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July 31, 2014

Dr. Burl W. Haar
Executive Secretary
MN Public Utilities Commission
121 7th Place East, Suite 350
St. Paul MN 55101-2147



**RE: In the Matter of Otter Tail Power Company's Request for Approval to Revise Its
Energy Adjustment Rider to Include Emission Controls Costs
Docket No. E017/M-14-_____**

Dear Dr. Haar:

Otter Tail Power Company ("Otter Tail") hereby submits its petition to the Minnesota Public Utilities Commission ("Commission") for approval of Otter Tail's request to revise its Energy Adjustment Rider to include certain specified costs for purchased emission allowances that may be necessary to comply with the Cross-State Air Pollution Rule ("CSAPR") promulgated by the Federal Environmental Protection Agency ("EPA").

In addition, Otter Tail also seeks Energy Adjustment Rider recovery of certain reagent expenses associated with new emissions controls equipment currently being installed at three of its generating facilities in order to comply with the EPA's Mercury and Air Toxics Standards ("MATS") rules promulgated by the EPA under the Clean Air Act ("CAA").

Attachments 1 and 2 are redline and clean versions of Tariff Schedule 13.01, Energy Adjustment Rider. Otter Tail will separately show the cost of any allowances purchased and reagents used in its monthly FCA report and include a summary in its annual automatic adjustment ("AAA") report.

This filing has been electronically filed with the Commission. The Department of Commerce and the Antitrust and Utilities Division of the Office of Attorney General have received a full copy of the filing and a summary of the filing has been served on the remaining parties on the attached Service List.

Please contact me at (218) 739-8279 or stommerdahl@otpc.com with any questions you may have.

Sincerely,

/s/ STUART TOMMERDAHL
Stuart Tommerdahl
Manager Regulatory Administration

jce
Enclosures
By electronic filing
c: Service List
An Equal Opportunity Employer

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

In the Matter of Otter Tail Power Company's
Request for Approval to Revise its Energy
Adjustment Rider to Include Emissions Controls Costs

Docket No. E017/M-14-_____

SUMMARY OF FILING

Otter Tail Power Company ("Otter Tail") submits this Petition to the Minnesota Public Utilities Commission ("Commission") for approval to include in its Energy Adjustment Rider, expenses associated with the purchase of emissions allowances that may be necessary to comply with the Federal Environmental Protection Agency's ("EPA") Cross-State Air Pollution Rules at Otter Tail's two Minnesota generating plants; Hoot Lake and Solway. Otter Tail also requests approval to include in its Energy Adjustment Rider, expenses associated with reagents used in emissions reduction equipment being installed at Big Stone, Coyote, and Hoot Lake Plants to comply with the EPA Mercury and Air Toxics Standards rules promulgated under the Clean Air Act.

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

In the Matter of Otter Tail Power
Company's Request for Approval
To Revise Its Energy Adjustment Rider
To Include Emissions Controls Costs

Docket No. E017/M-14-____

PETITION

I. INTRODUCTION

Otter Tail Power Company ("Otter Tail" or "Company") hereby petitions the Minnesota Public Utilities Commission ("Commission") to include in its Energy Adjustment Rider (commonly referred to as the Fuel Clause Adjustment ("FCA")), expenses associated with the purchase of certain emission allowances ("allowances") and reagent expenses that may be necessary to comply with the Federal Environmental Protection Agency's ("EPA") Cross State Air Pollution Rule ("CSAPR") and Mercury and Air Toxics Standards ("MATS") Rules.

In early 2012, Otter Tail initially filed for FCA recovery of purchased emissions allowances associated with the proposed implementation of CSAPR in Docket No. E017/M-12-179. This filing was subsequently withdrawn in the fall of 2012 after CSAPR was vacated by the U.S. Court of Appeals for the D.C. Circuit ("Circuit Court") on August 21, 2012, due to uncertainty on how the EPA would respond to the Circuit Court's ruling.

On April 29, 2014, the U.S. Supreme Court issued its opinion, reversing the 2012 Circuit Court decision to vacate CSAPR and on June 24, 2014, the U.S. Federal Government petitioned the Circuit Court to remove the stay. Based on these recent actions, Otter Tail is now preparing for the re-instatement of CSAPR. CSAPR will apply to Otter Tail's two fossil fuel generating plants located in Minnesota: the Solway gas peaking plant and the Hoot Lake Plant ("HLP") units 2 and 3.

In addition, Otter Tail also seeks FCA recovery of certain reagent expenses associated with new emissions controls equipment currently being installed at three of its generating facilities in order to comply with the EPA's MATS rules promulgated by the EPA under the Clean Air Act ("CAA"). The request for reagent recovery in the FCA is being made pursuant to Minnesota State Statute §216B.16 Subd. 7 (4), which states "*prudent costs incurred by a public*

utility for sorbents, reagents, or chemicals used to control emissions from an electric generation facility...” are allowed to be part of the automatic adjustment of charges for service.

The necessity of reagents was explained in the proceedings that resulted in both the Advanced Determination of Prudence (“ADP”) issued by the Commission for Big Stone Plant’s Air Quality Control System (“AQCS”) project in Docket Number E017/M-10-1082, as well as the Commission’s ruling in Otter Tail’s Baseload Diversification Study (“BDS”), Docket No. E-017/RP-10-623, which called for the retrofit of Otter Tail’s Hoot Lake Plant (“HLP”) units 2 and 3 with necessary emissions equipment to allow Otter Tail to continue operation of that plant until its expected retirement in 2020. Reagent expenses will also be incurred at Otter Tail’s Coyote Plant, located near Beulah, North Dakota, when that plant’s emissions equipment is placed into service to comply with the MATS rules.

The quantity of allowances and the consumption of reagents at the generating facilities will fluctuate directly in relation to the operation of those facilities, just like fuel costs.

These are new costs to Otter Tail, and the incurrence of these costs will phase in over time. The HLP and Coyote Plant emissions equipment will be placed into service in the fall of 2014, and Big Stone’s AQCS project will go into service in late 2015. Timing for the potential re-instatement of CSAPR is unknown at this time; however, Otter Tail anticipates that it is likely to be reinstated in the next 12-24 months.

Otter Tail currently estimates, based on known information today, that once all emissions equipment is placed into service, and allowances are required to be purchased, the annual cost to Minnesota customers will be approximately \$2.2 million, which would equate to an incremental increase in the FCA of approximately \$.00098/kWh. A number of factors exist that may cause these estimates to increase or decrease over time.

II. SUMMARY OF FILING

Pursuant to Minn. Rule 7829.1300, subp.1, a one-paragraph summary of the filing accompanies this Petition.

III. GENERAL FILING INFORMATION

Pursuant to Minnesota Rule 7829.1300, subp.3, Otter Tail provides the following general information.

A. Name, address and telephone number of utility
(Minn. Rules 7829.1300, subp. 3(A))

Otter Tail Power Company
215 South Cascade Street
P.O. Box 496
Fergus Falls, Minnesota 56538-0496
(218) 739-8200

B. Name, address and telephone number of utility attorney
(Minn. Rule 7829.1300, subp. 3(B))

Bruce Gerhardson
Otter Tail Power Company
215 South Cascade Street
P.O. Box 496
Fergus Falls, Minnesota 56538-0496
(218) 739-8475
bgerhardson@otpc.com

C. Date of filing and proposed effective date of rates
(Minn. Rules 7829.1300, subp. 3(C))

The date of this filing is July 31, 2014. Otter Tail proposes the requested revision to its Energy Adjustment Rider be effective for costs incurred beginning October 1, 2014, and to begin recovery of those costs through Otter Tail's normal monthly FCA filings, the first month following the month the Commission issues an Order approving this request.

D. Statutes controlling schedule for processing the filing
(Minn. Rules 7829.1300, subp. 3(D))

This proposed adjustment to Otter Tail's Energy Adjustment Rider filing falls under definition of a "miscellaneous tariff filing" under Minn. Rules 7829.0100, subp. 11, with Minn. Rules 7829.1400 allowing initial comments within 30 days of filing and replies no more than 10 days thereafter.

E. Title of utility employee responsible for filing
(Minn. Rules 7829.1300, subp. 3(E))

Stuart Tommerdahl
Manager, Regulatory Administration
Otter Tail Power Company
215 South Cascade Street
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Fergus Falls, Minnesota 56538-0496
(218) 739-8279
stommerdahl@otpc.com

F. Service List
(Minn. Rules 7829.0700)

Otter Tail requests that the following persons be placed on the Commission's official service list for this matter and that any comments, requests, or information be provided to the following on behalf of Otter Tail:

Stuart Tommerdahl
Manager, Regulatory Administration
Otter Tail Power Company
215 South Cascade Street
Fergus Falls, MN 56538-0496
(218) 739-8279
stommerdahl@otpc.com

Bruce Gerhardson
Associate General Counsel
Otter Tail Power Company
215 Cascade Street
Fergus Falls, MN 56538-0496
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bgerhardson@otpc.com

G. Service on Other Parties
(Minn. Rules 7829.1300, subp. 2; Minn. Rules 7829.0600)

Otter Tail has served a copy of this Petition on the Department of Commerce and the Residential Utilities Division of the Office of the Attorney General. A summary of the filing was served on all parties on the attached list.

IV. DESCRIPTION AND PURPOSE OF FILING AND BACKGROUND INFORMATION

Otter Tail previously filed for recovery of these costs in Docket No. E017/M-12-179 ("12-179"), but subsequently withdrew that Petition when CSAPR was vacated in August 2012. That ruling was recently overturned by the U.S. Supreme Court. In anticipation of the EPA reinstating CSAPR, Otter Tail is now once again seeking permission for FCA recovery of

purchased emissions allowance costs. In this Petition, Otter Tail is requesting approval of a variance to Minn. Rules 7825.2500 to permit inclusion in the Energy Adjustment Rider, certain specified costs for purchased emission allowances that may be necessary to comply with the CSAPR issued by the Federal EPA.

Secondly, Otter Tail also seeks FCA recovery of certain reagent expenses associated with new emissions controls equipment currently being installed at three of Otter Tail's generating facilities in order to comply with the EPA's MATS rules promulgated by the EPA under the Clean Air Act ("CAA").

Background information to support each request above is provided below.

A. Background – Emissions Allowances

1. Cross-State Air Pollution Rule

Early in 2011, the Federal EPA finalized a new air pollution regulation called CSAPR. CSAPR further regulates sulfur dioxide ("SO₂") and nitrogen dioxide ("NO_x") emissions from fossil fuel-fired power plants located in the eastern portion of the United States. The Rule establishes two new types of SO₂ allowances ("Group 1" and "Group 2") and two new types of NO_x allowances ("annual" and "ozone"). Minnesota is classified as a "Group 2" SO₂ state (along with six other states) and an "annual" NO_x state (along with 22 other states.) South Dakota and North Dakota are not included in CSAPR. Therefore, Otter Tail's Coyote Generating Station in North Dakota, and the Big Stone Plant in South Dakota are not impacted by this rule.

The final CSAPR was published on August 8, 2011, and was to be effective October 7, 2011, for generating plant operations on and after January 1, 2012. Generating units were allocated allowances in late October 2011. In the course of litigation challenging the rule, the rule was stayed by the D.C. Circuit Court of Appeals in late December 2011 and in August 2012, the U.S. Court of Appeals for the D.C. Circuit vacated CSAPR. On April 29, 2014, the U.S. Supreme Court issued its opinion in the litigation reversing the August 21, 2012 decision. On June 24, 2014, the U.S. Government filed a motion with the U.S. Court of Appeals for the D.C. Circuit to lift the stay of CSAPR. The outcome of that motion is likely re-instatement of CSAPR.

Other important information attributable to the original CSAPR rule, as detailed in Otter Tail's original filing in Docket No. 12-179 includes the following:

- The new rules do not rely on Title IV allowances used for the Acid Rain Program (“ARP”); however, sources will still be required to hold the ARP allowances and comply with all requirements of that program.
- The rule sets an allowance budget for each state, and then allocations are made from the state budget to each affected unit within the state. Allocations are made based on the ratio of the unit’s historical heat input to the state’s historical heat input. Adjustments are then made to ensure that sources do not receive more allowances than their historical maximum emissions. This allocation methodology is in contrast to the originally proposed Transport Rule for Group 2 that allocated allowances based on a unit’s projected future actual emissions. The significance to HLP of this change in allocation methodology is explained below.
- If an affected unit does not have enough allowances, the unit can obtain allowances on the open market. However, a Group 2 SO₂ unit can only use Group 2 SO₂ allowances. Any extra allowances remaining at the end of the year can be banked for use in future years.

2. Plants Impacted by the CSAPR

The CSAPR rule, as originally designed by the EPA, will apply to Otter Tail’s two Minnesota Based fossil-fuel generating plants: the HLP coal-fired facility and the Solway natural gas peaking plant.

Hoot Lake Plant

HLP, 100 percent owned by Otter Tail, is located in Fergus Falls, Minnesota and has two units currently in operation. Unit #2 was built in 1959 with 59 MWs of capacity. Unit #3 was added in 1964 and has 85 MWs of capacity. Unit #1 was retired in 2005. HLP accounts for approximately 20 percent of Otter Tail’s generation and has burned sub bituminous coal since the late 1980’s.

Prior to initial publication, the EPA draft CSAPR did not appear to impact Otter Tail—based on Otter Tail’s evaluation of the earlier CSAPR drafts, all of Otter Tail’s generating plants would be able to meet the new requirements under normal operating conditions and by using the allowances allocated pursuant to the rule as originally proposed. Therefore, operations would have been able to continue as before without purchasing additional emission allowances. However, when the final CSAPR rule was ultimately published in the Federal Register, it had been revised such that Otter Tail’s HLP units 2 and 3 were unlikely to be able to meet the new

requirements at normal operating levels without the purchase of SO₂ emission allowances beyond those allocated to the company.

Assuming that HLP ultimately receives the same level of SO₂ and NO_x allocations that the plant would have received in the vacated CSAPR rule, the following tables illustrate theoretical historical SO₂ and NO_x allowance shortfalls for the previous five years of operations. Under the CSAPR, generating units that do not have enough allowances can obtain allowances on the open market. The CSAPR designates Minnesota as one of seven states classified as Group 2 for SO₂. The CSAPR allows a utility located in a Group 2 state only to purchase allowances from other Group 2 states.

Quantity of Allowances Needed

SO₂

Year	Total HLP SO ₂ Emissions (tons)	Theoretical HLP CSAPR SO ₂ Allowance Allocation (tons)	Theoretical SO ₂ Allowance Shortfall (tons)
2009	2187	1255	(932)
2010	3610	1255	(2355)
2011	3414	1255	(2159)
2012	2658	1255	(1403)
2013	3476	1255	(2221)

NO_x

Year	Total HLP NO _x Emissions (tons)	Theoretical HLP CSAPR NO _x Allowance Allocation (tons)	Theoretical NO _x Allowance Shortfall (tons)
2009	720	847	127
2010	966	847	(119)
2011	929	847	(82)
2012	809	847	38
2013	953	847	(106)

The primary impact of the rule will be for HLP to acquire SO₂ allowances to continue operating at levels consistent with its standard historical operations. Otter Tail anticipates that this will continue to be the primary impact following a reinstatement of CSAPR.

HLP's Compliance with CSAPR was examined as part of Otter Tail's Baseload Diversification Study (Docket No. E-017/RP-10-623 ("10-623")) where the Commission approved Otter Tail's proposal to retrofit HLP with emissions reduction equipment to allow that plant to continue to operate until its expected retirement in 2020.

Solway

Solway is a natural gas peaking plant located near Solway, Minnesota (near Bemidji). Otter Tail is 100 percent owner in the 47 MW peaking plant which became operational in 2003. Assuming that Solway ultimately receives the same level of SO₂ and NO_x allocations that the plant would have received in the vacated CSAPR rule, there will be no need to purchase additional emission allowances for Solway.

3. Estimated Annual Costs Associated with CSAPR Compliance

At this time, the cost impact of purchasing emission allowances is unknown since CSAPR is a market based program, and the market has not yet been established. For the vacated CSAPR rule, EPA modeling suggested a market price of \$600 per ton for SO₂ and \$500 per ton for NO_x; however, since CSAPR was vacated there has been a substantial reduction in the costs for both emission allowances in the CSAPR region that comprises Minnesota. Any pricing estimates are speculative until the D.C. Circuit completes remand proceedings, until it is known how EPA intends to reinstate the rule or whether they intend to propose any changes to the rule, and ultimately until an emission allowance market is established. Based on estimated emissions levels and using EPA modeling suggested market prices, Otter Tail estimates the annual cost to be \$14,000 per year cost for NO_x allowances (System basis) and \$1,100,000 per year cost for SO₂ allowances (System basis). Minnesota's jurisdictional share of these costs is estimated to be approximately \$7,000 for NO_x allowances and \$537,000 for SO₂ allowances per year.

B. Background- Reagents

1. EPA Rule – Clean Air Act MATS Compliance

The 1990 Amendments to the CAA required the EPA to study the effects of emissions of listed hazardous air pollutants by electric steam generating plants. The EPA completed required studies and submitted reports to Congress, and determined that it would regulate mercury emissions from electric generating units under the hazardous air pollutant requirements of the CAA. EPA then published final rules that reversed this determination and set forth a cap and trade program for mercury emissions; however, EPA's cap and trade mercury rule was reversed by the United States Court of Appeals for the D.C. Circuit in February 2008.

In response to the D.C. Circuit Court's vacatur, on March 16, 2011, EPA proposed Section 112 air toxics standards for all coal- and oil-fired Electrical Generating Units ("EGU") that reflect the application of the maximum achievable control technology consistent with the requirements of the CAA. EPA signed a final rulemaking, termed the Mercury and Air Toxics Standards ("MATS") Rule, on December 16, 2011, which was subsequently published in the Federal Register on February 16, 2012.

Power plants have three years and sixty days from the date of publication (April 16, 2015) to comply with MATS, although EPA is encouraging state permitting authorities to broadly grant a one-year compliance extension to plants that need additional time to install controls. The EPA is also providing a pathway for reliability critical units to obtain an additional year to achieve compliance; however, the EPA believes there will be few, if any situations, in which this pathway is needed.

2. Minnesota Statute §216B.16, subd. 7 (4) allows recovery of reagents

Minnesota Statute §216B.16, subd. 7(4) provides that reagent costs incurred to control emissions (and meet emissions compliance obligations), are eligible for inclusion in the FCA of the Energy Adjustment Rider.

3. Three Types of Reagents Used

Reagents are substances used to process emissions and are necessary for Otter Tail's compliance with federal regulations enforced by the EPA. The type of reagents used at each impacted plant will vary depending on the emissions control equipment being installed at that

specific facility. Those reagents are: Powdered Activated Carbon, Pebble Lime, and Anhydrous Ammonia.

Powdered Activated Carbon is used in the reduction of mercury emissions. Pebble Lime is used for the reduction in sulfur dioxide (SO_x) emissions, and Anhydrous Ammonia is used for the reduction of nitrogen dioxide (NO₂).

4. Plants impacted by the MATS Rule and the reagents used

Big Stone Plant

Big Stone Plant is a coal-fired generating plant that became commercially operational on May 1, 1975. Otter Tail owns 53.9 percent of the plant which has a 475 MW capacity rating. It is located near Milbank, South Dakota and has been fueled by western sub bituminous coal since 1995.

Big Stone Plant is in the process of installing emissions control equipment to meet EPA standards. The project, known as the Big Stone Air Quality Control System (“AQCS”) project, received an advanced determination of prudence by the Commission in Docket Number E017/M-10-1082. All three reagents: Pebble lime, activated carbon, and anhydrous ammonia will be utilized for the new emissions control equipment being installed at Big Stone. Otter Tail’s estimated cost per year will be \$2,410,000 combined for the reagents for Big Stone Plant of which approximately \$1,188,000 will be allocated to Minnesota.

Due to the extensive nature of the AQCS project, on August 27, 2013, the plant was granted a one year extension (until April 16, 2016) by the South Dakota Department of Environment and Natural Resources to comply with MATS. It is projected that the AQCS project will be in-service in October 2015, at which time reagent expenses will begin to be incurred for Big Stone Plant.

Coyote Plant

Coyote Plant, of which Otter Tail is a 35 percent owner, is located in Beulah, North Dakota and has a 427 MW capacity rating. It is a lignite-fired coal mine mouth facility that was put into commercial operation on May 1, 1981.

New equipment is currently being installed at the Coyote Station to meet MATS requirements which will consume powdered activated carbon for the reduction of Mercury

Emissions. This new equipment is expected to go into service in September 2014 at which time reagent expenses will begin to be incurred for Coyote Plant. Otter Tail's estimated cost per year for the activated carbon at Coyote Plant will be \$357,000, of which approximately \$176,000 will be allocated to Minnesota.

Hoot Lake Plant

As noted earlier in this Petition, in Otter Tail's Baseload Diversification Study (Docket No. 10-623), the Commission authorized the installation of additional emissions control equipment at HLP to allow HLP to comply with MATS and remain operational until its expected retirement in 2020.

HLP will meet MATS emissions requirements by upgrading the Unit #2 and Unit #3 electrostatic precipitators to reduce particulate and installing a powdered activated carbon injection system to reduce mercury emissions. Although not anticipated, HLP may also install a sodium or calcium based dry sorbent injection system to control hydrogen chloride. Hydrogen chloride monitors are currently in place to confirm, in 2014, that the dry sorbent injection system is not needed to control these emissions.

The addition of above equipment will make HLP compliant with emissions control standards. Powdered activated carbon will be the reagent utilized for the new emissions control equipment. The estimated cost per year is \$630,000 of which approximately \$311,000 will be allocated to Minnesota. The new equipment will be in-service in the third quarter of 2014, at which time reagent expenses will begin to be incurred for HLP.

V. OTTER TAIL'S PROCUREMENT OF REAGENTS

A. Cost Volatility of Reagents and Emissions Allowances, and Otter Tail's Mitigation Efforts

Market factors exist that create price volatility for powdered activated carbon, pebble lime, anhydrous ammonia, and emission allowances. Otter Tail has been proactive in securing contracts well in advance of need, in order to enhance its position in the procurement of reagents and try to mitigate, as best we can, some of the cost volatility. Otter Tail desires to procure these items in order to minimize the impact to customers as much as possible. Even so, there are market factors outside of Otter Tail's control that may impact pricing. For example, until the

final CSAPR is implemented, it is not possible to predict the purchase price of the allowances with precision. Below is a synopsis of the procurement efforts deployed to help protect customers, as much as possible, from cost volatility.

1. Powdered Activated Carbon Procurement

The powdered activated carbon contract has a three year duration and a fixed price for the commodity. However, powdered activated carbon will be delivered by truck to the plants so the delivery cost is subject to fluctuation based on market prices of the diesel fuel consumed during delivery. Specifically, the fuel charge for delivery is based on a flat rate plus a fuel surcharge that is calculated based on a published index for diesel fuel.

2. Pebble Lime Procurement

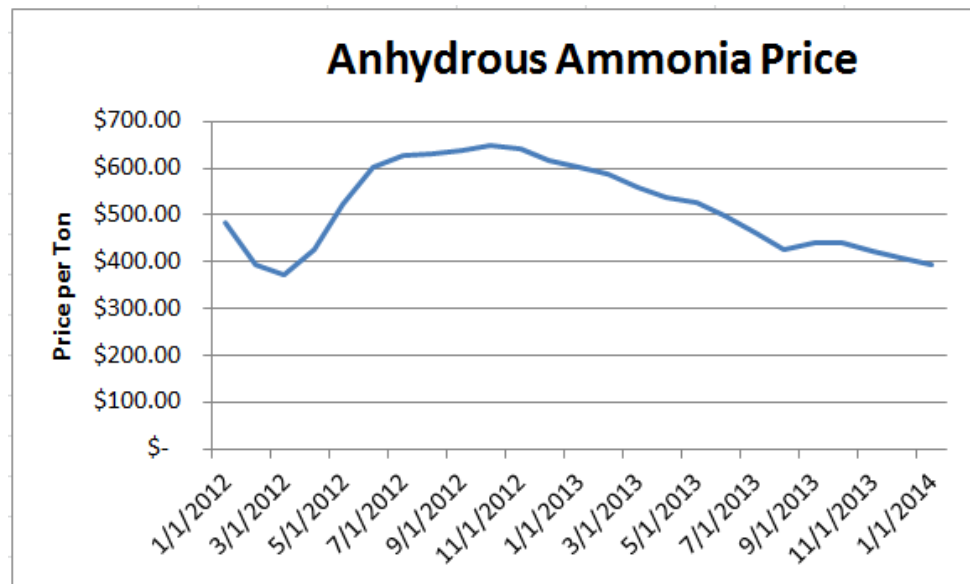
The pebble lime contract has a three year duration and a fixed price for the commodity. However, delivery represents over 50 percent of the cost of the delivered pebble lime. The product will be delivered by rail to Buffalo, ND and then delivered by truck to Big Stone Plant. The supplier will implement a fuel surcharge if diesel fuel goes over an agreed upon amount per gallon based on the Department of Energy's average fuel price for the Midwest Region. A price above the agreed upon amount would cause an increased cost equal to the fuel surcharge schedule agreed to in the contract. In addition to the fuel surcharge, the rail contract is negotiated annually by the supplier and is expected to increase one to two percent per year with the contract requiring Otter Tail to pay for the increases up to a cap of four percent.

3. Anhydrous Ammonia Procurement

Anhydrous ammonia is the reagent with the most price volatility of the three used in MATS compliance. Otter Tail's contract price for it is tied to the Fertecon Tampa Index Price for anhydrous ammonia. This means that the price Otter Tail pays will fluctuate based on the index.

Two items that contribute to price volatility of anhydrous ammonia are its demand for use in agriculture as fertilizer, as well as the cost of natural gas, a major input in the production of anhydrous ammonia. Agriculturally, as the price of corn and wheat goes up, there is more demand for fertilizers which increases demand for anhydrous ammonia. This means that rising corn and wheat prices are a leading indicator of higher anhydrous ammonia prices. Weather, production, storage and demand for natural gas all contribute to its price volatility. As natural gas becomes more commonly used as a replacement to coal and other energy options, demand will continue to rise and, potentially, so will its cost.

Below is a graph showing the volatility of the reagent in dollar cost per ton.



VI. REVISION TO OTTER TAIL'S ENERGY ADJUSTMENT RIDER

In order to have a clear description of the costs included in its FCA, Otter Tail recommends the following addition to paragraph 1 of its Energy Adjustment Rider, Section 13.01 of its Rate Book.

“The cost of energy shall be determined as follows:

1. The cost of fuel, as recorded in Account 151, used in the Company's generating plants, and the costs of reagents and emission allowances for the Company to operate its generating plants in compliance with the associated Federal Environmental Protection Agency rules and regulations.

Attachments 1 and 2 are redline and clean versions of Tariff Schedule 13.01, Energy Adjustment Rider. Otter Tail will separately show the costs of all reagents and purchased emission allowances in its monthly FCA report and meet the statutory requirement for reporting by including a summary in its Annual Automatic Adjustment Report.

FCA RATE IMPACT

Both purchased emission allowance and reagent costs will apply to all of Otter Tail's Minnesota customers subject to the FCA. Attachment 3 summarizes current estimates for these costs. As noted earlier in this Petition, these costs will phase in as equipment is installed at the various plants and the consumption of reagents and the purchase of emissions allowances occurs. Attachment 3 to this filing provides a summary of the total annual reagent cost estimates by type and by plant, and the total emissions allowance costs, based on the assumption all equipment is operational and allowances are being purchased for an entire year.

As summarized in Attachment 3, Otter Tail's estimated total annual reagent and emissions costs to be approximately \$2,218,691 based on current assumptions. To compute an incremental impact of those costs on a kWh basis, we used the most recent 12 months sales ending June 30, 2014 upon which the FCA was applied in Minnesota, which was 2,263,800,059 kWhs. Using this sales level as a proxy to spread the costs resulted in an estimated incremental impact to the FCA of \$0.00098 per kWh. The potential monthly impact for an average residential customer using 1,000 kWh per month will be \$0.98 and the impact on all other customers using an average of 8,000 kWh per month will be \$7.84. As noted earlier, actual costs will ultimately vary based on the output of each generating facility, as well as other market factors which may contribute to price volatility for the reagents and purchased emission allowances acquired.

VII. REQUEST FOR VARIANCE FROM MINNESOTA RULE

As explained above, the number of emission allowances that Otter Tail may need to purchase for its HLP is directly related to the number of tons of coal burned at the plant, and therefore, the cost of these emissions becomes a cost of the fuel for that plant. Nevertheless, Otter Tail requests a rule variance to ensure that this treatment of these costs is not inconsistent with a technical reading of the rules.

Minn. Stat. §216B.16, subd. 7, provides that the energy cost adjustment may include "charges for public utility service in direct relation to changes in ... (3) costs for fuel used in generation of electricity..." Minn. Rule 7825.2500 states that "[p]rovisions for automatic adjustment charges must encompass ... changes in the cost of fuel consumed in the generation of electricity." Definitions included in Minn. Rule 7825.2400 state at subp. 8 that "[c]ost of

fossil fuel" is the current period withdrawals from account 151 as defined by the Minnesota uniform system of accounts..."

The Minnesota uniform system of accounts is essentially the Federal Energy Regulatory Commission ("FERC") Uniform System of Accounts ("USOA").¹ The FERC's USOA requires the inventory of emission allowances to be carried in account 158.1 Allowance Inventory with changes expensed to account 509 Allowances. Therefore, while the cost of newly acquired emission allowances can reasonably be viewed as a "cost of fossil fuel," the definitions included in Minnesota Rule 7825.2400, subp. 8, for the cost of fossil fuel to be included in the FCA appear to indicate that a rule variance may be necessary.

Minn. Rule 7829.3200, subpart 1, allows the Commission to grant a variance to its rules when it determines that the following requirements are met:

- A.** Enforcement of the rule would impose an excessive burden upon the applicant or others affected by the rule.
- B.** Granting the variance would not adversely affect the public interest.
- C.** Granting the variance would not conflict with standards imposed by law.

As explained in this Petition, treating replacement energy costs differently from the allowance costs would serve as a disincentive to purchase allowances even when doing so would be less costly than curtailing plant operations and purchasing replacement energy. Therefore, strict adherence to the definition of "the cost of fossil fuel" in Minn. Rule 7825.2400, as the change in account 151 (implying only that definition), would place an excessive burden on Otter Tail that would favor uneconomic operations of HLP. Granting the variance would for the same reason be in the public interest.

Minn. Stat. §216B.16, subd. 7, provides that the energy cost adjustment may include "charges for public utility service in direct relation to changes in ... (3) costs for fuel used in generation of electricity..." Therefore, granting the variance would not conflict with standards imposed by law. The variance would merely clarify that the strictest reading of the "the cost of fossil fuel" reference in Rule 7825.2400 does not limit FCA recovery of these costs.

For these reasons, Otter Tail requests a variance from Minn. Rule 7825.2400 in order to include in its FCA the cost of emission allowances that may need to be purchased in order to continue to operate its HLP in compliance with the CSAPR.

¹ Minn. Rules 7825.0200 through 7825.0400.

Minn. Rule 7829.3200 on variances also provides that, unless otherwise ordered, variances will automatically expire in one year. Otter Tail recommends that the Commission may require that Otter Tail may reapply for the variance within one year of the Commission's Order in this matter and that the variance continues in effect until the Commission's subsequent Order.

VIII. REVISION TO OTHER RATE SCHEDULES

There are no changes to any other rate schedules.

IX. NOTICE TO CUSTOMERS

Attachment 4 is a proposed notice to customers that would be included with customer bills in the month that the additions to the FCA are implemented.

X. CONCLUSION

Otter Tail respectfully requests that the Commission approve the addition of reagents and purchased emission allowances to its annual energy rate adjustment mechanism as set forth in this Petition, effective for costs incurred beginning October 1, 2014.

Dated: July 31, 2014

Respectfully Submitted,

OTTER TAIL POWER COMPANY

By: /S/ STUART TOMMERDAHL
Stuart Tommerdahl
Manager, Regulatory Administration
Otter Tail Power Company
215 S. Cascade Street
Fergus Falls, MN 56537
(218) 739-8279
stommerdahl@otpc.com

OTTER TAIL POWER COMPANY
FUEL CLAUSE INCLUSION OF EMISSIONS ALLOWANCE AND REAGENT EXPENSES
FILING ATTACHMENTS

Attachment 1	MN 13.01 Energy Adjustment Rider – redline
Attachment 2	MN 13.01 Energy Adjustment Rider – clean
Attachment 3	Customer Impact
Attachment 4	Proposed Customer Notice



Fergus Falls, Minnesota

Minnesota Public Utilities Commission
Section 13.01
ELECTRIC RATE SCHEDULE
Energy Adjustment Rider

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~~Twelfth-Eleventh~~ Revision

ENERGY ADJUSTMENT RIDER

DESCRIPTION	RATE CODE
Energy Adjustment Rider	31-540

RULES AND REGULATIONS: Terms and conditions of this electric rate schedule and the General Rules and Regulations govern use of this rider.

There shall be added to or deducted from the monthly bill the amount per Kilowatt-Hour (rounded to the nearest 0.001¢) that the average cost of energy is above or below 2.3163¢ per Kilowatt-Hour. The average cost of energy shall be based upon the cost of energy during the two months immediately preceding the month when the cost of energy is calculated, divided by all Kilowatt-Hour sales exclusive of intersystem sales for the same two-month period. The applicable adjustment will be applied to each Customer's bill beginning with cycle 1 of the calendar month following the month when the adjustment is calculated. The cost of energy shall be determined as follows:

1. The cost of fuel, as recorded in Account 151, used in the Company's generating plants, and the costs of reagents and emission allowances for the Company to operate its generating plants in compliance with the associated Federal Environmental Protection Agency rules and regulations.
2. The energy cost of purchased power included in Account 555 when such energy is purchased on an economic dispatch basis, exclusive of Capacity or Demand charges.
3. The net energy cost of purchases from a qualifying facility, as that term is defined in 18 C.F.R. Part 292 and Minn. Rule 7835.0100, Subp. 19, as amended, whether or not those purchases occur on an economic dispatch basis, and all fuel and purchased energy expenses incurred by the Company over the duration of any Commission-approved contract, as provided for by Minnesota Statutes, Section 216B.1645, except any such expense identified in 216B.1645, subd. 1(1), and subd. 1(2) to satisfy the renewable energy obligations set forth in Minnesota Statutes, Section 216B.1691.
4. All Midwest ISO (MISO) costs and revenues associated with retail sales that have been authorized by the Commission to flow through this Energy Adjustment Rider and excluding MISO costs and revenues that are recoverable in base rates, as prescribed in applicable Commission Orders.
5. Renewable energy purchased for the TailWinds program is not included in the cost of



Fergus Falls, Minnesota

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Section 13.01
ELECTRIC RATE SCHEDULE
Energy Adjustment Rider

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energy adjustment calculation.

6. The actual identifiable fuel costs associated with energy purchased for reasons other than in 2 and 3 above.
7. Less the fuel-related costs recovered through intersystem sales.
8. Less a credit for asset-based margins: revenues minus costs from asset-based wholesale energy and MISO ancillary services market ("ASM") transactions (excluding ancillary services net revenues derived through OTP's FERC-approved Control Area Services Operations Tariff) shall be credited to the cost of energy. The revenues for this calculation are those received from sales of excess generation; the costs are the fuel costs (as defined in FERC Account 501) and energy costs (including MISO costs that are booked to FERC Account 555) and any transmission costs incurred that are required to make such sales.

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In addition there shall be an annual true-up for any amount collected over or under the actual cost of energy for the twelve months ending June 30 of each year as reported in the Annual Automatic Adjustment report filed according to Minnesota Rule 7825.2810. The annual true-up shall be based on a historic twelve-month period and shall be applied to the subsequent twelve months. The annual true-up will be effective on billings beginning September 1 of the current year through August 31 of the following year, when a new true-up rate will be calculated and applied. In years when the over- or under-recovery amount is small (a rate rounded to less than 0.001¢), an annual true-up rate shall not apply.

The annual true-up rate shall be calculated as follows. The over- or under-recovery amount as shown in the current year Annual Automatic Adjustment report will be divided by the Minnesota Kilowatt-Hours subject to the fuel adjustment clause from the same report. This calculation will produce a true-up rate per Kilowatt-Hour (rounded to the nearest 0.001¢) that will be applied to Customers' bills in the same manner as the monthly cost of energy adjustment.

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MANDATORY AND VOLUNTARY RIDERS: The amount of a bill for service will be modified by any Mandatory Rate Riders that must apply and by any Voluntary Rate Riders selected by the Customer, unless otherwise noted in this schedule. See Sections 12.00, 13.00 and 14.00 of the Minnesota electric rates for the matrices of riders.

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Fergus Falls, Minnesota

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ELECTRIC RATE SCHEDULE
Energy Adjustment Rider

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Twelfth Revision

ENERGY ADJUSTMENT RIDER

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3. The net energy cost of purchases from a qualifying facility, as that term is defined in 18 C.F.R. Part 292 and Minn. Rule 7835.0100, Subp. 19, as amended, whether or not those purchases occur on an economic dispatch basis, and all fuel and purchased energy expenses incurred by the Company over the duration of any Commission-approved contract, as provided for by Minnesota Statutes, Section 216B.1645, except any such expense identified in 216B.1645, subd. 1(1), and subd. 1(2) to satisfy the renewable energy obligations set forth in Minnesota Statutes, Section 216B.1691.
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Fergus Falls, Minnesota

energy adjustment calculation.

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7. Less the fuel-related costs recovered through intersystem sales.
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In addition there shall be an annual true-up for any amount collected over or under the actual cost of energy for the twelve months ending June 30 of each year as reported in the Annual Automatic Adjustment report filed according to Minnesota Rule 7825.2810. The annual true-up shall be based on a historic twelve-month period and shall be applied to the subsequent twelve months. The annual true-up will be effective on billings beginning September 1 of the current year through August 31 of the following year, when a new true-up rate will be calculated and applied. In years when the over- or under-recovery amount is small (a rate rounded to less than 0.001¢), an annual true-up rate shall not apply.

The annual true-up rate shall be calculated as follows. The over- or under-recovery amount as shown in the current year Annual Automatic Adjustment report will be divided by the Minnesota Kilowatt-Hours subject to the fuel adjustment clause from the same report. This calculation will produce a true-up rate per Kilowatt-Hour (rounded to the nearest 0.001¢) that will be applied to Customers' bills in the same manner as the monthly cost of energy adjustment.

MANDATORY AND VOLUNTARY RIDERS: The amount of a bill for service will be modified by any Mandatory Rate Riders that must apply and by any Voluntary Rate Riders selected by the Customer, unless otherwise noted in this schedule. See Sections 12.00, 13.00 and 14.00 of the Minnesota electric rates for the matrices of riders.

	A	B	C	D	E
	Minnesota				
1 kWh for 12 months ending June 30, 2014	2,263,800,059				
	Otter Tail System				
	Hoot Lake				
Reagent Expenses	Big Stone Plant	Coyote Station	Plant	Total	Minnesota Share
Anhydrous Ammonia	\$ 808,500	\$ -	\$ -	\$ 808,500	\$ 398,672
Pebble Lime	\$ 1,347,500	\$ -	\$ -	\$ 1,347,500	\$ 664,453
Powdered Activated Carbon	\$ 253,869	\$ 357,000	\$ 630,000	\$ 1,240,869	\$ 611,873
Total of Reagent Costs	\$ 2,409,869	\$ 357,000	\$ 630,000	\$ 3,396,869	\$ 1,674,999
Purchased Emission Allowances					
NOx Allowances			\$ 14,200	\$ 14,200	\$ 7,002
SO2 Allowances			\$ 1,088,400	\$ 1,088,400	\$ 536,691
Total of Emission Allowance			\$ 1,102,600	\$ 1,102,600	\$ 543,693
Total Additions to FCA	\$ 2,218,691	Cell E9 + Cell E14			
Reagent \$/kWh	\$ 0.00074	Cell E9 / Cell A1			
Emission Allowance \$/kWh	\$ 0.00024	Cell E13 / Cell A1			
Total Incremental Impact \$/kWh	\$ 0.00098	Cell A17 + Cell A18			
	Average Monthly Customer Impact				
	1,000 kWh	\$ 0.98			
	8,000 kWh	\$ 7.84			

Notice to customers

Otter Tail Power Company incurs costs for reagents (substances used to capture and process emissions) and purchased emission allowances that are necessary for compliance with federal regulations enforced by the Environmental Protection Agency. To recover these costs, the Minnesota Public Utilities Commission has approved an adjustment to the Energy Adjustment Rider that is part of the Resource Adjustment line on your monthly electric service statement. Otter Tail will begin incurring costs on October 1, 2014. Once Otter Tail complies with all regulations the expected monthly bill impact a customer will see is shown in the table below.

Average Monthly Customer Impact			
1,000	kWh	\$	0.98
8,000	kWh	\$	7.84

For more information contact Customer Service at 800-257-4044 or place an inquiry from our web site at www.otpc.com.

CERTIFICATE OF SERVICE

**RE: In the Matter of Otter Tail Power Company's Request for Approval to Revise its
Energy Adjustment Rider to Include Emissions Controls Costs
Docket No. E017/M-14-____**

I, Jana Emery, hereby certify that I have this day served a copy of the following, or a summary thereof, on Dr. Burl W. Haar 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 **31st** day of **July, 2014**

/s/ JANA EMERY

Jana Emery
Regulatory Filing Coordinator
Otter Tail Power Company
215 South Cascade Street
Fergus Falls MN 56537
(218) 739-8879

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Christopher	Anderson	canderson@allete.com	Minnesota Power	30 W Superior St Duluth, MN 558022191	Electronic Service	No	GEN_SL_Otter Tail Power Company_General Service List - Tariff Filing
Michael	Bradley	mike.bradley@lawmoss.com	Moss & Barnett	Suite 4800 90 S 7th St Minneapolis, MN 55402-4129	Electronic Service	No	GEN_SL_Otter Tail Power Company_General Service List - Tariff Filing
Gary	Chesnut	gchesnut@agp.com	AG Processing Inc. a cooperative	12700 West Dodge Road PO Box 2047 Omaha, NE 681032047	Electronic Service	No	GEN_SL_Otter Tail Power Company_General Service List - Tariff Filing
James C.	Erickson	jericksonkbc@gmail.com	Kelly Bay Consulting	17 Quechee St Superior, WI 54880-4421	Electronic Service	No	GEN_SL_Otter Tail Power Company_General Service List - Tariff Filing
Sharon	Ferguson	sharon.ferguson@state.mn.us	Department of Commerce	85 7th Place E Ste 500 Saint Paul, MN 551012198	Electronic Service	No	GEN_SL_Otter Tail Power Company_General Service List - Tariff Filing
Bruce	Gerhardson	bgerhardson@otpc.com	Otter Tail Power Company	PO Box 496 215 S Cascade St Fergus Falls, MN 565380496	Electronic Service	No	GEN_SL_Otter Tail Power Company_General Service List - Tariff Filing
Burl W.	Haar	burl.haar@state.mn.us	Public Utilities Commission	Suite 350 121 7th Place East St. Paul, MN 551012147	Electronic Service	No	GEN_SL_Otter Tail Power Company_General Service List - Tariff Filing
Shane	Henriksen	shane.henriksen@enbridge.com	Enbridge Energy Company, Inc.	1409 Hammond Ave FL 2 Superior, WI 54880	Electronic Service	No	GEN_SL_Otter Tail Power Company_General Service List - Tariff Filing
Douglas	Larson	dlarson@dakotaelectric.com	Dakota Electric Association	4300 220th St W Farmington, MN 55024	Electronic Service	No	GEN_SL_Otter Tail Power Company_General Service List - Tariff Filing
James D.	Larson	james.larson@avantenergy.com	Avant Energy Services	220 S 6th St Ste 1300 Minneapolis, MN 55402	Electronic Service	No	GEN_SL_Otter Tail Power Company_General Service List - Tariff Filing
John	Lindell	agorud.ecf@ag.state.mn.us	Office of the Attorney General-RUD	1400 BRM Tower 445 Minnesota St St. Paul, MN 551012130	Electronic Service	No	GEN_SL_Otter Tail Power Company_General Service List - Tariff Filing

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Kavita	Maini	kmaini@wi.rr.com	KM Energy Consulting LLC	961 N Lost Woods Rd Oconomowoc, WI 53066	Electronic Service	No	GEN_SL_Otter Tail Power Company_General Service List - Tariff Filing
Andrew	Moratzka	apmoratzka@stoel.com	Stoel Rives LLP	33 South Sixth Street Suite 4200 Minneapolis, MN 55402	Electronic Service	No	GEN_SL_Otter Tail Power Company_General Service List - Tariff Filing
Debra	Opatz	dopatz@otpc.com	Otter Tail Power Company	215 South Cascade Street Fergus Falls, MN 56537	Electronic Service	No	GEN_SL_Otter Tail Power Company_General Service List - Tariff Filing
David G.	Prazak	dprazak@otpc.com	Otter Tail Power Company	P.O. Box 496 215 South Cascade Street Fergus Falls, MN 565380496	Electronic Service	No	GEN_SL_Otter Tail Power Company_General Service List - Tariff Filing
Larry L.	Schedin	Larry@LLSResources.com	LLS Resources, LLC	12 S 6th St Ste 1137 Minneapolis, MN 55402	Electronic Service	No	GEN_SL_Otter Tail Power Company_General Service List - Tariff Filing
Stuart	Tommerdahl	stommerdahl@otpc.com	Otter Tail Power Company	215 S Cascade St PO Box 496 Fergus Falls, MN 56537	Electronic Service	No	GEN_SL_Otter Tail Power Company_General Service List - Tariff Filing