



Public Service Commission

State of North Dakota

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November 8, 2006

Chuck MacFarlane, President
Otter Tail Power Company
215 South Cascade Street
Fergus Falls, MN 56538-0496

Re: North Dakota Wind Project (Case No. PU-06-466)

Dear Mr. MacFarlane,

We have reviewed your Renewable Generation Rider application seeking assurances prior to Otter Tail committing to a wind project in North Dakota.

In your letter you request confirmation that the project is considered prudent under the law due to its location, confirmation of the March 8, 2005 memo indicating that North Dakota has the authority to implement a renewable generation rider, and reasonable assurance the commission would approve such an application assuming merits of the project can be shown and a reasonable recovery mechanism can be developed. You also asked for a procedural schedule for the application review process.

As stated under North Dakota Century Code Section 49-05-16, there is a rebuttable presumption that such a project located in North Dakota is deemed prudent. However, before the commission can determine prudence, the same law requires that Otter Tail file a projection of the costs associated with the electric resource addition and that the commission issue a notice of hearing, including holding a hearing if necessary.

The idea of rebuttable presumption for projects located in North Dakota transfers the burden of proof from Otter Tail proving prudence to an environment where staff or another party to the case must prove that the project is imprudent. Given the rebuttable presumption and assuming your application shows the resource addition is reasonable, staff can see no reason why the project would not be

deemed prudent and binding for ratemaking purposes. Assuming that there is a need for additional power and prudence is determined, a generation rider would be approved if it can be shown that doing so would be in the best interest of ratepayers.

We affirm our opinion that the commission has the authority to implement a renewable generation rider for the purpose of collecting additional revenues related to the cost of this proposed wind project. The March 8, 2005 memo referred to in your request is still valid today.

It is our understanding that you are seeking a rider because owning wind generation is cheaper than buying it. To the extent that can be proved, the commission would approve a rider to ensure ratepayers are receiving the most economical electricity available. Under our current policy, purchased power costs are immediately passed through to customers via the fuel adjustment clause. Absent a rider, there would be little incentive for Otter Tail to invest in a North Dakota wind farm without an immediate recovery provision.

Following is a procedural schedule to accommodate the review process described above:

Under North Dakota Century Code Section 49-05-16 the commission order must be rendered no later than seven months after the application is filed. We do not expect the process for your application to take that long. The commission does have to provide notice and hold a hearing if appropriate.

Staff asks that Otter Tail file the application as soon as possible. If a complete application is filed before the November 22 commission meeting the commission will issue a Notice of Filing, and either a Notice of Hearing, Notice of Opportunity for Hearing, or Notice of Informal Hearing on November 22. The time until an order is issued will depend on which option is used. Even if the commission chooses to hold a hearing on this matter, it should not take the full seven months to process the application.

If you have any questions, please contact us. Annette Bendish and Mike Diller have been assigned to handle this case.

Sincerely,



Illona Jeffcoat-Sacco
Executive Secretary