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April 20, 2009

To: UMTDI Principles Study Group
From: Otter Tail Power Company (“Otter Tail”)
Subject: Supplemental Comments of Otter Tail in Response to the April 2, 2009 UMTDI Cost Allocation Principles

Otter Tail appreciates the UMTDI Principles Study Group’s efforts to develop its cost allocation principles for the UMTDI effort. Furthermore, Otter Tail appreciates the opportunity that the UMTDI Principles Study Group has offered to stakeholders to respond to its April 2, 2009 Cost Allocation Principles. Please note that Otter Tail has joined the Cost Allocation Principles comments of the CapX2020 participants and merely provides the following supplemental comments specifically given Otter Tail’s current focus on cost allocation and the potential for unintended consequences. Therefore, we offer these limited comments in support of and to facilitate a successful outcome by the UMTDI.

Otter Tail offers the following considerations in response to Principle 1.

Principle 1 In order to properly allocate the costs of a transmission project, the following questions must be answered through an open, transparent planning process:

- What is the project’s purpose or need?
- Which stakeholders will directly benefit from the project?
- Which stakeholders will indirectly benefit from the project due to proximity to the project or other factors?

Otter Tail Comment:

Attempting to determine future beneficiaries from a project that is being driven by *today’s needs* interjects several degrees of uncertainty that may not reasonably facilitate prudent cost allocation. It is inevitable that beneficiaries of a transmission project will change over time; however, one needs to look at the driver today and evaluate the project and the appropriate cost allocation based on today’s driver. To hypothesize on a future beneficiary could interject too much speculation and jeopardize the prudent allocation of costs.

Utilities/planners plan for and reliably build the system to reliably comply with NERC standards. A utility should not have to pay for a higher level of reliability than what is required (i.e., we should not be harmed by the universal assumption that a new line enhances reliability). Nonetheless, if a project is *clearly demonstrated* as needed for meeting both RPS

and reliability standards, then a cost allocation would be appropriate to both sets of beneficiaries.

Given the current situation that Otter Tail Power Company finds itself whereby it stands to bear a substantially disproportionate share of costs due merely to its proximity to the geographic location of substantial renewable generation and compounded by a cost allocation that allocates costs on proximity, the third bullet under Principle No. 1 (regarding indirect benefits due to proximity) concerns Otter Tail. As noted above and included in the CapX2020 response, the primary determinant to cost allocation should be the driver of the project – not proximity.

In conclusion, while it is understandable that a one size fits all solution is desirable, Otter Tail does not believe the reality is that a one size fits all circumstances. We remain committed to participate with the UMTDI for the ultimate success of the UMTDI in achieving its objectives of establishing a plan that will guide and encourage the construction of interstate transmission lines to serve the upper Midwest region's commitment to cost-effective renewable generation while maintaining reliability; and the development of an equitable cost-sharing methodology.

Thank you again for the opportunity to participate in the UMTDI efforts and we look forward to working together to a successful outcome.

Sincerely,

Otter Tail Power Company