

Minnesota Public Utilities Commission

Staff Briefing Papers

Meeting Date: September 10, 2015*Agenda Item #4

Company: Otter Tail Power Company (OTP or the Company)

Docket No. E017/RP-13-961

In the Matter of Otter Tail Power Company's Application for 2014-2028
Integrated Resource Plan Approval

Issue: Should the Commission grant Otter Tail's request for a six-month extension to
file its next integrated resource plan?

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Relevant Documents

Commission Order Approving Resource Plan..... December 5, 2014
Otter Tail Power, Request for Extension June 29, 2015
Department of Commerce, Comments July 28, 2015

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Statement of the Issue

Should the Commission grant Otter Tail Power Company's request for a six-month extension to file the Company's next integrated resource plan?

Procedural Background

On June 29, 2015, Otter Tail requested that the Commission grant the Company a six-month extension to file its next integrated resource plan (IRP). By Commission order, Otter Tail's next IRP is currently due on December 1, 2015. The extension would delay its next IRP filing date to June 1, 2016.

On July 7, 2015, Commission staff (staff) issued a Notice of Comment Period, requesting parties to comment on whether the Commission should grant or deny Otter Tail's request for extension.

On July 28, 2015, the Department of Commerce (the Department) filed a Letter recommending the Commission approve Otter Tail's request.

Previous IRP Background

One dispute in the Company's previous (2013) IRP¹ was the size and timing of Otter Tail's future wind procurement. The Department's modeling demonstrated "a significant need for energy in the near future."² In replicating the Company's expansion plan, the Department observed there were periods when Otter Tail's existing generation, even when operated at maximum capacity, was not capable of meeting Otter Tail's load, particularly during peak times in the winter months. As a result, the modeling indicated that purchases in the day-ahead market were needed to meet a significant portion of Otter Tail's future energy needs. Additionally, the demand for energy required peaking resources to operate at higher-than-typical capacity factors, which, the Department concluded, could substantially expose Otter Tail's ratepayers to fuel price variability, especially in the winter. In the Department's Preferred Plan, the addition of multiple generic wind units was the most cost-effective means to meet this energy need while mitigating Otter Tail ratepayers' exposure to fuel price and wholesale market risk.

Because the Company expressed its desire for flexibility in light of EPA's 111(d) Rule (alternatively referred to as the Clean Power Plan), the Department ultimately recommended:

Given the timing of the need for the additional wind, the Commission only needs to make a decision on the 2017 100 MW wind recommendation. A decision on the additional 200 MW of wind can be deferred until Otter Tail's next IRP.³

Thus, the Department recommended the Commission modify Otter Tail's action plan to include 100 MW of wind in 2017.

¹ Docket No. 13-961

² Department Reply Comments, p. 22

³ *Ibid.*

In response, Otter Tail said the following on page 11 of its reply comments:

Otter Tail would not be opposed to an order **allowing** the addition of up to 200 MW of wind to its five year action plan assuming prices at the time of acquisition are cost-effective. However, it would be **opposed to a requirement** to initiate an RFP proceeding or build a specific amount of new wind until the outcome of the EPA 111(d) rules are more clear. For these reasons, Otter Tail recommends that any authority granted to add such resources include adequate flexibility to allow greater clarity of the EPA's 111(d) rules to develop. [Emphasis added.]

In its Order, the Commission accepted Otter Tail's suggested modification to "authorize" the Company to acquire the wind, with the understanding that a fresh IRP would be filed in approximately one year, and it would again address the significance of the 2017 energy peak.

Resource plans generally build from one to the next, and in some ways, the Commission's Orders aim to balance flexibility for the utility with the Commission's findings and conclusions derived from the record evidence. Had the Department and the Commission known at the time of its Order that Otter Tail's next IRP would not be filed until mid-2016, there may have been a different recommendation from the Department or direction from the Commission with regard to Otter Tail's pursuit of its next wind acquisition. In their comments, the Department stated:

At least 100 MW of wind in 2017 is cost effective, even without externalities, at wind prices of \$50/MWh. Therefore, the Department recommends that the Commission order the Company to issue a wind RFP to obtain actual market prices and file the results of the request for proposals (RFP) as either a signed power purchase agreement, a self-build project, or an explanation regarding why no wind was chosen.⁴

In the Commission's Order, it stated:

To preserve this flexibility, the Commission will authorize the Company to obtain up to 300 MW of wind in the 2017–2021 timeframe if cost-effective and to the extent consistent with reliable system operation. The Commission will also order Otter Tail to file its next resource plan on December 1, 2015. This will allow the parties and the Commission to revisit the issue of greenhouse-gas reduction in a relatively short period of time.⁵

According to the Company's extension request, Otter Tail is in discussions regarding a 2016 wind addition, thus circumventing the RFP process. While this is not inconsistent with the Commission's Order, and while six months may not appear to have a material effect on process, there is more limited regulatory input into the size, timing, and location of Otter Tail's wind acquisition. Assuming the likelihood that Otter Tail's next resource planning process, if delayed, will not be concluded until early- to mid-2017, there is limited time for the Department to have input to evaluate the 2017 energy peak and make recommendations accordingly.

⁴ Department May 2, 2014 Comments, p. 35.

⁵ Commission Order, December 5, 2014, pp. 6-7.

Issues for Otter Tail's Next IRP

A. Hoot Lake Plant

Through subsequent Commission Orders approving Otter Tail's resource plans and its Hoot Lake study, the Commission has clearly been seeking more clarity with regard to Otter Tail's actual plans to replace Hoot Lake. In its February 2012 *Order Approving Plan*, the Commission directed Otter Tail to "file a baseload diversification study, with a specific focus on evaluating retirement and repower options for the Hoot Lake Plant."⁶ In its March 2013 *Order Approving Baseload Study*, the Commission required Otter Tail to include in its next filing "expected timelines for retrofitting Hoot Lake (including installation and outage schedules) and for filing the necessary permitting documents for replacement natural gas facilities."⁷

For Otter Tail's upcoming IRP, the Company must, by Commission Order, "File a proposal to replace Hoot Lake Plant, including expected dates for filing a certificate-of-need application with the Commission, an Attachment Y with MISO, and an interconnection request with MISO for its proposed new facility."⁸ At this point, staff is not aware of any such filings with MISO or in any certificate-of-need docket. Presumably these would be included as part of the next resource plan.

On the Hoot Lake Plant replacement issue, certainly more detail is preferred over less detail, especially since the Hoot Lake Plant replacement has been a focus of the Commission's prior orders since the Company's 2010 IRP. The Commission's most recent Order in Otter Tail's 2013 IRP made a size, type, and timing finding for the replacement acquisition—a combination of wind and natural gas—based on what the Commission determined at that time to be the most prudent resources. Furthermore, as stated above, the Commission's Order requires Otter Tail to provide a Hoot Lake proposal in its next IRP and to include a schedule of all necessary filings. To the extent an additional six months will enable Otter Tail to more thoroughly and concretely present its proposal, pursuant to the Commission's Order, staff believes it would be reasonable for the Commission to allow the Company more time and grant Otter Tail's extension request.

B. EPA 111(d) Rule

In staff's opinion, there is little benefit in delaying Otter Tail's next IRP on the basis that more time will be available to evaluate EPA's finalized 111(d) rule. This is mostly because the Rule was just recently finalized on August 3, 2015, and, if Otter Tail begins to develop its delayed IRP in early-2016, the Company will likely be in a similar position with regard to fixing specific compliance measures within its Strategist modeling. Moreover, under EPA's finalized rule for 111(d), each state will have its own compliance plan, and each state will have until 2018 to submit it (assuming that state requests an extension). The question, then, is what value an additional six months would create. The answer might depend on (1) what might be known in

⁶ Ordering paragraph #2, In the Matter of Otter Tail Power Company's 2011–2025 Resource Plan, Issued February 9, 2012

⁷ Ordering paragraph #3.d., In the Matter of Otter Tail Power Company's 2011–2025 Resource Plan, Issued March 25, 2013.

⁸ Ordering paragraph #2.f., In the Matter of Otter Tail Power Company's 2014–2028 Resource Plan, Issued December 5, 2014.

December 2015 relative to June 2016, and (2) what might be known given that the affected facilities are in North Dakota and South Dakota. In a vacuum, it may be worth taking the time because all states will invariably be further along in their understanding of 111(d) compliance in mid-2016 relative to now. However, the additional time must be viewed in context with other issues pertinent to Otter Tail's IRP, namely its significant need for energy and its Hoot Lake replacement timeline.

How Otter Tail will model or incorporate Clean Power Plan compliance into Strategist remains to be seen. In practice, a capacity expansion model such as Strategist produces and ranks least-cost expansion plans taking a system-wide approach. It is not clear how many models will need to be created to accommodate an "inside-the-fence" approach to generation, with different emissions constraints for three different states. The Commission could view this in two different ways. On the one hand, it could be a justification to allow more time such that stakeholders could convene to discuss how to model compliance requirements in these three states. On the other, the Commission could prefer the system-wide, multi-jurisdictional approach which apply Minnesota's environmental externality values and achieve Minnesota's greenhouse gas reduction goals and simply be made aware of potential compliance measures in other states, to the extent Otter Tail knows them.

Once the Hoot Lake Plant is retired in 2020, Otter Tail will not have any Clean Power Plan "affected facilities" located in Minnesota. Rather, Otter Tail's affected units include its Coyote Station coal plant in North Dakota and its Big Stone coal plant in South Dakota. Thus, Otter Tail's path for Clean Power Plan compliance will be, to a large extent, under the jurisdiction of other states' regulators. And in its final rule, EPA has set a much more stringent emissions reduction target for the State of North Dakota and a less stringent target for Minnesota and South Dakota, meaning that the implications for compliance plans in each state have also changed.

Otter Tail continues that "there will be continued uncertainty around and likely legal challenges to the [Clean Power Plan]." ⁹ If this is true, then the expectation that an additional six months will resolve these uncertainties and create more value for the next resource plan is questionable.

Staff notes that, in addition to Otter Tail, Xcel Energy has also filed a request for extension to their IRP within the last month, using the Clean Power Plan as one basis for delay. It is likely true that utilities are taking meaningful steps to request the time to provide a more thoughtful and real-world view of its planning efforts. However, it could also be true that Clean Power Plan compliance could become (or perhaps already is) a platform to take advantage of the opportunity to delay IRP processes or the requirement to file plans. Staff's concern here is that delays to the process have been a common criticism of IRP for some time, even if the utility is the one requesting the delay, and this criticism is becoming louder in the public discourse.

Staff Conclusion

Otter Tail's Request for Extension includes two value propositions: (1) an analysis of Clean Power Plan compliance can be more fully formed, and (2) Otter Tail's wind + natural gas expansion will be finalized. The Department includes a Letter supporting the extension request.

⁹ Otter Tail June 29, 2015.

Staff has several concerns with yet another extension request amidst other, urgent IRP issues, but since Otter Tail's seems to contain actual value creation for the next IRP, staff takes no over position on the matter.

However, to specifically address Otter Tail's stated reasons for the extension, staff does not believe significant value will emerge on the basis of Clean Power Plan evaluation, that is, unless Otter Tail can fix into the model the North Dakota and South Dakota compliance plans (which Otter Tail might be able to do). To the second major issue, Hoot Lake, if Otter Tail is indeed developing a Hoot Lake replacement plan, and to the extent there will be more specificity in it by June 2016, then staff believes there is value creation by delaying the next IRP filing date.

Decision Options

1. Grant Otter Tail Power Company's request for a six-month extension to file the Company's next integrated resource plan, modifying the next resource plan filing date to June 1, 2016. (*Otter Tail Power, the Department*)
2. Reject Otter Tail Power Company's request for a six-month extension to file the Company's next integrated resource plan. (*Staff note: If adopted, the due date for Otter Tail's next IRP would remain December 1, 2015.*)