

North Dakota Public Service Commission
INFORMAL HEARING
April 23, 2008

Otter Tail Corporation
Renewable Generation Rider
Application

Case No. PU-06-466
Filed April 16, 2008

Summary of Proposal: Otter Tail Corporation (Otter Tail) requests a generation rider for the portion of the Langdon Wind Energy Center facility that it owns.

On November 1, 2006, OTP requested some assurances from staff that the commission would approve a renewable generation rider before it entered into an ownership agreement. OTP determined that owning this wind generation is cheaper than simply purchasing the energy from the developer. However, there is a financial disincentive to owning wind in North Dakota, absent a generation rider, because purchased power costs are automatically passed through to consumers via the monthly cost of energy adjustment whereas dollars invested in a wind farm are not recoverable until the next rate case.

On November 8, 2006, the commission staff agreed to support OTP's request if the merits of the project could be shown and a reasonable recovery mechanism could be developed.

On February 1, 2008, OTP filed an application for approval of a Renewable Resource Cost Recovery Rider for its share of the wind farm located near Langdon and that the commission determine its investment in the wind farm is prudent.

Recommendation: I recommend the Commission approve the renewable generation rider and determine that the Langdon Wind Energy facility is prudent.

With regard to cost recovery, staff recommends full cost recovery but believes that it should be deferred until the Cost of Energy Adjustment returns to normal levels. As you know, the Big Stone outage was very expensive in terms of power replacement resulting in an increase in the Cost of Energy Adjustment of nearly 2 cents per kWh. Staff is also aware that the Company is exploring the possibility of an annual adjustment to smooth out fluctuations in the Adjustment. Therefore, staff recommends that Otter Tail provide the commission with a cost recovery proposal that does not add to the already higher than normal Cost of Energy Adjustment.

Discussion: Staff has reviewed the application and believes that OTP's investment in the Langdon wind farm is prudent. The Company's integrated resource plan identified wind as its least cost energy resource addition. The

Company received 45 proposals from 28 different entities but constructing and owning wind at Langdon bested them all. In the end, OTP's ratepayers are receiving owned wind energy at a discount compared to the wind energy simply purchased from the same wind developer at Langdon.

The proposed cost recovery method will allocate costs between state jurisdictions based on total system kWh sales resulting in North Dakota ratepayers being allocated about 39% of the total costs. The cost recovery method also includes an annual true-up for any over- or under-recovery balance.

Please note that the assumed return on equity invested in the Langdon wind farm is 11.25%. As you know, the staff recently agreed to use 10.75% in Northern States Power Company's pending rate case filing. There can be many reasons for using different returns between companies but as a whole, 11.25% is not outside the realm of reasonableness. Most importantly, it can be argued that OTP took on additional risk to secure cheaper power for its customers and therefore 11.25% is deemed reasonable.

Prepared by: Mike Diller