

## Staff Briefing Papers

**Meeting Date** August 1, 2024

**Agenda Item 1\*\***

**Company** Otter Tail Power Co.

**Docket No.** E-017/M-23-496

**In the Matter of Otter Tail Power Co.'s Petition for Approval of the Annual Update to its Renewable Resource Cost Recovery Rider Rate, Rate Schedule 13.04**

**Issues** Should the Commission approve Otter Tail Power Co.'s 2023 Renewable Resource Cost Recovery Rider Petition and associated recovery factors?

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### ✓ Relevant Documents

#### Date

Otter Tail Power Co. – Initial Petition (Public and Trade Secret)	December 4, 2023
Department of Commerce – Comments (Public and Trade Secret)	May 7, 2024
Otter Tail Power Co. – Reply Comments (Public and Trade Secret)	May 17, 2024
Midwest Large Energy Consumers – Reply Comments	May 17, 2024
Otter Tail Power Co. – Response to Reply Comments	June 7, 2024

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The attached materials are work papers of the Commission Staff. They are intended for use by the Public Utilities Commission and are based upon information already in the record unless noted otherwise.

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## **I. STATEMENT OF THE ISSUES**

Should the Commission approve Otter Tail Power Co.'s 2023 Renewable Resource Cost Recovery Rider Petition and associated recovery factors?

## **II. INTRODUCTION AND BACKGROUND**

### **A. Introduction**

On December 4, 2023, Otter Tail Power Company (Otter Tail or The Company) filed a Petition seeking approval to update its Renewable Resource Cost Recovery Rider (RRR) rate under Otter Tail's Schedule 13.04.

The Petition requested an effective date of July 1, 2024 for the cost recovery of the Hoot Lake Solar project and Ashtabula III Wind Facility, the Wind Facility Upgrade Projects at Langdon, Ashtabula I, Luverne, and Ashtabula III Wind Facilities, and the difference in production tax credits (PTCs) in base rates and the actual PTCs generated for the Merricourt Wind Energy Center.

On May 7, 2024, the Department of Commerce, Division of Energy Resources (Department) filed Comments and recommended the Commission approve Otter Tail's Petition.

On May 17, 2024, Otter Tail filed reply comments updating its proposed recovery factors.

Also on May 17, 2024, Midwest Large Energy Consumers (MLEC) filed Comments indicating that Otter Tail should show a corresponding decrease in the Minnesota E2 jurisdictional allocation factor to the Commission before approval of its Petition.

On June 7, 2024, in response to MLEC's reply comments, Otter Tail indicated that adoption of MLEC's recommendation would increase rates to all classes.

### **B. Background**

To allow recovery of renewable resource costs associated with the Company's Langdon wind facility, Otter Tail's RRR was initially established in 2008.<sup>1</sup>

As summarized in Table 1, the Company has requested approval to continue to modify this rider in several annual update and general rate case filings.

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<sup>1</sup> Commission August 15, 2008 Order, Docket Nos. E-017/M-08-119 and E-017/M-08-131.

**Table 1: Otter Tail's Renewable Resource Rider Docket History<sup>2</sup>**

<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 typically included requests to update some combination of rider rates, recovery periods, and facilities or projects associated with the renewable costs to be recovered through the rider.

On January 10, 2018, the Commission approved cost recovery of Merricourt Wind.<sup>3</sup>

On December 20, 2019, the Commission approved updated RRR rates and required Otter Tail to discontinue RRR collections and roll into base rates the costs and Production Tax Credits (PTCs)<sup>4</sup> associated with completed, in service renewable projects at the beginning of its next rate case. The Commission also required the Company to continue to include PTC true ups in future riders.<sup>5</sup>

On January 1, 2021, interim rates went into effect in Otter Tail's most recent rate case.<sup>6</sup> At that time, in compliance with Commission Order, the Company discontinued RRR collections, rolled RRR costs and related PTCs into base rates, and tracked the difference between the Merricourt

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<sup>2</sup> Petition, at 5, Table 1.

<sup>3</sup> Docket No. E-017/M-17-279.

<sup>4</sup> 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.

<sup>5</sup> Docket No. E-017/M-19-411.

<sup>6</sup> Docket No. E-017/GR-20-719.

Wind PTCs actually generated and those included in its base rates.<sup>7</sup> Attachment 3 of the Company's Petition shows the true up of this PTC difference, while Attachment 4 shows the detailed calculations.

On April 29, 2021, 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 solar and renewable energy standards.<sup>8</sup> Pursuant to Minnesota Statutes § 216B.1645, the Commission authorized future cost recovery of Hoot Lake investments through the Company's RRR and approved Otter Tail's proposal to allocate 100 percent of Hoot Lake costs to the Company's Minnesota jurisdiction.

On October 6, 2022, the Commission approved Otter Tail's purchase of Ashtabula III, which is a facility in North Dakota with a nameplate capacity of approximately 62.4 MW.<sup>9</sup>

On December 4, 2023, Otter Tail filed its current RRR Petition.

On May 7, 2024, the Minnesota Department of Commerce, Division of Energy Resources (Department) filed comments requesting approval of Otter Tail's Petition, but also recommended the Company update its proposed rate factors to reflect the updated capacity credit accreditation.

On May 17, 2024, Otter Tail filed reply comments with the revised accreditation amount, and requested Commission approval of the updated solar capacity benefit and rate design.

On May 17, 2024, Midwest Large Energy Consumers (MLEC) filed reply comments indicating a significant change in the jurisdictional allocator (E2 allocator) used to allocate the non-solar RRR costs to Otter Tail's various jurisdictions.

On June 7, 2024, in response to MLEC, Otter Tail filed comments, quantifying the rate impact of MLEC's proposed alternate Minnesota jurisdiction E2 allocator.

### III. RELEVANT STATUTES

Minnesota Statutes §216B.1645, Subdivision 2a, provides the Commission with the authority 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

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<sup>7</sup> Docket No. E-017/M-19-411.

<sup>8</sup> 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*, E-017/M-20-844.

<sup>9</sup> Docket No. E-017/PA-21-793

§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:

- Return on investment
- Depreciation expense
- Ongoing operation and maintenance (O&M) expenses
- 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
- 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

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 \$1,000,000<sup>10</sup>... 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.”

#### **IV. PARTIES COMMENTS**

##### **A. Otter Tail Power – Initial Petition**

##### **1. Proposed Revenue Requirements and RRR Rates**

Otter Tail’s Minnesota-jurisdiction projected revenue requirement for the July 1, 2024 through June 30, 2025 recovery period is \$8,006,952.

Otter Tail proposed to use the rate design that was approved in the Company’s previous RRR

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<sup>10</sup> The Department comments indicated \$100,000. See *216B.50 RESTRICTIONS ON PROPERTY TRANSFER AND MERGER*. 2023 Minnesota Statutes. <https://www.revisor.mn.gov/statutes/cite/216B.50>

filing, which includes demand and energy components.<sup>11</sup> The proposed RRR rates by customer class are provided in Table 2.

**Table 2: Otter Tail’s Proposed Renewable Resource Rider Rates<sup>12</sup>**

<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

Otter Tail stated that the bill impact on a residential customer using 1,000 kWh per month would be a \$3.68 decrease per month. Whereas an average Large General Service (LGS) customer using between 400,000 kWh and 1,000 kW per month would experience a \$549 decrease per month.<sup>13</sup> The charge would continue to be a part of the Resource Adjustment line on customer bills.

## **2. Proposed Cost Recovery**

Otter Tail’s Petition, as discussed below, proposed the following:

- True up the difference between PTCs in base rates and actual PTCs generated for the Merricourt Wind Energy Center
- Recover costs for the Hoot Lake Solar Project
- Recover costs for the purchase of the Ashtabula III Wind facility
- Recover costs for the Wind Facility Upgrade Projects at Langdon, Ashtabula I, Luverne, and Ashtabula III
- Provide an update of the over/under-recovered RRR tracker balance from June 2024

### **a) Merricourt Wind PTC True-Ups**

In Otter Tail’s most recent rate case, the Commission authorized the Company to reflect the difference between forecasted Production Tax Credits (PTCs) in base rates and actuals PTCs for

<sup>11</sup> Docket No. E-017/M-22-577.

<sup>12</sup> Petition, Attachment 2.

<sup>13</sup> *Id.*, at 12.



the Merricourt Wind facility in future RRR filings.<sup>14</sup> Otter Tail began to true up the Merricourt Wind PTCs in January 2021. The Company proposed a PTC rate of \$28 per MWh<sup>15</sup> and a PTC true-up amount of \$10,150 for the July 2024 through June 2025 timeframe.<sup>16</sup>

### **b) Hoot Lake Solar Project**

Otter Tail described the Hoot Lake Solar Project as a 49.9 MW solar generating facility located at the site of the Company's retired coal-fired Hoot Lake Plant in Fergus Falls, Minnesota, that began Commercial operations on August 8, 2023.<sup>17</sup>

The Commission's Order approving the Hoot Lake Solar Project<sup>18</sup> concluded that the Company's bidding process and evaluation of bids resulted in the least-cost solar resource available. Additionally, Pursuant to Minnesota Statutes § 216B.1645, the Commission authorized future cost recovery of Hoot Lake Solar investments through the Company's RRR.

Otter Tail discovered in its Petition that claiming PTCs versus the allowed accounting for Investment Tax Credits (ITCs) provided a significantly lower cost for Hoot Lake Solar to the Company's customers. The impact of this adjustment is a \$4 million reduction to the revenue requirement from January 2023 through June 2025.

Regarding the change from using investment tax credits (ITCs) to PTCs for its Hoot Lake Solar Project, Otter Tail stated:

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 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

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<sup>14</sup> Commission's February 1, 2022 *Findings of Fact, Conclusions, and Order*, Docket No. E-017/GR-20-719, page 66, Ordering Point No. 10.

<sup>15</sup> Petition, Attachment 4, Line 11.

<sup>16</sup> *Id.*, Attachment 3, Line 2, Merricourt PTCs.

<sup>17</sup> *Id.*, at 7. The Hoot Lake Coal Plant ceased operations on May 31, 2021.

<sup>18</sup> April 29, 2021 *Order*, Docket No. E-017/M-20-844.

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.<sup>19</sup>

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 proposed to recover \$3,434,753 in revenue requirements for its Hoot Lake Solar Project.<sup>20</sup>

### **c) Ashtabula III Wind Facility**

The Commission's October 24, 2022 Order approved Otter Tail's request to purchase the Ashtabula III Wind facility.<sup>21</sup>

The Ashtabula III wind facility assets include 39 wind generators with an aggregate nameplate of 62.4 MW, real estate interests, substation assets, and licenses and permits necessary to own and operate the wind facility.<sup>22</sup>

Otter Tail proposed to recover \$4,658,605 in revenue requirements for its Ashtabula III Wind facility.<sup>23</sup>

### **d) Wind Farm Upgrade Projects**

Otter Tail has four wind facilities – Langdon, Luverne, Ashtabula I, and Ashtabula III – that qualify for PTCs through the Inflation Reduction Act (IRA). The Company disclosed that it plans to remove and replace the existing General Electric blades, hub, and gearbox with upgraded technology and increasing blade rotor diameters in 2024 and 2025.<sup>24</sup>

Otter Tail proposed to recover \$612,710 (Langdon Wind), \$1,215,732 (Ashtabula I), \$1,543,866

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<sup>19</sup> Petition, at 7.

<sup>20</sup> *Id.*, Attachment 5.

<sup>21</sup> In the Matter of the Petition of Otter Tail Power Company for Approval of a Transfer of Property, E-017/PA-21-793.

<sup>22</sup> Petition, at 8.

<sup>23</sup> *Id.*, Attachment 6.

<sup>24</sup> *Id.*, at 8.

(Luverne), and \$1,537,806 (Ashtabula III) in revenue requirements.<sup>25</sup>

#### e) Tracker Balance

Otter Tail maintains a RRR tracker account for the projected and actual revenue requirements, customer billings, sales, and carrying charges.<sup>26</sup> Due to higher actual versus forecasted sales and the proposed change from ITCs to PTCs in this Petition, as of June 2024, the Company has an over-recovered tracker balance of (\$5,006,668). Attachments 4 through 10 provided a more detailed calculation of the true-up components that comprise the amount of (\$5,006,668).

### 3. Rate Design

Attachment 2 of the Company's Petition showed the initially proposed RRR rate design.

The proposed rate design utilized the following:

- An energy allocator (E2) to assign total revenue requirements to the Minnesota jurisdiction (with exception of Hoot Lake Solar, which the Company assigned 100 percent to the Minnesota jurisdiction)
- An energy allocator (E2) and demand allocator (D1) that distributed the Minnesota jurisdictional costs among the Company's LGS and retail customer classes.

Otter Tail stated that demand *and* energy rates would apply to the Company's LGS class and an energy rate would apply to all other customers, ensuring recovery of both demand and energy costs.

Minnesota Statutes § 216b.1691, subdivision 2f(f)(2) states that paper mills, wood product manufacturers, sawmills, and oriented strand board manufacturers may not include any costs of satisfying Minnesota's SES in the rates.<sup>27</sup> As a result, Otter Tail created an SES Exempt customer class to ensure those customers were not charged for the Company's SES compliance costs. SES Exempt customers are still required to pay for the capacity benefit associated with solar resources, and this benefit is incorporated in Attachment 2, lines 51, 53, and 64 through 69. Otter Tail's capacity benefit calculation and allocations are indicated on Attachments 14 and 15.

### 4. Treatment of Deferred Income Taxes

Otter Tail prorated Federal Accumulated Deferred Income Taxes (ADIT) according to tax

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<sup>25</sup> *Id.*, Attachments 7, 8, 9, and 10.

<sup>26</sup> *Id.*, Attachment 3.

<sup>27</sup> *Id.*, at 12.

normalization requirements under U.S. Treasury Regulation Section 1.167(1)-1(h)(6)(ii).<sup>28</sup> To comply with this regulation and avoid a tax normalization violation, the Company deemed it necessary to preserve the effects of ADIT proration in true-up calculations.

The RRR revenue requirement for the July 2024 through June 2025 timeframe is \$19,045 more than without proration of federal ADIT.<sup>29</sup> The true-up for non-solar projects from July 2023 through June 2024 was \$1,112 more than it would have been without the proration of federal ADIT,<sup>30</sup> while the solar projects true-up was \$20,293 more than without the proration of federal ADIT.<sup>31</sup>

## 5. Proposed Language for Notice to Customers

Otter Tail proposed the following language to notify customers of approved rate factor updates:

The Minnesota Public Utilities Commission approved adjustments to our Renewable Resource Cost Recovery Rider, which is part of the Resource Adjustment on your monthly electric service bill. This rider recovers costs associated with owning and operating renewable generation resources. Listed below are 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 [otpc.com](http://otpc.com).<sup>32</sup>

Otter Tail indicated it would notify customers of approved rate updates through customer bills in the month it implements the new RRR rates.<sup>33</sup>

## B. Department of Commerce – Comments

As summarized in Table 3, the Department provided a detailed breakdown of Otter Tail's proposed revenue requirement.

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<sup>28</sup> *Id.*, at 10 and 11.

<sup>29</sup> *Id.*, Attachment 11.

<sup>30</sup> *Id.*, Attachment 12.

<sup>31</sup> *Id.*, Attachment 13.

<sup>32</sup> *Id.*, Attachment 17.

<sup>33</sup> *Id.*, at 12.

**Table 3: Proposed Revenue Requirements Requested for Recovery through Renewable Resource Rider Rates<sup>34</sup>**

<b>Project / Facility Category</b>	<b>Proposed Revenue Requirements July 2024 - June 2025</b>
Merricourt Wind PTC True-ups	\$10,150 <sup>35</sup>
Hoot Lake Solar	\$3,434,752 <sup>36</sup>
Ashtabula III	\$4,658,605 <sup>37</sup>
Langdon Wind Repower	\$612,710 <sup>38</sup>
Ashtabula I Repower	\$1,215,732 <sup>39</sup>
Luverne Repower	\$1,543,866 <sup>40</sup>
Ashtabula III Repower	\$1,537,806 <sup>41</sup>
Tracker / True-Up Balance as of June 2024	\$(5,006,668) <sup>42</sup>
<b>Total Net Revenue Requirement to be Recovered through RRR Rates</b>	<b>\$8,006,952<sup>43</sup></b>

The Department reviewed Otter Tail's Petition to determine whether the Petition complied with applicable statutes and Commission orders and evaluated the reasonableness of the Company proposals.

The Department recommended that the Petition's proposed revenue requirements, customer notice, and corrected rate factors shown in Table 4 below be approved.

The Department also recommended that Otter Tail submit a compliance filing of the approved RRR rates and corresponding tariff sheets within 10 days of the Commission's Order.

<sup>34</sup> Department Comments, at 4.

<sup>35</sup> Petition, Attachment 4, sum of line 18 from July 2024 to June 2025.

<sup>36</sup> *Id.*, Attachment 5, sum of line 56 from July 2024 to June 2025.

<sup>37</sup> *Id.*, Attachment 6, sum of line 60 from July 2024 to June 2025.

<sup>38</sup> *Id.*, Attachment 7, sum of line 55 from July 2024 to June 2025.

<sup>39</sup> *Id.*, Attachment 8, sum of line 55 from July 2024 to June 2025.

<sup>40</sup> *Id.*, Attachment 9, sum of line 55 from July 2024 to June 2025.

<sup>41</sup> *Id.*, Attachment 10, sum of line 55 from July 2024 to June 2025.

<sup>42</sup> *Id.*, Attachment 3, page 2 of 2, line 22.

<sup>43</sup> *Id.*, Attachment 3, page 2 of 2, line 20.

## 1. Project Eligibility

### a) Merricourt Wind

The Department concluded that Otter Tail is eligible to true-up PTCs for the Merricourt Wind facility. The Department reviewed the wind PTC true-up calculations of \$28 per MWh and \$10,150 in total for the July 2024 through June 2025 timeframe and concluded they seem reasonable.

### b) Hoot Lake Solar Project

The Department concluded the Hoot Lake Solar Project is eligible for RRR recovery, and the \$3,434,753 proposed revenue requirement appeared reasonable.

Based on the changes in the Inflation Reduction Act and federal requirements that limit Otter Tail's ability to reduce rate base for the unamortized balance of ITCs, the Department agreed with the Company's proposed tax change to use PTCs instead of ITCs, for the Hoot Lake Solar project. The Department also agreed that the change would result in a \$4 million proposed revenue requirement decrease for the January 2023 through June 2025 timeframe.

The Department noted a significant change in the accredited capacity for Hoot Lake Solar. Based on Attachment 14 of the Company Petition, the (Trade Secret) monthly accredited capacity amount decreased significantly from 2022 to 2023. Therefore, the Department requested Otter Tail explain the change in an information request. In response, the Company stated:

Midcontinent Independent System Operator, Inc. (MISO) accreditation is set at (trade secret) percent 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 calculated to a lower accreditation amount, which is reflected in Attachment 14 (trade secret).

Otter Tail's Initial Filing included an accreditation amount of (trade secret) in the calculation shown in Attachment 14. Adjustment of the accreditation amount 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.<sup>44</sup>

Based on discussions with Otter Tail, the Department understood that Otter Tail should have used a capacity factor of (Trade Secret) which, if corrected, would result in moving an additional

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<sup>44</sup> Otter Tail's Response to DOC IR No. 1; Attachment 1.

\$84,414 in revenue requirements from SES-paying to SES-exempt customers.

Further, the Department noted that making this correction would not impact the overall revenue requirements but would change the rate design as follows:

**Table 4: Otter Tail's Initially Proposed and Corrected Renewable Resource Rider Rates/Factors<sup>45</sup>**

<i>Customer Class</i>	<i>Initial Proposed Rate</i>	<i>Corrected Proposed Rate<sup>46</sup></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

To reflect the updated capacity credit accreditation, the Department recommended Otter Tail be required to update its proposed rate factors to the corrected rate factors in Table 4 above.<sup>47</sup>

#### **c) Ashtabula III Wind Facility**

The Department noted that the Ashtabula III Wind Facility is eligible for recovery in Otter Tail's RRR, as it meets the standard for a renewable energy facility per Minnesota Statutes § 216B.1645, subdivision. 2a.

The Department therefore concluded that the \$4,658,605 proposed revenue requirement for the facility appeared reasonable.

#### **d) Wind Farm Upgrade Projects**

The Department agreed that Otter Tail's Wind Farm Upgrade Projects are eligible for recovery in its RRR based on Commission approval under Minnesota Statutes § 216B.1691, subdivision. 1, (a)(2).

The Department concluded that the proposed revenue requirements of \$612,710 (Langdon Wind), \$1,215,732 (Ashtabula I), \$1,543,866 (Luverne), and \$1,537,806 (Ashtabula III Repower)<sup>48</sup> appear to be reasonable.

<sup>45</sup> Petition, Attachment 2.

<sup>46</sup> Per email received from Otter Tail on April 3, 2024; see DOC Attachment No. 3.

<sup>47</sup> Department Comments, at 8.

<sup>48</sup> Petition, Attachments 7, 8, 9, 10.

### **e) Tracker Balance**

The Department reviewed Otter Tail's tracker account and concluded that the summary is supported by the financial data in the related Petition attachments, and the true up calculations applicable to the current RRR update appear reasonable.

## **2. Treatment of Certain Revenue Requirement Components**

The Department evaluated the reasonableness of Otter Tail's revenue requirements using the renewable project cost recovery provisions outlined in prior Commission orders and in Minnesota Statutes § 216B.1645, subdivision 2a, as applicable.

### **a) Rate of Return on Construction Work in Progress and Investment**

The Department agreed that Otter Tail may calculate a rate of return on construction work in progress (CWIP) balances and investments for qualifying renewable energy projects per Minnesota Statutes § 216B.1645, subdivision 2a.

The Department held that Otter Tail's proposed 7.18 percent return on rate base for these CWIP balances and investments is reasonable, and consistent with the rate of return approved in the Company's most recent general rate case.<sup>49</sup>

### **b) Treatment of Allowance for Funds Used During Construction, Construction Work in Progress, and Internal Capitalized Costs**

The Department noted that a utility generally accrues an allowance for funds used during construction (AFUDC)<sup>50</sup> on project investments until the Commission approves cost recovery in a cost eligibility filing. When the Commission approved cost recovery for Hoot Lake in 2021, Otter Tail stopped accruing AFUDC within the CWIP balance that was permitted to earn a return.

The Department also indicated that Otter Tail excluded internal capitalized costs from its project revenue calculations<sup>51</sup>, which would comply with Minnesota regulations of typically denying cost recovery outside of a rate case.<sup>52</sup>

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<sup>49</sup> Commission's February 1, 2022 *Findings of Fact, Conclusions, and Order* in Docket No. E-017/GR-20-719, page 68, Ordering Point No. 40.

<sup>50</sup> 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.

<sup>51</sup> Petition, Attachments 5 through 10, line 9.

<sup>52</sup> For example, the Commission denied recovery of internal capitalized costs in Docket Nos. E-002/M-03-1462, E-015/PA-09-526, Docket No. E-017/M-09-1484, E-017/M-13-103, and E-017/M-17-279.



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

#### **c) Treatment of Deferred Income Taxes**

The Department concluded that the Company's federal ADIT proration calculations in Attachments 11 through 13 appeared reasonable, and that it was appropriate for Otter Tail to follow the Internal Revenue Code requirements for federal ADIT proration.

#### **d) Inflation Reduction Act and Infrastructure and Investment Jobs Act**

The Department asked Otter Tail to identify all tax benefits and credits resulting from the Inflation Reduction Act and Infrastructure and Investment Jobs Act that were not included in the RRR filing in an information request. In response, Otter Tail indicated that all available tax benefits through the RRR were included in the initial filing.<sup>53</sup>

### **C. Otter Tail Power – Reply Comments**

In reply comments, Otter Tail acknowledged that the Hoot Lake Solar accreditation amount in the initial filing was incorrect. Both the Department and Otter Tail agreed to use a revised accreditation amount consistent with the RRR treatment approved in Docket No. E-017/M-21-830.

The Company provided updated solar capacity benefit and accreditation amounts for SES exempt customers in Revised Attachment 14 (trade secret), and updated customer rates after the change to the Hoot Lake Solar accreditation amount in Revised Attachment 2.

Otter Tail in its initial filing stated that a residential customer using 1,000 kWh per month would experience a \$3.67 monthly decrease, while an average LGS customer using 400,000 kWh and 1,000 kW per month would experience a \$549 monthly decrease. After the proposed updates to the rate design, a residential customer's decrease would be \$3.71, and a LGS customer's decrease would be \$1,035.

### **D. Midwest Large Energy Consumers – Reply Comments**

MLEC noted two recent Otter Tail filings with the North Dakota jurisdiction indicated a change in the E2 jurisdictional allocator from 37.577 percent to 44.98 percent, a 7.4% increase.<sup>54</sup> Otter Tail attributed this increase to a growth in North Dakota sales, primarily from the 2022 addition

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<sup>53</sup> OTP's Response to DOC IR No. 2; Attachment 2.

<sup>54</sup> Case No. PU-23-342, Otter Tail's North Dakota Base Rate Application; Case No. PU-23-343, Otter Tail's North Dakota RRR Rider update, both filed on November 2, 2023.

of APLD Hosting LLC as a full service customer.<sup>55</sup> Otter Tail used an E2 jurisdictional allocator of 53.5439 percent for Minnesota in the Company's initial filing.<sup>56</sup>

MLEC acknowledged that, while jurisdictional allocators are traditionally changed in rate case filings, the 7.4 percent increase in the North Dakota allocator would imply a material reduction in the Minnesota jurisdictional allocator and the corresponding reduction in the cost recovery associated with projects eligible to be recovered through the RRR Rider.

Therefore, MLEC requested Otter Tail provide additional information clarifying the impact of the Minnesota jurisdictional allocator decrease on the RRR related costs recovery.

### E. Otter Tail Power – Response to Midwest Large Energy Consumers Reply Comments

As shown in Table 5, Otter Tail calculated the revenue requirement based on MLEC's recommended allocation factor of 47.7908 percent.

**Table 5 – Impact to Revenue Requirements<sup>57</sup>**

Revenue Requirement Comparison July 1, 2024 - June 30, 2025			
Project / Facility Category	Revenue Requirements Using TY E2 <sup>58</sup>	Revenue Requirements Using 2023 Actual E2 <sup>59</sup>	Difference
Merricourt PTCs	\$10,151	\$1,297,928	\$1,287,777
Ashtabula III	\$4,658,604	\$4,158,050	\$(500,554)
Langdon Repower	\$612,712	\$546,877	\$(65,835)
Ashtabula I Repower	\$1,215,728	\$1,085,101	\$(130,627)
Luverne Repower	\$1,543,866	\$1,377,982	\$(165,884)
Ashtabula III Repower	\$1,537,808	\$1,372,575	\$(165,233)
Hoot Lake Solar	\$3,434,752	\$3,434,752	\$ -
True Up	\$(5,006,668)	\$(4,583,232)	\$423,436
Total Revenue Requirements	\$8,006,953	\$8,690,033	\$683,080

In summary, the reduced E2 allocation factor resulted in a reduced revenue requirement for Ashtabula and the four wind repower projects, but that reduction was offset by the allocation change of the Minnesota share of PTCs from Merricourt, relative to the amount of PTCs currently credited in base rates. The net change is a \$683,080 increase to the revenue

<sup>55</sup> See Ms. Amber Stalboerger Direct Testimony, page 5 in North Dakota rate case docket PU-23-342.

<sup>56</sup> Petition, Attachment 8.

<sup>57</sup> Otter Tail Response to Reply Comments, at 2.

<sup>58</sup> From Otter Tail's Petition.

<sup>59</sup> MLEC Proposed Revenue Requirements, as calculated by Otter Tail.

requirement for Minnesota customers.

The increased revenue requirement also impacts customer rates, as reflected in Table 6.

**Table 6 – Impact to Rates<sup>60</sup>**

<b>Rate Comparison</b> <b>July 1, 2024 - June 30, 2025</b>			
<b>Customer Class</b>	<b>Rates Calculated Using TY E2<sup>61</sup></b>	<b>Rates Calculated Using 2023 Actual E2<sup>62</sup></b>	<b>Difference</b>
SES-Paying LGS kWh	\$0.00228	\$0.00248	\$0.00020
SES-Exempt LGS kWh	\$0.00177	\$0.00193	\$0.00016
SES-Paying LGS kW	\$0.413	\$0.450	\$0.037
SES-Exempt LGS kW	\$0.780	\$0.805	\$0.025
SES-Paying All Others kWh	\$0.00303	\$0.00329	\$0.00026
SES-Exempt All Others kWh	\$0.00683	\$0.00704	\$0.00021

Otter Tail noted that, if the E2 allocation factor remains at 53.5439 percent, an SES paying residential customer using 1,000 kWh per month will see a \$3.71 decrease, and an SES-paying LGS customer will see a \$1,491 decrease. Alternatively, if the E2 allocation factor is changed to 47.7908 percent, the decreases would be reduced to \$3.45 and \$1,374, respectively.

Otter Tail indicated it would accept Commission direction regarding which E2 allocation factor should be used in the annual RRR update in the instant case.

## V. STAFF COMMENTS

The Department supports Otter Tail's Petition and recommends Commission approval of the Annual Update to its Renewable Resource Cost Recovery Rider Rate, Rate Schedule 13.04.

However, MLEC disputes Otter Tail's E2 jurisdictional allocator for Minnesota's share of RRR costs.

Historically, jurisdictional allocators for utilities do not change between rate cases, as changes are generally immaterial and have minimal ratepayer impact. In this filing, Otter Tail utilized the Minnesota E2 jurisdictional allocator of 53.5439 percent approved in its last general rate case.<sup>63</sup> Neither Otter Tail nor the Department commented on the E2 jurisdictional allocator in their initial filings for this proceeding.

<sup>60</sup> Otter Tail Response to Reply Comments, at 3.

<sup>61</sup> From Otter Tail's Petition.

<sup>62</sup> MLEC Request Proposed Revenue Requirements, as calculated by Otter Tail.

<sup>63</sup> Docket No. E-017/GR-20-719.

In Reply Comments, MLEC noted two filings in which Otter Tail indicated a 7.4 percent increase to the North Dakota E2 jurisdictional allocator.<sup>64</sup> In response to MLEC, Otter Tail modeled a Minnesota E2 allocation factor of 47.7908 percent based on actual 2023 financials, which was a 5.7531 percent decrease from the Company's November 2020 rate case and the initial RRR filing. While the E2 allocator change resulted in a decreased revenue requirement for Ashtabula and the four wind repower projects, the offset to the Merricourt PTCs and true ups result in a \$683,090 increase to the overall RRR revenue requirement. Thus, adoption of the lower Minnesota allocator that results in higher *total* costs to Minnesota ratepayers reinforces prior Commission reluctance to adopt different allocators outside of rate cases. Therefore, the Commission may want to consider whether a rider docket or a future rate case, where all costs are considered, is the most appropriate venue to adopt a different allocator.

Staff notes that Otter Tail's proposed July 1, 2024 implementation date has lapsed, so decision options are based on Otter Tail's alternative to implement on the first day of the month following Commission approval. Due to the revised implementation date, the Commission may want to order the Company to, within 10 days of the Commission's Order, file updated RRR schedules and a revised customer notice reflecting the updated implementation date.

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<sup>64</sup> Case No. PU-23-342, Otter Tail's North Dakota Base Rate Application; Case No. PU-23-343, Otter Tail's North Dakota RRR Rider update, both filed on November 2, 2023.

## VI. DECISION OPTIONS

### 2023 Petition

1. As set forth in Otter Tail's December 4, 2023 Petition, effective on the first day of the month following the Commission's Order, approve Otter Tail's: (Otter Tail, Department)
  - a) 2023 RRR annual rate adjustment using a Minnesota E2 jurisdictional allocator of 53.5439 percent.
  - b) Forecasted \$8,006,953 revenue requirement.

OR

2. As set forth in MLEC's May 17, 2024 filing, effective on the first day of the month following the Commission's Order, approve Otter Tail's 2023 RRR annual rate adjustment based on a Minnesota E2 jurisdictional allocator of 47.7908 percent. (MLEC)

### Tariff Sheets

3. Require Otter Tail to, within 10 days of the Commission's Order, file updated Renewable Resource Rider tariff sheets showing the rates approved by the Commission. (Department)

### Schedules and Customer Notice

4. Require Otter Tail to, within 10 days of the Commission's Order, file updated RRR schedules and a revised customer notice reflecting the updated implementation date. (Staff)