

**STATE OF SOUTH DAKOTA  
BEFORE THE  
SOUTH DAKOTA PUBLIC UTILITIES COMMISSION**

Docket No. EL14-\_\_\_\_

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

**PETITION OF OTTER TAIL POWER COMPANY**

**I. INTRODUCTION**

Pursuant to South Dakota Codified Laws Section 49-34A-10 and Administrative Rules of South Dakota ("ASRD") Part 20:10:13:12, Otter Tail Power Company ("Otter Tail" or "Company") hereby petitions the South Dakota Public Utilities Commission ("Commission") to include in its Fuel Adjustment Clause Rider ("FAC"), 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 FAC recovery of purchased emissions allowances associated with the proposed implementation of CSAPR in Docket No. EL12-021. This filing was subsequently withdrawn in the fall of 2012 after CSAPR was vacated by the U.S. Court of Appeals for the D.C. Circuit ("Circuit Court") on August 21, 2012, due to uncertainty on how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 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 FAC recovery of certain reagent expenses associated

with new emissions controls equipment currently being installed at three of its generating facilities, Big Stone, Coyote, and Hoot Lake Plants, 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 FAC is being made pursuant to South Dakota Codified Laws Section 49-34A-25 which provides for the "*automatic adjustment of rates for changes in energy, fuel and gas costs...*" incurred by a public utility. The Commission has previously approved recovery of reagent expenses for Black Hills Power in its Fuel and Purchase Power Adjustment rate.

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 South Dakota customers will be approximately \$416,000, which would equate to an incremental increase in the FAC of approximately \$0.00098/kWh. A number of factors exist that may cause these estimates to increase or decrease over time.

## **II. GENERAL FILING INFORMATION**

### **A. Name, address, and telephone number of the utility making the filing.**

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

### **B. Name, address, and telephone number of the attorney for Otter Tail.**

Bruce Gerhardson  
Associate General Counsel  
Otter Tail Corporation

215 South Cascade Street  
P.O. Box 496  
Fergus Falls, MN 56538-0496  
Phone (218) 998-7108  
Fax (218) 739-8475

**C. Title of utility employee responsible for filing.**

Stuart Tommerdahl  
Manager, Regulatory Administration  
Otter Tail Power Company  
215 South Cascade Street  
P.O. Box 496  
Fergus Falls, MN 56538-0496  
(218) 739-8279

**D. The date of filing and the date changes will take effect.**

The date of this filing is August 1, 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 FAC filings, the first month following the month the Commission issues an Order approving this request.

**E. Statute controlling schedule for processing the filing.**

ASRD Part 20:10:13:15 requires a 30-day notice to the Commission of a proposed change in a utility's tariff schedule, after which time the proposed changes take effect unless suspended.

**F. Statute controlling the notice of the proposed tariff change.**

ASRD Part 20:10:13:18 requires utilities to post notice of proposed changes in rates and charges or rules and regulation in the business offices of the utility in the territory affected for at least 30 days before the change becomes effective. The notice shall state that proposed rates and rules and regulations are available in that office for inspection. Otter Tail will comply with this rule by posting the Notice in its Milbank, South Dakota, Customer Service Center.

**G. Statute controlling the report of tariff changes.**

ASRD Part 20:10:13:26 requires utilities to submit a report to the Commission of tariff schedule changes on notice. Included in Attachment 5 is Otter Tail's South Dakota "Report of Tariff Schedule Changes" form.

### **III. DESCRIPTION AND PURPOSE OF FILING AND BACKGROUND INFORMATION**

Otter Tail previously filed for recovery of these costs in Docket No. E12-021 (“12-021”), 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 FAC recovery of purchased emissions allowance costs. In this Petition, Otter Tail is requesting inclusion in the FAC certain specified costs for purchased emission allowances that may be necessary to comply with the CSAPR issued by the Federal EPA.

Secondly, Otter Tail seeks FAC 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 (“SO<sub>2</sub>”) and nitrogen dioxide (“NO<sub>x</sub>”) emissions from fossil fuel-fired power plants located in the eastern portion of the United States. The Rule establishes two new types of SO<sub>2</sub> allowances (“Group 1” and “Group 2”) and two new types of NO<sub>x</sub> allowances (“annual” and “ozone”). Minnesota is classified as a “Group 2” SO<sub>2</sub> state (along with six other states) and an “annual” NO<sub>x</sub> 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.

Other important information attributable to the original CSAPR rule, as detailed in Otter Tail's original filing in Docket No. EL-12-021, 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 SO<sub>2</sub> unit can only use Group 2 SO<sub>2</sub> 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 SO<sub>2</sub> emission allowances beyond those allocated to the company.

Assuming that HLP ultimately receives the same level of SO<sub>2</sub> and NO<sub>x</sub> allocations that the plant would have received in the vacated CSAPR rule, the following tables illustrate theoretical historical SO<sub>2</sub> and NO<sub>x</sub> 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 SO<sub>2</sub>. The CSAPR allows a utility located in a Group 2 state only to purchase allowances from other Group 2 states.

### **Quantity of Allowances Needed**

#### **SO<sub>2</sub>**

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

## NOx

| Year | Total HLP NOx Emissions (tons) | Theoretical HLP CSAPR NOx Allowance Allocation (tons) | Theoretical NOx Allowance Shortfall |
|------|--------------------------------|---|-------------------------------------|
| 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 SO<sub>2</sub> 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.

### 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 SO<sub>2</sub> and NO<sub>x</sub> 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 SO<sub>2</sub> and \$500 per ton for NO<sub>x</sub>; 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 for NO<sub>x</sub> allowances (System basis) and \$1,100,000 per year cost for SO<sub>2</sub>

allowances (System basis). South Dakota's jurisdictional share of these costs is estimated to be approximately \$1,300 for NOx allowances and \$101,000 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. S.D.C.L. § 49-34A-25**

S.D.C.L. § 49-34A-25 allows for the automatic adjustment of costs incurred to produce energy by an electric utility. Reagents and emissions allowances will be necessary costs to continue to operate and produce electricity at Big Stone Plant, Coyote Station, and HLP.



### **3. PREVIOUS COMMISSION FINDINGS**

Otter Tail's request is not without precedent. The Commission has previously approved the recovery of reagents, as reflected in Black Hills Power's Fuel and Purchased Power Adjustment Tariff approved by the Commission in its September 19, 2013 DECISION AND ORDER GRANTING JOINT MOTIONS FOR APPROVAL OF SETTLEMENT AGREEMENTS AND SETTLEMENT STIPULATION in Docket Number EL12-061. The approved Tariff expressly allows FCA recovery of:

*b. The costs of re-agents necessary for use in conjunction with fuel consumed for plant generation. This includes lime and associated freight, ammonia and other chemicals.*

### **4. 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<sub>x</sub>) emissions, and Anhydrous Ammonia is used for the reduction of nitrogen dioxide (NO<sub>2</sub>).

### **5. 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, is currently under construction. 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 \$223,000 will be allocated to South Dakota.

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 in 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 \$33,000 will be allocated to South Dakota.

### **Hoot Lake Plant**

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 need to install 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 \$58,000 will be allocated to South Dakota. 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.

#### **IV. 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**

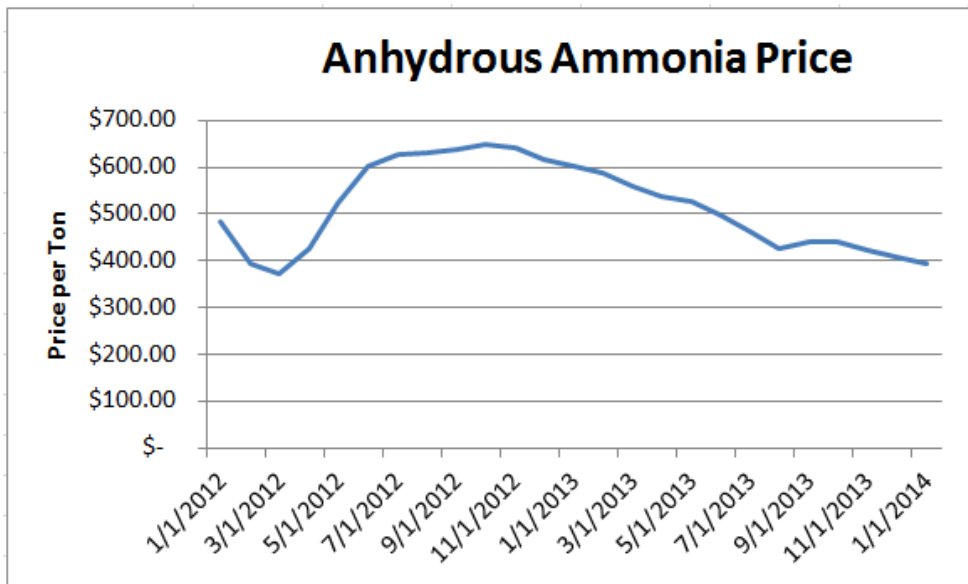
The pebble lime contract has a three year duration and a fixed price for the commodity. However, delivery represents over 50 percent of the cost of the delivered pebble lime. The product will be delivered by rail to Buffalo, North Dakota and then delivered by truck to Big Stone Plant. The supplier will 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.



### V. REVISION TO OTTER TAIL'S FUEL ADJUSTMENT CLAUSE RIDER

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

“The cost of fuel shall be determined as follows:

1. The expense of fossil fuel and other fuels, including but not limited to, biomass, wood, refuse-derived fuel (RDF), and tire-derived fuel (TDF), as recorded in Account 151 of the FERC’s Uniform System of Accounts for Public Utilities and Licensees, 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 FAC reports.

## **VI. FAC Rate impact**

Both purchased emission allowance and reagent costs will apply to all of Otter Tail’s South Dakota customers subject to the FAC. 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 are expected to be approximately \$416,000 (South Dakota) 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 FAC was applied in South Dakota, which was 424,651,653 kWhs. Using this sales level as a proxy to spread the costs resulted in an estimated incremental impact to the FAC 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. OTTER TAIL'S REQUEST**

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. The quantity of reagents to be consumed at all three plants will vary in a similar fashion. Therefore, the cost of these allowances and reagents becomes a cost of the fuel for that plant.

S.D.C.L. § 49-34A-25 authorizes the commission to "permit a public utility to file rate schedules containing provisions for automatic adjustment of charges for public utility service in direct relation to changes in wholesale rates for energy delivered, the delivered costs of fuel used in generation of electricity, the delivered cost of gas, ad valorem taxes paid, or commission approved fuel incentives."

As described above, these emissions allowance and reagent costs are incurred for the very purpose of permitting the consumption of delivered fuel, and therefore they are appropriate for recovery through the FAC. Also, FAC recovery of these emissions allowance and reagents costs is supported by the Commission's prior approval of FAC recovery for other revenues and costs associated with delivered fuel and delivered energy. For example, Otter Tail's currently approved Fuel Adjustment Clause Rider provides for the inclusion of all or a portion of (i) revenue from any renewable energy credits sold, (ii) expense and revenue from the MISO Ancillary Services Market ("ASM") transactions, and (iii) revenue from any allocable emission allowances sold. In the case of HLP, without emission allowances, Otter Tail would incur replacement energy costs which would flow through the FAC. Therefore symmetrical FAC treatment of these allowance costs should be approved, to avoid any disincentives that might inhibit the purchase of allowances and the operation of HLP whenever that is the most economic generation available for Otter Tail's customers.

## **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 FAC are implemented.

**X. CONCLUSION**

For the foregoing reasons, Otter Tail respectfully requests that the Commission approve the addition of reagents and purchased emission allowance to its annual energy rate adjustment mechanism as set for in this Petition.

Date: August 1, 2014

Respectfully submitted:

OTTER TAIL POWER COMPANY,

/S/ STUART TOMMERDAHL

Stuart Tommerdahl  
Manager, Regulatory Administration  
215 South Cascade Street  
P.O. Box 496  
Fergus Falls, MN 56538-0496  
Phone (218) 739-8279

Bruce Gerhardson  
Associate General Counsel  
Otter Tail Corporation  
215 South Cascade Street  
P. O. Box 496  
Fergus Falls, MN 56538-0496  
(218) 739-8475