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June 6, 2013

Darrell Nitschke  
Executive Secretary/Director of Administration  
North Dakota Public Service Commission  
State Capitol - 600 East Boulevard  
Bismarck, ND 58505-0480

**RE: In the Matter of the Application of Otter Tail Power Company for  
Authority to use Deferred Accounting  
Case No. PU-09-739  
And  
In the Matter of the Application of Otter Tail Power Company for a Determination of  
Prudence to Discontinue Participation in the Big Stone II Generating Plant  
Case No. PU-10-30**

Dear Mr. Nitschke:

Enclosed for filing is a Supplement to Otter Tail Power Company's ("Otter Tail") March 29 and May 7, 2013 filings in the above-referenced matter. This Supplemental filing is intended to further explain the -costs proposed to be recovered from August 2013 through February 2014.

Supplemental Updated Attachment 2 provides additional detail on the costs included in this filing that cannot be recovered through other projects. Page 2 of 2 of Supplemental Update Attachment 2 further categorizes these transmission costs.

Attachment A of the Settlement Agreement described the cost categories open to recovery in this docket and was attached to the June 25, 2010 Order on Settlement (Exhibit 4 in the original case detailed the costs). Attachment A from the Settlement Agreement is included with this filing, updated to show the breakdown between Generation and Transmission in columns (B) and (C). Underlining of the original Attachment A's cost descriptions is added for emphasis on the transmission costs. The costs included for recovery were audited by the North Dakota Public Service Commission Staff in April 2010.

#### **Costs yet to be recovered**

The following is the description of transmission costs from Attachment A of the Settlement Agreement:

**ENGINEERING, PROCUREMENT AND CONSTRUCTION MANAGEMENT:** Includes the cost of transmission studies conducted to determine the impact the proposed generator has on the transmission system and the upgrades to allow the generator to interconnect and deliver energy to the transmission

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system, and preliminary engineering efforts to determine proposed structure types and potential substation layouts. (*The transmission studies were those that supported the state permitting process*).

**PROJECT DEVELOPMENT TEAM (INCLUDING LABOR):** Transmission project management time spent on permitting, engineering, environmental, land or other specifically detailed tasks were included in those specific categories. General transmission staff project management time not specifically assigned to other categories is included here.

Internal labor costs and expenses included in this filing were excluded from the test year expenses used in OTP's rate case.

**PERMITTING AND ENVIRONMENTAL IMPACT STATEMENT:** Transmission permitting costs presented here include outside consultants and internal labor and expenses to support these efforts.

**LEGAL:** Payments to outside legal firms for transmission activities. Includes work on the project agreements, including the Participation Agreement, O&M Services Agreement, Joint Facilities Agreement, Trust Agreement, Interconnection and Transmission Upgrade Allocation Agreement, and Blanket Easement Agreement. Includes outside counsel charges related to financing, new participants and equipment contracts. Also includes external attorney fees for obtaining permits including MN CON and route, SD site, solid waste, water, groundwater and PSD air permits.

**AFUCD:** Allowance for funds used during construction on OTP's CWIP investment for the period February 1, 2005 to August 31, 2009.

All of the listed costs are not useful for other projects that are going forward. If any similarly routed projects were ever to go forward in the future, these costs would also not be useful to such projects. Since the original route permit is now expired and the costs were incurred a number of years ago, these costs (such as engineering, permitting, environmental impact legal) would need to be incurred again to restart the process (conditions have changed since the original work was done). Other lines have been built impacting the need and electrical flows on the originally proposed Big Stone II Transmission routes.

### **Costs recovered**

The additional detail of costs transferred to the Big Stone to Brookings transmission project are shown on Page 2 of 2 of Supplemental Update Attachment 2.

In the Commission's discussion, the question was raised as to why Montana Dakota Utilities (MDU) has not requested recovery of their portion of these costs. It is our understanding MDU recovered (correctly) their share of the transmission costs as part of the settlement in their original filing, Case No. PU-09-731, as there didn't appear to be any projects for which their share of transmission costs could be used. Otter Tail felt there was a good chance that some of the transmission costs could be used in future projects. These were projects Otter Tail was a participant in, but not MDU. Otter Tail asked to delay recovery until it was known how much of the costs would be recovered.

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**Prevention of double recovery**

If in the unlikely event some of the costs to be recovered in this case are utilized in a future transmission project, Otter Tail will net the amount against a future transmission investment which uses the costs. In this way double recovery will be prevented.

An electronic copy of this Application is being sent to [dnitschk@nd.gov](mailto:dnitschk@nd.gov) and to [NDPSC@nd.gov](mailto:NDPSC@nd.gov). The original and seven copies will be sent by First Class mail.

If you have any questions, do not hesitate to contact me at (218) 739-8607 or [pbeithon@otpc.com](mailto:pbeithon@otpc.com).

Sincerely,

*/s/ PETE BEITHON*

Pete Beithon

Manager, Regulatory Recovery

dm

Enclosures

By electronic service and First Class mail

Otter Tail Power Company  
 Big Stone II Cost Recovery Rider  
 North Dakota  
 Summary of Cost Recovery and Remaining Balance Outstanding

(A)	(B)	(C)	(D)	(E)	(F) (Column(C) - Column (D) - Column (E))
<b>Line No.</b>	<b>BIG STONE II PROJECT COSTS BY CATEGORY - description below</b>	<b>Total</b>	<b>Transmission Costs Recovered</b>	<b>Generation Costs Recovered</b>	<b>Remainder in Request</b>
1	Engineering, procurement and construction management	\$226,377			\$226,377
2	Project development team (including labor)	\$463,401	\$168,669	\$132,338	\$162,394
3	Permitting and environmental impact statement	\$855,381	\$140,831	\$258,453	\$456,097
4	Legal	\$711,746			\$711,746
5	AFUDC up to Sep. 2009	\$355,131	\$106,111		\$249,020
6	Big Stone II Deferral Request	\$2,612,036	\$415,611	\$390,791	\$1,805,633
7	AFUDC since Sep. 2009	\$574,593	(in line 5 above)		\$574,593
8	Big Stone II Deferral Request including AFUDC	\$3,186,629			\$2,380,226
9	North Dakota Share	40.32%	40.32%	40.32%	40.32%
10	Total North Dakota Share	\$1,284,849	\$167,574	\$157,567	\$959,707
11	Percent recovered		13%	12%	
12	Percent Recovered Total			25%	

**DESCRIPTION OF COSTS FROM ATTACHMENT A OF THE SETTLEMENT AGREEMENT APPROVED June 25, 2010 by the North Dakota Pulic Service Commission**

1	<b>ENGINEERING, PROCUREMENT AND CONSTRUCTION MANAGEMENT:</b> Includes the cost of transmission studies conducted to determine the impact the proposed generator has on the transmission system and the upgrades to allow the generator to interconnect and deliver energy to the transmission system, and preliminary engineering efforts to determine proposed structure types and potential substation layouts.
2	<b>PROJECT DEVELOPMENT TEAM (INCLUDING LABOR):</b> Transmission project management time spent on permitting, engineering, environmental, land or other specifically detailed tasks were included in those specific categories. General transmission staff project management time not specifically assigned to other categories is included here. Internal labor costs and expenses included in this filing were excluded from the test year expenses used in OTP's rate case.
3	<b>PERMITTING AND ENVIRONMENTAL IMPACT STATEMENT:</b> Transmission permitting costs presented here include outside consultants and internal labor and expenses to support these efforts.
4	<b>LEGAL:</b> Payments to outside legal firms for transmission activities. Includes work on the project agreements including the Participation Agreement, O&M Services Agreement, Joint Facilities Agreement, Trust Agreement, Interconnection and Transmission Upgrade Allocation Agreement, and Blanket Easement Agreement. Includes outside counsel charges related to financing, new participants and equipment contracts. Also includes external attorney fees for obtaining permits including MN CON and route, SD site, solid waste, water, groundwater and PSD air permits.
5	<b>AFUCD:</b> Allowance for funds used during construction on OTP's CWIP investment for the period February 1, 2005 to August 31, 2009.

**Costs Transferred to New Big Stone Area Transmission Projects**

Line No.	Category	Description	Transmission Cost	Generation Cost	Amount to Transfer
	<b>Project</b>				
1	<b>Development/Management</b>				
2		OTP internal costs for project management.	\$ 57,826		\$ 57,826
3		Directly assigned project management costs	\$ 34,150		\$ 34,150
4		MISO Studies	\$ 100	\$ 132,338	\$ 132,438
5		MAPP DRS Studies	\$ 1,214		\$ 1,214
6		WAPA Studies	\$ 47,774		\$ 47,774
7		Crop Damage	\$ 649		\$ 649
8		Preliminary Design	\$ 5,040		\$ 5,040
9		Survey	\$ 21,917		\$ 21,917
10	<b>SD Permitting</b>	<b>Includes preparing permit, consultant costs, responding to information requests, EIS costs.</b>			\$ -
11		Environmental	\$ 78,611		\$ 78,611
12		Legal	\$ 690		\$ 690
13		Permitting	\$ 899		\$ 899
14		SD Data Request	\$ 319		\$ 319
15		SD Route	\$ 59,368		\$ 59,368
16		Payments to environmental contractor for EIS	\$ -	\$ 258,453	\$ 258,453
17		Other costs	\$ 945		\$ 945
18	<b>Carrying Charge (Based on AFUDC rate)</b>		\$ 106,111		\$ 106,111
19			<u>\$ 415,612</u>	<u>\$ 390,791</u>	<u>\$ 806,403</u>
20					
21		North Dakota Share Recovery Percentage	40.32%	40.32%	40.32%
22		North Dakota Share of Recovered Costs	<u>\$ 167,575</u>	<u>\$ 157,567</u>	<u>\$ 325,142</u>
23		North Dakota Share of Total BSII Transmission Costs			\$ 1,284,849
24		Remainder - Amount of Recovery Request			<u>\$ 959,707</u>

## Attachment A - with breakdown between Transmission and Generation costs

**Otter Tail Power Company  
Big Stone II Development Costs**

For Period February 1, 2005 through January 26, 2010

	(A) Total	(B) Transmission	(C) Generation
1	\$1,467,297	\$226,377	\$1,240,921
2	\$3,474,522	\$463,401	\$3,011,121
3	\$2,602,562	\$855,381	\$1,747,181
4	\$2,899,554	\$711,746	\$2,187,808
5	\$1,012,417	\$0	\$1,012,417
6	-\$725,479	NA	-\$725,479
7	\$1,961,253	\$355,131	\$1,606,123
	<b>\$12,692,127</b>	<b>\$2,612,036</b>	<b>\$10,080,092</b>

**Ownership percentages:**

OTP paid 19.33% of joint project costs through September 2007, the date when GRE and SMMPA withdrew. OTP funded 26.54% from September 2007 through its withdrawal on September 11, 2009. OTP's share of joint project costs were assigned on a composite percentage basis because of changes in ownership percentages over the life of the project.

**Descriptions for breakdown categories:**

- 1 ENGINEERING, PROCUREMENT AND CONSTRUCTION MANAGEMENT: The plant project's engineering, procurement and construction manager designed and specified the electric generating plant, solicited/evaluated six equipment bid packages in 2006, produced three major cost estimate renditions, performed a coal drying assessment, geotechnical investigation and ultra-supercritical study, and provided testimony at regulatory proceedings. Includes the cost of transmission studies conducted to determine the impact the proposed generator has on the transmission system and the upgrades to allow the generator to interconnect and deliver energy to the transmission system, and preliminary engineering efforts to determine proposed structure types and potential substation layouts.
- 2 PROJECT DEVELOPMENT TEAM (INCLUDING LABOR): Includes Otter Tail generation project labor; staff expenses such as meals, lodging, travel; and payments to several independent contractors. The project development team provided assistance for project engineering, permitting, communications and financing efforts. Transmission project management time spent on permitting, engineering, environmental, land or other specifically detailed tasks were included in those specific categories. General transmission staff project management time not specifically assigned to other categories is included here. Internal labor costs and expenses included in this filing were excluded from the test year expenses used in OTP's rate case.
- 3 PERMITTING AND ENVIRONMENTAL IMPACT STATEMENT: External costs associated with efforts to obtain the Federal EIS and the following permits: MN CON and route, SD site, PSD air, solid waste, water, and groundwater permits. Permitting activities include development of permits, filing fees and hearing expenses. Excludes all outside attorney fees as they are included in #4 legal. Plant permitting related internal labor costs are included in #2 project development. Transmission permitting costs presented here include outside consultants and internal labor and expenses to support these efforts.
- 4 LEGAL: Payments to outside legal firms for generation and transmission activities. Includes work on the project agreements including the Participation Agreement, O&M Services Agreement, Joint Facilities Agreement, Trust Agreement, Interconnection and Transmission Upgrade Allocation Agreement, and Blanket Easement Agreement. Includes outside counsel charges related to financing, new participants and equipment contracts. Also includes external attorney fees for obtaining permits including MN CON and route, SD site, solid waste, water, groundwater and PSD air permits.
- 5 OTHER: Includes groundwater tolerance testing costs, insurance premiums and broker fees, communications expenses, scrubber evaluation costs, SD use tax payments, and credits for SD tax rebates. Includes payments for property easements, options and purchases, mineral and water rights, as well as property tax payments, and other miscellaneous charges net of lease revenues. Includes property purchases committed and obligated prior to withdrawing from the project. EXCLUDES any costs for property rights for which OTP continues to have a title interest.
- 6 CREDIT FROM PARTICIPANTS THAT PREVIOUSLY WITHDREW: When GRE and SMMPA withdrew from the project in September 2007 they forfeited their trust fund balances and paid exit payments in accordance with the project agreements. The dollars shown here are OTP's 26.54% share of GRE and SMMPA exit payments and trust fund balances when they withdrew from the project.
- 7 AFUCD: Allowance for funds used during construction on OTP's CWIP investment for the period February 1, 2005 to August 31, 2009.