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February 13, 2015



Ms. Patricia Van Gerpen
Executive Director
South Dakota Public Utilities Commission
Capitol Building, 1st floor
500 East Capitol Avenue
Pierre, SD 57501-5070

RE: COMMENTS ON RETIRING RENEWABLE ENERGY CREDITS TO MEET SOUTH DAKOTA'S RENEWABLE ENERGY OBJECTIVE

Dear Ms. Van Gerpen:

Otter Tail Power Company ("Otter Tail") has received a request from the South Dakota Public Utilities Commission ("Commission") Staff to address how Otter Tail would recommend dealing with the Renewable Energy Credits ("RECs") generated from complying with South Dakota's Renewable and Recycled Energy Objective ("REO").

Otter Tail currently has about 19 percent of its retail energy coming from renewable generation. While the Company has a renewable energy standard / objective in all three states it serves, Otter Tail has been able to add all of its renewable resources cost effectively to reduce the overall costs to its customers. Since 2010, Otter Tail has sold over 1.5 million Dakota allocated RECs – returning nearly \$1.3 million to customers.

South Dakota's REO of 10 percent takes effect in 2015. That statute, SDCL §49-34A-101, appears below:

State renewable, recycled, and conserved energy objective established. There is hereby established a state renewable, recycled, and conserved energy objective that ten percent of all electricity sold at retail within the state by the year 2015 be obtained from renewable, recycled, and conserved energy sources. In the case of renewable and recycled energy, the objective shall be measured by qualifying megawatt hours delivered at retail or by certificates representing credits purchased and retired to offset nonqualifying retail sales. In the case of conserved energy, the objective shall be measured by methods established by rules promulgated by the commission pursuant to chapter 1-26. This objective is voluntary, and there is no penalty or sanction for a retail provider of electricity that fails to meet this objective. The objective applies to each retail provider of electricity in the state, regardless of the ownership status of the

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electricity retailer. Any municipal or cooperative utility that receives wholesale electricity through a municipal power agency or generation and transmission cooperative may aggregate the utility's renewable, recycled, and conserved energy objective resources to meet this objective.

Based on the language of that statute, it appears clear that the legislative intent was to have utilities retire RECs to meet the objective. Otter Tail recommends that the Commission adopt that position as well and believes that it is in the best interest of South Dakota ratepayers. Unless the Commission disagrees, it would appear unnecessary for the Commission to take any formal action on this issue.

Additionally, there may be some possible downstream consequences if we don't retire the RECs. First, Otter Tail would not be able to claim we have met South Dakota's REO, as the statute makes clear that RECs need to be retired to meet the REO. Second, if we don't retire the RECs as required by the statute, the RECs that would have otherwise been used to meet the REO may be viewed as "tainted" in the eyes of potential purchasers and thus of less value. This concern arises because there may be a view that the RECs have already been implicitly used to meet the legislated objective, and therefore they cannot have value to a purchaser. Furthermore, because it may be difficult for Otter Tail to certify that the RECs it is transacting are not part of the ten percent that would have been otherwise used to meet the South Dakota REO, this potential for "tainting" in the eyes of potential purchasers could possibly spread to all of Otter Tail's RECs, thus reducing their value as well.

Otter Tail anticipates retiring in the Midwest Renewable Tracking System ("M-RETS") enough South Dakota allocated RECs to comply with the 2015 South Dakota objective of 10 percent. The Company would expect to sell the excess South Dakota allocated RECs and return the proceeds to our South Dakota customers – just as we are currently doing.

Please feel free to contact me with any questions you may have.

Sincerely,

/s/ BRIAN DRAXTEN

Brian Draxten

Manager, Resource Planning

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By electronic filing