

October 16, 2014

Burl W. Haar
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, Minnesota 55101-2147

RE: **Additional Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. E017/RP-13-961

Dear Dr. Haar:

Attached are the additional comments of the Minnesota Department of Commerce, Division of Energy Resources (Department) in the following matter:

Otter Tail Power Company's Application for 2014-2028 Resource Plan Approval.

The Department provides these additional comments in response to Otter Tail Power Company's (Otter Tail or the Company) October 8, 2014 Notification Letter. In its Notification Letter, Otter Tail informed parties that the Company had entered into a bilateral purchased power agreement for on-peak energy.

The Department of Commerce, Division of Energy Resources, discusses this change in the attached Additional Comments. The Department is available to answer any questions the Commission may have.

Sincerely,

/s/ CHRISTOPHER T. DAVIS
Rates Analyst

CTD/lt
Attachment

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

ADDITIONAL COMMENTS OF THE
MINNESOTA DEPARTMENT OF COMMERCE
DIVISION OF ENERGY RESOURCES

DOCKET NO. E017/RP-13-961

I. INTRODUCTION

On May 2, 2014, the Minnesota Department of Commerce, Division of Energy Resources (the Department) submitted initial comments on Otter Tail Power Company's 2013 Integrated Resource Plan. The Department's recommendations included the recommendation that the Commission modify Otter Tail's plan to include 1.7 percent DSM; 100 MW of wind and a 50 MW gas CT in 2017; and 100 MW of wind, a 200 MW CT, and 21 MW of solar in 2019.

In the Department's August 29, 2014 Supplemental Comments the Department amended its recommendation regarding wind to state:

Include 100 MW of wind in 2017 but wait on a decision regarding additional 200 MW of wind until the Company's next IRP.

The Department made this recommendation in an attempt to balance the fact that the additional 300 MW of wind was found to be cost-effective and Otter Tail has an energy need during the 2018-2020 period with the uncertainty regarding the Environmental Protection Agency's implementation of Rule 111(d) regarding greenhouse gas emissions. Basically, the Department agreed that it may be reasonable to delay a decision about the timing of the procurement of a portion of the cost-effective wind until the next IRP when Otter Tail's obligations under Rule 111(d) are more clear. However, given Otter Tail's need for a significant amount of energy during a time when the availability, not to mention price, were in question, the Department still recommended that Otter Tail procure 100 MW of wind in 2017.

II. OTTER TAIL'S NEW POWER PURCHASE

On October 8, 2014, Otter Tail informed the Commission that it had signed a bilateral purchased power agreement (PPA) for 50 MW of on-peak, 5x16 energy (which means that the firm energy is available during the five week days for 16 on-peak hours.) OTP states that this purchase is a "market purchase."

The two-year (2019-2020) power purchase will provide energy on peak. OTP's letter does not identify the type of pricing for the contract, but informed the Department that the energy would be provided at a fixed price. The Department recommends that Otter Tail confirm the Department's understanding and provide the price(s) of the energy under the contract. That information is necessary to assess the reasonableness of the proposed contract.

Otter Tail's letter does not state whether any resource would be replaced by the energy-only purchase; however, the Company's statement that "The purchase is of the kind referenced in Otter Tail's current IRP as a 'market purchase'" suggests that this proposal would simply add market purchases from a known source to OTP's system. If the energy is a fixed-price contract, given the uncertainty of reliance on market purchases, it may be reasonable for OTP to obtain a fixed-price contract, if the cost of the energy is reasonable.

OTP's letter also notes that "The addition of more wind energy can be addressed in Otter Tail's next resource plan proceeding." This statement is unclear, but in conversations with the Department the Company raised the possibility that the purchased power would provide the energy the Company needed in the short term, which OTP argues would allow the Commission to delay its decision about the timing of wind power until the next IRP. If that is OTP's position, the Company should show why it would not be cost-effective to obtain the energy purchase and the 100 MW of wind energy by 2017 that the Department recommends. If OTP can obtain the 100 MW of wind energy at or below the prices the Department assumed in its analysis, OTP has not shown why such a resource should not be added to OTP's system.

III. DEPARTMENT RECOMMENDATIONS

The Department provides its updated recommendations below.

A. FORECAST

Based on its review, the Department concludes that Otter Tail's system peak demand and energy requirements forecast are acceptable for planning purposes.

The Department also recommends that the Commission require Otter Tail to:

- provide detailed data, calculations, and written explanations in its initial filings in future regulatory filing which require a forecasting analysis (e.g., general rate cases, integrated resource plans) supporting its HDD base; and
- investigate other regression specifications and methods to account for the change in the capacity control set point in future regulatory filings.

B. DSM

The Department recommends that the Commission approve a resource planning DSM goal of 1.7 percent of retail sales.

C. MODELING/ACTION PLAN

The Department recommends that the Commission require Otter Tail to:

- a. use Strategist in the Company's next IRP;
- b. include, in all future IRPs, a forecast of the market cost of SO₂ allowances, as well as any other emissions allowances granted to the Company;
- c. include an analysis of the effects of retiring its Jamestown and Lake Preston peaking units in its next IRP; and
- d. modify Otter Tail's plan to include 1.7 percent DSM; 100 MW of wind in 2017; 100 MW of wind and 21 MW of solar in 2019, and 100 MW of wind and 200 MW of peaking generation in 2021.

D. ENVIRONMENTAL ISSUES

The Department recommends that the Commission find that OTP is adequately tracking environmental regulations that might impact its operations.

E. GREENHOUSE GAS REDUCTION GOAL

The Department recommends that the Commission require Otter Tail to provide an updated estimate of its compliance with Minnesota's greenhouse gas reduction goal once the Commission approves a specific way of estimating compliance.

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CERTIFICATE OF SERVICE

I, Sharon Ferguson, hereby certify that I have this day, served copies of the following document on the attached list of persons by electronic filing, certified mail, e-mail, or by depositing a true and correct copy thereof properly enveloped with postage paid in the United States Mail at St. Paul, Minnesota.

**Minnesota Department of Commerce
Additional Comments**

Docket No. E017/RP-13-961

Dated this 16th day of October 2014

/s/Sharon Ferguson

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