

**STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION**

**Otter Tail Power Company
2010 Renewable Resource Cost Recovery Adj. Factor
Tariff**

Case No. PU-10-18

FINDINGS OF FACT, CONCLUSIONS OF LAW AND ORDER

August 4, 2010

Preliminary Statement

On December 31, 2009, Otter Tail Power Company filed an Application for approval of its 2010 Renewable Resource Cost Recovery Adjustment Factor under the company's Renewable Resource Cost Recover Rider (Renewable Rider).

On January 18, 2010, the company filed an Amendment to that Application removing a Request for an Advanced Determination of Prudence for the Luverne Wind Project and correcting an error from the original Application. The company's Amendment removing the Request for an Advanced Determination of Prudence for the Luverne Wind Project was made because the Luverne Project was already in service at that time and, therefore, no advanced determination was necessary.

On February 24, 2010, the Commission issued a Notice of Opportunity for Hearing, which provided until April 2, 2010, for petitions to intervene and May 12, 2010, for receiving written comments or requests for a hearing. The Notice identified the following issues to be considered:

1. Is Otter Tail Power's investment in the Luverne Wind Project used and useful for the service and convenience of the public in North Dakota?
2. Should costs associated with the Luverne Wind Project be included in the Factor (i.e., Renewable Resource Cost Recovery Adjustment)?
3. What factor is necessary to provide a just and reasonable rate of return on Otter Tail Power's commission-approved investment in wind farms, used and useful, for the service and convenience of the public in North Dakota?

On March 12, 2010, Goodrich Cooperation, Cargill Corporation, Cavendish Farms, Inc., Archer Daniels Midland Company, ComDel Innovation, Tharaldson Ethanol, LLC, Bobcat Company, and PrimeWood, Inc. (the North Dakota Large Industrial Group) filed a Petition to Intervene.

On March 24, 2010, the Commission issued an Order granting intervention to the North Dakota Large Industrial Group. On May 12, 2010, the North Dakota Large Industrial Group filed Comments. Those Comments raised four issues:

1. Whether Otter Tail Power should review the calculation of the North Dakota Investment Tax Credits associated with the Luverne Wind Project to determine if the project might qualify for a larger credit;

2. Whether the North Dakota Investment Tax Credits associated with the wind project should be credited to the Renewable Rider, as those credits are used in Otter Tail Power's tax returns instead of amortizing them over the life of the project – or, in the alternative, whether the unamortized balance of the North Dakota Investment Tax Credits should be reflected as a reduction to rate base;
3. Whether Otter Tail Power should continue to review the inter- and intra-class allocations for the Renewable Rider; and
4. Whether Otter Tail Power should provide information on the Otter Tail Power website explaining the components of the resource adjustment line of customer bills.

On June 23, 2010, Otter Tail Power filed Reply Comments and on June 29, 2010, Otter Tail Power filed a Supplement to its Reply Comments. In its Reply Comments and Supplement Comments Otter Tail Power explained that all issues raised in the Comments of the North Dakota Large Industrial Group had been resolved among the Parties, specifically, Otter Tail Power agreed to recalculate the North Dakota Investment Tax Credits based on the total value of the Luverne Project (North Dakota Large Industrial Group issue No. 1). Otter Tail Power also agreed it will continue to consider and discuss in its future annual rider filings the MISO capacity accreditation and any changes thereto, as that accreditation currently forms the basis for the inter- and intra-class allocations for the Rider (North Dakota Large Industrial Group issue No. 3). Finally, Otter Tail Power agreed it will make available on its company website information on the components of the energy and renewable adjustment line of customer bills (North Dakota Large Industrial Group issue No. 4).

Otter Tail Power more fully explained in its Supplement to its Reply Comments the calculation of the amortization and timing used for reflecting the North Dakota Investment Tax Credit in Otter Tail Power's RRA. The North Dakota Large Industrial Group informed the Commission that it accepted Otter Tail Power's proposed amortization (North Dakota Large Industrial Group issue No. 2). Additionally, Otter Tail Power explained in its Supplemental filing that the Parties had agreed to an implementation period beginning September 1, 2010, and running until March 31, 2012, for a total of 19 months.

On July 15, 2010, Advocacy Staff analyst Mike Diller filed a confirmation in this case stating that he had reviewed the information filed by Otter Tail Power and agrees that the documents sufficiently support the recalculated Renewable Resource Adjustment rider in conformity with the consensus of the parties. He also confirmed that staff supports the revised rider for deployment beginning September 1, 2010 through March 31, 2012.

On June 30, 2010, the Commission held an informal hearing to discuss Otter Tail Power's Application, and the Comments, Reply Comments, and other information supplied during the course of this case. During the informal hearing Otter Tail Power provided a history of the Renewable Rider and the Langdon, Ashtabula, and Luverne Wind Projects. Otter Tail Power also discussed the consensus resolution that was reached among the Parties and described in Otter Tail Power's Reply Comments and

Supplemental Comments. At the hearing the North Dakota Large Industrial Group and Advocacy Staff confirmed that they are in agreement with the resolution described by Otter Tail Power. Advocacy Staff asked Otter Tail Power to file the detailed financial information upon which its recalculated rate is based so that Advocacy Staff could independently verify the rate calculations. Otter Tail Power filed the requested information on July 9, 2010.

On July 30, 2010, the Commission received a letter stating that the North Dakota Large Industrial Group intervenors agree to the settlement as proposed and discussed by Otter Tail Power and Advocacy Staff at the Commission's June 30, 2010 informal hearing.

Otter Tail Power's Renewable Rider was approved by the Commission by Order dated May 21, 2008 in Case No. PU-06-466 (May 21, 2008 Order). In that Order the Commission explained that under the Commission's policy at that time (prior to the Order) "purchased power costs are immediately passed through to customers via the fuel adjustment clause and therefore absent a rider there would be little incentive for Otter Tail Power to invest in a North Dakota wind farm without a rider to ensure the same kind of immediate cost recovery." (May 21, 2008 Order at page 1). Also in that Order, the Commission approved cost recovery through the Rider for Otter Tail Power's investment in the 40.5 MW Langdon wind farm, which became operational in January 2008. The Commission made the following findings in support of its approval:

"The Commission finds that Otter Tail Power acted prudently in investing in the Langdon Wind Energy Center. It would have been easy for Otter Tail Power to simply purchase power at market prices and automatically pass through the costs to consumers in its cost of energy adjustment. Instead, the Company took on additional risk when investing in the wind farm in hopes that the Commission would agree with its decision. Because of Otter Tail Power's efforts, its customers have access to additional energy at a 10% discount."

(May 21, 2008 Order at page 2).

In an Order dated January 14, 2009, in Case No. PU-08-742 (2009 Renewable Resource Cost Recovery Adjustment Factor case), the Commission approved, on an interim basis, Otter Tail Power's 2009 update to its Renewable Resource Cost Recovery Adjustment Factor (January 14, 2009 Order). The January 14, 2009 Order included approval of cost recovery for Otter Tail Power's investment in the 48 MW Ashtabula wind generation project. The January 14, 2009 Order also combined the hearing on the case with the hearing on Otter Tail Power's then-pending general rate increase application in Case No. PU-08-862. In an Order dated November 25, 2009, in Cases No. PU-08-742 and PU-08-862, the Commission approved a settlement reached by the parties in which all rate case and Renewable Rider issues were resolved, including that Otter Tail Power's recoveries for its investments in renewable generation should continue through the Rider. It was also agreed that Otter Tail Power's investment in the Ashtabula wind project was prudent, and the 2009 Renewable Resource Cost Recovery Adjustment Factor should be approved with adjustments. One of the agreed to adjustments was to remove from the 2009 RRA Factor, recoveries

for the remaining amount of a specified unrecovered balance of 2008 costs for the purpose of recovering those costs over 48 months, beginning with the implementation of Otter Tail Power's 2010 Annual Renewable Resource Cost Recovery Adjustment Rate (November 25, 2009 Order at page 14). Otter Tail Power's request in this case includes the commencement of recovery of these amounts amortized over 48 months as required by the Commission's November 25, 2009, Order.

Having allowed all interested persons an opportunity to be heard, and having heard, reviewed and considered all testimony and evidence presented, the Commission makes the following:

Findings of Fact

Based upon the record herein, the Commission finds that the Luverne Wind Generation Project is located in Steele County, North Dakota, approximately six miles north of Luverne, North Dakota. Otter Tail Power's Luverne Project comprises approximately 29 percent of the capacity of the Luverne Wind Energy Center, which consists of a total of 113 General Electric wind turbines, each of which has a nameplate capacity of 1.5 megawatts, for an aggregate of 169.5 megawatt nameplate capacity. The Luverne Wind Energy Center has been jointly developed by Otter Tail Power and NextEra (formally known as FPL Energy). Otter Tail Power's Luverne Project consists of 33 wind turbines with an aggregate nameplate capacity of 49.5 megawatts, tower foundations, operational equipment, electric collection circuit lines, project substation, approximately 13 miles of 230 kV line, and real property interests. The Luverne Project was permitted for in 2008 and construction began in the second quarter of 2009. Construction was completed and the turbines became operational in mid-September 2009, ahead of schedule.

The Commission finds that Otter Tail Power has acted prudently in investing in and constructing its Luverne Wind Project. As Otter Tail Power demonstrated at the hearing, Otter Tail Power has historically served its customers energy needs using both native generating resources and purchased energy, and Otter Tail Power's customers energy needs have been growing as demonstrated in Otter Tail Power's resource plans and energy forecasts. The energy generated by Otter Tail Power's wind projects partially displaces the amount of purchased energy Otter Tail Power requires to serve its retail customers, and therefore it partially displaces the higher cost energy that customers have paid through increasing Fuel Clause Adjustment charges over the past several years. The cost savings of the wind projects can be seen in diminishing Fuel Clause Adjustment charges. As explained by Otter Tail Power at the hearing, the costs of the wind projects are reflected in the Rider Renewable Resource Cost Recovery Adjustment Factor, but the energy produced by the wind projects is reflected in the Company's Fuel Clause Adjustment at zero cost to the Fuel Clause Adjustment. This wind energy in the Fuel Clause Adjustment displaces the need for purchased energy or fuel that would be reflected in the Fuel Clause Adjustment at its purchase price.

One alternative way to fulfill load requirements was for Otter Tail Power to purchase power at market prices and pass through the costs to consumers in its Fuel Clause Adjustment. Instead, the Company on behalf of ratepayers, with a presumption of prudence, took on risk when investing in the Luverne Wind Project, with the

expectation that it would recover the costs of the investment through its Renewable Rider. No party challenged the prudence of the project. Furthermore, Otter Tail Power's construction of the Luverne Wind Project was successful in that it was completed ahead of schedule and approximately 7 percent under budget. These cost savings are being passed through to customers. The Luverne project's contribution to Otter Tail Power's customer's energy needs reflects that the project is used and useful for the service and convenience of the public in North Dakota.

The Commission finds that the unit cost (per kWh) of the Luverne project is lower than the cost of Otter Tail Power's last approved project, the Ashtabula project. Additionally, the project qualified for a federal grant, made available through the American Recovery and Reinvestment Act that further reduced the capital cost of the project by 30 percent. Otter Tail Power applied this grant as a reduction to this rate base investment when it was received. In addition to reducing the rate associated with this project, the grant allowed Otter Tail Power to successfully finance this low-cost project during possibly the most difficult time in memory for financing such projects. By doing so, Otter Tail Power was able to procure turbines and equipment at low prices and qualify for other incentives such as bonus tax depreciation.

The Commission finds that Otter Tail Power has responded appropriately to the desires of the North Dakota legislature encouraging investment in energy conversion facilities in North Dakota. Besides declaring that there is a rebuttable presumption that an energy conversion facility built in North Dakota is prudent, the State of North Dakota offers a significant investment tax credit for wind energy development of 3 percent per year for five years of dollars invested in North Dakota. In addition to the undisputed facts, described in the findings above, that demonstrate that the Luverne project is used and useful to Otter Tail Power's North Dakota customers, the Commission also finds that the prudence of Otter Tail Power's investment in the Luverne project has not been challenged by any party. Since it is a generation facility constructed in the State of North Dakota, the project satisfies North Dakota Century Code §49-05-16, which provides a rebuttable presumption that generation facilities located in the State of North Dakota are prudent.

The Commission finds that the recalculated RRA Factor resulting from this case, and as described below, provides a just and reasonable rate of return on Otter Tail Power's commission-approved investments in wind farms, including the Langdon, Ashtabula and Luverne wind farm investments. Specifically, the Commission finds that

the RRA Factor includes the commencement of recovery of the amounts amortized over 48 months as required by the Commission's November 25, 2009, Order in Case No. PU-08-742; that the Renewable Resource Cost Recovery Adjustment Factor has been based on a recalculated North Dakota Investment Tax Credit based on the total value of the Luverne Project; that the amortization and timing used for reflecting the North Dakota Investment Tax Credit in the RRA Factor is appropriate; that the rate design and other calculations used for the Renewable Resource Cost Recovery Adjustment Factor are consistent with the Commission's prior Orders on how Otter Tail Power is to calculate its Renewable Resource Cost Recovery Adjustment Factor. The Commission also finds that the parties' proposal for a nineteen month recovery period for the Renewable Resource Cost Recovery Adjustment calculation is reasonable and appropriate. Using that period will result in a more consistent rate over a longer time-frame and will allow the "catch up" recoveries for the Luverne investment (those that have built up while this matter has been pending) to be spread over a longer period, thus mitigating their impact to customers.

The RRA Factor for customers other than large general service customers is currently \$0.00369 per kWh. The proposed RRA factor for customers other than large general service customers is \$0.00551 per kWh. For a residential customer using 750 kWh per month, the proposed increase in RRA Factor represents an increase in the monthly bill of \$1.37.

Finally, the Commission finds that it is reasonable for Otter Tail Power to continue to consider and discuss in its future annual rider filings the MISO capacity accreditation and any changes thereto or another appropriate methodology for allocating capacity and energy, as that accreditation currently forms the basis for the inter- and intra-class allocations for the Renewable Resource Cost Recovery Adjustment Factor. It is also reasonable to require Otter Tail Power to make available on its company website information on the components of the energy and renewable adjustment line of customer bills as doing so will provide information from which customers may gain a greater understanding as to the costs and credits that make up their bills.

Order

The Commission orders:

1. That Otter Tail Power's investment in the Luverne Wind Project is used and useful for the service and convenience of the public in North Dakota.
2. That the costs associated with the Luverne Wind Project should be included in Otter Tail Power's Renewable Resource Cost Recovery Adjustment Factor (RRA Factor).
3. That Otter Tail Power's RRA Factor to be implemented beginning September 1, 2010, should be \$0.212 per kW and \$0.00473 per kWh for the large general service customer class; and \$0.00551 per kWh for all other customer classes; this Renewable Resource Cost Recovery Factor will be in effect until a new factor is established by the Commission, and Otter Tail Power will make its next Renewable Resource Cost

Recovery Factor update filing on or before December 31, 2011, with an expected implementation of April 1, 2012, to March 31, 2013.

4. Otter Tail Power shall continue to provide information in future Renewable Resource Cost Recovery Factor filings on capacity accreditation for wind projects.

5. Otter Tail Power shall make information available to its North Dakota customers on the Otter Tail Power website to explain the components of the energy and renewable resource adjustment line on customer bills.

PUBLIC SERVICE COMMISSION



Tony Clark
Commissioner



Kevin Cramer
Chairman



Brian P. Kalk
Commissioner