

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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Chair  
Commissioner  
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In the Matter of Otter Tail Power Company's  
2006-2020 Resource Plan

ISSUE DATE: August 9, 2006

DOCKET NO. E-017/RP-05-968

ORDER DEFERRING CONSIDERATION OF  
OTP'S RESOURCE PLAN, DIRECTING  
UPDATED INFORMATION, ALLOWING  
COMMENT, FINDING GOOD FAITH REO  
EFFORTS AND DIRECTING NEXT  
RESOURCE PLAN FILING

**PROCEDURAL HISTORY**

On June 30, 2005, Otter Tail Power Company (Otter Tail or the Company) filed its 2005 proposed Resource Plan, covering the period 2006-2020.

On August 16, 2005, the Minnesota Department of Commerce (the Department) filed comments on completeness of Otter Tail's filing.

On January 3, 2006, Excelsior Energy Inc. (Excelsior) and the Department filed comments, and Joint Comments were filed by the Izaak Walton League of America (IWLA), Minnesotans for an Energy-Efficient Economy (ME3), Union of Concerned Scientists (UCS), and Minnesota Center for Environmental Advocacy (the Joint Intervenors).

On February 28, 2006, the Joint Intervenors requested the establishment of an additional round of public comments.

On May 1, 2006, Otter Tail Power filed reply comments.

The Commission met on July 20, 2006 to consider this matter.

**FINDINGS AND CONCLUSIONS**

**I. Summary of Commission Actions**

In this Order, the Commission defers a decision on the merits of Otter Tail's proposed Resource

Plan (with one exception<sup>1</sup>) pending receipt and review of updated cost figures and model runs based on those updated costs.

The Commission also finds that the Company has exercised good faith efforts to meet its renewable energy objectives (REO), is in full compliance with REO for 2005-2006, and should use a vintage-based allocation on a going forward basis.

Further, for Otter Tail's next Resource Plan, the Commission directs the Company to make clear its assumptions regarding costs and potentials and to include a review of the current price and price trends of allowances and/or credits for SO<sub>2</sub>, NO<sub>x</sub>, and CO<sub>2</sub>.

In addition, the Commission directs the Company to develop information in conjunction with the other utilities and be prepared to participate in a Commission-sponsored technical issues workshop on several specific subjects.

Furthermore, the Commission directs the Company to file its next Resource Plan before or simultaneous with its next rate case.

Finally, the Commission notes with concern reports that the Company has not been prompt in replying to Information Requests from the Department and the Joint Intervenors. The Commission expects appropriate compliance with discovery turn-around times as an on-going matter but emphasizes the special need for the Company to respect those timelines in the current context where the Commission is attempting to meet the Company's requested schedule for addressing the merits of its Resource Plan, i.e., before November 1, 2006.

## **II. Recent Cost Developments Block Path to Consideration of Current Resource Plan**

### **A. The Joint Intervenors' Objection**

Two days before the hearing on Otter Tail's Resource Plan, the Joint Intervenors filed comments citing recent media reports that projected costs of Big Stone II, the generating facility that the Company had selected as a primary energy source in its Resource Plan, had nearly doubled. The Joint Intervenors stated that the Company's model had used the now outdated costs of Big Stone II to determine the relative cost-effectiveness of demand-side management (DSM) and efficiency measures as well as renewable energy sources such as hydroelectric power and wind.

As a consequence, they argued, the cost escalation of Big Stone II could very well change Otter Tail's choice of the Big Stone II as the least-cost alternative source to meet its projected energy needs.

In addition, the Joint Intervenors alleged that the Commission's approval of Otter Tail's Resource Plan based on the obsolete cost figures in the record could interfere with the development of the record in the related a certificate of need for transmission (CON-T) proceeding.<sup>2</sup>

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<sup>1</sup> See Section II below approving the wind portion of the Resource Plan.

<sup>2</sup> Docket No. ET-6131, ET-2, ET-6130, ET-10, ET-6444, E-017, ET-9/CN-05-61.

The Joint Intervenors requested that the Commission halt action on the pending Otter Tail Resource Plan until the Company re-models all resource options based on the updated costs of the Big Stone II project and further until parties have litigated the costs of Big Stone II in the pending CON-T proceeding.

### **B. Otter Tail's Response**

At the hearing, Otter Tail provided no written rebuttal of the newspaper articles but stated that the cost increases reported in the newspapers were significantly higher than actual figures and explained in some detail why it believes the costs of the Big Stone II project have increased on average only 30 percent. Otter Tail initially urged the Commission to proceed to approve the Company's Resource Plan, arguing that Resource Plans were intended to be simply a "snapshot in time," and were not intended to be continually updated while they were being considered by the Commission.

The Company also stated that it was under time pressures due to contractual commitments for major items of the transmission project to make final commitments to purchase. The Company stated that if it was not able to finalize its commitments on these major items by November 1, 2006, it would incur penalties and lose the advantageous purchase price it has currently negotiated for those items.

### **C. The Department's Comments**

The Department stated at the hearing that based on the Company's confirmation of 30 percent increases in costs for the Big Stone II project, the Department could no longer recommend approval of the Company's proposed Resource Plan. The Department stated that even the 30 percent cost increases that the Company acknowledged were very significant increases. The Department argued that before it could make a recommendation it would need to review a written report from the Company providing updated comprehensive cost figures for the Big Stone II project and re-runs of the Company's modeling using the updated figures and starting from the modeling adjustments made in the Company's May 1, 2006 reply comments.

### **D. The Commission's Analysis and Action**

The Commission agrees with the Department that the cost changes acknowledged by Otter Tail render the current record inadequate to base a decision on the merits of the Company's Resource Plan.

Accordingly, the Commission will defer consideration of Otter Tail's current Resource Plan and a decision whether it will approve, reject, or modify that Plan and direct the Company to file updated comprehensive cost figures for the Big Stone II project and re-runs of the Company's modeling using the updated figures and starting from the modeling adjustments made in the Company's May 1, 2006 reply comments. The Commission will ask the Department to file its analysis and recommendation within 20 days after receipt of the Company's filing. Other parties wishing to comment will be allowed to do so in that 20 day period. Upon receipt of the Company's updated filing and comments from the Department and any other interested party, the Commission will place this item back on the Agenda as soon as possible.

### **III. Wind Portion of the Resource Plan**

OTP asked the Commission to approve the wind resource portion of its proposed Resource Plan so that the Company could proceed with its Request for Proposals (RFP) for these projects and get the selected projects under contract as soon as possible. The Company explained that contracts for the wind-generated energy it counted on to meet its REO were likely to become more costly with the passage of time.

No party objected to this request and the Commission finds it reasonable. The Commission will therefore grant the Company's request, thereby allowing the Company to proceed to secure up to 75 MW of wind generation.

### **IV. Good Faith Effort to Achieve Renewable Energy Objective**

#### **A. Background**

Each electric utility is required by the REO Statute to make a good faith effort to meet the statutory goals for generating or procuring electricity from eligible renewable energy resources.<sup>3</sup> Each electric utility is required to demonstrate in its Resource Planning filings under section Minn. Stat. § 216B.2422 or in a separate report that it is making the required good faith effort to meet its REO.<sup>4</sup>

#### **B. OTP's Showing of Good Faith Efforts**

In its initial filing, OTP identified the specific resources from which renewable energy is planned, the type of facility, and the MWh amount per year. The Company's list included 70.5 MWh wind generation from the Enbridge Wind Farm.

#### **C. The Department's Comments**

In its initial comments, the Department assessed OTP's good faith efforts to meet its ROE as defined by the REO Statute and related Commission Orders and concluded that OTP's ability to meet the Biomass Objective and Renewable Objective of the overall Renewable Energy Objective depends on both: (1) the extension of the Potlatch power purchase agreement (PPA) or substitute biomass resource and (2) replacement of the Enbridge wind proposal. The Department recommended that OTP provide an update on these efforts in its reply comments.

In its initial comments, the Department also reviewed five different allocation approaches for the Commission to consider: 1) full allocation; 2) system allocation using a variable allocation factor; 3) vintage-based allocation using a variable allocation factor; 4) system allocation using a fixed allocation factor; 5) vintage-based allocation using a fixed allocation factor.

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<sup>3</sup> Minn. Stat. § 216B.1691, subd. 2.

<sup>4</sup> Minn. Stat. § 216B.1691, subd. 3.

The Department explained that selection of appropriate allocation method and allocation factor will impact the assessment of OTP's good faith efforts in meeting its Renewable Objective because Minnesota constitutes only slightly more than half of OTP's system and consumes only slightly more than half of the distribution from OTP's vintage eligible generation sources.

Regarding the three allocation methods, the Department stated that the vintage based allocation provides a middle ground where the nature of system resources is considered and utilities receive appropriate credit for resources developed explicitly for the REO. The Department concluded that the vintage based allocation is a reasonable method for evaluating OTP's good faith efforts toward meeting the REO.

#### **D. The Company's Reply Comments About its REO**

In reply comments, OTP responded to the Department's concerns about Potlach and Enbridge. First, the Company confirmed that the Potlach Cogeneration facility was kept in the model and the Resource Plan and that the Company was counting on the output from this facility to meet its REO. The Company also reported that as approval of the Enbridge Wind Farm project encountered delays, rising costs made the project unfeasible and that the Company consequently had withdrawn its filing for this project. The Company stated that subsequent to its withdrawal of the Enbridge project, it issued an RFP for approximately 75 MW of additional renewable resources that would qualify towards the REO. With that addition, the Company stated, it has enough renewable resources to comply with the REO across its entire three-state system through 2007.

#### **E. Commission Analysis and Action on the Good Faith Issue**

Determination on a utility's good faith effort to meet the REO needs to be made in the Resource Plan or REO report where the utility's whole REO efforts are examined. In making a determination on whether a utility is meeting its good faith efforts, appropriate and effective planning for future additions is very important, as the Commission made clear in its June 1, 2004 Order establishing criteria and standards in the REO docket, E-999/CI-03-869.

In its January 2, 2006 Comments, the Department presented an analysis of OTP's compliance with the REO under various assumptions. Based on the Department's analysis, it appears that OTP will meet the percentage of retail sales objectives for the REO, including biomass, under most assumptions through at least 2008, using either full allocation or vintage-based allocation.

Accordingly, the Commission finds that OTP's Resource Plan demonstrates a good-faith effort to meet its renewable energy objectives under Minn. State. § 216B.1691, using either full allocation or vintage-based allocation and that the Company is in full compliance with its REO for 2005 and 2006.

The Commission also agrees with the Department that the vintage-based allocation is a reasonable method for evaluating OTP's good faith efforts toward meeting the REO and will direct OTP to use the vintage-based allocation in future REO analyses it files with the Commission.

#### **V. Preparation for Technical Workshops**

In the course of its review of the Company's Resource Plan, the Commission has identified a number of issues that the Commission believes are best developed and addressed outside this docket in a more informal yet focused environment and by all utilities required to produce

## Resource Plans.

The Commission therefore will direct the Company to cooperate with other utilities including Xcel to develop information and be prepared to participate in a Commission-sponsored technical issues workshop or workshops on the following subjects:

- 1) wind energy storage research and development;
- 2) with respect to CO<sub>2</sub> planning and risk analysis, various potential mitigation strategies including cost estimates the technology needed to capture and ship CO<sub>2</sub> from an Integrated gasification combined cycle (IGCC) plant to another appropriate location;
- 3) with respect to distributed generation of heat and power, what the components of a more comprehensive distributed generation (DG) strategy might entail: a technical evaluation of the opportunities, technical potential and economics of DG within the OTP system (including evaluation of large customer sites to determine appropriateness and willingness to consider DG, including possible Combined Heat and Power (CHP) initiatives with the ethanol industry and other industries; determination of total technical DG potential; calculations of grid benefits of DG; and economic screening to determine the total economic impact of DG, under either utility ownership or customer ownership of DG); and
- 4) the costs of the various regulatory strategies under consideration for emission reduction of NO<sub>x</sub>, SO<sub>2</sub>, and CO<sub>2</sub> as well as the cost of implementing control technologies for those emissions.

## **VI. OTP's Next Resource Plan**

Looking beyond the current docket, the Commission clarifies that OTP's next Resource Plan filing date should be before or simultaneous with the rate case that it plans to file in 2007.

In that Resource Plan, the Company should make plain its assumptions about costs and potentials. This is necessary to make the filing more comprehensible, promoting a more expeditious and efficient examination of the merits of the Company's plans by the Department, concerned parties and the Commission itself.

In addition, the Company should include in its next Resource Plan a review of the current price and price trends of allowances and/or credits for SO<sub>2</sub>, NO<sub>x</sub>, and CO<sub>2</sub>. This discussion should include a comparison with the cost of implementing control technologies under consideration for emission reductions in SO<sub>2</sub>, NO<sub>x</sub>, and CO<sub>2</sub>.

## **ORDER**

1. Consideration of the merits of Otter Tail Power Company's (OTP's or the Company's) Resource Plan, whether to approve, reject, or modify it, is deferred.
2. As soon as practicable, the Company shall file supplemental information updating its April base case runs filed May 1, 2006 as part of its reply Comments.

3. The Commission asks the Department to file its comments within 20 days after receipt of the Company's supplemental filing pursuant to Order Paragraph 2. Other parties wishing to comment on the Company's supplemental filing shall have the same 20 day period to file comments. Thereafter, the Commission will place this item back the Agenda as soon as feasible.
4. The wind portion of the Company's proposed Resource Plan is approved, thereby allowing the Company's RFP process for up to 75 MW wind generation to go forward.
5. The Commission finds that OTP's filing demonstrates a good-faith effort to meet its renewable energy objectives under Minn. Stat. § 216B.1691 and further finds that the Company is in full compliance with REO for 2005 and 2006.
6. The Commission hereby adopts and directs OTP to use in its Resource Plan filings the following allocation method on a going forward basis: vintage-based allocation with a fixed system allocation factor rather than a variable system allocation factor.
7. OTP shall cooperate with other utilities, including Xcel, to develop information and be prepared to participate in a Commission-sponsored technical issues workshop on the following subjects:
  - a. wind energy storage research and development;
  - b. with respect to CO<sub>2</sub> planning and risk analysis, various potential mitigation strategies including cost estimates the technology needed to capture and ship CO<sub>2</sub> from an IGCC plant to another appropriate location.
  - c. with respect to distributed generation of heat and power, what the components of a more comprehensive DG strategy might entail: a technical evaluation of the opportunities, technical potential and economics of DG with the OTP system, including
    - evaluation of large customer sites to determine appropriateness and willingness to consider DG, including possible CHP initiatives with the ethanol industry and other industries;
    - determination of total technical DG potential;
    - calculations of grid benefits of DG; and
    - economic screening to determine the total economic impact of DG, under either utility ownership or customer ownership of DG; and
  - d. the costs of the various regulatory strategies under consideration for emission reduction of NO<sub>x</sub>, SO<sub>2</sub>, and CO<sub>2</sub> as well as the cost of implementing control technologies for those emissions.
8. OTP shall file its next Resource Plan before or simultaneous with the rate case it plans to file in 2007.

9. In its next Resource Plan, OTP shall
  - a. make plain its assumptions about costs and potentials; and
  - b. include a review of the current price and price trends of allowances and/or credits for SO<sub>2</sub>, NO<sub>x</sub>, and CO<sub>2</sub>; this discussion should include a comparison with the cost of implementing control technologies under consideration to reduce SO<sub>2</sub>, NO<sub>x</sub> and CO<sub>2</sub> emissions.
10. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar  
Executive Secretary

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