

Minnesota Public Utilities Commission

Staff Briefing Papers

Meeting Date: December 12, 2013*Agenda Item # 2

Company: Otter Tail Power Company (“OTP” or the “Company”)

Docket No. Docket No. E017/M-13-648

OTP Power Company’s (OTP or the Company), Request for Approval of its Environmental Upgrades Cost Recovery Rider for the Big Stone Plant.

Issue(s): Should the Commission grant OTP’s request for an Environmental Upgrades Cost Recovery Rider, pursuant to Minn. Stat. §216B.1692?

What costs are appropriate for recovery under an Environmental Upgrades Cost Recovery Rider?

Staff: Clark Kaml 651-201-2246

Relevant Documents

Order Granting Advance Determination of Prudence and Setting Reporting Requirements in Docket No. E-017/M-10-1082 January 23, 2012
Otter Tail Power Initial Petition July 31, 2013
Minnesota Chamber of Commerce (MCC) Comments September 26, 2013
Department of Commerce (Department) Comments September 30, 2013
Otter Tail Power Reply Comments October 10, 2013
Department Reply Comments October 21, 2013

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

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December 4, 2013

I. Statement of the Issues

Should the Commission grant OTP's request for an Environmental Upgrades Cost Recovery Rider, pursuant to Minn. Stat. §216B.1692?

What costs are appropriate for recovery under an Environmental Upgrades Cost Recovery Rider?

II. Background

On January 21, 2012, the Commission issued an Order Granting Advance Determination of Prudence and Setting Reporting Requirements in Docket No. E-017/M-10-1082 (the ADP docket). In part, that Order found that

The proposed Big Stone air quality control system project satisfies the conditions required under Minn. Stat. §216B.1695 for a public utility to petition the Commission for an advance determination of prudence.

The Company has met the requirements of Minn. Stat. § 216B.1695 and has demonstrated the prudence and reasonableness of the proposed Big Stone air quality control system project, as modified to eliminate the baghouse component.

The Commission granted the petition for an advance determination of prudence for the project, as modified.

On July 31, 2013, Otter Tail Power filed a petition for an Environmental Upgrades Cost Recovery Rider (ECR Rider)

On September 26, 2013, the Minnesota Chamber of Commerce (MCC) filed comments supporting OTP's cost allocation and rate design.

On September 30, 2013, the Department filed comments recommending approval subject to OTP filing additional information.

On October 10, 2013, Otter Tail Power filed reply comments addressing the additional information requested by the Department.

On October 21, 2013, the Department filed reply comments indicating that OTP's reply comments provided the additional information requested by the Department.

III. Big Stone Plant

The Big Stone Plant is a coal-fired power plant located approximately 2.5 miles northwest of Big Stone City in Grant County, South Dakota. The Plant began commercial operation on May 1,

1975 and has been in operation since. The Big Stone Plant is jointly owned by three utilities: Otter Tail, NorthWestern Energy (“NorthWestern”), and Montana-Dakota Utilities Co (“MDU”).

The Big Stone Plant is rated at 495 megawatts (“MW”) gross output and 475 MW net electrical output. The Plant was constructed and operates as a baseload facility with load following capabilities. Otter Tail owns approximately 53.9% of Big Stone, NorthWestern owns 23.4%, and MDU owns 22.7%. Otter Tail receives approximately 256 MW of nameplate capacity.

Approximately 27% of Big Stone’s output, 128 MW, is used to serve Minnesota customers. The remaining 73% of the Plant’s output is used to serve the customers in North Dakota, South Dakota and Montana.

IV. Parties’ Comments

A. Otter Tail Power’s Request

Otter Tail is requesting an Environmental Upgrades Cost Recovery Rider pursuant to Minnesota Stat. § 216B.1692. OTP stated that the ECR Rider would allow it to begin rate recovery for its share of costs for the Air Quality Control System (“AQCS”) project being installed at the Big Stone Generation Station Plant.

OTP noted that Minn. Stat. § 216B.1692, subd. 1(b), as amended in 2013, allows, provided they have received an ADP from the Commission, rider recovery for required environmental upgrades to out-of-state generating stations that serve Minnesota customers. For the period of October 2013 through September 2014, the proposed ECR Rider rate is 3.958 percent using a percent-of-bill rate design method.

Otter Tail estimated the Rider rates will increase to about 6.9 percent (calculated as an aggregate revenue increase over current rates) for the period October 2014 through September 2015. An additional increase of approximately 5.6 percent is expected when the project goes into service late in 2015. The total aggregate rate increase expected for the project through the in-service date is estimated to be approximately 12.5 percent.

Because Otter Tail is a multi-jurisdictional utility, the ECR Rider is designed to recover only Otter Tail’s Minnesota Jurisdictional share of these costs. In addition to its share of the shared project, Otter Tail will incur some additional capital costs relating to its individual interest in the project. In total, Otter Tail’s estimated project costs are \$221.5 million, including Otter Tail’s ownership share of shared project costs, the additional costs incurred directly by Otter Tail relating to its individual interest in the project and an allowance for funds used during construction (“AFUDC”) accrued prior to October 1, 2013, the proposed commencement date of the first ECR Rider recovery period. Otter Tail’s Minnesota jurisdictional share of this cost responsibility is approximately \$112 million.

Otter Tail’s project costs to date (through June 2013) are \$39.8 million (\$18.3million Minnesota jurisdictional share, excluding baghouse and ACI costs). Through the first Rider recovery period

of June 2013 through September 2014, Otter Tail's share of total expected project expenditures (cumulative) is \$147.5 million (\$67.4 million Minnesota jurisdictional share, excluding baghouse and ACI costs).

OTP noted that, if it were to file a general rate case at the completion of the AQCS project, the costs of the baghouse and Active Carbon Injection would be included in the total. For purposes of the rider, those costs have been excluded. In addition to these capitalized costs, the AQCS project will require increased operating and maintenance expense.

The Company's petition

- 1) Discusses the eligibility requirements of the AQCS project for ECR Rider recovery. Explains how the elements of the proposed ECR Rider are in compliance with the elements of Minn. Stat. § 216B.1692, subd. 5 (b) authorizing the Commission to approve a Rider.
- 2) Lists the components of the revenue requirement.

OTP proposed to use the "percent of bill" method to allocate costs to classes. This method matches the rate design with other baseload plant ratebase and operating expense by applying the percent to only base rates.

The total 2013 revenue requirement is \$6,173,838. The estimated increase for a residential customer using 750 kWh would be \$69.94 times 3.958%, or \$2.77 per month. The following table shows the estimated rate increase over the previous rate by individual rates:

	Energy Usage (kWh)	Demand Usage	Total Bill Before Riders	ECR Charge
Residential (101 Rate)	750		\$69.94	\$2.77
Small Commercial (404 Rate)	750		\$73.88	\$2.92
Large Commercial (603 Rate)	100,000	200	\$6,280.00	\$248.56
Proposed ECR Rider Rate				3.958%

The above rate has been calculated based on an expected implementation date of October 1, 2013, with Revenue Requirement calculations are based on October 2013 through September 2014 costs. The costs incurred up to September 2013 include AFUDC accrued through September 2013. If the effective date is significantly later than October 1, 2013, Otter Tail, in

order to recover all approved costs over the remainder of the proposed recovery period, requested the option to recalculate the rate.

During the month that the 2013 Rider is implemented, Otter Tail plans to provide the following proposed notice to customers regarding the 2013 Environmental Upgrades Rider to be reflected in their monthly electric bills:

Starting this month, the Environmental Cost Recovery Rider has been added to your bill which recovers costs associated with new environmental controls, which reduce particulate matter and other pollutants, being installed at Otter Tail Power's Big Stone Power Plant. Questions? Contact us at 800-257-4044

In response to the Department's request, OTP filed additional information and explanations in its reply comments.

B. Department of Commerce

The Department's comments contain a thorough review of OTP's proposal. In its initial comments the Department recommended the Commission approve the petition subject to some additional information being provided by OTP in reply comments.

Following OTP's reply comments, the Department filed additional comments that discussing the new information. The Department's comments stated that:

OTP's AFUDC rates are consistent with FERC requirements.

It has reviewed OTP's two corrections and considers these corrections to be appropriate.

C. Minnesota Chamber of Commerce

The Minnesota Chamber of Commerce stated that its comments are related to the cost of allocation and rate design of the revenue requirements. It supports OTP's use of the percent of bill approach for allocating costs.

V. Staff Comment

Staff notes that:

The Commission has already found that the Company has demonstrated the prudence and reasonableness of the proposed Big Stone air quality control system project.

In its request, the Company's request excluded the costs for the baghouse and ACI system, consistent with the Commission's January 21, 2012, Order in Docket No. E-017/M-10-1082.

The projected costs of the project have been reduced approximately 17.5 percent from the estimates in the ADP docket.

VI. Commission Options

Some Commission options are:

- A. Approve OTP's request as recommended by the Department.
- B. Determine that it is premature to allow recovery of the Air Quality Control System.
- C. Take some other action the Commission considers appropriate.