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February 9, 2015

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

**RE: COMMENTS ON RETIRING RENEWABLE ENERGY CREDITS TO MEET
NORTH DAKOTA'S RENEWABLE ENERGY OBJECTIVE**

Dear Mr. Nitschke:

Otter Tail Power Company (Otter Tail) has received a request from the North Dakota Public Service Commission (Commission) Staff to address how Otter Tail would recommend dealing with the Renewable Energy Credits (RECs) generated from complying with North Dakota's Renewable and Recycled Energy Objective (REO).

Otter Tail currently has about 19 percent of its retail energy coming from renewable generation. While the Company has a renewable energy standard / objective in all three states it serves, Otter Tail has been able to add all of its renewable resources cost effectively to reduce the overall costs to its customers. Since 2010, Otter Tail has sold over 1.5 million North Dakota allocated RECs – returning nearly \$1.3 million to ND customers.

North Dakota's REO of 10 percent takes effect in 2015. That statute appears below:

49-02-28. State renewable and recycled energy objective.

The legislative assembly establishes a state renewable and recycled energy objective that ten percent of all electricity sold at retail within the state by the year 2015 be obtained from renewable energy and recycled energy sources. The objective must be measured by qualifying megawatt-hours delivered at retail or by certificates representing credits purchased and retired to offset nonqualifying retail sales. This objective is voluntary and there is no penalty or sanction for a retail provider of electricity that fails to meet this objective. The objective applies to all retail providers of electricity in the state, regardless of the ownership status of the electricity retailer. Municipal and cooperative utilities that receive wholesale electricity through a municipal power agency or generation and transmission cooperative may aggregate their renewable and recycled energy objective resources to meet this objective.

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Based on the language of that statute, it appears clear that the legislative intent was to have utilities retire RECs to meet the objective. Otter Tail recommends that the Commission adopt that position as well. Unless the Commission disagrees, it would appear unnecessary for the Commission to take any formal action on this issue.

Additionally, there may be some possible downstream consequences if we don't retire the RECs. First, Otter Tail would not be able to claim we have met North Dakota's REO, as the statute makes clear that RECs need to be retired to meet the REO. Second, if we don't retire the RECs as required by the statute the RECs that would have otherwise been used to meet the REO may be viewed as "tainted" in the eyes of potential purchasers and thus of less value. This concern arises because there may be a view that the RECs have already been implicitly used to meet the legislated objective, and therefore they cannot have value to a purchaser. Furthermore, because it may be difficult for Otter Tail to certify that the RECs its transacting are not part of the ten percent that would have been otherwise used to meet the North Dakota REO, this potential for "tainting" in the eyes of potential purchasers could possibly spread to all of OTP's RECs, thus reducing their value as well.

Otter Tail anticipates retiring in the Midwest Renewable Tracking System (M-RETS) enough North Dakota allocated RECs to comply with the 2015 North Dakota objective of 10 percent. The Company would expect to sell the excess North Dakota allocated RECs and return the proceeds to our North Dakota customers – just as we are currently doing.

Please feel free to contact me with any questions you may have.

Sincerely,



Brian Draxten
Manager, Resource Planning

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By electronic filing