



414 Nicollet Mall  
Minneapolis, MN 55401

May 8, 2018

—VIA ELECTRONIC FILING—

Darrell Nitschke  
Executive Secretary  
North Dakota Public Service Commission  
State Capitol  
600 East Boulevard  
Bismarck, North Dakota 58505-0480

RE: COMMENTS  
NOTICE OF INTENT TO CLOSE PROCEEDINGS  
CASE NOS. PU-12-813, PU-13-706, PU-13-707, PU-13-708, PU-13-742, PU-13-743,  
PU-13-194, PU-13-195

Dear Mr. Nitschke:

Northern States Power Company, doing business as Xcel Energy, submits the enclosed Comments in the above-referenced Cases in response to the North Dakota Public Service Commission's Notice of Intent to Close Proceedings on March 29, 2018 . An original and 12 copies of the Comments are being submitted with this letter.

Please contact me at (612) 215-4663 or [aakash.chandarana@xcelenergy.com](mailto:aakash.chandarana@xcelenergy.com) or David Sederquist at (701) 241-8632 or [dave.sederquist@xcelenergy.com](mailto:dave.sederquist@xcelenergy.com) if you have any questions regarding this filing.

Sincerely,

AAKASH H. CHANDARANA  
REGIONAL VICE-PRESIDENT  
RATES AND REGULATORY AFFAIRS

cc: Jack Schuh  
Victor Schock

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Comments Regarding Notice of Intent to Close Proceedings  
Northern States Power Company  
Aakash Chandarana, Regional VP

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Comments Regarding Notice of Intent to Close Proceedings

STATE OF NORTH DAKOTA  
BEFORE THE  
NORTH DAKOTA PUBLIC SERVICE COMMISSION

Northern States Power Company  
2013 Electric Rate Increase Application

Case No. PU-12-813  
OAH File No. 20170091

Northern States Power Company  
Advanced Determination of Prudence –  
Courtenay Wind Application

Case No. PU-13-706  
OAH File No. 20170091

Northern States Power Company  
Advanced Determination of Prudence –  
Odell Wind Application

Case No. PU-13-707  
OAH File No. 20170091

Northern States Power Company  
Advanced Determination of Prudence –  
Pleasant Valley Application

Case No. PU-13-708  
OAH File No. 20170091

Northern States Power Company  
Advanced Determination of Prudence –  
Border Winds Application

Case No. PU-13-742  
OAH File No. 20170091

Northern States Power Company  
150 MW Border Winds Project – Rolette  
County, ND Public Convenience &  
Necessity

Case No. PU-13-743  
OAH File No. 20170091

Northern States Power Company  
Advanced Determination of Prudence –  
NG Generators Application

Case No. PU-13-194  
OAH File No. 20170091

Northern States Power Company  
Red River Valley NG Unites 1&2 –  
Hankinson, ND Public Convenience &  
Necessity

Case No. PU-13-195  
OAH File No. 20170091

**COMMENTS OF NORTHERN STATES POWER COMPANY**

## **I. INTRODUCTION**

Northern States Power Company, a Minnesota corporation, doing business as Xcel Energy (NSP or Xcel Energy or the Company), respectfully submits these Comments in response to the North Dakota Public Service Commission's (Commission) Notice of Intent to Close the Case (Notice) issued on March 29, 2018, in the above-referenced cases. As explained in more detail in these Comments, the Company respectfully requests that the Commission not close the instant proceedings.

As stated in the Notice, the Commission's intent to close this proceeding was driven, at least in part, by the discussions between the Commission, Advocacy Staff, and NSP at the February 8, 2018, informal hearing. The Company found the informal hearing to be insightful, and with the information and knowledge gained from those discussions, we have a clearer understanding of what the Commission's questions are and where reservations lie with respect to the continued consideration of and conversations surrounding the Resource Treatment Framework (RTF). In light of this, the Company believes that we can develop an RTF that reasonably addresses the Commission's concerns by leaving this proceeding open and providing the Company an opportunity to work with Commission Staff to bring forward a complete proposal for consideration.

We emphasize, consistent with Commission and Staff feedback, that implementing an RTF does not mean that we will "separate" our North Dakota customers from the integrated NSP System. While the Company did initially propose a separation in this proceeding, we realize that a successful RTF need not result in separating the NSP system. Further, we recognize that our Legal Separation proposal has been a point of contention and that the Commission and Staff prefer that the Company remove this structural option from consideration. Should the Commission keep these proceedings open, the Company will do so.

To that end, the Company proposes that rather than closing the instant proceeding, the Commission direct the following actions in continuing to evaluate the RTF and eventually reach an agreed-upon solution in this proceeding:

- Keep the above-captioned cases open and continue to work towards an agreed-upon RTF;
- Direct Advocacy Staff to work with the Company so that both parties can continue to negotiate a workable RTF settlement and present an agreed-upon solution to the Commission; and

- Set a specific deadline by which an agreed-upon solution is presented to the Commission, ideally in November 2018.

In the remainder of these Comments, the Company expands on the need for Commission action to create a workable RTF solution that establishes resource-driven allocation changes and the need for a formalized North Dakota resource planning process. We also identify what we believe can provide the basis for a workable RTF for the Commission's consideration. The Company also respectfully requests that the Commission convene an informal hearing to provide the Company an opportunity to discuss this matter with the Commission before the Commission acts upon its intent to close this proceeding.

## **II. THE NEED FOR COMMISSION ACTION**

Throughout this proceeding, the Company has consistently emphasized the critical need for a defined RTF due to the significant amount of generation resources in the NSP System that will need to be replaced in the next twenty years. The RTF process will allow a holistic assessment of past, present, and future issues so that we may develop the ability to bring generation resources on-line that can serve one, some, or all of the states of the NSP System flexibly and to implement important processes for Commission oversight. Such an undertaking is best suited for this proceeding, where the record has already been developed to specifically address how to most efficiently and effectively establish a viable process to assess the Company's resource plans and resource additions in a way that retains the fundamental integration of the NSP System while also recognizing the policy goals of the different NSP States.

The Company's request in this proceeding is simple – we are seeking the flexibility to bring generation resources on-line that can serve one, some, or all of the states of the NSP System and to implement processes for Commission oversight of this flexibility. But the issues surrounding the RTF are complex and require a concerted and concentrated effort on behalf of both Advocacy Staff and the Company to develop a framework that is workable. This proceeding presents the proper forum to focus specifically on the design and establishment of a formal, agreed-upon framework that will help resolve the complex and vital issues identified in this proceeding.

Specifically, the current proceeding offers a fully developed record, complete with insight from both Advocacy Staff and the Company, to consider an RTF proposal that provides flexibility at a critical juncture. By 2025, over 1,000 MW of generation resources will be expired or retired. By 2040, almost all of the Company's nuclear and coal baseload fleet – comprising 3,138 MW of nameplate capacity -- will reach the end of its useful life. All told, we expect more than 5,400 MW of resources that need to

be replaced in the next twenty years. Before the Company enters this period of change, it is necessary to establish a viable process that specifically outlines how the Company can provide the benefits of large economies of scale to our North Dakota customers by allocating the costs and benefits of large NSP System resource additions that have the support of the Commission without the concern of being penalized for making resource additions that are supported in other NSP System states but not North Dakota.

This proceeding offers that exact opportunity – for the Company and Advocacy Staff to focus specifically on crafting a resolution to the resource planning and allocation issues identified here, with the assistance of a robust and informative record, that both retains the benefits of integration while also providing important flexibility for the Company to meet the challenges of the future. Without the benefit of the current proceeding, the Company will only have the ability to effect this type of change on a resource-by-resource basis or through a rate case.

Applying specific ratemaking methodologies to resources on a resource-by-resource basis impacts the Company's ability to plan the system in a way that is consistent with North Dakota goals and objectives. In fact, utilizing a resource-by-resource review is a material catalyst for the Company's requested RTF. Resource-by-resource review does not leave the company with the ability to size resources in a way that can be utilized by some, but not all, of the NSP States. By contrast, holistically addressing the planning, ratemaking, and oversight issues together in a single proceeding can help to avoid the difficulties raised by a resource-by-resource assessment.

Further, a rate case is a poor venue for analyzing and developing an RTF. A rate case record is limited to a single test year or a short time frame for a multi-year outcome. Without being able to establish a record of plans 20 years into the future, the rate case provides a limited view of the potential issues that can be addressed in this proceeding. Further, a rate case provides a limited venue to develop and implement the other portions of an RTF, like a new resource planning process, that are key to Commission oversight of the Company's use of new allocation tools. It would be difficult, if not impossible, to recreate a record as extensive as the one in this proceeding that allows for the evaluation of and necessary attention to the specific resource allocation and resource planning issues that require resolution through a workable RTF. Establishing a holistic approach to planning, ratemaking, and oversight in this proceeding will also allow the Company to seek input from our other jurisdictions and address concerns prior to filing a rate case.

### **III. RTF PROPOSAL**

NSP envisions an RTF that achieves three primary objectives that do not subject our North Dakota operations to a scenario that involves separating from the integrated NSP System. These objectives include: (1) the creation of a North Dakota-specific resource planning process, (2) the creation and use of ratemaking tools that give the Company the ability to allocate generation resource additions to specific states; and (3) resolution of the Disputed Resources identified by the Company throughout this proceeding.

Achieving these objectives in an integrated way, rather than piecemeal as could occur outside of this focused proceeding, will help ensure a successful framework. Without a case to continue discussions regarding the proper framework, the benefits for both North Dakota ratepayers and the Company will likely not materialize. The Company, therefore, respectfully requests that the Commission not close this proceeding. We believe that the current record provides a strong foundation for the Company, along with Staff, to develop a workable RTF settlement along the following lines:

#### **A. North Dakota Resource Planning Process**

Commission Advocacy Staff witness, Mr. James Heidell, recommended that the Commission implement an active review process for future IRPs so that the Commission is provided with information about future resources additions earlier in the resource planning process and we can obtain more certainty about the treatment of future resources. The Company agrees. A North Dakota-specific resource planning process will utilize the default assumption that the NSP System be planned on an integrated basis and include service to North Dakota customers from system-wide resources. Consequently, a North Dakota resource planning process will help to preserve North Dakota's role in an integrated NSP System.

Should the Commission not close this proceeding, the Company commits to working with Commission Staff to develop a process that is structured to obtain feedback from the Commission to accomplish the following: (1) determine future resource additions that are consistent with North Dakota objectives and might therefore serve the entire NSP System, including North Dakota, if the resource additions are ultimately made; (2) determine future resource additions that are not consistent with North Dakota objectives and will therefore not serve North Dakota but rather serve only the remainder of the NSP System if the resource additions are ultimately made; (3) identify alternative resource additions (including making no resource addition) to serve North Dakota customers when North Dakota needs do not align with those of the NSP System; and (4) formalize North Dakota objectives that can be incorporated

and applied to the Company's resource planning activities. With these objectives in mind, the Company believes that a formalized North Dakota IRP would be an integral part of a viable RTF.

## **B. Directly Assigning Generation**

We now understand that our proposed "Pseudo Separation" structure may have been unintentionally vague or, at least, poorly named. However, we do believe that the mechanism to allocate the costs and benefits for particular generation resources through cost allocation and ratemaking methodologies encompassed in the proposal is an important, workable objective. Therefore, in addition to the North Dakota resource planning process described above, a successful RTF must change existing ratemaking structures so that the Company may allocate costs and revenues of generating resources to particular jurisdictions.

By having the ability to allocate specific generating resources to one, some, or all of the NSP System states, the Company may plan for differing needs and resource selection into the future. This will allow Xcel Energy more flexibility to serve North Dakota with a resource mix consistent with its priorities and with more certainty that the reasonable costs of a selected investment will be recoverable.<sup>1</sup>

At its core, these changes would account for generation activities on a generator level rather than on the System-wide level on which costs and revenues are currently allocated. This would be accomplished by establishing accounting for and allocation of the various benefits and costs associated with each individual resource. In accomplishing this, we would identify the cost and revenue portions of individual generation resources and apply specific allocators to directly assign or allocate the costs and benefits to cost-causative and supportive jurisdictions.

## **C. Disputed Resources Resolution**

An additional consideration for a successful RTF includes the resolution of the Disputed Resources identified at length throughout this proceeding.<sup>2</sup> This proceeding arose, in part, because NSP has been unable to fully recover the costs of the Disputed Resources in North Dakota or the remainder of the NSP System. And while the

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<sup>1</sup> A significant portion of this record has been dedicated to developing these ratemaking changes. *See* Application at 23-26, 50-51; Everson Direct at 7-9, 18-31; Chandarana Rebuttal at 14-15.

<sup>2</sup> The Disputed Resources are defined in detail in the Company's Application. At a high level, the Disputed Resources are resources for which the Commission has disallowed cost recovery, or has rejected or dismissed ADP applications; or, resource additions for which the Company is not otherwise recovering all of the costs or is recovering the costs subject to refund.

Company has implemented the Commission's prior decisions related to the Disputed Resources, the financial repercussions related to these decisions exist today and will continue into the future for the Company. For a forward-looking RTF to be successful, we strongly believe that there is value to rationalizing the impact of past resource decisions into the future.

#### **IV. REQUEST FOR INFORMAL HEARING**

The issues surrounding the RTF are complex and varied. We have sought to be concise in our comments here. For the Commission's benefit, we have also attached a brief Frequently Asked Questions document as Attachment A to help further clarify many of the issues that arose at the February 8, 2018, informal hearing.

Given the complexity and importance of this proceeding, the Company respectfully requests that the Commission hold an informal hearing so that the Company may discuss these issues further with the Commission before acting on its intent to close this case.

#### **V. CONCLUSION**

As discussed in these Comments, a channel for continued communication with Advocacy Staff and the opportunity to continue working towards a solution to the issues raised throughout this RTF proceeding is necessary. The generation allocation and resource planning issues that an agreed-upon RTF will be designed to address will most effectively and efficiently be dealt with here, where the record has been specifically tailored to support an agreed-upon resolution.

The Company thanks the Commission for the opportunity to submit these comments addressing the need for continued work on the RTF. We are optimistic that discussion about a viable path forward for the Company and North Dakota that results in an agreed-upon RTF is desirable for all parties involved and supports the continuation of this proceeding.

Respectfully submitted,

/s/

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Aakash H. Chandarana  
Regional Vice President  
Rates and Regulatory Affairs

## RESOURCE TREATMENT FRAMEWORK FREQUENTLY ASKED QUESTIONS

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**Q. Why did NSP file an RTF?**

A. Prior rate case settlements in North Dakota introduced the Company's concerns with respect to disagreements regarding resource selection, cost recovery, and system planning in the states we serve. These concerns culminated in the *Negotiated Agreement*<sup>1</sup> and the North Dakota Public Service Commission's (Commission) Order Approving Settlement, filed on March 9, 2016, requiring Xcel Energy to develop an RTF to be filed on or before January 1, 2017, to address the issue of differing state energy policies. At that time, the Company and Commission Staff proposed the RTF be implemented on January 1, 2018. Xcel Energy filed its Application for Consideration of a Resource Treatment Framework to Address Jurisdictional Cost Allocation Issues on December 31, 2016, consistent with the terms of the Negotiated Agreement.

**Q. How are costs currently allocated across the jurisdictions included in the Integrated NSP System?**

A. Currently, the NSP System is planned and operated as an integrated generation and transmission system, with costs allocated to each of the jurisdictions that are served by the system based on total system costs and revenues. Allocations are performed on a total system level with the costs and revenues of all portions of the NSP System (generation and transmission) calculated at the system level (i.e. on a sum total basis). Once the costs are calculated on a system-wide basis, they are then allocated across the system consistent with currently approved methodologies.

The allocation of costs between NSPM and Northern States Power Company-Wisconsin (NSPW) is governed by the Interchange Agreement.<sup>2</sup> The share of NSP costs allocated to NSPM pursuant to that Interchange Agreement are then allocated to NSPM's three state jurisdictions—Minnesota, North Dakota, and South Dakota.

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<sup>1</sup> *N. States Power Co. 2013 Elec. Rate Increase Application*, Case No. PU-12-813, ORDER APPROVING SETTLEMENT at 4 (Mar. 9, 2016) (“The First Revised Negotiated Agreement includes the following key terms . . . Development of a Resource Treatment Framework (RTF) to be filed on or before January 1, 2017 to address the issue of divergent state energy policies. The parties propose the RTF be implemented on January 1, 2018.”).

<sup>2</sup> The Interchange Agreement is the means by which Wisconsin and Michigan fully participate in the NSP System.

With respect to how the NSPM-NSPW Interchange Agreement works, the Interchange Agreement is a rate schedule on file with the Federal Energy Regulatory Commission (FERC). The Interchange Agreement provides NSPM and NSPW with reciprocal rights of use of each other's facilities, and allows them to plan and operate their power supply facilities as an integrated system. Approximately 85 percent of the NSP System costs are allocated to NSPM and 15 percent are allocated to NSPW. This is because approximately 85 percent of the load on the integrated system is NSPM load and 15 percent is NSPW load. The exact allocation percentages are determined by formulas set forth in the Interchange Agreement. The objective of the charges in the Interchange Agreement is to compensate the party selling power and energy for its full fixed costs, including return, and its full variable costs of producing and transmitting power and energy. While only one operating company has title to, or contracts for, any given generation or transmission asset, the Interchange Agreement provides the means by which both NSPM and NSPW share the cost of developing, operating, and maintaining all generation and transmission facilities that comprise the NSP System. Because the Interchange Agreement is a FERC jurisdictional federal tariff, it is overseen and regulated by FERC.

Once NSP System costs are allocated to NSPM pursuant to the Interchange Agreement, fixed production and transmission costs are generally allocated among Minnesota, North Dakota, and South Dakota using "The Sum of 12 Monthly Coincident Peak" (12CP Method). Variable production costs are generally allocated among the three jurisdictions using energy.

Under the 12CP Method, NSPM first determines each jurisdiction's peak demand, measured in kilowatts, coincident with NSP System peaks, for each of the 12 months of the year. The monthly NSP System peaks for each state are then summed, and each state's allocation is determined by dividing the state's 12-month total by the NSPM 12-month total. The 12CP Method allocates the costs of generating capacity and transmission capability to each jurisdiction according to the capacity necessary to generate energy and provide transmission service to the jurisdiction. By design, the 12CP Method allocates 100 percent of system costs to the individual state jurisdictions, allowing the Company to fully recover its cost of service. The Minnesota, North Dakota, and South Dakota state regulatory commissions have all approved the 12CP Method. The fact that all three states use the same allocation methodology ensures uniform treatment of costs across the jurisdictions.

The RTF is seeking to change this with respect to generation resources so that not only the costs, but also the revenues capacity accreditation and energy benefits, may be allocated on a unit specific basis.

**Q. What is the Pseudo Separation structure proposed by the Company?**

A. Pseudo Separation is a structure under which the Company would split the generation portfolios serving North Dakota and the remainder of the NSP System, without changing the corporate structure of NSPM, by assigning the costs and benefits of specific resources to the states that support them and developing separate resources for non-approving states as necessary. This structure would not impact the transmission portion of the NSP System.

At its core, Pseudo Separation would account for generation activities on a generator level rather than on the system-wide level at which we currently allocate costs and revenues. This would be accomplished by establishing accounting for and allocation of the various benefits and burdens associated with each individual resources. For ratemaking purposes, we would identify the cost and revenue portions of individual generation resources (including power purchase agreements) and apply specific allocators to directly assign or allocate the costs and benefits to cost-causative and supportive jurisdictions.

**Q. Does the Company still plan to pursue Legal Separation?**

A. While the Company initially proposed to legally separate its North Dakota operations, we now recognize that our Legal Separation proposal has been a point of contention and that the Commission and Staff prefer that the Company remove this structural option from consideration. Should the Commission keep these proceedings open, the Company will do so.

**Q. Proxy pricing is a structural option that has been proposed in this proceeding, but Xcel Energy has consistently voiced its opposition to proxy pricing. Why does proxy pricing not work?**

A. Given that the RTF is intended to seek a solution for each and every disagreement that occurs now and into the future, proxy pricing is unworkable. A proxy pricing option is most effective when there is a limited set of well-defined resources.

Specifically, the Company's experience in North Dakota indicates that proxy pricing is less capable of addressing different views regarding resource additions where they are not easily defined as mandated or ordered by a

particular jurisdiction, where there is a disagreement regarding resource timing, or where there is disagreement regarding the underlying value of a particular resource to the NSP System. Identifying a proxy price that fairly attributes the underlying value of the resource's energy, capacity, and offset of future system investments is key to a successful outcome. Fairly developing a proxy price ensures that customers are appropriately supporting the Company's investments and allows the Company an opportunity to recover the difference between the actual price and the proxy price from other jurisdictions served by the NSP System.

Accordingly, a proxy pricing structure requires ongoing inter-jurisdictional coordination, and is most effective when the resources that would be subject to proxy pricing are more limited and clearly defined. As a result, the Company believes that the proxy pricing option alone is unworkable give that the RTF is intended to seek a solution for each and every resource disagreement that occurs now and into the future.

**Q. How does the Company plan to deal with the Disputed Resources?**

A. To allow for the equitable resolution of the Disputed Resources for all of our customers across all of the jurisdictions we serve, the Company proposes that (1) all Disputed Resources will serve the remainder of the NSPM States (i.e., all costs, revenues, capacity, energy, renewable attributes, and other costs and benefits will not be allocated to North Dakota customers); and (2) to mitigate the impact of assigning the Disputed Resources to the remainder of the NSPM States, the Company's 1,550 MW wind portfolio that is the subject of Case No. PU-17-120 and the Dakota Range project that is the subject of Case No. PU-17-372 will be allocated to the remainder of the NSPM States (i.e., all costs, revenues, capacity, energy, renewable attributes, and other costs and benefits will not be allocated to North Dakota customers).

**Q. Is implementing a North Dakota-specific resource plan a positive outcome for the RTF?**

A. Yes. The proposal to institute a North Dakota resource planning process satisfies the first element of a successful RTF – it must ensure that Xcel Energy understands whether North Dakota is in alignment with the other NSPM jurisdictions with respect to resource needs and proposed resource additions at the front end of the resource planning process.<sup>3</sup> A forward-looking resource

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<sup>3</sup> The elements for a successful RTF were articulated in the Rebuttal Testimony of Company witness Mr. Aakash Chandarana.

planning process can provide stronger signals to the Company as to when North Dakota resource planning priorities align with the other NSP System states. Implementing a more formal resource planning process in North Dakota provides the Company with earlier information to assess the potential for jurisdictional alignment. Accordingly, we can presume integration in our planning while also identifying instances where a particular resource addition will be proposed to serve less than the entire NSP System.

**Q. Why does the Company need the Commission's approval in this specific proceeding to move forward with an RTF proposal and implementation? Does the Company not already have avenues to request approval of resources on a resource-by-resource basis?**

A. True, there are certain avenues available to the Company for piecemeal regulatory resource allocation review, but the current process that works through a resource-by-resource review does not leave the Company with the ability to size resources in a way that can be utilized by some, but not all, of the NSP States.

As emphasized throughout this proceeding, there is a critical need for a defined RTF due to the significant amount of generation resources in the NSP System that will need to be replaced in the next twenty years. In this proceeding, Xcel Energy is seeking Commission approval to bring generation resources on-line and allocate the associated revenues, costs, capacity, energy, and all other attributes to serve one, some, or all of the states of the NSP System. Because certain elements of this process will be difficult to implement and require a concerted effort on behalf of both Advocacy Staff and the Company, this proceeding offers a prime opportunity for both parties to build on past efforts to craft a formalized resolution to the resource planning and allocation issues identified in this proceeding.

Commission approval is needed here because this RTF proceeding offers a fully developed record to consider a variety of RTF proposals that could provide the Company the flexibility it needs to meet the challenges of the future. This proceeding also allows a holistic approach to addressing the resource planning, ratemaking, and oversight issues identified in this proceeding, together, in a single proceeding, rather than on a resource-by-resource basis which can help avoid the difficulties raised by a resource-by-resource assessment.