

October 16, 2019

Daniel P. Wolf  
Executive Secretary  
Minnesota Public Utilities Commission  
121 7<sup>th</sup> Place East, Suite 350  
Saint Paul, Minnesota 55101-2147

RE: **Response Comments of the Minnesota Department of Commerce, Division of Energy Resources**  
Docket No. E017/M-19-411

Dear Mr. Wolf:

Attached are the Response Comments of the Minnesota Department of Commerce, Division of Energy Resources (Department), 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 Department recommends that the Minnesota Public Utilities Commission (Commission) **approve Otter Tail's proposals, as specified in these Response Comments**. The Department is available to answer any questions that the Commission may have in this matter.

Sincerely,

/s/ GEMMA MILTICH  
Financial Analyst, CPA

GM/ja  
Attachment



## Before the Minnesota Public Utilities Commission

### Response Comments of the Minnesota Department of Commerce Division of Energy Resources

Docket No. E017/M-19-411

#### I. INTRODUCTION

On June 21, 2019, Otter Tail Power Company (Otter Tail or the Company) filed an update to its Renewable Resource Cost Recovery Rider (RRCRR) with the Minnesota Public Utilities Commission (Commission). Through the RRCRR, using Commission-approved rate factors, Otter Tail bills customers to recover certain costs associated with renewable generation resources.

The Minnesota Department of Commerce, Division of Energy Resources (Department) filed its initial Comments for the current docket on September 19, 2019 and recommended that the Commission approve Otter Tail's Petition in part, with modifications. Specific to Otter Tail's proposed revenue requirements and rate factors, the Department requested that the Company (1) remove all capitalized internal costs from the Merricourt Construction Work in Progress (CWIP) balance on which the Company proposes to earn a return and (2) recalculate the proposed revenue requirements and rate factors as needed. In its September 30, 2019 Reply Comments, Otter Tail made the adjustments requested by the Department and provided updated proposals and supporting schedules for the Company's RRCRR. With the updates provided in its Reply Comments, the Company requests that the Commission approve the following pertaining to the RRCRR:

- Updated rate factors of (1) \$0.464 per kW and \$0.00350 per kWh for Large General Service customers and (2) \$0.00525 per kWh for all other customers.
- Continued use of a rate design methodology that incorporates demand and energy components.
- A cost recovery period effective from November 1, 2019 through October 31, 2020, with noted contingencies.
- The language of a proposed notice to customers, which would be included with customer bills in the month that new rate factors are implemented.
- Future application of a flow-through methodology for Production Tax Credits (PTCs) anticipated to be earned through future operation of the Merricourt wind facility.

**II. DEPARTMENT ANALYSIS**

The Department reviewed Otter Tail’s September 30, 2019 Reply Comments and the corresponding Revised Attachments to (1) determine whether Otter Tail made the Department-requested adjustments to its proposals and (2) evaluate the reasonableness of the Company’s updated proposals.

*A. OTTER TAIL’S UPDATED PROPOSALS*

Otter Tail updated several of its proposals to reflect the RRCRR adjustments outlined in the Company’s Reply Comments under the current docket. The following discussion provides details around these revised proposals.

*1. Updated Revenue Requirement and Rate Factor Proposals*

As requested by the Department, Otter Tail removed capitalized internal costs from the Merricourt CWIP balance and subsequently recalculated its proposed RRCRR revenue requirements and rate factors.<sup>1</sup> According to Otter Tail, removal of internal capitalized costs along with the correction of a mathematical error discovered in the Company’s average rate base calculation results in a \$64,416<sup>2</sup> net decrease in Otter Tail’s proposed revenue requirements.<sup>3</sup> Otter Tail’s updated Minnesota-jurisdictional revenue requirement proposals and the corresponding renewable cost recovery components are summarized in the Department’s Revised Table 2<sup>4</sup> for the proposed recovery period of November 2019 through October 2020:

**REVISED Table 2: Otter Tail’s Requested Revenue Requirement Adjustments<sup>5</sup>**

<i>Category</i>	<i>Revenue Requirement (\$)</i>
Production Tax Credits – Langdon & Ashtabula Wind Facilities	\$5,265,493
Return on Construction Work in Progress – Merricourt Wind Project	\$7,338,274
Carrying Costs	\$0
True Up for Projected Over-Recovery of Production Tax Credits <sup>6</sup>	<u>\$(97,428)</u>
<i>Total Requested Revenue Requirement</i>	<u><u>\$12,506,339</u></u>

<sup>1</sup> Otter Tail’s September 30, 2019 Reply Comments in Docket No. E017/M-19-411, page 1 and Revised Attachments 1, 2, 4.

<sup>2</sup> (\$12,570,755 original revenue requirement proposal - \$12,506,339 updated revenue requirement proposal) = \$64,416

<sup>3</sup> Otter Tail’s September 30, 2019 Reply Comments in Docket No. E017/M-19-411, pages 1 and 2.

<sup>4</sup> The Revised Table 2 in these Response Comments replaces the Table 2 shown in the Department’s initial September 19, 2019 Comments in Docket No. E017/M-19-411, page 4.

<sup>5</sup> Data in Revised Table 2 was retrieved from Otter Tail’s September 30, 2019 Reply Comments in Docket No. E017/M-19-411, Revised Attachments 1 and 2.

<sup>6</sup> Otter Tail’s September 30, 2019 Reply Comments in Docket No. E017/M-19-411, Revised Attachment 2. The true-up amount is the cumulative monthly revenue difference (line 7 of Otter Tail’s Revised Attachment 2) between the proposed revenue requirement adjustments (line 3) and projected customer billings (line 5) during November 2019 through October 2020. (The Department notes that Otter Tail’s Revised Attachment 2 has column labels that inadvertently date January through October of 2020 with the year 2019).

The Company’s RRCRR rate factors apply to electric service under all of Otter Tail’s’ retail rate schedules, as defined by the Company’s Rate Schedule 13.04.<sup>7</sup> The Department’s Revised Table 3<sup>8</sup> outlines Otter Tail’s currently approved and newly proposed rate factors:

**REVISED Table 3: Otter Tail’s Current and Proposed Rate Factors<sup>9</sup>**

<i>Customer Class</i>	<i>Current Rate<sup>10</sup></i>	<i>Proposed Rate</i>	<i>Proposed Percentage Increase/(Decrease) in Rate</i>
Large General Service	\$0.21738 / kW	\$0.46400 / kW	113%
	\$0.00164 / kWh	\$0.00350 / kWh	113%
All Other Service	\$0.00244 / kWh	\$0.00525 / kWh	115%

As shown in Revised Table 3, Otter Tail proposes to increase its rate factors by more than double those previously approved for both Large General Service and All Other Service customer classes.

Given the Company’s proposed increase in rate factors, it follows that the average rate factor proposed by Otter Tail has risen from \$0.00219 to \$0.00467.<sup>11</sup> For an average residential customer using 1,000 kWh per month, the bill impact of Otter Tail’s proposed rates would be an increase of \$2.81 per month.<sup>12</sup>

The Department concludes that Otter Tail’s RRCRR revenue requirement and rate factor proposals are reasonable and recommends that the Commission approve the Company’s proposals. The Department also recommends that the Commission require Otter Tail to submit as a compliance filing the Company’s revised tariff sheet 13.04 within 10 days following the Commission’s order approving the new RRCRR rate factors.

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<sup>7</sup> Otter Tail’s September 30, 2019 Reply Comments in Docket No. E017/M-19-411, Revised Attachment 7.

<sup>8</sup> The Revised Table 3 in these Response Comments replaces the Table 3 shown in the Department’s initial September 19, 2019 Comments in Docket No. E017/M-19-411, page 4.

<sup>9</sup> Data in Revised Table 3 was retrieved from Otter Tail’s September 30, 2019 Reply Comments in Docket No. E017/M-19-411, page 4.

<sup>10</sup> The Commission most recently approved rate factors in its August 29, 2018 *Order* in Docket No. E017/M-18-390.

<sup>11</sup> Otter Tail’s September 30, 2019 Reply Comments in Docket No. E017/M-19-411, Revised Attachment 2. The average rate factor for a given recovery period is calculated as: (Total revenue requirement for recovery period / Total forecasted sales for recovery period).

<sup>12</sup> Otter Tail’s September 30, 2019 Reply Comments in Docket No. E017/M-19-411, page 4. The calculation for this bill impact is: (\$0.00525 proposed residential rate - \$0.00244 currently approved residential rate) = \$0.00281 difference → (\$0.00281 x 1,000 kWh) = \$2.81.

## *2. Updated Rate Design Proposal*

Otter Tail noted in its Reply Comments that the Company accidentally used outdated class allocation percentages in its rate design proposed in the initial Petition.<sup>13</sup> The corrected allocation percentages are reflected in the rate design proposed in Otter Tail's Revised Attachment 5 included in the Company's Reply Comments. The Department appreciates Otter Tail's identification and correction of this error and agrees that the updated class allocation percentages are consistent with those used in Otter Tail's most recent rate case, Docket No. E017/GR-15-1033. The Department recommends that the Commission approve the Company's updated rate design proposal.

### *B. OVERLAP WITH POTENTIAL RATE CASE*

In its initial Comments under the current docket, the Department addressed potential issues that could arise if Otter Tail were to file a future rate case with a test year that overlaps with a portion of the proposed RRCRR recovery period. The Department recommended that the Commission require Otter Tail to discontinue all rider collections and roll all rider costs and any related PTCs into base rates upon interim rates becoming effective, with subsequent PTC true-ups in future riders.<sup>14</sup> In its Reply Comments, Otter Tail agreed:

If Otter Tail files a rate case with a test year that overlaps any part of the recovery period proposed for this rider, the Company generally supports the above recommendations to adjust rider recovery to reflect costs that are being rolled into base rates, and to make those adjustments at the time interim rates become effective. For example, the current [production tax credit] PTC charges in the RRAR related to the now-expired PTC credits currently in base rates, would no longer be necessary because those credits would not be in the next test year.<sup>15</sup>

The Department appreciates Otter Tail's agreement on this issue, especially regarding the PTC credits, and continues to recommend that the Commission require the Company to discontinue all rider collections and roll all rider costs and any related PTCs into base rates upon interim rates becoming effective.

### *C. EXPLANATION FOR THE USE OF TWO JURISDICTIONAL ALLOCATION FACTORS*

The Department requested in its initial Comments that Otter Tail provide an explanation as to why the Company used two different Minnesota jurisdictional allocation factors in its initial Petition for the

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<sup>13</sup> Otter Tail's September 30, 2019 Reply Comments in Docket No. E017/M-19-411, pages 3 and 4.

<sup>14</sup> Department's September 19, 2019 Comments in Docket No. E017/M-19-411, page 6 and 16.

<sup>15</sup> Otter Tail's September 30, 2019 Reply Comments in Docket No. E017/M-19-411, page 5.

various RRCRR cost recovery components.<sup>16</sup> Otter Tail explained in its Reply Comments that for wind projects contained in their entirety in the RRCRR, the Company typically uses an E2 allocator; this is the allocator Otter Tail applies to the Merricourt wind facility in the current docket. The Commission initially approved Otter Tail's use of the E2 allocator for RRCRR wind projects in Docket Nos. E107/M-08-119 and E017/M-08-131. However, for the PTC true-up associated with the Langdon and Ashtabula wind facilities, Otter Tail used an Electric-Plant-in-Service (EPIS) allocation factor approved in the Company's most recent rate case, Docket No. E017/GR-15-1033. Because Langdon and Ashtabula PTCs are built into Minnesota base rates using an EPIS allocation factor, the Company uses the same factor in its PTC true-up in the RRCRR.<sup>17</sup>

The Department appreciates Otter Tail's provision of this explanation and concludes that the use of two different jurisdictional allocation factors is logical and appropriate under the circumstances.

#### *D. OTTER TAIL'S UNCHANGED RRCRR PROPOSALS*

In its Reply Comments in the instant docket, Otter Tail agreed with the Department's recommendations and did not request changes to the Company's proposals regarding the timing of rate factor implementation, customer notification language, or use of the flow-through methodology for Merricourt PTCs.<sup>18</sup> The Department continues to recommend that the Commission approve these Company proposals. The Department also recommends that the Commission require Otter Tail to submit as a compliance filing the Company's customer notice, updated with any newly approved RRCRR rate factors, within 10 days following Commission's order approving new RRCRR rate factors.

### **III. CONCLUSION AND RECOMMENDATIONS**

The Department recommends that the Commission:

- Approve Otter Tail's proposed revenue requirement of \$12,506,339, as presented in the Company's September 30, 2019 Reply Comments.
- Approve Otter Tail's proposed rate factors of (1) \$0.464 per kW and \$0.00350 per kWh for Large General Service customers and (2) \$0.00525 per kWh for all other customers, as presented in the Company's September 30, 2019 Reply Comments.

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<sup>16</sup> Department's September 19, 2019 Comments in Docket No. E017/M-19-411, page 9 and 15.

<sup>17</sup> Otter Tail's September 30, 2019 Reply Comments in Docket No. E017/M-19-411, pages 2 and 3.

<sup>18</sup> Otter Tail's September 30, 2019 Reply Comments in Docket No. E017/M-19-411, pages 3 and 4.

- Approve Otter Tail’s proposed rate design, as outlined in Revised Attachment 5 of the Company’s September 30, 2019 Reply Comments.
- If and when the Commission approves new Renewable Resource Cost Recovery rate factors:
  - Authorize the new rate factors to become effective on November 1, 2019 and remain in effect through October 31, 2020, if the Commission issues an order in this matter before November 1, 2019.
  - Authorize the new rate factors to become effective on the first of the month following Commission approval and remain in effect through October 31, 2020, if the Commission issues an order in this matter after November 1, 2019.
  - Grant Otter Tail the option to recalculate its rate factors, if the new rate factors are approved more than 45 days later than November 1, 2019.
- Approve Otter Tail’s proposed customer notification language to be included with customer bills in the month that new rate factors are implemented.
- Approve Otter Tail’s proposal to use a flow-through methodology to account for future Merricourt Production Tax Credits.
- Require Otter Tail to submit as compliance filings (1) the Company’s revised tariff sheet 13.04 and (2) the Company’s customer notice, updated with any newly approved RRCRR rate factors, within 10 days following Commission’s order approving new RRCRR rate factors.

In addition, if Otter Tail files a rate case with a test year that overlaps with any part of the recovery period proposed for this rider, the Department recommends that the Commission do the following:

- Require Otter Tail to discontinue all rider collections and roll all rider costs and related PTCs (if any) into base rates once interim rates become effective, with subsequent PTC true-ups in future riders. Rolling in all rider costs at the beginning of the rate case could be accomplished as follows:
  - The rider is suspended at the beginning of the utility’s test year in the rate case (such as January 1, 2020).
  - Unrecovered rider costs, such as undepreciated rate base and operation and maintenance expenses, as of the end of the day before the test year (e.g. December 31, 2019), are folded into interim rates.
  - The subsequent true-up for the rider would resolve any under- or over-recovery (tracked through the rider tracker account) as of the day before the test year in the rate case (e.g. December 31, 2019).

**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  
Response Comments**

**Docket No. E017/M-19-411**

Dated this 16<sup>th</sup> day of **October 2019**

**/s/Sharon Ferguson**



First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Christopher	Anderson	canderson@allete.com	Minnesota Power	30 W Superior St  Duluth, MN 558022191	Electronic Service	No	OFF_SL_19-411_M-19-411
Ray	Choquette	rchoquette@agp.com	Ag Processing Inc.	12700 West Dodge Road PO Box 2047 Omaha, NE 68103-2047	Electronic Service	No	OFF_SL_19-411_M-19-411
Generic Notice	Commerce Attorneys	commerce.attorneys@ag.state.mn.us	Office of the Attorney General-DOC	445 Minnesota Street Suite 1800  St. Paul, MN 55101	Electronic Service	Yes	OFF_SL_19-411_M-19-411
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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_19-411_M-19-411
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