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January 18, 2009

**PUBLIC DOCUMENT  
TRADE SECRET DATA EXCISED**

Darrell Nitschke  
Director of Administration/Executive Secretary  
North Dakota Public Service Commission  
State Capital  
600 East Boulevard, Dept. 408  
Bismarck, ND 58505-0480

RE: Otter Tail Power Company's Request for Approval of its 2010 Renewable Resource Cost Recovery Adjustment Factor.  
NDPSC Case No. PU-10-18

Dear Mr. Nitschke:

Please find enclosed for filing Otter Tail Power Company's ("Otter Tail") **Amended** Application for its 2010 Renewable Resource Cost Recovery Adjustment Factor ("RRA") under the Company's Renewable Resource Cost Recovery Rider ("Renewable Rider" or "Rider"). Otter Tail is providing an original and seven copies of the Public version of the Amended Application from which trade secret information has been redacted.

The original Application in this case was filed on December 31, 2009. This Amended Application is being filed to make two changes. First, the Amended Application removes the Request for an Advance Determination of Prudence for the Luverne Wind Project. This change was made at the request of Commission Staff, as Staff believes no such request is necessary for a project that is already in service. Staff also requested that if such a request is made, it should be made in a separate Application rather than being combined with this application to update the RRA.

Secondly, the Amended Application corrects an error in the table reflecting bill impact amounts shown at the bottom of page 11 of the original Application. Specifically, the present rate is incorrectly stated in the original Application as \$0.00415 when it should have been shown as \$0.00369 per kWh. This correction of the stated present rate changes the bill impacts shown on the line following the "present rate" line of the table. The bill impact for the typical LGS customer should have been shown as \$1,316.20 and the typical residential customer impact should have been shown as \$1.52 per month. The corrected present rates and bill impacts are reflected in the Amended Application.

The Trade Secret version of this Amended Application has been included in a sealed envelope marked “**TRADE SECRET – PRIVATE.**” Otter Tail filed on December 31, 2009, an Application for Trade Secret Protection along with its original Application in this matter. The Trade Secret Information included with this **Amended** Application is the same information for which trade secret protection was requested in the original Application, and therefore, Otter Tail requests that the already filed Application for Trade Secret Protection cover both the information supplied with the Original Application and the information supplied with this **Amended** Application. Otter Tail’s 2009 Renewable Resource Rider filing included a similar request for trade secret protection, which was granted by the Commission.

Finally, because the Amended Application resulted in no changes to the Attachments of the Original Application, they are not being included with this filing. We ask that they be incorporated in to the Amended Application.

Please refer all inquiries regarding this filing to Bernadeen Brutlag at (218) 739-8289 or [bbrutlag@otpc.com](mailto:bbrutlag@otpc.com).

Yours very truly,

*/s/ Bruce Gerhardson*  
Bruce Gerhardson  
Associate General Counsel

Enclosures  
By mail and electronic filing

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

In the Matter of Otter Tail Power Company's  
Request for Approval of its 2010 Renewable  
Resource Cost Recovery Adjustment Factor.

Case No. PU-10-18

**AMENDED APPLICATION**

**I. INTRODUCTION**

Otter Tail Power Company, ("Otter Tail") submits this Application to the North Dakota Public Service Commission ("Commission") for its 2010 Renewable Resource Cost Recovery Adjustment Factor ("RRA") under the Company's Renewable Resource Cost Recovery Rider ("Renewable Rider" or "Rider").

On May 21, 2008, The Commission approved Otter Tail's Renewable Rider,<sup>1</sup> and on January 14, 2009, the Commission approved Otter Tail's first annual RRA for that Rider (2009 RRA)<sup>2</sup> subject to final review in conjunction with its general rate case.<sup>3</sup> Otter Tail now files its second annual RRA for the Rider (2010 RRA), which includes actual cost and revenue information through October 2009 and forecast cost and revenue information from November 2009 through March 31, 2011, for investments in the Langdon, Ashtabula, and Luverne Wind Projects, all located in North Dakota.

The Luverne Wind Energy Center Project is located in Steele County, North Dakota, approximately 6 miles north of Luverne, North Dakota. It is further described later in this Application. NDCC §49-05-16 provides a statutory presumption that generation facilities located in the State of North Dakota are prudent. The Langdon and Ashtabula Projects have been approved for recovery through the Renewable Rider in prior Rider proceedings.

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<sup>1</sup> Case No. PU-06-466

<sup>2</sup> Case No. PU-08-742

<sup>3</sup> Order dated November 25, 2009, in Case PU-08-862.

The Commission issued to Otter Tail a Certificate of Public Convenience and Necessity to construct and own the 49.5 MW Luverne Project (certificate number 5385, issued to Otter Tail on December 3, 2008).

The current filing consists of four parts:

1. *Eligible projects.* Costs are included for the investment in the Luverne Wind Project that went into commercial operation in September 2009, as well as costs related to the investments in the Langdon and Ashtabula Wind Projects.
2. *Revenue requirements calculation.* Components of the revenue requirements calculation are discussed.
3. *2009 Tracker Report.* Actual components of the Renewable Resource Tracker through October 2009 and projections through the next cost recovery period are included.
4. *2010 RRA.* Rate design options are discussed, including Otter Tail's recommended design, and resulting impact on customers' bills.

## II. GENERAL FILING INFORMATION

Pursuant to § 69-02-02-04, the following information is provided.

**A. Name, address, and telephone number of utility making the filing**

Otter Tail Power Company  
215 South Cascade Street  
Fergus Falls, Minnesota 56538-0496  
(218) 739-8200

**B. Name, address, and telephone number of utility attorney**

Bruce Gerhardson  
Associate General Counsel  
Otter Tail Power Company  
215 South Cascade Street  
Fergus Falls, Minnesota 56538-0496  
(218) 998-7108

**C. Date of filing and proposed effective date of rates**

The date of this filing is December 31, 2009. Otter Tail proposes the 2010 RRA be reflected on customers' electric service bills effective April 1, 2010, or in the month following Commission approval if Commission action occurs after March 2010. Otter Tail is requesting the updated RRA be approved to become effect for bills rendered on and after April 1, 2009, for continuity of the annual rider filing process.

**D. Title of utility employee responsible for filing**

Bernadeen Brutlag  
Manager, Regulatory Services  
Otter Tail Power Company  
215 South Cascade Street  
Fergus Falls, Minnesota 56538-0496  
(218) 739-8289  
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**E. Articles of Incorporation.**

Pursuant to North Dakota Rules Part 69-02-02-04, a certified copy of Otter Tail's Articles of Incorporation is on file with the Commission, as is an original certificate of good standing.

**III. DESCRIPTION AND PURPOSE OF FILING**

**A. Background**

The North Dakota Legislature has established a state renewable and recycled energy objective that ten percent of all retail electricity sold within the state by the year 2015 be obtained from renewable energy and recycled energy sources. Cost recovery through this Rider and recovery of revenue requirements for the new investment is under the authority granted to the Commission under NDCC §49-02, §49-05, and §49-06. The Renewable Resource Rider approved by Order dated May 21, 2008, and effective on June 1, 2008, created a recovery mechanism and included provisions for Otter Tail's annual filing requirements.

Otter Tail's first annual filing was approved on January 14, 2009, becoming effective on February 1, 2009, subject to final review in Otter Tail's general rate case filed on November 3, 2008. The Order on Settlement in that general rate case approved and adopted (with one exception unrelated to the Renewable Resource Rider) the Settlement Agreement. The Settlement Agreement revised the RRA for the months of December 2009 through March 2010 and included provisions on calculation of revenue requirements and rate design that Otter Tail addresses in this filing.

This proposed 2010 RRA request includes costs associated with the investment in the new Luverne Wind Project along with updated costs associated with the Langdon and Ashtabula Wind Projects.

Our 2009 Renewable Resources Tracker report includes information regarding the amount collected from retail customers and the actual costs including: a return on investment; depreciation expense; federal and state income taxes; operation and maintenance ("O&M") expenses; ground lease payments; and Production Tax Credits ("PTC").

**B. Eligible projects**

1. Langdon Wind Project

Cost recovery was first granted for the Langdon Wind Project by Order dated May 21, 2008, in Case No. PU-06-466. This filing includes updated data for that project, shown on Attachment 1.

2. Ashtabula Wind Project

Cost recovery for Otter Tail's investment in the Ashtabula Wind Project was approved by Order dated January 14, 2009, in Case No. PU-09-742. This filing includes updated data for that project, shown on Attachment 2.

3. Luverne Wind Project

The Luverne Project is a wind generation project located in Steele County, North Dakota, approximately 6 miles north of Luverne, North Dakota. The Luverne Project is located in the Lake Ashtabula area, but it is separate from the Ashtabula wind generation project. The Luverne Project is part of a larger wind energy generation center called the "Luverne Wind Energy Center."

The Luverne Wind Energy Center consists of a total of 113 General Electric wind turbines, each of which has a nameplate capacity of 1.5 MW (for an aggregate of 169.5 MW nameplate capacity). The Luverne Wind Energy Center has been jointly developed by Otter Tail and NextEra (formerly known as FPL Energy). NextEra is the most experienced developer of wind in this region. By jointly working with NextEra, Otter Tail has gained efficiencies of scope and scale and benefited from NextEra's experience in such projects.

Otter Tail's Luverne Project comprises approximately 29 percent of the capacity of the Luverne Wind Energy Center. Otter Tail's Luverne Project consists of 33 wind turbines (with an aggregate nameplate capacity of 49.5 MW), tower foundations, operational equipment, electric collection circuit lines, project substation, approximately 13 miles of 230 kilovolt line, and real property interests. NextEra, through its subsidiary Ashtabula Wind II, LLC, has developed and will own the remaining 71 percent of the Luverne Wind Energy Center.

Otter Tail began evaluations and negotiations relating to the Luverne Project in 2006. Negotiations concluded successfully and development, permitting, engineering, and procurement for the Luverne Wind Energy Center began in the fourth quarter of 2008. Construction on the Luverne Project began in the second quarter of 2009, and was originally expected to be completed prior to the end of October 2009. Because of better-than-expected progress at the Luverne Project site, the project went into commercial operation ahead of schedule, in mid-September 2009.

Otter Tail has requested long-term firm transmission delivery service for the 49.5 MW Luverne Project output under a Midwest Independent Transmission System Operator ("Midwest ISO") Transmission Service Request ("TSR").<sup>4</sup> That request is currently in study mode on the Midwest ISO Open Access Same-time Information System ("OASIS"), and the Midwest ISO is finalizing the System Impact Study related to the request. In the event the long-term request is not confirmed by the operational date, Otter Tail will request short-term firm service from the Midwest ISO.

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<sup>4</sup> The Luverne Project TSR request is TSR #76633789

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The unit cost of the Luverne Project's 49.5 MW was expected to be **[TRADE SECRET INFORMATION BEGINS** **TRADE SECRET INFORMATION ENDS]**. This unit cost is inclusive of transmission costs and is significantly lower than the cost of the Ashtabula Project. Actual cost of the project was just over **[TRADE SECRET INFORMATION BEGINS** **TRADE SECRET INFORMATION ENDS]** before crediting the Federal grant discussed below.

The American Recovery and Reinvestment Act of 2009 provides project developers of wind, geothermal, biomass and other technologies eligible for the production tax credit ("PTC") the option of instead utilizing the 30 percent investment tax credit ("ITC") that previously only applied to solar and other clean technology projects. The Act includes a further provision that allows renewable resource project developers to apply for a grant from the Treasury Department in lieu of the ITC. The grant is equal to 30% of the cost of eligible projects that start construction in 2009 or 2010. The grant is issued within sixty days of the facility being placed in service or, if later, within sixty days of receiving a grant application.

Otter Tail applied for and received the Federal grant for the Luverne project, and thereby reduced rate base associated with the project by 30 percent (and reduced the return earned by shareholders). Receipt of the grant also provided an avenue for Otter Tail to reasonably finance the project during one of the most difficult periods in recent memory for financing such projects. This allowed Otter Tail to secure turbines and other project components at prices materially lower than previous years. This also allowed Otter Tail to take advantage of other incentives which were available in this time frame, such as bonus tax depreciation, which is further described below.

This financing approach also has had the benefit of mitigating risks associated with tax credits that are based on long-term production outputs from such projects. Because the grant does not change with a project's output, unanticipated curtailments would not reduce the value of the grant for our customers. For example, while the Luverne Wind Project is located in a wind-rich area, the growth of wind generation in the region could, during the ten-year life of the PTC, exceed transmission capability, introducing the possibility of transmission curtailments or constraints. Likewise, unforeseen operational problems could limit generation output. The turbines in the Luverne Wind Project have some components that use a newer technology with a shorter track record so that long-term performance, while expected to be good, has some additional risk. Additionally, Otter Tail's two previous investments in North Dakota wind farms use the PTC, so utilizing the Federal grant to finance the project has diversified and reduced the aggregate risk for these investments.

The Luverne Wind Project, like Otter Tail's earlier Langdon and Ashtabula wind farm investments, was the least-cost option for additional energy needed to serve Otter Tail's retail load. Otter Tail requests a finding that Otter Tail's investment in the Luverne Wind Project is prudent under NDCC § 49-05-16, Subd. 6, which provides that it is a rebuttable presumption that renewable energy facilities located in the State of North Dakota are prudent.

Revenue requirements for the Luverne Wind Project are detailed on Attachment 3.

**C. Revenue requirements calculation**

In general, Otter Tail's revenue requirements calculation in this filing is similar to previous filings. As part of the Settlement Agreement in Case Nos. PU-08-862 and PU-09-742, approved by the Commission on November 25, 2009, Otter Tail deferred the uncollected portion of the amount needed to true-up revenue requirements for a previous period. The amount deferred is \$337,256, as shown on line 4 (last column) of Attachment A to Schedule 6 of Otter Tail's Compliance Filing, dated November 24,

2009, in the above-referenced cases. This deferred balance is amortized over 48 months beginning with the 2010 cost recovery period, which Otter Tail assumes to be April 1, 2010, through March 31, 2011. For that time period, Otter Tail seeks to recover a total of \$9,993,871.

1. Revenue requirement calculation for each project

The total annual revenue requirement is based on the sum of the revenue requirements for the three projects. See attachments 1 through 3. Attachment 1 is the updated revenue requirements calculation for the Langdon Wind Project, Attachment 2 is the revenue requirements calculation for the Ashtabula Wind Project, and Attachment 3 is a similar calculation for the Luverne Wind Project. Generally, each of these revenue requirement calculations is set up as follows: Information is shown by calendar year from the time each project became commercially operational through 2011. Each 12-month period has two pages. The first page includes three sections: 1) a rate base computation section, using a 13-month average to calculate average rate base; 2) an expenses section listing the operating and maintenance, depreciation, and income tax expenses; and 3) a revenue requirements section, summarizing the total expenses and return on rate base calculations. The second page is the supporting information and data for page 1. On page 2 are the capital structure details, income tax, and depreciation calculations.

2. CWIP and AFUDC

During construction, AFUDC was calculated consistent with the FERC Uniform System of Accounts, 18 CFR Ch 1, Part 101, Electric Plant Instruction No. 3(17).

3. Rate of return

In its calculations Otter Tail has used the rate of return on rate base of 8.62 percent ordered in its most recent general rate case.<sup>5</sup>

4. Depreciation

Otter Tail has used a 25-year average service life for all depreciable property in these wind projects.

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<sup>5</sup> Case No. PU-08-862, Order dated November 25, 2009.

## 5. Taxes

*Manufacturing Production Deduction.* For tax years beginning after 2004, corporations such as Otter Tail may claim a federal tax deduction (Manufacturing Production Deduction) that is equal to a percentage of the income earned from production activities undertaken in the U.S. (including the production of electricity). The percentage is applied to the taxable income related to production activities (without regard to the deduction) for the tax year. The percentage is 3 percent for tax years beginning in 2005 and 2006, 6 percent for tax years beginning in 2007 through 2009, and 9 percent thereafter. For 2008, 2009 and projected 2010, Otter Tail's has a net operating loss for current income tax purposes so is not eligible for this credit. The credit cannot be carried forward.

*Production Tax Credit.* The Langdon and Ashtabula Wind Projects are eligible for the Production Tax Credit ("PTC"). Actual amounts are used through October 2009 and amounts are projected through March 31, 2011. The 2009 PTC is \$21.00 per MWH and 2010 PTC is assumed to be \$22.00 per MWH. The 2011 PTC is assumed to be \$23.00 per MWH. The actual PTC is adjusted annually for inflation. The magnitude of tax credits and deductions produced by Otter Tail's recent investments in wind generation have created a net operating loss for the current tax calculation. Otter Tail has used the credits or deductions in the financial information for each project but has only included in accumulated deferred income taxes the amount it has been able to use for tax purposes since there is no cash benefit to Otter Tail until it uses the credit or deduction for actual taxes. Because of loss carry forward provisions, Otter Tail expects that all credits and deductions will be used before they expire.

*Bonus Tax Depreciation.* The Ashtabula and Luverne Wind Projects qualify for bonus tax depreciation as defined in the Internal Revenue Code. Ashtabula went into service in 2008 and Luverne in 2009 so the entire tax basis qualifies for the 50 percent bonus each year. This results in a bonus tax depreciation amount of \$57.7 million and \$43.6 million for Ashtabula and Luverne, respectively.

## 6. Allocation to jurisdictions

Otter Tail has used the allocation factor approved in its most recent rate case to calculate North Dakota's share of the total revenue requirements. A review of the allocation factor expected for 2009 indicates this change in the factor: 40.209 percent estimated for 2009 compared with 38.830 percent from the test year in Case No. PU-08-862. However the 2009 factor is an estimate based on incomplete information. Otter Tail recommends continuing to use the allocation factor of 38.830 percent from its last general rate case.

**D. 2009 Renewable Tracker report**

The Renewable Resource Rider cost recovery mechanism uses a tracker account, shown in Attachment 4. This account summarizes total revenue requirements by project, credits retail revenue billed each month, and calculates the carrying cost. The Tracker included with this filing reflects actual information through October 2009 and projected information through 2011. The \$337,256 to be deferred appears as a credit on line 14 in December 2009. Amortization of this deferred amount begins in April 2010, shown on Line 15.

**E. Calculation of 2010 RRA factor**

In Otter Tail's Renewable Resource Rider case (Case No. PU-08-742), the Large Industrial Group intervenors advocated for a portion of the generation from these wind resources to be considered capacity, which would result in the use of both energy and demand allocation factors to assign the class responsibility for revenue requirements and to use in rate design. The settlement agreement in Case No. PU-08-742 contains this provision:

*“OTP's 2010 Renewable Cost Recovery revenue requirement will be allocated between the customer classes with 20 percent allocated based on demand and 80 percent allocated based on energy. Within the LGS class, that classes' revenue allocation will be collected through both a demand and energy charge using the same 20 percent demand, 80 percent energy allocation. The 20 percent is based on using MISO's capacity accreditation percentage for wind. MISO is expected to amend this initial determination based on studies it is currently performing, and the Parties agree that the allocation factor used by OTP will be adjusted as necessary to correspond with the weighted average level of capacity approved by MISO for the projects being recovered through the Renewable Resource Rider.”*

The Midwest ISO has recently issued its determination that the wind capacity credit for its planning year 2010/2011 will be 8 percent. A copy of the supporting document is included with this Petition as Attachment 5.

It has been the intention to use an updated capacity credit percent when the Midwest ISO issued an updated number, which it has done. Therefore, in order to comply with the

Commission’s Order adopting the Settlement Agreement and meet the intention of the parties, Otter Tail presents three alternatives for the 2010 RRA:

- (1) a rate per kWh for all customers,
- (2) a rate per kW and per kWh for the large general service class with a rate per kWh for all other customers based on a 20 percent capacity factor, and
- (3) a rate per kW and per kWh for the large general service class with a rate per kWh for all other customers based on an 8 percent capacity factor.

Calculations and the result of each alternative are shown on Attachment 6.

Otter Tail recommends alternative number 3. System planners and the Midwest ISO have recognized that wind generation, while variable and non-dispatchable, provides some amount of capacity for the electric system. There have been discussions during the past few years that resulted in some general agreement to use the Midwest ISO’s designation for the proportion of capacity produced by wind generation. The 20 percent capacity credit was a preliminary estimate used by the Midwest ISO until a more precise percent could be developed. The Midwest ISO has now designated the capacity credit for wind at 8 percent. Otter Tail believes it is appropriate to use the 8 percent capacity factor for allocation of class revenue responsibility and rate design in the current docket.

The resulting rates and bill impacts are shown below:

	<u>LGS</u>	<u>All Others</u>
Proposed		
Rate/kW	\$0.181	n/a
Rate/kWh	\$0.00497	\$0.00572
Typical use		
kW	200	n/a
kWh	1,000,000	750
Typical monthly bill impact <sup>6</sup>	\$5,006.20	\$4.29
Present		
Rate/kWh	\$0.00369	\$0.00369
Change in bill	\$1,316.20	\$1.52

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<sup>6</sup> This impact does not include an offset for a reduction in needed purchased power.

Additionally, the proposed 2010 RRA is calculated assuming the total proposed revenue requirement is effective April 1, 2010. If implementation of the 2010 RRA occurs after April 1, 2010, Otter Tail proposes that the RRA be adjusted to recover the approved revenue requirements over the remaining months of the period, through March 2011. This approach would ensure the cost recovery and the approved eligible costs match. If it is necessary to adjust the 2010 RRA, we propose to calculate the final 2010 RRA and include it with the corresponding rate schedule pages in a compliance filing in this case.

**F. Customer notification**

Otter Tail will work with Commission staff on a notice to meet the requirements of the North Dakota rules.

**IV. PROPOSED RATE SCHEDULE**

Our revised rate schedule number 13.04 in both redline and clean versions is provided in Attachment 7.

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**V. CONCLUSION**

Otter Tail respectfully requests the Commission approve the 2009 Renewable Resource Cost Recovery Adjustment effective April 1, 2010, based on the 2009 tracker activity and cost recovery for the Langdon, Ashtabula, and Luverne Wind Projects.

Dated: January 18, 2010

Respectfully Submitted,

OTTER TAIL POWER COMPANY

By: /s/ BERNADEEN BRUTLAG  
Bernadeen Brutlag  
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OTTER TAIL POWER COMPANY  
RENEWABLE RESOURCE RIDER 2010 RRA FACTOR FILING ATTACHMENTS

Attachment 1	Langdon revenue requirements calculation
Attachment 2	Ashtabula revenue requirements calculation
Attachment 3	Luverne revenue requirements calculation
Attachment 4	Renewable Resource Tracker report
Attachment 5	Midwest ISO support for wind capacity credit
Attachment 6	Class allocation, rate design alternatives, and projected revenue
Attachment 7	Updated Renewable Resource Rider (redline and clean versions)