

STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION
STAFF RESPONSE

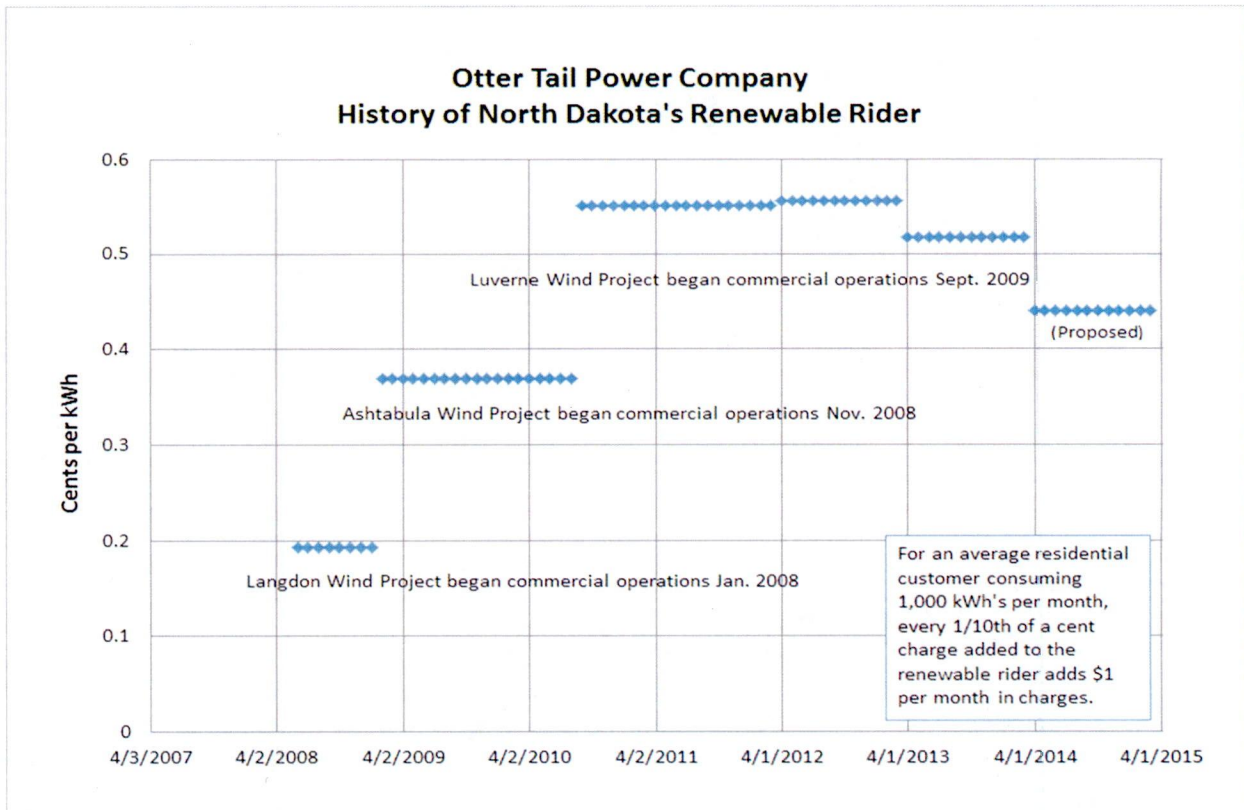
February 13, 2014

Otter Tail Power Company
2014 Renewable Resource Cost Recovery
Factor Adjustment
Tariff

Case No. PU-14-14

Application Background Information

The purpose of the renewable resource rider is to provide Otter Tail Power Company (Otter Tail) with cost recovery and a return on its renewable wind energy investments; namely the wind farms of Langdon, Ashtabula and Luverne. The following graph depicts the monthly rider rates approved since inception and the new proposed rate.



As can be noted from the above chart, the RRA continued to increase as new wind farms were brought on line peaking at .556 cents per kWh in 2012. Since then, the RRA has been decreasing. The reductions are occurring as plant is depreciated and the Company is able to take advantage of early tax benefits such as accelerated depreciation, production tax credits and investment tax credits.

On December 31, 2013, Otter Tail filed its 2014 Renewable Resource Cost Recovery Adjustment Factor (RRA). The 2014 RRA will become effective April 1, 2014, and replace the 2013 RRA that has been in effect since April 1, 2013. The 2014 RRA includes estimated revenue requirements and electric usage levels for the year ending March 31, 2015. In addition, the 2014 RRA includes a true-up provision for the differences between actual revenue requirements and actual cost recoveries in the past to ensure no more and no less than 100% recovery.

Staff's Analysis

The North Dakota revenue requirement for the 2014 RRA is \$8,067,667. The revenue requirement is calculated by using the same methodology as in previous filings and includes no new wind projects.

In its application, Otter Tail uses the energy allocation factor approved for its most recent rate case (PU-08-862) of 41.018% to determine North Dakota's share of the wind farms' total revenue requirements. The following table depicts the difference between the energy allocation factor used for North Dakota in calculating the revenue requirement for the RRA since inception and the actual share of energy used by North Dakota customers.

<u>Year</u>	<u>Energy Allocation Factor</u>		
	<u>Ordered</u>	<u>Actual</u>	<u>Difference</u>
2008	38.830%	38.34%	0.49%
2009	38.830%	40.33%	-1.50%
2010	41.018%	40.95%	0.07%
2011	41.018%	42.22%	-1.20%
2012	41.018%	41.38%	-0.36%

As can be seen above, the ordered rate has generally been a net benefit to North Dakota customers in comparison to North Dakota's actual share of energy consumed.

Based on the Settlement Agreement in Case No. PU-08-742, Otter Tail uses both a demand and energy charge to recover renewable costs from its large general service customers. The current filing results in charges of \$.489 per kW and \$.00347 per kWh for the large industrial class. The demand charge is based on MISO's weighted average wind capacity accreditation of 19.6% for Otter Tail's three wind farms. All other customers will be billed an energy only charge of \$.0044 per kWh compared to the existing rate of \$.00518 resulting in a 78¢ decrease per month for a customer using 1,000 kWh.

Otter Tail continues to market its Renewable Energy Credits from its wind units resulting in a reduction to North Dakota's cost of service of \$129,280 for the year ending 2013.

Please note that the chart on Page 9 of Otter Tail's original application depicts a column labeled "production percentage." These numbers indicate each farms share of Otter Tail's total owned wind generation and not the actual capacity factors of the wind farms. Therefore, the three production numbers add up to 100%. The next column "Capacity Credit" indicates MISO's determination of capacity available at each wind

farm during peak use times. The accredited 2014 / 2015 capacity at peak times of 18% to 21% fell from last year's accreditation of 25% to 32%.

The company explains the decreased accreditation on page 10 of its application indicating two primary reasons for the change. The ascribed value of wind energy on the MISO system from a capacity standpoint diminishes as more and more wind is added to the MISO region. Secondly, Otter Tail's wind farms did not generate as much energy relative to MISO's peak capacity requirements when compared to last year.

Last year, staff expressed some concern about long-term production capabilities of wind farms due to a study done on wind farms in the United Kingdom and Denmark indicating a dramatic loss of production as wind farms age. OTP responded to the study arguing that North Dakota circumstances are much different in terms of climate, maintenance, vintage of plants etc. The average energy production rates for the wind farms declined about 2 percentage points in 2013 compared to 2012. Differences in production levels from one year to the next can occur for a number of reasons and staff will continue to monitor for any long term trends.

Staff's Recommendation

Staff has reviewed the trade secret information as well as the public information and concludes that the filing is in order and fairly represents the costs of the wind farms. We recommend that the Commission approve the application and will put a motion on the March 12 agenda for approval once the Notice of Opportunity for Hearing deadline expires on February 28, 2014.



Mike Diller