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March 7, 2025

Mr. Will Seuffert
Executive Secretary
Minnesota Public Utilities Commission

**PUBLIC DOCUMENT-
NOT PUBLIC (OR PRIVILEGED)
DATA HAS BEEN EXCISED**

121 7th Place East
Suite 350
St. Paul, MN 55101-2147

**RE: In the Matter of Commission Consideration and Determination of Otter Tail Power Company's Plan to Meet the Small-Scale SES Compliance
Docket No. E017/M-23-338
Reply Comments**

Dear Mr. Seuffert:

Otter Tail Power Company (Otter Tail Power) hereby submits to the Minnesota Public Utilities Commission (Commission) its Reply Comments in the above-referenced matter.

Chart 1 consists of confidential pricing information (the "Protected Data"). The Protected Data has economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by other persons and is subject to the efforts by OTP to protect the information from public disclosure. The Protected Data therefore: (1) constitutes trade secret information, as defined in Minn. Stat. § 13.37, subd. 1(b); (2) is classified as nonpublic data pursuant to Minn. Stat. § 13.37, subd. 2; (3) is also not public data, as defined in Minn. Stat. § 13.02, subd. 8a; and (4) is protected data under Minn. R. 7829.0100, subp. 19a(A).

We have electronically filed this document with the Commission and copies have been served on all parties on the attached service list. A Certificate of Service is also enclosed.

Mr. Seuffert
March 7, 2025
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Please contact me at 218-739-8639 or jgrenier@otpc.com if you have any questions regarding this filing.

Sincerely,

/s/ *JASON GRENIER*
Jason Grenier
Manager
Retail Energy Solutions

kaw
Enclosures
By electronic filing
c: Service List

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

**In the Matter of Commission
Consideration and Determination
of Otter Tail Power Company's
Plan to Meet the Small-Scale SES
Compliance**

Docket No. E017/M-23-338

REPLY COMMENTS

I. INTRODUCTION

The Minnesota Public Utility Commission's (Commission) January 26, 2024 Order, in the current docket, included five ordering points. Specifically, ordering point number two approved Otter Tail Power Company's (Otter Tail Power, OTP, or the Company) proposal to invest in up to fifteen Company-owned small, 40 kilowatts or less, solar projects. Ordering point number four of the Commission's order stated:

Authorized OTP to recover future costs of OTP-owned small-solar projects through the Renewable Recovery Cost Rider (RRCR) with a full allocation to Minnesota of the output and costs (with a resulting reduction of the market energy purchases and costs), subject to Commission review and approval of specific costs to be presented by OTP in a future petition under Minn. Stat. § 216.1645, subd. 2a, or in a general rate case.

Under that order, Otter Tail Power started construction on the fifteen small-solar sites through the summer and fall of 2024. Final commissioning of the fifteenth and final site occurred in November of 2024. All fifteen sites, four of which are on customer premises, are currently fully functional and producing energy.

Otter Tail Power's June 27, 2024, Compliance filing to the Commission in this docket presented progress, strategies, and included forecasts on how Otter Tail Power planned to achieve compliance for the small-solar system carve-out.

In late fall of 2024, the Company again evaluated its progress and forecast for meeting the small-solar system carve-out. Upon further review, the Company found that customer projects were not materializing as quickly as initially forecasted. In response to the limited number of customer projects, on December 18, 2024, the Company filed a plan with the Commission to construct, operate, and own, an additional fifteen small-solar projects. In addition, to meet customer interest, Otter Tail Power requested Commission approval of a formal Customer Hosted Solar program that would allow the Company to build and own up to forty additional small-scale solar systems on customer property to be constructed during the ten-year period beginning in 2026 (through 2035).

Otter Tail Power proposed to allocate all output and costs associated with the additional fifteen projects and the forty Customer Hosted Solar small-solar systems solely to Minnesota, with recovery through its RRCR.

On February 24, 2025, the Minnesota Department of Commerce's Division of Energy Resources (Department) filed initial comments in response to the Company's December 18, 2024 proposals. The Company has assembled the following comments in response to the Department's initial comments.

II. OTTER TAIL RESPONSES

A. Additional fifteen OTP-owned small solar proposal

Should the Commission approve Otter Tail Power's plan to achieve future Solar Energy Standard (SES) compliance with the small-scale solar carve-out requirement, including Otter Tail's investment in up to fifteen Otter Tail-owned solar projects under 40 kilowatts?

The Department believes the Company's proposal to construct, operate and own fifteen small-solar projects is a reasonable approach to achieving compliance certainty. The Department recommends Commission approval of the fifteen small-solar projects the Company has proposed. However, the Department recommends the Commission require two-thirds (i.e., 10) of the projects to be Otter Tail Power owned on Company land, and the remaining projects (i.e., 5), in recognition of customer interest, may be used for OTP owned customer-sited projects.

Otter Tail Power appreciates the Department's review of its proposal and its support of the Company building the additional fifteen small-solar projects. The Company's intention with the fifteen small-solar projects is to build them where we can achieve lowest costs, either on Company property or customer property. The Company prefers to have more flexibility with siting these projects and asks the Commission to allow the Company to site these projects where it is lowest cost.

To date, see Chart 1 below, the Company has been able to site on customer-owned land with little or no cost increase to the projects when compared to projects on Company land, but it is unclear if this trend will continue. In some cases, customer-owned sites can be lower cost if the Company can utilize a customers' existing transformer. At this time the Company isn't sure what the mix (Company v customer land) will be for where these fifteen projects will be sited. Similar to the 2024 small-solar projects, having flexibility, while being mindful of project costs, is the Company's preferred method for building these projects.

Chart 1¹

[PROTECTED DATA BEGINS...

...PROTECTED DATA ENDS]

B. Customer Hosted small-solar program proposal

Should the Commission approve Otter Tail Power's plan to create a customer program, called Customer Hosted Solar, which allows the Company to build, operate, and own, up to forty small-scale systems placed on customer property constructed during a ten-year period from 2026 through 2035?

The Department recommends the Commission deny the Company's Customer Hosted Solar proposal. The Department cited the Company's small solar forecast Charts 2² and 3,³ which show the Company exceeding the SES requirements, without building the additional forty Customer Hosted Solar projects, based on current forecasted sales. The Department further discusses the Company's relatively flat sales forecast as contained in its latest integrated resource plan.

Otter Tail Power agrees with the Department regarding the Company's relatively flat sales forecast. However, the Company is frequently in conversations with potential

¹ Chart is based on data from Attachment 1 to IR MN-DOC-005.

² Chart 2, Otter Tail Power's December 18, 2024, Petition.

³ Chart 3, Attachment 1 to Information Request MN-DOC-003.

large load customers, not only data centers, since its ultra-low-cost energy rates are extremely attractive to these loads. The Company sees the risk of long-term SES compliance due to the potential addition of a large load, as a secondary driver for the Customer Hosted Solar offering. The Company's primary driver for offering Customer Hosted Solar is to provide a solution for our customers who are interested in demonstrating solar on their property, but desire their local energy provider, Otter Tail Power, to provide this solution. The Company's 2024 projects at Sanford Medical Center in Bemidji and Bemidji State University, are two notable examples where the customer desired to showcase solar to their customers and the greater community, but preferred to rely on their local energy provider, Otter Tail Power to provide this service.

Not only is the proposed Customer Hosted Solar program a service offering to our customers, it also supports Minnesota's goal of ten percent energy from solar by 2030.⁴ Accelerating solar systems in rural Minnesota through the proposed Customer Hosted Solar program supports Minnesota's solar goal and also supports the state's goal for public utilities to be ninety percent carbon-free by 2035.⁵

Otter Tail has included Table 1 below, an updated Matrix of Small-Scale Solar Solutions as originally filed in its July 19, 2023, petition. While this matrix is self-scoring, Otter Tail Power has assembled and updated it based on actual cost information from 2024 projects, customer responses to programs such as POP Solar, Customer Hosted, or private customer projects. For example, POP Solar projects have high customer interest and provide high community benefits, however the projects are slow to mature compared to our original assessment, and the projects are similar in cost to Customer Hosted Solar based on the Company's updated cost assessment in Attachment 1 to IR MN -DOC-004 in this docket. The Company concludes that Customer Hosted Solar projects are high quality projects based on this assessment. Customer Hosted projects offer the same affordability as projects on Company property, if the Company can continue to find customers with sufficient interest in hosting solar to not require the Company to pay land lease fees. Customer Hosted projects are fairly timely for compliance, have strong inclusivity and customer participation, and have high customer interest.

⁴ Minn. Stat §216B.1691, Subd. 2f. (e). It is an energy goal of the state of Minnesota that, by 2030, ten percent of the retail electric sales in Minnesota be generated by solar energy.

⁵ Minn. Stat §216B.1691, Subd. 2g.

Table 1: Updated Otter Tail Power Matrix of Small-Scale Solar Solutions

Strategy Solution	Strategy Filter Question					Total
	Timely meets small-SES Compliance?	Maximizes Inclusivity and Participation of Customers	Low-cost to Ratepayers?	Provides community optics and benefits.	Customer Expressed Interest	
POP Solar Maximized through ECO	1	5	3	5	4	18
Company-owned, on Company property	5	3	4	3	3	18
Customer Hosted, Company-owned	3	4	3	3	5	18
Customer-owned with Rebate from Company	2	2	2	1	2	9
Customer-owned without Rebate	1	2	5	1	1	10
Purchase SRECs	5	1	5	1	1	13

To lessen the overall costs of small-scale solar projects, the Company proposes to modify its request and asks the Commission to approve up to thirty Customer Hosted Solar projects instead of its initial request of forty projects, built from 2026 through 2035. These projects are similar in costs to projects sited on Company property, but provide more customer inclusion and participation, as the Company has shown with its 2024 projects at Bemidji State University, Northwest Technical College Bemidji, Sanford Medical Center in Bemidji, and Brunswick Boats in New York Mills. These projects will likely be built in groups to maintain efficiencies and low costs. Lastly, these projects help the Company meet Minnesota’s ten percent solar energy goal by 2030 and Minnesota’s Carbon-free energy standard.

The Company concedes that if substantial tariffs, elimination of the ITC, or other government actions significantly increase costs for the Customer Hosted Solar projects, the Company should not pursue these projects if it is in compliance with the small-solar SES standard. Otter Tail has included a rate impact analysis for these projects in the Customer Impact Analysis portion of these comments.

C. Cost Recovery

Should the Commission approve Otter Tail’s request to authorize future cost recovery of the Company-owned small solar projects through the Renewable Resource Cost Recovery rider, as described in the plan?

In regard to Otter Tail Power’s proposal to build fifteen Company-owned projects and recover costs through the Company’s RRCCR, subject to Commission review and approval of specific costs to be presented by Otter Tail Power in a future petition or general rate case,⁶ the Department and the Company are in agreement on this cost recovery methodology.

In addition to not recommending approval of Customer Hosted Solar projects and their costs, the Department recommends the Commission deny OTP’s request for cost recovery of future inflationary costs, discontinuation of the Investment Tax Credit (ITC), and a fifteen percent contingency for all proposed small-solar projects. The Company believes its initial proposal to include these costs is reasonable. The Company’s assessment of costs for both the fifteen small-solar projects and the Customer Hosted Solar projects shows these projects provide similar cost impacts to ratepayers as its current POP solar program.

The Department recommends, “the Commission limit OTP cost recovery to a capital cost cap with the total cost recovered set at the costs proposed by OTP in its Petition.” The Company disagrees with the Department’s recommendation of a capital cost cap and doesn’t believe it is reasonable to keep costs at 2024 levels through 2035. Increases in labor, equipment, and other supporting costs are typical with any project over time. When siting the first fifteen projects in 2024, the Company chose preferred sites that were least cost, but there is not an inexhaustible supply of such sites. The next fifteen sites will be sites that will come with higher costs beyond inflation. Otter Tail Power proposed the fifteen percent contingency to cover the increase in costs for the next phase of projects. Examples of these costs will likely include further line extension costs, excavating – site prep and small vegetation removal, easements, site access (i.e. land lease fees), and permitting. The Company will not be able to move forward with these projects without Commission approval of adjustments for inflation and a fifteen percent contingency for increased costs at each site.

⁶ 2024 Commission Order, Order Point 4.

Otter Tail has a long history of executing construction projects that are least cost. The Company's first fifteen small-solar projects to meet compliance, were low-cost and, as always, this will continue to be Otter Tail Power's commitment with building an additional fifteen small solar projects or Customer Hosted Solar projects.

D. Customer Impact Analysis

On December 16, 2024, Otter Tail Power filed for recovery, in its RRCR, Docket No. E017/M-24-422, of its 2024 small-scale solar costs from its initial fifteen projects. The monthly impact from these initial fifteen small-solar projects for a typical residential customer using 1,000 kWh per a month is \$0.13, or \$1.56 annually.

Otter Tail Power has included Table 2 below, showing an estimated example of these customer impacts. Year 2025 assumes the second group of fifteen projects is built and increases costs 3 percent for inflation and an additional 15 percent for contingency. The total annual impact to customers is projected to be \$1.85 annually. This should get Otter Tail Power to a level to meet the small-SES compliance requirements. Next, Table 2 shows another 15 projects added in 2028 that are Customer Hosted Solar projects. Again, with a 3 percent escalator for inflation and a 15 percent contingency, the first Customer Hosted Solar projects would have a projected annual impact on a typical residential customer of \$2.02. The second group of 15 Customer Hosted Solar projects in 2032 after inflation and contingency would have a projected impact of \$2.27 annually to a typical residential customer. In total, if all 60 of these proposed projects were built, the combined annual impact on a typical residential customer's bill would be \$7.70 (including the 15 projects already in service). Otter Tail believes these costs are reasonable to first achieve small-SES compliance and second to engage our customers in solar and provide interested customers a simple solar solution. As commonly used by the electric utility industry, the Company proposes to utilize the Handy-Whitman Index of Public Utility Construction Costs to calculate an annual inflation percentage for its proposed solar projects.

Table 2

			Inflation	Contingency
			3%	15%
			Annual Res. Customer Impact w/3% Inflation	Annual Res. Customer Impact w/15% Contingency
2024	Year 1	1st 15 solar Projects	\$1.56	\$1.56
2025	Year 2	2nd 15 solar Projects	\$1.61	\$1.85
2026	Year 3		\$1.66	
2027	Year 4		\$1.70	
2028	Year 5	15 Customer Hosted	\$1.76	\$2.02
2029	Year 6		\$1.81	
2030	Year 7		\$1.86	
2031	Year 8		\$1.92	
2032	Year 9	15 Customer Hosted	\$1.98	\$2.27
Total Impact to Residential Customers				\$7.70

III. CONCLUSION

The Company proposes to continue its path towards Minnesota small SES compliance by constructing, operating, and owning an additional fifteen small-solar arrays on either Otter Tail Power or customer properties starting in 2025. Going forward, to meet customer interests, and to support Minnesota’s 10 percent solar energy goal and carbon-free energy goals, the Company requests the option of a formal Customer Hosted Solar program allowing the Company to build and own up to thirty small-solar systems on customer property.

Otter Tail Power’s proposals are reasonable from a customer cost impact standpoint. The fifteen projects from 2024 will impact a typical residential customer’s bill by \$1.56 annually. Adding fifteen more Company-owned projects and up to thirty Customer Hosted Solar projects (60 total including 15 already built) will grow to an estimated maximum of \$7.70 annually for a typical residential customer.

The Company requests the Commission to approve its proposal to:

1. Build, operate and own an additional fifteen small-scale solar arrays with flexibility to place them on Company or customer property, with construction beginning in 2025.

2. For cost recovery purposes, the additional fifteen small-scale solar arrays beginning in 2025, will have costs in alignment with the Company's 2024 small-scale solar projects' cost per kilowatt installed, adjusted for annual inflation based on the Handy-Whitman Index, a fifteen percent contingency, and any discontinuation of the ITC or government actions that are a material change from 2024.
3. Create a customer program, called Customer Hosted Solar, which allows the Company to build, operate and own up to thirty small-scale systems, placed only on business or government customer property, constructed during a ten-year period from 2026 through 2035.
4. For cost recovery purposes, Customer Hosted Solar projects will have costs in alignment with the Company's 2024 small-scale solar projects' cost per kilowatt installed, adjusted for annual inflation based on the Handy-Whitman Index, and allow for a fifteen percent contingency. Customer Hosted Solar projects will not be pursued by the Company if the ITC is discontinued or material government actions impacting pricing occur.
5. Authorize future cost recovery for all costs and production from the additional fifteen small-solar projects and up to thirty customer-hosted small-solar projects, will be allocated to Minnesota customers with recovery through the Company's Renewable Resource Cost Recovery Rider, subject to Commission review and approval of specific costs to be presented in a future petition by Otter Tail Power under Minn. Stat. § 216.1645, subd.2a or in a general rate case.

Dated: March 7, 2025

Respectfully submitted,

OTTER TAIL POWER COMPANY

By: /s/ JASON GRENIER

Jason Grenier

Manager, Retail Energy Solutions

Otter Tail Power Company

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CERTIFICATE OF SERVICE

**RE: In the Matter of Commission Consideration and Determination of
Otter Tail Power Company's Plan to Meet the Small-Scale SES
Compliance
Docket No. E017/M-23-338**

I, Kim Ward, hereby certify that I have this day served a copy of the following, or a summary thereof, on Will Seuffert 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
Reply Comments**

Dated this 7th day of **March, 2025**.

/s/ KIM WARD

Kim Ward
Lead Regulatory Filing Coordinator
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