

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

In the Matter of Otter Tail Power Company's
2014-2028 Integrated Resource Plan (IRP)

Docket No. E017/RP-13-961

**MIDWEST LARGE ENERGY CONSUMER'S
COMMENTS ON OTTER TAIL POWER COMPANY'S
INTEGRATED RESOURCE PLAN 2014-2028**

I. EXECUTIVE SUMMARY

The Midwest Large Energy Consumers ("MLEC" or "Large Consumers") appreciates this opportunity to submit Reply Comments on Otter Tail Power Company's ("Otter Tail", "Company" or "OTP") Integrated Resource Plan 2014-2028 ("IRP") filed with the Minnesota Public Utilities Commission ("Commission" or "MPUC"). MLEC is an ad hoc group of some of Otter Tail's largest ratepayers and many of the largest employers in its service territory. Its members account for over 20% percent of Otter Tail's total Minnesota and North Dakota load. This matter and its future consequences are of great importance to all MLEC members given the implications the Commission's decision could have with respect to Otter Tail's entire multijurisdictional system.

On October 30, 2013, Otter Tail submitted its IRP and indicated in its Preferred Plan that no additional supply side resources are required for the next five years and until 2021, when the Hoot Lake plant retirement is contemplated. Otter Tail relied on load forecast coincident with the MISO summer peak in its analysis. On May 2, 2014, the Minnesota Department of Commerce, Division of Energy Resources ("Department"), submitted comments indicating concerns about Otter Tail's use of the coincident peak forecast and reliance on the market. The Department indicated that its analytical findings are contrary to Otter Tail's findings in that additional generation resource additions are required within the five year action plan. The Department recommended that aside from increasing DSM to 1.7% from 1.5%, Otter Tail should modify its resource plan to include 100 MW of wind and a 50 MW gas combustion turbine ("CT") in 2017; and 100 MW of wind, a 200 MW CT, and 21 MW of solar in 2019. Further, the Department recommended that Otter Tail be required to issue an RFP for wind generation.

On August 1, 2014, the Midcontinent Independent System Operator, Inc. (MISO) submitted Reply Comments which added information with respect to planning reserve margin requirements that were perhaps not previously appreciated by other parties or fully explained by Otter Tail in the initial filing. MISO now utilizes a planning reserve method that more accurately reflects each utility's planning reserve margin requirements based on its specific diversity factor rather than the MISO average. For Otter Tail's customers, this means additional savings because it is a winter peaking utility and has a lower coincidence factor with MISO's peak which is in the summer months. The use of the former method that used average diversity factors would therefore have resulted in overstating Otter Tail's planning reserve margin requirements, which would have ultimately resulted in ratepayers paying more than necessary based on Otter Tail's diversity with the MISO system.

On August 1, 2014, Otter Tail submitted Reply Comments that also provided more information on methodologies and disagreed with the Department's proposed modifications. Otter Tail explained that the Department's recommendations would result in building resources in excess of those required to meet its MISO resource adequacy requirements at a cost of approximately \$112 million. Further, Otter Tail clarified that market reliance did not imply relying on the market to satisfy energy needs but rather to displace its existing generation when it was more cost effective to do so. Otter Tail also indicated the importance of having flexibility in meeting the solar standard and procuring additional wind especially in light of certain provisions related to EPA's 111(d) draft rule.

Otter Tail is investing heavily in transmission (over half a billion dollars for the period 2009-2018 paid for by ratepayers), therefore, it makes economic sense to capitalize and maximize on this investment instead of adding redundancy by also building generation within the next five years. For Otter Tail's ratepayers, it is important to allow rates to stabilize and utilize the least cost plan as ratepayers are already experiencing significant increases in rates due to OTP's AQCS project, hoot lake upgrade, transmission expansion, and CIP related investment and financial incentive within this five-year time frame. Finally, given the uncertainty surrounding EPA's 111(d) rule and subsequent state implementation plans to follow this rule, it makes sense to allow the Company flexibility in complying with the Solar Energy standard.

For the reasons summarized above, and as indicated in the detailed comments below, MLEC supports the approach taken by Otter Tail in this Resource Plan, which would result in

the least cost plan. The Company has appropriately considered its demand and energy growth needs within the context of MISO's resource adequacy construct and concluded that it does not require additional resources within the next five years. Therefore, MLEC recommends that the Commission approve Otter Tail's preferred action plan, with no additional generation resources in the next five years.

II. DETAILED COMMENTS

1. MLEC Supports Otter Tail's Coincident Peak Approach to Establish Capacity Resource Needs

MLEC supports Otter Tail's approach to base its resource needs on demand coincident with the MISO peak. Otter Tail is a winter peaking utility while MISO's peak is in the summer month. Consequently, the Company's customers should benefit from the diversity savings.

Otter Tail is a part of the regional MISO market and should work towards capitalizing benefits from—instead of ignoring—the market. Otter Tail should not be treated as a stand-alone system. In order to ensure resource adequacy, MISO has a planning reserve margin requirement that based on a utility's peak demand coincident with the MISO peak. If a state has not established its own planning reserve margin requirements, MISO's calculated planning reserve margin requirement determines the MWs needed in excess of the coincident peak for each utility. Thus, MLEC disagrees with the Department that Otter Tail should be required to base its resource requirements on its own non-coincident peak.

As indicated by Otter Tail, if the Department's proposed approach were implemented, it would increase costs to retail customers by a net present value of \$112 million – it is impossible to consider this proposal a least cost solution. For the next five years, MLEC members in Minnesota and North Dakota are already facing higher rates due to the Big Stone AQCS (10%-12% of base rates), transmission expansion (projected to be \$340 million between 2014-2018) and CIP related costs. Otter Tail's customers simply cannot afford to shoulder additional cost burdens for unnecessary investment.

Otter Tail knows its own system and has an obligation to serve its customers reliably; as the Company has done successfully for years. In fact, Otter Tail has an incentive to build more generation so that it can earn a return on this investment for the benefit of its shareholders.

However, in this case, the Company's own analysis indicates that no new generation is required for the next five years.

The Department, in its initial comments, does not accept MISO's coincident peak method utilized by Otter Tail, which primarily drives the Department's recommendation for ratepayers to pay for new CT in 2017 (See Department Scenario 2). The Department prefers to stick with Otter Tail's old planning (NCP/non-coincident) method even over its own modified coincident peak method (50% D.F.), which would also defer any CT acquisitions until 2021 (See Department Scenario 3). For the reasons stated above, MLEC opposes the Department's recommendations and believes the evidence in the record demonstrates the same.

2. Transmission Investment Should Support Market Reliance (Bilateral and Day-ahead or Spot) And Not Ignore It

In response to MLEC-IR19, Otter Tail indicated that it is projecting to spend \$340 million in transmission investments for the period 2014-2018. This is in addition to the \$213 million it has invested in the period 2009-2013. Aside from reliability benefits, the expectation is that this investment will reduce transmission congestion and provide the utility the opportunity to import power from low cost regions (with excess energy during Otter Tail's winter peak) and defer generation investment. Thus, it does not make sense from an economic standpoint to add redundancy, by building so much transmission infrastructure and at the same time increase generation to reliably serve load. Our members simply cannot afford such redundancy. MLEC supports Otter Tail's view that it makes sense to rely on the market for cheaper procurement opportunities. As the utility clarified in its Reply Comment, it is not relying on the market to fulfill its energy requirements, rather for displacement opportunities. Otter Tail states the following:

The Company has enough resources through owned facilities, executed bilateral contracts, and load management to serve its load, and therefore it is not "relying on the market" as the Department characterization suggests. Instead, the MISO market is used for energy purchases only when doing so reduces the cost of electricity to customers (e.g. when the market purchases can be made at prices lower than the costs of fuel for native generation). In other words, making the market available doesn't mean Otter Tail requires the market for its energy needs. Rather, it reflects the reality that Otter Tail can serve its customers from either its native

generation and from its bilateral purchases, (which are together adequate to meet its energy needs if there are no opportunities in the market) AND it has the market available if there are opportunities for lower costs in the market. To ignore the market would only serve to distort modeling results. It would ignore the opportunity presented by the market access. The Department states that Otter Tail's Resource Plan fulfills about 16.5 percent of its energy needs from the energy market. This would be right in line with actual experience over the last several years. But this doesn't mean that Otter Tail would not have adequate energy available to it if the market were not available or if the opportunities diminished, which we do not expect. Otter Tail still has adequate native generation and bilateral purchases to meet its energy needs during the planning period.

See page 8, Otter Tail Reply Comments, August 1, 2014

As a practical matter, Otter Tail does not operate as an isolated system; therefore, such a system may not be assumed. Rather, Otter Tail should maximize the use of MISO participation and its transmission related improvements to gain access to cheaper power opportunities.

The Department's position of not relying on the market is one of the primary drivers of the 200MW of new CT in 2019 as this resource does not appear in the case with full market reliance even using the NCP method (See Department Scenario 6). For the reasons stated above, MLEC opposes the Department's recommendations and believes the evidence in the record demonstrates the same.

3. Otter Tail has Over Complied with the RES Mandate and no Additional Compliance is Needed; Otter Tail Should be Granted Flexibility Regarding Compliance With the Solar Energy Standard

On Page 9 of its Reply Comments, Otter Tail provides more fully developed, accurate information and demonstrates that it will not only be compliant with the RES mandate but also have a significant surplus of RECs of 3.33 million by 2028. The Department did not benefit from the full information in its comments and needed to make assumptions that were not accurate. Consequently, Otter Tail does not require additional wind generation to comply with the mandate. Thus, MLEC agrees that Otter Tail should NOT be required to issue an RFP for additional wind generation. Furthermore, as indicated by Otter Tail in reply comments, it makes sense to wait until EPA's proposed rule 111(d) are finalized before taking steps to build additional renewable resources. As Otter Tail states:

The EPA's proposed rulemaking sets state targets based on the amount of coal, NGCC, renewable energy, and energy efficiency within each state's geographical boundaries. The proposed rules utilize a calculation using each of these factors to determine a state's target and compliance with the rulemaking in the future. Depending on the outcome of these Rules and other related proceedings, such as state implementation plans and any multi-state compliance proceedings, there may be significant benefits if certain generation projects are located within certain states. There may be regret if a project were constructed earlier than necessary and it is determined later that the construction occurred in a state where the project's full contribution to the EPA goals are not realized.

See page 10-11, Otter Tail Reply Comments

This same argument also applies to compliance with the solar mandate. Also, Otter Tail intends to file its next IRP in 2016 and could provide its proposed approach to fulfill the solar mandate in that filing. As with wind resources, solar costs will likely decrease as technology advances. Otter Tail should not be required to build the resources in advance of need and in advance of understanding the direction the market will develop.

Solar purchases can and should be done through purchasing of credits as opposed to building Otter Tail's own resources *if* it is determined to be the most cost effective. Minnesota utilities and regulatory bodies have participated in the development of a trading platform, MRETS, for these credits and if more efficient resources can be built elsewhere Otter Tail should procure credits as opposed to building these resources.

If Otter Tail is ordered to make the Department's proposed changes, Minnesota ratepayers could shoulder more of the increased costs than their proportional share. Other jurisdictions have challenged and should be expected to challenge recovery if not least cost, as discussed below.

4. Jurisdictional Differences Regarding Externalities Creates a Risk of Higher Costs for Ratepayers Across the Whole Otter Tail System.

Otter Tail's service area is roughly evenly split between Minnesota and the Dakotas. North Dakota requires utilities serving customers within the state to utilize a least cost resource plan and North Dakota state law prevents utilities from considering environmental externalities. North Dakota must deny recovery if utilization of carbon costs or other externalities manipulate the results of the resource plan above the least cost option that does not utilize carbon costs or

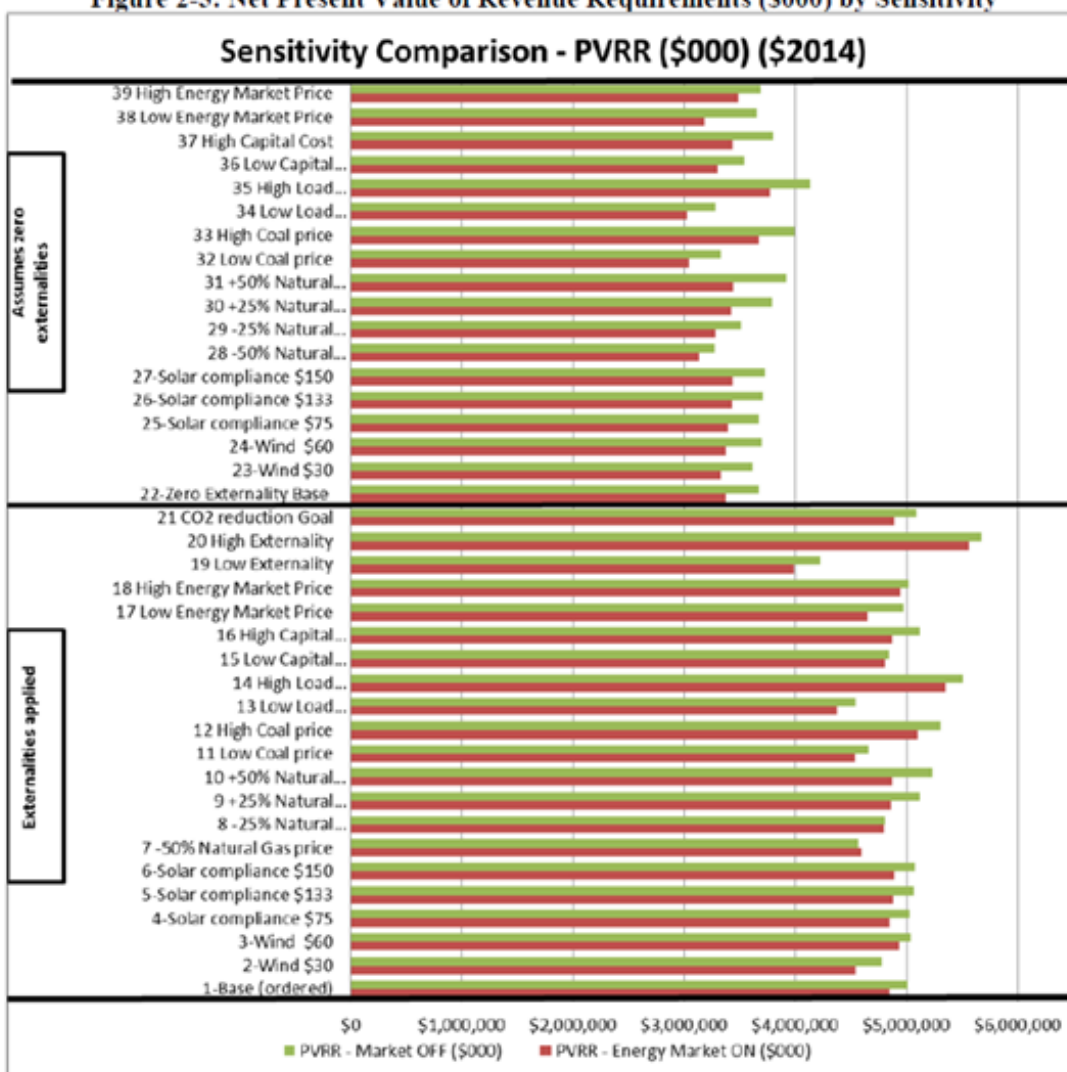
other externalities. The Department's Plan is based on analysis that includes externalities and is vastly different from Otter Tail's preferred plan especially for the next five years as it requires Otter Tail to build 200 MW of wind generation and 250 MW of CTs.

If the Department's plan were implemented, not only would costs increase for all of Otter Tail's customers compared to the utility's five year preferred plan implementation but costs for Minnesota retail customers would increase more than other jurisdictions. This outcome is almost guaranteed under the Department's plan because North Dakota will likely deny any costs above the least cost plan without externalities. MLEC supports Otter Tail's approach and encourages the MPUC to endorse the use of assumptions that best reflect sound market principles. Otter Tail's preferred plan satisfies the current legal and regulatory requirements in the multi-state service territory and allows its customers to realize the benefits of operating as a single system while satisfying requirements in all states served by Otter Tail.

Figure 2-5 provided in Otter Tail's IRP application and shown below indicates that Otter Tail's preferred plan without including externalities (#22) and using base input assumptions is the least cost plan and should be approved.

If the Commission does not order Otter Tail to pursue the least cost plan they identify and MLEC supports, it is highly likely that Otter Tail may be forced to split its jurisdictions into a separate Minnesota jurisdiction and North Dakota jurisdiction. No modeling exists in the record to quantify the potential impacts of a jurisdictional split; however, MLEC believes that a split will ultimately result in higher costs for our ratepayers in all jurisdictions – an unreasonable outcome that MLEC strongly opposes.

Figure 2-5: Net Present Value of Revenue Requirements (\$000) by Sensitivity



Source: Otter Tail IRP Application, Page 2-7

The Chamber disagrees with the base assumption of carbon costs applying in 2017. There is no reasonable scenario in which a carbon cost will impact Otter Tail’s system by 2017. EPA’s 111 (d) proposed rule on carbon will face numerous legal challenges and its will take several years before it is clear whether this rule will be mandated at all or mandated with different provisions. Given the lack of impact on wind selection from 2017 to 2019 it is unclear that this has any impact on the Department’s recommendation, but any assumption could drive an investment in wind by 2019 in some scenarios completed by Otter Tail.

The Chamber also disagrees with the use of high externalities for all scenarios submitted by the Department (it appears that this assumption is a primary driver for the additional wind

purchases, as wind is selected regardless of coincident peak use (Department Scenario 2) or use of market purchases (Department Scenario 6). The Chamber also believes that the use of externalities must also add the cost of tax credits given to any wind project, as these costs are certainly real and measurable and will have a socio-economic impact on Minnesota ratepayers.

Lastly, the Chamber questions the application of externalities on market purchases, which may come from resources, to which externalities do not apply (wind or well outside of Minnesota's borders). It appears that the application of externalities is a primary reason wind is being selected in the Department Scenarios.

In order to move forward with the Department's recommendations it must be found that: 1) it is prudent to pay higher rates contrary to Otter Tail's other jurisdictional requirements; 2) it is prudent to ignore some material socio-economic costs; and 3) the question of market purchase externalities application must be resolved. From MLEC's perspective, these findings are contrary to least cost planning and prudent incurrence of costs. Thus MLEC believes the Departments recommendations on carbon and externalities are inappropriate, incompatible with Otter Tail's total system cost recovery and contain errors, and therefore, should not be followed.

5. Concerns with the Department Recommendations

As discussed above, MLEC believes that the Department's initial recommendations to build additional resources within the next five year are based on the following unrealistic assumptions, some of which were addressed in Reply Comments by Otter Tail:

- (a) The Department did not accept Otter Tail's coincident peak method which essentially results in prematurely adding 50MW of a new CT in 2017 - The Department simulated three main Scenarios. Scenario 1 utilized the Non Coincident Peak (NCP) method, Scenario 2 utilized the Otter Tail Coincident Peak (CP) method and Scenario 3 utilized the CP method utilized the CP method except the diversity factor was lowered by 50%. The addition of a 50 MW new CT occurs in the NCP method cases that assume absolutely no diversity. As discussed earlier, this is a flawed approach and does not result in least cost plan. Further, with additional insights from Otter Tail and appropriate context from MISO in Reply Comments, it is clear that the coincident peak method makes the most sense

- (b) The Department shut off market reliance which once again is an unrealistic assumption since OTP is participating in a broader regional market as discussed earlier.
- (c) The Department utilized \$21.50/ton carbon assumption and high externalities. As explained further in our comments, including such assumptions does not result in lowest rates for Minnesota ratepayers or a least cost plan from North Dakota's perspective, which prohibits the use of such assumptions. Implementing a plan that includes additional resources due to externalities and carbon cost assumption has a significant risk of potentially splitting up Otter Tail's jurisdictions or rejection of costs and exposing the Minnesota ratepayers to a doubling of rate impacts. Furthermore, there is currently no federal mandate regarding carbon and as a practical matter, EPA's proposed 111(d) rule on carbon will face several years of litigation and should not be relied upon, in its current form, for making resource decisions. Otter Tail's preferred plan satisfies the current legal and regulatory requirements in the multi-state service territory and allows its customers to realize the benefits of operating as a single system while satisfying requirements in all states served by Otter Tail.
- (d) The Department incorrectly assumed Otter Tail's RES Mandate was not being complied with. Otter Tail's discussion regarding this matter in its Reply Comments should dissipate the Department's misunderstanding regarding this matter.

For the other reasons identified in these comments, Otter Tail does not need the resources identified in the Department's proposed modifications. The resources are not needed for reliability or for meeting policy requirements. The increased cost, if denied in other jurisdictions, could result in Minnesota ratepayers seeing increases even higher than contemplated based on their proportionate share. The revised Department plan exposes all ratepayers—not just MLEC members—to unnecessary cost and risk that make it inappropriate for the Commission to consider.

III. CONCLUSION

MLEC appreciates the opportunity to participate in this proceeding and respectfully requests the Commission approve Otter Tail's Preferred Plan, which does not require the utility to procure additional generation resources within the five year action plan for all the reasons identified herein. Otter Tail's Preferred action plan is least cost and will help minimize costs for customers at a time when large increases are already expected due to the required environmental upgrades underway at the Big Stone plant and significant transmission investments. The plan provides much needed flexibility at a time when there are large regulatory unknowns, including state, local, and federal regulations like the EPA's 111(d) rule.

Dated: August 29, 2014

Respectfully submitted,

/e/ Richard J. Savelkoul

Richard J. Savelkoul

Martin & Squires

Attorney for Midwest Large Energy Consumers

444 Cedar Street, Suite 2050

St. Paul, MN 55101

Phone: (651) 767-3740

/e/ Kavita Maini

KM Energy Consulting, LLC

Consultant for Midwest Large Energy Consumers

961 North Lost Woods Road

Oconomowoc, WI 53066.