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April 11, 2017

Daniel P. Wolf  
Executive Secretary  
Minnesota Public Utilities Commission  
121 7<sup>th</sup> Place East, Suite 350  
St. Paul, MN 55101-2147

**PUBLIC DOCUMENT – NOT PUBLIC  
DATA HAS BEEN EXCISED**

**RE: In the Matter of Otter Tail Power Company’s Petition for Approval of the Merricourt  
Wind Project  
Docket No. E017/M-17-  
Initial Filing**

Dear Mr. Wolf:

Otter Tail Power Company (Otter Tail) hereby submits this Petition to the Minnesota Public Utilities Commission (Commission) for: (i) approval of Otter Tail’s investment in 150 megawatts (MW) of wind generation located in McIntosh and Dickey Counties in North Dakota (Merricourt Project); (ii) determination that the Merricourt Project qualifies for application towards Otter Tail’s renewable energy objective and renewable energy obligations; and (iii) authorization of future cost recovery for the Merricourt Project through Otter Tail’s Renewable Resource Cost Recovery Rider, subject to Commission review and approval of specific costs to be presented by Otter Tail in a future petition under Minn. Stat. §216B.1645, subd. 2a. The Public version of the Petition is contemporaneously filed under a separate cover letter in this proceeding.

Portions of the enclosed Petition are marked “TRADE SECRET” because those portions contain information Otter Tail considers to be trade secret data under Minn. Stat. §13.37(1)(b). This data includes confidential pricing and contract terms. This information has independent economic value from not being generally known to, and not being readily ascertainable by, other parties who could obtain economic value from its disclosure or use. Otter Tail has taken reasonable efforts to maintain the secrecy of the information marked as TRADE SECRET as the disclosure of this information could adversely affect Otter Tail in negotiations and potentially increase costs for services for our customers.

Mr. Wolf  
April 11, 2017  
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Otter Tail has electronically filed this document with the Commission. In compliance with Minn. R. 7829.1300, subp. 2, Otter Tail is serving a copy of this filing on the Minnesota Department of Commerce- Division of Energy Resources and the Minnesota Office of Attorney General-Antitrust and Utilities Division. A Summary of the filing has been served on all persons on Otter Tail's general service list. A Certificate of Service is also enclosed.

If you have any questions regarding this filing, please contact me at 218-739-8956 or at [cstephenson@otpc.com](mailto:cstephenson@otpc.com)

Sincerely,

*/s/ CARY STEPHENSON*  
Cary Stephenson,  
Associate General Counsel

kaw  
Enclosures  
By electronic filing  
c: Service List

**STATE OF MINNESOTA  
BEFORE THE  
PUBLIC UTILITIES COMMISSION**

**In the Matter of Otter Tail Power  
Company's Petition for Approval  
Of Merricourt Wind Project**

**Docket No. E017/M-17-**

**SUMMARY OF FILING**

On April 11, 2017, Otter Tail Power Company, (Otter Tail) submitted a Petition to the Minnesota Public Utilities Commission (Commission) for: (i) approval of an investment in 150 megawatts (MW) of wind generation to be constructed in McIntosh and Dickey Counties, North Dakota (Merricourt Project); (ii) determination that the Merricourt Project is qualified for application towards Otter Tail's renewable energy objective (REO) and renewable energy standard (RES) obligations; and (iii) authorization of future cost recovery for the Merricourt Project through Otter Tail's Renewable Resources Cost Recovery Rider (Renewable Rider), subject to Commission review and approval of specific costs to be presented by Otter Tail in a future petition under Minn. Stat. §216B.1645, subd. 2a.

STATE OF MINNESOTA  
BEFORE THE  
PUBLIC UTILITIES COMMISSION

**In The Matter of Otter Tail  
Power Company's Petition  
For Approval of Merricourt Wind Project**

**Docket No. E017/M-17-**

**PETITION**

**I. INTRODUCTION**

Otter Tail Power Company, (Otter Tail) submits this Petition to the Minnesota Public Utilities Commission (Commission) for: (i) approval of an investment in 150 megawatts (MW) of wind generation to be constructed in McIntosh and Dickey Counties, North Dakota (Merricourt Project); (ii) determination that the Merricourt Project is qualified for application towards Otter Tail's renewable energy objective (REO) and renewable energy standard (RES) obligations; and (iii) authorization of future cost recovery for the Merricourt Project through Otter Tail's Renewable Resources Cost Recovery Rider (Renewable Rider), subject to Commission review and approval of specific costs to be presented by Otter Tail in a future petition under Minn. Stat. §216B.1645, subd. 2a.

Otter Tail requests authorization to include the costs of the Merricourt Project in the Renewable Rider rate calculation. Otter Tail's last Renewable Rider update, setting the charge to zero, was approved April 17, 2013 in Docket No. E-017/M-12-708. Otter Tail anticipates filing a Renewable Rider update seeking recovery of certain Merricourt Project expenses by September 1, 2018<sup>1</sup>. It will be based on updated actual and estimated costs of the Merricourt Project and any other matters for which recovery has been authorized.

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<sup>1</sup> Otter Tail has filed this Petition well in advance of the time frame it expects to seek recovery because obtaining regulatory approvals for the Project is a condition to closing on the Project documents. Those documents are more fully described later in this Petition.

The Merricourt Project is a prudent generation addition for Otter Tail that aligns with Otter Tail's Baseload Diversification Study<sup>2</sup>, and 2013 and 2016 Integrated Resource Plans.<sup>3</sup> The Merricourt Project is a low-cost generation resource that will assist Otter Tail in meeting its customers' energy needs and the State of Minnesota's REO and RES requirements.

## II. SUMMARY OF FILING

A one-paragraph summary of the filing accompanies this Petition as required Minn. R. 7829.1300, subp.1.

## III. GENERAL FILING INFORMATION

Pursuant to Minn. R. 7829.1300, subp. 3, Otter Tail provides the following information.

### 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

Cary Stephenson  
Associate General Counsel  
Otter Tail Power Company  
215 South Cascade Street  
Fergus Falls, Minnesota 56538-0496  
(218) 739-8956

### C. Date of filing and proposed effective date of rates

The date of this filing is April 11, 2017. No rates or changes to rates are proposed by this filing. However, as described in this filing, the costs of the Merricourt Project are intended to be

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<sup>2</sup> *In the Matter of Otter Tail Power Company's 2011-2025 Resource Plan*, Docket No. E017/RP-10-623. The Baseload Diversification Study was a study required by the Commission for the purpose of examining alternatives for decommissioning and replacing or repowering Otter Tail's Hoot Lake Power Plant.

<sup>3</sup> *In the Matter of Otter Tail Power Company's 2014-2028 Resource Plan*, Docket No. E-017/RP-13-961; *In the Matter of Otter Tail Power Company's Submittal of its 2017-2031 Resource Plan*, Docket No. E017/RP-16-386.

included in the calculation of Otter Tail's Renewable Rider rate in a separate filing anticipated by September 1, 2018.

**D. Statutes controlling schedule for processing the filing**

This Petition is made pursuant to Minn. Stat. §216B.1645. The process of this filing is controlled by Minn. R. 7829.300 and 7829.1400. This filing also follows the Commission's "Order Approving Rider, Purchase Power Agreement, Variance and Eligibility and Adding Requirements" (*Renewable Rider Order*) issued August 15, 2008 in Docket No. E-017-08-119.<sup>4</sup>

This filing is a "miscellaneous tariff filing" as defined by Minn. Rule 7829.0100, subp. 11. No determination of Otter Tail's overall revenue requirement is necessary under Minn. Stat. §216B.1645, subd. 2(a). Minn. Rule, 7829.1400, subps. 1 and 4 permit comments in response to a miscellaneous tariff filing to be filed within 30 days and reply comments to be filed no later than 10 days thereafter. The past practice of the Commission, however, is to issue a notice setting a schedule for comments and reply comments from interested parties.

**E. Title of utility employee responsible for filing**

Cary Stephenson  
Associate General Counsel  
Otter Tail Power Company  
215 South Cascade Street  
Fergus Falls, Minnesota 56538-0496  
(218) 739-8956

**IV. MISCELLANEOUS INFORMATION**

**A. Service List**

(Minn. R. 7829.0700)

Otter Tail requests that the following persons be placed on the Commission's official service list for this matter and that any not public comments, requests, or information be provided to the following on behalf of Otter Tail. Electronic service shall be sufficient.

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<sup>4</sup> *In the Matter of the Petition of Otter Tail Power Company to Establish a Renewable Resource Cost Recovery Rider and for Approval of 2008 Cost Recovery Factor*, Docket No. E-017/M-08-119. The Commission adjusted how Otter Tail is to apply the Rider in Docket No. E-017/M-08-1529.

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**B. Service on Other Parties**

(Minn. R. 7829.1300, subp. 2; Minn. R. 7829.0600)

Otter Tail has served a copy of this filing on the Office of the Attorney General – Antitrust and Utilities Division and the Department of Commerce - Division of Energy Resources. The summary of the filing was served on all parties on Otter Tail’s general service list.

**V. BACKGROUND AND PURPOSE OF FILING**

Otter Tail is seeking a Commission determination that the Merricourt Project qualifies towards its REO and RES obligations, and that the Merricourt Project qualifies for cost recovery through Otter Tail’s Renewable Rider, subject to Commission review and approval of specific costs to be presented by Otter Tail in a future petition under the Minn. Stat. §216B.1645.

This Petition is authorized by Minn. Stat. §216B.1645. Subdivision 1 of that statute authorizes the Commission to “approve or disapprove power purchase contracts, investments, or expenditures entered into or made by the utility to satisfy the wind and biomass mandates contained in sections 216B.169, 216B.2423, and 216B.2424, and to satisfy the renewable energy objectives and standards set forth in section 216B.1691 . . .” Under Subdivision. 2a, utilities may petition the Commission to approve a rate schedule with an automatic adjustment of charges “to recover prudently incurred investments, expenses, or costs associated with facilities constructed, owned, or operated by a utility” to satisfy Minnesota’s renewable energy objectives and standards set forth in Minn. Stat. §216B.1691.

Minn. Stat. §216B.1691.subd. 2a, requires that 12, 17, 20, and 25 percent of Otter Tail’s total retail electric sales come through “eligible energy technologies” by the years 2012, 2016, 2020, and 2025, respectively (with exceptions). Several renewable energy sources, including wind generating facilities, satisfy the definition of “eligible energy technology.”<sup>5</sup>

The Commission established Otter Tail’s Renewable Rider in Docket No. E-017-08-119. Otter Tail seeks authority to use this vehicle to recover certain costs of Merricourt Project as a RES/REO qualified resource addition, recognizing that specific project costs must be reviewed and approved in subsequent filings.

## **VI. THE MERRICOURT PROJECT**

### **A. The Merricourt Project Is a Prudent and Reasonable Approach to Meeting Otter Tail’s RES Obligations Under Minn. Stat. §216B. 1691.**

#### **1. Description of Merricourt Project**

The Merricourt Project is a wind generation project that will be located near the small town of Merricourt, North Dakota, approximately 15 miles south of Edgeley in McIntosh and Dickey Counties.

The Merricourt Project will consist of 75 V110-2.0 MW Vestas wind turbine generators with an aggregate nameplate capacity of 150 MW. The Project includes real property interests, tower foundations, operational equipment, electric collection circuit lines, a collector system with an on-site collector substation, and additional infrastructure such as communications systems, meteorological towers, operations and maintenance building, monitoring, safety, lighting and measuring systems. The Project’s footprint is 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 rate of 50.7 percent.

The Project will interconnect to Montana-Dakota Utilities Company’s Merricourt 230 kV substation located approximately 13 miles southwest of Kulm, North Dakota. The Project is in the Midcontinent Independent System Operator (MISO) interconnection queue and the August 2016 study group. Otter Tail currently estimates that studies for the August 2016 study group will begin

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<sup>5</sup> Minn. Stat. §216B.1691, subd. 1(a).



in the summer of 2017 with initial identification of necessary network upgrades for interconnection of 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, Otter Tail and EDF executed an Asset Purchase Agreement (APA) under which Otter Tail will purchase the development assets of the Project. Otter Tail and EDF also executed a corresponding Turnkey Engineering, Procurement, and Construction (TEPC) agreement, under which EDF will construct the Project on a turnkey basis.

The structure of these transactions results in EDF developing and constructing the 150 MW Merricourt wind Project on Otter Tail's behalf. Under this transaction structure, EDF is responsible to take all the steps necessary to provide Otter Tail with a fully-developed Project, including obtaining all of the necessary land rights, ensuring that the Project qualifies for PTCs, and obtains all permits necessary for the Project to be implemented. Thereafter, EDF will be responsible to take the steps necessary to construct the Project and turn the completed Project over to Otter Tail upon satisfaction of the required milestones. This type of "turn-key" transaction provides Otter Tail with a commercially-reasonable structure that provides long-term benefits of an advantageously priced Project while mitigating many of the commercial risks associated with development and construction of a major infrastructure project. Numerous conditions, including the Commission's approval of this Petition, must be satisfied prior to closing of the asset purchase under the APA. If regulatory approvals are not received, Otter Tail has the right to terminate the APA and end its involvement in the Project. The Merricourt Project is expected to be placed in service in 2019 ahead of the 2020 deadline required for capturing federal production tax credits.

2. Qualification as Eligible Energy Technology Under Minn. Stat. §216B.1691.

Wind generating facilities meet the statutory definition of "eligible energy technology" under Minn. Stat. §216B.1691, subd. 1. The Merricourt Project is a wind generating facility within the meaning of that statute. Therefore, the Merricourt Project qualifies as an eligible energy technology under Minn. Stat. §216B.1691, subd. 1.

3. Need for The Merricourt Project Energy to Meet RES and REO Obligations.

In evaluating a project in relation to the utility's REO and RES obligations, the Commission has considered the following factors: (i) the size and output of the facilities relative to the utility's

total needs; (ii) the timing of the facilities relative to those needs; and (iii) other considerations.<sup>6</sup> Otter Tail needs the energy from the Merricourt Project to meet its RES and REO in light of these and other applicable criteria.

As part of its 2013 resource planning cycle, Otter Tail analyzed potential replacement scenarios in anticipation of the retirement of Hoot Lake Plant. This analysis indicated that market purchases should be made to meet Otter Tail's energy needs when wind was offered for selection by the model at \$45/MWh. When wind was offered to the model at \$30/MWh it was selected, which showed that at that price or below, acquiring 150 MW of wind in 2021 was the most economic choice to meet Otter Tail's energy needs. The Commission reviewed and approved with modifications Otter Tail's 2013 Integrated Resource Plan (IRP), authorizing Otter Tail to obtain up to 300 MW of wind in the 2017–2021 timeframe if cost-effective and to the extent consistent with reliable system operation.<sup>7</sup> The Commission recently approved with modifications Otter Tail's 2016 IRP<sup>8</sup>, that included a plan to add up to 200 MW of wind by 2020. The 150 MW Merricourt Project is the implementation the resource additions authorized by the Commission.

With the addition of the Merricourt Project, Otter Tail will have to-date acquired a total of 333 MW of nameplate capacity renewable resources, including:

- (i) 5 MW (approximate) from several smaller PPAs, most of which were acquired several years ago;
- (ii) 20.5 MW from the Edgeley PPA (approved in Docket No. E-017/M-03-970);
- (iii) 19.5 MW from the Langdon PPA (approved in Docket No. E-017/M-08-131);
- (iv) 40.5 MW from Otter Tail's owned portion of the Langdon Project (approved in Docket No. E-017/M-08-119);
- (v) 48.0 MW from the Ashtabula Project (approved in Docket No. E-017/M-08-1055);
- (vi) 49.5 MW from the Luverne Project (approved in Docket No E017M/M-09-883);
- (vii) 150 MW from the Merricourt Project (which is the subject of this docket).

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<sup>6</sup> This framework was described in Staff Briefing Papers, May 28, 2009, in Docket No. E-002/M-08-1437, *In the Matter of the Petition of Northern States Power Company, a Minnesota Corporation, for Approval of Investments in Two Wind Power Projects: 200 MW Nobles Wind Project and 150 MW Merricourt Wind Project*.

<sup>7</sup> *In the Matter of Otter Tail Power Company's 2014–2028 Resource Plan*, Docket No. E-017/RP-13-961, Order Approving Plan with Modification and Setting Requirements for Next Resource Plan, Ordering Paragraph 1(b) December 15, 2014.

<sup>8</sup> *In the Matter of Otter Tail Power Company's Submittal of its 2017–2031 Resource Plan*, Docket No. E017/RP-16-386. The Commission's written order is pending as of the date of this filing.

With the addition of the Merricourt Project, approximately 28 percent of Otter Tail's total retail energy (system wide) will be generated by renewable generating resources. In Otter Tail's IRP proceedings, wind generation additions were determined to be an economic part of Otter Tail's least-cost resource plan and necessary to meet Otter Tail's customers' current energy needs, irrespective of any REO or RES obligations. Therefore, the Merricourt Project and Otter Tail's other wind additions have the double benefit for Otter Tail customers of economically meeting current energy needs and allowing Otter Tail to meet its customers' REO and RES obligations well into the future.

4. Costs and Selection Process of the Merricourt Project.

In evaluating prudence and reasonableness of a renewable resource project, the Commission has considered the following factors:

- (i) estimated costs;
- (ii) impact on ratepayers;
- (iii) ability to maintain system reliability;
- (iv) promotion of economic development and benefits to Minnesota citizens; and
- (v) other considerations.<sup>9</sup> The Merricourt Project is prudent and reasonable in light of these and other applicable criteria.

a. Estimated Costs

Otter Tail estimates the total capital cost of the Merricourt Project will be approximately  
[NOT PUBLIC DATA BEGINS...                      ...NOT PUBLIC DATA ENDS].

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<sup>9</sup> See *In the Matter of the Petition of Northern States Power Company, a Minnesota Corporation, for Approval of Investments in Two Wind Power Projects: 200 MW Nobles Wind Project and 150 MW Merricourt Wind Project*, Docket No. E-002/M-08-1437, Order Approving Investment in and Expenditures, Finding the Nobles Project Exempt From Obtaining a Certificate of Need, and Adding Requirements, January 27, 2010.

The cost breakdown is shown in Table 1.

Table 1

Category	Cost Estimate
APA Costs	\$34.7 million
TEPC Costs	\$200.5 million
Otter Tail Direct Costs	[NOT PUBLIC DATA BEGINS... ...NOT PUBLIC DATA ENDS]
Total	[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. APA costs are for Otter Tail's purchase of the development assets from EDF. These include the costs for [NOT PUBLIC DATA BEGINS... ...NOT PUBLIC DATA ENDS] 5% safe harbor wind turbines necessary to ensure the Project qualifies for the full value 100% PTC. The costs also represent payment for the site, permits and associated contracts necessary for completion of the Project.

The TEPC agreement calls for payments to EDF of approximately \$200 million, to be paid in installments benchmarked to certain Project milestones. TEPC costs are for EDF's provision of the balance of the turbines (i.e., all but the 5% safe harbor turbines), balance of plant construction, the collector substation, and the O&M building.

Otter Tail also budgeted an additional approximately [NOT PUBLIC DATA BEGINS... ...NOT PUBLIC DATA ENDS] for Otter Tail's direct costs, which include: (1) interconnection costs, (2) sales and use taxes; (3) internal management costs, and (4) project contingency.

Otter Tail's analysis of the Merricourt Project includes different capital sensitivities indicating that developing the Project remains prudent even at a capital cost of [NOT PUBLIC DATA BEGINS... ...NOT PUBLIC DATA ENDS].

b. Impact to Rate Payers

The Project will provide Otter Tail customers significant, long term benefits. The levelized cost of the Merricourt Project is almost 30% below the \$30/MWh threshold established in Otter Tail's resource planning for the selection of cost effective wind resources. As more fully described below Otter Tail's analyses indicate that the Merricourt Project will provide cost savings to its customers of approximately \$112 million over the life of the Project. The Merricourt Project also provides a hedge against market price volatility. Otter Tail's IRP analyses indicate that the Project will primarily displace MISO market purchases. In fact, without the Project, Otter Tail estimates that between 26 and 31 percent of its energy needs will be sourced from the MISO market imposing significant market exposure on customers. The addition of Merricourt Project will bring Otter Tail customers' exposure to energy market volatility down to approximately between 16 and 20 percent.

c. Selection Process.

Otter Tail has taken into account multiple factors in evaluating projects and specifically the Merricourt Project, including:

- (i) cost of wind energy to Otter Tail customers;
- (ii) indication of site commitment;
- (iii) status of generation interconnection request;
- (iv) location of interconnection and impact of delivery to Otter Tail customer including potential project curtailment;
- (v) project permitting status;
- (vi) anticipated commercial operation date to ensure utilization of the tax incentives;
- (vii) evidence of wind turbine supply;
- (viii) anticipated reliability of proposed equipment;
- (ix) evidence of wind resource; and
- (x) developer's experience in developing wind farms.

This approach has been used in Otter Tail's previous wind resource additions and has proven to be a cost-effective and flexible process. After the federal PTC was extended by Congress in December 2015, Otter Tail undertook a solicitation process to probe the market for wind projects and assess project options. 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.

After Otter Tail selected the Merricourt Project as the least cost wind resource available, Otter Tail refined its modelling efforts with specific information related to the Merricourt Project (rather than the previous generic modelling) to confirm the prudence of moving forward with the Project. Otter Tail's analyses indicate that the Merricourt Project will provide cost savings to its customers of approximately \$112 million on a present value of revenue requirement (PVRR) basis over the 25-year projected life of the Project compared to making energy and capacity purchases over the same period. These lifetime savings are maintained in all modelling sensitivities. Otter Tail expects that the savings will begin in the second year of Merricourt's operation and last through the Project's life.

d. Other Factors Demonstrating Prudence

In addition to anticipated cost savings, the Project will increase the diversity of Otter Tail's overall resource mix, reduce reliance on energy markets, and provide a hedge against natural gas price fluctuations. The cost of wind energy is at all-time lows and can be locked-in for the life of the facility. Otter Tail's service territory includes some of the best wind resources in the country, providing an economical generation resource with low potential for transmission congestion due to its proximity to Otter Tail's load.

Otter Tail's 150 MW Merricourt Project will be used to cost-effectively satisfy the RES for Otter Tail's Minnesota customers. The Project is consistent with the assumptions included in Otter Tail's 2013 and 2016 IRP analysis that resulted in the Commission's authorization for Otter Tail to acquire additional wind generation.

5. Project Risks & Risk Mitigation

Otter Tail has identified several risks for the Merricourt Project: (a) transmission interconnection cost uncertainty through the MISO interconnection process, (b) ensuring the Project qualifies for the full-value, 100 percent federal PTC, and (c) normal commercial risk associated

with timely deploying a major infrastructure project. Otter Tail addressed each risk in a prudent fashion as described below.

a. Interconnection Risk

The Project will interconnect to Montana-Dakota Utilities Company's Merricourt 230 kV substation located approximately 13 miles southwest of Kulm, North Dakota. This interconnection request is still in the study phases at MISO. Otter Tail currently estimates that studies for the August 2016 study group will begin in the summer of 2017 with initial identification of necessary network upgrades to interconnect the Project becoming available in late fall of 2017. Otter Tail expects MISO's first estimate of transmission costs for the August 2016 study group in October or November of 2017. It is not possible to know at this time the precise interconnection costs that could be imposed by MISO for this interconnection request. Otter Tail's analyses to determine a range of possible transmission costs suggest a range of transmission costs between **[NOT PUBLIC DATA BEGINS... ..NOT PUBLIC DATA ENDS]**, depending on the amounts of prior queued generation projects actually constructed.

To address interconnection cost uncertainty, Otter Tail negotiated contractual provisions with EDF that are designed to mitigate risk. Under the APA, Otter Tail 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 Otter Tail 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 transmission interconnection costs and achieve a mutually agreeable consensus once transmission costs become more certain. Otter Tail has also conducted sensitivity analyses around the extent to which it would be prudent to bear additional interconnection cost, based upon the cost delta between the Merricourt Project and the proposal alternatives Otter Tail received during the solicitation process.

Otter Tail 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, Otter Tail can ultimately choose to allow the APA to automatically terminate (absent EDF choosing to bear additional interconnection cost).

Otter Tail is also working closely with EDF on other potential opportunities to reduce transmission costs. For example, during the MISO generator interconnection process, the Project may elect an alternative form of generator interconnection service that is likely to result in lower transmission costs. This alternative has proven to be cost-effective and operationally sound for Otter Tail in past wind projects with third party developers.

b. PTC Compliance Risk

A significant element of value arising from the Project is the economic value associated with the availability of PTCs. The fiscal year 2016 Omnibus Appropriations Bill, passed on December 18, 2015, included a five-year extension and phase-down of the renewable electricity PTC. In order to be eligible for 100% of the PTC, construction of a qualifying facility must have begun before January 1, 2017. This standard can be satisfied under IRS safe harbor rules if a minimum of 5 percent of a project's total capital cost is incurred before January 1, 2017. Otter Tail's contract with EDF requires EDF to meet the five percent safe harbor threshold by purchasing [NOT PUBLIC DATA BEGINS... ...NOT PUBLIC DATA ENDS] project turbines from Vestas by December 31, 2016. Otter Tail has confirmed that EDF complied with this contractual obligation. Additionally, EDF must indemnify Otter Tail if certain PTC representations and warranties are breached and this indemnification is backed by a guaranty issued by EDF's parent, as discussed below.

To provide additional certainty regarding PTCs, an opinion from a qualified tax attorney that the Project will qualify for 100 percent of the PTCs 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 these contractual terms and other requirements reasonably mitigate the risk of failing to qualify for 100 percent of available PTCs.



c. Commercial & Counterparty Risk

Otter Tail's contracts with EDF substantially place cost overrun risk on EDF. As noted in the preceding subparagraph the TEPC provides for liquidated damages to incent timely Project completion by EDF. Otter Tail has addressed 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 percent 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. The Merricourt Project Costs Are Eligible for Future Renewable Rider Recovery.**

This petition does not request current rate recovery for Merricourt Project costs. However, Otter Tail requests authorization to include the costs of the Merricourt Project in the Renewable Rider rate calculation, subject to Commission review and approval of specific costs to be presented by Otter Tail in the updated filing.

When Otter Tail submits its petition to begin recovery of its investments in the Merricourt Project, Otter Tail will also provide additional information relative to impacts of incentives that are available for the Merricourt Project.

**C. The Merricourt Project Does Not Require a Certificate of Need.**

The Merricourt Project is located in North Dakota and therefore does not require a Minnesota Certificate of Need.

**VII. CONCLUSION**

Based on the foregoing, Otter Tail respectfully requests the Commission:

- (i) approve Otter Tail's investment in the Merricourt Project;
- (ii) determine that the Merricourt Project is qualified for application towards Otter Tail's REO and RES obligations; and
- (iii) authorize future cost recovery for the Merricourt Project through Otter Tail's Renewable Rider, subject to Commission review and approval of specific costs to be presented by Otter Tail in a future petition under Minn. Stat. §216B.1645, subd. 2a.

Dated: April 11, 2017

Respectfully Submitted,

OTTER TAIL POWER COMPANY

By: /s/ CARY STEPHENSON

Cary Stephenson  
Associate General Counsel  
Otter Tail Power Company  
215 South Cascade Street  
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## **CERTIFICATE OF SERVICE**

**RE: In the Matter of Otter Tail Power Company's Petition for Approval of the  
Merricourt Wind Project  
Docket No. E017/M-17-**

I, Kim Ward, hereby certify that I have this day served a copy of the following, or a summary thereof, on Daniel P. Wolf and Sharon Ferguson by e-filing, and to all other persons on the attached service list by electronic service or by First Class Mail.

**Otter Tail Power Company  
Initial Filing**

Dated this **11th** day of **April, 2017**.

*/s/ Kim Ward*  
Kim Ward, Regulatory Filing Coordinator  
Otter Tail Power Company  
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