



Public Service Commission

State of North Dakota

COMMISSIONERS

Brian P. Kalk
Kevin Cramer
Bonny M. Fetch

Executive Secretary
Darrell Nitschke

November 9, 2012

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

Dr. Burl Haar
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, MN 55101-2147

**Re: In the Matter of Otter Tail Power Company's 2011-2025 Resource Plan
Docket No. E017/RP-10-623
Baseload Diversification Study 2012-2025**

Dear Dr. Harr:

The North Dakota Ratepayer Advocacy Staff assigned to follow and comment on this Plan hereby submits comments on the behalf of North Dakota ratepayers. Minnesota's policies and objectives often have a significant impact on North Dakota ratepayers, as does this case, due to the integrated nature of this regional utility company. The notion of prematurely closing a very low cost energy supply for North Dakota consumers is of great concern to us.

We desire to be good neighbors and cooperate with Minnesota to the extent possible and we are confident you share those same feelings towards us. North Dakota is paying for its allocated share of Minnesota's billion dollar MERP projects. We are currently paying for our share of Minnesota's mandated CBED projects. We are paying for our allocation of the build out of transmission facilities, to not only improve regional reliability, but to assist in meeting Minnesota's RPS. I think you will agree that North Dakota has been a pretty good partner.

We appreciate the openness of Minnesota's process allowing us to participate in the stakeholders' meetings so as to develop a clear understanding of the modeling assumptions that are being advocated. We appreciate the deference that has been shown to us by including modeling runs without environmental externality costs in accordance with North Dakota Century Code 49-02-23.¹

¹ 49-02-23. Consideration of environmental externality values prohibited.

The commission may not use, require the use of, or allow electric utilities to use environmental externality values in the planning, selection, or acquisition of electric resources or the setting of rates for providing electric service. Environmental externality values are numerical costs or quantified values that are assigned to represent either:

1. Environmental costs that are not internalized in the cost of production or the market price of electricity from a particular electric resource; or
2. The alleged costs of complying with future environmental laws or regulations that have not yet been enacted.

In the following comments, you will see that we agree with Otter Tail's approach to ameliorate other cost increases by delaying large expenditures at Hoot Lake's coal generation facilities until 2020. Delaying the final decision will also allow more time to better understand the new natural gas paradigm. In the event that the Minnesota environmental community and the Public Utilities Commission insist on an immediate retirement in 2015, we also offer a win / win solution for both states.

Impact on North Dakota Ratepayers

Our paramount concern is to effectively supervise the rates of Otter Tail Power Company. Otter Tail is currently embarking on significant capital expenditures to meet regional haze requirements for its Big Stone plant and to expand its regional transmission system driven by MISO. In fact, Otter Tail expects to more than double its existing rate base within the next four years. These capital projects alone are expected to increase customers' bills by approximately 23%.

To replace the Hoot Lake coal generators with natural gas fired generation will cost approximately \$280 million.² By adding this cost to the already significant investments taking place, ratepayers would see a total rate increase of between 35% and 40%; without considering the loss of a very cheap energy source at Hoot Lake!³ We find that the 2015 option is neither just nor reasonable to our ratepayers and places our customers in an unacceptable position. Prolonging this expenditure, whether it is for installing a natural gas turbine or refurbishment to remain a coal generation facility, would assist and benefit North Dakota ratepayers during this transitional period.

Uncertainty of Natural Gas Prices

Similar to points made by Advocacy Staff in a June 12, 2012 memo regarding Northern States Power Company's Manitoba Hydro Advance Determination of Prudence case in North Dakota, full consideration should be given to the new natural gas market.⁴ As everyone in the energy industry knows, prior to the wide spread use of hydraulic fracturing and horizontal drilling, the United States was experiencing declining domestic natural gas supply and was planning for liquefied natural gas import facilities. Now, with increasing domestic supply, not only are electric utility companies choosing natural gas over other generation alternatives, but a number of other demands for this new supply are coming online. Further, import facilities for natural gas are now looking to become export facilities so as to access world markets that are willing to pay much more for our natural gas.

By not immediately building a new natural gas generation facility at Hoot Lake, Otter Tail and its stakeholders will be given additional time to see how this new natural gas marketplace develops before placing ratepayer and shareholder dollars at risk for a very long-term and expensive investment.

² Baseload Diversification Study, p. 30.

³ Ibid., p. 32.

⁴ See Case No. PU-12-70, Doc. 18.

Potential Environmental Regulations

When looking at potential environmental regulations, it is just as important to plan for the fact that they may not be enacted. To assume future environmental regulations is a risky proposition. We do not know if or when carbon regulation will occur. On the other hand, we do know the cost of converting Hoot Lake to a gas generation facility. The risk of spending large sums of money prematurely for something as unsure as carbon regulation is not reasonable. Further, natural gas generation is by no means carbon free. If Minnesota insists on an early retirement of a low cost functioning energy facility, our laws and our philosophical differences will take us down divergent paths.

Win / Win Solution for Both States

In an effort to be responsive to Minnesota's needs and to preserve our own rights to low cost reliable power, we recommend exploring the option of transferring Minnesota's share of Otter Tail's Hoot Lake coal generation facility to the ratepayers of North Dakota. The acquisition of additional low cost base load resources fits well with our energy needs for North Dakota. This kind of arrangement would assist Otter Tail in meeting its 25% RPS in Minnesota. This would assist in the preservation of Fergus Falls' community and its economy. We would get what we want and Minnesota would get what it wants.

Conclusion

We are supportive of Otter Tail's position to delay the early shuttering of its Hoot Lake coal facility. We believe we are in the early stages of a new natural gas marketplace and therefore to assume low cost gas without any history could be a very big mistake. Patient and cautious minds should prevail given the magnitude of this decision to Otter Tail's relatively small customer base.

If Minnesota chooses the 2015 early retirement option, it should be willing to pay for the uneconomical costs of doing so or alternatively allow for the movement of these assets from the Minnesota jurisdiction to the North Dakota jurisdiction. It would be unfair to our citizenry to expect that they should pay for one-half of the impacts your decision would cause without some kind of recourse. The uneconomical costs incurred as a result of early retirement cannot be legally passed on to consumers in North Dakota.

If Minnesota chooses the 2020 option, then it appears our paths will remain congruent. We support the 2020 option. Thank you for your consideration.



Mike Diller on behalf of the Ratepayer Advocacy Staff of the North Dakota Public Service
Commission
Director of Economic Regulation