

House Climate and Energy Finance and Policy Committee
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Written testimony of Brad Tollerson
Vice President, Energy Supply
Otter Tail Power Company

Madam Chair and members of the House Climate and Energy Finance and Policy Committee:

Thank you for the opportunity to testify on House File 7. My name is Brad Tollerson, and I serve as Vice President of Energy Supply for Otter Tail Power Company.

Otter Tail is one of the smallest investor-owned utilities in the nation and is a subsidiary of Otter Tail Corporation, which is traded on the NASDAQ as OTTR. Otter Tail Corporation also owns several manufacturing companies engaged in metal fabricating, custom plastic parts manufacturing, and PVC pipe manufacturing. These non-energy businesses include BTM Manufacturing, which has manufacturing facilities in Detroit Lakes and Lakeville, Minnesota, and T.O. Plastics, which is based in Clearwater, Minnesota.

Otter Tail Power Company is headquartered in Fergus Falls, Minnesota, and provides electricity and energy services to more than 133,000 customers spanning 70,000 square miles in western Minnesota, eastern North Dakota, and northeastern South Dakota. Our service area is predominantly rural and agricultural. By way of example, a median-sized community we serve in Minnesota is Winger in northwest Minnesota's Polk County. According to the most recent U.S. Census Bureau statistics, Winger has a population of 174 people and its median household income is \$38,500.

Despite its small size, our company has been at the forefront of renewable energy development in the Upper Midwest. Even in the absence of the legislative requirement called for by line 3.17 of House File 7, we are on a course that will have us generate 50% of our owned and contracted resources from renewable energy by 2025.

Likewise, we are committed to reducing carbon. Investments in renewable energy and less carbon-intensive generation have us on track to reduce carbon emissions from generation resources we own approximately 50 percent from 2005 levels by 2025 and 97 percent from by 2050, assuming forecasted generation dispatch patterns in the large footprint of the Midcontinent Independent System Operator, or MISO, in which our company is a member.

However, we do have concerns about the carbon-free standard set forth at lines 7.20 to 7.30 of the legislation. Because Minnesota is but a subset of the broader MISO region, it is prudent to exercise caution in imposing mandates on carbon reduction. The pace of the generation fleet transition, after all, must be affordable for our customers in our smallest towns like Winger and similar locales, and it must not jeopardize reliability.

MISO oversees electric energy delivery from utilities across the Central U.S., including 15 states and the Canadian province of Manitoba. MISO acts like an air traffic controller for the energy grid, ensuring the right amount of electricity for more than 42 million people. During the summer of 2022, forecasted

higher-than-average temperatures increased energy demand and the potential need for energy conservation or other steps to maintain system reliability.

Our company is an industry leader in energy conservation and efficiency, having been referred to by Navigant Consulting as a best-practice utility in a study completed for the Minnesota Department of Commerce. Largely because of our leadership in this space and our significant investments in load control systems, we were well-prepared for the extreme seasonal temperatures in the summer of 2022. We were able to reassure customers that even if short-term energy demand across the MISO footprint were to exceed available energy, there were several energy-conservation steps we could take before customers would experience an interruption in service.

It is not prudent to live close to the edge with an essential public service like electricity, particularly in a region with weather extremes, both in summer and winter. The MISO continues to heighten public and policymaker awareness on its increasing reliance on emergency protocols. According to MISO, there are several factors at play and we have witnessed several of them in our company's own operations. There are declining reserve margins and fewer dispatchable resources, due to continuing retirements of thermal units. The MISO graph attached to my testimony depicts this growing gap between installed capacity (increasingly variable energy resources such as wind and solar) and accredited capacity available when and as needed. Some aging fossil-fueled generation that remains in service is potentially more prone to unscheduled outages, rendering it potentially unavailable when needed most. Because their output is variable, renewables like wind and solar are not always available to provide energy during times of need. And energy storage technology on a large scale is not yet available to overcome this issue. Moreover, renewables sometimes need to be curtailed due to constraints on the transmission system. Finally, natural gas resources may not be able to procure all the fuel they need at key times, often seasonally based, because of limitations in contractual gas services, lack of on-site or dual fuel capabilities, and reliance on pipeline systems that are shared with heating and manufacturing uses. We witnessed this phenomenon with one of our own natural gas facilities on Christmas Eve morning until the morning of December 26, 2022. MISO also acknowledges that it does not have functional control or visibility into the growing penetration of distribution-level and behind-the-meter resources in places like Minnesota.

The largest increments of our remaining fossil generation are co-owned with other regional utilities, some of which do not have Minnesota customers or assets. In addition, our generation assets have been designed to serve customers in all three states in which we operate—including North and South Dakota. These factors further constrain our flexibility to modify our generation fleet.

We appreciate that the legislation affords the ability to use renewable energy credits, or RECs, for compliance purposes. This is a key strategy for compliance with the carbon-free standard and we commend the chief author, Majority Leader Jamie Long, for including it.

Certainly, we understand policymakers' desire to move swiftly to address climate change. Alignment is evident in our company's vision: "Growth and success – for our company and the rural communities we serve. We collaborate and prosper through responsible, resourceful action. We balance community, economic, and environmental commitments. Always." Commitment is embodied in our company's mission: "To produce and deliver electricity as reliably, economically, and environmentally responsibly as possible to the balanced benefit of our customers, shareholders, and employees and to improve the quality of life in the areas in which we do business."

But our primary message is that this work should occur deliberately and with a laser focus on affordability and reliability. The public deserves no less.

Madam Chair and committee members, thanks again for the opportunity to testify.