



Public Service Commission

State of North Dakota

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Re: Otter Tail Corporation, Advance Determination of Prudence Application Case No. PU-06-06-481 and Montana-Dakota Utilities co., a Division of MDU Resources Group, Inc., Advance Determination of Prudence Application, Case No. PU-06-482

Dear Parties:

MDU and Ottertail Power have both proposed to own 120 mw of the Big Stone II Plant. Both companies have few demand side management programs in place in North Dakota and MDU has no renewable energy development in North Dakota.

In consideration of the question of prudence in these cases, evidence was presented regarding the extent and allocation of risk to the companies and their ratepayers from the companies' investment in Big Stone II. One possible way of mitigating that risk is by investment in alternative resources. These alternatives could include investment in demand side management and investment in renewable energy.

While each of these alternatives may also involve some risk, the degree and allocation may not be the same as that associated with only investment in Big Stone II.

I would like the parties to explore the consequences of requiring each company to implement measurable demand side management programs and renewable energy sources in North Dakota offsetting a percentage of the megawatts of power they wish to own at Big Stone II.

Example 1: Assume the Commission approves 90 mw of power (75% of their proposal) for each company from Big Stone 2, but conditions approval of the remaining 30 mw (25%) for each company after implementation of 15 mw of new measurable demand side management programs and 15 mw of new renewable energy development, all in North Dakota.

Example 2: Assume the Commission approves 72 mw of power (60%) for each company from Big Stone 2, but conditions approval of the remaining 48 mw (40%) for each company after implementation of at least 15 mw of new measurable demand side management programs and up to 33 mw of new renewable energy development, all in North Dakota.

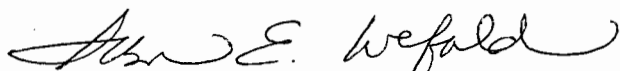
Under Example 1, if a company implements only 10mw of demand side management programs and 15 mw of renewable energy (25 mw total instead of 30), the Commission would determine that it was prudent to approve only 115 mw of power ownership from Big Stone II.

The commission order could be structured so that by the time the company came in for a rate proceeding, the company could quantify the investment in demand side management programs and renewable energy projects.

The mw in new demand side management could be certified through standards such as the MAPP standards or those being developed by MISO. New renewable energy projects would be those identified in North Dakota Century Code 49-02-25 and verified through a renewable electricity and recycled energy credit trading and tracking system.

I welcome thoughts on this hypothetical.

Sincerely,

A handwritten signature in black ink, appearing to read "Susan E. Wefald". The signature is fluid and cursive, with the first name "Susan" and last name "Wefald" clearly legible.

Commissioner Susan E. Wefald

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