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July 24, 2018



Daniel P. Wolf
Executive Secretary
Minnesota Public Utilities Commission
121 Seventh Place East, Suite 350
St. Paul, MN 55101-2147

**RE: In the Matter of the Application of Otter Tail Power Company for Authority to Increase Rates for Electric Service in the State of Minnesota
Docket No. E017/GR-15-1033
Reply Comments**

Dear Mr. Wolf:

Otter Tail Power Company (Otter Tail) respectfully submits these Reply Comments to the Minnesota Public Utilities Commission (Commission) as required by the Commission in the May 1, 2017 Findings of Fact, Conclusions, and Order in the above referenced Docket.

This filing is being made in response to Comments made by the Department of Commerce and Fresh Energy upon review of the March 30, 2018 filing of the original report and subsequent June 20, 2018 supplemental filing.

If there are any questions concerning this filing, please direct them to me at 218-739-8350 or at molsen@otpco.com.

Sincerely,

/S/ BRIAN BOSS
Brian Boss
Pricing Analyst, Regulatory Administration

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Enclosures
c: Service List
By electronic filing

STATE OF MINNESOTA
BEFORE THE
MINNESOTA PUBLIC UTILITIES COMMISSION

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

Docket No. E017/GR-15-1033

**OTTER TAIL POWER COMPANY
REPLY COMMENTS TO THE
DEPARTMENT OF COMMERCE AND
FRESH ENERGY**

I. INTRODUCTION

On June 25, 2018, the Minnesota Department of Commerce, Division of Energy Resources (Department) and Fresh Energy submitted Comments on the decoupling report which was ordered in the above referenced docket. The decoupling report is an analysis of a decoupling model supplied by Fresh Energy as applied to Otter Tail Power Company (Otter Tail).

In its Comments, the Department shared the following conclusions and recommendation:

1. The Department concludes that Otter Tail's Decoupling Report included a reasonable analysis of the impact of an RDM [Revenue Decoupling Model] on the Company's Residential and Farm and General Service customer classes.
2. The Department concludes that Otter Tail's [sales] forecast needs to be studied more before an RDM is implemented for the Company; therefore, any RDM pilot proposal should be made at the time of OTP's next rate case to ensure that the RDM pilot can be evaluated in conjunction with the Company's [sales] forecast.
3. The Department recommends that the Commission decline to order implementation of an RDM for Otter Tail at this time.

Fresh Energy made two recommendations in its comments:

1. Otter Tail address the issues with its underlying rate structure and develop and propose a revenue decoupling mechanism of its choosing based on an updated rate structure for consideration by the Commission and other stakeholders in its next rate case.

2. Otter Tail further detail its views on and plans for residential time-of-use rates in reply comments in this docket.

II. REPLY TO DEPARTMENT AND FRESH ENERGY COMMENTS

The Commenting parties are in agreement that Otter Tail's report was a reasonable analysis of the impact of an RDM on the selected customer classes.

The analysis included in the report of actual sales in comparison to the revenue per customer decoupling methodology, as recommended by Fresh Energy, illuminated how billing determinants set in Otter Tail's rate case were intersecting with actual results. In short, the evaluation shows that the sales volumes for the evaluated classes were forecasted to be higher than actual sales volumes have materialized over the evaluation period. These forecasts resulted in rates that have been lower than the ongoing actual per-customer revenue requirements.

This outcome is of course at least in part due to Otter Tail's success in fostering conservation, and therefore one could view the identified need for revenue increase as a natural consequence of Otter Tail's success in fostering conservation. And to the extent that is the case, a decoupling mechanism might be appropriate to remove any inherent disincentive for conservation. On the other hand, there also seems to be an indication in the analysis that Otter Tail's sales volumes for these classes were forecast too high in its rate case, which has resulted in an automatic and immediate under-recovery from these rate classes. Accuracy of the sales forecast will need to be considered in Otter Tail's next rate case whether or not a decoupling mechanism is considered by the Commission.

Regarding the request to provide further information on views and plans for residential time-of-use rates, Otter Tail has submitted proposed Residential time-of-use rates in current rate cases in North Dakota and South Dakota¹. Otter Tail will evaluate the final results of those rate cases and pending the outcomes, intends to submit proposed Residential time-of-use rates in its next Minnesota rate case.

Reviewing shared concerns and comments between the Department, Fresh Energy and Otter Tail, the main item is the sales forecast and how it is used as the basis for setting up an

¹ North Dakota Case No. PU-17-398, South Dakota Docket No. EL18-021.

RDM. All parties seem to support taking the care necessary to make sure that the billing determinants for rates are as accurate as possible.

III. Future Considerations

The effect of surcharge caps also deserves further consideration. The Department performed analysis on how symmetrical versus asymmetrical caps would have impacted surcharge refund and collections during the test period. However, some thought should be given to the effect such caps may have on the purposes to be served by a decoupling mechanism. Given the purpose of a decoupling mechanism is to remove disincentives for conservation, there should be recognition that capping the surcharges interferes with this goal and reintroduces a financial disincentive for conservation. This subject should be given additional discussion in any proceeding where a decoupling proposal may be considered for implementation

In conclusion, Otter Tail thanks the Department and Fresh Energy for their comments and will continue the dialogue in future conversations and regulatory proceedings.

Dated: July 24, 2018

Respectfully submitted,

OTTER TAIL POWER COMPANY

By: /s/ BRIAN BOSS

Brian Boss

Pricing Analyst, Regulatory Administration

Otter Tail Power Company

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CERTIFICATE OF SERVICE

**RE: In the Matter of the Application of Otter Tail Power Company for Authority to Increase Rates for Electric Service in the State of Minnesota
Docket No. E017/GR-15-1033**

I, Jana Hrdlicka, hereby certify that I have this day served a copy of the following, or a summary thereof, on Daniel P. Wolf and Sharon Ferguson by e-filing, and to the Office of Attorney General – Antitrust & Utilities Division and all other persons on the attached service lists by electronic service or by First Class mail.

**Otter Tail Power Company
Reply Comments**

Dated this **24th** day of **July, 2018**

/s/ JANA HRDLICKA

Jana Hrdlicka
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