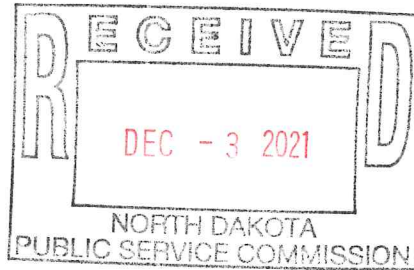


215 South Cascade Street
PO Box 496
Fergus Falls, Minnesota 56538-0496
218 739-8200
www.otpco.com



December 1, 2021

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

**RE: In the Matter of the Application of Otter Tail Power Company for Modification to the Energy Adjustment Rider Rate Schedule 13.01
Case No. PU-21-
Initial Filing**

Dear Mr. Kahl:

Enclosed are an original and seven (7) copies of Otter Tail Power Company's (Otter Tail's) Application for Approval of Modification to the Energy Adjustment Rider, Rate Schedule 13.01.

Also enclosed is a check in the amount of \$50 for the filing fee.

An electronic copy of this filing is being sent to the North Dakota Public Service Commission at ndpsc@nd.gov. Should you have any questions, please feel free to contact me at 218-739-8562 or wrader@otpco.com.

Sincerely,

William Rader
Rates Analyst
Regulatory Administration

sjw
Enclosures
By electronic filing and U.S. Mail

1 **PU-21-443** Filed: 12/1/2021 Pages: 15
Proposal to Modify Fuel Cost Adjustment

Otter Tail Power Company
William Rader, Rates Analyst

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

In the Matter of the Application of Otter Tail Power Company for Modification to the Energy Adjustment Rider Rate Schedule 13.01 to Account for 100 Percent Allocation of Hoot Lake Solar Costs to Minnesota Customers

**Case No. PU-21-
APPLICATION**

I. INTRODUCTION

Otter Tail Power Company (Otter Tail) has received approval from the Minnesota Public Utilities Commission (MPUC) for 100 percent recovery of the Hoot Lake Solar (HLS) Project from Minnesota customers.¹ As a result of this approval, Otter Tail will need to properly account for the energy produced by HLS and paid for, 100 percent, by Minnesota customers. In this application Otter Tail is requesting approval to modify the calculation of costs included in Otter Tail’s North Dakota Energy Adjustment Rider (EAR), Rate Schedule 13.01, to account for HLS generation. Otter Tail expects Hoot Lake Solar to be operational by mid-2023.

To accomplish the appropriate allocation of costs, Otter Tail will include the cost of purchased power for the hours HLS is generating and include them in the calculation of the EAR. While Otter Tail’s proposed methodology has some similarities to how North Dakota treats Xcel Energy’s energy produced from its solar gardens, Otter Tail’s methodology is the reverse of the methodology used for Xcel. In the case of Xcel’s Energy’s solar gardens, costs initially paid by North Dakota customers are higher than the locational marginal price (LMP) market and a credit is given to lower the costs to the LMP market prices. In the case of HLS, to account for the HLS energy costs paid for solely by Minnesota customers, the LMP market price for HLS generation will be added to the North Dakota EAR rate calculation to calculate the appropriate costs for North Dakota customers. To be clear, the proposed change does not increase EAR rates for North Dakota

¹ Order Approving Petition, Authorizing Allocation Of Output And Costs, Authorizing Cost Recovery, and Requiring Compliance Filings, April 29, 2021, *In the Matter of Otter Tail Power Company’s Petition for Approval of the Hoot Lake Solar Project*, MPUC Docket No. E017/M-20-844.

customers; rather the proposed change avoids an unintended EAR rate decrease and maintains consistency in the EAR rate calculation as if HLS was not included in Otter Tail's generation fleet.

II. COMPLIANCE MATTERS

A. Description of Applicant

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

Otter Tail Power Company
215 South Cascade Street
Post Office 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 I.

Otter Tail's service area covers approximately 70,000 square miles in North Dakota, South Dakota, and Minnesota. The Company has approximately 59,000 North Dakota customers spread across 224 communities in the eastern half of the state but does not cover Fargo or Grand Forks. Over sixty percent of Otter Tail's communities, system wide, have populations of fewer than 200 people. Figure 1 provides an overview of Otter Tail's service area, generating facilities, and customer service centers.

Figure 1: Overview of Otter Tail Power Service Area, Generation Facilities and Customer Service Centers



B. 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:

Cary Stephenson
 Associate General Counsel
 Otter Tail Power Company
 215 South Cascade Street
 Post Office Box 496
 Fergus Falls, MN 56538-0496

William Rader
 Rates Analyst, Regulatory Administration
 Otter Tail Power Company
 215 South Cascade Street
 Post Office Box 496
 Fergus Falls, MN 56538-0496

C. Customer Notification

Otter Tail does not believe a customer notification is necessary for this modification. As noted above, the proposed change does not increase EAR rates for North Dakota customers. The proposed change is necessary to avoid an unintended EAR rate decrease and to maintain consistency in the EAR rate calculation as if HLS was not included in Otter Tail's generation fleet.

III. DESCRIPTION OF ENERGY ADJUSTMENT RIDER MECHANICS AND SAMPLE CALCULATIONS

The Energy Adjustment Rider (EAR) rate is calculated and implemented each month to reflect the change in fuel and purchased power costs, as stated in Section 13.01 of Otter Tail's Electric Rate Schedule. According to Section 13.01, the monthly EAR rate is computed on a system basis including those costs the Commission has deemed eligible for EAR recovery based on a trailing four-month average. Otter Tail operates its generation facilities on a system basis. The addition of HLS on Otter Tail's system will provide zero fuel cost energy benefits to all Otter Tail customers, regardless of which customers are paying the costs of the facility, if no modification to the EAR is made.

As mentioned previously, the MPUC approved 100 percent of the HLS project costs and benefits be allocated to Minnesota customers. To account for this approval, Otter Tail proposes a modification to the North Dakota monthly EAR rate calculation. This modification and calculation will include the cost of avoided purchased power due to HLS's output on the Otter Tail system. The proposed calculation, described below, will effectively remove the impacts of HLS from the monthly North Dakota EAR rate calculation. The proposed modification and calculation are not intended to increase North Dakota EAR rates, but, rather, to avoid an unintended rate decrease, and maintain consistency in the North Dakota EAR rate calculation as if HLS was not included in Otter Tail's generation fleet.

On a monthly basis, Otter Tail proposes to quantify the actual hourly MWh output of HLS and multiply that output by the corresponding hourly LMP at the Hoot Lake 2 node. This calculation will determine the actual avoided cost of purchased power resulting from HLS output. Attachment 1 is provided as a sample calculation using one day of hypothetical, forecasted data. When HLS is operational, a similar calculation as performed in Attachment 1 will be completed

for each day of the month using actual values². The total monthly cost of avoided purchased power will then be added to the monthly EAR rate calculation. Otter Tail estimates the total system annual *avoided* purchased power cost resulting from HLS is \$2-3 million, all subject to actual output and corresponding LMPs. Depending on actual LMP's, North Dakota's annual share likely will be less than what the annual North Dakota cost of HLS would be. The calculation proposed simply resets North Dakota's costs to the level costs would be without HLS.

Attachment 2 includes the proposed 13.01 North Dakota EAR tariff language changes necessary to incorporate the proposed EAR calculation modification. Otter Tail requests this modification become effective January 1, 2023.

IV. PROJECT DESCRIPTION

The Hoot Lake Solar Project is a 49.9 MW solar generating facility consisting of approximately 130,000 solar panels to be located on approximately 450 acres of OTP-owned property near Hoot and Wright lakes in Fergus Falls. The project site includes the site of Otter Tail's recently retired coal-fired Hoot Lake Plant. The HLS Project's annual energy output is expected to be approximately 89,000 megawatt hours (MWh), at a projected net capacity factor of approximately 20 percent.

The HLS Project re-uses several components of the recently retired Hoot Lake Plant. The land associated with the Hoot Lake Plant constitutes a significant portion of the total HLS Project site. Otter Tail secured additional parcels in the summer and fall of 2020 and has the entire HLS Project site under company control. Otter Tail also may be able to use portions of existing infrastructure at the Hoot Lake Plant for construction and/or operation of the HLS Project.

One of the most important features of the HLS Project is Otter Tail's ability to utilize Hoot Lake Plant's existing interconnection rights. The Midcontinent Independent System Operator's (MISO) tariff provides for a streamlined review process of proposed generation replacements, significantly reducing the costs, timeline, and risks associated with bringing new resources onto the system. Otter Tail took steps to preserve its interconnection rights for the Hoot Lake site by submitting a generator replacement request to MISO on May 15, 2020. The MISO interconnection agreement was finalized as of October 2021.

² Otter Tail is currently refining the exact methodology, granularity, and calculation to be used to calculate the avoided purchased power costs due to Hoot Lake Solar output.

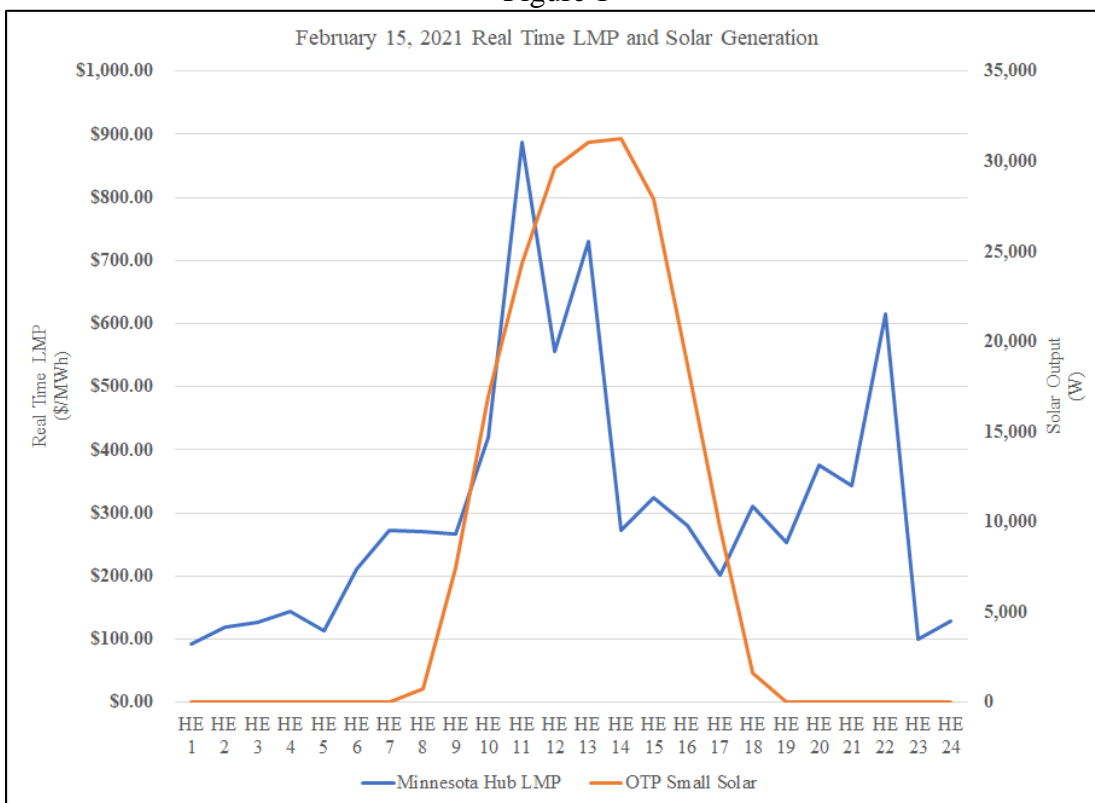
To date, Otter Tail has secured all necessary land, commenced engineering of the HLS Project, procured Investment Tax Credit (ITC) safe harbor materials, and issued requests for proposals (RFPs) for the balance of the project costs and labor. Otter Tail has worked with the City of Fergus Falls on the development of an Environmental Assessment Worksheet (EAW) for the HLS Project, which was approved for publication by the Fergus Falls City Council (City Council) on November 16, 2020. On March 1, 2021, the City Council accepted the EAW Findings of Facts and determined an Environmental Impact Statement was not necessary. Otter Tail has worked with the City of Fergus Falls, Otter Tail County, and other local governmental units through the process of annexing into the city portions of the HLS Project site. Otter Tail could begin construction of the HLS Project in 2022 depending on availability of materials.

V. NEED FOR AND RESOURCE ADDITION

A. Benefits of Hoot Lake Solar

The HLS Project will bring important resource diversity benefits for Otter Tail's customers. The weather event impacting the southern United States in mid-February 2021 caused market prices to increase dramatically. For example, the MISO Minnesota Hub real-time locational marginal price (LMP) on February 15, 2021, averaged \$309.14/MWh across all hours, reaching as high as \$888.14/MWh. During this same period, Otter Tail's existing, very small Minnesota and North Dakota solar facilities had close to a 30 percent capacity factor, running at 100 percent of potential output for multiple hours.

Figure 1



Otter Tail anticipates the HLS Project will have very similar operations to Otter Tail’s existing small Minnesota solar facility. The events of mid-February 2021 demonstrate that the diversity benefits of the HLS Project are not limited to summer peak periods but also extend into the coldest days of the year.

VI. ECONOMIC ANALYSIS

A. Project Costs

In Otter Tail’s Minnesota eligibility filing for recovery through Otter Tail’s Minnesota renewable rider, the Minnesota Office of Attorney General commented: the HLS Project would be the lowest cost solar project ever authorized by the (Minnesota) Commission “by a large margin”.³ Estimated HLS Project costs are projected to be close to the least cost option for Minnesota through Otter Tail’s Integrated Resource Plan (IRP), with Minnesota costs including externality costs.⁴

³ *In the Matter of Otter Tail Power Company’s Petition for Approval of the Hoot Lake Solar Project*, MPUC Docket No. E-017/M-20-844, Comments of Office of Attorney General at p. 2, February 10, 2021.

⁴ Externality costs are excluded by statute in North Dakota.

Currently, Solar Renewable Energy Credits (SRECs) cost three to four times what they did when the project was analyzed. This means when SRECs are sold, as assumed in the cost analysis for HLS, there may be a greater credit to customers than assumed. Also, due to the high temperatures this summer, LMP prices are much higher than the prices used for comparison in the analyses for HLS. Between the cost offsets and the actual price for the project, Otter Tail still believes the original cost estimate is the best analysis to use.

VII. PRUDENCE OF HOOT LAKE SOLAR

If LMPs continue to climb, HLS's economic analysis will look better in comparison. If the North Dakota Commission would prefer, the appropriate portion of HLS could be allocated to North Dakota customers as a hedge against potentially increasing LMP prices. Otter Tail would then request recovery of North Dakota's jurisdictional share through the North Dakota Renewable Resource Cost Recovery Rider (RRCR). If the Commission grants recovery of North Dakota's share of HLS through the RRCR, no modification to the North Dakota EAR is necessary.

VIII. CONCLUSION

For the reasons set forth above, Otter Tail respectfully requests the Commission allow Otter Tail to appropriately adjust the North Dakota Energy Adjustment Rider to account for Minnesota paying for 100 percent of the Hoot Lake Solar Project. Otter Tail also requests the Commission to respond as positively or negatively to whether a share of Hoot Lake Solar should be allocated to North Dakota customers.

Respectfully submitted this 1st day of December, 2021.

OTTER TAIL POWER COMPANY

By /s/ WILLIAM RADER
William Rader, Rates Analyst
Regulatory Administration
Otter Tail Power Company
215 South Cascade Street
P.O. Box 496
Fergus Falls, MN 56538-0496
Phone (218) 739-8562

Attachments and Appendices

Attachment 1	Avoided Purchased Power Sample Calculation
Attachment 2	Energy Adjustment Rider, Electric Rate Schedule 13.01
Appendix I	Otter Tail North Dakota Certificate of Good Standing

	(a)	(b)	(c)	(d)	(e)	(f)	(g)
Line No.	Resource	Month	Day	Hour Ending	Generation (MWh)	Hoot Lake 2 Node LMP (\$/MWh)	Avoided Cost of Purchased Power (e*f)
1	Hoot Lake Solar	1	1	1	0.00	\$ 68.43	\$ -
2	Hoot Lake Solar	1	1	2	0.00	\$ 57.06	\$ -
3	Hoot Lake Solar	1	1	3	0.00	\$ 51.62	\$ -
4	Hoot Lake Solar	1	1	4	0.00	\$ 53.04	\$ -
5	Hoot Lake Solar	1	1	5	0.00	\$ 50.22	\$ -
6	Hoot Lake Solar	1	1	6	0.00	\$ 47.24	\$ -
7	Hoot Lake Solar	1	1	7	0.00	\$ 51.34	\$ -
8	Hoot Lake Solar	1	1	8	0.00	\$ 53.89	\$ -
9	Hoot Lake Solar	1	1	9	2.02	\$ 53.41	\$ 107.98
10	Hoot Lake Solar	1	1	10	24.10	\$ 56.72	\$ 1,367.28
11	Hoot Lake Solar	1	1	11	30.07	\$ 47.16	\$ 1,418.27
12	Hoot Lake Solar	1	1	12	24.66	\$ 44.49	\$ 1,097.16
13	Hoot Lake Solar	1	1	13	21.56	\$ 36.73	\$ 792.14
14	Hoot Lake Solar	1	1	14	25.16	\$ 32.88	\$ 827.44
15	Hoot Lake Solar	1	1	15	30.46	\$ 30.30	\$ 922.88
16	Hoot Lake Solar	1	1	16	21.55	\$ 23.88	\$ 514.55
17	Hoot Lake Solar	1	1	17	0.93	\$ 23.49	\$ 21.75
18	Hoot Lake Solar	1	1	18	0.00	\$ 24.46	\$ -
19	Hoot Lake Solar	1	1	19	0.00	\$ 27.82	\$ -
20	Hoot Lake Solar	1	1	20	0.00	\$ 20.66	\$ -
21	Hoot Lake Solar	1	1	21	0.00	\$ 18.80	\$ -
22	Hoot Lake Solar	1	1	22	0.00	\$ 17.91	\$ -
23	Hoot Lake Solar	1	1	23	0.00	\$ 22.52	\$ -
24	Hoot Lake Solar	1	1	24	0.00	\$ 20.50	\$ -
						Total	\$ 7,069

Attachment 2
Legislative and Non-Legislative Versions of
Tariff Sheet ND 13.01 – Energy Adjustment Rider



Fergus Falls, Minnesota

Protection Agency rules and regulations. Energy from the Company's hydro generating plants shall be included at zero cost.

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

6. The Energy cost of avoided purchased power resulting from Hoot Lake Solar output.

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-~~65~~, above.

Asset-based Sales Margins:

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").

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

NORTH DAKOTA PUBLIC
SERVICE COMMISSION
North Dakota
Case No. PU-~~21-17-398~~
Approved by order dated ~~September 26, 2018~~

EFFECTIVE with bills rendered on
and after ~~January 1, 2019~~^{January 1, 2023}, in

APPROVED: Bruce G. Gerhardson
Vice President, Regulatory Affairs



Fergus Falls, Minnesota

Protection Agency rules and regulations. Energy from the Company's hydro generating plants shall be included at zero cost.

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.
5. Less the fuel-related costs recovered through intersystem sales.
6. The Energy cost of avoided purchased power resulting from Hoot Lake Solar output. N

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 1-6, above. C

Asset-based Sales Margins:

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").

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

NORTH DAKOTA PUBLIC
SERVICE COMMISSION
Case No. PU-21-
Approved by order dated

EFFECTIVE with bills rendered on
and after January 1, 2023, in North Dakota

APPROVED: Bruce G. Gerhardson
Vice President, Regulatory Affairs

State of North Dakota
SECRETARY OF STATE



**Certificate of Good Standing
of
OTTER TAIL POWER COMPANY**

SOS Control ID#: 0000016296

Certificate #: 019457938

The undersigned, as Secretary of State of the state of North Dakota, hereby certifies that, according to the records of this office,

OTTER TAIL POWER COMPANY

a Corporation - Business - Foreign was formed under the laws of MINNESOTA and filed with this office effective February 24, 1914. This entity has, as of the date set forth below, complied with all applicable North Dakota laws.

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.

DATE: January 11, 2021

Handwritten signature of Alvin A. Jaeger in cursive.

Alvin A. Jaeger
Secretary of State