June 15, 2021

Will Seuffert
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, MN 55101-2147

VIA E-FILING

Re: In the Matter of an Investigation into Self-Commitment and Self-Scheduling of Large Baseload Generation Facilities
Docket No. E-999/CI-19-704
Sierra Club NOT PUBLIC Version of Surreply Comments: Otter Tail Power 2021 Annual Compliance Filing

Dear Mr. Seuffert:

Sierra Club respectfully submits its Surreply Comments on Otter Tail Power's 2021 Annual Compliance Filing in Docket No. E999/CI-19-704.

These comments contain information Otter Tail Power considers to be Trade Secret. Sierra Club believes this filing comports with the Minnesota Public Utilities Commission's Notice relating to Revised Procedures for Handling Trade Secret and Privileged Data, pursuant to Minn. Rule 7829.0500.

Please contact me at (303) 454-3358 or laurie.williams@sierraclub.org if you have any questions regarding this filing.

Sincerely,

/s/Laurie Williams
Senior Attorney
Sierra Club
1536 Wynkoop St. Suite #200
Denver, CO 80202

STATE OF MINNESOTA
BEFORE THE PUBLIC UTILITIES COMMISSION

Katie J. Sieben	Chair
Valerie Means	Commissioner
Matthew Schuerger	Commissioner
Joseph K. Sullivan	Commissioner
John A. Tuma	Commissioner

In the Matter of an Investigation into	)	
Self-Commitment and	)	Docket No. E-999/CI-19-704
Self-Scheduling of Large Baseload	)	
Generation Facilities	)	

SIERRA CLUB SURREPLY COMMENTS
IN RESPONSE TO OTTER TAIL POWER'S 2021 COMPLIANCE FILING

Developed with the Assistance of Synapse Energy Economics, Inc.
485 Massachusetts Ave., Suite 3
Cambridge, Massachusetts, 02139

NOT PUBLIC DOCUMENT – CONTAINS TRADE SECRET DATA

June 15, 2021

On June 1, 2021, Otter Tail Power (OTP) filed reply comments in *In the Matter of an Investigation into Self-Commitment and Self-Scheduling of Large Baseload Generation Facilities,* Docket No. E999/CI-19-704. Nothing in Otter Tail's reply comments alters the conclusions and recommendations expressed in our Initial Comments.

1. We continue to recommend that the Commission require, as part of OTP's 2021 Integrated Resource Plan (IRP), that OTP evaluate whether it is in the best interest of customers for the Company to continue its ownership interest in the Big Stone and Coyote units.

Synapse's analysis presented in our Initial Comments showed that that the losses incurred at the Coyote and Big Stone plants as a result of the units' commitment and dispatch decisions are driven by (1) the co-ownership structure of the units; and (2) the operation of the units across both the SPP and MISO markets. Based on these two complicating factors, OTP still ended up self-committing Big Stone into MISO **[TRADE SECRET DATA BEGINS… 77 percent …TRADE SECRET DATA ENDS]** of the time in 2020, even though OTP and its co-owners enabled Big Stone to switch to economic commitment in 2020.[1] This led Big Stone to incur [**TRADE SECRET DATA BEGINS…$3.5 million…TRADE SECRET DATA ENDS**] in net revenue losses in 2020.[2] Despite the change in commitment protocol, the unit still operated uneconomically [**TRADE SECRET DATA BEGINS…84…TRADE SECRET DATA ENDS**] percent of the time.[3] Similarly, at Coyote, when all fuel costs are considered as variable, we found that the unit operated uneconomically [**TRADE SECRET DATA BEGINS… 90… TRADE SECRET DATA ENDS**] percent of the time in 2020, resulting in [**TRADE SECRET DATA BEGINS…significant net negative losses of $8.9 million…TRADE SECRET DATA ENDS**].[4]

OTP's reply comments do not attempt to refute Synapse's analysis. Instead, the thrust of OTP's response is that it only has so much control over the plants' operations, "due to their joint ownership and multi-market operation."[5] But this response only supports our conclusion that the time has come to evaluate whether the co-ownership arrangement in multiple markets benefits OTP's customers. While co-ownership may have at some point made sense for OTP's customers, it is now resulting in higher customer costs, net revenue losses, and inefficient, uneconomic operation of its main generating stations. Therefore, we believe that it would be reasonable and

[1] Sierra Club Initial Comments at 9.
[2] *Id*. at 10.
[3] *Id*. at 15.
[4] *Id*. at 11, 14.
[5] OTP Reply Comments at 23.

prudent for OTP to conduct a thorough evaluation of the Big Stone and Coyote units' co-ownership structure. As we noted in our Initial Comments, the Fall 2021 IRP docket represents an appropriate venue for OTP to conduct a full analysis of whether it would save customers money to divest its ownership share in both Coyote and Big Stone.

This analysis should occur as soon as possible, before additional potentially unnecessary and uneconomic capital expenditures are made at the plants or, in the case of Coyote, at the mine that serves the plant. Our analysis found that under the Coyote fuel supply contract, the unit owners could be responsible for costs associated with [**TRADE SECRET DATA BEGINS… additional investments at the mine, which could be avoided through early retirement …TRADE SECRET DATA ENDS**].[6]

The Office of Attorney General's (OAG's) Reply Comments provide additional information that further bolsters support for our recommendation that the Commission require OTP to examine early divestment of Coyote in its fall IRP. In those comments, the OAG notes that the production costs for Coyote produced in Otter Tail's rate case were [**TRADE SECRET DATA BEGINS… 24%…TRADE SECRET DATA ENDS**] higher than OTP provided in its compliance filing.[7] The OAG's analysis of Coyote's production cost losses using these higher numbers showed an average loss of [**TRADE SECRET DATA BEGINS… $9.2 million…TRADE SECRET DATA ENDS**] per year over the last 5 years.[8] The OAG also pointed out that Coyote's owners plan to spend over [**TRADE SECRET DATA BEGINS… $131 million…TRADE SECRET DATA ENDS**] in capital on the plant over the next 10 years.[9] The OAG recommends that the Commission require Otter Tail to include in its September 1, 2021 IRP a scenario in which the Company divests its ownership interest in Coyote Station by the 2022-2023 MISO planning year. We support this recommendation.

2. Specific recommendations related to Coyote fuel contract

With respect to the Coyote fuel supply contract, we reiterate our recommendations that the Commission should:

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[6] Sierra Club Initial Comments at 27.
[7] OAG Reply Comments at 2.
[8] Id.
[9] Id. at 3-4.

- Require Otter Tail to evaluate in its upcoming IRP whether continued participation in that contract is in its customers' interest, or whether customers would instead be better served by early termination of the contract.
- Identify a docket (whether 19-704, the 2021 IRP, or a fuel clause adjustment docket) in which it will evaluate the reasonableness and prudence of the contract and determine what portion of any early termination costs should be borne by customers versus ratepayers.
- Indicate that it will disallow from inclusion in fuel costs all forward-going expenditures on new assets or mine expansion activities at Coyote mine pending demonstration by the Company in the IRP that continued ownership of its share of the Coyote plant is in its customers' interests. This is important to prevent additional costs from accumulating that could increase exit costs associated with the contract.

The OAG's Reply Comments provide additional support for these recommendations. The OAG's analysis shows that Coyote's monthly production costs increased by 35% after OTP signed the new coal contract.[10] The OAG also notes that OTP knew or should have been on notice that the Coyote plant faced significant regulatory risk over the life of the 25-year contract, given that the Commission had required the company to analyze the potential impact of environmental regulations on its operations.[11] This additional analysis strongly supports our own analysis indicating that it may have been imprudent for OTP to have entered a 25-year contract for coal from the Coyote mine under the stringent terms of the Coyote LSA.

In its Reply Comments, OTP states that it "lacks the ability to unilaterally terminate or restructure the Coyote LSA. Any effort to alter the LSA is bound up in the Coyote Station Ownership Agreement. In Otter Tail's view any discussion of the pros and cons of OTP divesting from Coyote or otherwise taking steps that could lead to Coyote's early retirement (and the cost to rate payers associated with such action) should be addressed in Otter Tail's Integrated Resource Plan (IRP) docket."[12]

OTP's recommendation that a cost-benefit analysis of OTP divesting from Coyote should be conducted in its IRP is consistent with the recommendations set forth in our initial comments. We agree that the Commission should require OTP to analyze the costs and benefits of early

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[10] *Id.* at 5.
[11] *Id.* at 6.
[12] OTP Reply Comments at 19.

divestment in Coyote in its IRP, which should include an explanation by OTP of the key terms of the Coyote Station Ownership Agreement with respect to early termination.

However, separate and apart from the IRP analysis, it will remain important for the Commission to evaluate the reasonableness and prudence of the terms of the 25-year Coyote Lignite Sales Agreement. The Commission may find, for instance, that the division under the contract between fixed and variable costs is not reasonable, and that OTP should not be permitted to treat some portion of fuel costs as fixed when making unit commitment decisions. The Commission should also review which portion of any early termination costs should be borne by OTP's ratepayers versus shareholders. We further recommend that the Commission indicate that it will disallow from inclusion in fuel costs all forward-going expenditures on new assets or mine expansion activities at Coyote mine pending demonstration by the Company in the IRP that continued ownership of its share of the Coyote plant is in its customers' interests. This is important to prevent additional costs from accumulating that could increase exit costs associated with the contract. We therefore continue to recommend that the Commission identify a docket (whether 19-704, the 2021 IRP, or a fuel clause adjustment docket) in which it will evaluate these issues.

OTP responded to these recommendations by asserting that: "In recommending disallowance of certain costs for mine activities the Sierra Club fails consider the joint ownership of Coyote Station and fails to consider the contractual obligations of Otter Tail and the other co-owners, and the risk and costs of failing to satisfy those obligations to Otter Tail and its customers."[13] The Commission can evaluate all of these issues in the identified docket. Therefore, Sierra Club does not find OTP's reasoning persuasive.

3. Fuel adjustment clause dockets

We also recommended that:

- In the absence of a multi-day commitment market at MISO, the Commission should require OTP to maintain, as part of the record in fuel clause adjustment proceedings, standardized records sufficient to demonstrate that it has used forward-looking analyses to inform commitment decisions at the Big Stone and Coyote units**.**
    - OTP should be required to utilize LMP forecasts, unit operational costs, and unit start-up and shut-down costs to determine daily whether to self-commit a unit or to take it offline during periods of low market prices. OTP should be required to retain this analysis to allow the Commission to evaluate in fuel clause adjustment

[13] OTP Reply at 21.

true-up proceedings whether a unit's commitment decision maximized its economic value to OTP's customers.

  - In addition, OTP should be required to produce data that allows the Commission to verify that the co-owners of Big Stone and Coyote are also using forward looking analyses to inform commitment decisions into the SPP market.

- The Commission should signal that it may, in the next fuel cost true-up proceeding, disallow recovery of fuel costs for times when the unit was operated uneconomically in a manner that is not justified by such forward-looking analyses (or for which no analysis or documentation was produced to demonstrate that the co-owners were committing economically into the SPP market). The reasonableness of unit dispatch practices should be evaluated based on analysis that incorporates predictive maintenance costs—and any other excluded costs that scale with and are impacted by plant operations—as well as all fuel costs, into the variable costs that OTP uses to make its unit commitment and dispatch decisions.

In its Reply Comments, OTP notes that it "maintains standing, twice a week, co-owner offer strategy meetings, and that "[d]etailed meeting notes are kept highlighting future conditions and co-owner offer preferences."[14] OTP asserts that "[t]hese records are sufficient to demonstrate that Otter Tail has used prudent forward-looking analyses to inform commitment decisions at both the Big Stone and Coyote units."[15] OTP continues: "Development of an accurate quantitative LMP forecast, which would require data inputs that Otter Tail does not have access to, for both the SPP and MISO markets, which would then be used to evaluate prudency in a fuel clause adjustment true-up, is not reasonable."[16] OTP went on to argue that "development of an accurate quantitative LMP forecast, which would require data inputs that Otter Tail does not have access to, for both the SPP and MISO markets, which would then be used to evaluate prudency in a fuel clause adjustment true-up, is not reasonable."[17] But other utilities, including Duke and AEP, regularly prepare these forecasts for use in their unit commitment decision-making process.

We acknowledge that the development of standardized forward-looking analyses is complicated within a joint market context. But, by declaring that the meeting notes are sufficient and failing to provide substantive quantitative analyses, OTP does not provide the Commission with data and analysis sufficient to allow the Commission to assess the prudence of OTP's commitment

[14] OTP Reply Comments at 22.
[15] *Id.*
[16] *Id.*
[17] *Id.*

decisions or assess whether the owners collectively are carrying through on their commitment to operate the unit with an economic status.

Therefore, we reiterate our recommendation that the Commission require OTP to maintain standardized records to demonstrate that it has used forward-looking analyses to inform commitment decisions whenever it self-commits its unit. We do not believe the qualitative meeting notes are sufficient. In addition to the meeting notes, we recommend that the Commission require OTP to standardize the quantitative analysis recorded in its twice weekly meetings with joint owners, and include unit cost data, projected day ahead LMPs for each market, the commitment decision recommended at the meeting by each owner based on that data, the commitment decision that was ultimately made for the unit, and the reason for that decision and provide this data and analyses along with its detailed meeting notes. This documentation is not necessary for the hours in which the units are committed into MISO economically.

We further recommend that the Commission require OTP to develop a standardized list of reasons for the many instances in which OTP self-commits Big Stone at the request of other entities. Specifically, this list should always indicate the unit's commitment status in SPP, economic or self-committed, and for any self-commitment status's in SPP, the reason for such a status (at the request of co-owner based on projection of high market prices, outage at other units in the RTO, etc.). Tracking this information will allow OTP, the Commission, and other parties in the docket to evaluate whether there are long-term trends and discrepancies between SPP and MISO market prices that disadvantage OTP relative to the joint owners operating within SPP.

For the foregoing reasons, and for the reasons set forth in our Initial Comments, we respectfully request that the Commission adopt the following recommendations:

- The Commission should find that the record shows that the Big Stone and Coyote units' co-ownership and operation in both the MISO and SPP markets has resulted in losses to customers, and require, as part of its 2021 Integrated Resource Plan (IRP), that OTP evaluate whether it is in the best interest of customers for the Company to continue its ownership interest in the units.

- With respect to the Coyote fuel supply contract, the Commission should:

    - Require Otter Tail to evaluate in its upcoming IRP whether continued participation in that contract is in its customers' interest, or whether customers would instead be better served by early termination of the contract.

    - Identify a docket (whether 19-704, the 2021 IRP, or a fuel clause adjustment docket) in which it will evaluate the reasonableness and prudence of the contract and determine what portion of any early termination costs should be borne by customers versus ratepayers.

    - Indicate that it will disallow from inclusion in fuel costs all forward-going expenditures on new assets or mine expansion activities at Coyote mine pending demonstration by the Company in the IRP that continued ownership of its share of the Coyote plant is in its customers' interests. This is important to prevent additional costs from accumulating that could increase exit costs associated with the contract.

- In the absence of a multi-day commitment market at MISO, the Commission should require OTP to maintain, as part of the record in fuel clause adjustment proceedings, standardized records sufficient to demonstrate that it has used forward-looking analyses to inform commitment decisions at the Big Stone and Coyote units.

    - OTP should be required to utilize LMP forecasts, unit operational costs, and unit start-up and shut-down costs to determine daily whether to self-commit a unit or to take it offline during periods of low market prices. OTP should be required to retain this analysis to allow the Commission to evaluate in fuel clause adjustment true-up proceedings whether a unit's commitment decision maximized its economic value to OTP's customers.
    - In addition, OTP should be required to produce data that allows the Commission to verify that the co-owners of Big Stone and Coyote are also using forward looking analyses to inform commitment decisions into the SPP market.

- The Commission should signal that it may, in the next fuel cost true-up proceeding, disallow recovery of fuel costs for times when the unit was operated uneconomically in a manner that is not justified by such forward-looking analyses (or for which no analysis or documentation was produced to demonstrate that the co-owners were committing economically into the SPP market). The reasonableness of unit dispatch practices should be evaluated based on analysis that incorporates predictive maintenance costs—and any other excluded costs that scale with and are impacted by plant operations—as well as all fuel costs, into the variable costs that OTP uses to make its unit commitment and dispatch decisions.

- The Commission should require OTP to evaluate alternative ways of meeting its resource adequacy requirements in its 2021 IRP.

- The Commission should require utilities to identify any proposed new coal contracts in Fuel Clause Adjustment proceedings, and to submit them for prudence review those proceedings, before signing any such contracts.

Dated: June 15, 2021

Respectfully submitted,
/s/ S. Laurie Williams
S. Laurie Williams
Senior Attorney
Sierra Club
1536 Wynkoop St., Suite #200
Denver, CO 80202
Laurie.williams@sierraclub.org
(303) 454-3358