SECOND REVISED DECISION OPTIONS

May 30, 2024

Docket No. 21-339

Settlement Agreement (OTP, Department, Carpenters, IUOE Local 49, LIUNA)

1. Approve without modifications the parties comprehensive Settlement Agreement dated April 1, 2024.

   1.a. The Commission directs Otter Tail to limit the operation of its Minnesota share of Coyote Station (approximately 70 MW as of 2024) to MISO declared emergency events consistent with MISO's Available Maximum Emergency (AME) tariff beginning as soon as March 1, 2026. *(OTP's May 24 filing)*

   1.b. Otter Tail will no longer utilize Coyote Station to serve Minnesota customers beyond December 31, 2031. *(OTP's May 29 filing)*

   1.c. Otter Tail will use a minimum of three (3) bidders for both of the major components of Astoria Station on-site fuel storage project and evaluate at least five (5) proposals for all other resource acquisition projects. *(OTP's May 29 filing)*

OR, If the Commission declines to adopt the Settlement Agreement as presented:

2. Approve Otter Tail's Minnesota Preferred Plan with AME, filed on December 15, 2023.

OR

2.a. Approve Otter Tail's Initial Preferred Plan, filed on September 1, 2021, which includes the following actions:

- Adding 150 MW of solar by 2025;
- Adding dual fuel capability at Astoria Station by 2026;
- Adding 100 MW of wind by 2027;
- Starting the process of withdrawing from ownership in Coyote Station by 2028; and
- Allocating costs and benefits on a system-wide basis.

OR

2.b. Approve Otter Tail's Supplemental Preferred Plan, filed on March 23, 2023, which includes the following actions:

- Adding onsite liquified natural gas (LNG) fuel storage at Astoria Station in 2026;
- Adding approximately 200 MW of solar in the 2027-2028 timeframe;
- Adding 200 MW of wind in the 2029 timeframe;

- Continuing to operate Coyote Station until 2040;
- Withdrawal from Otter Tail's 35% ownership interest in Coyote Station in the event of a major, non-routine capital investment in the plant;
- Adding a battery resource by 2032;[1] and
- Allocating costs and benefits on a system-wide basis.

3. Authorize Otter Tail to withdraw from Coyote Station in the event the Company is required to make a material, non-routine capital investment in the plant.

OR

3.a. Authorize Otter Tail to withdraw from Coyote Station by December 31, 2030. *(Staff alternative – briefing papers discussion, p. 34)*

4. Approve Otter Tail's LNG fuel storage project for Astoria Station.

5. Authorize Otter Tail to add the renewable resources identified in the Company's Minnesota Preferred Plan with AME, and allocate those renewable resources wholly to Minnesota. **OR**

5.a. Authorize Otter Tail to file a petition for approval with the Minnesota Public Utilities Commission for the cost-effective acquisition of solar resources identified in the Company's Minnesota Preferred Plan with AME. Require that any petition shall contain updated load forecasts, updated capacity expansion modeling on a system-wide and Minnesota-specific basis, and estimated rate impacts to Otter Tail's Minnesota customers. (Staff alternative)

6. Find that Otter Tail's current competitive, flexible acquisition process is sufficient for the projects authorized by the Commission in this docket. **AND/OR**

6.a. Direct Otter Tail to initiate a competitive resource selection process that seeks approximately 250,000 - 400,000 MWh of annual carbon-free energy to be in-service by 2029. Otter Tail shall seek all resources that qualify as carbon-free under Minn. Stat. § 216B.1691, subd. 1a. *(Staff alternative)*

Office of the Attorney General

7. Find that Otter Tail's proposal to place Coyote Station on AME status is not in the public interest.

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[1] Staff notes that OTP did not propose a battery in its five-year action plan, but a battery was part of OTP's 15-year Preferred Plan.

8. If the Astoria Station onsite-storage project is approved, cap rate recovery at Otter Tail's current cost estimate, with a 90/10 sharing of any savings below the cap.

   8.a. If the Astoria Station onsite-storage project is approved, clarify that approval does not guarantee Otter Tail full recovery of its investment if Astoria Station retires early. *(OAG May 24 letter)*

9. For resource acquisition:
   a. If the Astoria onsite-storage project is approved, require Otter Tail to use a minimum of three bidders for both major components of the project (equipment and fuel); and
   b. For other approved resources, require the Company to use the bidding process recommended by the Department in its September 13, 2023 comments, namely:
      i. use a bidding process for supply-side acquisitions of 100 MW or more lasting longer than five years;
      ii. ensure that the RFP is consistent with the Commission's then-mostrecent IRP order and direction regarding size, type, and timing unless changed circumstances dictate otherwise;
      iii. ensure that the RFP includes the option for both PPA and build–transfer proposals unless the Company can demonstrate why either a PPA or build–transfer proposal is not feasible;
      iv. provide the Department and other stakeholders with notice of RFP issuances;
      v. notify the Department and other stakeholders of material deviations from initial timelines;
      vi. update the Commission, the Department, and other stakeholders regarding changes in the timing or need that occur between IRP proceedings;
      vii. where OTP or an affiliate proposes a project, (a) require OTP to create separate teams for the Company's project and for evaluation of the bids received and (b) engage an independent auditor to oversee the bid process and provide a report for the Commission;
      viii. include in the RFP a plan to address the impact of material delays or changes of circumstances on the bid process;
      ix. cap any offer made by OTP to acquire a resource pursuant to a right of first offer at net book value; and
      x. ensure that any RFP documents for peaking resources issued are technology neutral. *(Romanettes added in OAG's May 24 letter)*

   c. OTP will work with organized labor stakeholders to ensure that resource acquisitions and investments maximize the availability of high-quality employment and career opportunities for local workers by prioritizing investment in the utility's service territory and plant host communities, and the state of Minnesota through the employment of local workers and use of registered apprenticeship programs that have a proven track record of developing local and diverse skilled workforce. *(OAG's May 24 letter)*

Clean Energy Organizations

10. Approve the resources in the Alternative CEO Plan with Battery, which are designed to serve Minnesota Otter Tail customer energy needs only and include:
    a. At least 200 MW of solar resources to be acquired as soon as feasible;
    b. At least 150 MW of wind to be acquired in 2026, and no later than 2029;
    c. 75 MW of energy storage resources of at least four-hour duration to be acquired by 2029; and
    d. No energy or capacity from Coyote Station after December 31, 2028, because the record shows it is not in the public interest for Minnesota customers to continue to depend on or pay for Coyote Station after that date.

<u>OR</u>, if the Commission approves AME:

11. Find that based on the record in this docket, it would not be prudent for Otter Tail to make a large, non-routine capital investment in Coyote, and therefore Otter Tail may not recover from Minnesota ratepayers the costs of a large, non-routine capital investment in Coyote unless it obtains the Commission's approval prior to making that investment.

12. Obtain from Otter Tail its explicit agreement that, if the Commission finds in a future proceeding that Minnesota ratepayers have paid more for Coyote during its AME status than is just and reasonable, Otter Tail will refund the overpayment to its Minnesota ratepayers.

13. Require Otter Tail to submit a filing within four months of the date of its order in this docket with the results of its AME fatal flaw analysis. The filing should describe Otter Tail's efforts to obtain formal written approvals of the proposal by the MISO Independent Market Monitor, by MISO regarding tariff compliance, by Coyote's co-owners, and by any other parties that could block the AME plan. The filing should attach those approvals or explain why they have not been obtained.

14. Find that, if AME is found to be infeasible, it is not reasonable or in the public interest for Minnesota ratepayers to continue to pay for or depend on Coyote Station past 2028.

15. Require Otter Tail to submit a new IRP within six months of a finding that the AME plan cannot proceed. Such a finding can be established the Commission, by Otter Tail, or evidenced by a rejection of the plan by MISO, the Independent Market Monitor, or any

other party with power to block the plan.

OR, in alternative to 15:

16. If AME is found to be infeasible, require Otter Tail to move forward with the following resource acquisitions consistent with the Alternative CEO Plan with Battery, which are designed to serve Minnesota Otter Tail customer energy needs only:
    a. 200 MW of solar resources to be acquired as soon as feasible;
    b. 150 MW of wind to be acquired in 2026, and no later than 2029;
    c. 75 MW of energy storage resources of at least four-hour duration to be acquired by 2029;
    d. No energy or capacity from Coyote Station after December 31, 2028, because the record shows it is not in the public interest for Minnesota customers to continue to depend on or pay for Coyote Station after that date.

17. Require Otter Tail to commence AME status at Coyote, as modified in this order, as soon as feasible. If Otter Tail is unable to commence AME status at least seasonally by 2026 and year-round by 2027, it will submit a filing to the Commission explaining why not and identifying the soonest feasible time when it could commence AME status.

18. Require Otter Tail in its next IRP to:
    a. include in its reference case scenario the replacement resources necessary to allow Otter Tail to end the AME arrangement and cease Minnesota's dependence on Coyote Station entirely by the end of 2031; and
    b. include a scenario that would include the replacement resources necessary to allow Otter Tail to end the AME arrangement and cease Minnesota's dependence on Coyote Station entirely by the end of 2028.

19. Find that it may be economic for Otter Tail to add more wind, solar and/or battery storage resources than specified above, especially in light of potential changes to its energy needs, capacity position, or market circumstances. Otter Tail should actively assess market conditions and project availability to bring forward economic resources when feasible and by no later than the dates specified.

20. Require Otter Tail to begin planning now for a Big Stone withdrawal by 2030, and to present a plan in its next Minnesota IRP that withdraws from Big Stone by no later than the end of 2030. The plan should demonstrate that Otter Tail is taking proactive steps to keep a 2030 exit on the table and is exploring the economic value of retiring the plant, including consulting with co-owners on the issue.

21. Defer a decision on Otter Tail's Astoria LNG proposal until the Company's next IRP.

22. Direct Otter Tail in its next IRP to:

a. Include an analysis of the costs of its preferred plan and its comparative plans under the full range of regulatory and externality costs specified by the Commission in its order in docket 22-236. This analysis should include emissions both inside and outside Minnesota to the extent they are associated with generation used to serve Minnesota customers.
b. Present modeling runs that allow a reasonable amount of both market purchases and sales.
c. Conduct production cost modeling to obtain more detailed information to develop the portfolio PVRRs and to evaluate the dispatch of resources during specific periods of time, including during periods of challenging system conditions.
d. Include an analysis of the health and equity impacts of its preferred plan.
e. Include an assessment of energy efficiency, demand flexibility, and energy storage options, especially in comparison with the addition of on-site fuel storage at its Astoria facility.
f. Require Otter Tail to prepare an analysis considering the withdrawal from or continued operation of Big Stone to file in its next Minnesota IRP. The analysis must include a resource planning analysis, a rate impact analysis, and address multi-jurisdictional, co-ownership, socioeconomic, and environmental issues. *(Staff decision option from December 20, 2023, briefing papers. Staff offers this as an alterative to Decision Option 20 above.)*

23. Order Otter Tail to submit its next IRP by two years from the date of this order. **OR**

    a. Order Otter Tail to submit its next IRP by May 15, 2026. *(Staff variant of CEOs recommendation)*

24. Require Otter Tail to engage with the Department of Commerce and other parties prior to filing its next IRP to discuss the issue of bifurcated planning and how best to ensure a resource plan that recognizes ongoing jurisdictional differences between states but that also provides complete information regarding the Company's resource needs and planning direction.

25. The Commission finds that:
    a. The economic case for continuing to operate Coyote Station is not persuasive. In both the No Externalities and Externalities Included modeling runs, and in both the Initial Filing and the Updated IRP, the majority of sensitivities indicate that exiting Coyote sooner rather than later is least-cost.
    b. The risk of environmental compliance costs at Coyote Station is very high, and under no scenario does investing in environmental controls appear to be costeffective.
    c. Even though Coyote Station is located in North Dakota, public health concerns apply to Minnesota.

d. OTP's modeling showed that withdrawing from Coyote Station in 2028 was less expensive than continuing to operate the plant until 2040 under 15 out of 22 No-Externalities scenarios and 22 out of 22 Externalities-included scenarios.
e. All of OTP's Regional Haze and CO2 regulatory cost modeling scenarios in the Initial Filing and Supplemental IRP found that, with or without externalities, exiting Coyote Station by 2028 was least-cost.
f. OTP's analysis of its Preferred Plan showed that the 2028 Coyote exit was less expensive than the 2040 exit by $40 million without externalities. When externalities were included, the 2028 Coyote exit was less expensive than the 2040 Coyote exit by $113.3 million. *(CEOs May 24 letter)*