

**STATE OF NORTH DAKOTA**  
**PUBLIC SERVICE COMMISSION**

**Otter Tail Corporation  
Renewable Resource Rider  
Application**

**Case No. PU-06-466**

**ORDER**

**May 21, 2008**

On November 2, 2006 Otter Tail Corporation (Otter Tail) filed a letter with the North Dakota Public Service Commission (Commission) indicating it was considering investing in a wind farm in North Dakota. Before making such a commitment, Otter Tail requested confirmation from the Commission that it has the authority to implement a Renewable Resource Cost Recovery Rider (Rider) for purposes of recovering costs associated with the wind farm; that the project would be deemed prudent; and reasonable assurance that the Commission would approve an application for a Rider.

On November 8, 2006 the North Dakota Public Service Commission staff responded by letter indicating that 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. The law 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. Therefore, staff reasoned that assuming there is a need for additional power and the project is not imprudent, the Commission would approve a cost recovery rider.

The staff affirmed in its letter that Otter Tail is seeking a rider because owning wind is cheaper than buying it. Under the Commission's current policy, purchased power costs are immediately passed through to customers via the fuel adjustment clause and therefore absent a rider, there would be little incentive for Otter Tail to invest in a North Dakota wind farm without a rider to ensure the same kind of immediate cost recovery.

On February 1, 2008 Otter Tail filed an Application for Approval of its Rider based on the costs of a 40.5 MW ownership share in the Langdon Wind Energy Center which became commercially operational in January 2008.

On February 27, 2008 the Commission issued a Notice of Opportunity for Hearing, which provided until April 1, 2008 for receiving written comments or requests for a hearing. No responses were received. The notice identified the following issues to be considered:

1. Whether Otter Tail's investment in the Langdon wind farm is prudent?

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2. Should the Commission approve the Rider that would allow Otter Tail to recover its costs associated with the Langdon wind farm?

On April 23, 2008 the Commission held an informal hearing to discuss Otter Tail's application. Otter Tail explained how the Request for Proposals (RFP) process eventually led to determining that investing in the Langdon wind farm was its best option. In March 2006, Otter Tail issued a RFP for up to 75 MW of renewable energy and received 45 proposals from 28 different entities. During the course of the competitive RFP negotiation process, Otter Tail learned that the Langdon wind site was well suited for the development of more wind generation and began talking to FPL Energy. The discussions led to Otter Tail entering into a power purchase agreement for 19.5 MW of energy as well as the right to develop and own an additional 40.5 MW of wind energy.

Otter Tail affirmed that the Langdon wind farm investment will provide an energy source that is competitive with the electric market's marginal energy prices; that the additional energy will lessen the need for Otter Tail to curtail its interruptible customers; and that acquiring an ownership position in the Langdon wind farm saves consumers approximately 10% when compared to simply purchasing wind energy.

At the informal hearing, the Commission also questioned the use of an 11.25% return on equity used in Otter Tail's revenue requirement calculations. Otter Tail stated that it used the same return that it filed for in its rate increase application currently before the Minnesota Public Utilities Commission. The Commission staff indicated that it had recently stipulated to using a 10.75% return on equity for Northern States Power Company's current rate increase application and that the difference of 50 basis points was reasonable. Staff reasoned that the higher return was justified because Otter Tail took on additional risk to secure cheaper power for its customers.

The Commission finds that the Langdon Wind Energy Center is the largest wind generation facility in North Dakota. The wind farm is located 10 miles south of Langdon, North Dakota, and is sized for 159 MW at peak output. The proximity of the facility to Otter Tail's control area provides a low delivery cost for transmittal of the wind energy to Otter Tail's load areas.

The Commission finds that Otter Tail has acted prudently in investing in the Langdon Wind Energy Center. It would have been easy for Otter Tail to simply purchase power at market prices and automatically pass through the costs to consumers in its cost of energy adjustment. Instead, the Company took on additional risk when investing in the wind farm in hopes that the Commission would agree with its decision. Because of Otter Tail's efforts, its customers have access to additional energy at a 10% discount.

The Commission finds that Otter Tail has responded appropriately to the desires of the North Dakota Legislature encouraging investment in energy conversion facilities in North Dakota. Besides declaring that there is a rebuttable presumption that an energy conversion facility built in North Dakota is prudent, the state of North Dakota offers a significant investment tax credit for wind energy development of 5% per year for three years of dollars invested in North Dakota. Further, the legislative assembly has established a state renewable and recycled energy objective that ten percent of all electricity sold at retail within the state by the year 2015 be obtained from renewable energy and recycled energy sources.

The Commission finds that the Rider will allow Otter Tail to recover its costs to acquire an ownership position in the Langdon Wind Energy Center. The Rider will be applied on a kWh basis to all customers at the same rate. The Rider will be updated annually, or until such time that the Langdon wind farm is included in base rates, to reflect changes in costs due to depreciation, federal tax production tax credits, North Dakota investment tax credits, operating costs and so on.

### **Order**

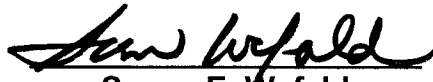
The Commission Orders:

1. The investment in the Langdon Wind Energy Center is prudent.
2. North Dakota's share of costs associated with the wind farm will be allocated based on energy consumed by Otter Tail's North Dakota customers compared to total energy consumed by all of Otter Tail's customers or what is referred to as the E2 allocation factor in the Company's cost of service study. The E2 factor currently assigns approximately 39% of energy costs to North Dakota.
3. The Rider is approved; effective June 1, 2008; and is to be displayed separately on all customers' bills.
4. Costs associated with the Langdon Wind Energy Center will be accumulated in a tracker account to ensure that no more and no less than 100% of the costs are recovered from ratepayers.
5. Otter Tail to make an annual filing by September 1 of each year to include 1) the status of the tracker account with regard to any over- or under-recovery based on actual costs compared to revenue collected from ratepayers; 2) describe any additional projects that may be eligible for cost recovery through the Rider; and 3) update the Renewable Resource Cost Recovery Rider based on 1) and 2) above.
6. An 11.25% return on equity invested in the Langdon Wind Energy Center until such time that the costs are rolled into base rates.

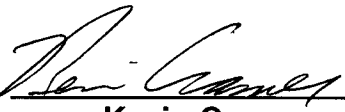
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