

May 7, 2024

PUBLIC DOCUMENT

Will Seuffert
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
Saint Paul, Minnesota 55101-2147

RE: **PUBLIC Comments of the Minnesota Department of Commerce**
Docket No. E017/M-23-496

Dear Mr. Seuffert:

Attached are the **PUBLIC** Comments of the Minnesota Department of Commerce in the following matter:

 Otter Tail Power Company's Petition for Approval of the Annual Update to its Renewable Resource Cost Recovery Rider Rate, Rate Schedule 13.04

The Petition was filed on December 4, 2023 by Otter Tail Power Company.

The Department recommends that the Commission **approve** Otter Tail Power Company's Petition. The Department is available to answer any questions that the Minnesota Public Utilities Commission may have.

Sincerely,

/s/ Dr. Sydney Lieb
Assistant Commissioner of Regulatory Analysis

MB/MJ/ar
Attachment



Before the Minnesota Public Utilities Commission

PUBLIC Comments of the Minnesota Department of Commerce

Docket No. E017/M-23-496

I. INTRODUCTION

On December 4, 2023, pursuant to Minnesota Statutes § 216B.1645, subdivision 2a, and Minnesota Statutes § 216B.1691, subdivision 2f(f), Otter Tail Power Company (Otter Tail or the Company) filed an update (Petition) to its Renewable Resource Rider (RRR) with the Minnesota Public Utilities Commission (Commission). In its Petition, Otter Tail proposes to (1) recover costs for the Company's Hoot Lake Solar Project, (2) costs for the purchase of the Ashtabula III Wind facility, (3) true up the difference between the production tax credits (PTCs) in base rates and the actual PTCs generated for the Merricourt Wind Energy Center and (4) recover costs for the Wind Facility Upgrade Projects at Langdon, Ashtabula I, Luverne, and Ashtabula III. The docket background for the Hoot Lake Solar Project and the purchase of the Ashtabula III Wind facility can be summarized as follows:

- On April 29, 2021, the Commission approved Otter Tail's Hoot Lake Solar Project (Hoot Lake) and found the project qualifies for application towards the Company's compliance with Minnesota's solar and renewable energy standards.¹ The Commission concluded Otter Tail's competitive bidding process and evaluation of the bids for Hoot Lake resulted in the least-cost solar resource available. Pursuant to Minnesota Statutes § 216B.1645, the Commission authorized future cost recovery of Hoot Lake investments through the Company's RRR. The Commission approved Otter Tail's proposal to allocate 100 percent of Hoot Lake costs to the Company's Minnesota jurisdiction.
- In Docket No. E017/PA-21-793, pursuant to Minnesota Statutes § 216B.50 and Minnesota Rules 7825.1700 and 7825.1800, Otter Tail petitioned the Commission for approval to acquire the Ashtabula III Wind facility (Ashtabula III) from NextEra at the property's book value at closing. The property proposed for purchase has a nameplate capacity of approximately 62.4 MW and is located on a site in North Dakota. The Commission approved Otter Tail's purchase of Ashtabula III on October 6, 2022.

The Company requests approval to implement its proposed RRR rates on July 1, 2024.

¹ In the Matter of Otter Tail Power Company's Petition for Approval of the Hoot Lake Solar Project, *Order Approving Petition, Authorizing Allocation of Output and Costs, Authorizing Cost Recovery, And Requiring Compliance Filings*, E017/M-20-844, April 29, 2021.

II. DEPARTMENT ANALYSIS

The Minnesota Department of Commerce, Division of Energy Resources (Department) reviewed Otter Tail's Petition to (1) determine whether the Petition complies with applicable statutes and Commission orders and (2) evaluate the reasonableness of the Company's proposals.

A. *STATUTORY BASIS FOR RENEWABLE RESOURCE RIDER MECHANISM*

Minnesota Statutes § 216B.1645, subdivision 2a allows the Commission to approve "a rate schedule that provides for the automatic adjustment of charges to recover prudently incurred investments, expenses, or costs" associated with renewable energy projects or facilities that meet the Renewable Energy Standard (RES) established in Minnesota Statutes § 216B.1691. As a component of the RES, Minnesota Statutes § 216B.1691, subdivision 2f established the Solar Energy Standard (SES), requiring utilities to generate or purchase enough solar-generated electricity to provide, at a minimum, 1.5 percent of Minnesota retail electric sales with solar energy by the end of 2020.

Minnesota Statutes § 216B.1645, subdivision 2a, permits a utility cost recovery of the following for qualifying renewable projects, including:

- Return on investment;
- Depreciation;
- Ongoing operation and maintenance (O&M) costs;
- Taxes;
- Costs of transmission/other ancillary expenses directly allocable to transmitting electricity generated from a qualifying project;
- Current return on construction work in progress (CWIP), so long as of the recovery of this return is not sought through any other mechanism; and
- Other expenses directly related to the qualifying renewable energy project, including those for energy storage, so long as the utility demonstrates that the expenses improve project economics, ensure project implementation, advance research/understanding of how storage devices may improve renewable energy projects, or facilitate coordination with the development of transmission necessary to transport energy produced by the project to market.

B. *OTTER TAIL'S RENEWABLE RESOURCE RIDER HISTORY*

Otter Tail's RRR was initially established in 2008 and, at that time, the rider allowed Otter Tail to recover renewable resource costs associated with the Company's Langdon wind facility.² The Company has since requested approval to continue and modify this rider through a combination of miscellaneous filings and general rate case proceedings. Table 1 summarizes Otter Tail's RRR docket history:

² Docket Nos. E017/M-08-119 and E017/M-08-131.

Table 1: Otter Tail's Renewable Resource Rider Docket History³

<i>Year</i>	<i>Docket Description</i>	<i>Docket Number</i>
2008	Initial rider and rate factors approved	E017/M-08-119 & E017/M-08-131
2009	Annual update	E017/M-08-1529
2010	Annual update	E017/M-09-1484
	General rate case	E017/GR-10-239
2012	Annual update	E017/M-12-708
2017	General rate case	E017/GR-15-1033
2018	Annual update	E017/M-18-390
2019	Annual update	E017/M-19-411
2020	General rate case	E017/M-20-719
2021	Annual Update	E017/M-21-830
2022	Annual Update	E017/M-22-577

The annual update and general rate case filings documented in Table 1 typically included requests for approval to update some combination of rider rates, recovery periods, and the facilities or projects associated with the renewable costs to be recovered through the rider. The following bulleted items highlight key points relevant to Otter Tail's recent RRR history:

- In its December 20, 2019 *Order* in Docket No. E017/M-19-411, the Commission approved updated RRR rates and required Otter Tail, at the beginning of its next rate case, to discontinue RRR collections and roll into base rates the costs and PTCs⁴ associated with completed, in-service renewable projects. The Commission also required the Company to continue to include PTC true ups in future riders.
- When interim rates went into effect (January 1, 2021) in its most recent rate case, Docket No. E017/M-20-719, Otter Tail discontinued all RRR collections and rolled all RRR costs and related PTCs into base rates, as the Commission required in Docket No. E017/M-19-411. In compliance with the Commission's *Order* in E017/M-19-411, Otter Tail tracks the difference between the Merricourt Wind PTCs actually generated and those included in its base rates.⁵ The true up of this PTC difference is shown in Attachment 3 of the Petition with detailed calculations shown in Attachment 4 of the Petition.

³ Petition Page 5, Table 1.

⁴ PTCs are tax credits authorized in Section 45 of the Internal Revenue Code (IRC) for electricity generated using qualified energy resources. Owners of PTC-eligible wind facilities, like Otter Tail, can apply these credits against their federal tax liability and reduce the amount of taxes owed by the entity to the federal government. Generally, PTCs can be claimed for up to 10 years after renewable energy production begins, although certain restrictions and sunset provisions apply.

⁵ Petition Page 1.

C. *PROPOSED REVENUE REQUIREMENTS AND RENEWABLE RESOURCE RIDER RATES*

The following table summarizes the revenue requirements the Company requested for recovery through its proposed RRR rates:

Table 2: Proposed Revenue Requirements Requested for Recovery through Renewable Resource Rider Rates

<i>Project/Facility Category</i>	<i>Proposed Revenue Requirements July 2024 – June 2025</i>
Merricourt Wind PTC True-ups	\$10,150 ⁶
Hoot Lake Solar	\$3,434,752 ⁷
Ashtabula III	\$4,658,605 ⁸
Langdon Wind Repower	\$612,710 ⁹
Ashtabula I Repower	\$1,215,732 ¹⁰
Luverne Repower	\$1,543,866 ¹¹
Ashtabula III Repower	\$1,537,806 ¹²
Tracker/True-Up Balance as of June 2024	(\$5,006,668) ¹³
<i>Total Net Revenue Requirement to be Recovered through RRR Rates</i>	<u>\$8,006,952</u> ¹⁴

Otter Tail's proposed RRR rates are based on the Company's requested net revenue requirement of \$8,006,952 shown in Table 2. The Company applies its RRR rates to electric service customers under all its retail rate schedules, as defined by the Company's Rate Schedule 13.04.¹⁵ Approved RRR rates are included as a charge under the "Resource Adjustment" line on customer bills. Minnesota Statutes §216B.1691, Subdivision 2f(f), exempts iron mining extraction/processing, paper mill, and wood product manufacturing customers from being charged for utility costs associated with meeting Minnesota's SES. Accordingly, Otter Tail allocates its solar costs incurred pursuant to the SES among

⁶ Petition, Attachment 4, sum of line 18 from July 2024 to June 2025.

⁷ Petition, Attachment 5, sum of line 56 from July 2024 to June 2025.

⁸ Petition, Attachment 6, sum of line 60 from July 2024 to June 2025.

⁹ Petition, Attachment 7, sum of line 55 from July 2024 to June 2025.

¹⁰ Petition, Attachment 8, sum of line 55 from July 2024 to June 2025.

¹¹ Petition, Attachment 9, sum of line 55 from July 2024 to June 2025.

¹² Petition, Attachment 10, sum of line 55 from July 2024 to June 2025.

¹³ Petition, Attachment 3, page 2 of 2, line 22.

¹⁴ Petition, Attachment 3, page 2 of 2, line 20.

¹⁵ Petition Attachment 16.

the Company's SES-Paying retail customer classes.¹⁶ Otter Tail's proposed RRR rate design for SES-Paying and SES-Exempt customers is discussed in more detail later in the instant comments. Table 3 outlines Otter Tail's proposed rider rates:

Table 3: Otter Tail's Proposed Renewable Resource Rider Rates¹⁷

<i>Customer Class</i>	<i>Proposed Rate</i>
Large General Service SES-Paying	\$0.371/kW
	\$0.00239/kWh
Large General Service SES-Exempt	\$0.530/kW
	\$0.00177/kWh
All Other Service SES-Paying	\$0.00306/kWh
All Other Service SES-Exempt	\$0.00463/kWh

Regarding monthly bill impacts, Otter Tail stated that a residential customer using 1,000 kWh per month results in a decrease of \$3.68 per month. An LGS customer using 400,000 kWh and 1,000 kW per month results in a decrease of \$549 per month.¹⁸

D. PROJECT ELIGIBILITY AND PROPOSED COST RECOVERY

In the RRR filing, the Company requests cost recovery of its Merricourt Wind PTCs included in Base Rates versus Actual, Hoot Lake Solar Project, Ashtabula III Wind Facility, and Wind Farm Upgrade Projects. In addition, Otter Tail also includes its June 2024 over/under-recovered tracker balance. The following sections discuss each of these major components included in the Company's current RRR cost recovery proposals.

1. Merricourt Wind PTC True-ups

In its February 1, 2022 *Findings of Fact, Conclusions, and Order* in Docket No. E017/GR-20-719, the Commission authorized Otter Tail to reflect the difference between forecasted PTCs in base rates and actuals PTCs for the Merricourt Wind facility in future RRR filings.

As discussed on page 6 of the Petition, Otter Tail included true-ups for Merricourt PTCs generated to those included in base rates. Otter Tail's calculations result in a PTC true-up amount of \$10,150 for the

¹⁶ Petition Page 12 Otter Tail stated that it "...created a new Customer Class, 'SES-Exempt' for those customers [exempted under Minn. Stat. §216B.1691, Subd. 2f(f)] and computed separate rates for those customers which exclude Otter Tail's costs for compliance with the SES."

¹⁷ Data in Table 3 retrieved from Petition Attachment 2.

¹⁸ Petition Page 12.

July 2024 through 2025 timeframe. Otter Tail's detailed PTC true-up calculations are shown in Attachment 4 of the Petition. Otter Tail used a PTC rate of \$28.00 per MWh in its calculations.¹⁹

Based on the above, the Department concludes Otter Tail's is eligible to true-up its PTCs for its Merricourt Wind facility in the instant Petition. In addition, the Department reviewed Otter Tail's Wind PTC true-up calculations and concludes they appear reasonable.

2. *Hoot Lake Solar Project*

The Company described the Hoot Lake Solar Project as a 49.9 MW solar generating facility located at the site of Otter Tail's retired coal-fired Hoot Lake Plant in Fergus Falls, MN.²⁰ Commercial operation of Hoot Lake Solar began on August 8, 2023.²¹

In its April 29, 2021 *Order* in Docket No. E017/M-20-844, the Commission approved Otter Tail's Hoot Lake Solar Project and found the project qualifies for application towards the Company's compliance with Minnesota's renewable energy standards. The Commission concluded Otter Tail's competitive bidding process and its evaluation of the bids for Hoot Lake resulted in the least-cost solar resource available. Pursuant to Minnesota Statutes § 216B.1645, the Commission authorized future cost recovery of Hoot Lake solar investments through the Company's RRR. The Commission approved Otter Tail's proposal to allocate 100 percent of Hoot Lake solar costs to the Company's Minnesota jurisdiction.

Based on the above, the Department concludes Otter Tail's Hoot Lake Solar Project is eligible for recovery under its RRR.

OTP stated following regarding its change from using investment tax credits (ITCs) to PTCs for its Hoot Lake Solar Project:²²

With the passage of the Inflation Reduction Act, companies are allowed to choose between earning PTCs or ITCs for most renewable projects, including solar farms. At the time of Otter Tail's initial RRCR filing seeking approval for the Hoot Lake Solar project, Otter Tail's analysis showed ITCs were more beneficial to customers, providing the least cost. Since that time, Otter Tail has discovered its initial methodology to claim ITCs on the Hoot Lake Solar project was incorrect due to prior elections made decades ago on how Federal ITCs should be accounted for.

Federal laws require Otter Tail to meet Federal normalization requirements for ITC recognition, such as the requirements pertaining to

¹⁹ Petition Attachment 4, Line 11.

²⁰ Petition Page 7.

²¹ Petition Page 7.

²² *Id.*

depreciation. The Tax Reform Act of 1971 provided three options for recognition and required companies to elect one irrevocable option at that time that would be applied to all future projects. The option chosen by Otter Tail flows the benefits of the credit to customers over the life of the asset. Per IRS requirements, Otter Tail cannot return the credit faster than amortizing over the asset's useful life. However, under this option companies may not reduce rate base by any portion of the credit.

In Otter Tail's original RRCR analysis for the Hoot Lake Solar project, the cost of service was reduced by the ratable portion of the ITC generated and rate base was reduced by the unamortized balance of the ITC. As per the Federal requirements noted above, this recognition is not permitted for Federal tax credits.

Otter Tail refreshed its analysis of the use of PTCs vs the allowed accounting for ITCs and found that electing to claim PTCs on the Hoot Lake Solar project provided a significantly lower cost for customers. This filing reflects the change from ITCs to PTCs with Hoot Lake Solar earning PTCs beginning January 2023. The impact due to this adjustment to PTCs from January 2023 through June 2025 is a reduction of approximately \$4 million in the revenue requirement.

The Department reviewed OTP's proposed tax change from ITCs to PTCs for the Hoot Lake Solar project. Given the changes in the Inflation Reduction Act and federal requirements limiting OTP's ability to reduce rate base for the unamortized balance of ITCs, the Department agrees with OTP's proposal to use PTCs instead of ITCs for Hoot Lake Solar. Moreover, the Department agrees with OTP that this change results in a \$4 million revenue requirement decrease for the January 2023 through June 2025 timeframe.

During our review, the Department also noted a significant change in the accredited capacity for Hoot Lake Solar. As shown in Attachment 14 of the Petition, Hoot Lake Solar's accredited capacity went from **[TRADE SECRET DATA BEGIN HAS BEEN EXCISED]**. As a result, the Department asked OTP to explain this change. OTP replied:²³

Midcontinent Independent System Operator, Inc. (MISO) accreditation is set at **[TRADE SECRET DATA BEGIN HAS BEEN EXCISED]** for the first year of production of new solar facilities. After the first year of production, MISO resets the accreditation based on expected production of the facility going forward. In 2023, MISO changed from an annual construct to a seasonal construct. The average of the four seasons calculates to a lower accreditation amount of **[TRADE SECRET DATA BEGIN HAS BEEN EXCISED]**, causing the drop in the monthly Accredited Capacity amount in Attachment 14.

²³ OTP's Response to DOC IR No. 1; see Attachment 1 to these comments.

Otter Tail's Initial Filing included an accreditation amount of [TRADE SECRET DATA BEGIN HAS BEEN EXCISED] in the calculation shown in Attachment 14. Adjusting the accreditation amount from [TRADE SECRET DATA BEGIN HAS BEEN EXCISED] to [TRADE SECRET DATA BEGIN HAS BEEN EXCISED] results in a shift in costs between Solar Energy Standard (SES) paying and SES-exempt customer classes. This shift in costs moves \$84,414 out of the revenue requirement for SES-paying customers and into the revenue requirement for SES-exempt customers.

The Department discussed this issue further with Company personnel. Based on these discussions, the Department understands that OTP should have used a capacity factor of [TRADE SECRET DATA BEGIN HAS BEEN EXCISED]. The Department notes that making this correction would result in moving an additional \$84,414 in revenue requirements from SES-paying to SES-exempt customers. In addition, the Department notes that making this correction would not impact the overall revenue requirements but would change rate design as follows:

DOC Table 4: Otter Tail's Initially Proposed and Corrected Renewable Resource Rider Rates/Factors

<i>Customer Class</i>	<i>Initial Proposed Rate²⁴</i>	<i>Corrected Proposed Rate²⁵</i>	<i>Difference</i>
Large General Service SES-Paying	\$0.371/kW	\$0.352/kW	(\$0.019)/kW
	\$0.00239/kWh	\$0.00239/kWh	\$0.00000/kWh
Large General Service SES-Exempt	\$0.530/kW	\$0.780/kW	\$0.25/kW
	\$0.00177/kWh	\$0.00177/kWh	\$0.00000/kWh
All Other Service SES-Paying	\$0.00306/kWh	\$0.00303/kWh	(\$0.00003)/kW
All Other Service SES-Exempt	\$0.00463/kWh	\$0.00683/kWh	\$0.00220/kWh

As shown above in Table 4, this correction slightly changes Otter Tail's proposed rate factors. The Department recommends that the Commission require Otter Tail to update its proposed rate factors to the corrected rate factors to reflect the updated capacity credit accreditation.

As shown above in Table 2 and in Attachment 5 of the Petition, Otter Tail proposes to recover \$3,434,753 in revenue requirements associated with it Hoot Lake Solar Project for the July 2024 through June 2025 timeframe. Based on our review, the Department concludes Otter Tail's proposed revenue requirement calculations appear reasonable.

²⁴ Data in Table 4 retrieved from Petition Attachment 2.

²⁵ Per email received from OTP on 4-3-24; see DOC Attachment No. 3.

3. *Ashtabula III Wind Facility*

On November 12, 2021, *In the Matter of the Petition of Otter Tail Power Company for Approval of a Transfer of Property*, Docket No. E017/PA-21-793, Otter Tail petitioned the Commission under Minnesota Statutes §216B.50 for approval to purchase the Ashtabula III Wind facility. Minnesota Statutes § 216B.50, subdivision 1 states in part: “No public utility shall...acquire...any plant as an operating unit or system in this state for a total consideration in excess of \$100,000 ... without first being authorized to do so by the commission.” This statute also provides that “[i]f the commission finds that the proposed action is consistent with the public interest, it shall give its consent and approval by order in writing.” Otter Tail’s petition to purchase of Ashtabula III was approved by the Commission in its October 24, 2022 Order.

The Ashtabula III wind facility assets include 39 wind generators with an aggregate nameplate of 62.4 MW that were placed into service in 2010, real estate interests, substation assets, and licenses and permits necessary to own and operate the wind facility.²⁶

Since Otter Tail received Commission approval to purchase the Ashtabula Wind facility, which qualifies as a renewable energy facility Minn. Stat. § 216B.1645, subd. 2a, the Department concludes the project is eligible for recovery in Otter Tail’s RRR.

As shown above in Table 2 and in Attachment 6 of the Petition, Otter Tail proposes to recover \$4,658,605 in revenue requirements associated with its Ashtabula III Wind facility for the July 2024 through June 2025 period.

The Department reviewed Otter Tail’s Ashtabula III Wind facility revenue requirement calculations in Attachment 6 of the Petition. Based on our review, the Department concludes Otter Tail’s proposed revenue requirement calculations appear reasonable.

4. *Wind Farm Upgrade Projects*

Otter Tail indicated they have four wind facilities, Langdon, Luverne, Ashtabula I, and Ashtabula III, that qualify for PTCs under the Inflation Reduction Act (IRA). Otter Tail has upgrade projects planned for these facilities in 2024 and 2025 consisting of removing and replacing the existing General Electric blades, hub, and gearbox with upgraded technology and increased blade rotor diameters.²⁷

The Commission found that the original projects met the definition of “eligible energy technology” under Minn. Stat. § 216B.1691, subd. 1, (a)(2) (energy technology that generates electricity from wind) when they approved the original projects in Docket No. E017/M-08-11910 (Langdon), Docket No.

²⁶ Petition, Page 8.

²⁷ Petition, Page 8.

E017/M-08-105511 (Ashtabula I), Docket No. E017/M-09-88312 (Luverne), and Docket Nos. E017/M-13-38613 and E017/PA-21-79314 (Ashtabula III).²⁸

With the Commission's approval of the projects under Minn. Stat. § 216B.1691, subd. 1, (a)(2), the Department concludes the facilities are eligible for recovery in the RRR.

In Table 2 above you can see Otter Tail is proposing to recover \$612,710, \$1,215,732, \$1,543,866, and \$1,537,806 for their Langdon Wind, Ashtabula I, Luverne, and Ashtabula III facilities, respectively. The calculations are detailed in Petition Attachments 7, 8, 9, and 10, respective to the above list.

The Department reviewed Otter Tail's calculations in Attachments 7, 8, 9, and 10 of the Petition. Based on our review, the Department concludes Otter Tail's proposed revenue requirement calculations appear reasonable.

5. *Tracker Balance*

Otter Tail maintains a tracker account to track by month the projected and actual revenue requirements, customer billings, sales, and carrying charges associated with the Company's RRR. Petition Attachment 3 includes a summary of that tracker account. As shown therein, Otter Tail has an over-recovered tracker balance of (\$5,006,668) as of June 2024 due to higher actual sales compared to forecasted sales and the change from ITC tax credits to PTC tax credits, as discussed above, which the Company proposes to include in the instant Petition. A more detailed calculation showing all the true-up components comprising the (\$5,006,668) figure is provided in Attachments 4, 5, 6, 7, 8, 9, and 10 of the Petition.

The Department reviewed OTP's tracker account and concluded (1) Otter Tail's tracker account summary is supported by the detailed financial data included in the related Petition attachments and (2) the Petition includes the true up calculations applicable to the current RRR update appear reasonable.

E. *TREATMENT OF CERTAIN REVENUE REQUIREMENT COMPONENTS*

The Department evaluated the reasonableness of Otter Tail's requested revenue requirements using the renewable project cost recovery provisions outlined in prior Commission orders and in Minnesota Statutes § 216B.1645, subdivision 2a, as applicable. The following discussion highlights several of those revenue requirement components that have statutory significance or are noteworthy in their relationship to prior Commission decisions or utility practices.

1. *Rate of Return on Construction Work in Progress and Investment*

Minnesota Statutes § 216B.1645, subdivision 2a, permits a utility to earn a current return on construction work in progress (CWIP), provided the utility does not seek recovery of these costs from

²⁸ Petition, Page 8.

Minnesota ratepayers through any other mechanism. Accordingly, Otter Tail proposes to earn a return of 7.18% on its CWIP balances until the projects go into service.²⁹ This rate of return is consistent with the rate of return approved by the Commission in Otter Tail's most recent general rate case in Docket No. E017/GR-20-719.³⁰ The Department concludes it is appropriate for Otter Tail to calculate a return of 7.18% on its CWIP balances.

Minnesota Statutes § 216B.1645, subdivision 2a, also permits a utility to earn a current return on investment for qualifying renewable energy projects. Otter Tail proposes to earn a return on the average monthly rate base for its projects.³¹ Consistent with the rate of return applied to CWIP, the Company uses a rate of 7.18 percent (rounded) in calculating its return on the relevant rate base for its projects.³² The Department concludes it is appropriate for Otter Tail to calculate a return of 7.18 percent on the relevant rate base for its projects.

2. *Treatment of Allowance for Funds Used During Construction, Construction Work in Process, and Internal Capitalized Costs*

Generally, a utility accrues an allowance for funds used during construction (AFUDC)³³ on project investments until the Commission approves cost recovery in a cost eligibility filing. Once the Commission approves cost recovery for a project, the utility ceases to accrue additional AFUDC within the CWIP balance on which the utility is permitted to earn a return. Accordingly, Otter Tail stopped accruing AFUDC within the CWIP balance for the Hoot Lake Solar Project at the end of 2021.³⁴

Minnesota regulation typically denies recovery of internal capitalized costs outside of a rate case proceeding to avoid double recovery of these costs in base rates and riders.³⁵ As shown in Petition Attachments 5 through 10, the Company appropriately excluded internal capitalized costs from its project revenue requirements calculations.³⁶

The Department concludes Otter Tail's treatment of AFUDC, CWIP, and internal capitalized costs for projects is consistent with the relevant statutes and prior rider Commission determinations.

²⁹ Petition, Attachments 7 and 8.

³⁰ Commission's February 1, 2022 FINDINGS OF FACT, CONCLUSION, AND ORDER in Docket No. E017/GR-20-719, page 68, Ordering Point No. 40.

³¹ Petition Attachments 5 and 6.

³² Petition, Attachments 5 through 10.

³³ AFUDC represents the cost of financing construction projects, using borrowed and/or equity funds; the AFUDC costs are generally capitalized as part of the constructed asset. Financial Accounting Standards Board, Accounting Standards Codification (ASC), Master Glossary definition for AFUDC.

³⁴ OTP's initial filing in Docket No. E017/M-21-830, Attachment 5.

³⁵ For example, the Commission denied recovery of internal capitalized costs in Docket Nos. E002/M-03-1462, E015/PA-09-526, Docket No. E017/M-09-1484, E017/M-13-103, and E017/M-17-279.

³⁶ Petition, Attachments 5 through 10, line 9.

3. *Treatment of Deferred Income Taxes*

Otter Tail stated that they are prorating Federal Accumulated Income Taxes (ADIT) in according to the tax normalization requirements under U.S. Treasury Regulation Section 1.167(1)-1(h)(6)(ii).³⁷ Petition Attachment 11 shows the July 2024 through June 2025 revenue requirement requested in the instant RRR filing is \$19,045 more than it would have been without proration of federal ADIT.

The Company also stated that it is necessary to preserve the effects ADIT proration in true-up calculations to comply with Section 1.167(l)-1(h)(6)(ii) of the IRS regulations and to preserve the effects of proration and avoid a tax normalization violation. Petition Attachment 12 shows the true-up related to the July 2023 through June 2024 revenue requirements for non-solar projects in the instant RRR filing is \$1,112 more than it would have been without proration of federal ADIT. In addition, Petition Attachment 13 shows the true-up related to the July 2023 through June 2024 revenue requirements for solar projects in the instant RRR filing is \$20,293 more than it would have been without proration of federal ADIT.

The Department concludes it is appropriate for Otter Tail to follow the Internal Revenue Code requirements for federal ADIT proration. Moreover, the Department reviewed Otter Tail's ADIT proration calculations in Attachments 11, 12, and 13 of the Petition. Based on our review, the Department concludes OTP's ADIT proration calculations appear reasonable.

4. *Inflation Reduction Act and Infrastructure and Investment Jobs Act*

Given the recent and significant changes to taxes under the Inflation Reduction Act (IRA) and Infrastructure and Investment Jobs Act (IIJA), the Department asked OTP to identify all tax benefits and credits, including but not limited to tax benefits and credits as a result of the Inflation Reduction Act (IRA) and Infrastructure and Investment Jobs Act (IIJA), that were not included in the Company initial filing in this proceeding and to explain why. OTP replied that all tax benefits available to Otter Tail through the RRR are included in the initial filing.³⁸

F. *RATE DESIGN*

Otter Tail's Petition Attachment 2 shows the Company's initially proposed RRR rate design. This rate design is overall consistent with the Commission's approvals in Otter Tail's prior RRR filings, including the most recent RRR update, Docket No. E017/M-21-830. The proposed rate design uses (1) an energy allocator (E2) to assign total revenue requirements to the Minnesota jurisdiction (with the exception of Hoot Lake Solar, which the Company assigns 100 percent to the Minnesota jurisdiction) and (2) an energy allocator (E2) *and* demand allocator (D1) to distribute the Minnesota jurisdictional costs among the Company's Large General Service customer class and Retail customer classes. Demand *and* energy rates would apply to the Company's Large General Service class and an energy rate would apply to all other customers, recovering both demand and energy costs.

³⁷ Petition, pages 10 and 11.

³⁸ OTP's Response to DOC IR No. 2; see Attachment 2 to these comments.

As explained on page 12 of the Petition, Minn. Stat. § 216b.1691, subd. 2f(f)(2) states that paper mills, wood product manufacturers, sawmills, and oriented strand board manufacturers may not have included in the rates charged to them by the public utility any costs of satisfying Minnesota's solar energy standards (SES). As a result, OTP previously created a new customer class, SES Exempt, to ensure those customers are not charged for costs of OTP's compliance with the SES. However, OTP stated that SES Exempt customers are still required to pay for the capacity benefit associated with solar resources. OTP stated that this capacity benefit is incorporated in Attachment 2, lines 51, 53, and 64-69 of the Petition. OTP's capacity benefit calculation and allocations are shown on Attachments 14 and 15 of the Petition.

The Department reviewed OTP's proposed rate design and concludes it is reasonable and consistent with OTP's prior RRR filings.

H. PROPOSED EFFECTIVE DATE FOR PROPOSED RENEWABLE RESOURCE RIDER RATES

Otter Tail requests its proposed RRR rates be effective July 1, 2024, or on the first day of the month following Commission approval, should its decision be thereafter. If the Commission approves the proposed effective date of July 1, 2024, Otter Tail expects to charge the RRR rates shown on Department Table 3 above, through June 30, 2025.³⁹ However, The Department recommends that the Commission require Otter Tail to update its proposed rate factors to the corrected rate factors, as shown on Department Table 4, to reflect the updated capacity accreditation. The Department concludes Otter Tail's rate implementation timing is reasonable. We recommend the Commission allow the authorized RRR rates to (1) take effect July 1, 2024, or on the first day of the month following Commission rate approval, whichever is earlier, and (2) continue through June 30, 2025.

I. PROPOSED LANGUAGE FOR NOTICE TO CUSTOMERS

Otter Tail proposes to use the following language to notify its customers of approved rate factor updates:

The Minnesota Public Utilities Commission has approved an adjustment to the Renewable Resource Cost Recovery Rider that is part of the Resource Adjustment on your monthly electric service statement. This rider recovers costs associated with owning and operating renewable generation resources. The table below shows the prior and new rates, beginning July 1, 2024, for all classes of customers ... For more information contact Customer Service at 800-257-4044 or visit otpco.com.⁴⁰

The language and format of the proposed customer notification is consistent with that approved in the Company's most recent RRR update in Docket No. E017/M-21-830. Otter Tail indicated it would notify customers of approved rate updates through customer bills in the month it implements the new RRR

³⁹ Petition page 2.

⁴⁰ Petition Attachment 17.

rates.⁴¹ Based on our review, the Department recommends the Commission approve Otter Tail Power Company's Petition.

J. SUMMARY

Based on the above, the Department recommends the Commission approve OTP's proposed revenue requirements, corrected rate factors, and customer notice for its Renewable Resource Rider, effective July 1, 2024, or on the first day of the month following Commission rate approval, whichever is earlier.

K. COMPLIANCE FILING

To ensure the RRR is incorporated into Otter Tail's tariffs at the approved rates, the Department recommends the Commission require the Company to submit, within 10 days of instant docket's order, a compliance filing of the RRR tariff sheets, showing the RRR rates approved by the Commission.

III. DEPARTMENT SUMMARY OF RECOMMENDATIONS

The Department recommends the Commission:

- require Otter Tail to update its proposed rate factors to the corrected rate factors, as shown on Department Table 4, to reflect the updated capacity accreditation.
- approve OTP's proposed revenue requirements, corrected rate factors as shown on Department Table 4, and customer notice for its Renewable Resource Rider, effective July 1, 2024, or on the first day of the month following Commission rate approval, whichever is earlier.
- require the Company to submit, within 10 days of instant docket's order, a compliance filing of the Renewable Resource Rider tariff sheets, showing the rates approved by the Commission.

⁴¹ Petition page 12.

PUBLIC DOCUMENT – NOT PUBLIC (OR PRIVILEGED) DATA HAS BEEN EXCISED
Response to Information Request MN-DOC-001
Page 1 of 2

OTTER TAIL POWER COMPANY
Docket No: E017-M-23-496

Response to: MN Department of Commerce
Analyst: Mark Johnson - Michael Bologna
Date Received: April 15, 2024
Date Due: April 25, 2024
Date of Response: April 25, 2024
Responding Witness: Amber Stalboerger, Manager, Regulatory Analysis, 218-739-8728

Information Request:

Topic: Accredited Capacity
Reference(s): Attachment 14

Request:

[TRADE-SECRET DATA BEGINS]

[TRADE-SECRET DATA ENDS]

Please explain the reason for this change.

Attachments: 0

Response:

The information marked in this Information Request and response is not public (the “Protected Data”). The Protected Data has economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by other persons and is subject to the efforts by OTP to protect the information from public disclosure. The Protected Data therefore: (1) constitutes trade secret information, as defined in Minn. Stat. § 13.37, subd. 1(b); (2) is classified as nonpublic data pursuant to Minn. Stat. § 13.37, subd. 2; (3) is also not public data, as defined in Minn. Stat. § 13.02, subd. 8a; and (4) is protected data under Minn. R. 7829.0100, subp. 19a(A).

Midcontinent Independent System Operator, Inc. (MISO) accreditation is set at **[PROTECTED DATA BEGINS... ...PROTECTED DATA ENDS]** for the first year of production of new solar facilities. After the first year of production, MISO resets the accreditation based on expected production of the facility going forward. In 2023, MISO changed from an annual construct to a seasonal construct. The average of the four seasons calculates to a lower accreditation amount of **[PROTECTED DATA BEGINS... ...PROTECTED DATA ENDS]**, causing the drop in the monthly Accredited Capacity amount in Attachment 14.

PUBLIC DOCUMENT – NOT PUBLIC (OR PRIVILEGED) DATA HAS BEEN EXCISED
Response to Information Request MN-DOC-001
Page 2 of 2

Otter Tail's Initial Filing included an accreditation amount of **[PROTECTED DATA BEGINS... ...PROTECTED DATA ENDS]** in the calculation shown in Attachment 14. Adjusting the accreditation amount from **[PROTECTED DATA BEGINS... ...PROTECTED DATA ENDS]** to **[PROTECTED DATA BEGINS... ...PROTECTED DATA ENDS]** results in a shift in costs between Solar Energy Standard (SES) paying and SES-exempt customer classes. This shift in costs moves \$84,414 out of the revenue requirement for SES-paying customers and into the revenue requirement for SES-exempt customers.

Response to Information Request MN-DOC-002

Page 1 of 2

OTTER TAIL POWER COMPANY

Docket No: E017-M-23-496

Response to: MN Department of Commerce

Analyst: Mark Johnson - Michael Bologna

Date Received: April 15, 2024

Date Due: April 25, 2024

Date of Response: April 25, 2024

Responding Witness: Amber Stalboerger, Manager, Regulatory Analysis, 218-739-8728

Information Request:

Topic: Tax Benefits and Credits

Reference(s): N/A

Request:

Please identify all tax benefits and credits, including but not limited to tax benefits and credits as a result of the Inflation Reduction Act (IRA) and Infrastructure and Investment Jobs Act (IIJA), that were not included in the Company initial filing in this proceeding. Please explain for each tax benefit and credit, why the amount was not included in the test year.

Attachments: 0

Response:

Tax benefits included in Otter Tail's Minnesota Renewable Resource Cost Recovery Rider (RRCRR) include the following:

- Difference between Merricourt Wind Facility Production Tax Credits (PTCs) in base rates and actual,
- Hoot Lake Solar PTCs, and
- Wind Farm Upgrade Projects (Upgrade Projects) PTCs.

Merricourt became eligible for PTCs when it was placed in service in November 2019. In Otter Tail's most recent general rate case,¹ the Minnesota Public Utilities Commission (PUC) ordered Otter Tail to keep track of actual PTCs earned by Merricourt. The difference between PTCs included in base rates and actual PTCs remain in the RRCRR tracker. Updated PTC actuals are included in the true-up of the annual RRCRR filing.

Hoot Lake Solar became eligible for PTCs through the Inflation Reduction Act (IRA). Hoot Lake Solar began earning PTCs when it was placed in service in August 2023.

¹ Docket No. GR-20-719.

Response to Information Request MN-DOC-002

Page 2 of 2

The Upgrade projects will be eligible for PTCs through the IRA as they are placed into service. The Langdon, Ashtabula I, Luverne, and Ashtabula III Upgrade Projects will go into service in November 2024, July 2025, September 2025, and November 2025, respectively.

All tax benefits available to Otter Tail through the RRCRR are included in the initial filing.

As stated above, Otter Tail was ordered in its most recent rate case to track the difference between Merricourt PTCs in base rates and actual PTCs earned and to true up the difference in the RRCRR. Hoot Lake Solar is not included in the test year because it did not go into service until August 2023. The Upgrade Projects are not included in the test year because they will not be placed in service until late 2024 through late 2025.

Johnson, Mark (COMM)

From: Ketelsen, Emily K. <eketelsen@otpc.com>
Sent: Tuesday, April 30, 2024 10:16 AM
To: Campbell, Nancy (COMM); Johnson, Mark (COMM)
Cc: Foster, Paula; Stalboerger, Amber
Subject: MN Renewable Rider Rate Impact

Some people who received this message don't often get email from eketelsen@otpc.com. [Learn why this is important](#)

This message may be from an external email source.

Do not select links or open attachments unless verified. Report all suspicious emails to Minnesota IT Services Security Operations Center.

Hi Nancy and Mark,

The rates from the initial filing are shown below:

Line No.						
1	Total Minnesota Revenue Requirements		\$ 8,006,952	July 1, 2024 - June 30, 2025		
2						
3						
4			LGS			
5		Rate	Billing Units**	Revenue	Rate	B
6	SES-paying					
7	kWh billing	\$0.00239	1,544,628,698	\$3,687,553	\$0.00306	
8	kW billing	\$0.371	2,606,529	\$966,823	n/a	
9						
10	SES-exempt					
11	kWh billing	\$0.00177	66,449,492	\$117,291	\$0.00463	
12	kW billing	\$0.530	331,380	\$175,580	n/a	
13						
14	Minnesota			\$4,947,247		
15						
16						
17						Tot

Changing the accreditation amount to 38.75% results in the rates below:

Line No.						
1	Total Minnesota Revenue Requirements		\$ 8,006,952	July 1, 2024 - June 30, 2025		
2						
3						
4			LGS			
5		Rate	Billing Units**	Revenue	Rate	
6	SES-paying					
7	kWh billing	\$0.00239	1,544,628,698	\$3,687,553	\$0.00303	
8	kW billing	\$0.352	2,606,529	\$918,637	n/a	
9						
10	SES-exempt					
11	kWh billing	\$0.00177	66,449,492	\$117,291	\$0.00683	
12	kW billing	\$0.780	331,380	\$258,610	n/a	
13						
14	Minnesota			\$4,982,091		
15						
16						
17						

The monthly bill impacts if we change the accreditation amount in this year's filing are:

- SES-Paying LGS: (\$19.00)
- SES-Paying All Others: (\$0.03)
- SES-Exempt LGS: \$250.00
- SES-Exempt All Others: \$2.20

Thanks,



Emily Ketelsen

Rates Analyst

Regulatory Economics

Office: 218-739-8313

Cell: 701-230-8402

otpc.com



CERTIFICATE OF SERVICE

I, Sharon Ferguson, hereby certify that I have this day, served copies of the following document on the attached list of persons by electronic filing, certified mail, e-mail, or by depositing a true and correct copy thereof properly enveloped with postage paid in the United States Mail at St. Paul, Minnesota.

**Minnesota Department of Commerce
Public Comments**

Docket No. E017/M23-496

Dated this **7th** day of **May 2024**

/s/Sharon Ferguson

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Ray	Choquette	rchoquette@agp.com	Ag Processing Inc.	12700 West Dodge Road PO Box 2047 Omaha, NE 68103-2047	Electronic Service	No	OFF_SL_23-496_M-23-496
Generic Notice	Commerce Attorneys	commerce.attorneys@ag.state.mn.us	Office of the Attorney General-DOC	445 Minnesota Street Suite 1400 St. Paul, MN 55101	Electronic Service	Yes	OFF_SL_23-496_M-23-496
Lauren	Donofrio	ldonofrio@otpc.com	Otter Tail Power Company	215 South Cascade Street Fergus Falls, MN 56538-0496	Electronic Service	No	OFF_SL_23-496_M-23-496
Sharon	Ferguson	sharon.ferguson@state.mn.us	Department of Commerce	85 7th Place E Ste 280 Saint Paul, MN 551012198	Electronic Service	No	OFF_SL_23-496_M-23-496
Paula	Foster	pfooster@otpc.com	Otter Tail Power Company	215 S Cascade St PO Box 496 Fergus Falls, MN 56538-0496	Electronic Service	No	OFF_SL_23-496_M-23-496
Jessica	Fyhrie	jfyhrie@otpc.com	Otter Tail Power Company	PO Box 496 Fergus Falls, MN 56538-0496	Electronic Service	No	OFF_SL_23-496_M-23-496
Adam	Heinen	aheinen@dakotaelectric.com	Dakota Electric Association	4300 220th St W Farmington, MN 55024	Electronic Service	No	OFF_SL_23-496_M-23-496
Nick	Kaneski	nick.kaneski@enbridge.com	Enbridge Energy Company, Inc.	11 East Superior St Ste 125 Duluth, MN 55802	Electronic Service	No	OFF_SL_23-496_M-23-496
Emily	Ketelsen	eketelsen@otpc.com	Otter Tail Power Company	215 South Cascade Street Fergus Falls, MN 56537	Electronic Service	No	OFF_SL_23-496_M-23-496
James D.	Larson	james.larson@avantenergy.com	Avant Energy Services	220 S 6th St Ste 1300 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_23-496_M-23-496

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Kavita	Maini	kmaini@wi.rr.com	KM Energy Consulting, LLC	961 N Lost Woods Rd Oconomowoc, WI 53066	Electronic Service	No	OFF_SL_23-496_M-23-496
Andrew	Moratzka	andrew.moratzka@stoel.com	Stoel Rives LLP	33 South Sixth St Ste 4200 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_23-496_M-23-496
Matthew	Olsen	molsen@otpc.com	Otter Tail Power Company	215 South Cascade Street Fergus Falls, MN 56537	Electronic Service	No	OFF_SL_23-496_M-23-496
Generic Notice	Regulatory	regulatory_filing_coordinators@otpc.com	Otter Tail Power Company	215 S. Cascade Street Fergus Falls, MN 56537	Electronic Service	No	OFF_SL_23-496_M-23-496
Generic Notice	Residential Utilities Division	residential.utilities@ag.state.mn.us	Office of the Attorney General-RUD	1400 BRM Tower 445 Minnesota St St. Paul, MN 551012131	Electronic Service	Yes	OFF_SL_23-496_M-23-496
Will	Seuffert	Will.Seuffert@state.mn.us	Public Utilities Commission	121 7th Pl E Ste 350 Saint Paul, MN 55101	Electronic Service	Yes	OFF_SL_23-496_M-23-496
Cary	Stephenson	cStephenson@otpc.com	Otter Tail Power Company	215 South Cascade Street Fergus Falls, MN 56537	Electronic Service	No	OFF_SL_23-496_M-23-496
Stuart	Tommerdahl	stommerdahl@otpc.com	Otter Tail Power Company	215 S Cascade St PO Box 496 Fergus Falls, MN 56537	Electronic Service	No	OFF_SL_23-496_M-23-496