

October 17, 2014

Burl W. Haar  
Executive Secretary  
Minnesota Public Utilities Commission  
121 7<sup>th</sup> Place East, Suite 350  
St. Paul, Minnesota 55101-2147

RE: **Comments of the Minnesota Department of Commerce, Division of Energy Resources**  
Docket No. E017/M-14-647

Dear Dr. Haar:

Attached are the *Comments* of the Minnesota Department of Commerce, Division of Energy Resources (Department) in the following matter:

OTP Power Company's (OTP or the Company) Request for Approval of the Annual Rate Update to its Environmental Upgrades Cost Recovery Rider, Rate Schedule 13.08.

The *Petition* was filed on July 31, 2014 by:

Pete Beithon, Manager  
Regulatory Recovery  
215 South Cascade Street  
Fergus Falls, Minnesota 56538-0496

The Department recommends approval of OTP's proposed ECR Rider Rate that is appropriate to the implementation date, and is available to answer any questions the Commission may have.

Sincerely,

/s/DALE V. LUSTI  
Financial Analyst, Energy Planning & Advocacy

DVL/ja  
Attachment

## BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

### COMMENTS OF THE MINNESOTA DEPARTMENT OF COMMERCE DIVISION OF ENERGY RESOURCES

DOCKET No. E017/M-14-647

#### I. BACKGROUND

Otter Tail Power Company (OTP or the Company) operates the Big Stone Generation Station Plant (Big Stone Plant) near Big Stone City, South Dakota. The Big Stone Plant is co-owned by NorthWestern Corporation d/b/a NorthWestern Energy, Montana-Dakota Utilities Co., a Division of MDU Resources Group, Inc., and OTP; with OTP owning 53.9 percent of the plant.

According to OTP, the Big Stone boiler was originally designed to burn lignite coal fuel and began operation in 1975. In 1995, the boiler was converted to burn Powder River Basin (“PRB”) coal fuel. With the conversion to PRB coal fuel, a simplified Separated Overfire Air (“SOFA”) system was installed to reduce nitrogen oxide (“NOX”) emissions. The boiler also has a flue gas recirculation (“FGR”) system to control main steam and reheat temperatures. From the boiler, flue gas travels to two air heaters. The unit currently has a conventional pulse-jet fabric filter for control of particulate emissions that will be replaced as part of this project. Ash is currently sent to a fly ash storage silo located directly south of the plant, where it is then trucked to a landfill. Flue gas from the fabric filter flows to four centrifugal-induced draft (“ID”) fans. The ID fans discharge the flue gas to the chimney, which has two breech openings.

On July 31, 2013, OTP filed its Petition (the 7/31/13 Petition)<sup>1</sup> to the Minnesota Public Utilities Commission (Commission) for an Environmental Upgrades Cost Recovery Rider (ECR Rider or Rider). This filing was made pursuant to Minnesota Stat. § 216B.1692 (the Emissions-Reduction Rider Statute). The ECR Rider would allow OTP to begin rate recovery for its share of the costs for the Air Quality Control System (AQCS) project being installed at the Big Stone Plant. In the 7/31/13 Petition, OTP assumed an October 2013 through September 2014 first-year recovery period for the ECR Rider, which OTP estimated as a 3.958 percent rate increase using a percent-of-bill rate design method. OTP assumed an

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<sup>1</sup> Docket No. E017/M-13-648.

October 2014 through September 2015 second-year recovery period for the ECR Rider, which OTP estimated as a 6.9 percent rate increase (calculated as an aggregate revenue increase over rates prior to ECR Rider implementation). OTP indicated that the AQCS project is scheduled to be completed and in-service by late 2015. OTP noted an additional rate increase of approximately 5.6 percent is expected when the AQCS project goes into service, inclusive of recovery for the total estimated capital expenditures and operating and maintenance expenses that commence when the project goes into service. OTP noted that the total aggregate rate increase expected for the project through the in-service date is estimated to be approximately 12.5 percent.

On September 30, 2013, the Department filed Comments noting it considered OTP's proposal to be reasonable and complete, and therefore, recommended that the Commission approve OTP's Environmental Cost Recovery Rider and tracker for the Air Quality Control System project at the Big Stone Power Plant.

On December 18, 2013, the Commission's Order in Docket No. E017/M-13-648 (the 13-648 docket) included the following disposition:

- Determined that the Big Stone Air Quality Control System project is eligible for an Environmental Cost Recovery rider as requested in this filing.
- Approved OTP's elements of the ECR rider.
- Approved OTP's calculation of its 2013 ECR Rider revenue requirements, with the exclusion of baghouse and ACI system equipment CWIP balance using the 10.4 percent estimate.
- Approved OTP's overall proposed tracker recovery method, including a monthly 1/12 rate of return charged on any under or over recovery balance.
- Approved OTP's use of the percent-of-bill method to allocate ECR Rider costs to customer classes.
- Approved the Company's notice. OTP shall work with the Commission Staff and Department in refining the notice if necessary.

## II. SUMMARY OF PROPOSAL

On July 31, 2014, OTP filed its Petition to the Commission for approval of its annual update to the ECR Rider Rate under OTP's Rate Schedule 13.08.

Pursuant to the Commission's December 18, 2013 approval of OTP's ECR Rider tariff and rate in in the 13-648 docket, the Company implemented the approved ECR Rider rate of 3.958 percent (applied to base rates) effective with bills rendered on and after January 1, 2014.

In this annual update, OTP is requesting to update its ECR Rider rate to reflect actual costs incurred through May 2014 and projected costs through September 2015. The updated forecast of project costs over this period is based on a new project budget of \$384 million, a 21.8 percent reduction from the original budget. The original budget was \$491 million (inclusive of \$40 million for a new baghouse and \$2.1 million for an activated carbon injection (ACI) system, which are excluded from the ECR Rider).

As shown in Attachment 1 of the Petition, the Revenue Requirements Summary, the revenue requirement allocated to Minnesota is \$9,654,962 with a projected under-recovery of the current period's costs of \$553,628 and a carrying charge (in this case a credit to customers) during the collection period of \$6,308 for a total revenue requirement of \$10,202,283 to be recovered through the ECR rate rider.

In its Petition, OTP assumed an October 2014 through September 2015 second-year recovery period for the ECR Rider, which OTP has estimated as a 6.515 percent rate increase (calculated as an aggregate revenue increase over current tariff [base] rates) using a percent-of-bill rate design method, based on an expected implementation date of October 1, 2014. As noted on page 10 of its Petition, in the event the effective date is significantly later than October 1, 2014, OTP requested the option to recalculate the rate in order to recover all approved costs over the remainder of the proposed recovery period.

At the Department's request, on October 14, 2014, the Company made a Supplemental Informational Filing to provide alternative ECR Rider tariff rates for implementation dates of November 1, 2014 and December 1, 2014, and recovery periods of November 1, 2014 through September 30, 2015 and December 1, 2014 through September 30, 2015, respectively.

### **III. DEPARTMENT ANALYSIS**

#### **A. 2014 ECR RIDER REVENUE REQUIREMENT CALCULATIONS**

On pages 6 to 8 of its filing, OTP discussed its 2014 ECR Rider revenue requirement calculations, including OTP's 2014 Environmental Upgrade Tracker Report as shown on OTP's Attachment 2, which includes calculations for the AQCS project. OTP's description of the components included in the revenue requirement for the project included in the ECR Rider is as follows:

- *Rate base section*, lines 1-22 of the tracker provide details on the amount of:
  - *Plant in service*. (When applicable)
  - *Accumulated Depreciation*. (When applicable)
  - *Construction Work in Progress* (“CWIP”). MN Statute 216B.1692 allows a current return on CWIP
  - *Allowance for Funds Used During Construction (AFUDC)*. Earned prior to rate implementation
  - *Baghouse Exclusion*. Removal of costs associated with the baghouse and ACI construction.
  - *Accumulated Deferred Taxes*. (When Applicable)
  - *Average Rate Base*. This amount is based on a 13-month average calculation.
  - *Return on Rate Base*. The return on investment utilizes the cost of capital approved in OTP’s most recent general rate case which is 8.61 percent.
  - *Available for Return*. This amount is the equity portion of the Return on Rate base.
  
- *Expense section*, the expenses applicable to the project are listed on lines 25-37 and include operation costs, property taxes, depreciation and income taxes.
  - *O&M Expenses*. Otter Tail will track O&M costs specifically related to the AQCS project.
  - *Property taxes*. The property tax calculation is based on Otter Tail’s composite tax rate for South Dakota, the jurisdiction where Big Stone is located and will be calculated in accordance with the procedures specified by each state.
  - *Depreciation Expense*. Depreciation expense is calculated using Otter Tail’s latest composite depreciation rate.
  - *Income Tax Expense*. Total income tax expense is based on the combined federal and MN tax rate.
  
- *Revenue requirement section*, lines 41-53 show the components of the revenue requirements calculation. Included are the items computed from the sections previously mentioned, including expenses and return on rate base.
  - *Jurisdictional allocator*. OTP has applied jurisdictional allocators E1 and D1 as determined by the Commission in Otter Tail's most recent general rate case.

- *Baghouse and ACI exclusion.* The Commission's ADP approval did not include the new baghouse portion of the AQCS project or the ACI system that is being added to comply with the MATS rule. The baghouse was not part of the ADP approval because the Commission determined it to be beyond the scope of the ADP statute, not because it was found imprudent. The ACI system was not included in Otter Tail's ADP request, because it did not fit within the scope of the ADP statute. The construction of the baghouse is expected to cost \$38 million in the revised budget (total project). The construction of the ACI system equipment is expected to cost approximately \$2 million in the revised budget (total project). To remove these costs, a portion of the monthly CWIP balance, and AFUDC through 2013, is removed in the same ratio as the cost of the baghouse and ACI as compared to the total AQCS project cost. The ratio is found by dividing the total projected cost of the baghouse and ACI by the total projected cost of the AQCS project (inclusive of the baghouse and ACI). The ratio is approximately 10.40 percent and this amount is removed from the project costs to arrive at the AQCS costs excluding the baghouse and ACI. The AFUDC calculation does not exclude the baghouse directly. Rather, the baghouse exclusion is calculated in the CWIP calculation section (Attachment 2, pages 1-3, lines 13 and 14). Within that section, the baghouse portion of each month's CWIP and AFUDC amounts are removed from the totals.

The Department reviewed the 2014 ECR Rider revenue requirements and tracker (OTP's Attachments 2 and 3 in its filing) by reviewing OTP's electronic spreadsheets provided in response to an informal Department Information Request. The Department also reviewed OTP's exclusion of the baghouse and ACI system equipment costs which the Company performed by excluding 10.4 percent of the monthly CWIP balance. Based on our review, the Department considers OTP's calculation of its 2014 ECR Rider revenue requirements, with the exclusion of baghouse and ACI system equipment using the 10.4 percent estimate of CWIP balance, to be reasonable.

*B. TRACKER BALANCE*

OTP discussed on pages 8 and 9 of its filing that it maintains a tracker account worksheet and accounting system to track and account for retail revenue requirements associated with the project compared to the actual collections received through the billing and collections under the Rider's approved rates. OTP noted that project costs would remain in the tracker until all costs have either been fully recovered within the Rider, or the costs have been moved into rate base and reflected in base rates as part of a general rate case. The tracker account information compares OTP's Minnesota jurisdictional costs and the amount recovered through Minnesota retail revenue. The tracker account balance (either positive or negative) will accrue monthly carrying charges at a rate of 1/12 of OTP's cost of capital times the tracker balance. Carrying charges on a negative tracker balance will accrue to the benefit of retail customers and carrying charges on a positive tracker balance would accrue to the benefit of OTP.

The OTP ECR Rider rate approved in Docket No. E017/M-13-648 was based on an assumed implementation date of October 1, 2013 but the rate actually became effective January 1, 2014. The delay resulted in an under collection (after all corrections and updates) of \$553,628 as the approved rate was designed using 12 months of revenues and the actual collection period was only nine months.

Based on our review, the Department considers OTP's overall proposed tracker recovery method, including a monthly 1/12 rate of return charged on any under- or over-recovery balance, to be reasonable.

*C. RATE DESIGN*

As discussed on pages 9 and 10 of its petition, OTP proposed to continue to use the "percent-of-bill" method to allocate costs to classes, as approved in the 13-648 docket.

*D. REVENUE REQUIREMENTS AND RATE APPLICATION AND IMPACT*

OTP proposed in its filing that the ECR Rider continue to be applicable to electric service under all of OTP's retail rate schedules, with the charge included as part of the Resource Adjustment line on customers' bills. OTP's total 2014 revenue requirement for the AQCS project, as shown on line 4 in Attachment 1 of OTP's filing, is \$10,202,283. OTP's proposed rate of 6.515 percent is then calculated in its Attachment 4. OTP indicated that the estimated rate increase for a residential customer using 1,000 kWh would be 2.38 percent, or \$2.31 per month. Table 1 below shows the estimated rate increase over the previous rate by rate class:

**Table 1: Rate Impact of 6.515 % ECR Rider Rate If Implemented October 1, 2014**

	Average kWh's per month	Current Bill with 3.958% ECR Rider	Proposed Bill with 6.515% ECR Rider	Increase over Bill with 3.958% ECR Rider	Percent Increase
Residential (101 Rate)	1,000	\$97.21	\$99.52	\$2.31	2.38%
Small Commercial (404 Rate)	1,000	\$100.24	\$102.63	\$2.39	2.38%
Large Commercial (603 Rate)	400,000	\$28,314.43	\$28,982.07	\$667.64	2.36%

As stated earlier, on October 14, 2014, the Company made a Supplemental Informational Filing that provided alternative ECR Rider tariff rates for implementation dates of November 1, 2014 and December 1, 2014, and recovery periods of November 1, 2014 through September 30, 2015 and December 1, 2014 through September 30, 2015, respectively.

To accommodate an implementation date of November 1, 2014, and in acknowledgement of the fact the initial ECR rider rate of 3.958 percent would be collected during the month of October, 2014, OTP's revenue requirement for the November 1, 2014 through September 30, 2015 period would be \$9,771,964, as shown on line 4 in Attachment A, Revised Attachment 1 of OTP's October 14, 2014 Supplemental Information Filing. OTP's proposed rate of 6.713 percent is then calculated in its Attachment A, Revised Attachment 4. OTP indicated that the estimated rate increase for a residential customer using 1,000 kWh would be 2.579 percent, or \$2.51 per month. Table 2 below shows the estimated rate increase over the previous rate by rate class:

**Table 2: Rate Impact of 6.731 % ECR Rider Rate If Implemented November 1, 2014**

	Average kWh's per month	Current Bill with 3.958% ECR Rider	Proposed Bill with 6.731% ECR Rider	Increase over Bill with 3.958% ECR Rider	Percent Increase
Residential (101 Rate)	1,000	\$97.21	\$99.72	\$2.51	2.579%
Small Commercial (404 Rate)	1,000	\$100.24	\$102.83	\$2.59	2.582%
Large Commercial (603 Rate)	400,000	\$28,314.43	\$28,982.07	\$724.03	2.557%



To accommodate an implementation date of December 1, 2014, and in acknowledgement of the fact the initial ECR rider rate of 3.958 percent would be collected during the months of October and November, 2014, OTP's revenue requirement for the December 1, 2014 through September 30, 2015 period would be \$9,228,706, as shown on line 4 in Attachment B, Revised Attachment 1 of OTP's October 14, 2014 Supplemental Information Filing. OTP's proposed rate of 7.006 percent is then calculated in its Attachment B, Revised Attachment 4. OTP indicated that the estimated rate increase for a residential customer using 1,000 kWh would be 2.579 percent, or \$2.51 per month. Table 3 below shows the estimated rate increase over the previous rate by rate class:

**Table 3: Rate Impact of 7.006 % ECR Rider Rate If Implemented December 1, 2014**

	Average kWh's per month	Current Bill with 3.958% ECR Rider	Proposed Bill with 7.006% ECR Rider	Increase over Bill with 3.958% ECR Rider	Percent Increase
Residential (101 Rate)	1,000	\$97.21	\$99.96	\$2.75	2.835%
Small Commercial (404 Rate)	1,000	\$100.24	\$102.83	\$2.85	2.838%
Large Commercial (603 Rate)	400,000	\$28,314.43	\$28,982.07	\$795.84	2.811%

OTP indicated that the 6.515 percent rate was calculated based on an expected implementation date of October 1, 2014, using a percent-of-bill rate design method. OTP notes in its October 14, 2014 Supplemental Informational Filing that in the event the Implementation date is November 1, 2014, it requests the ECR tariff rate be set at 6.731 percent. Similarly, in the event the Implementation date is December 1, 2014, it requests the ECR tariff rate be set at 7.006 percent.

If implementation of the Commission's approved ECR Rider tariff is November 1, 2014, the Department recommends that the Commission approve the 6.731 percent ECR Rider rate. If implementation of the Commission approved ERC tariff is December 1, 2014, the Department recommends the Commission approve the 7.006 percent ECR Rider rate.<sup>2</sup>

<sup>2</sup> Please see Attachment 1 for the Department's rate impact summary assuming different implementation dates.

**E. CUSTOMER NOTIFICATION AND BILING**

OTP noted on page 11 of its filing that it plans to provide notice to customers regarding the 2014 ECR Rider to be reflected in their monthly electric bills. The following is OTP's proposed language to be included as a notice on customers' bills during the month that the 2014 rider is implemented:

*Starting this month, the environmental cost recovery rider has been updated on your bill which recovers costs associated with new environmental controls, which reduce particulate matter and other pollutants, being installed at Otter Tail Power's Big Stone Power Plant. Questions? Contact us at 800-257-4044.*

OTP noted in its filing that consistent with past practice, OTP is prepared to work with the Department of Commerce and Commission Staff regarding its proposed customer notice.

The Department considers the Company's customer notice to be reasonable and appreciates OTP's offer to work with the Commission Staff and Department in refining the notice if necessary.

**IV. RECOMMENDATIONS**

Overall, based on our review, the Department recommends approval of OTP's proposed ECR Rider Rate that is appropriate to the implementation date.

/ja

OTTER TAIL POWER COMPANY  
Docket No. E017/M-14-647  
Average Customer Bills  
For the Three Different Implementation Dates

Line No.	Average kWh's per month 1/		Bill Before Riders 2/		Bill Before ECR Rider 2/		Percent of Bill ECR Rider Rate 3/		Total Bill After Rider - 1 4/		Assumes October Implementation		Assumes November Implementation		Assumes December Implementation	
	(a)	(b)	(c)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)
1	Residential (101 Rate)	1,000	\$90.42	\$93.63	103.958%	\$97.21	106.515%	\$99.52	106.731%	\$99.72	107.006%	\$99.96	106.731%	107.006%	107.006%	\$99.96
2	Commercial (404 Rate)	1,000	\$93.34	\$96.55	103.958%	\$100.24	106.515%	\$102.63	106.731%	\$102.83	107.006%	\$103.09	106.731%	107.006%	107.006%	\$103.09
3	Commercial (603 Rate)	400,000	\$26,110	\$27,281	103.958%	\$28,314.43	106.515%	\$28,982.07	106.731%	\$29,038.46	107.006%	\$29,110.27	106.731%	107.006%	107.006%	\$29,110.27

1/ OTP's 7/31/14 Filing in Docket No. E017/M-14-647 at Page 10.  
2/ 9/29/14 Pete Beithon E-Mail.  
3/ OTP's 7/31/13 Filing in Docket No. E017/M-13-648 at Page 2.  
4/ Sum of Columns [(b) X (d)] + [(c) - (b)].  
5/ OTP's 7/31/14 Filing in Docket No. E017/M-14-647 at Page 2.  
6/ Sum of Columns [(b) X (f)] + [(c) - (b)].  
7/ OTP's 10/14/14 Supplemental Information Filing in Docket No. E017/M-14-647 at Page 1.  
8/ Sum of Columns [(b) X (h)] + [(c) - (b)].  
9/ Sum of Columns [(b) X (j)] + [(c) - (b)].

## **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-14-647**

**Dated this 17<sup>th</sup> day of October 2014**

**/s/Sharon Ferguson**

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