division of energy resources
Minnesota Department of Commerce

85 7th Place East, Suite 500, St. Paul, MN 55101-2198
main: 651.296.4026
tty: 651.296.2860
fax: 651.297.7891
www.energy.mn.gov

May 24, 2013

Burl W. Haar
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 300
St. Paul, Minnesota 55101

RE: **Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. E017/M-13-103

Dear Dr. Haar:

Attached are the comments of the Minnesota Department of Commerce, Division of Energy Resources (DOC or the Department) in the following matter:

Otter Tail Power Company's Request for Approval of its Transmission Cost Recovery Rider Annual Update including the Proposed 2013 Transmission Cost Recovery Factors.

The petition was filed on February 7, 2013 by:

Stuart Tommerdahl
Manager, Regulatory Administration
Otter Tail Power Company
215 South Cascade Street
Fergus Falls, Minnesota 56538

The Department recommends that Otter Tail Power Company provide additional information in reply comments; the Department will provide additional comments subsequently. The Department is available to answer any questions the Commission may have.

Sincerely,

/s/ MARK A. JOHNSON
Financial Analyst

MAJ/sm
Attachment

division of energy resources
Minnesota Department of Commerce

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

COMMENTS OF THE
MINNESOTA DEPARTMENT OF COMMERCE
DIVISION OF ENERGY RESOURCES

DOCKET NO. E017/M-13-103

I. BACKGROUND

On January 28, 2010, the Minnesota Public Utilities Commission (Commission) issued its Order approving Otter Tail Power Company's (OTP or the Company) first Transmission Cost Recovery Rider (TCR Rider) in Docket No. E017/M-09-881.

On March 26, 2012, the Commission issued its Order approving OTP's first annual update to its TCR Rider in Docket No. E017/M-10-1061 (10-61).

On March 15, 2013, the Commission issued its Order approving TCR Rider eligibility for three new projects in Docket No. E017/M-12-514 (12-514).

On February 7, 2013, OTP filed the instant petition.

II. SUMMARY OF FILING

In the current petition, OTP sought cost recovery for a number of transmission projects under the Transmission Cost Recovery and Renewable Cost Recovery Statutes.[1] In addition, OTP requested recovery of Midwest Independent System Operator (MISO)[2] Schedule Charges 26, 26A, 37, and 38. OTP also proposed a decrease in annual revenue requirements associated with the 2012 TCR true-up and carrying charges. A summary of OTP's proposed 2013 TCR revenue requirements is provided in the table below:

[1] Minnesota Statutes, Sections 216B.16 and 216B.1645.
[2] Now the Midcontinent Independent System Operator.

Table 1: Summary of Proposed Projects and Revenue Requirements	
Project:	2013 Revenue Requirements:
CAPX 2020 Fargo	$3,225,858
CAPX 2020 Bemidji	$1,040,139
CAPX 2020 Cass Lake - Bemidji	$463,263
CAPX 2020 Brookings	$1,045,507
Ramsey 230/115 kW Transformer Upgrade	$28,251
Sheyenne – Audubon 230 kV Line Upgrade	$41,800
MISO Schedule 26 Expense	$4,011,689
MISO Schedule 26A Expense	$434,371
MISO Schedule 26 Revenues	($6,497,711)
MISO Schedules 37 & 38 Revenues	($0)
MISO Schedules 26A Revenues	($1,118,623)
Carrying Cost	($26,920)
True-up	($378,716)
Total	**$2,268,907**

Note: OTP has negative carrying costs and true-up balances because the Company over-recovered TCR charges in 2012.

OTP's proposed recovery is a slight decrease from the current recovery of $2,506,562 that was approved by the Commission in their March 26, 2012 Order in 10-1061. In addition, OTP proposed to use the same allocations and rate design methods as are currently in place. Specifically, OTP proposed to use the transmission demand allocator (D2) from its last rate case to allocate total revenue requirements to the Minnesota jurisdiction and rate classes. In addition, OTP proposed to use a demand-only rate for the Large General Service class and an energy-only rate for all other customers. OTP's current and proposed rates are as follows:

Table 2: OTP's Proposed Rates for TCR				
Class	Current Energy Cents/kWh	Current Demand $/ kW	Proposed Energy Cents/kWh	Proposed Demand $/ kW
Large General Service	N/A	$0.391	N/A	$0.462
Controlled Service	0.019¢	N/A	0.022¢	N/A
Lighting	0.085¢	N/A	0.091¢	N/A
All other service	0.126¢	N/A	0.138¢	N/A

Even though OTP proposes to recover less overall from its customers in this instant case, all of OTP's proposed rates increase from current levels. As noted on page 4 of the petition, this occurs because the recovery period and billing determinants decreased from 14 months in the last filing to 12 months in this filing.

The monthly bill impact of OTP's proposal for a residential customer using, on average, about 750 kWh per month would be $1.03 per month, or about $12.30 per year.

OTP's proposed TCR rate factors were calculated assuming an effective date of May 1, 2013. If the actual effective date is significantly later than May 1, 2013, OTP requested that rate factors be recalculated in order to recover approved costs over the remaining recovery period. The Commission authorized similar treatment in past TCR orders.

III. DOC ANALYSIS

A. STATUTORY REQUIREMENTS

The TCR Statute, Minn. Stat. §216B.16, subd. 7b states the following:

> Subd. 7b. Transmission cost adjustment.
>
> (a) Notwithstanding any other provision of this chapter, the commission may approve a tariff mechanism for the automatic annual adjustment of charges for the Minnesota jurisdictional costs of (i) new transmission facilities that have been separately filed and reviewed and approved by the commission under section 216B.243 or are certified as a priority project or deemed to be a priority transmission project under section 216B.2425; and (ii) charges incurred by a utility that accrue from other transmission owners' regionally planned transmission projects that have been determined by the Midwest Independent System Operator to benefit the utility, as provided for under a federally approved tariff.
>
> (b) Upon filing by a public utility or utilities providing transmission service, the commission may approve, reject, or modify, after notice and comment, a tariff that:
>
> (1) allows the utility to recover on a timely basis the costs net of revenues of facilities approved under section 216B.243 or certified or deemed to be certified under section 216B.2425 or exempt from the requirements of section 216B.243;
>
> (2) allows the charges incurred by a utility that accrue from other transmission owners' regionally planned transmission projects that have been determined by the Midwest Independent System Operator to benefit the utility, as provided for under a federally approved tariff. These charges must be reduced or offset by revenues received by the utility and by amounts the utility

> charges to other regional transmission owners, to the extent those revenues and charges have not been otherwise offset;
>
> (3) allows a return on investment at the level approved in the utility's last general rate case, unless a different return is found to be consistent with the public interest;
>
> (4) provides a current return on construction work in progress, provided that recovery from Minnesota retail customers for the allowance for funds used during construction is not sought through any other mechanism;
>
> (5) allows for recovery of other expenses if shown to promote a least-cost project option or is otherwise in the public interest;
>
> (6) allocates project costs appropriately between wholesale and retail customers;
>
> (7) provides a mechanism for recovery above cost, if necessary to improve the overall economics of the project or projects or is otherwise in the public interest; and
>
> (8) terminates recovery once costs have been fully recovered or have otherwise been reflected in the utility's general rates.

The RCR Statute, Minn. Stat. §216B.1645, subd. 1 states that:

> Upon the petition of a public utility, the Public Utilities Commission shall approve or disapprove power purchase contracts, investments, or expenditures entered into or made by the utility to satisfy the wind and biomass mandates contained in sections 216B.169, 216B.2423, and 216B.2424, and to satisfy the renewable energy objectives and standards set forth in section 216B.1691, including reasonable investments and expenditures made to:
>
> (1) transmit the electricity generated from sources developed under those sections that is ultimately used to provide service to the utility's retail customers, including studies necessary to identify new transmission facilities needed to transmit electricity to Minnesota retail customers from generating facilities constructed to satisfy the renewable energy objectives and standards, provided that the costs of the studies have not been recovered previously under existing tariffs and the utility has filed an application for a certificate of need or for certification as a priority project under section 216B.2425 for the new transmission facilities identified in the studies;
>
> (2) provide storage facilities for renewable energy generation facilities that contribute to the reliability, efficiency, or cost-effectiveness of the renewable facilities; or
>
> (3) develop renewable energy sources from the account required in section 116C.779.

Regarding cost recovery, the RCR Statute, Minn. Stat. §216B.1645, subd. 2 states that:

> The expenses incurred by the utility over the duration of the approved contract or useful life of the investment and expenditures made pursuant to section 116C.779 shall be recoverable from the ratepayers of the utility, to the extent they are not offset by utility revenues attributable to the contracts, investments, or expenditures. Upon petition by a public utility, the commission shall approve or approve as modified a rate schedule providing for the automatic adjustment of charges to recover the expenses or costs approved by the commission under subdivision 1, which, in the case of transmission expenditures, are limited to the portion of actual transmission costs that are directly allocable to the need to transmit power from the renewable sources of energy. The commission may not approve recovery of the costs for that portion of the power generated from sources governed by this section that the utility sells into the wholesale market.

B. PROJECT ELIGIBLITY

OTP's petition includes projects that were previously approved for recovery in past TCR filings along with three new projects. The three new projects were approved for rider recovery by the Commission in OTP's eligibility filing in 12-514. As such, the Department concludes that all projects included in this filing are eligible for cost recovery under OTP's TCR Rider, with the exception of the Sheyenne-Audubon 230 kV Line Upgrade as noted below.

On April 26, 2013, OTP notified the Department that the Sheyenne – Audubon 230 kV Line Upgrade was no longer needed. As a result, OTP stated that it will remove this project from its proposed 2013 TCR Rider. The Company agreed to address this issue in reply comments.

C. REASONABLENESS OF PROJECT REVENUE REQUIREMENTS AND COST RECOVERY CAPS

In Xcel's TCR Rider filing in Docket No. E002/M-09-1048, the Commission set a standard for evaluating of TCR project costs going forward. The Commission stated in its April 7, 2010 Order that:

> …the Commission finds that TCR project cost recovery through the rider should be limited to the amount of the initial cost estimates at the time the projects are approved as eligible projects, with the opportunity for the Company to seek recovery of excluded costs on a prospective basis in a subsequent rate case. A request to allow cost recovery for project costs above the amount of the initial estimate may be brought for Commission review only if unforeseen or extraordinary circumstances arise on a project.

Since OTP did not address the issue of cost recovery caps in its petition, the Department asked OTP, in DOC Information Request No. 4(A), to provide for each project: 1) the total estimated cost of the project approved by the Commission in a Certificate of Need (CN) proceeding or an eligibility filing (if applicable); 2) OTP's percentage ownership of the project; and 3) OTP's share of the total estimated cost provided in part 1 (cost recovery cap). In addition, the Department asked OTP, in DOC Information Request No. 4(B), to explain whether any of the projects included in the instant petition was over the cost recovery cap amount and, if so, to provide the amount over the cap. OTP replied that:

> A. All projects included in the Rider Update have been reviewed by the Commission either in a prior annual TCR update or an eligibility filing. In the table below, OTP has included the cost estimates from the filing most recently approved by the Commission.
>
> | Project | CON Docket # | TCR Eligibility/ Update Docket # | TCR Eligibility/ Update Amount (millions) | OTP Ownership Percentage | OTP's Share of Approved Costs (millions) |
> |---|---|---|---|---|---|
> | Fargo-Monticello | 06-1115 | E017/M-10-1061 | $640.0 | 13.2% | $84.5 |
> | Bemidji-Grand Rapids & Cass Lake | 07-1222 | E017/M-10-1061 | $111.5 | 20.0% | $22.3[1] |
> | Brookings-Hampton | 06-1115 | E017-M-12-514 | $669.6 | 4.1% | $27.5 |
> | Ramsey | N/A | E017-M-12-514 | $0.9 | 100.0% | $0.9 |
>
> OTP notes that the Commission has not addressed the issue of "cost recovery caps" in any prior proceeding to which OTP was a party.
>
> B. OTP's portion of costs incurred for the Bemidji-Grand Rapids & Cass Lake project included in the current TCR Update filing is approximately $440,000 higher (system basis) than the amount approved for recovery in OTP's last TCR Update (Docket No. E017/M-10-1061). For the other projects referenced in the table above, the costs incurred have not exceeded the amounts estimated in the Eligibility/Update dockets in which the projects were approved for inclusion in the TCR.

Unfortunately, OTP did not provide the information the Department was seeking. OTP appears to have misunderstood the Department's question seeking Commission-approved project amounts from either CN filings or eligibility filings (if a CN was not required). Instead, for projects which required a CN, OTP provided cost estimates from its previous TCR Rider filing in 10-1061 or its eligibility filing in 12-514. In addition, OTP stated that the Commission has not addressed the issue of "cost recovery caps" in any prior proceeding to which OTP was a party. Copies of OTP's responses to DOC information requests are attached to these comments.

The Department does not consider cost estimates from eligibility filings as a substitute for Commission-approved cost estimates in CN proceedings. In fact, when the Department attempted to address the issue of cost recovery caps in OTP's eligibility filing in 12-514, OTP stated that:

> OTP believes that it is neither necessary nor appropriate to address that issue in this proceeding. In this proceeding the specific costs to be recovered through the TCRR for each facility are not at issue. Instead, only eligibility for TCRR recovery is at issue. Furthermore, OTP was not a party to the above-cited Xcel docket, and therefore, OTP has not been provided an opportunity to respond on its own account to whatever issues may have arisen in that proceeding. Instead, to the extent there are any issues with respect to cost estimates provided in any context and their impact on ultimate recoveries, those issues can and should be addressed in the cost recovery proceeding rather than in this eligibility proceeding.[3]

The Department notes that, since OTP claimed that it was neither necessary nor appropriate to address the issue of costs recovery caps in its eligibility filing, it is unreasonable for OTP to cite to the eligibility filing (12-514) for support of its share of the Commission-approved project costs (cost recovery caps) for the Brookings-Hampton transmission line. Moreover, since OTP claimed that the issue of cost recovery caps was never addressed in prior OTP proceedings, the Department concludes that OTP's cite to last year's TCR Rider filing in 10-1061 cannot be used to establish cost recovery caps for the Fargo-Monticello and Bemidji-Grand Rapids & Cass Lake transmission projects. Instead, the Department recommends that the issue of cost recovery caps be addressed in this proceeding, using the Commission-approved cost estimates found in previous CN proceedings.

For any project included in OTP's 2013 TCR Rider that required a CN, the Department recommends that OTP provide, in reply comments, the Commission-approved cost estimate from the CN proceeding. For any project included in OTP's 2013 TCR Rider that did not require a CN, the Department recommends that OTP provide, in reply comments the initial Commission-approved cost estimate from another proceeding (i.e. eligibility filing). The Department will provide our recommendations regarding cost recovery caps in subsequent comments once it has reviewed the information provided by OTP.

The Department notes that cost estimates are used extensively throughout CN and Route Permit proceedings and are relied upon by the Commission, particularly in considering alternatives to the proposed project. Further, approval of projects in such proceedings is not a blank check for cost recovery in riders.

[3] See OTP's September 25, 2012 Reply Comments in Docket No. E017/M-12-514, Page 10.

Absent cost recovery caps tied to the record in which the project was selected and approved, utilities have little incentive to expend the effort needed to accurately report project costs in CN and Route Permit proceedings, nor to ensure that the actual costs are as reasonable as possible. Moreover, disregarding CN and Route Permitting cost estimates and allowing utilities to recover all costs jeopardizes the integrity of the CN and Route Permitting process and the figures relied upon by the Commission in those decisions.

It is important to note that TCR riders give utilities the extraordinary ability to charge their ratepayers for costs of facilities prior to the ordinary timing: the first rate case after the project goes into service. In exchange, ratepayers need some assurance that utilities are being held accountable for the costs they charge to ratepayers. Requiring utilities to wait until the first rate case after a project is in service to justify recovery of cost overruns of projects is the least that can be done to assure ratepayers that utilities are being held accountable.

Further, OTP's arguments against being held financially accountable in this proceeding highlight an important section of existing statutes, noted above. Specifically, the TCR Statute, Minn. Stat. §216B.16, subd 7b (3) states that TCR recovery should allow "a return on investment at the level approved in the utility's last general rate case, unless a different return is found to be consistent with the public interest." Given the extraordinary ratemaking allowed in this rider and OTP's reluctance to be held financially responsible, the Commission may wish to invoke authority under existing statutes to reduce OTP's return on investment in the TCR from the 8.61 percent used by OTP in this proceeding.[4]

D. MISO CHARGES (SCHEDULES 26, 26A, 37, 38)

During the 2008 Minnesota Legislative Session, Minn. Stat. 216B.16, subd, 7(b) (2) was amended to allow utilities providing transmission service to recover "the charges incurred by a utility that accrue from other transmission owners' regionally planned transmission projects that have been determined by MISO to benefit the utility, as provided for under a federally approved tariff," upon Commission approval. The Statute further requires any recovery to "be reduced or offset by revenues received by the utility and by amounts the utility charges to other regional transmission owners, to the extent those revenues and charges have not been otherwise offset."

Similar to previous TCR filings, OTP proposed to recover the net charges it pays to other electric utilities through MISO's Schedule 26/26A in the instant filing. Under OTP's proposal, it would recover the estimated amount of payments it makes to other utilities under MISO Schedule 26 net of the estimated amount of revenues it receives from other utilities under MISO Schedule 26/26A. The Department notes that OTP's proposed approach is consistent with past TCR filings.

In addition to MISO Schedule 26/26A charges, OTP proposed to include revenues it receives under MISO Schedules 37 and 38. According to OTP, MISO Schedule 37 revenues represent the Company's share of contributions MISO received from American Transmission Systems, Inc. for transmission investments of MISO transmission owners. MISO Schedule 38 revenues

[4] See Docket No. E017/GR-10-239.

represent the Company's share of payments from Duke-Ohio and Duke-Kentucky, which left MISO on December 31, 2011, but have an ongoing obligation to pay for MISO projects due to their previous membership. The Department notes that these additional MISO revenues appear eligible for rider inclusion under Minn. Stat. 216B.16, subd, 7(b) (2). As a result, the Department agrees with OTP's proposal to include these additional MISO revenues in its 2013 TCR Rider.

The Department notes that OTP's Summary of Revenue Requirements in Attachment 2 of the petition shows a zero balance for MISO Schedules 37 and 38 revenues. Moreover, as shown in Attachment 13 of the petition, OTP had actual MISO Schedule 37 and 38 revenues through January 2013; however, OTP did not include any projected MISO Schedule 37 and 38 revenues going forward. The Department recommends that OTP explain why it did not include any projected MISO Schedule 37 and 38 revenues going forward when all other revenues and costs were projected through April 2014.

E. CARRYING CHARGES AND 2012 TRUE-UP

As shown in Attachment 2 of its petition, OTP has negative carrying costs and true-up balances of ($26,920) and ($378,716), respectively, because the Company over-recovered TCR charges in 2012.

Since it was unclear how OTP determined its true-up balance, the Department asked OTP, in DOC Information Request No. 1, to explain how the Company calculated its 2012 true-up balance of ($378,716). OTP replied that:

> Calculation of the true-up amount of $378,716 is shown on page 2 of Attachment 4. The result of the calculation is shown on line 26 under the April 2013 column. The amount represents the projected cumulative balance which will exist at the end of April 2013. The projected balance as of April 2013 is negative, reflecting that collections have exceeded the revenue requirements over the period by that amount. Because the balance is negative, the true-up credit serves to reduce the revenue requirement for the upcoming collection period.
>
> This cumulative true-up amount is calculated as follows: Actual billed revenues (reflected on line 22 of Attachment 4) will differ from the net revenue requirements recorded for each month (reflected on line 20 of Attachment 4). Line 24 of Attachment 4 reflects the monthly difference between the net revenue requirement and the actual monthly billed amount. Line 26 of Attachment 4 reflects the cumulative over- or under-collection which exists at any point in time within the tracker. These over- and under-collections occur because actual billed amounts cannot be perfectly predicted due to variations in weather and other factors that impact customer consumption patterns.

The Department appreciates OTP's response. Based on our review, the Department concludes that OTP's 2012 true-up and carrying cost calculations are reasonable.

F. ATTACHMENT O REVENUES

The Department notes that Attachment O revenues are the revenues utilities receive from other utilities' use of a company's transmission lines under the Federal Energy Regulatory Commission's (FERC's) Open Access Transmission Tariff (OATT).

OTP's 2013 Attachment O revenue calculations are shown in Attachment 11 of its petition. The Department asked OTP, in DOC Information Request No. 2, to indicate whether these revenues were included in OTP's 2013 TCR Rider and, if so, to identify where the credits were reflected. OTP replied that:

> Attachment 11, Page 1 of 1, shows how the wholesale revenue credit percentage (21.6%) is calculated for 2013 ($7,328,404 Revenue Credits / $33,929,200 Attachment O Gross Revenue Requirement = 21.60%). Most of these Revenue Credits are attributable to the wholesale use of existing transmission system assets included in base rates.
>
> A portion of these Attachment O Revenue Credits is applicable to two new projects that are included in this Transmission Cost Recovery Rider update filing and are scheduled to be placed into service in 2013: The Ramsey Project and the Sheyenne-Audubon project. The wholesale revenue credit applicable to these projects (calculated at 21.6% of the project's revenue requirement) is included as a reduction in the revenue requirement calculation of each project. The credit is shown on line 35 of pages 3 and 5 in Attachment 9 (Ramsey Project) and Attachment 10 (Sheyenne-Audubon project).

Based on OTP's response, it appears that only participant-funded projects have Attachment O revenues (MISO Schedule 9). In this case, only OTP's Ramsey and Sheyenne-Audubon projects are projected to have Attachment O revenues in the 2013 TCR Rider. In contrast, regionally shared projects, such as those projects deemed to be Regionally Expansion Criteria Benefits (RECB) projects or Multi-Variable Projects (MVP's), do not have Attachment O revenues. Instead, utilities receive revenues from other parties' for their use of these transmission lines through MISO Schedules 26/26A. The Department recommends that OTP confirm our understanding that the Company does not receive any other revenues from other parties' use of OTP's RECB and MVP projects besides those revenues received under MISO Schedules 26/26A.

G. ALLOCATION OF COSTS

As noted above, OTP stated (on page 8 of its petition) that it used the same allocations and rate design methods that were approved by the Commission in their March 26, 2012 Order in Docket No. E017/M-10-1061. Specifically, OTP used the transmission demand allocator (D2) from its last rate case to allocate total revenue requirements to the Minnesota jurisdiction and rate classes. In addition, OTP used a demand-only rate for the Large General Service class and an energy-only rate for all other customers. OTP's rate design detail is provided in Attachment 3 of the petition.

In the Commission's March 26, 2012 Order in Docket No. E017/M-10-1061, the Commission requested that OTP provide an analysis of the impact of using a percentage of revenue rate design method to allocate costs among and within customer classes. OTP's analysis showing the impact using a percentage of revenue rate design method as opposed to the current rate design method is shown in Attachment 3 of the petition.

The Department reviewed OTP's proposed allocations and rate design method. The DOC agrees that OTP used the same allocations and rate design method that were approved by the Commission in OTP's last TCR Rider. In addition, the DOC concludes that OTP complied with the Commission's March 26, 2012 Order. Furthermore, as shown in Attachment 3 of the petition, the Department notes that if a percentage of revenue rate design method was used rather than the current rate design method, then the average monthly bill for residential ratepayers would be slightly less and the average monthly bill for all other customers would be somewhat more.

The Department notes that Page 12 of Commission Staff's briefing papers in 10-1061 stated the following:

> As noted by the DOC, changing to a demand charge only method within the LGS class is consistent with the Commission's recent decision in Xcel's transmission rider, Docket No. 10-1064. Staff would note that in that docket, the Commission also required Xcel to analyze in its next filing the impact of a percentage of revenue rate design for allocating costs to classes and for recovering costs within the demand-billed class. Unlike Xcel, OTP currently uses the percentage of revenue method with the LGS class although not for allocating among classes. The Commission may wish to ask OTP to provide a similar analysis in its next TCR filing.

The Department does not have specific recommendations on this rate-design matter at this time.

A. INTERNAL CAPITALIZED COSTS

Minnesota regulation has a history of denying recovery of internal costs outside of a rate case.[5] More recently, in Minnesota Power's 2010 TCR filing in Docket No. E015/M-10-799, the Commission required Minnesota Power to exclude internal capitalized costs from its TCR Rider. In addition, Minnesota Power and Xcel both excluded their internal capitalized costs from their TCR Riders in Docket Nos. E015/M-11-695 and E002/M-12-50; these dockets are currently awaiting scheduling on the Commission's agenda.

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- Docket No. E002/M-03-1462. In the Matter of Northern States Power Company d/b/a Xcel Energy for Approval of Deferred Accounting for Costs Incurred for the Web Tool and Time-of-Use Pilot Project; specifically DOC (then OES) comments dated July 27, 2004 and as approved in the February 25, 2005 Commission Order.
- Docket No. E002/M-06-1315. In the Matter of Northern States Power Company d/b/a Xcel Energy Petition for Approval of Deferred Accounting Treatment of Costs Related to the Mercury Emissions Reduction Act of 2006; specifically OES comments dated November 15, 2006 and as approved in the January 31, 2007 Commission Order in Docket No. E001/M-09-336. In the Matter of Interstate Power and Light Company's Petition for Approval of Deferred Accounting Treatment of the Costs Related to Cancelled Sutherland Generating Station Unit 4; the DOC recommended that the Commission deny IPL's request for deferred accounting for a coal plant that the Company ultimately decided to abandon; however, in the event that the Commission approved IPL's request, the DOC recommended that the Commission deny recovery for IPL's internal related costs (DOC comments dated July 1, 2009). The Commission ultimately denied IPL's request for deferred accounting in its December 18, 2009 Order.
- Docket No. E015/PA-09-526. In the Matter of Minnesota Power's Petition to Purchase Square Butte Cooperative's Transmission Assets and Restructure Power Purchase Agreements from Milton R. Young Unit 2 Generating Station. The DOC recommended and MP agreed to remove any internal costs associated with its purchase of the transmission assets and the renegotiation of its purchase power agreements.
- Docket No. E002/M-09-1083. In the Matter of the Petition of Northern States Power Company, a Minnesota Corporation for approval of the 2010 Renewable Energy Standard Cost Recovery Rider and 2009 RES Tracker Report; specifically in DOC reply comments dated February 26, 2010 and as approved in the April 22, 2010 Commission Order.
- Docket No. E017/M-09-1430. In the Matter of Otter Tail Power Company's Petition Requesting Authority to Use Deferred Accounting for Costs Incurred During its Participation in the Big Stone II Project; specifically DOC comments dated March 17, 2010. Otter Tail Power Company later withdrew its deferred accounting request and is addressing the issue in its pending rate case in Docket No. E017/GR-10-239, in accordance with the Commission's Order dated June 7, 2010.
- Docket No. E017/M-09-1484. In the Matter of Otter Tail Power Company's Request for Approval of its 2010 Renewable Resource Cost Recovery Adjustment Factor; specifically DOC comments dated March 17, 2010 and July 9, 2010. In its Order dated August 27, 2010, the Commission denied Otter Tail Power Company's request to include capitalized labor and internal costs, subject to future true-up if the Commission determines in Otter Tail's pending rate case, Docket No. E-017/GR-10-239, that the amount should be included.
- Docket No. E002/M-09-1488. In the Matter of Xcel Energy's Petition for Approval of Two Proposed Energy Innovation Corridor Projects in the Central Corridor Utility Zone and Deferred Accounting Treatment for Costs Incurred After January 1, 2010; specifically DOC comments dated April 12, 2010 and September 9, 2010; this docket is awaiting scheduling on the Commission's Agenda.

The Department asked OTP, in DOC Information Request No. 3, if the Company included internal capitalized costs in its 2013 TCR Rider and, if so, to provide the amount of internal capitalized costs included in the 2013 TCR Rider and their impact on the revenue requirement calculations. OTP responded that:

> The table below lists the MN share (47.89%) of internal capitalized costs which OTP has incurred on projects included in its TCR Rider. These costs were incurred since project inception through part of April 2013.

Line No.	Project	MN Share of Internal Capitalized Costs
1	Fargo-Monticello	$ 187,533
2	Bemidji-Grand Rapids & Cass Lake	$ 1,491,588
3	Brookings-Hampton	$ 83,864
4	Ramsey	$ -
		$ 1,762,985

> Removing the accumulated internal capitalized costs (actual and projected through April 2014) from the revenue requirement calculation would result in a revenue requirement increase of approximately $458,000 over the May 2013-April 2014 recovery period contemplated in the initial filing in this docket. The increase in the revenue requirement is due to the removal of the Schedule 26 and Schedule 26A revenues received from MISO (actual and projected through April 2014) that are attributed to the internal capitalized costs.

Based on OTP's response, the Department understands that the $458,000 is a net figure that includes both the annual revenue requirement amount associated with OTP's internal capitalized costs of $1,762,985 and the MISO Schedule 26 revenues received from other utilities that are attributable to OTP's internal capitalized costs. The Department recommends that OTP provide these two figures separately in their reply comments. In addition, the Department recommends that OTP explain why it is reasonable to exclude MISO Schedule 26 revenues received from other parties that OTP claims are attributable to the Company's internal capitalized costs. The Department will provide our recommendations regarding internal capitalized costs in subsequent comments once it has reviewed the information provided by OTP.

IV. SUMMARY AND RECOMMENDATIONS

The Department recommends that OTP provide the following in reply comments:

- an explanation as to why the Sheyenne – Audubon 230 kV Line Upgrade is no longer needed;
- the Commission approved CN cost estimates for all projects included in OTP's 2013 TCR Rider that required a CN. For any project that did not require a CN, the Department recommends that OTP provide the initial cost estimate first approved by the Commission in another proceeding;
- an explanation as to why OTP did not include any projected MISO Schedule 37 and 38 revenues going forward when all other revenues and costs were projected through April 2014;
- a statement either confirming or denying the Department's understanding that OTP does not receive any other revenues (besides those revenues received under MISO Schedules 26/26A) from other parties for their use of OTP's RECB and MVP transmission lines;
- the two figures comprising the $458,000 net increase in annual revenue requirements attributable to OTP's internal capitalized costs; and
- an explanation as to why it is reasonable for OTP to exclude MISO Schedule 26 revenues received from other parties that are attributable to the Company's internal capitalized costs.

/sm

OTTER TAIL POWER COMPANY
Docket No. E017-M-13-103

Response to: Minnesota Department of Commerce
Analyst: Mark Johnson
Date Received: 4/5/2013
Date Due: 4/17/2013
Date of Response: 04/17/2013
Responding Witness: Stuart Tommerdahl, Manager Regulatory Administration, 218 739-8279

Information Request No: MN-DOC-001

Subject: 2012-2013 True-up

OTP identifies a 2012-2013 true-up amount of $378,716 in its petition on Attachment 2, Page 1of 1 and Attachment 4, Page 3 of 3. Please explain how OTP calculated the true-up amount of $378,716. Please provide all supporting calculations and documentation.

RESPONSE:

Calculation of the true-up amount of $378,716 is shown on page 2 of Attachment 4. The result of the calculation is shown on line 26 under the April 2013 column. The amount represents the projected cumulative balance which will exist at the end of April 2013. The projected balance as of April 2013 is negative, reflecting that collections have exceeded the revenue requirements over the period by that amount. Because the balance is negative, the true-up credit serves to reduce the revenue requirement for the upcoming collection period.

This cumulative true-up amount is calculated as follows: Actual billed revenues (reflected on line 22 of Attachment 4) will differ from the net revenue requirements recorded for each month (reflected on line 20 of Attachment 4). Line 24 of Attachment 4 reflects the monthly difference between the net revenue requirement and the actual monthly billed amount.
Line 26 of Attachment 4 reflects the cumulative over- or under-collection which exists at any point in time within the tracker. These over- and under-collections occur because actual billed amounts cannot be perfectly predicted due to variations in weather and other factors that impact customer consumption patterns.

OTTER TAIL POWER COMPANY
Docket No. E017-M-13-103

Response to: Minnesota Department of Commerce
Analyst: Mark Johnson
Date Received: 4/5/2013
Date Due: 4/22/2013
Date of Response: 04/22/2013
Responding Witness: Stuart Tommerdahl, Manager Regulatory Administration, 218 739-8279

Information Request No: MN-DOC-002

Subject: Attachment O Revenues

On Attachment 11, Page 1 of 1, OTP shows the calculation of its 2013 Attachment O revenue credits. Please explain if these revenue credits are included in OTP's Transmission Cost Recovery Rider. If so, please identify where these revenue credits are included in the Transmission Cost Recovery Rider. If not, please explain why.

RESPONSE:

Attachment 11, Page 1 of 1, shows how the wholesale revenue credit percentage (21.6%) is calculated for 2013 ($7,328,404 Revenue Credits / $33,929,200 Attachment O Gross Revenue Requirement = 21.60%). Most of these Revenue Credits are attributable to the wholesale use of existing transmission system assets included in base rates.

A portion of these Attachment O Revenue Credits is applicable to two new projects that are included in this Transmission Cost Recovery Rider update filing and are scheduled to be placed into service in 2013: The Ramsey Project and the Sheyenne-Audubon project. The wholesale revenue credit applicable to these projects (calculated at 21.6% of the project's revenue requirement) is included as a reduction in the revenue requirement calculation of each project. The credit is shown on line 35 of pages 3 and 5 in Attachment 9 (Ramsey Project) and Attachment 10 (Sheyenne-Audubon project).

OTTER TAIL POWER COMPANY
Docket No. E017-M-13-103

Response to: Minnesota Department of Commerce
Analyst: Mark Johnson
Date Received: 4/19/2013
Date Due: 5/1/2013
Date of Response: 05/3/2013
Responding Witness: Stuart Tommerdahl, Manager Regulatory Administration, 218 739-8279

Information Request No: MN-DOC-003

Subject: Internal Capitalized Costs

In Docket No. E015/M-10-799, the Commission required Minnesota Power to exclude internal capitalized costs from its TCR Rider.

Has Otter Tail Power excluded internal capitalized costs from its TCR Rider? If not, please provide the amount of internal capitalized costs included in the TCR Rider as well as the impact on the revenue requirement calculations.

RESPONSE:

The table below lists the MN share (47.89%) of internal capitalized costs which OTP has incurred on projects[1] included in its TCR Rider. These costs were incurred since project inception through part of April 2013.

Line No.	Project	MN Share of Internal Capitalized Costs
1	Fargo-Monticello	$ 187,533
2	Bemidji-Grand Rapids & Cass Lake	$ 1,491,588
3	Brookings-Hampton	$ 83,864
4	Ramsey	$ -
		$ 1,762,985

[1] The Sheyenne – Audubon project has been excluded from this analysis.

Removing the accumulated internal capitalized costs (actual and projected through April 2014) from the revenue requirement calculation would result in a revenue requirement increase of approximately $458,000 over the May 2013-April 2014 recovery period contemplated in the initial filing in this docket. The increase in the revenue requirement is due to the removal of the Schedule 26 and Schedule 26A revenues received from MISO (actual and projected through April 2014) that are attributed to the internal capitalized costs.

OTTER TAIL POWER COMPANY
Docket No. E017-M-13-103

Response to: Minnesota Department of Commerce
Analyst: Mark Johnson
Date Received: 4/19/2013
Date Due: 5/1/2013
Date of Response: 05/3/2013
Responding Witness: Stuart Tommerdahl, Manager Regulatory Administration, 218 739-8279

Information Request No: MN-DOC-004

Subject: Cost Recovery Caps

A. For each project included in OTP's 2013 Transmission Cost Recovery Rider, please provide the following information:

1) The total estimated cost of the project approved by the Commission in a Certificate of Need proceeding or eligibility filing (if applicable);
2) OTP's percentage of ownership; and
3) OTP's share of total estimated costs from part 1) (cost recovery cap).

B. In addition, please explain if any projects included in OTP's 2013 Transmission Cost Recovery Rider are over the cost the recovery cap amount. If so, please provide the amount (by project) that is over the cost recovery cap.

RESPONSE:

A. All projects included in the Rider Update have been reviewed by the Commission either in a prior annual TCR update or an eligibility filing. In the table below, OTP has included the cost estimates from the filing most recently approved by the Commission.

Project	CON Docket #	TCR Eligibility/ Update Docket #	TCR Eligibility/ Update Amount (millions)	OTP Ownership Percentage	OTP's Share of Approved Costs (millions)
Fargo-Monticello	06-1115	E017/M-10-1061	$640.0	13.2%	$84.5
Bemidji-Grand Rapids & Cass Lake	07-1222	E017/M-10-1061	$111.5	20.0%	$22.3[1]
Brookings-Hampton	06-1115	E017-M-12-514	$669.6	4.1%	$27.5
Ramsey	N/A	E017-M-12-514	$0.9	100.0%	$0.9

OTP notes that the Commission has not addressed the issue of "cost recovery caps" in any prior proceeding to which OTP was a party.

B. OTP's portion of costs incurred for the Bemidji-Grand Rapids & Cass Lake project included in the current TCR Update filing is approximately $440,000 higher (system basis) than the amount approved for recovery in OTP's last TCR Update (Docket No. E017/M-10-1061). For the other projects referenced in the table above, the costs incurred have not exceeded the amounts estimated in the Eligibility/Update dockets in which the projects were approved for inclusion in the TCR.

[1] The amount approved in the last approved TCR Update (Docket No. E017/M-10-1061) included actual costs through August 2011 and estimated costs thereafter.

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
Comments

Docket No. E017/M-13-103

Dated this **24th** of **May, 2013**

/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_13-103_13-103
Julia	Anderson	Julia.Anderson@ag.state.mn.us	Office of the Attorney General-DOC	1800 BRM Tower 445 Minnesota St St. Paul, MN 551012134	Electronic Service	Yes	OFF_SL_13-103_13-103
Michael	Bradley	bradleym@moss-barnett.com	Moss & Barnett	4800 Wells Fargo Ctr 90 S 7th St Minneapolis, MN 55402-4129	Electronic Service	No	OFF_SL_13-103_13-103
Gary	Chesnut	gchesnut@agp.com	AG Processing Inc. a cooperative	12700 West Dodge Road PO Box 2047 Omaha, NE 681032047	Electronic Service	No	OFF_SL_13-103_13-103
James C.	Erickson	jericksonkbc@gmail.com	Kelly Bay Consulting	17 Quechee St Superior, WI 54880-4421	Electronic Service	No	OFF_SL_13-103_13-103
Sharon	Ferguson	sharon.ferguson@state.mn.us	Department of Commerce	85 7th Place E Ste 500 Saint Paul, MN 551012198	Electronic Service	No	OFF_SL_13-103_13-103
Bruce	Gerhardson	bgerhardson@otpco.com	Otter Tail Power Company	PO Box 496 215 S Cascade St Fergus Falls, MN 565380496	Electronic Service	No	OFF_SL_13-103_13-103
Burl W.	Haar	burl.haar@state.mn.us	Public Utilities Commission	Suite 350 121 7th Place East St. Paul, MN 551012147	Electronic Service	Yes	OFF_SL_13-103_13-103
Shane	Henriksen	shane.henriksen@enbridge.com	Enbridge Energy Company, Inc.	1409 Hammond Ave FL 2 Superior, WI 54880	Electronic Service	No	OFF_SL_13-103_13-103
James D.	Larson		Avant Energy Services	200 S 6th St Ste 300 Minneapolis, MN 55402	Paper Service	No	OFF_SL_13-103_13-103
Douglas	Larson	dlarson@dakotaelectric.com	Dakota Electric Association	4300 220th St W Farmington, MN 55024	Electronic Service	No	OFF_SL_13-103_13-103

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
John	Lindell	agorud.ecf@ag.state.mn.us	Office of the Attorney General-RUD	1400 BRM Tower 445 Minnesota St St. Paul, MN 551012130	Electronic Service	Yes	OFF_SL_13-103_13-103
Kavita	Maini	kmaini@wi.rr.com	KM Energy Consulting LLC	961 N Lost Woods Rd Oconomowoc, WI 53066	Electronic Service	No	OFF_SL_13-103_13-103
Andrew	Moratzka	apmoratzka@stoel.com	Stoel Rives LLP	33 South Sixth Street Suite 4200 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_13-103_13-103
Larry L.	Schedin	Larry@LLSResources.com	LLS Resources, LLC	12 S 6th St Ste 1137 Minneapolis, MN 55402	Paper Service	No	OFF_SL_13-103_13-103
Stuart	Tommerdahl	stommerdahl@otpco.com	Otter Tail Power Company	215 S Cascade St PO Box 496 Fergus Falls, MN 56537	Electronic Service	No	OFF_SL_13-103_13-103