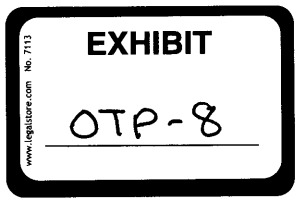

STATE OF NORTH DAKOTA
BEFORE THE
PUBLIC SERVICE COMMISSION

Otter Tail Power Company Advance Prudence – Merricourt Wind Application	Case No. PU-17-
Otter Tail Power Company PC&N – Merricourt Wind Application	Case No. PU-17-

APPLICATION FOR ADVANCE DETERMINATION OF PRUDENCE AND CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

I. INTRODUCTION

Pursuant to N.D.C.C. § 49-05-16 and N.D.A.C. § 69-02-02-04, Otter Tail Power Company (Otter Tail or the Company) respectfully submits this Application for an advance determination of prudence (ADP) for the Company's proposed purchase, development, ownership, and operation of the Merricourt wind farm (the Merricourt Project or Project), an approximately 150 MW wind generation facility to be located near Merricourt, North Dakota. Pursuant to N.D.C.C. § 49-03-01, Otter Tail also requests that the Commission grant a certificate of public convenience and necessity (CPCN) for the Project. In 2011, the Commission issued a Certificate of Site Compatibility (CSC) for the Merricourt Project site.[1] In 2015, the Commission granted an amendment of the CSC[2] and on March 3, 2017, the project developer

[1] *enXco Dev. Corp. Merricourt Wind Power Project Siting Application*, Case No. PU-08-932, FINDINGS OF FACT, CONCLUSIONS OF LAW AND ORDER (June 8, 2011).

[2] *EDF Renewable Dev., Inc. Merricourt Wind Power Project Siting Application*, Case No. PU-08-932, AMENDED FINDINGS OF FACT, CONCLUSIONS OF LAW AND ORDER (May 27, 2015).

filed an application to further amend the CSC to accommodate the turbine technology presently envisioned, among other things.[3]

The Merricourt Project will provide low-cost energy as part of Otter Tail's two-part plan to reliably meet our customers' electric needs, replace expiring capacity purchase agreements, and prepare for the 2021 retirement of the 1950s-era 140 MW Powder River Basin (PRB) coal-fired Hoot Lake Plant near Fergus Falls, Minnesota. The other component of Otter Tail's two-part plan is the construction of an approximately 250 MW simple cycle natural gas-fired combustion turbine generation facility (Astoria Station), which will provide low-cost capacity, provide dispatchable energy, and have the capability to quickly start and follow load to bolster system reliability.

Otter Tail is embarking on the Merricourt Project at this time to capture the highly-competitive pricing made available by the federal production tax credit (PTC) for wind facilities before the PTC expires. The Merricourt Project is least-cost and needed.

The Company's economic analysis of the Merricourt Project indicates that it will save Otter Tail's customers approximately $112 million over its life. The low-cost of the energy to be provided by the Merricourt Project justifies its prudence, even without consideration of Astoria Station. Further, the energy provided by the Merricourt Project will reduce Otter Tail's reliance on potentially volatile energy markets and provide a hedge against future fuel price fluctuations, including for natural gas. Specifically, the energy from the Merricourt Project is expected to

[3] *EDF Renewable Dev., Inc. Merricourt Wind Power Project Siting Application*, Case No. PU-08-932, APPLICATION FOR AMENDMENT TO AMENDED CERTIFICATE OF SITE COMPATIBILITY (Mar. 3, 2017).

reduce Otter Tail's reliance on energy market purchases from approximately 26% to 31% without the Project, to approximately 16% to 20% with the Project.[4]

This Application and supporting testimony demonstrate that Otter Tail's proposed purchase, development, ownership, and operation of the Merricourt Project is a prudent resource addition, because it will provide a cost-effective generation resource for the Company's North Dakota electric customers and the risks have been reasonably mitigated. Furthermore, under N.D.C.C. § 49-05-16(7), a rebuttable presumption exists that the Project, which is located in North Dakota, is prudent. This Application and supporting testimony also demonstrate that the Project meets the requirements for a CPCN.

II. DESCRIPTION OF APPLICANT

Applicant's full name and post office address are as follows:

Otter Tail Power Company
215 South Cascade Street
P.O. Box 496
Fergus Falls, MN 56538-0496

Otter Tail is a Minnesota corporation duly authorized to do business in the State of North Dakota as a foreign corporation, and it is doing business in North Dakota as a public utility subject to the jurisdiction of, and regulation by, the Commission under N.D.C.C. Title 49, as amended. Otter Tail's certificate of incorporation and amendments to the certificate have previously been filed with the Commission in Case No. PU-09-677. The certificate and amendments are hereby incorporated by reference, as though fully set forth herein. A current certificate of good standing is attached as Appendix 1.

[4] The Commission has granted applications for advance determination of prudence for wind facilities on the basis of reduced overall reliance on market purchases for utilities, among other things. *See Montana-Dakota Utilities Co., Advance Prudence—Thunder Spirit Wind Project*, Case No. PU-14-843, FINDINGS OF FACT, CONCLUSIONS OF LAW AND ORDER at page 3 (June 30, 2015).

III. COMMUNICATION AND SERVICE

The Company respectfully requests that the following persons be placed on the Commission's official service list for all communications in this docket:

Mark Bring
Director of Legislative Affairs and
Associate General Counsel
Otter Tail Power Company
215 S. Cascade Street
Fergus Falls, MN 56538-0496
mbring@otpco.com

Cary Stephenson
Associate General Counsel
Otter Tail Power Company
215 S. Cascade Street
Fergus Falls, MN 56538-0496
cstephenson@otpco.com

IV. STANDARD OF REVIEW FOR ADVANCE DETERMINATION OF PRUDENCE

Pursuant to N.D.C.C. § 49-05-16(1), the Commission may issue an order approving the prudence of a resource addition if:

a) The public utility files with its application a projection of costs to the date of the anticipated commercial operation of the resource addition;

b) The public utility files with its application a fee … of one hundred seventy-five thousand dollars….;

c) The commission provides notice and holds a hearing, if appropriate, in accordance with [N.D.C.C.] section 49-02-02; and

d) The commission determines that the resource addition is prudent. For facilities located or to be located in this state the commission, in determining whether the resource addition is prudent, shall consider the benefits of having the resource addition located in this state.

For resource additions located in North Dakota, there is a rebuttable presumption that the resource addition is prudent.[5]

[5] N.D.C.C. § 49-05-16(7).

V. STANDARD OF REVIEW FOR CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

N.D.C.C. § 49-03-01(1) provides, in pertinent part, that "[a]n electric public utility may not begin construction or operation of a public utility plant or system, or of an extension of a plant or system without first obtaining from the commission a certificate that public convenience and necessity require or will require the construction and operation." Before the Commission may issue a CPCN, the electric public utility must file a certified copy of its articles of incorporation, and submit evidence that it has obtained, or will make application to obtain, the consent of any other public authority whose consent is required.[6] After notice and hearing, the Commission may (i) issue the certificate; (ii) refuse to issue the certificate; (iii) issue the certificate for only portions of the proposed facilities; or (iv) issue the certificate subject to such terms and conditions the Commission believes are necessary.[7]

This Application and supporting testimony meet these statutory prerequisites.

VI. PROJECT DESCRIPTION

The Merricourt Project will be a 150 MW wind energy generation facility located near the small town of Merricourt, North Dakota, approximately fifteen miles south of Edgeley in McIntosh and Dickey Counties. The Project will consist of 75 two-MW Vestas V110 wind turbine generators and associated infrastructure, on a footprint comprising approximately 13,000 acres of land. The Project's energy output is expected to be approximately 666,000 megawatt hours (MWh) annually, at a projected net capacity factor of 50.7%.

The Project will interconnect to Montana-Dakota Utilities Company's Merricourt 230 kV substation located approximately 13 miles southwest of Kulm, North Dakota. Final

[6] N.D.C.C. § 49-03-02(1).
[7] N.D.C.C. § 49-03-02(1)(a)-(d).

interconnection costs for the Project have not yet been determined. The Project is in the Midcontinent Independent System Operator, Inc. (MISO) interconnection queue and the August 2016 study group. The Company currently estimates that studies for the August 2016 study group will begin in the summer of 2017, with initial identification of interconnection costs for the Project becoming available in late fall of 2017.

The Merricourt Project will be developed and constructed by subsidiaries of EDF Renewable Energy, Inc. (EDF).

On November 16, 2016, the Company and EDF executed an Asset Purchase Agreement (APA) under which the Company will purchase the development assets of the Project. The corresponding Turnkey Engineering, Procurement, and Construction (TEPC) Agreement, under which EDF will construct the Project on a turnkey basis, was also executed.[8] The agreement terms are generally consistent with industry standards. By partnering with EDF under this transactional structure, Otter Tail is able to leverage EDF's market power for turbines and balance of plant contracts for the benefit of our customers, while retaining flexibility to address and mitigate development risks should they arise. Numerous conditions, including the Commission's approval of this Application, must be satisfied prior to closing of the asset purchase under the APA.[9] If regulatory approvals are not received, the Company has the right to terminate the APA and end its involvement in the Project.

Section IX of this Application provides additional information regarding how the terms of the Company's agreements with EDF reasonably allocate and mitigate development risk. The

[8] The APA and the TEPC agreements are hundreds of pages, inclusive of schedules and other attachments, and thus are not being provided with this Application.

[9] Prior to closing of the asset purchase, EDF must also obtain an amended CSC for the Project to account for the turbine technology presently envisioned, and must also obtain approval to transfer the CSC, once amended, to Otter Tail.

Merricourt Project is expected to be placed in service in 2019, a full year before the 2020 deadline required for capturing the full value 100% PTC. This affords a prudent buffer in the event of Project construction delay.

Otter Tail estimates the total capital cost of the Merricourt Project will be approximately **[NOT PUBLIC DATA BEGINS... ...NOT PUBLIC DATA ENDS]**, which includes the Company's payments to EDF as well as reasonable oversight costs, taxes, anticipated transmission costs, and a reasonable contingency fund, yielding a levelized cost of energy of **[NOT PUBLIC DATA BEGINS... ...NOT PUBLIC DATA ENDS]**. The APA calls for payments to EDF of approximately $34.7 million including a non-refundable **[NOT PUBLIC DATA BEGINS... ...NOT PUBLIC DATA ENDS]** signing milestone payment and the TEPC agreement calls for payments to EDF of approximately $200 million to be paid in installments benchmarked to certain Project milestones. The Company has also budgeted approximately **[NOT PUBLIC DATA BEGINS... ...NOT PUBLIC DATA ENDS]** for the Company's direct costs and potential contingencies, which include Otter Tail's oversight of Project development, sales/use tax, construction contingencies in the TEPC agreement, potential interconnection costs, and unforeseen issues that can arise during development of a wind project. As demonstrated in Section VII below, and in light of potential contingencies, the Company's analysis of the Merricourt Project includes an additional capital sensitivity indicating that developing the Project remains prudent even at a capital cost of **[NOT PUBLIC DATA BEGINS... ...NOT PUBLIC DATA ENDS]**. Consequently, Otter Tail respectfully requests that the Commission find the addition of the Merricourt Project to be prudent, consistent with this analysis.

VII. NEED FOR AND JUSTIFICATION OF THE RESOURCE ADDITION

As discussed in the Company's most recent Integrated Resource Plan (IRP),[10] the Merricourt Project is one component of the Company's two-part plan to meet our customers' electric needs, replace expiring capacity purchase agreements, and prepare for the 2021 retirement of the 1950s-era 140 MW PRB coal-fired Hoot Lake Plant.[11] The other component of this plan is the construction of Astoria Station – an approximately 250 MW frame-style, natural gas-fired, simple cycle generating facility.[12] Together, the components of the Company's two-part plan exemplify Otter Tail's all-of-the-above energy strategy by securing low-cost wind energy and capacity while bolstering grid reliability with dispatchable energy and load-following capability. This two-part plan includes enough capacity to reliably serve customers during periods of high demand for power, and enough affordable energy to serve customers long-term, making these resource additions prudent. As demonstrated in this Application, even without Astoria Station, the Merricourt Project remains prudent as a needed and least-cost energy resource affording material hedge value to the Company's customers.

A. Need Drivers

As noted above, Otter Tail's development of the Merricourt Project is being driven by a need for capacity and energy precipitated by three factors: (1) load growth forecasts; (2) the expiration of a series of capacity purchase agreements; and (3) the 2021 retirement of Hoot Lake Plant Units 2 and 3.

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[10] The Company's most recent IRP was filed with the Commission on June 15, 2016, in Case No. PU-16-308.

[11] Hoot Lake Plant consists of Unit 2, built in 1959 with a nameplate rating of 53.5 MW, and Unit 3, built in 1964 with a nameplate rating of 75 MW. The units are capable of output greater than their nameplate ratings.

[12] Otter Tail has contemporaneously filed its ADP application for Astoria Station.

Hoot Lake Plant is aging. Given the magnitude of investment necessary to keep its units and associated infrastructure operational, and the anticipated cost of potential future environmental compliance upgrades, Otter Tail has been analyzing the plant's ongoing role in the Company's generation portfolio. The Company's analysis began in 2010 when material investments in Hoot Lake Plant were likely to be needed to comply with the Mercury and Air Toxic Standards (MATS) regulations in 2015. To that end, the Company conducted its Baseload Diversification Study in 2012 to determine the most prudent course of action. Based on that work, the Company determined that making minimal investments for MATS compliance and then retiring Hoot Lake Plant Units 2 and 3 in 2021 was the least-cost and most prudent course of action.

Otter Tail's 2012 analysis was sound and this course of action remains least-cost and prudent. The analyses performed as part of the Company's 2013 resource planning cycle also support the retirement of Hoot Lake Plant. While Hoot Lake Plant was designed and constructed as a baseload plant, starting around 2015, low energy market prices caused Hoot Lake Plant Units 2 and 3 to be dispatched infrequently. Unit 2 is now operated primarily in the winter as a source of building heat; Unit 3 has seen only limited operation year-round and is primarily operated only for required environmental testing and when MISO infrequently dispatches the unit. As a result, Hoot Lake Plant has essentially transitioned to a capacity resource and Otter Tail has been sourcing more of its energy from the MISO market.

Given the significant balance of plant investments needed to keep such aged units and associated infrastructure operational, the potential for future environmental upgrades, and the infrequency with which the units are dispatched, the Company can no longer justify continuing

to maintain and operate Hoot Lake Plant. Consequently, it is necessary to replace the plant's generation capacity.

Consistent with the Company's plans to retire Hoot Lake Plant in 2021, Otter Tail entered into a series of capacity purchase agreements to meet its obligation to serve customers. The capacity purchased through these agreements was intended to "bridge" the Company's capacity needs until Hoot Lake Plant is retired in 2021 and additional generation can be added to the Company's generation portfolio. Otter Tail timed the expiration of these capacity purchases with the retirement of Hoot Lake Plant so that it could aggregate its capacity needs to support the addition of new generation, rather than rely on the market. Capacity reserves are declining in MISO and, therefore, it may be difficult to obtain future economical replacement capacity agreements of sufficient size.[13] By aggregating the capacity needs attributable to the retirement of Hoot Lake Plant and the expiration of the capacity purchases, Otter Tail is able to add optimal complements of new generation.

The Company also continues to forecast future load growth, primarily driven by pipeline expansions. While load growth forecasts are inherently uncertain, anticipated load growth is an additional driver of the need for the Merricourt Project. Otter Tail's energy needs will also increase due to expiration of a 50 MW on-peak energy-only agreement in 2021. This energy-only contract is separate and apart from the capacity purchases referenced in the preceding paragraph.

These events require Otter Tail to take action. The Company's current analysis indicates that without replacement capacity and energy, Otter Tail will have a capacity deficit of

[13] MISO has indicated that "supply has declined due to plant retirements in excess of new resource additions" and "continued resource adequacy will depend on uncommitted resources or resources with potential retirements." Midcontinent Independent System Operator, Inc., 2016 OMS SURVEY RESULTS at p. 1 (June 2016)

approximately 273 MW in 2021, and will need to source between 26% and 31% of its energy from the MISO market.

B. Developing the Two-Part Plan

When a utility has a simultaneous capacity and energy need for a portion of its load-serving obligations, it typically seeks a resource addition that provides both capacity and energy at reasonable pricing, generally combined cycle generation. Combined cycle generation has the ability to follow load by ramping up and down throughout the day, while providing energy at lower marginal cost than a simple cycle generator and with lower capital cost than a baseload generator. However, a hybrid approach of wind-plus-gas, as in Otter Tail's two-part plan, can more optimally provide these capabilities.

As part of the Company's 2013 resource planning cycle, Otter Tail analyzed potential replacement scenarios in anticipation of Hoot Lake Plant's retirement. The Company used the Strategist resource planning model to aid in this analysis. To conduct this analysis, Otter Tail made available to the model several different resource selection options, including a 311 MW combined cycle generator, three different sized simple cycle generators, the repowering of Hoot Lake Plant to natural gas, and wind and solar resources. Notwithstanding the need for both capacity and energy, the Strategist model indicated that moving forward with a combined cycle plant would not be economic, nor would repowering Hoot Lake Plant to natural gas.

Rather, the results indicated that replacing Hoot Lake Plant's capacity with a simple cycle generator was the most economic outcome. The modelling results also indicated that if wind energy was priced at $45/MWh, market purchases should be made to meet the Company's energy needs. However, when wind energy was priced at $30/MWh, Strategist selected wind energy instead of market purchases for energy, signaling that acquiring 150 MW of wind

generation in 2021 would be the most economic choice to meet Otter Tail's energy needs. In the Company's 2016 resource planning cycle, Strategist continued to select a wind-plus-gas configuration in all scenarios analyzed. This analysis confirmed the prudence of moving forward with the two-part plan.

Additionally, a combination of low-cost wind and natural gas-fired simple cycle generation provides beneficial operating characteristics. The natural gas-fired simple cycle component of Otter Tail's two-part plan provides low-cost capacity and dispatchable energy. The addition of dispatchable energy provides both a hedge against high energy market prices and grid support, due to its capability to quickly start and then follow load. The wind component provides low-cost energy. Backing wind with gas captures the low-cost energy made possible by the current market for wind generation, while helping to ensure sufficient reliability through grid support from dispatchable simple cycle generation (which yields low-cost capacity). Simple cycle gas generation paired with wind is particularly attractive because the Company's service territory has some of the best wind resources in the country. Consequently, a wind-plus-gas configuration can provide many of the same economic and operational benefits of a combined cycle plant.

A wind-plus-gas configuration also has hedge and expansion value. If Otter Tail instead installed a combined cycle plant, the Company and its customers would face significantly more exposure to fluctuations in natural gas pricing. Because it will use less natural gas, a simple cycle plant mitigates that risk. Moreover, a natural gas simple cycle plant site can include sufficient space and design parameters to accommodate the potential future addition of combined cycle generation, if market conditions later warrant it. The wind component can provide low-cost energy from a zero-cost fuel source, providing both a market and fuel hedge. The

Company's service area has excellent wind resources, providing an economical generation resource with low potential for transmission congestion due to the wind resource's proximity to the Company's load.

VIII. PROJECT SELECTION AND ECONOMIC BENEFITS

After Otter Tail selected the Merricourt Project as the least-cost wind resource available, Otter Tail refined its modelling efforts with specific information on the Merricourt Project (rather than the generic modelling used previously) to confirm the prudence of moving forward with the Project. Otter Tail's analyses indicate that the Merricourt Project will provide cost savings to customers of approximately $112 million over the life of the Project and that such lifetime savings are maintained in all modelling sensitivities. Otter Tail expects that the savings will begin in the second year of the Merricourt Project's operation. Additionally, Otter Tail's modelling indicates that the addition of the Merricourt Project will reduce Otter Tail's reliance on energy markets to serve its customers from between 26% and 31%, to between 16% and 20%. These results demonstrate that the Merricourt Project is a prudent resource addition.

A. Least-Cost Resource Selected

After the federal PTC was extended by Congress in December 2015, the Company undertook a solicitation process to probe the market for wind projects and assess project options. To do so, Otter Tail solicited wind project proposals from a host of experienced national wind developers. Otter Tail received ten proposals representing a total of seven different wind projects and six different developers. The proposals ranged from 99 MW power purchase agreements to 200 MW build-transfer arrangements with ultimate Otter Tail ownership. To ensure a reasonable comparison across the spectrum of proposals, Otter Tail calculated a levelized cost of energy for varied project life sensitivities. The turnkey, build-transfer Merricourt Project proposal had the lowest levelized cost of energy. On this basis, the

Merricourt Project was selected to provide the wind component of the Company's wind-plus-gas configuration.

B. Favorable Economic Impacts and Hedging

The Merricourt Project's levelized cost of energy is almost 30% below the $30/MWh threshold established in Otter Tail's resource planning for the selection of cost effective wind resources. With wind pricing this attractive, the Company's most recent resource planning cycle selected at least 200 MW of full value 100% PTC wind generation in 57 of the 58 scenario sensitivities modeled. Consequently, the Merricourt Project is prudent and will provide Company system cost savings by displacing higher-cost energy.

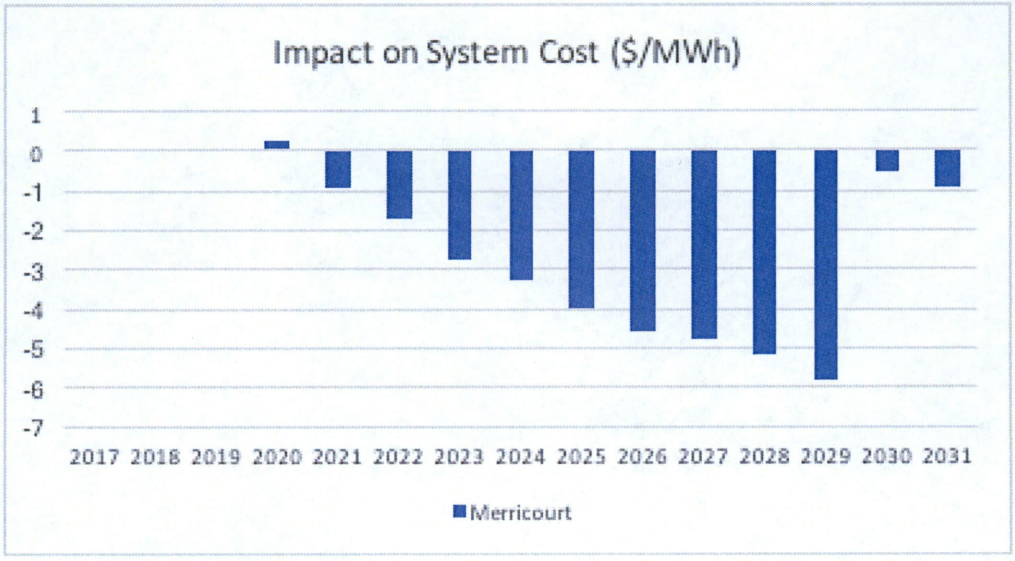
To confirm this assessment, Otter Tail used the Strategist modelling tool with updated assumptions based on the costs and expected operating characteristics of the Merricourt Project. In order to quantify system benefits, Otter Tail analyzed the costs of the Company's system with and without the Merricourt Project. Otter Tail also analyzed the cost of the Company's system with and without both the Merricourt Project and Astoria Station. The Company also examined capital sensitivities up to **[NOT PUBLIC DATA BEGINS... ...NOT PUBLIC DATA ENDS]** to account for potential development risk, including increased interconnection costs. The Company also examined scenarios in which it was assumed that the Project's turbines would have useful lives of up to 40 years.[14] The table below sets forth the results of this analysis. As shown, the Merricourt Project achieves lifetime system cost savings in all scenarios

[14] Given the evolution of wind turbine technology, Otter Tail has examined the potential of extending the useful life of wind generators beyond the assumed 25-year useful life. Vestas has represented to Otter Tail that its equipment, if appropriately operated and maintained, may have an operating life of 40 years.

analyzed, on a present value of revenue requirements basis.

Scenario	Present Value Utility Costs (000)	Difference from Base
Base Case (Market energy and capacity purchases)	2,375,341.80	
Base plus Merricourt	2,262,374.00	-112,967.80
Base plus Astoria and Merricourt	2,238,187.50	-137,154.30
Base plus Astoria and Merricourt High Capital case	2,251,998.80	-123,343.00
Base plus Astoria and Merricourt 40 year life	2,223,324.00	-152,017.80

The chart below illustrates the timing of the cost savings expected to be achieved by the addition of the Merricourt Project. Because of the initial capital outlay, customers will see a very modest impact to rates in the first full year of the Project's operation and will then enjoy savings through reduced fuel and purchased power costs for the remainder of the Project's life. Upon the 2029 expiration of PTCs available to the Project, savings will abate somewhat, but will continue as the Project is depreciated in Otter Tail's rate base.



The Merricourt Project is anticipated to generate approximately 666,000 MWh of energy. In addition to the system cost savings identified, with zero fuel cost the Merricourt Project provides price protection against future MISO energy price increases, price protection against future natural gas price increases, greater fuel source diversity in the Company's generation mix,

and the ability to capture significant value from tax incentives. Otter Tail's analysis indicates that the addition of the Merricourt Project will lower the Company's reliance on the MISO energy markets from between 26% and 31%, to between 16% and 20%. The Commission has found wind generation resource additions prudent on this basis[15] and should do so for the Merricourt Project.

C. Benefits of a Project Located in North Dakota

Pursuant to N.D.C.C. § 49-05-16(1)(d), the Commission "shall consider the benefits of having the resource addition located in this state." Direct economic benefits of the Merricourt Project include approximately $700,000 per year in lease payments to local landowners and approximately $700,000 per year in property taxes. Further, the Project is expected to create greater than 150 construction jobs and 10 full-time positions, and inject millions of dollars in economic benefits to the local area. Some of the construction-related activity is likely to include North Dakota contractors and suppliers.

IX. PRUDENT CONTRACTING AND REASONABLE MITIGATION OF RISK

Otter Tail has partnered with EDF for the development of the Project. EDF was the 2015 leader in U.S. wind projects, with 12% of the market share in installed capacity. By partnering with a strong national developer, Otter Tail gains the benefits of EDF's experience and market power to obtain economies of scale with respect to contracting and purchasing with experienced third-party suppliers and service providers. These economies of scale might not otherwise be

[15] *See Montana-Dakota Utilities Co. Advance Prudence – Thunder Spirit Wind Project* Application, Case No. PU-14-843, FINDINGS OF FACT, CONCLUSIONS OF LAW AND ORDER at 3, finding 11 (June 30, 2015) (finding that "[t]he Project provides price protection against future MISO energy price increases, price protection against future natural gas price increases, greater fuel source diversity in the Company's generation mix, and the ability to capture significant value from federal and state tax incentives").

available to a utility of Otter Tail's size. Obtaining this leverage informed Otter Tail's contracting and risk mitigation strategy for the purchase of the Merricourt Project.

Otter Tail has entered into contracts with industry standard terms for a transaction of this type. Before moving forward with the Project, the Company engaged in significant due diligence to identify risk and seek ways to mitigate it. Otter Tail has reasonably identified and, through prudent contracting, mitigated the primary risks associated with the purchase of a turnkey wind farm. These risks include counterparty risk, interconnection cost risk, PTC risk, and real estate and environmental risk. Otter Tail's mitigation strategies support the prudence of the Merricourt Project.

A. Counterparty Risk and Mitigation

While EDF is a strong and experienced developer, counterparty risk is inherent with a transaction of this size. To that end, Otter Tail has secured a guaranty from EDF Energy Nouvelles S.A., EDF's parent and a large French utility, for up to **[NOT PUBLIC DATA BEGINS... ...NOT PUBLIC DATA ENDS]**, which will serve to mitigate the risk of performance failure by EDF or its subsidiaries, and the risk that such failure could impair the Project from capturing 100% of the federal PTC. Additionally, Otter Tail's contracts allow it to step into the turbine supply and balance of plant agreements in the event EDF defaults, which would allow Otter Tail to construct the Project itself should circumstances warrant.

B. Interconnection Cost Risk and Mitigation

Any development of a project of this type presents risks related to interconnection costs. Otter Tail has anticipated these risks and has **[NOT PUBLIC DATA BEGINS... ...NOT PUBLIC DATA ENDS]** as protection.

Interconnection cost risk is likely the Project's most significant risk. EDF has not yet completed the MISO interconnection process for the Merricourt Project and execution of a generator interconnection agreement (GIA) is not expected before the third quarter of 2018. Consequently, final interconnection costs are uncertain. To assess interconnection cost risk, Otter Tail has performed its own analyses to estimate potential final interconnection costs. The Company's preliminary analysis suggests a range of interconnection costs between **[NOT PUBLIC DATA BEGINS... ...NOT PUBLIC DATA ENDS]**.

To address interconnection cost uncertainty, the Company negotiated contractual provisions with EDF that are designed to mitigate risk. Under the APA, the Company has agreed to pay the first **[NOT PUBLIC DATA BEGINS... ...NOT PUBLIC DATA ENDS]** in interconnection cost identified in the final GIA. Any interconnection costs between **[NOT PUBLIC DATA BEGINS... ...NOT PUBLIC DATA ENDS]** will be borne equally by the Company and EDF. If the interconnection costs are greater than **[NOT PUBLIC DATA BEGINS... ...NOT PUBLIC DATA ENDS]**, the APA automatically terminates unless one of the parties provides notice that it will pay the exceedance. Given the Project's status in the MISO interconnection queue, these contractual provisions provide an appropriate threshold to allow Otter Tail and EDF to continually assess interconnection costs and achieve a mutually agreeable consensus once interconnection costs become more certain.

The Company has compared the Project and its estimated interconnection costs to other available projects (which face similar interconnection cost uncertainty) and believes the Merricourt Project's potential interconnection costs fall within a reasonable range. If interconnection costs later prove to be excessive, the Company can ultimately choose to allow

the APA to automatically terminate (absent EDF choosing to bear additional interconnection cost).

C. PTC Risk and Mitigation

In December 2015, the federal PTC was extended for five years with a phase-down provision. To be eligible for 100% of the PTC, tax laws require that construction of a qualifying facility must have begun before January 1, 2017. The IRS issued guidance providing two alternative tests under which a project may qualify for the PTC: the "physical work test" and the "5% safe harbor." Additionally, project construction must be completed by 2020 to qualify for the 100% PTC.

The Project is using the 5% safe harbor provision to qualify for 100% of the PTC. The 5% safe harbor allows wind projects to be considered as having begun construction if a minimum of 5% of a project's total capital cost is incurred before January 1, 2017. Otter Tail's contract with EDF requires EDF to meet the 5% safe harbor threshold by purchasing **[NOT PUBLIC DATA BEGINS... ...NOT PUBLIC DATA ENDS]** project turbines from Vestas by December 31, 2016. The Company has confirmed that EDF complied with this contractual obligation. Additionally, EDF must indemnify the Company if certain PTC representations and warranties are breached and this indemnification is backed by a guaranty issued by EDF's parent, as discussed above.

To provide additional certainty regarding the PTC, an opinion from a qualified tax attorney that the Project will qualify for 100% of the PTC is required as a condition to closing the transaction. Finally, in order to provide additional safeguards, the Project's construction schedule calls for completion of the Project a full year before the 2020 deadline. The TEPC agreement provides for liquidated damages to be imposed against EDF if the Project is not

timely constructed, providing a strong incentive for timely Project completion by EDF. These contractual terms and other requirements reasonably mitigate the risk of failing to qualify for 100% of the PTC.

D. Real Estate and Environmental Risk and Mitigation

Risk associated with real estate and environmental issues will largely be mitigated by actions EDF is contractually obliged to undertake. In order to address these risks, the Company negotiated prudent contractual terms and conditions, and engaged in significant due diligence, which included the assistance of an engineering firm specializing in environmental issues. Otter Tail is confident that these risks have been reasonably mitigated.

X. CONCLUSION

The Merricourt Project represents a remarkable value for our customers. Together with the addition of approximately 250 MW of simple cycle natural gas-fired generation in the next five years, it is an essential part of the Company's two-part plan to meet customers' energy and capacity needs. The Company has taken appropriate steps to reasonably mitigate the risks inherent with such a large resource addition. Therefore, pursuant to N.D.C.C. § 49-05-16, Otter Tail respectfully requests that the Commission issue an advance determination of prudence and grant a CPCN for the Company's addition of the Merricourt Project.

DATED: April 10, 2017

Respectfully submitted,

Mark Bring
Director of Legislative Affairs and
Associate General Counsel
Otter Tail Power Company
215 S. Cascade Street
Fergus Falls, MN 56538-0496
mbring@otpco.com

APPENDIX 1

State of North Dakota

SECRETARY OF STATE

CERTIFICATE OF GOOD STANDING
OF

OTTER TAIL POWER COMPANY

The undersigned, as Secretary of State of the State of North Dakota, hereby certifies that OTTER TAIL POWER COMPANY , a Minnesota corporation, authorized to transact business in the State of North Dakota on February 24, 1914, and according to the records of this office as of this date, has paid all fees due this office as required by North Dakota statutes governing foreign corporations.

ACCORDINGLY the undersigned, as such Secretary of State, and by virtue of the authority vested in him by law, hereby issues this Certificate of Good Standing to

OTTER TAIL POWER COMPANY

Issued: March 28, 2017

Alvin A. Jaeger
Secretary of State