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July 31, 2014



Mr. Darrell Nitschke
Director of Administration/Executive Secretary
North Dakota Public Service Commission
State Capitol
600 E Boulevard Ave, Dept. 408
Bismarck, ND 58505-0408

**RE: In the Matter of Otter Tail Power Company's Request for Approval to Revise Its
Energy Adjustment Rider to Include Emissions Controls Costs
Case No. PU-14-_____**

Dear Mr. Nitschke:

Otter Tail Power Company ("Otter Tail") hereby submits its application to the North Dakota Public Service Commission ("Commission") for approval of Otter Tail's request to revise its Energy Adjustment Rider to include certain specified costs for purchased emission allowances that may be necessary to comply with the Cross-State Air Pollution Rule ("CSAPR") promulgated by the Federal Environmental Protection Agency ("EPA").

In addition, Otter Tail also seeks Energy Adjustment Rider recovery of certain reagent expenses associated with new emissions controls equipment currently being installed at three of its generating facilities in order to comply with the EPA's Mercury and Air Toxics Standards ("MATS") rules promulgated by the EPA under the Clean Air Act ("CAA").

Attachments 1 and 2 are redline and clean versions of Tariff Schedule 13.01, Energy Adjustment Rider. Otter Tail will separately show the cost of any allowances purchased and reagents used in its monthly FCA reports.

Enclosed are an original and seven (7) copies of Otter Tail's Application along with a check in the sum of \$50. This filing is being sent to you electronically and by U.S. mail.

Please contact me at (218) 739-8279 or stommerdahl@otpc.com with any questions you may have.

Sincerely,

/S/ STUART TOMMERDAHL
Stuart Tommerdahl
Manager Regulatory Administration

jce
Enclosures
By electronic filing

An Equal Opportunity Employer

1 PU-14-668 Filed 07/31/2014 Pages: 21
Fuel clause adjustment tariff revision
Otter Tail Power Company
Stuart Tommerdahl

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

In the Matter of Otter Tail Power Company's
Request for Approval to Revise Its Energy
Adjustment Rider to Include Emission Costs

Case No. PU-14-____

APPLICATION

I. INTRODUCTION

Otter Tail Power Company ("Otter Tail") hereby applies to the North Dakota Public Service Commission ("Commission") to include in its Energy Adjustment Rider (commonly referred to as the fuel clause adjustment ("FCA")) expenses associated with the purchase of certain emission allowances ("allowances") and reagent expenses that may be necessary to comply with the Federal Environmental Protection Agency's ("EPA") Cross State Air Pollution Rule ("CSAPR") and Mercury and Air Toxics Standards ("MATS") Rules.

In early 2012, Otter Tail initially filed for FCA recovery of purchased emissions allowances associated with the proposed implementation of CSAPR in Docket No. PU-12-99. This filing was subsequently withdrawn in the fall of 2012 after CSAPR was vacated by the U.S. Court of Appeals for the D.C. Circuit ("Circuit Court") on August 21, 2012, due to uncertainty on how the EPA would respond to the Circuit Court's ruling.

On April 29, 2014, the U.S. Supreme Court issued its opinion, reversing the 2012 Circuit Court decision to vacate CSAPR and on June 24, 2014, the U.S. Federal Government petitioned the Circuit Court to remove the stay. Based on these recent actions, Otter Tail is now preparing for the re-instatement of CSAPR. CSAPR will apply to Otter Tail's two fossil fuel generating plants located in Minnesota: the Solway gas peaking plant and the Hoot Lake Plant ("HLP") units 2 and 3.

In addition, Otter Tail also seeks FCA recovery of certain reagent expenses associated with new emissions controls equipment currently being installed at three of its generating facilities in order to comply with the EPA's MATS rules promulgated by the EPA under the Clean Air Act ("CAA").

The necessity of reagents was explained in the proceedings that resulted in the Advanced Determination of Prudence (“ADP”) issued by the Commission for Big Stone Plant’s Air Quality Control System (“AQCS”) project in Docket Number PU-11-165. Reagent expenses will also be incurred at Otter Tail’s Coyote Plant, located near Beulah, North Dakota and Hoot Lake Plant (“HLP”) units 2 and 3, located in Fergus Falls, Minnesota, when those plants’ emissions equipment is placed in service to comply with the MATS rules.

The quantity of allowances and the consumption of reagents at the generating facilities will fluctuate directly in relation to the operation of those facilities, just like fuel costs.

These are new costs to Otter Tail, and the incurrence of these costs will phase in over time. The HLP and Coyote Plant emissions equipment will be placed into service in the fall of 2014, and Big Stone’s AQCS project will go into service in late 2015. Timing for the potential re-instatement of CSAPR is unknown at this time; however, Otter Tail anticipates that it is likely to be reinstated in the next 12-24 months.

Otter Tail currently estimates, based on known information today, that once all emissions equipment is placed into service, and allowances are required to be purchased, the annual cost to North Dakota customers will be approximately \$1.8 million, which would equate to an incremental increase in the FCA of approximately \$0.00098/kWh. A number of factors exist that may cause these estimates to increase or decrease over time.

II. GENERAL FILING INFORMATION

Pursuant to § 69-02-02-04 of the Commission's Rules of Practice and Procedure, the following information is provided.

A. Name, address, and telephone number of utility

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
PO Box 496
Fergus Falls, Minnesota 56538-0496
(218) 739-8475

C. Title of utility employee responsible for filing

Stuart Tommerdahl
Manager, Regulatory Administration
Otter Tail Power Company
215 South Cascade Street
PO Box 496
Fergus Falls, Minnesota 56538-0496
(218) 739-8279

D. Date of filing and proposed effective date of rates

The date of this filing is July 31, 2014. Otter Tail proposes the requested revision to its Energy Adjustment Rider be effective for costs incurred beginning October 1, 2014, and to begin recovery of those costs through Otter Tail's normal monthly FCA filings, the first month following the month the Commission issues an Order approving this request.

E. Statutory authority

Approval of this Application is requested under the general authority granted to the Commission in N.D.C.C. § 49-02. The FCA is administered under North Dakota Rule § 69-09-02-39.

F. Other requirements of North Dakota Rules § 69-02-02-04

Articles of Incorporation: 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 AND BACKGROUND INFORMATION

Otter Tail previously filed for recovery of these costs in Case No. PU-12-99 ("12-99"), but subsequently withdrew that Application when CSAPR was vacated in August 2012. That ruling was recently overturned by the U.S. Supreme Court. In anticipation of the EPA reinstating

CSAPR, Otter Tail is now once again seeking permission for FCA recovery of purchased emissions allowance costs. In this Application, Otter Tail is requesting approval of a variance to North Dakota Rules § 69-09-02-39 to permit inclusion in the Energy Adjustment Rider, certain specified costs for purchased emission allowances that may be necessary to comply with the CSAPR issued by the Federal EPA.

Secondly, Otter Tail also seeks FCA recovery of certain reagent expenses associated with new emissions controls equipment currently being installed at three of Otter Tail's generating facilities in order to comply with the EPA's MATS rules promulgated by the EPA under the CAA.

Background information to support each request above is provided below.

A. Background – Emissions Allowances

1. Cross-State Air Pollution Rule

Early in 2011, the Federal EPA finalized a new air pollution regulation called CSAPR. CSAPR further regulates sulfur dioxide ("SO₂") and nitrogen dioxide ("NO_x") emissions from fossil fuel-fired power plants located in the eastern portion of the United States. The Rule establishes two new types of SO₂ allowances ("Group 1" and "Group 2") and two new types of NO_x allowances ("annual" and "ozone"). Minnesota is classified as a "Group 2" SO₂ state (along with six other states) and an "annual" NO_x state (along with 22 other states.) South Dakota and North Dakota are not included in CSAPR. Therefore, Otter Tail's Coyote Generating Station in North Dakota, and the Big Stone Plant in South Dakota are not impacted by this rule.

The final CSAPR was published on August 8, 2011, and was to be effective October 7, 2011, for generating plant operations on and after January 1, 2012. Generating units were allocated allowances in late October 2011. In the course of litigation challenging the rule, the rule was stayed by the D.C. Circuit Court of Appeals in late December 2011 and in August 2012, the U.S. Court of Appeals for the D.C. Circuit vacated CSAPR. On April 29, 2014, the U.S. Supreme Court issued its opinion in the litigation reversing the August 21, 2012 decision. On June 24, 2014, the U.S. Government filed a motion with the U.S. Court of Appeals for the D.C. Circuit to lift the stay of CSAPR. The outcome of that motion is likely reinstatement of CSAPR.

Other important information attributable to the original CSAPR rule, as detailed in Otter Tail's original filing in Docket No. PU-12-99 includes the following:

- The new rules do not rely on Title IV allowances used for the Acid Rain Program ("ARP"); however, sources will still be required to hold the ARP allowances and comply with all requirements of that program.
- The rule sets an allowance budget for each state, and then allocations are made from the state budget to each affected unit within the state. Allocations are made based on the ratio of the unit's historical heat input to the state's historical heat input. Adjustments are then made to ensure that sources do not receive more allowances than their historical maximum emissions. This allocation methodology is in contrast to the originally proposed Transport Rule for Group 2 that allocated allowances based on a unit's projected future actual emissions. The significance to HLP of this change in allocation methodology is explained below.
- If an affected unit does not have enough allowances, the unit can obtain allowances on the open market. However, a Group 2 SO₂ unit can only use Group 2 SO₂ allowances. Any extra allowances remaining at the end of the year can be banked for use in future years.

2. Plants Impacted by the CSAPR

The CSAPR rule, as originally designed by the EPA, will apply to Otter Tail's two Minnesota Based fossil-fuel generating plants: the HLP coal-fired facility and the Solway natural gas peaking plant.

Hoot Lake Plant

HLP, 100 percent owned by Otter Tail, is located in Fergus Falls, Minnesota and has two units currently in operation. Unit #2 was built in 1959 with 59 MWs of capacity. Unit #3 was added in 1964 and has 85 MWs of capacity. Unit #1 was retired in 2005. HLP accounts for approximately 20 percent of Otter Tail's generation and has burned sub bituminous coal since the late 1980's.

Prior to initial publication, the EPA draft CSAPR did not appear to impact Otter Tail—based on Otter Tail's evaluation of the earlier CSAPR drafts, all of Otter Tail's generating plants would be able to meet the new requirements under normal operating conditions and by using the

allowances allocated pursuant to the rule as originally proposed. Therefore, operations would have been able to continue as before without purchasing additional emission allowances. However, when the final CSAPR rule was ultimately published in the Federal Register, it had been revised such that Otter Tail’s HLP units 2 and 3 were unlikely to be able to meet the new requirements at normal operating levels without the purchase of SO2 emission allowances beyond those allocated to the company.

Assuming that HLP ultimately receives the same level of SO2 and NOx allocations that the plant would have received in the vacated CSAPR rule, the following tables illustrate theoretical historical SO2 and NOx allowance shortfalls for the previous five years of operations. Under the CSAPR, generating units that do not have enough allowances can obtain allowances on the open market. The CSAPR designates Minnesota as one of seven states classified as Group 2 for SO2. The CSAPR allows a utility located in a Group 2 state only to purchase allowances from other Group 2 states.

Quantity of Allowances Needed

SO2

Year	Total HLP SO2 Emissions (tons)	Theoretical HLP CSAPR SO2 Allowance Allocation (tons)	Theoretical SO2 Allowance Shortfall (tons)
2009	2187	1255	(932)
2010	3610	1255	(2355)
2011	3414	1255	(2159)
2012	2658	1255	(1403)
2013	3476	1255	(2221)

NOx

Year	Total HLP NOx Emissions (tons)	Theoretical HLP CSAPR NOx Allowance Allocation (tons)	Theoretical NOx Allowance Shortfall (tons)
2009	720	847	127
2010	966	847	(119)
2011	929	847	(82)
2012	809	847	38
2013	953	847	(106)

The primary impact of the rule will be for HLP to acquire SO₂ allowances to continue operating at levels consistent with its standard historical operations. Otter Tail anticipates that this will continue to be the primary impact following a reinstatement of CSAPR.

Solway

Solway is a natural gas peaking plant located near Solway, Minnesota (near Bemidji). Otter Tail is 100 percent owner in the 47 MW peaking plant which became operational in 2003. Assuming that Solway ultimately receives the same level of SO₂ and NO_x allocations that the plant would have received in the vacated CSAPR rule, there will be no need to purchase additional emission allowances for Solway.

3. Estimated Annual Costs Associated with CSAPR Compliance

At this time, the cost impact of purchasing emission allowances is unknown since CSAPR is a market based program, and the market has not yet been established. For the vacated CSAPR rule, EPA modeling suggested a market price of \$600 per ton for SO₂ and \$500 per ton for NO_x; however, since CSAPR was vacated there has been a substantial reduction in the costs for both emission allowances in the CSAPR region that comprises Minnesota. Any pricing estimates are speculative until the D.C. Circuit completes remand proceedings, until it is known how EPA intends to reinstate the rule or whether they intend to propose any changes to the rule, and ultimately until an emission allowance market is established. Based on estimated emissions levels and using EPA modeling suggested market prices, Otter Tail estimates the annual cost to be \$14,000 per year cost for NO_x allowances (System basis) and \$1,100,000 per year cost for SO₂ allowances (System basis). North Dakota's jurisdictional share of these costs is estimated to be approximately \$6,000 for NO_x allowances and \$451,000 for SO₂ allowances per year.

B. Background- Reagents

1. EPA Rule – Clean Air Act MATS Compliance

The 1990 Amendments to the CAA required the EPA to study the effects of emissions of listed hazardous air pollutants by electric steam generating plants. The EPA completed required studies and submitted reports to Congress, and determined that it would regulate mercury emissions from electric generating units under the hazardous air pollutant requirements of the

CAA¹. EPA then published final rules that reversed this determination and set forth a cap and trade program for mercury emissions; however, EPA's cap and trade mercury rule was reversed by the United States Court of Appeals for the D.C. Circuit in February 2008.

In response to the D.C. Circuit Court's vacatur, on March 16, 2011, EPA proposed Section 112 air toxics standards for all coal- and oil-fired Electrical Generating Units ("EGU") that reflect the application of the maximum achievable control technology consistent with the requirements of the CAA. EPA signed a final rulemaking, termed the Mercury and Air Toxics Standards ("MATS") Rule, on December 16, 2011, which was subsequently published in the Federal Register on February 16, 2012.

Power plants have three years and sixty days from the date of publication (April 16, 2015) to comply with MATS, although EPA is encouraging state permitting authorities to broadly grant a one-year compliance extension to plants that need additional time to install controls. The EPA is also providing a pathway for reliability critical units to obtain an additional year to achieve compliance; however, the EPA believes there will be few, if any situations, in which this pathway is needed.

IV. THREE TYPES OF REAGENTS USED

Reagents are substances used to process emissions and are necessary for Otter Tail's compliance with federal regulations enforced by the EPA. The type of reagents used at each impacted plant will vary depending on the emissions control equipment being installed at that specific facility. Those reagents are: Powdered Activated Carbon, Pebble Lime, and Anhydrous Ammonia.

Powdered Activated Carbon is used in the reduction of mercury emissions. Pebble Lime is used for the reduction in sulfur dioxide (SO_x) emissions, and Anhydrous Ammonia is used for the reduction of nitrogen dioxide (NO₂).

V. PLANTS IMPACTED BY THE MATS RULE AND THE REAGENTS USED

Big Stone Plant

¹ 65 Fed. Reg. 79825 (Dec. 20, 2000), Regulatory Finding on the Emissions of Hazardous Air Pollutants from Electric Utility Steam Generating Units.

Big Stone Plant is a coal-fired generating plant that became commercially operational on May 1, 1975. Otter Tail owns 53.9 percent of the plant which has a 475 MW capacity rating. It is located near Milbank, South Dakota and has been fueled by western sub bituminous coal since 1995.

Big Stone Plant is in the process of installing emissions control equipment to meet EPA standards. The project, known as the Big Stone Air Quality Control System (“AQCS”) project, received an advanced determination of prudence by the Commission in Docket Number PU-11-165. All three reagents: Pebble lime, activated carbon, and anhydrous ammonia will be utilized for the new emissions control equipment being installed at Big Stone. Otter Tail’s estimated cost per year will be \$2,410,000 combined for the reagents for Big Stone Plant of which approximately \$999,000 will be allocated to North Dakota.

Due to the extensive nature of the AQCS project, on August 27, 2013, the plant was granted a one year extension (until April 16, 2016) by the South Dakota Department of Environment and Natural Resources to comply with MATS. It is projected that the AQCS project will be in-service in October 2015, at which time reagent expenses will begin to be incurred for Big Stone Plant.

Coyote Plant

Coyote Plant, of which Otter Tail is a 35 percent owner, is located in Beulah, North Dakota and has a 427 MW capacity rating. It is a lignite-fired coal mine mouth facility that was put into commercial operation on May 1, 1981.

New equipment is currently being installed at the Coyote Station to meet MATS requirements which will consume powdered activated carbon for the reduction of Mercury Emissions. This new equipment is expected to go into service in September 2014 at which time reagent expenses will begin to be incurred for Coyote Plant. Otter Tail’s estimated cost per year for the powdered activated carbon at Coyote Plant will be \$357,000, of which approximately \$148,000 will be allocated to North Dakota.

Hoot Lake Plant

HLP will meet MATS emissions requirements by upgrading the Unit #2 and Unit #3 electrostatic precipitators to reduce particulate and installing a powdered activated carbon injection system to reduce mercury emissions. Although not anticipated, HLP may also install a sodium or calcium based dry sorbent injection system to control hydrogen chloride. Hydrogen

chloride monitors are currently in place to confirm, in 2014, that the dry sorbent injection system is not needed to control these emissions.

The addition of above equipment will make HLP compliant with emissions control standards. Powdered activated carbon will be the reagent utilized for the new emissions control equipment. The estimated cost per year is \$630,000 of which approximately \$261,000 will be allocated to North Dakota. The new equipment will be in-service in the third quarter of 2014, at which time reagent expenses will begin to be incurred for HLP.

VI. OTTER TAIL'S PROCUREMENT OF REAGENTS

A. Cost Volatility of Reagents and Emissions Allowances, and Otter Tail's Mitigation Efforts

Market factors exist that create price volatility for powdered activated carbon, pebble lime, anhydrous ammonia, and emission allowances. Otter Tail has been proactive in securing contracts well in advance of need, in order to enhance its position in the procurement of reagents and try to mitigate, as best we can, some of the cost volatility. Otter Tail desires to procure these items in order to minimize the impact to customers as much as possible. Even so, there are market factors outside of Otter Tail's control that may impact pricing. For example, until the final CSAPR is implemented, it is not possible to predict the purchase price of the allowances with precision. Below is a synopsis of the procurement efforts deployed to help protect customers, as much as possible, from cost volatility.

1. Powdered Activated Carbon Procurement

The powdered activated carbon contract has a three year duration and a fixed price for the commodity. However, powdered activated carbon will be delivered by truck to the plants so the delivery cost is subject to fluctuation based on market prices of the diesel fuel consumed during delivery. Specifically, the fuel charge for delivery is based on a flat rate plus a fuel surcharge that is calculated based on a published index for diesel fuel.

2. Pebble Lime Procurement

The pebble lime contract has three year duration and a fixed price for the commodity. However, delivery represents over 50 percent of the cost of the delivered pebble lime. The product will be delivered by rail to Buffalo, ND and then delivered by truck to Big Stone Plant. The supplier will implement a fuel surcharge if diesel fuel goes over an agreed upon amount per

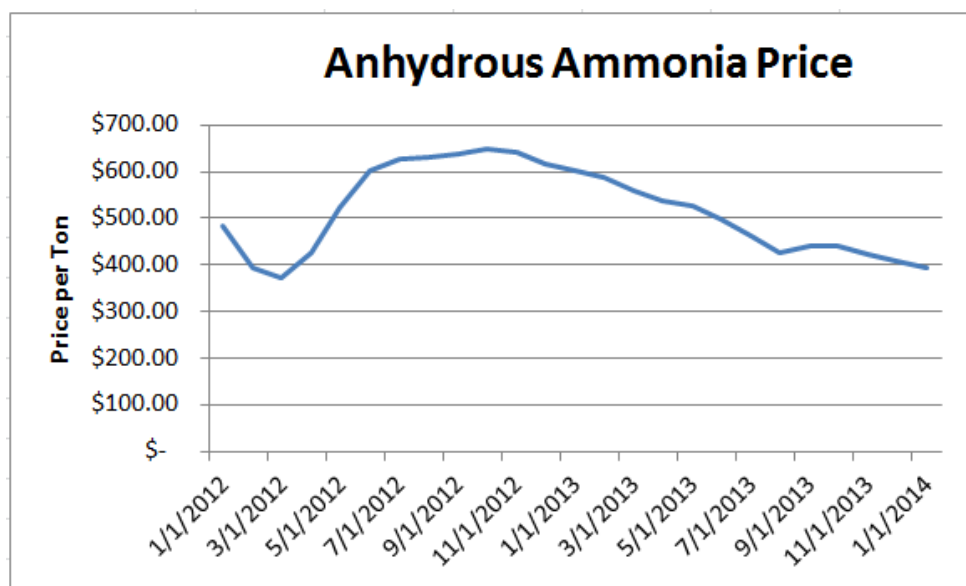
gallon based on the Department of Energy’s average fuel price for the Midwest Region. A price above the agreed upon amount would cause an increased cost equal to the fuel surcharge schedule agreed to in the contract. In addition to the fuel surcharge, the rail contract is negotiated annually by the supplier and is expected to increase one to two percent per year with the contract requiring Otter Tail to pay for the increases up to a cap of four percent.

3. Anhydrous Ammonia Procurement

Anhydrous ammonia is the reagent with the most price volatility of the three used in MATS compliance. Otter Tail’s contract price for it is tied to the Fertecon Tampa Index Price for anhydrous ammonia. This means that the price Otter Tail pays will fluctuate based on the index.

Two items that contribute to price volatility of anhydrous ammonia are its demand for use in agriculture as fertilizer, as well as the cost of natural gas, a major input in the production of anhydrous ammonia. Agriculturally, as the price of corn and wheat goes up, there is more demand for fertilizers which increases demand for anhydrous ammonia. This means that rising corn and wheat prices are a leading indicator of higher anhydrous ammonia prices. Weather, production, storage and demand for natural gas all contribute to its price volatility. As natural gas becomes more commonly used as a replacement to coal and other energy options, demand will continue to rise and, potentially so will its cost.

Below is a graph showing the volatility of the reagent in dollar cost per ton.



VII. REVISION TO OTTER TAIL'S ENERGY ADJUSTMENT RIDER

In order to have a clear description of the costs included in its FCA, Otter Tail recommends the following addition to paragraph 1 of its Energy Adjustment Rider, Section 13.01 of its Rate Book.

“The average cost of energy shall be determined as follows:

1. The cost of fuel, as recorded in Account 151, used in the Company's generating plants, and the costs of reagents and emission allowances for the Company to operate its generating plants in compliance with the associated Federal Environmental Protection Agency rules and regulations. Energy from the Company's hydro generating plants shall be included at zero cost.”

Attachments 1 and 2 are redline and clean versions of Tariff Schedule 13.01, Energy Adjustment Rider. Otter Tail will separately show the costs of all reagents and purchased emission allowances in its monthly FCA reports.

VIII. FCA RATE IMPACT

Both purchased emission allowance and reagent costs will apply to all of Otter Tail's North Dakota customers subject to the FCA. Attachment 3 summarizes current estimates for these costs. As noted earlier in this Application, these costs will phase in as equipment is installed at the various plants and the consumption of reagents and the purchase of emissions allowances occurs. Attachment 3 to this filing provides a summary of the total annual reagent cost estimates by type and by plant, and the total emissions allowance costs, based on the assumption all equipment is operational and allowances are being purchased for an entire year.

As summarized in Attachment 3, Otter Tail's estimated total annual reagent and emissions costs will be approximately \$1,864,588 (North Dakota) based on current assumptions. To compute an incremental impact of those costs on a kWh basis, we used the most recent 12 months sales ending June 30, 2014 upon which the FCA was applied in North Dakota, which was 1,902,496,934 kWhs. Using this sales level as a proxy to spread the costs resulted in an estimated incremental impact to the FCA of \$0.00098 per kWh. The potential monthly impact for an average residential customer using 1,000 kWh per month will be \$0.98 and the impact on all other customers using an average of 8,000 kWh per month will be \$7.84. As noted earlier, actual costs will ultimately vary based on the output of each generating facility, as well as other market factors which may contribute to price volatility for the reagents and purchased emission

allowances acquired.

IX. REQUEST FOR VARIANCE FROM NORTH DAKOTA RULE

As explained above, the number of emission allowances that Otter Tail may need to purchase for its HLP is directly related to the number of tons of coal burned at the plant. The quantity of reagents to be consumed at all three plants will vary in a similar fashion. Therefore, the cost of these emission allowances and reagents becomes a cost of the fuel for that plant. Nevertheless, Otter Tail requests a rule variance to ensure that this treatment of these costs is not inconsistent with a technical reading of the rules.

North Dakota Rules § 69-09-02-39, subp. 4, provides that energy costs are the cost of: "fuel consumed in the utility's own plants and the utility's share of fossil and nuclear fuel consumed in jointly owned or leased plants."

North Dakota Rules § 69-09-02-39, subp. 7, further describes the cost of fuel: "The cost of fuel other than nuclear may include only those items listed in Account 151 of the Uniform System of Accounts for Public Utilities and Licensees." The FERC's Uniform System of Accounts requires the inventory of emission allowances to be carried in account 158.1 Allowance Inventory with changes expensed to account 509 Allowances. Reagent expenses will be accounted for in account 154 Plant Materials and Operating Supplies. Therefore, while the cost of newly acquired emission allowances and reagents can reasonably be viewed as a "cost of fossil fuel," the references to specific FERC accounts included in North Dakota Rules were promulgated before this EPA regime could have been contemplated. Therefore, a rule variance is appropriate in this circumstance.

North Dakota Rules § 69-09-02-39, subp. 10, provides that "[i]f a particular circumstance prevents the use of a standard or its use would result in an undue burden, the commission may for good cause shown, permit deviation from a standard." Based upon this authority and for these reasons, Otter Tail requests that the Commission also allow a deviation from the accounting for energy costs as defined in North Dakota Rules § 69-09-02-39 in order to include such emission costs.

X. REVISION TO OTHER RATE SCHEDULES

There are no changes to any other rate schedules.

XI. NOTICE TO CUSTOMERS

Attachment 4 is a proposed notice to customers that would be included with customer bills in the month that the additions to the FCA are implemented.

XII. CONCLUSION

Otter Tail respectfully requests that the Commission approve the addition of reagents and purchased emission allowances to its annual energy rate adjustment mechanism as set forth in this Petition, effective for costs incurred beginning October 1, 2014.

Dated: July 31, 2014

Respectfully Submitted,

OTTER TAIL POWER COMPANY

By: /s/ STUART TOMMERDAHL

Stuart Tommerdahl
Manager, Regulatory Administration
Otter Tail Power Company
215 S. Cascade Street
Fergus Falls, MN 56537
(218) 739-8279
stommerdahl@otpc.com

OTTER TAIL POWER COMPANY
ENERGY ADJUSTMENT RIDER INCLUSION OF EMISSIONS ALLOWANCE AND
REAGENT EXPENSES FILING ATTACHMENTS

Attachment 1	ND 13.01 Energy Adjustment Rider – Red Line
Attachment 2	ND 13.01 Energy Adjustment Rider – Clean
Attachment 3	Customer Impact
Attachment 4	Proposed Customer Notice



Fergus Falls, Minnesota

ENERGY ADJUSTMENT RIDER

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There shall be added to or deducted from the monthly bill the amount per kilowatt-hour (rounded to the nearest 0.001¢) that the average cost of energy is above or below 2.8030¢ per kilowatt-hour. The average cost of energy per kilowatt-hour for the current period shall be calculated from data covering actual costs from the most recent four-month period as follows:

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Energy costs from actual months 1, 2, 3, and 4 plus unrecovered (or less over recovered) prior cumulative energy costs divided by retail sales for actual months 1, 2, 3, and 4 equals the cost of energy adjustment for month 6.

The applicable adjustment will be applied effective on any billing dated on or after the first day of each calendar month. The average cost of energy shall be determined as follows:

1. The cost of fossil fuel, as recorded in Account 151, used in the Company's generating plants and the cost of reagents and purchase of emission allowances for the Company to operate its generating plants in compliance with the associated Federal Environmental Protection Agency rules and regulations. Energy from the Company's hydro generating plants shall be included at zero cost.

C
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C

2. The energy cost of purchased power included in Account 555 when such energy is purchased on an economic dispatch basis, exclusive of capacity or demand charges. This includes but is not limited to net costs linked to the utility's load serving obligation, associated with participation in wholesale electric energy markets operated by Regional Transmission Organizations, Independent System Operators or similar entities that have received Federal Energy Regulatory Commission approval to operate the energy markets. All Midwest Independent System Operator ("MISO") Energy and Ancillary service market charges and credits relating to retail sales and asset based sales, specifically including (but not limited to) Schedule 16 and 17 charges and credits shall be included in the calculation.

N
N
N
N

3. The actual identifiable fossil and nuclear fuel costs associated with energy purchased for reasons other than identified in 2 above.

NORTH DAKOTA PUBLIC
SERVICE COMMISSION
in North Dakota

Case No. PU-~~0814-862~~ ___

Approved by order dated: ~~November 25, 2009~~

~~Bernadeen Brutlag~~ Thomas R. Brause

~~Services~~ Vice President, Administration

EFFECTIVE with bills rendered on
and after ~~December 1, 2009~~ October 1, 2014,

APPROVED:

~~Manager, Regulatory~~



Fergus Falls, Minnesota

4. The net energy cost of energy purchases from a renewable energy source, including hydropower, wood, windpower, and biomass. ~~N~~
~~N~~

5. Less the fuel-related costs recovered through intersystem sales. C

Asset-based Sales Margins, as defined below and in the amount calculated as described below, shall be reflected as a credit to the energy adjustment calculation described in 1-5, above. N
N

Asset-based Sales Margins: N

Asset-based Sales Margins are defined as wholesale energy and ancillary services sales revenues from Company-owned generation resources less the sum of fuel, energy costs (including costs associated with MISO markets that are recorded in FERC Account 555), and any additional transmission or other costs incurred that are required to make such sales (referred to as “margins”). N
N
N
N
N

The amount of the Asset-based Sales Margin credit shall be determined as described below: N

Credit calculation: The credit shall be eighty-five percent (85%) of Asset-based Sales Margins. The Asset-based Sales Margin credit shall be calculated monthly based on a forecast of the margins expected for that month and a true-up shall be made to adjust prior forecasted credits to reflect eighty-five percent (85%) of the actual margins earned in prior months. The true-up adjustments shall be made as soon as reasonably practical after the receipt of actual results and shall reflect MISO and other resettlements that would have impacted prior credits. N
N
N
N
N



Fergus Falls, Minnesota

ENERGY ADJUSTMENT RIDER

There shall be added to or deducted from the monthly bill the amount per kilowatt-hour (rounded to the nearest 0.001¢) that the average cost of energy is above or below 2.8030¢ per kilowatt-hour. The average cost of energy per kilowatt-hour for the current period shall be calculated from data covering actual costs from the most recent four-month period as follows:

Energy costs from actual months 1, 2, 3, and 4 plus unrecovered (or less over recovered) prior cumulative energy costs divided by retail sales for actual months 1, 2, 3, and 4 equals the cost of energy adjustment for month 6.

The applicable adjustment will be applied effective on any billing dated on or after the first day of each calendar month. The average cost of energy shall be determined as follows:

1. The cost of fossil fuel, as recorded in Account 151, used in the Company's generating plants and the cost of reagents and purchase of emission allowances for the Company to operate its generating plants in compliance with the associated Federal Environmental Protection Agency rules and regulations. Energy from the Company's hydro generating plants shall be included at zero cost. C
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2. The energy cost of purchased power included in Account 555 when such energy is purchased on an economic dispatch basis, exclusive of capacity or demand charges. This includes but is not limited to net costs linked to the utility's load serving obligation, associated with participation in wholesale electric energy markets operated by Regional Transmission Organizations, Independent System Operators or similar entities that have received Federal Energy Regulatory Commission approval to operate the energy markets. All Midwest Independent System Operator ("MISO") Energy and Ancillary service market charges and credits relating to retail sales and asset based sales, specifically including (but not limited to) Schedule 16 and 17 charges and credits shall be included in the calculation.
3. The actual identifiable fossil and nuclear fuel costs associated with energy purchased for reasons other than identified in 2 above.
4. The net energy cost of energy purchases from a renewable energy source, including hydropower, wood, windpower, and biomass.

NORTH DAKOTA PUBLIC
SERVICE COMMISSION
Case No. PU-14-____
Approved by order dated:

EFFECTIVE with bills rendered on
and after October 1, 2014, in North Dakota

APPROVED: Thomas R. Brause
Vice President, Administration

	A	B	C	D	E
	North Dakota				
1 kWh for 12 months ending June 30, 2014	1,902,496,934				
	Otter Tail System				
	Hoot Lake				North Dakota
	Big Stone Plant	Coyote Station	Plant	Total	Share
Reagent Expenses					
Anhydrous Ammonia	\$ 808,500	\$ -	\$ -	\$ 808,500	\$ 335,044
Pebble Lime	\$ 1,347,500	\$ -	\$ -	\$ 1,347,500	\$ 558,406
Powdered Activated Carbon	\$ 253,869	\$ 357,000	\$ 630,000	\$ 1,240,869	\$ 514,218
Total of Reagent Costs	\$ 2,409,869	\$ 357,000	\$ 630,000	\$ 3,396,869	\$ 1,407,668
Purchased Emission Allowances					
NOx Allowances			\$ 14,200	\$ 14,200	\$ 5,885
SO2 Allowances			\$ 1,088,400	\$ 1,088,400	\$ 451,035
Total of Emission Allowance			\$ 1,102,600	\$ 1,102,600	\$ 456,919
15 Total Additions to FCA	<u>\$ 1,864,588</u>	Cell E9 + Cell E14			
17 Reagent \$/kWh	\$ 0.00074	Cell E9 / Cell A1			
18 Emission Allowance \$/kWh	\$ 0.00024	Cell E13 / Cell A1			
19 Total Incremental Impact \$/kWh	<u>\$ 0.00098</u>	Cell A17 + Cell A18			
	Average Monthly Customer Impact				
	1,000 kWh				\$ 0.98
	8,000 kWh				\$ 7.84

Notice to customers

Otter Tail Power Company incurs costs for reagents (substances used to capture and process emissions) and purchased emission allowances that are necessary for compliance with federal regulations enforced by the Environmental Protection Agency. To recover these costs, the North Dakota Public Service Commission has approved an adjustment to the Energy Adjustment Rider that is part of the Resource Adjustment line on your monthly electric service statement. Otter Tail will begin incurring costs on October 1, 2014. Once Otter Tail complies with all regulations the expected monthly bill impact a customer will see is shown in the table below.

Average Monthly Customer Impact			
1,000	kWh	\$	0.98
8,000	kWh	\$	7.84

For more information contact Customer Service at 800-257-4044 or place an inquiry from our web site at www.otpc.com.