

STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION

**Montana-Dakota Utilities Co., a
Division of MDU Resources Group, Inc.
Discontinue Prudence Big Stone II
Application**

Case No. PU-09-731

**Montana-Dakota Utilities Co., a
Division of MDU Resources Group, Inc.
Deferred Accounting - Big Stone II
Application**

Case No. PU-09-733

**Otter Tail Power Company
Deferred Accounting - Big Stone II
Application**

Case No. PU-09-739

**Otter Tail Power Company
Discontinue Prudence Big Stone II
Application**

Case No. PU-10-30

AFFIDAVIT OF SERVICE BY REGULAR MAIL

STATE OF NORTH DAKOTA
COUNTY OF BURLEIGH

John Hamre deposes and says that:

he is over the age of 18 years and not a party to this action and, on the **11th** day of **May, 2010**, he deposited in the United States Mail, at Bismarck, North Dakota, **eight** envelopes by regular mail, with postage fully prepaid, securely sealed, each containing a photocopy of the following:

REVISIONS TO PAGES 3 AND 5 OF THE SETTLEMENT AGREEMENT (Otter Tail Power Company, Case No. PU-09-739 and Case No. PU-10-30)

The envelopes were addressed as follows:

Mr. Daniel S. Kuntz
Associate General Counsel
MDU Resources Group
PO Box 5650
Bismarck, ND 58502-5650

Mr. Bruce Gerhardson
Associate General Counsel
Otter Tail Power Company
215 S Cascade Street
Fergus Falls, MN 56537

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Affid. of Service, Reg., Revision to Pgs 3&5 of Settlement Agmt - Cases 09-739 & 10-30
Public Service Commission

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Affid. of Service, Reg., Revision to Pgs 3&5 of Settlement Agmt - Cases 09-739 & 10-30
Public Service Commission

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Affid. of Service, Reg., Revision to Pgs 3&5 of Settlement Agmt - Cases 09-739 & 10-30
Public Service Commission

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Public Service Commission

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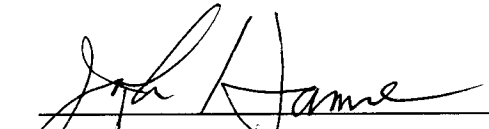
Ms. Bernadeen Brutlag
Manager Regulatory Services
Otter Tail Power Company
215 S Cascade Street
Fergus Falls, MN 56537

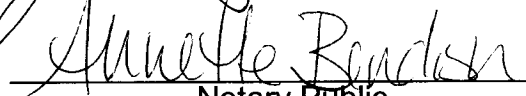
Ms. Kavita Maini
KM Energy Consulting LLC
961 N Lost Woods Road
Oconomowoc, WI 53066

Mr. Larry Schedin
LSS Resources, LLC
1137 Plymouth Building
12 S 6th Street
Minneapolis, MN 55402

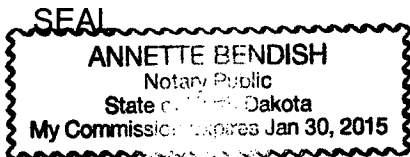
Each address shown is the respective addressee's last reasonably ascertainable post office address.

Subscribed and sworn to before me
this **11th** day of **May, 2010**.





Notary Public



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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amount of over- or under-collection (based on actual amounts up to the time of the report and estimated sales for the remainder of the annual period), and that amount (the "True-up Amount") shall be added to or subtracted from the amount to be recovered in the next annual period. Any True-up Amount remaining at the end of the 36 month recovery period shall be collected from customers (for any under-collection) or refunded to customers (for any over-collection) in a one-time adjustment to customer bills (and reflected as part of the energy and renewables adjustment line item).

- F. OTP shall include in its total recovery amount a monthly carrying charge on North Dakota share of BSP II Generation Costs for the period from September 1, 2009 (the date in which it ceased accumulating an allowance for funds used during construction (AFUDC) on the construction work in progress (CWIP) balance) up until the recovery of costs commences as described in paragraph C. above. The carrying charge shall be OTP's rate of return as approved in its 2008 rate case (8.62 percent), which amounts to a carrying charge of \$29,195 per month.
- G. The cost allocation between classes shall be based on the 2009 E1 and D1 class allocators. These class allocators will remain constant for the entire recovery period. For the LGS class, a kW and kWh charge will be derived by dividing E1 related costs by estimated kWh and dividing the D1 related costs by estimated kW. For the non-LGS class, the E1 and D1 related costs will be divided by estimated kWh.
- H. An estimate of the rates described above based on an assumed implementation date of June 1, 2010, are as follows: non-LGS customers - \$0.00082 per kWh, or \$0.62 per month for an typical residential customer with 750 kWh usage. LGS customers - \$0.00064 per kWh and \$0.079 per kW, or \$197.16 per month for a customer with a monthly usage of 600 kW and 234,000 kWh. These estimated rates are calculated by taking the North Dakota Share of BSP II Generation Costs (\$4,064,293) and adding the carrying charge for nine months (\$29,195 times 9 months = \$262,757, for a total of \$4,327,050), then amortizing that amount over 3 years. Table 1 shows additional support for these calculations.