April 1, 2019

Daniel P. Wolf
Executive Secretary
Minnesota Public Utilities Commission
121 7th 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-18-748

Dear Mr. Wolf:

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

Otter Tail Power Company's Petition for Approval of its Transmission Cost Recovery Rider Annual Adjustment.

The petition was filed on November 30, 2018 by:

Bryce C. Haugen
Senior Rates Analyst
Otter Tail Power Company
215 South Cascade Street
Fergus Falls, Minnesota 56538

The Department makes some preliminary recommendations, as explained herein, and will make final recommendations after reviewing information that the Department requests Otter Tail Power Company to provide in reply comments. The Department is available to answer any questions the Minnesota Public Utilities Commission may have.

Sincerely,

/s/ MARK A. JOHNSON
Financial Analyst

MAJ/ja
Attachment

Before the Minnesota Public Utilities Commission

Comments of the Minnesota Department of Commerce
Division of Energy Resources

Docket No. E017/M-18-748

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 (TCRR) in Docket No. E017/M-09-881. The rider established the following rates (Residential rates are included in "All Other Service" with a bill impact of $0.43 per month, calculated as 750 kWh*$0.00057):

Customer Class	**Charge per kWh**	**Charge per kW**
Large General Service	0.039 ¢/kWh	$0.035/kW
Controlled Service	0.007 ¢/kWh	N/A
Lighting	0.025 ¢/kWh	N/A
All Other Service	0.057 ¢/kWh	N/A

On March 26, 2012, the Commission issued its Order approving OTP's first annual update to its TCRR in Docket No. E017/M-10-1061 (10-1061). OTP eliminated the energy charge for the Large General Service Class, instead recovering costs from this class through the demand charge. The numbers in parentheses in the following table indicate the percentage change in rates from the amounts set in E017/M-09-881. The Residential bill impact of the total TCRR was $0.95 per month (750 kWh*$0.00126).

Customer Class	**Charge per kWh**	**Charge per kW**
Large General Service	N/A	$0.391/kW
Controlled Service	0.019 ¢/kWh (171%)	N/A
Lighting	0.085 ¢/kWh (240%)	N/A
All Other Service	0.126 ¢/kWh (121%)	N/A

On March 15, 2013, the Commission issued its Order approving TCRR eligibility for three new projects in Docket No. E017/M-12-514 (12-514). OTP did not request a rate change in this proceeding.

On March 10, 2014, the Commission issued its Order approving OTP's second annual update to its TCRR in Docket No. E017/M-13-103 (13-103). However, in response to OTP's proposal in its April 30, 2014 Amended Compliance Filing, on June 26, 2014, the Commission issued its second Order in 13-103 approving OTP's request to keep its existing TCRR rates[1] in effect pending its next annual update to its TCRR.

On February 18, 2015, the Commission issued its Order approving OTP's third annual update to its TCRR in Docket No. E017/M-14-375 (14-375). The approved rates are shown below, with the average monthly bill impact for a Residential customer of $4.82 (750 kWh*$0.00643).

Customer Class	Charge per kWh	Charge per kW
Large General Service	N/A	$2.058/kW (426%)
Controlled Service	0.122 ¢/kWh (542%)	N/A
Lighting	0.420 ¢/kWh (394%)	N/A
All Other Service	0.643 ¢/kWh (410%)	N/A

On March 9, 2016, the Commission issued its Order approving OTP's fourth annual update to its TCRR in Docket No. E017/M-15-874 (15-874). The approved rates are shown below, with the average monthly bill impact for a Residential customer reduced to $3.23 (750 kWh*$0.00431).

Customer Class	Charge per kWh	Charge per kW
Large General Service	N/A	$1.342/kW (-35%)
Controlled Service	0.067 ¢/kWh (-45%)	N/A
Lighting	0.296 ¢/kWh (-30%)	N/A
All Other Service	0.431 ¢/kWh (-33%)	N/A

On April 29, 2016, OTP filed a petition requesting approval of its fifth annual update to its TCRR in Docket No. E017/M-16-374 (2016 TCRR). OTP proposed to reduce the TCRR rates as indicated below:

Customer Class	Charge per kWh	Charge per kW
Large General Service	N/A	$0.937/kW (-30%)
Controlled Service	0.041 ¢/kWh (-39%)	N/A
Lighting	0.158 ¢/kWh (-47%)	N/A
All Other Service	0.246 ¢/kWh (-43%)	N/A

[1] That is, the rates determined in 12-514.

Given that OTP proposed a reduction in rates, the Commission provisionally approved OTP's proposed reduction, with the understanding that the final decision would be made at a later date. Thus, on July 5, 2016, the Commission issued its Order granting provisional approval of OTP's fifth annual update to its TCRR; under these rates, the monthly bill impact for average Residential customers reduced to $1.85 (750 kWh*$0.00246).

On July 14, 2016, OTP filed its compliance filing as required by the Commission's July 5, 2016 Order. The compliance filing indicated that the effective date of the rider was September 1, 2016. OTP also included its updated Rate Schedule Section 13.05 for its TCRR as provisionally approved by the Commission.

On May 1, 2017, the Commission issued its *FINDINGS OF FACT, CONCLUSIONS, AND ORDER* in OTP's 2016 Rate Case in Docket No. E017/GR-15-1033 (2016 Rate Case Order). The Commission's 2016 Rate Case Order required OTP to incorporate its Big Stone Area Transmission Project – Ellendale (BSAT-Ellendale) and the Big Stone Area Transmission Project – Brookings (BSAT-Brookings) (collectively the BSAT Projects) into OTP's TCRR using the all-in methodology.

On May 22, 2017, OTP requested that the Commission reconsider its decision on the BSAT Projects in OTP's 2016 Rate Case. The Commission denied OTP's request for reconsideration on July 21, 2017.

On August 18, 2017, OTP petitioned the Minnesota Court of Appeals seeking a reversal of the Commission's decision regarding the BSAT Projects.

On August 21, 2017, OTP made a compliance filing and provided updated TCRR rates including the BSAT Projects in accordance with the Commission's 2016 Rate Case Order. On October 30, 2017, the Commission issued its *ORDER APPROVING COMPLIANCE FILING AND PROVISIONALLY APPROVING TRANSMISSION COST RECOVERY RIDER RATE* in OTP's 2016 Rate Case. OTP's updated, provisionally-approved TCRR rates went into effect on November 1, 2017 and are provided in the following table with an average monthly bill impact for a Residential customer of ($1.30) (750 kWh*($0.00173) – that is, a reduction in the bill:

Customer Class	Charge per kWh	Charge per kW
Large General Service	N/A	($0.650)/kW
Controlled Service	(0.032) ¢/kWh	N/A
Lighting	(0.113) ¢/kWh	N/A
All Other Service	(0.173) ¢/kWh	N/A

On June 11, 2018, the Minnesota Court of Appeals issued its decision which agreed with OTP and reversed the Commission's decision regarding the BSAT Projects.

On July 11, 2018, the Commission appealed the Minnesota Court of Appeals decision to the Minnesota Supreme Court.

On November 30, 2018, OTP filed the instant petition requesting approval of its sixth annual update to its TCRR in Docket No. E017/M-18-748 (Petition or 2018 TCRR).

On March 11, 2019, oral arguments were held before the Minnesota Supreme Court regarding the BSAT issue. The Minnesota Supreme Court is expected to issue its ruling on this matter in the next few months.

The Department's analysis assesses the reasonableness of OTP's proposed rates in the instant Petition.

II. SUMMARY OF FILING

As explained on page 1 of OTP's Petition, the Company calculated its Minnesota jurisdictional 2018 TCRR annual revenue requirement figures with and without the BSAT Projects to account for the Minnesota Supreme Court's forthcoming decision. A summary of OTP's proposed projects and related Minnesota jurisdictional revenue requirements for the period from June 1, 2019 to May 31, 2020 are included in Department Table 1 below.[2]

[2] While OTP's presentation of its proposal claimed to show revenue requirements "without BSAT Projects," OTP's proposal would still charge its ratepayers for Xcel's share of costs of the BSAT lines, even though OTP proposed to "assign" the BSAT Projects to OTP's shareholders, without Commission approval required under Minn. Stat. §216B.48. Thus, in Table 1 below, Column B "without BSAT Projects" still includes costs of BSAT projects, and Column C reflects only partial removal of BSAT Projects.

Department Table 1: Summary of Proposed Projects and Revenue Requirements

Project:	(A) June 2019/May 2020 Annual Revenue Requirements (with BSAT Projects):[3]	(B) June 2019/May 2020 Annual Revenue Requirements (without BSAT Projects):[4]	(C) Increase/(Decrease) in Annual Revenue Requirements Due to Removal of BSAT Projects[5]
CAPX 2020 Fargo*	$0	$0	$0
CAPX 2020 Bemidji*	$0	$0	$0
CAPX 2020 Cass Lake – Bemidji*	$0	$0	$0
CAPX 2020 Brookings (MVP)*	$0	$0	$0
Ramsey 230/115 kW Transformer Upgrade*	$0	$0	$0
BSAT-Brookings (MVP)	$3,568,728	$0	($3,568,728)
BSAT – Ellendale (MVP)	$6,988,169	$0	($6,988,169)
MISO[6] Schedule 26 Revenues	($7,838,466)	($7,838,466)	$0
MISO Schedule 26 Expenses	$6,359,171	$6,359,171	$0
MISO Schedule 26A Revenues	($13,643,274)	($1,678,991)	$11,964,283
MISO Schedule 26A Expenses^	$4,383,379	$4,233,599	($149,780)
MISO Schedules 37 & 38 Revenues	($182,739)	($182,739)	$0
MVP ARR[7] Revenue	($15,693)	($15,693)	$0
True-up	$3,089,030	$5,598,659	$2,509,629
Total	**$2,708,384**	**$6,475,540**	**$3,767,156**

*These projects and their related revenue requirements were included in OTP's last TCR Rider filing in Docket No. E017/M-16-374. These projects have since been moved into OTP's base rates in their last rate case in Docket No. E017/GR-15-1033.
^Includes costs associated with Xcel's share of BSAT lines.

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[3] Per OTP's Initial Filing in Docket No. E017/M-18-748, Attachment 2B.
[4] Per OTP's Initial Filing in Docket No. E017/M-18-748, Attachment 2A.
[5] Difference: Column (B) – Column (A).
[6] "MISO" refers to the Midcontinent Independent System Operator.
[7] "ARR" stands for auction revenue rights.

Table 1 shows that excluding OTP's BSAT Projects reduces Minnesota's share of MISO Schedule 26A revenues by $11,964,283 and MISO Schedule 26A expenses by $149,780. The reduction in MISO Schedule 26A revenues and expenses along with the related true-up changes more than offset the Minnesota annual revenue requirements for the BSAT Projects.

The TCRR is applicable to electric service under all of OTP's retail rate schedules. OTP proposed to use the same allocations and rate design methods that are currently in place. Specifically, OTP proposed to use the transmission demand allocator (D2) 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. These issues are discussed in more detail in Section I below.

OTP's current and proposed rates are shown below in Table 2:

Department Table 2: OTP's Current and Proposed TCRR Rates

Class	Current	Proposed (with BSATs)	Proposed (without BSATs)
Large General Service	($0.650) per kW	$0.580 per kW	$1.387 per kW
Controlled Service	(0.032) ¢/kWh	0.026 ¢/kWh	0.062 ¢/kWh
Lighting	(0.032) ¢/kWh	0.095 ¢/kWh	0.227 ¢/kWh
All other service	(0.032) ¢/kWh	0.141 ¢/kWh	0.337 ¢/kWh

Under OTP's proposed rates, without the BSAT projects,[8] the monthly bill impact for a residential customer using, on average, about 750 kWh per month would be $1.06 per month, or about $12.72 per year with the BSAT Projects included, and $2.53 per month, or about $30.36 per year without the BSAT Projects.

OTP requested that its proposed rates become effective June 1, 2019. If the rates become effective after that date, OTP estimated that its under-collected balance (tracker balance) would continue to grow, on average, approximately $250,000 per month if the current rate (credit) remains in effect.

[8] Again, OTP's presentation of its proposal claimed to show revenue requirements "without BSAT Projects," OTP's proposal would still charge its ratepayers for Xcel's share of costs of the BSAT lines, even though OTP proposed to "assign" the BSAT Projects to OTP's shareholders, without Commission approval required under Minn. Stat. §216B.48. Thus, in Table 1 below, Column B "without BSAT Projects" still includes costs of BSAT projects, and Column C reflects only partial removal of BSAT Projects.

III. MINNESOTA DEPARTMENT OF COMMERCE (DEPARTMENT) ANALYSIS

A. STATUTORY REQUIREMENTS

The Transmission Cost Recovery (TCR) Statute, Minn. Stat. §216B.16, subd 7b states the following (Emphasis added):

> 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 net of associated revenues 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;
>
> (ii) new transmission facilities approved by the regulatory commission of the state in which the new transmission facilities are to be constructed, to the extent approval is required by the laws of that state, and determined by the Midcontinent Independent System Operator [MISO] to benefit the utility or integrated transmission system; and
>
> (iii) charges incurred by a utility under a federally approved tariff that accrue from other transmission owners' regionally planned transmission projects that have been determined by the Midcontinent Independent System Operator to benefit the utility or integrated transmission system.
>
> (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 utility to recover charges incurred under a federally approved tariff that accrue from other transmission owners' regionally planned transmission projects that have been determined by the Midcontinent Independent System Operator to benefit the utility or integrated transmission system. 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 the utility to recover on a timely basis the costs net of revenues of facilities approved by the regulatory commission of the state in which the new transmission facilities are to be constructed and determined by the Midcontinent Independent System Operator to benefit the utility or integrated transmission system;

(4) 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;

(5) 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;

(6) allows for recovery of other expenses if shown to promote a least-cost project option or is otherwise in the public interest;

(7) allocates project costs appropriately between wholesale and retail customers**;**

(8) 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

> (9) terminates recovery once costs have been fully recovered or have otherwise been reflected in the utility's general rates. (Emphasis Added)

The Renewable Cost Recovery (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

All of the transmission projects included above in Department Table 1 were approved for cost recovery in prior TCRR proceedings or in OTP's 2016 Rate Case and have therefore met that eligibility requirement for recovery under the TCR or RCR Statutes.

Besides the BSAT Projects, which OTP proposed to exclude from its 2018 TCRR, the Department asked OTP, in Department Information Request No. 1, if it had any other transmission projects that qualified for recovery but were not included its 2018 TCRR. OTP replied in part that:[9]

> Table 1 identifies projects that are eligible for recovery under one or more of these provisions and that Otter Tail has not requested recovery for in this docket. Note that in preparing Table 1, Otter Tail only considered projects with a total investment of $400,000 (OTP Total)[2] or greater. The projects in Table 1 were not included in base rates as part of our 2016 rate case because they either had an in-service date after the end of the 2016 Test Year or we excluded from the 2016 Test Year based on the positions of parties in the rate case.[3] Otter Tail viewed its November 30, 2018 filing as part of Docket No. E017/M-16-374 and therefore did not request inclusion of additional transmission projects as part of it.

[9] A copy of OTP's Response to Department Information Request No. 1 and other information requests is provided in Attachment 1 to these comments

[OTP's] Table 1

Project	Location	Investment [OTP Total]	In-Service Date	Qualifying MN Statute
Bagley 115kv Switch Station	MN	$2.6 Million	September 2018	Projects Eligible Pursuant to Minnesota Statutes §216B.243 (the "Certificate of Need Statute")
Rugby 41.6kV Breaker Station	ND	$1.9 Million	July 2017	Projects that are designed to enhance transmission system reliability and capacity, are deemed to be exempt from a CON under Minnesota Statutes §216B.243 as they are being constructed entirely outside of the State of Minnesota
Courtenay Wind Project - Schedule 26 (Att GG)	ND	$0.2 Million	November 2016	Projects Supporting Renewable Energy Objective Facilities Under Minnesota Statue §216B.1691
Granville Junction 41.6 kV Breaker Station	ND	$1.0 Million	January 2017	Projects that are designed to enhance transmission system reliability and capacity, are deemed to be exempt from a CON under Minnesota Statutes §216B.243 as they are being constructed entirely outside of the State of Minnesota

[2]Otter Tail includes the Courtenay Wind Project in Table 1 even though it does not meet the $400,000 threshold. It is included in Table 1 because it is the only project included in Otter Tail's MISO Attachment GG or MISO Attachment MM schedules that is not yet recovered in Minnesota.
[3] See Docket No. 15-1033, Rebuttal Testimony of Tyler A. Akerman, p. 3-4.

Based on the above, the Department concludes that OTP chose to omit several small projects that qualify for recovery in its 2018 TCRR. More importantly, the Department notes that one of these transmission projects is associated with OTP's Courtenay Wind Farm and has related

MISO Schedule 26 revenues and expenses that appear to have been excluded from OTP's 2018 TCRR. This issue is discussed in more detail below in Section D.

C. REASONABLENESS OF PROJECT REVENUE REQUIREMENTS AND COST RECOVERY CAPS

In Xcel Energy's TCRR filing in Docket No. E002/M-09-1048, the Commission set a standard for evaluating 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.

The Commission applied this same approach to Otter Tail Power Company in its 2013 TCRR in 13-103, ordering that OTP should limit TCRR recovery of the Bemidji project to $74 million.

Since OTP's Petition did not address this issue, the Department requests that the Company explain in reply comments whether any of the project costs included in its 2018 TCRR are over their respective cost caps.

D. REGIONAL EXPANSION AND COST BENEFIT CHARGES (MISO SCHEDULES 26/26A, MISO AUCTION REVENUE RIGHTS, AND MISO SCHEDULES 37 & 38)[10]

1. MISO Schedules 26/26A

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 that any recovery **"must be reduced or offset by revenues received by the utility and by amounts the utility**

[10] Attachment No. 2 illustrates some of MISO's rates and shows how Minnesota fully considers all MISO costs and revenues in ratemaking.

charges to other regional transmission owners, to the extent those revenues and charges have not been otherwise offset."

MISO's regionally planned transmission projects are also referred to as Regional Expansion and Cost Benefit (RECB) projects. Moreover, RECB charges and revenues are generally reflected under MISO Schedules 26/26A. MISO Schedule 26 includes other regionally shared projects such as Market Efficiency Projects and Generation Interconnection Projects. MISO Schedule 26A includes projects that have been deemed to be Multi-Value Projects (MVPs).

OTP's MISO Schedule 26/26A revenue and expense calculations without the BSAT Projects are provided in Attachments 8A, 9A, and 10A of its Petition. OTP's MISO Schedule 26/26A revenues and expense calculations with the BSAT Projects are provided in Attachments 8B, 9B, and 10B of its Petition.

The Department notes that Minnesota regulated electric utilities normally include in their TCRR's MISO Schedule 26/26A revenues and expenses for all of their qualifying projects, regardless of whether the transmission asset itself is included for recovery in base rates or in the TCRR. For example, even after accounting for OTP's proposed exclusion of the two BSAT Projects, OTP's 2018 TCRR still contains MISO Schedule 26A revenues of $1,678,991[11] that are associated with OTP's CAPX 2020 Brookings Project, which was moved into base rates in OTP's 2016 Rate Case. The Department notes that Xcel Energy and Minnesota Power include all of their MISO Schedule 26/26A revenues and expenses in their TCRRs regardless of whether the transmission assets themselves are included in base rates or the TCRRs. The Department generally agrees with this approach since it is easier to follow and track a utility's total MISO Schedule 26/26A revenues and expenses if they are located in one place as opposed to being split between base rates and TCRRs.

As noted above in Section B of these comments, OTP appears to have excluded a small transmission project (Courtenay Wind Farm) and its related MISO Schedule 26 revenues and expenses from its 2018 TCRR. While this transmission project is neither reflected in base rates nor in the 2018 TCRR at this time, the Department is concerned about the exclusion of MISO Schedule 26 revenues and expenses for the reasons stated above. In addition, while the amounts are expected to be quite small, the Department recommends that OTP identify in reply comments the specific amount of MISO Schedule 26 revenues and expenses for this project that were excluded from its 2018 TCRR.

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[11] See Department Table 1, Column B and OTP's Response to Department Information Request No. 3 in Attachment No. 1 to these comments.

As shown above in Department Table 1, Column C, OTP's proposal to exclude the BSAT Projects reduces OTP's Minnesota ratepayers' share of MISO Schedule 26A revenues by $11,964,283 and MISO Schedule 26A expenses by $149,780. The reduction in MISO Schedule 26A revenues and expenses along with the related true-up changes more than offsets the Minnesota annual revenue requirements for the BSAT Projects. As a result, under OTP's proposal, Minnesota ratepayers would be required to pay an additional $3,767,156 in annual revenue requirements due to OTP's proposed exclusion of the BSAT Projects from the TCRR.

The Department notes that OTP's TCRR proposal would produce some concerning results if the Minnesota Supreme Court agrees with OTP and allows OTP to "assign" the BSAT Projects away from the regulated utility to shareholders, without requiring OTP to demonstrate that such a transaction between affiliates meets the requirements of Minn. Stat. §216B.48.

Under OTP's TCRR proposal, retail ratepayers would still be charged for costs of all other MVP projects located throughout the MISO footprint. As shown above in Department Table 1, Column B, OTP proposed to charge Minnesota retail ratepayers $4,233,599 in MISO Schedule 26A expenses that are associated with all other MVP projects.[12] Moreover, this $4,233,599 figure includes OTP's share of MISO 26A expenses associated with Xcel's half ownership of the BSAT-Brookings MVP Project – *the same transmission line that OTP claims is only for wholesale purposes*.[13]

Thus, if the Minnesota Supreme Court agrees with OTP and concludes that the BSAT Projects are for wholesale purposes and must be removed from OTP's retail rates and TCRR, then it would follow that all other MVP projects and their related MISO Schedule 26A revenues and expenses must also be for wholesale purposes and should be removed from OTP's retail rates and TCRR. Under such a scenario, the Department recommends that the Commission require OTP to remove the uncollected costs associated with all other MVP projects and their related MISO Schedule 26A revenues and expenses from OTP's retail rates and TCRR.

2. MISO's Auction Revenue Rights (ARRs)

In addition to costs and revenues from MISO's Schedules 26/26A, the Department understands that MISO annually allocates ARRs for MVPs. According to MISO, the revenue associated with

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[12] See OTP's Response to Department Information Request No. 2A which is provided in Attachment No. 1 to these comments.

[13] See OTP's Response to Department Information Request No. 2B, which is provided in Attachment No. 1 to these comments.

these ARRs is to be distributed to those customers who pay for the MVP projects. MISO has created a new charge type to distribute this revenue. The charge type name is Real Time MVP Distribution (RT_MVP_DIST) and appears on the Real Time settlement statement. The distribution occurs on the last Operating Day of each month.

The Commission's February 18, 2015 Order in 14-375 approved OTP's request to include as a true-up item in its 2015 TCRR the actual amount of ARRs that it receives for its MVPs with the understanding that OTP will incorporate estimates of all MVP ARRs in future TCRR updates beginning with its 2015 TCRR filing.

As shown above in Department Table 1, OTP proposed to include $15,693 of ARR revenues in its 2018 TCRR. OTP's ARR calculations are found in Attachments 11A and 11B of its Petition.

The Department reviewed OTP's ARR calculations and concludes that OTP's calculations appear reasonable and in compliance with the Commission's February 18, 2015 Order in 14-375.

3. MISO Schedules 37 & 38

In addition to MISO Schedule 26/26A charges and ARRs, OTP proposed to include revenues it receives under MISO Schedules 37/38. MISO Schedule 37 revenues represent a utility's share of contributions that MISO receives from the American Transmission Systems, Inc., which left MISO on June 1, 2011 to integrate with PJM. Likewise, MISO Schedule 38 revenues represent a utility'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.

In its March 10, 2014 Order in 13-103, the Commission required OTP to separately identify its MISO Schedule 37/38 revenues included in its TCRR.

As shown above in Department Table 1, OTP proposed to include $182,739 of MISO Schedule 37/38 revenues in its 2018 TCRR. OTP's MISO Schedule 37/38 revenue calculations are shown in Attachments 9A and 9B of its Petition.

The Department reviewed OTP's MISO Schedule 37/38 calculations. Based on our review, the Department concludes that OTP's MISO Schedule 37/38 revenue calculations appear reasonable and in compliance with the Commission's March 10, 2014 Order in 13-103.

E. OTHER WHOLESALE TRANSMISSION REVENUES (NON-RECB)

The Department notes that the bulk of Minnesota regulated electric utilities' transmission assets over 100 kilovolts are considered to be non-RECB projects for MISO purposes and are included in the utilities' base rates rather than a transmission rider. As such, any wholesale transmission revenues and expenses (MISO Schedule 9 revenues and expenses) associated with these facilities are generally reflected in base rates.

However, in addition to the wholesale transmission revenues and expenses through MISO Schedules 26/26A for RECB projects as discussed above, the Department understands that some utilities receive other wholesale transmission revenues from third-party transmission customers who are charged the utility's Federal Energy Regulatory Commission (FERC) jurisdictional MISO tariff[14] rate for the use of the utility's non-RECB transmission system. Similar to RECB charges that are reflected in MISO Schedules 26/26A, these non-RECB charges are reflected in MISO Schedule 9 revenues for the party that owns the transmission assets and in MISO Schedule 9 expenses for any party that uses the transmission assets (including the owner of the assets).

While most of these costs and revenues are reflected in utilities' base rates, sometimes Minnesota rate-regulated utilities have non-RECB transmission projects that qualify for TCRR recovery. In those instances, the utility provides a net credit[15] in its TCRR to account for the amount of revenues it expects to receive from MISO for other utilities' use of the transmission asset. This net credit reflects the difference between what the utility pays MISO for using its own non-RECB transmission asset and what the utility receives from MISO for other utilities' use of the asset.

For example, if FERC determined that annual revenue requirements for a specific non-RECB project totaled $100 and OTP is the owner, the $100 would be allocated and charged to all utilities located in OTP's transmission pricing zone, based on their respective loads in that zone. If OTP makes up approximately 80 percent of the load in its own transmission pricing zone, OTP would be required to pay MISO $80 in Schedule 9 expenses (paying MISO for OTP's use of its own facilities). The remaining $20 in MISO Schedule 9 expenses would be paid by the other utilities with load in OTP's transmission pricing zone to reflect their reliance on OTP's facilities.

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[14] Utility-specific rates are contained in Attachment O of MISO's Open Access Transmission Tariff (OATT).

[15] As opposed to MISO Schedules 26/26A revenues and expenses which are reflected at gross in Minnesota rate-regulated utilities TCRRs. The gross and net methods produce the same results. However, the Department generally prefers the gross method since it reflects all the MISO revenues and expenses associated with a specific project.

MISO then pays OTP the entire $100 in MISO Schedule 9 revenues for its ownership of the project. The difference between what OTP pays and receives for its ownership of the non-RECB project is the $20 net credit.[16]

The Department notes that OTP did not include any non-RECB transmission projects in its 2018 TCRR. As a result, there are no offsetting wholesale transmission revenues or net credits to include in the 2018 TCRR. Nonetheless, the Department recommends that OTP continue to include its net wholesale transmission revenues or credit for any non-RECB transmission projects included in future TCRR filings.

F. PRORATED ACCUMULATED DEFERRED INCOME TAXES (ADIT)

OTP included the effects of proration on its forecasted ADIT balances in annual revenue requirement calculations as shown in Attachments 5B and 6B of its Petition.[17] OTP's prorated ADIT calculations are shown in Attachment 7B of its Petition. OTP prorates the monthly accrual to ADIT for each forecasted month in the "test year" for this rider – June 2019 through May 2020. OTP's prorated ADIT calculations increased its annual revenue requirements by $14,896 for the Minnesota jurisdiction.

Consistent with prior TCRRs, the Department notes that OTP replaces its forecasted prorated ADIT balances with actual non-prorated ADIT balances the following year in its TCRR. As a result, the Department concludes that OTP's forecasted prorated ADIT balances are subject to a true-up calculation in the following year using actual non-prorated ADIT amounts. The Department agrees with this approach.

Based on the above, the Department recommends that the Commission approve OTP's proposed ADIT proration for the forecasted test year in the instant Petition, subject to a true-up calculation in the following year using actual non-prorated ADIT amounts. OTP's proposed true-up and tracker balance is discussed below in Section H.

G. TAX CUTS AND JOB ACT OF 2017 AND EXCESS ADIT

On December 22, 2017, the President of the United States signed into law Pub L. 115-97 (H.R. 1—115th Congress: An Act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018), which is referred to as the Tax Cuts

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[16] Sometimes the net credit is presented in percentage terms. In this example, the net credit would equal 20 percent of the revenue requirements.
[17] See Attachment 5B, Page 4 of 5 and Attachment 6B Page 4 of 5.

and Jobs Act of 2017 (TCJA). Among other things, the TCJA lowered the federal corporate income tax rate from 35 percent to 21 percent, effective January 1, 2018. This enactment constituted a known and measurable change for Minnesota rate-regulated utility rates going forward.

On December 29, 2017, the Commission issued its *Notice of Commission Investigation into the Effect of the 2017 Federal Tax Act on Utility Rates and Services* in Docket No. E,G999/CI-17-895 (Tax Docket).

On December 4, 2018, the Commission issued its Order in the Tax Docket. The Commission required utilities to refund all impacts of the TCJA to ratepayers. This requirement included changes to current period tax expense of the income statement, changes to the tax gross-up on the revenue requirement deficiency, and amortization of excess ADIT balances. In addition, the Commission required utilities to address the effects of the TCJA in each rider.

The Department notes that OTP did not specifically address the effects of the TCJA on its 2018 TCRR, but it did use the updated tax rates to calculate its current period tax expense and the tax gross-up in its revenue requirement calculations shown on Attachments 5B and 6B of its Petition. However, OTP did not provide its excess ADIT balance as of December 31, 2017 or its related amortization period associated with its excess ADIT balance using the Average Rate Assumption Method (ARAM).

Based on the above, the Department requests that OTP provide its excess ADIT balance as of December 31, 2017 for its TCRR along with its proposed amortization period using the ARAM. In addition, consistent with the Commission's decision in the Tax Docket, the Department recommends that the Commission require OTP to begin amortizing and refunding its excess ADIT balances in its revenue requirement calculations in its 2018 TCRR.

H. TRUE-UP AND TRACKER BALANCES

As shown on Attachments 2A and 2B of its Petition, OTP proposed to increase its 2019/2020 TCRR revenue requirements by $5,598,659 to reflect prior under-recoveries if the BSAT Projects are excluded from its TCRR, or $3,089,030 to reflect prior under-recoveries if the BSAT Projects are included in its TCRR. OTP's true-up and tracker balance calculations are shown in Attachments 4A and 4B of its Petition.

The Department notes that OTP's true-up and tracker balance calculations do not include any carrying charges.

The Department reviewed OTP's proposed true-up and tracker balances for its 2018 TCRR and concludes that the calculations are accurate.

I. COST ALLOCATIONS AND RATE DESIGN

OTP's cost allocations and rate design are provided in Attachments 3A and 1A of its Petition. As shown therein, OTP used its Minnesota jurisdictional transmission allocator and its current rate design from its most recent rate case to allocate costs to Minnesota and its various customer classes. In addition, and consistent with previous TCRR filings, OTP proposed to use a demand-only billing rate for the Large General Service Class (LGS) and an energy-only billing rate (cents/kWh) for all other customers. The Department reviewed and agrees with OTP's proposed allocations and rate design method.

In the Commission's Order issued March 26, 2012 in 10-1061, the Commission requested an analysis of the impact of a "percentage of revenue" rate design among and within its customer classes. OTP's analysis is provided in Attachment 3A of its Petition.

The Department concludes that OTP complied with the Commission's March 26, 2012 Order in 10-1061 by providing an analysis in Attachment 3A of its Petition showing the impact of using a percentage of revenue rate design method to allocate costs among and within customer classes.

J. RATE OF RETURN

The TCR Statute allows for 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. As shown in its annual revenue requirements contained in Attachments 5B and 6B of its Petition, OTP used an overall rate of return of 7.51 percent as allowed by the Commission in the Company's last rate case in Docket No. E017/GR-15-1033.

K. INTERNAL CAPITALIZED COSTS

In Docket No. E017/M-13-103, the Commission determined that OTP's internal capitalized costs should be excluded from recovery under the Company's TCRR beginning March 2014. Since OTP did not appear to address this issue in the instant Petition, the Department requests that OTP explain in reply comments whether it has excluded its internal capital costs from recovery in its 2018 TCRR.

IV. SUMMARY AND RECOMMENDATIONS

The Department requests that Otter Tail address the following in reply comments:

- whether any of the transmission projects included in its 2018 TCRR were over their respective cost caps;
- identify the specific amount of MISO Schedule 26 revenues and expenses associated with the Courtenay Wind Farm transmission project that was excluded from its 2018 TCRR.
- provide the excess ADIT balance as of December 31, 2017 for its TCRR along with OTP's proposed amortization period using the ARAM; and
- explain whether OTP excluded its internal capital costs from recovery in its 2018 TCRR.

At this time, the Department recommends that, in the event that the Minnesota Supreme Court agrees with OTP and concludes that it is appropriate for OTP to keep for shareholders all wholesale revenues and expenses from the BSAT Projects by removing $11,814,503[18] in net revenues from OTP's retail rates and the TCRR, the Commission should require OTP to remove all other MVP projects and their related MISO Schedule 26A revenues and expenses from base retail rates and the 2018 TCRR. In addition, the Department recommends that the Commission:

- approve OTP's proposed ADIT proration for the forecasted test year in the 2018 TCRR, subject to a true-up calculation in the following year using actual non-prorated ADIT amounts;
- require OTP to begin amortizing and refunding its excess ADIT balances in its revenue requirement calculations in its 2018 TCRR; and
- require OTP to continue to include its wholesale transmission revenues or net credit for any non-RECB transmission projects included in future TCRR filings.

The Department will provide its final recommendations after reviewing OTP's reply comments.

/ja

[18] Per Department Table 1: MISO Schedule 26A revenues of $11,964,283 less MISO Schedule 26A expenses of $149,780 = $11,814,503.

OTTER TAIL POWER COMPANY
Docket No: E017/M-18-748

Response to: Minnesota Department of Commerce
Analyst: Mark Johnson
Date Received: 02/26/2019
Date Due: 03/08/2019
Date of Response: 03/08/2019
Responding Witness: Bryce Haugen, Senior Rates Analyst, Regulatory Administration

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Information Request:

A. The first five transmission projects listed in the above-referenced attachments have $0 in annual revenue requirements for the period from June 2019 to May 2020. Were these five projects moved into OTP's base rates in its last rate case? Please explain.

B. Besides the two Big Stone Area Transmission Projects (BSAT – Ellendale and BSAT-Brookings), does OTP have any other transmission projects that qualify but are not included for recovery in OTP's TCR Rider in Attachment 2A? Please explain.

C. Does OTP have any transmission projects that qualify but are not included for recovery in OTP's TCR Rider in Attachment 2B? Please explain.

Attachments: 0

Response:

A. Yes. These five projects rolled in to base rates effective November 1, 2017 as part of Otter Tail's general rate case in Docket No. E017/GR-15-1033.

B. Minn. Stat. §§ 216B.16, subd. 7 and 216B.1645[1] allow utilities to seek recovery of a variety of projects:
   - new transmission facilities that have been separately filed and reviewed and approved by the commission under section 216B.243, new transmission or distribution facilities that are certified as a priority project or deemed to be a priority transmission project under section 216B.2425 or facilities that are exempt from the requirements of section 216B.243 (Minn. Stat. § 216B.16, subd. 7(a)(1) and (b)(1);

[1] The Commission's January 28, 2010 ORDER ESTABLISHING TRANSMISSION COST RECOVERY RIDER AND APPROVING COSTS FOR RECOVERY cited both Minn. Stat. §§ 216B.16, subd. 7b and 216B.1645 as authority for establishing Otter Tail's TCRR.

- new transmission facilities approved by the regulatory commission of the state in which the new transmission facilities are to be constructed, to the extent approval is required by the laws of that state and determined by the Midcontinent Independent System Operator to benefit the utility or integrated transmission system (Minn. Stat. § 216B.16, subd. 7(a)(2) and (b)(3);
- costs associated with distribution planning required under section 216B.2425 (Minn. Stat. § 216B.16, subd. 7(b)(4);
- costs associated with investments in distribution facilities to modernize the utility's grid that have been certified by the commission under section 216B.2425 (Minn. Stat. § 216B.16, subd. 7(b)(5)
- reasonable investments and expenditures made to transmit the electricity generated from sources developed under Minn. Stat. §§ 216B.169, 216B.2423, 216B.2424 and 216B.1691 that is ultimately used to provide service to the utility's retail customers (Minn. Stat. § 216B.1645, subd. 1, 2 and 2a).

Table 1 identifies projects that are eligible for recovery under one or more of these provisions and that Otter Tail has not requested recovery for in this docket. Note that in preparing Table 1, Otter Tail only considered projects with a total investment of $400,000 (OTP Total)[2] or greater. The projects in Table 1 were not included in base rates as part of our 2016 rate case because they either had an in-service date after the end of the 2016 Test Year or we excluded from the 2016 Test Year based on the positions of parties in the rate case.[3] Otter Tail viewed its November 30, 2018 filing as part of Docket No. E017/M-16-374 and therefore did not request inclusion of additional transmission projects as part of it.

Table 1

Project	Location	Investment [OTP Total]	In-Service Date	Qualifying MN Statute
Bagley 115kv Switch Station	MN	$2.6 Million	September 2018	Projects Eligible Pursuant to Minnesota Statutes § 216B.243 (the "Certificate of Need Statute")
Rugby 41.6kV Breaker Station	ND	$1.9 Million	July 2017	Projects that are designed to enhance transmission system reliability and capacity, are deemed to be exempt from a CON under Minnesota Statutes § 216B.243 as they are being constructed entirely outside of the State of Minnesota
Courtenay Wind Project - Schedule 26 (Att GG)	ND	$0.2 Million	November 2016	Projects Supporting Renewable Energy Objective Facilities Under Minnesota Statue § 216B.1691
Granville Junction 41.6 kV Breaker Station	ND	$1.0 Million	January 2017	Projects that are designed to enhance transmission system reliability and capacity, are deemed to be exempt from a CON under Minnesota Statutes § 216B.243 as they are being constructed entirely outside of the State of Minnesota

C. Attachment 2B excludes the same projects identified in Table 1, above.

[2] Otter Tail includes the Courtenay Wind Project in Table 1 even though it does not meet the $400,000 threshold. It is included in Table 1 because it is the only project included in Otter Tail's MISO Attachment GG or MISO Attachment MM schedules that is not yet recovered in Minnesota.
[3] *See* Docket No. 15-1033, Rebuttal Testimony of Tyler A. Akerman, p. 3-4.

OTTER TAIL POWER COMPANY
Docket No: E017/M-18-748

Response to: Minnesota Department of Commerce
Analyst: Mark Johnson
Date Received: 02/26/2019
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Date of Response: 03/08/2019
Responding Witness: Bryce Haugen, Senior Rates Analyst, Regulatory Administration

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Information Request:

Attachment 2A, Line 8, shows Schedule 26A expenses of $4,233,599.

A. Does the $4,233,599 figure represent OTP's allocated share of costs associated with all utility Multi-Value Projects (MVPs), except for the two Big Stone Area Transmission Projects (BSAT - Brookings and BSAT - Ellendale) MVPs owned by OTP? Please explain your response.

B. Does the $4,233,599 figure include OTP's allocated share of costs associated with Xcel's ownership of the BSAT-Brookings MVP? If yes, please identify the amount.

C. Does the $4,233,599 figure include OTP's allocated share of costs associated with its ownership in a third MVP - CAPX 2020 Brookings MVP? If yes, please identify the amount.

Attachments: 0

Response:

A. Yes. OTP's total Schedule 26A expense for the recovery period is $4,383,379, as shown on line 10 of Attachment 2B. The difference between line 8 of Attachment 2A and line 10 of Attachment 2B is $149,780, which represents the portion of total Schedule 26A expense attributable to Otter Tail's investment in the BSAT-Brookings and BSAT-Ellendale projects. Otter Tail calculated the Schedule 26A expense attributable to its investment in the BSAT-Brookings and BSAT Ellendale projects based on Otter Tail's Attachment MM annual revenue requirement for the two projects divided by total MISO Attachment MM annual revenue requirements. Based on 2019 data, Otter Tail's Attachment MM annual revenue requirement for the two projects is 3.417 percent of the total MISO Attachment MM annual revenue requirements. Thus, Otter Tail excluded 3.417 percent of the total Schedule 26A expense from recovery in Attachment 2A.

B. Yes. As discussed in the answer to part A), above, the $4,233,599 figure from Attachment 2A includes all Schedule 26A expenses except for the portion attributable to Otter Tail's investment in the BSAT-Brookings and BSAT-Ellendale projects. Otter Tail estimates that approximately $57,125 of the Schedule 26A expense for the recovery period is related to Xcel's investment in the BSAT-Brookings project. Otter Tail estimates this amount by utilizing Xcel's Attachment MM (Schedule 26A) 2019 FLTY for this project divided by the total MISO Attachment MM 2019 FLTY. Table 1 below provides the calculation.

Table 1

MN-DOC-02-B	A **Transmission Owner or Desciption**	B **Reference/Calculation**	C **MVP Project**	D **Project Annual Revenue Requirement**	E **Project Description**
1	Xcel	2019 FLTY Attachment MM	2221	$ 9,612,608	Big Stone South to Brookings
2	Total Schedule MM Revenue - All Transmission Owners	2019 FLTY Attachment MM		$ 712,397,526	
3	Xcel Project Annual Revenue as a percent of Total	D1 / D3		1.349%	
4	OTP's MISO Schedule 26A expenses for proposed recovery period	TCRR with BSATS Out- Att 2A		$ 4,233,599	
5	OTP's Allocated share of costs associated with Xcel Ownership of BBSAT -Brooking MVP	D3 x D4		$ 57,125	

C. Yes. As discussed in the answer to part A), above, the $4,233,599 figure from Attachment 2A includes all Schedule 26A expenses except for the portion attributable to Otter Tail's investment in the BSAT-Brookings and BSAT-Ellendale projects. Line 12 of Attachment 2A also includes the Schedule 26A revenues attributable to Otter Tail's investment in the CAPX 2020 Brookings MVP project. Otter Tail estimates that approximately $19,189 of the Schedule 26A expense for the recovery period is attributable to Otter Tail's investment in the CAPX 2020 Brookings MVP project. Otter Tail estimates this amount by utilizing our Attachment MM (Schedule 26A) 2019 FLTY for this project divided by the total MISO Attachment MM 2019 FLTY. Table 2 below provides the calculation.

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Response to Information Request MN-DOC-02 Page 3 of 3

Table 2

MN-DOC-02-C	A **Transmission Owner or Desciption**	B **Reference/Calculation**	C **MVP Project**	D **Project Annual Revenue Requirement**	E **Project Description**
1	Otter Tail Power	2019 FLTY Attachment MM	1203	$ 3,229,012	CAPX 2020 Brooking MVP
2	Total Schedule MM Revenue - All Transmission Owners	2019 FLTY Attachment MM		$ 712,397,526	
3	OTP Project Annual Revenue as a percent of Total	D1 / D3		0.453%	
4	OTP's MISO Schedule 26A expenses for proposed recovery period	TCRR with BSATS Out- Att 2A		$ 4,233,599	
5	OTP's Allocated share of costs associated with Xcel Ownership of BBSAT -Brooking MVP	D3 x D4		$ 19,189	

OTTER TAIL POWER COMPANY
Docket No: E017/M-18-748

Response to: Minnesota Department of Commerce
Analyst: Mark Johnson
Date Received: 02/26/2019
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Date of Response: 03/08/2019
Responding Witness: Bryce Haugen, Senior Rates Analyst, Regulatory Administration

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Information Request:

Attachment 2A, Line 12, shows Schedule 26A revenues of ($1,678,991). Does this figure represent only the revenues OTP receives from MISO for its ownership in a third MVP - CAPX 2020 Brookings? Please explain and provide a breakout of the revenues by project.

Attachments: 0

Response:

A. Yes. Otter Tail projects $1,678,991 of Schedule 26A revenue for its investment in the CAPX 2020 Brookings MVP project for the recovery period. The month-by-month forecasted revenues are provided in Attachment 10A of the filing.

   Otter Tail's total MISO Schedule 26A revenues for June 2019 through May 2020, provided on Attachment 10A, is $26,476,879. Otter Tail's files projected and actual MISO Schedule 26A revenues as part of its MISO Attachment MM filings that are available at: https://www.misoenergy.org/markets-and-operations/ts-pricing/#nt=%2Ftspricingtype%3AAttachment%20MM%20Data&t=10&p=0&s=effectivedate&sd=desc. The actual MISO Schedule 26A revenues differ from those provided in Otter Tail's Attachment MM filings and are trued up in future Attachment MM filings.

   CAPX2020 Brookings is shown on page 2, line 1a of Otter Tail's Attachment MM for the 2019 forward looking test year and represents approximately 12.61[1] percent of these MISO Schedule 26A revenues or $3,338,125 (OTP Total). Using Minnesota's jurisdictional D2 allocation factor of 50.297 percent (as approved in Otter Tail's last rate case in Docket No. E017/GR-15-1033), results in $1,678,991 of Minnesota jurisdictional Schedule 26A revenue attributable to Otter Tail's investment in the CAPX2020 Brookings project for the period of June 2019 through May 2020.

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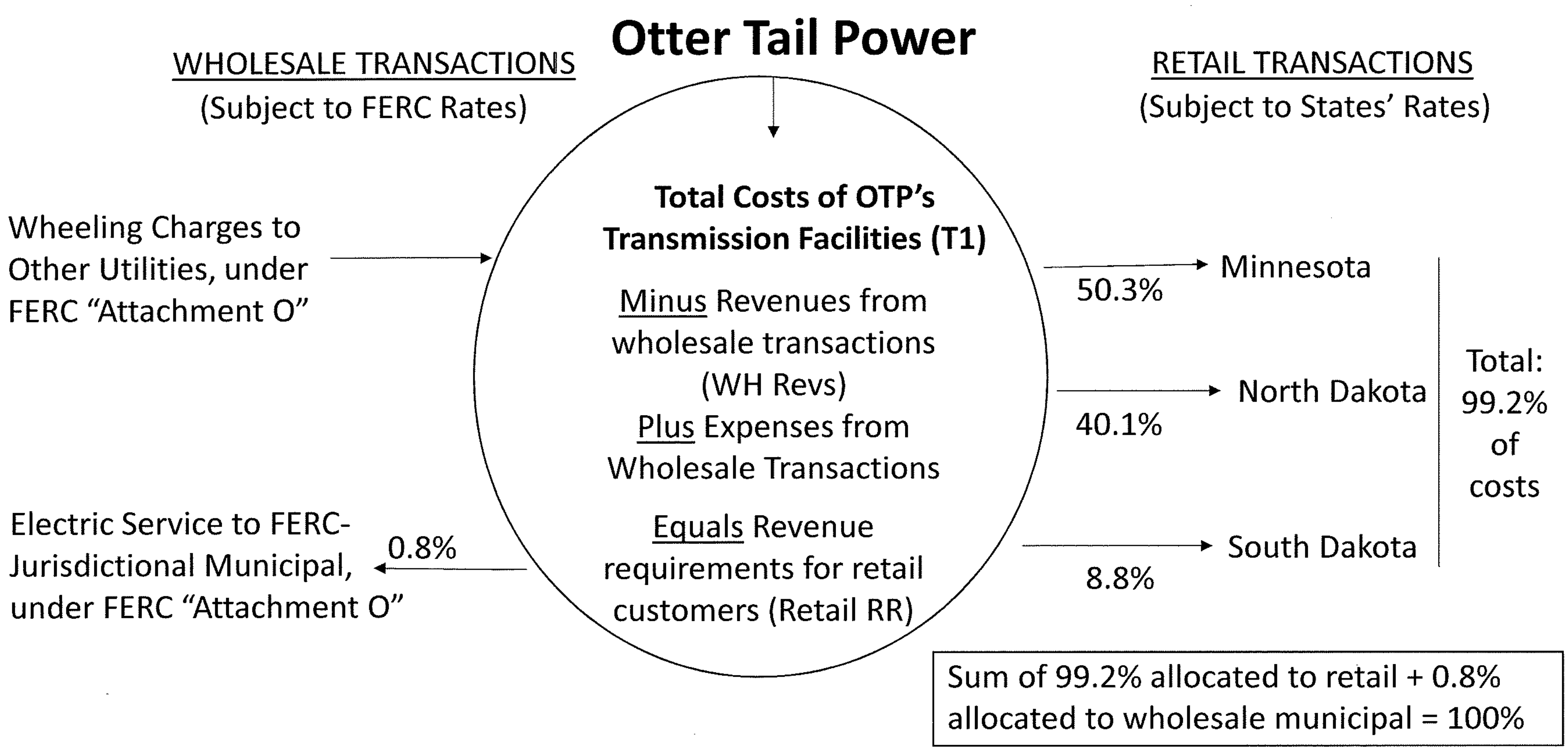
[1] Based on Otter Tail's 2019 FLTY Attachment MM available at the time of the November 30, 2018 filing.

How did federal/state ratemaking work before MISO?

There were two steps overall, in two different jurisdictions:

1. **At the wholesale level, OTP**:
    - Incurred costs of using other utilities' transmission lines,
    - Received revenues from other utilities for their use of OTP's transmission lines, and
    - Charged its wholesale municipal customers FERC-authorized rates
2. **At the state retail level(s), OTP**:
    - Allocated all wholesale costs, net of revenues from wholesale customers, to its retail customers in 3 different jurisdictions

Transmission Cost Recovery Prior to MISO (Pre-2005)



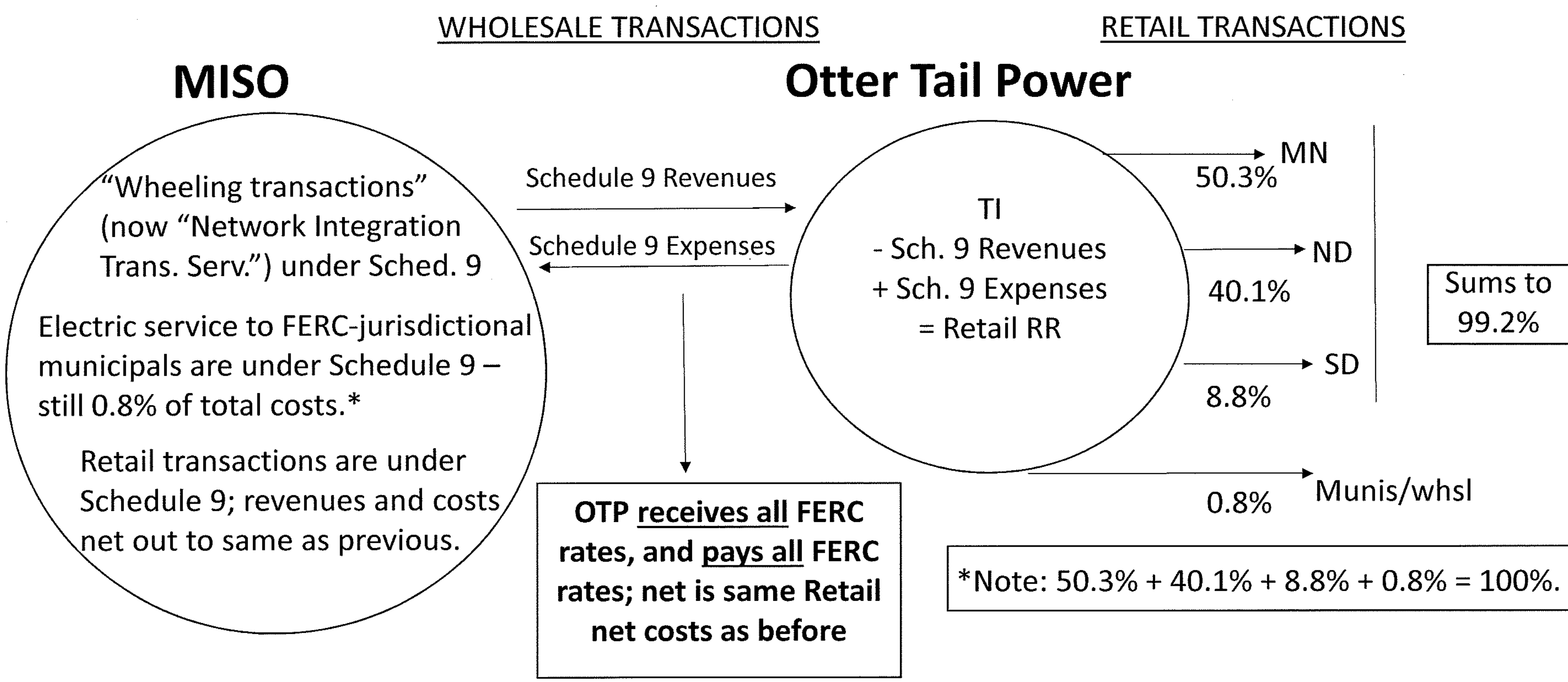
After 2005: How did federal/state ratemaking change?

Under MISO's Schedule 9, there are still two steps, in two different jurisdictions:

1. **At the wholesale level under Schedule 9**:
   - MISO charges OTP for OTP's use of its own and other utilities' transmission lines, based on OTP's share of all load in and near OTP's transmission system (load-balancing area)
   - MISO charges all other utilities for their use of OTP's transmission lines
   - MISO gives OTP 100% of its wholesale revenues for any transmission lines that OTP owns
   - OTP charges its wholesale municipal customers FERC-authorized rates (same 0.8%)
2. **At the state retail level(s)**:
   - OTP allocates all wholesale costs, net of revenues, to its retail customers (same 99.2%)
3. **Net result: OTP charges the same amount to its retail customers under MISO after 2005**

Transmission Cost Recovery With MISO

Phase I: All Transactions Are Wholesale, MISO Takes Care of Financial Transactions, NET EFFECT IS SAME



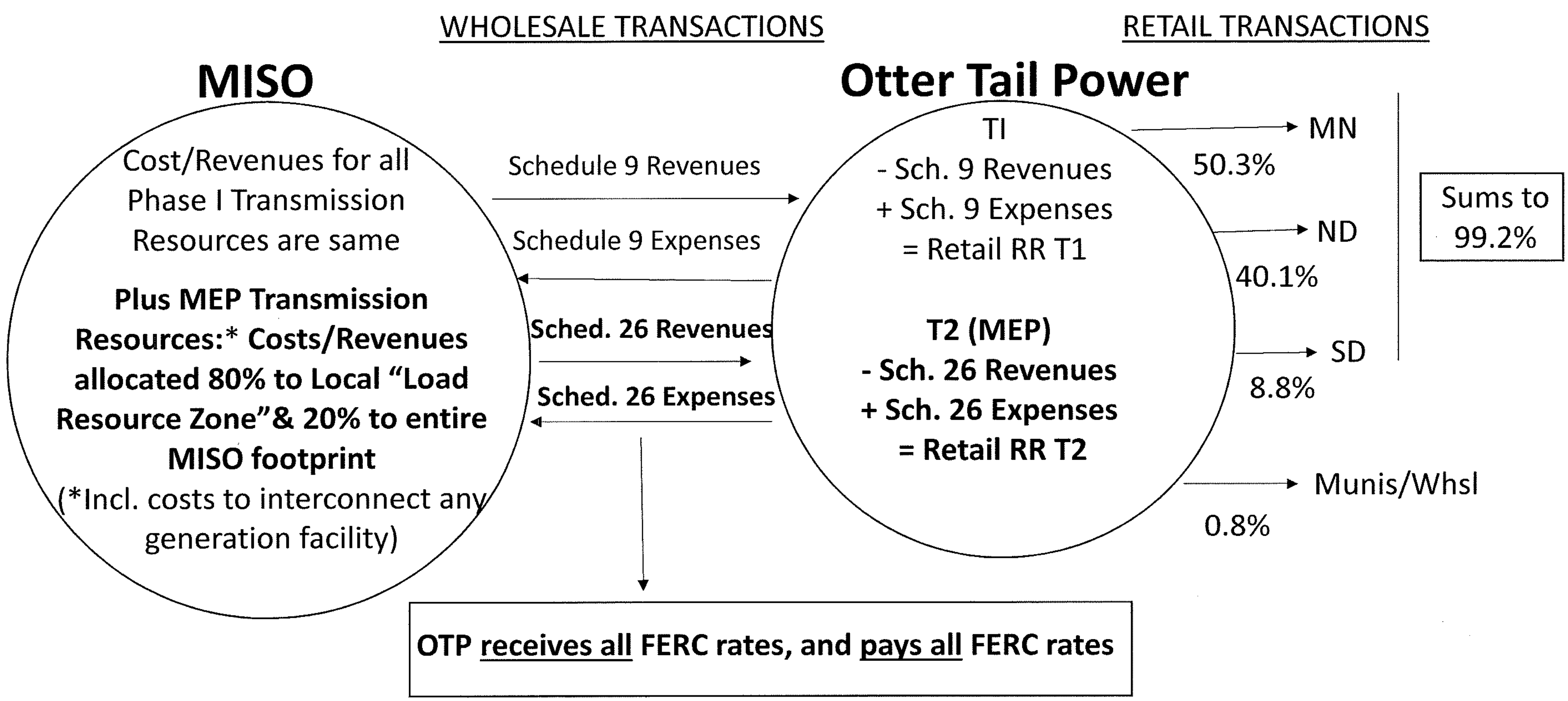
How did federal/state ratemaking change under MISO's Schedule 26?

Schedule 26, for Market Efficiency Projects (MEPs), has two steps in two jurisdictions:

1. **At the wholesale level under Schedule 26**:
    - MISO charges OTP for OTP's use of the Schedule 26 market-efficiency projects (MEP lines), based on OTP's share of all load in a larger area - MISO's load-resource zone 1
    - MISO charges all other utilities for their use of any MEP transmission lines that OTP owns
    - MISO gives OTP 100% of its wholesale revenues for any MEP transmission lines that OTP owns
    - OTP charges its wholesale municipal customers FERC-authorized rates
2. **At the state retail level(s)**:
    - OTP allocates all Schedule 26 costs, net of revenues, to its retail customers
3. **Net result: OTP charges retail customers for all wholesale costs, net of revenues**

Transmission Cost Recovery With MISO

Phase II: Phase I + Recovery of MISO's "Market Efficiency Projects" (MEPs)



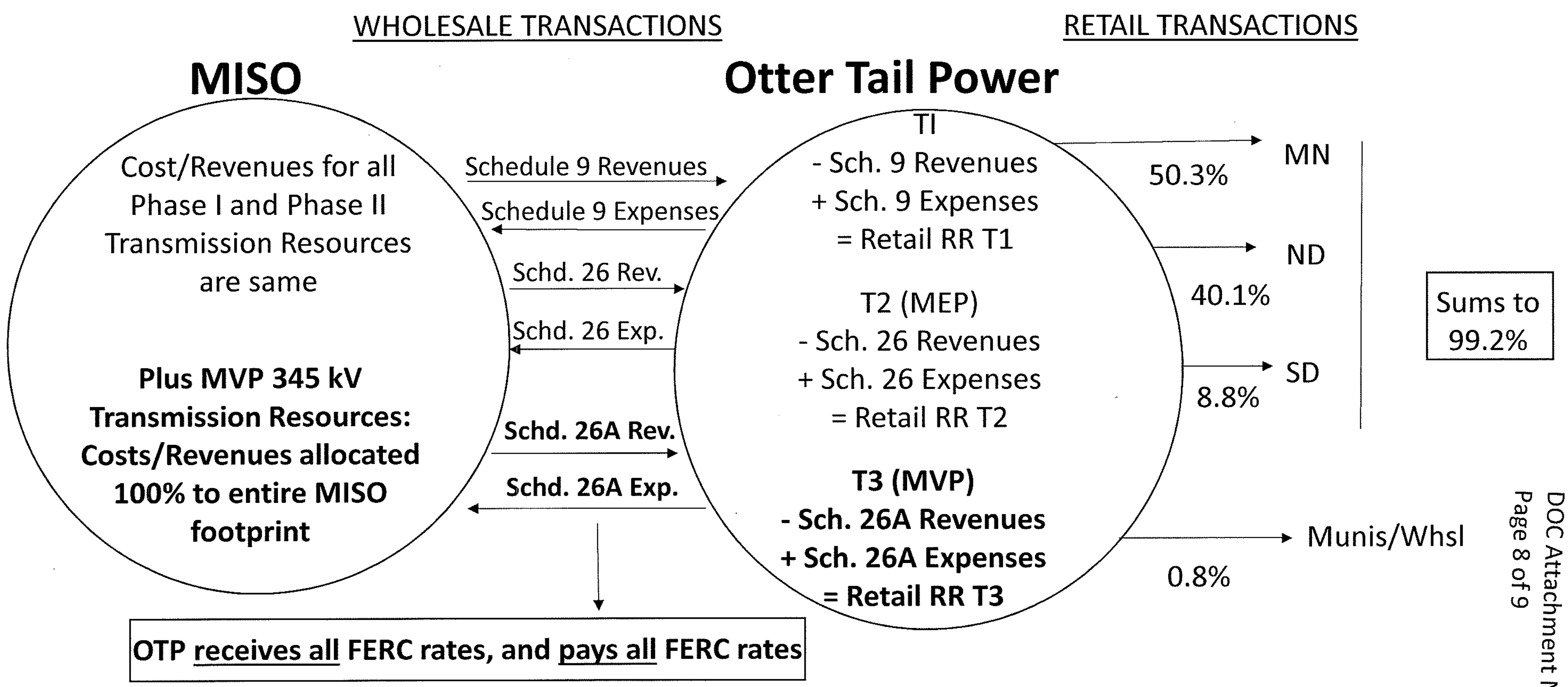
How did federal/state ratemaking change under MISO's Schedule 26A?

Under Schedule 26A, Multi-Value Projects (MVPs), there are the two steps in two jurisdictions:

1. **At the wholesale level under Schedule 26A**:
   - MISO charges OTP for OTP's use of the MVP lines, based on OTP's share of all load in MISO
   - MISO charges all other utilities for their use of OTP's MVP transmission lines
   - MISO gives OTP 100% of its wholesale revenues for OTP's MVP transmission lines
   - OTP charges its wholesale municipal customers FERC-authorized rates
2. **At the state retail level(s)**:
   - OTP should allocate Schedule 26A costs, *net of revenues*, to its retail customers

Transmission Cost Recovery With MISO Phase III:

Phase I + Phase II + Recovery of MISO's "Multi-Value Projects" (MVPs)



Overall, what costs and revenues does MISO allocate to OTP?

Costs: MISO allocates costs to OTP as follows:

- Costs under Schedule 9.
- For MEP projects (Schedule 26), a lesser amount of:
  - 80% of costs of projects in the "Local Load Zone" and
  - 20% of costs of MEP projects and generation interconnection costs.
- For MVP projects (Schedule 26A), since OTP makes up 1% of MISO's load, 1% of all MVP costs, including OTP's costs for Xcel's 50% ownership of an OTP MVP line

Revenues: MISO allocates to OTP 100% of all revenues for transmission lines it owns and the percent of revenues corresponding to its share of jointly owned lines

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-18-748

Dated this 1st day of April 2019

/s/Sharon Ferguson

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Ray	Choquette	rchoquette@agp.com	Ag Processing Inc.	12700 West Dodge Road PO Box 2047 Omaha, NE 68103-2047	Electronic Service	No	OFF_SL_18-748_M-18-748
Generic Notice	Commerce Attorneys	commerce.attorneys@ag.state.mn.us	Office of the Attorney General-DOC	445 Minnesota Street Suite 1800 St. Paul, MN 55101	Electronic Service	Yes	OFF_SL_18-748_M-18-748
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First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
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