

## Staff Briefing Papers

Meeting Date May 12, 2022 Agenda Item 1\*

Company Otter Tail Power Company

Docket No. **E-017/GR-20-719**

**In the Matter of the Application of Otter Tail Power Company for Authority to Increase Rates for Electric Service in Minnesota**

- Issues
1. Should the Commission approve Otter Tail Power Company's compliance filing?
  2. Should the Commission approve final rates to go into effect July 1, 2022?

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### Relevant Documents

### Date

Commission – Findings of Fact, Conclusions, and Order February 1, 2022

Otter Tail Power Company – Compliance Filing (Public and Trade Secret) March 8, 2022

Minnesota Department of Commerce - Comments April 7, 2022

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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

1. Should the Commission approve Otter Tail Power Company's compliance filings?
2. Should the Commission approve final rates to go into effect July 1, 2022?

## II. Background

On February 1, 2022, the Minnesota Public Utilities Commission (Commission) issued its Findings of Fact, Conclusions, and Order (Order). Ordering Paragraph 101 required Otter Tail Power Company (Otter Tail, or the Company) to make the following compliance filings:

- a. Revised schedules of rates and charges reflecting the revenue requirement and the rate design decisions herein, along with the proposed effective date, and including the breakdown of total operating revenues by type, as well as the following:
  - i. Schedules showing all billing determinants for the retail sales (and sale for resale) of electricity. These schedules shall include but not be limited to:
  - ii. Total revenue by customer class;
  - iii. Total number of customers, the customer charge and total customer charge revenue by customer class; and
  - iv. For each customer class, the total number of energy and demand related billing units, the per unit energy and demand cost of energy, and the total energy and demand related sales revenues.
  - v. Revised tariff sheets incorporating authorized rate design decisions;
  - vi. Proposed customer notices explaining the final rates, the monthly basic service charges, and any and all changes to rate design and customer billing.
- b. A summary listing of all other rate riders and charges in effect, and continuing, after the date final rates are implemented are implemented.
- c. A computation of the CCRC based upon the decisions made herein for inclusion in the final Order. Direct Otter Tail to file a schedule detailing the CIP tracker balance at the beginning of interim rates, the revenues (CCRC and CIP Adjustment Factor) and costs recorded during the period of interim rates, and the CIP tracker balance at the time final rates become effective.
- d. If authorized rates are lower than the interim rates, a proposal to make refunds of interim rates consistent with the Commission's decisions in this proceeding.

On March 8, 2022, Otter Tail filed its compliance filing pursuant to the Commission's Order.

On April 7, 2022, the Minnesota Department of Commerce, Division of Energy Resources (Department) filed its comments.

### III. Otter Tail's Compliance Filing

Otter Tail's compliance filing contained the following revised schedules.

**Table 1: Summary of Revenue Requirements**

Description	As Originally Filed	As Calculated Final Order	Difference
Average Rate Base	\$757,907,460	\$722,946,335	(\$34,961,125)
Rate of Return	7.59%	7.18%	-0.41%
Required Operating Income	\$57,525,176	\$51,907,547	(\$5,617,629)
Operating Income	\$32,886,022	\$39,144,268	\$6,258,246
Income Deficiency	\$24,639,154	\$12,763,279	(\$11,875,876)
Gross Revenue Conversion Factor	1.403351	1.403351	
Gross Revenue Deficiency	\$34,577,387	\$17,911,362	(\$16,666,024)
Percentage Increase Needed	17.88%	9.37%	-8.51%
Riders Rolled In	\$20,124,012	\$20,124,012	
Net New Revenues	\$14,453,375	(\$2,212,650)	

**Table 2: Rate Base Summary**

<b>Description</b>	<b>Original Filing</b>	<b>Total Adjustments</b>	<b>Final Order</b>
<b>PLANT IN SERVICE</b>			
Production	\$684,420,669	\$809,563	\$685,230,232
Transmission	\$276,971,468	(19,863,325)	\$257,108,143
Distribution	\$244,727,310	(764,597)	\$243,962,713
General	\$49,186,507	(66,223)	\$49,120,284
Intangible	\$18,556,228	(24,984)	\$18,531,244
<b>Total Plant In Service</b>	<b>\$1,273,862,182</b>	<b>(19,909,566)</b>	<b>\$1,253,952,616</b>
<b>RESERVE FOR DEPRECIATION</b>			
Production	(215,654,979)	(\$3,850,135)	(\$219,505,114)
Transmission	(70,733,849)	\$829,268	(\$69,904,581)
Distribution	(105,226,105)	\$399,638	(\$104,826,467)
General	(18,643,889)	\$65,338	(\$18,578,551)
Intangible	(5,236,803)	\$7,051	(\$5,229,752)
<b>Total Reserve For Depreciation</b>	<b>(415,495,625)</b>	<b>(\$2,548,840)</b>	<b>(\$418,044,465)</b>
<b>NET PLANT IN SERVICE</b>			
Production	\$468,765,690	(\$3,040,572)	\$465,725,118
Transmission	\$206,237,619	(\$19,034,057)	\$187,203,562
Distribution	\$139,501,205	(\$364,959)	\$139,136,246
General	\$30,542,618	(\$885)	\$30,541,733
Intangible	\$13,319,425	(\$17,933)	\$13,301,492
<b>Total Net Plant In Service</b>	<b>\$858,366,557</b>	<b>(\$22,458,406)</b>	<b>\$835,908,151</b>
<b>OTHER RATE BASE ITEMS</b>			
Utility Plant Held for Future Use	\$13,577	(\$32)	\$13,545
CWIP	\$20,565,068	(\$4,342,169)	\$16,222,899
Materials & Supplies	\$11,457,629	(\$21,919)	\$11,435,710
Fuel Stocks	\$5,546,985	(\$138,703)	\$5,408,282
Prepayments	\$1,407,805	(\$5,272)	\$1,402,533
Customer Advances & Deposits	(\$1,032,628)	\$1,981	(\$1,030,647)
Cash Working Capital	\$7,942,177	(\$6,971,129)	\$971,048
Accumulated Deferred Income Taxes	(\$146,359,709)	(\$1,025,476)	(\$147,385,185)
<b>Total Other Rate Base Items</b>	<b>(\$100,459,096)</b>	<b>(\$12,502,719)</b>	<b>(\$112,961,815)</b>
<b>TOTAL AVERAGE RATE BASE</b>	<b>\$757,907,460</b>	<b>(\$34,961,125)</b>	<b>\$722,946,335</b>

**Table 3: Operating Income Summary – Minnesota Jurisdiction**

Description	Original Filing	Total Adjustments	Final Order
<b>UTILITY OPERATING REVENUES</b>			
Retail Revenue	\$193,412,219	(\$2,291,543)	\$191,120,676
Other Electric Operating Revenue	\$19,962,120	(\$2,677,788)	\$17,284,332
Total Operating Revenues	\$213,374,339	(\$4,969,331)	\$208,405,008
<b>UTILITY EXPENSES</b>			
Production	\$79,200,423	(\$1,276,309)	\$77,924,114
Transmission	\$18,571,304	(\$207,852)	\$18,363,452
Distribution	\$8,054,921	(\$287,586)	\$7,767,335
Customer Accounting	\$7,556,112	(\$333,451)	\$7,222,661
Customer Service & Information	\$9,147,564	(\$95,324)	\$9,052,240
Sales	\$578,522	(\$443,797)	\$134,725
Administrative & General	\$21,734,499	(\$1,805,518)	\$19,928,981
Charitable Contributions	\$112,000	\$0	\$112,000
Depreciation	\$37,047,759	(\$4,331,397)	\$32,716,362
General Taxes	\$8,034,448	(\$11,538)	\$8,022,910
Total Operating Expenses	\$190,037,552	(\$8,792,772)	\$181,244,780
Net Operating Income Before Taxes & AFUDC	\$23,336,787	\$3,823,441	\$27,160,228
<b>TAXES</b>			
Investment Tax Credit	(\$5,020,100)	(\$3,864,643)	(\$8,884,743)
Deferred Income Taxes	(\$3,710,306)	\$1,391,071	(\$2,319,235)
Federal & State Income Tax	\$0	\$0	\$0
Total Taxes	(\$8,730,406)	(\$2,473,572)	(\$11,203,978)
Net Operating Income Before AFUDC	\$32,067,193	\$6,297,013	\$38,364,206
AFUDC	\$818,830	(\$38,768)	\$780,062
Total Available for Return	\$32,886,023	\$6,258,245	\$39,144,268

Additionally, the Company also provided the following schedules:

- Revenue Requirements - by Class
- Operating Revenue Summary Comparison - by Rate Schedule
- Operating Revenue Detailed Comparison - by Rate Schedule and Billing Units
- Revised Tariff Sheets – Red-Lined and Clean
- Proposed Customer Notice
- Summary of all Riders and Charges
- Calculation of the CIP Tracker, CCRC and CCRA

- Calculation of the \$15,066,880 interim rate refund, including interest<sup>1</sup>

Otter Tail proposed to implement final rates effective July 1, 2022.

#### **IV. Department Comments**

The Department reviewed Otter Tail's compliance filing and attached schedules and recommended the Commission approve the Company's Compliance Filing and refund plan.

The Department also recommended the Commission require Otter Tail to submit, within 10 days of completing the interim rate refund for all customers, a compliance filing that separately shows the actual refunds and interest paid by rate class and includes supporting calculations.

##### **A. Updated Financial Schedules and Revenue Requirements**

Ordering Paragraph No. 101(a) required Otter Tail to provide revised schedules of rates and charges reflecting the revenue requirement and rate design decisions herein, along with a proposed effective date. The Company provided this information in Schedule 1, Attachments 1-6 of its Compliance Filing. As shown therein, Otter Tail determined it is entitled to increase Minnesota jurisdictional revenues by \$17,911,362, which results in new revenues of (\$2,212,650) after accounting for the roll-in of riders.

The Department reviewed Otter Tail's updated financial schedules and related attachments along with its proposed effective date. Based on its review, the Department agreed that, after including the changes noted above, the Company's financial schedules appropriately reflect a Minnesota-jurisdictional gross revenue deficiency for the test year of \$17,911,362.

##### **B. Operating Revenues by Type**

Ordering Paragraph No. 101(a), required Otter Tail to provide a breakdown of operating revenues by type. The Company provided this information in Schedule 2 and the related attachments of its Compliance Filing.

The Department reviewed Schedule 2 and the related attachments in Otter Tail's Compliance Filing. Based on our review, the Department concluded this schedule and related attachments comply with the Commission's Order.

##### **C. Billing Determinants and Rates**

Ordering Paragraph No. 101(a), Subparts (i) through (iv) required Otter Tail to provide Schedules showing all billing determinants for the retail sales of electricity including, but not limited to, the information noted above. The Company provided this information in Schedule 3 and the related attachments of its Compliance Filing.

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<sup>1</sup> Otter Tail estimated that the Residential ratepayer's average refund will be approximately \$1.28.

The Department reviewed Schedule 3 and related attachments of Otter Tail's Compliance Filing and concluded this schedule and related attachments comply with the Commission's Order.

#### **D. Revised Tariff Sheets**

Ordering Paragraph No. 101(a), Subpart (v) required Otter Tail to provide revised tariff sheets incorporating the Commission's authorized rate design decisions. Otter Tail provided this information in Schedule 4 of its Compliance Filing.

Based on its review, the Department concluded these tariff sheets comply with the Commission's Order.

#### **E. Proposed Customer Notice**

Schedule 5 of the Compliance Filing responded to Ordering Paragraph No. 101(a), Subpart (vi), which required Otter Tail to submit proposed customer notices explaining the final rates, the monthly basic service charges, and any and all changes to rate design and customer billing.

Based on its review, the Department concluded Otter Tail's proposed customer notice complies with the Commission Order.

#### **F. Summary of All Riders and Charges**

Ordering Paragraph No. 101(b) required Otter Tail to provide a summary of all other rate riders in effect, and continuing, after the date final rates are implemented. Otter Tail provided this information in Schedule 6 and related attachments of its Compliance Filing.

The Department reviewed Schedule 6 of Otter Tail's Compliance Filing and concluded Schedule 6 complies with the Commission's Order.

#### **G. CIP Tracker**

Ordering Paragraph No. 101(c) required Otter Tail to file a schedule detailing the conservation improvement program (CIP) tracker balance at the beginning of interim rates, the revenues (CCRC and CIP Adjustment Factor) and costs recorded during the period of interim rates, and the CIP tracker balance at the time final rates become effective. Otter Tail provided this information in Schedule 7 and related attachment of its Compliance Filing.

A review of Otter Tail's Schedule 7 and related attachment confirms the Compliance Filing contains all required information.

#### **H. Interim Rate Refund Plan**

Ordering Paragraph No. 101(d) required Otter Tail to make a proposal for refunds of interim rates, with interest, to affected customers consistent with the Commission's decisions in this proceeding if final rates are lower than interim rates. In Schedule 8 of its Compliance Filing, Otter Tail stated the Commission's final determination results in authorized interim rate revenue requirements of approximately \$207.3 million. As shown in Schedule 8, Otter Tail



proposed to refund, with interest, the difference between its authorized interim rates and actual billed revenues over the interim rate period, which resulted in a refund obligation of \$14,716,284. Otter Tail then added interest of \$350,593 to determine its proposed total refund obligation of \$15,066,880.

Based on its review, the Department concluded the refund plan complies with Ordering Paragraph No. 101(d). Therefore, the Department recommended the Commission approve Otter Tail's refund plan. Additionally, the Department recommended the Commission require Otter Tail to submit, within 10 days of completing the refund for all customers, a compliance filing that separately shows the actual refunds and interest paid by rate class, including supporting calculations.

## V. Staff Analysis

As noted above, Ordering Paragraph 101(a), Subpart (vi), required Otter Tail to submit proposed customer notices explaining the final rates, the monthly basic service charges, and any and all changes to rate design and customer billing. The Commission delegated authority to its Executive Secretary to approve customer notices, bill inserts, and bill format for the duration of this proceeding, in its December 24, 2020, *Notice Of And Order For Hearing*.<sup>2</sup>

Otter Tail worked with Commission staff to develop the Interim Rate Refund Customer Notice. Staff expects a Commission notice will be issued approving Otter Tail's customer notice shortly after the Commission approves Otter Tail's compliance filing.

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<sup>2</sup> *In the Matter of the Application by Otter Tail Power Company for Authority to Increase Rates for Electric Service in the State of Minnesota*, Docket No. E-017/GR-20-719, NOTICE OF AND ORDER FOR HEARING, OP 5. (December 24, 2020).

## VI. Decision Options

### Otter Tail Power's Compliance Filings

1. Approve Otter Tail Power's compliance filing as filed. (Otter Tail, Department)
2. Approve Otter Tail Power's compliance filing with changes.<sup>3</sup>

### Final Rates

3. Approve implementation of final rates effective July 1, 2022. (Otter Tail, Department)
4. Approve implementation of final rates effective some other date.

### Customer Notice

5. Without prejudice, take no action on Otter Tail's customer notice.

### General Housekeeping

6. Require Otter Tail to, within 10 days of completing the refunds, make a compliance filing that shows the actual refunds and interest paid by class, including supporting calculations. (Department)

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<sup>3</sup> If the Commission orders any changes, the Commission may want to provide a list of the appropriate changes.