States Power Company*, Docket No. E-002/CI-93-6 Order Accepting Company's Proposal with Modifications and Requiring Further Filings (August 18, 1994).

⁵ See, for example, *In the Matter of Northern States Power Company's Request to Modify its Competitive Bidding Process*, Docket No. E-002/M-95-174.

⁶ See, for example, *In the Matter of the Petition of Northern States Power Company for Approval of a Request for Proposals for Approximately 50 MW of Biomass Generation*, Docket NO. E-002/M-95-54, Order Directing Completion of Simultaneous Negotiations by July 15, 1996 (June 20, 1996), rejecting all bids and ordering the company to negotiate directly for resources.

⁷ *In the Matter of the Petition of Northern States Power Company for Review of its 1999 All Source Request for Proposals*, Docket No. E-002/M-99-888, Order Rejecting Requests for Further Investigation, Approving Final Bid Selections, and Opening Docket Regarding Externality Values (February 7, 2001), renewing power purchase agreement with Manitoba Hydro.

⁸ *In the Matter of a Petition of Northern States Power Company dba Xcel Energy for Review of the Prairie Island Contingent Request for Proposals*, Docket No. E-002/M-01-1480.

⁹ *In the Matter of Northern States Power Company d/b/a Xcel Energy's 2001 All-Source Request for Proposals*, Docket No. E-002/M-01-1618.

In contrast, Xcel has successfully negotiated multiple PPAs with independent power producers outside the context of the bidding process.¹⁰

C. Xcel's Current Forecast

Xcel's current resource plan forecasts the need for additional supplies of electricity. In particular, for the first time since the 1980s Xcel forecasts the need for significantly more baseload power.

II. Xcel's Proposed Strategy for Acquiring Resources

A. Xcel's Proposal

Xcel seeks approval to change its bidding process in various ways. The details of its proposed changes have evolved over the course of this docket.

Xcel proposes to expand the resource planning process to identify specific resources for Xcel to pursue to meet its needs, as other utilities do. Xcel proposes that the process separately identify resources to fulfill its needs for baseload power, intermediate power, peaking power, renewable resources, as well as any short-term needs.

Following the resource planning process, Xcel proposes to solicit bids to serve its needs for intermediate and peaking power, and for renewable sources of energy. By soliciting bids for specific categories of need, and by requiring bids to conform to certain model contract terms, Xcel hopes to facilitate an "apples-to-apples" comparison of proposals. Xcel is considering offering its own bids to build generators in these categories. But Xcel's interest in building its own generators will not distort its evaluation of other bids, Xcel argues, because Xcel would separate its evaluation process from its internal bidding process, and could rely on an independent evaluator.

But Xcel's most innovative proposal pertains to securing baseload power. Xcel proposes to pursue three strategies simultaneously. Xcel would explore how it would build its own generator. Xcel would explore securing baseload from Excelsior's project. And Xcel would explore how it might use a more structured bidding process to purchase power, or to develop a partnership with an independent power producer. After developing a proposal from each approach, Xcel would recommend one proposal for the Commission's consideration.

Xcel states that it is currently working with nine other parties to develop baseload alternatives. By November 23, 2005, Xcel proposes to provide a report detailing each alternative's fuel, size, type, site, cost, environmental performance and other attributes, and to identify three or four alternatives for further development.

¹⁰ See, for example, *In the Matter of Northern States Power Company's Petition for a Variance From Competitive Bidding for Biomass Phase II Resources*, Docket No. E-002/M-96-1405, Order Granting Waiver of Competitive Bid Requirement (March 12, 1997).