



Public Service Commission
State of North Dakota

COMMISSIONERS

Kevin Cramer
Tony Clark
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Executive Secretary
Darrell Nitschke

600 E. Boulevard Ave. Dept 408
Bismarck, North Dakota 58505-0480
Web: www.nd.gov/psc
E-mail: ndpsc@nd.gov
Phone 701-328-2400
Toll Free 1-877-245-6685
Fax 701-328-2410
TDD 800-366-6888 or 711

May 10, 2010

Darrell Nitschke
Executive Secretary
600 East Boulevard, Dept 408
Bismarck, ND 58505-0480

Re: Otter Tail Power Company
Deferred Accounting - Big Stone II
Application
Case No. PU-09-739

and

Otter Tail Power Company
Discontinue Prudence Big Stone II
Application
Case No. PU-10-30

Dear Mr. Nitschke:

Enclosed is a revision to page 3 of the Settlement Agreement reached between Otter Tail Power Company, the North Dakota Large Industrial Energy Group, and the North Dakota Public Service Commission Advocacy Staff in the above proceedings. I have included a copy that has the added language underscored and a clean copy. The pagination of the document has not been affected by this change.

The parties have agreed to add "d) legislative and regulatory uncertainty surrounding federal energy and climate change policy" to the factors that caused Otter Tail Power Company to withdraw from the project.

Please contact us with any questions.

Sincerely,

Annette Bendish (handwritten signature)

Annette Bendish
Counsel for Advocacy Staff

Enclosure

- 29 PU-10-30 Filed 05/10/2010 Pages: 3
Revision to page 3 of Settlement Agreement (Case No. PU-09-739 & PU-10-30)
Public Service Commission
Annette Bendish, Cnsl for Advocacy Staff
34 PU-09-739 Filed 05/10/2010 Pages: 3
Revision to page 3 of Settlement Agreement (Case No. PU-09-739 & PU-10-30)
Public Service Commission
Annette Bendish, Cnsl for Advocacy Staff

30 PU-09-731 Filed 05/10/2010 Pages: 3
Revision to page 3 of Settlement Agreement (Case No. PU-09-739 & PU-10-30)
Public Service Commission
Annette Bendish, Cnsl for Advocacy Staff
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Pages: 3
Revision to page 3 of Settlement Agreement (Case No. PU-09-739 & PU-10-30)

expected and an adjustment to remove an error in the loading rate for some internal costs. The North Dakota jurisdictional share of the total costs is 40.32% or \$5,117,466.⁴

By fall of 2009, a combination of factors caused OTP to withdraw from participation. The combination of factors included: a) significant changes to recent energy price forecasts that are expected to result in changes to OTP's next resource plan and resource adequacy requirements; b) unprecedented financial market conditions and cost-recovery risks that made raising the large amount of necessary capital unreasonably costly; ~~and~~ c) the risk that OTP could be required to either increase its share of the plant or participate in a smaller and less economic project if additional participants did not join in the project; and d) legislative and regulatory uncertainty surrounding federal energy and climate change policy.⁵ OTP was one of five remaining participants when it withdrew from the project.⁶ The remaining participants later discontinued the project.

The costs are more fully described in the Revised Attachment A to OTP's Deferred Accounting Petition, but fall generally into the following cost categories: Engineering, project development, permitting, legal, other expenditures, and Allowance for Funds Used During Construction ("AFUDC"). OTP has excluded from these costs and investments any costs that it has incurred for land in which it continues to have a title interest, and it has excluded any labor-related costs that were included in the revenue requirement in OTP's recent rate case (Case PU-08-742). For example, OTP incurred costs for certain easements relating to the project and OTP has a continuing real property right in those easements. Therefore, the costs of those easements is reflected in OTP's property accounts and not included in the deferral request. Additionally, OTP reviewed the internal labor costs included in this request and verified that they were excluded from the 2007 test year used in OTP's rate case (as they were being accounted for as Construction Work in Progress ("CWIP") along with the other project costs).

⁴ The jurisdictional allocation percentage is a composite of the E1 and D1 allocators set in OTP's last general rate case.

⁵ OTP's share of Big Stone II costs was estimated at about \$400 million. However, without the addition of other project participants, OTP's expected share of costs in a similarly sized project would have increased to approximately \$500 million or more. For purposes of illustrating the magnitude of the investment, OTP's total rate base as of the end of 2008 was approximately \$575 million.

⁶ Two Big Stone II Participants, GRE and SMMPA, withdrew from the project previously.

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The costs are more fully described in the Revised Attachment A to OTP's Deferred Accounting Petition, but fall generally into the following cost categories: Engineering, project development, permitting, legal, other expenditures, and Allowance for Funds Used During Construction ("AFUDC"). OTP has excluded from these costs and investments any costs that it has incurred for land in which it continues to have a title interest, and it has excluded any labor-related costs that were included in the revenue requirement in OTP's recent rate case (Case PU-08-742). For example, OTP incurred costs for certain easements relating to the project and OTP has a continuing real property right in those easements. Therefore, the costs of those easements is reflected in OTP's property accounts and not included in the deferral request. Additionally, OTP reviewed the internal labor costs included in this request and verified that they were excluded from the 2007 test year used in OTP's rate case (as they were being accounted for as Construction Work in Progress ("CWIP") along with the other project costs).

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