

**BEFORE THE NORTH DAKOTA
PUBLIC SERVICE COMMISSION**

**Federal 2005 Energy Policy Act Standards
Investigation**

Case No. PU-06-290

COMMENTS OF IMATION CORP.

Submitted by:

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Imation Corp.**

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A. Executive Summary

Imation Corporation (Imation) welcomes the opportunity to provide comments on North Dakota Public Service Commission's (NDPSC) notice of investigation in docket PU06-290 regarding the consideration of adopting certain specified energy policy standards specified in the federal Energy Policy Act (EPACT) 2005. Specifically, Imation provides comments related to Section 1252 of EPACT 2005 that focus on the need for time-differentiated rates for retail customers.

Imation's products are sold in an intensely competitive regional and global environment. As such, it has become more and more challenging if not impossible to pass electric rate increases to our manufactured products. With electricity rates on an upward trend, it is important now more than ever to obtain rate options from Ottertail Power Company that reflect as closely as possible, the cost to serve Imation. In order to regain its competitive position in the marketplace, it is crucial that Imation have the ability to opt for a rate that most closely reflects cost to serve and capitalizes on efficiencies related to time of day differentials. A customer such as Imation with a unique load profile and a load factor on average 10% higher than the average of its rate class has been subsidizing other customers in its rate class. The cost savings associated with serving a customer such as Imation relative to the rest of its rate class should flow back to Imation.

Otter Tail Power Company (OTP) is the retail electric power supplier to Imation's Wahpeton plant. It is recommended that the North Dakota Public Service Commission (NDPSC) require OTP to offer time differentiated rates that are: a) based on its average embedded cost and reflect the utility's differences in cost between daytime and nighttime hours and b) appropriately reward high load factor customers such as Imation. Fuel adjustment charges should be also time-differentiated. Additionally, wholesale margins earned by OTP should be shared with its retail customers who continue to pay the cost of constructing and maintaining the utility's asset-owned and non-asset owned transactions. Several examples of utilities offering rates in other states are provided in our comments. Imation would like to impose a sense of urgency in the provision of time-differentiated rates. We recommend that these rates be offered as quickly as possible and outside of a base rate case since it is unclear as to when such proceedings may occur in the case of OTP.

B. Statement of Interest

Imation Corporation (Imation) welcomes the opportunity to provide comments regarding North Dakota Public Service Commission's (NDPSC) notice of investigation in docket PU-06-290 regarding the consideration of adopting certain specified energy policy standards specified in the federal Energy Policy Act (EPACT) 2005. Specifically, Imation will provide comments related to Section 1252 of EPACT 2005 that focus on the need for time-differentiated rates for retail customers.

C. Procedural Background

The NDPSC has issued an Order to conduct an investigation that considers whether to propose rules to adopt any or all of the new PURPA standards suggested under sections 1251, 1252 or 1254 of EPACT 2005. These sections relate to net metering, smart metering and interconnection standards. The NDPSC is accepting written comments until October 19, 2006 and will have a workshop on October 23rd

Imation is particularly interested in commenting on Section 1252 that focuses on utilities offering various time of use rate schedules to retail customers. The requirements of Section 1252 of the EPACT 2005 state that

“...no later than 18 months after the date of enactment of this paragraph, each electric utility shall offer each of its customer classes, and provide individual customers upon customer request, various time-based rate schedule under which the rate charged by the electric utility varies during different time periods and reflects the variance, if any, in the utility’s costs of generating and purchasing electricity at the wholesale level; and shall provide each customer requesting a time-based rate with a time-based meter capable of enabling the utility and customer to offer and received such rate (Section 11 (d) (14) (A) (B) (C) of PURPA). This time-based rate schedule shall enable the electric customer to manage energy use and cost through advanced metering and communications technology.”

As per EPACT 2005, state commissions are required to conduct an investigation and issue a decision whether to require utilities to install time-based meters that would enable, but not require, each customer to participate in time-of-use rates and demand response programs. Proceedings are to be started within one year and completed within two years after enactment. The NDPSC has initiated this generic docket proceeding in order to fulfill the EPACT 2005 requirement.

D. Importance of Time Differentiated Rates to Imation

The investigation regarding time-differentiated rates is timely and important, now more than ever as retail customers such as Imation face high and volatile energy prices. Unlike utility monopolies, Imation (similar to other industrial customers) is operating in a highly competitive environment where it is becoming more and more challenging if not impossible to pass through energy related and other costs in the price of their product. As a result, production is getting outsourced to states/countries where production costs are more competitive.

Imation competes with Indian, Chinese, and Taiwanese manufacturers in the removable data storage markets. In most markets Imation participates in, Imation is the only Western Hemisphere manufacturer of the products. It should be note that Imation works with our suppliers to reduce our costs. The electricity costs for Imation have continually crept up and electricity currently is our 4th largest buy for the site.

Supplier generated savings programs have generated over \$4 million dollars of savings through 311 suggested programs over the last few years.

Imation's electricity costs are on an upward trend and have increased by 32% from 2001-2005. In order to regain its competitive position in the marketplace, it is crucial that Imation have the ability to opt for a rate that most closely reflects cost to serve and capitalizes on efficiencies related to time of day differentials. At present, Imation is forced to opt for Ottertail Power's (OTP) Large General Service tariff since the utility does not offer a conventional time-differentiated rate.¹

As Figure 1 indicates, Imation has a load factor that is on average 10% higher than the load factor of its rate class. It is also worthwhile noting that the differentials in the load factor are especially wider in the summer months thereby providing more benefits to the utility. Simply put, high load factor customers such as Imation who also have a predictable load profile are much more beneficial to the utility system than customers with low load factors and "spiky" load profiles since it costs less to fulfill load following requirements for such customers. The stability of Imation's load profile assists in improving the efficiency for its rate class and the utility system. Yet,

¹ Imation participated in the highly time differentiated real time pricing rate until August 2005. Since participation in the MISO day 2 market, OTP's real time pricing rate resulted in higher and more volatile costs for Imation than pre-MISO day 2 market. This is partly attributable to the fact that Ottertail's current real time pricing rate uses the locational marginal prices (LMP) for its load zone for calculating costs over the CBL. Clearly, since marginal costs have been much higher than the average costs in the last few years and are further exacerbated by using LMPs (which include a locational component for congestion costs), the costs associated with the real time pricing rate resulted in being much higher than the utility's Large General Service (LGS) rate.

Imation does not obtain any cost savings resulting from this efficiency gain due to its load profile. This results in intra-class subsidization as Imation is forced into a “one-size fits-all” Large General Service rate. It ends up sending a distorted signal to Imation.

Figure 1: Monthly Comparison of Imation’s Load Factor with the Class Load Factor

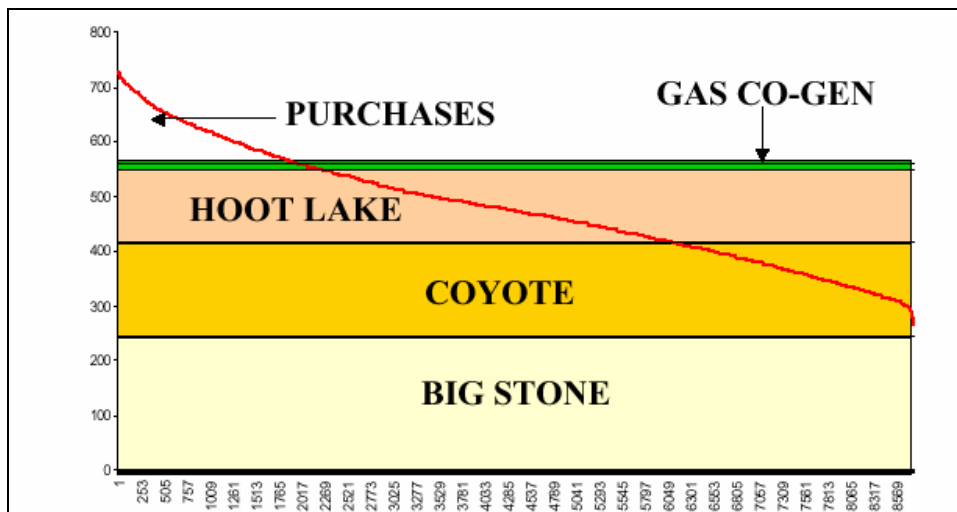
	Imation LF	Class Load	%
Year/Month	Load Factor	Load Factor	Difference
2004-11	86.36%	80.47%	7%
2004-12	87.59%	80.60%	9%
2005-01	90.35%	82.53%	9%
2005-02	93.05%	85.75%	9%
2005-03	91.47%	84.16%	9%
2005-04	89.16%	77.30%	15%
2005-05	86.68%	79.73%	9%
2005-06	87.88%	75.19%	17%
2005-07	89.27%	79.31%	13%
2005-08	88.61%	76.53%	16%
2005-09	82.49%	78.49%	5%
2005-10	84.99%	82.35%	3%
Average Monthly Load Factor:	88.16%	80.20%	10%
Annual Load Factor:	77.90%	67.99%	15%

Source: Data on Class Load Factor provided by Ottertail Power

Another point worth noting is that OTP’s supply mix and the large differentiation in costs associated with baseload plants versus peaking/purchased power. Figure 2 indicates the stacked load duration curve for Ottertail Power². As the figure indicates, the majority of OTP’s native load requirements are fulfilled by baseload load (coal

fired) generation such as Coyote, Big Stone and Hoot Lake. In developing the time-differentiated rates, OTP should be required to use its average, fully- embedded costs for the baseload and peaking generation/purchased power and to separately reflect how those costs vary between defined “on-peak” and “off-peak hours and by season. Wholesale trading margins should be applied to reduce rather than increase OTP’s average, fully imbedded costs. It is also important not to be misled by utilities such as OTP being winter peaking as an excuse to avoid Time-Of-Day rates. Conventionally speaking, energy markets in general all indicate that costs are higher during daytime hours than nighttime hours.

Figure 2: OTP’s Stacked Duration Curve



In addition, it is important to note that OTP offers a time-of-use rate to retail customers in MN. OTP therefore understands the importance and benefits of such rates.

² Data obtained from FERC related forms/requirements.

Finally, it is important that OTP also provide fuel adjustment charges that are time differentiated as well. In MN PUC Docket No.E-002/GR-05-1428, the MN Public Utilities Commission has approved time-differentiated fuel adjustment clauses for Xcel Energy's TOD customers in MN³ along with a settlement requiring all C&I customers with peak demands greater than 1000KW to take service under a TOD rate no later than 9 months following acceptance of Xcel's compliance tariff filing. Similar to well-designed time of use rates, time-differentiated fuel clauses will send appropriate signals to customers and will also more closely reflect the cost to serve. On a related note, it is worthwhile noting that OTP does not share wholesale margins with retail customers. This is a bigger issue at the present time due to OTPs' participation in the MISO Day 2 market since OTP's is making higher profits from its owned units. Retail customers such as Imation have paid and are continuing to pay the costs of constructing OTP owned plants such as Big Stone, Coyote and Hoot Lake in their rates. It is only fair that customers who are essentially paying for these units should be sharing OTP's wholesale margins

The above discussion underscores the important of OTP offering time-differentiated rates to Imation as soon as possible. The rates must (1) be designed using averaged embedded energy costs, (2) reflect the cost to serve Imation as closely as possible and (3) limit if not eliminate subsidization. By offering a

³ This information was based on the settlement agreement. It is our understanding that the compliance filing is pending until the request for reconsideration process has been completed. It should be noted that the request for reconsideration is not related to the time-of-day rate design or time-differentiated fuel adjustment clause aspects of Xcel Energy's rate case.

variety of time-differentiated rate design options to all customers, OTP can satisfy the needs of heterogeneous customers while at the same time increasing reliability and overall customer satisfaction. A one size fits all approach to rates often results in intra-class subsidization and provides misleading pricing signals to customers. Criteria such as wholesale margin sharing and offering a variety of rate options should be included as part of OTP's performance based ratemaking.

E. Types of Time- Differentiated Rates

There are various types of time-of-use rates offered by utilities across the country today. They vary from the conventional time-of-use rates to dynamic pricing options such as critical peak pricing and real time pricing. Examples of time-differentiated rates include:

- Time-of-day (TOD) rates – Prices that vary by fixed time period within a day and/or across seasons. These rates are typically calculated using average embedded costs.
- Real-time pricing (RTP) – Prices that vary with wholesale prices or costs of production are typically based on marginal costs.
- Critical-peak pricing (CPP) – Prices that reflect changes in wholesale prices, costs of production, or system conditions. The prices are dispatched to a predetermined level for a fixed time period with limits set on the number of times the critical-peak rate can be called.

F. Time-Differentiated Rate Examples Offered In Various States

Figure 3 provides examples of time-differentiated rates offered in various states. These examples are meant to demonstrate how other utilities have already advanced a variety of time differentiated rate choices to retail customers. The NDPSC should make efforts to conduct a more thorough investigation of various rate offerings in other states and urge utilities in North Dakota to offer a variety of such options to retail customers.

Figure 3- Examples of Time-Differentiated Rates

State	Utility	Time-Differentiated Rate/ Code	Additional Comments
			Has a high load factor credit; In MNPSC's recent order, TOD rates are to become mandatory for customers with load size over 1MW (a proposed time period of 9 months is being provided for customers of the applicable load size to switch to TOD rates (refer to footnote 3 for detail on compliance filing)
MN	Xcel Energy	General Time of Day Service /A15	
MN	OTP	Large General Service Time of Use/C-09M	
MN	Interstate Power & Light	Optional Large Power & Light Time-Of-Use/ 367,368	
WI	Wisconsin Power & Light	Primary or Secondary Voltage Time of Use/CP1 & Transmission Voltage Time of use/CP2	Has High load factor credit for CP2 customers; High load factor credit being proposed for CP1 customers
WI	Wisconsin Public Service Corporation	Large General Service Time of Use/CP	
WI	We Energies	Primary TOU/CP1	
WI	Madison Gas & Electric	C&I TOU/CG-6, CG-2	
IA	Interstate Power & Light/IES Utilities	Electric Large General Service TOU /300, 207-8,320,327-8,440,447-8,870-8	
IA	Mid American	Various depending on location/GUN,GTN, LTN,LON, LVN,LRN, LPN,LNO	
SD	Mid American	Time of Use by voltage/GUD,GTD	
CA	Southern California Edison	Various/TOU-8, TOU-8-Super off Peak, Critical Peak Pricing (CPP)	
GA	Georgia Power	Various/TOU-ES3, TOU-GSD-3, TOU-HLF-2	

