

**Testimony of Brad Tollerson
Otter Tail Power Company
Before the Interim Energy Development & Transmission Committee
October 10, 2016**

Mr. Chairman and members of the Committee, for the record my name is Brad Tollerson. I serve as Vice President of Planning and Strategy for Otter Tail Power Company. I submit the following comments regarding my company's support for the sales and use tax exemption for wind generation equipment.

Otter Tail Power is a public utility operating in Minnesota, North Dakota, and South Dakota. Our company is the largest subsidiary of Otter Tail Corporation, whose corporate offices are in Fargo and Fergus Falls. Otter Tail Corporation is a diversified public utility holding company with electric and manufacturing segments. The manufacturing segment includes Fargo-based Northern Pipe Products, a PVC pipe manufacturer, and Detroit Lakes-based BTD Manufacturing, a metal fabricator.

Otter Tail Power Company currently operates three coal-fired plants—including Coyote Station near Beulah. We and our Coyote Station co-owners, Montana-Dakota Utilities, NorthWestern Energy, and Northern Municipal Power Agency (which provides power to Grafton and Park River) recently entered a 25-year lignite supply agreement with a subsidiary of the North American Coal Corporation—making a long-term commitment to the North Dakota lignite industry. In addition, we own or purchase the energy output of 248MW of wind generation in North Dakota. Our resource plan calls for an additional 200-300MW of wind—and simple-cycle natural gas generation to meet our customers' upcoming needs. We support legislation to eliminate the sunset on the sales and use tax exemption for wind generation equipment. We believe the exemption should be made permanent, just as it is for generation equipment from other fuel sources. The exemptions yield investment in the state.

We have heard some legislators express concern that zero marginal cost wind generation is displacing generation from lignite units. While we acknowledge that wind and low natural gas prices have contributed to reduced coal generation, eliminating the sales and

use tax exemption is not in North Dakota's best interests. I will step through a few factors that show why.

First, all of the utilities and electric generators operating in North Dakota participate in one of two Regional Transmission Organizations (RTOs) as shown in Figure 1. Great River Energy, Minnkota Power Cooperative, ALLETE/Minnesota Power, Montana-Dakota Utilities, Otter Tail Power, and Xcel Energy all participate in the centralized energy markets of the Midcontinent Independent Transmission System Operator also known as MISO. Basin Electric and the Western Area Power Administration, or WAPA, participate in similar markets in the Southwest Power Pool (SPP). Within each of these RTOs, all of the generation is centrally dispatched to meet electricity demand while minimizing cost. Therefore, lignite generation competes with all other generation across a large geographic footprint—whether from wind, solar, nuclear, hydro, natural gas, or Powder River Basin coal. For MISO, that region reaches from North Dakota east to Michigan and south to Louisiana. For SPP, that region extends south to Oklahoma and Texas. Therefore, wind generation in any other state can displace generation from lignite—just as wind generation in North Dakota can displace generation from Powder River Basin coal in other states. It's important to note that units utilizing North Dakota lignite are among the lowest cost coal assets in the MISO footprint due to mine-mouth operations—avoiding the extra rail cost incurred for transportation to most plants. For Otter Tail, that means that Coyote Station is our lowest marginal cost unit since both Big Stone and Hoot Lake rely on rail to transport Powder River Basin fuel.

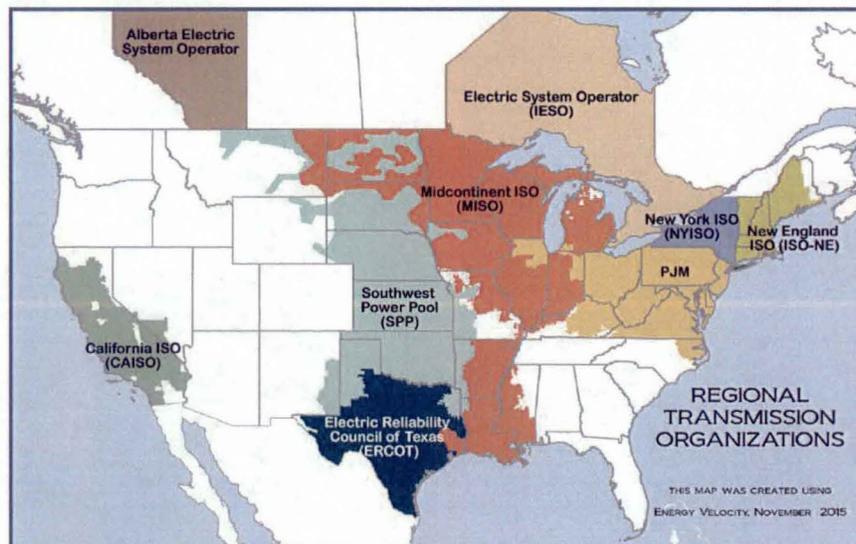


Figure 1

Secondly, North Dakota has great wind resources as shown in Figure 2, but so do many other states across the two RTOs—namely South Dakota, southwest Minnesota, Iowa, Nebraska, Kansas, and Oklahoma. Like other rate regulated utilities, Otter Tail seeks out projects with the lowest cost to serve our retail customers—over 40% of which are located in North Dakota. Therefore, unless other factors constrain our decision making—we will look for the lowest-cost energy resources. State tax policies play a role in cost.

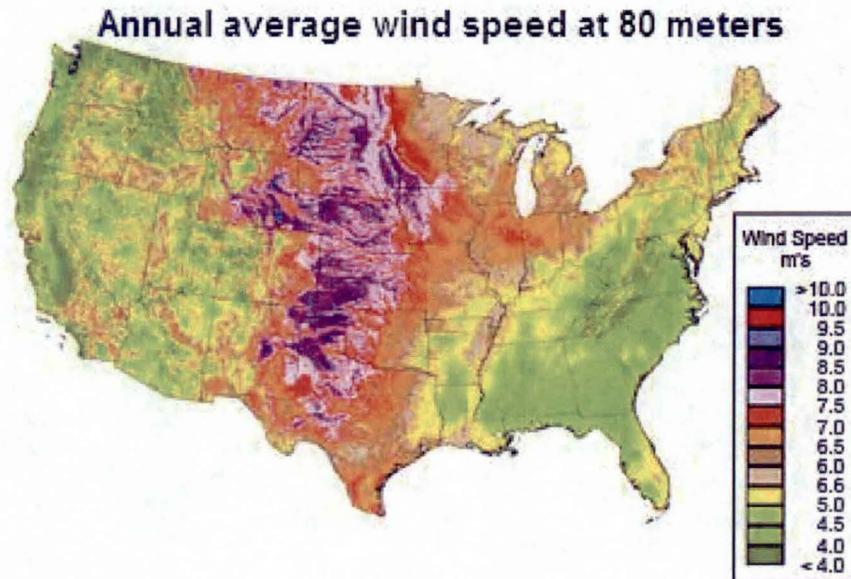


Figure 2

As we're all aware, continuing social and political pressures—whether we agree with them or not—will continue to drive increasing amounts of renewable energy. Therefore, utilities will continue to add wind generation to the grid—and seek to add this wind in states with the lowest costs. Furthermore, since all of the utilities in North Dakota participate in either the MISO or SPP centralized markets—power plants built to use low-cost natural gas and wind generation, whether it is built in North Dakota or elsewhere in the footprint of MISO or SPP, will reduce the output of coal generation—including generation from North Dakota lignite.

However, if North Dakota tax policy is less hospitable, wind may instead be constructed in nearby states—resulting in the same negative consequences for the lignite industry. We need all kinds of energy to grow North Dakota's economy. We encourage North Dakota to make itself as attractive as possible for all forms of energy. Preserving the sales and use

tax exemption for wind generation equipment will help North Dakota continue to capture the economic benefits of landowner easement payments, increased property tax revenues, construction and permanent job growth, and component manufacturing and service industry growth. In addition, it will pave the way for new transmission assets that will further enhance North Dakota's well-deserved reputation as a center of energy growth.

In conclusion, Mr. Chair and members of the committee, Otter Tail Power Company strongly supports the sales tax exemption for wind generation and urges your support for the legislation. Thank you and I am happy to take any questions you may have.