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February 19, 2008

Reply to Fergus Falls office
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VIA E-FILING

Illona Jeffcoat-Sacco
Executive Secretary
North Dakota Public Service Commission
State Capitol
Bismarck, ND 58505

RECEIVED

FEB 19 2008

PUBLIC SERVICE COMMISSION

**Re: Otter Tail Corporation
Renewable Generation Rider
Case Number: PU-06-466**

Dear Ms. Jeffcoat-Sacco:

Enclosed for filing in the above-referenced matter are Otter Tail Power Company's Responses to Commission Questions. Also enclosed is an Affidavit of Service.

If you have any questions, please feel free to contact me at any time.

Sincerely,

/s/ BRUCE GERHARDSON
Bruce Gerhardson
Associate General Counsel
BG/jmwf

Enclosures

Nasdaq: OTTR

STATE OF MINNESOTA)
)
COUNTY OF OTTER TAIL)

AFFIDAVIT OF SERVICE

**Re: Otter Tail Corporation
Renewable Generation Rider
Case Number: PU-06-466**

I, Jennifer Winningham-Floden, being first duly sworn, deposes and says that on the 19th day of February, 2008, she served the attached Responses to Commission Questions of Otter Tail Power Company in the above-referenced matter:

X by electronic filing

X by depositing in the United States Mail at the City of Fergus Falls, a true and correct copy thereof, properly enveloped with postage prepaid

to all persons at the addresses indicated on the attached list.

/s/ JENNIFER WINNINGHAM-FLODEN
Jennifer Winningham-Floden

Subscribed and sworn to before me this
19th day of February, 2008.

(NOTARIAL SEAL)

/s/ DIANE MERZ

Diane Merz
Notary Public

My Commission Expires on January 31, 2010.

STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION

Otter Tail Corporation
Renewable Generation Rider
Application

Case No. PU-06-466

OTTER TAIL RESPONSE TO COMMISSION QUESTIONS

This is Otter Tail Corporation d/b/a Otter Tail Power Company's ("Otter Tail's") response to questions posed in an e-mail sent by Commissioner Wefald and filed in the above referenced case on February 11, 2008.

Question: Ottetail is requesting an order from the Commission determining its investment in the 40.5 MW Landon, ND renewable energy facility to be prudent pursuant to N.D.C.C. §49-05-16. That section of law is titled, "**Advance determination of prudence**" and goes on, "A public utility proposing to construct, lease, or make improvements to an energy conversion facility . . . may file an application with the commission for an advance determination of the prudence regarding the proposal." In this case, Ottetail **has already built** the energy conversion facility. Is it appropriate for Ottetail to file under this section of law?

Response: OTP does not read N.D.C.C. §49-05-16 to require that an application for advance determination of prudence be filed prior to construction of a facility. The notion of the determination being made in *advance* is that it is in advance of such a determination in a general rate case, not in advance of construction.

The purpose of the statute is to reduce the regulatory risk associated with projects as early as possible. Prior to the statute, a utility was exposed to this regulatory risk until a project was deemed prudent in a rate case. The statute seeks to reduce the duration of a utility's exposure to this risk and thereby remove a disincentive for investing in prudent projects. The "proposing to construct" language contained within the statute serves to emphasize how early in a project's development that a prudence determination may be requested, not to create a deadline for such a request. In other words, that language serves to identify the front-end of when an application may be filed, not a back-end deadline by which an application must be filed.

If the statute were read to require the determination prior to construction, it would effectively create a blackout period from commencement of construction until the filing of a general rate case during which a prudence determination could not be made. Such a blackout period would not serve any public purpose and would be in conflict with the purpose of the statute authorizing advance determinations of prudence.

And, as a practical matter, utilities will not always have the luxury of time for some of the most prudent projects that may present themselves. A utility considering an investment in a North Dakota wind farm, for example, will not often have the option to delay the commencement of construction while a prudence determination is prepared or pending. North Dakota construction seasons and road restrictions dictate when excavation must be commenced and completed and when concrete foundations must be poured. Also, other factors such as the deadline for the federal production tax credit (PTC) qualification may require very rapid commitment to a project. For projects being contemplated in 2008, this will be a very important consideration. The PTC is currently only authorized until December 31, 2008, and to qualify for the PTC a facility must be fully constructed and operational prior to that date. Therefore, in order to meet the PTC deadline, it will be necessary for projects to commence construction well in advance of that date. A utility that enters into these commitments prior to having an advance determination of prudence, will be doing so with the risk that the project may not in the end be determined to be prudent, but the purpose of the advance determination statute is to remove that risk as soon as reasonably practicable so as to minimize the disincentives associated with this risk.

Question: Ottetail is asking for the Rider to be put in place immediately. In that argument they mention NDCC section 49-05-06, which provides for interim rates to be collected by public utilities, subject to refund. Is this a rate case?

Response: Otter Tail is not asking for interim rates under N.D.C.C. §49-05-06, subdivision 2.

While it was not made clear in the Application, it was OTP's intent to request implementation of the rider during the pendency of this proceeding pursuant to N.D.C.C. §49-05-06, subdivision 1, which provides that: "All such rates, classifications, contracts, practices, or rules not suspended, on the expiration of thirty days from the time of filing with the commission, or of such lesser time as the commission may grant, become effective rates, classifications, contracts, practices, or rules, subject to the power of the commission, after a hearing had on its own motion or upon complaint, to alter or modify the same." Otter Tail requested in this instance that the Commission put the rider into effect immediately with the understanding that if the rider were modified after a hearing as part of this proceeding that the modification would apply to all amounts collected and therefore those amounts would be subject to refund, much like interim rates. The intent was not to request interim rates. Interim rates were referenced in the application to help describe the practical effect of Otter Tail's request that the rider be made effective immediately, but subject to modification or alteration.

Question: Ottetail wants this charge to be included in the Fuel Cost Adjustment on customer's bills. They say, "Due to lack of flexibility in Otter Tail's 20 year old billing system, Otter Tail proposes to include the billing for the Rider with the Fuel Cost Adjustment (FCA) on customer's bills." Recently the legislature allowed utilities to file tariffs to recover transmission costs, and environmental costs. In each of these situations, these costs were considered separate from the FCA. Should the costs for company owned generation also be listed on bills as a separate cost?

Response: Otter Tail has further investigated the capabilities of its billing system to include a separate line item for the Rider on customer bills. We now believe that with some work, the existing billing system can accommodate an additional line item for this purpose. Therefore, if the Commission requires such treatment, OTP's billing system will allow for it.

This having been said, there may be reasons to combine the Rider costs with the FCA costs reflected on customer bills. The intent of the Rider is to seek treatment for utility-owned renewable generation that is similar to purchased renewable generation (which would be reflected in the FCA). There is some concern that reflecting only some renewables (utility owned renewable generation) in a separate Renewable Rider line item on the bill would belie the full scope (and cost) of the renewables that are being used to serve customers. Therefore, it may be preferable in this instance not to include these costs in a separate line item and to include them in the FCA with other energy –related costs.

Question: Ottertail has told the Commission that they intend to file an electric rate increase case this fall. What are the advantages or disadvantages of looking at this one issue now, versus looking at it in the context of the 08 rate case?

Response: As described in OTP's response to the first question, above, the intent of the advance determination of prudence statute is to mitigate as early as practicable the regulatory risks associated with prudent utility investments. Otter Tail has proceeded with the Langdon Wind project because it was demonstrated to be the most prudent way for the Company to meet its customer's needs. OTP was also encouraged to pursue such investments because of the statute's enactment. If review of this investment and/or cost recovery on this investment is delayed, it will increase OTP's risk exposures and discourage OTP and possibly others from pursuing investments of this kind. OTP is currently considering additional investments in North Dakota wind generation resources and delaying the prudence determination or the Rider would significantly increase our evaluation of the risks associated with those investments.

Question: What are the basic issues that the Commission looks at in any prudence case?

Response: We are only aware of two such cases since the statute was enacted, the Otter Tail and MDU advance determination of prudence cases, Case Nos. PU-06-481 and PU-06-482. In those cases, the issues were identified as follows: 1) whether the resource addition is reasonable and prudent; 2) whether the applicants have need for additional generating resources; and 3) what alternatives exist for meeting additional generation needs.

This case differs from those cases, however. Because the facility in this case is located in North Dakota, there is a rebuttable presumption that the investment is prudent. N.D.C.C. §49-05-16(6). As explained in our application, the fact that the facility is located in North Dakota serves as proof that the investment is prudent until and unless an opponent of the project were to offer competent evidence proving that the investment is not prudent. The burden to make such a showing is on the opposing party.

Dated February 19, 2008

/s/ BRUCE GERHARDSON
Bruce Gerhardson
Associate General Counsel
Otter Tail Corporation