

Minnesota Public Utilities Commission
Staff Briefing Papers

Meeting Date: February 12, 2015.....* **Agenda Item # 5**

Company: Otter Tail Power Company

Docket No. E-017/M-14-375
In the matter of Otter Tail Power’s Petition for Approval of a
Transmission Cost Recovery Rider under Minn. Stat. § 216B.16, subd.
7b

Issue: Should the proposed increases to the charges under the Transmission
Cost Recovery Rider be approved by the Commission?

Staff: Ann Schwieger(651) 201-2238

Relevant Documents

Otter Tail – Initial Filing.....May 1, 2014
Department of Commerce - Comments..... August 22, 2014
Otter Tail – Reply Comments September 12, 2014
Department of Commerce – Response to Reply Comments..... September 24, 2014
Otter Tail – Reply CommentsOctober 3, 2014
Otter Tail – Supplemental Filing February 3, 2015

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Statement of the Issue

Should the proposed increases to the charges under the Transmission Cost Recovery Rider be approved by the Commission?

Background

The Commission issued its Order approving a TCR mechanism for Otter Tail Power on January 28, 2010 in Docket No. E-017/M-09-881.

The first update to the TCR Rider was approved by the Commission on March 26, 2012 in Docket No. E-017/M-10-1061. The Company implemented updated rates as of April 1, 2012.

The second update to the TCR Rider was approved by the Commission on March 10, 2014 in Docket No. E-017/M-13-103. The Company did not update the TCR rates it charges to customers in its second filing.

Current Filing

May 1, 2014: Otter Tail Power Company submitted its initial filing requesting Commission approval to implement new rates to recover costs associated with its Transmission Cost Recovery (TCR) rider based on its updated investment, expenses and revenue collections. The filing was based on a recovery period from July 1, 2014 through June 30, 2015.

August 22, 2014: The Department of Commerce submitted its comments on Otter Tail's initial filing and withheld making a recommendation until the Company provided a response to the Department's request for additional information.

September 12, 2014: The Company submitted the information requested by the Department and also included a recalculation of the proposed rates due to the implementation date occurring significantly after the July 2014 date proposed in the initial filing. The updated rates in this filing were based on an eight month recovery period from November 1, 2014 through June 30, 2015.

September 24, 2014: The Department recommended the Commission approve Otter Tail Power's request to recover its approved costs over the remaining recovery period.

October 3, 2014: The Company submitted response comments and agreed with the Department's recommendations.

February 3, 2015: Otter Tail submitted a supplemental filing and requested the recovery of the revenue requirement in the TCR be spread over a longer period of time to avoid a dramatic change compared to the current TCR rate. The Company proposed a ten month recovery period from March 1, 2015 through December 31, 2015. In its February 3 filing, Otter Tail indicated that the Department agrees with its proposal.

In this docket, the Company is requesting permission to charge new new TCR rates based on updated investment, expense and revenue collections that have occurred since the initial filing in Docket No. E-017/M-13-103. The filing was accounted for in accordance with the framework that has been ordered by the Commission in previous TCR rider dockets. No new projects are being added in this Petition. Projects previously included in the TCR rider are:

- 1.) Fargo-Monticello CapX2020 Transmission Project,
- 2.) Bemidji-Grand Rapids CapX2020 Transmission Project,
- 3.) Cass Lake-Bemidji CapX2020 Transmission Project (Part of the Bemidji Project),
- 4.) Brookings-Hampton CapX2020 Transmission Project,
- 5.) Ramsey 230/115 kW Transformer.

TCR Revenue Requirement and Resulting Rates

In its initial filing, the Company calculated a revenue requirement of \$7,121,429 and requested recovery from July 2014 – June 2015, as shown in column B. In a subsequent filing, the Company provided an update to rates for a recovery period from March 1, 2015 to June 30, 2015, as shown in column C. Due to concerns about the large increase in the TCR rate over a shortened period of time, the Company submitted a supplemental filing in which it updated its actual collections and lengthened the time period over which the TCR costs would be recovered from March 1, 2015 to December 31, 2015. The results are shown in column D.

		A	B	C	D
CUSTOMER CLASS		Current Rates Effective April 2012 Rate per Unit	Original Rates Proposed in Initial Filing Jul 2014 - Jun 2015 Rate per Unit	ORIGINAL COSTS & REVENUES Full Recovery by June 2015 (Mar 1-Jun 30, 2015) Rate per Unit	ORIGINAL COSTS & REVENUES Full Recovery by December 2015 (Mar 1-Dec 31, 2015) Rate per Unit
Large General Service	(\$ / kW)	\$ 0.391	\$ 1.458	\$ 3.567	\$ 2.058
Controlled Service	(cents / kWh)	0.019¢	0.069¢	0.161¢	0.122¢
Lighting	(cents / kWh)	0.085¢	0.292¢	0.703¢	0.420¢
All other service	(cents / kWh)	0.126¢	0.434¢	1.107¢	0.643¢

The Company has requested the Commission allow it to recover the approved costs over a ten month period of March 1, 2015 to December 31, 2015 to reduce the tracker balance to as close to zero as possible by the end of the recovery period. While the Company would like to reduce its under-recovery balance to near zero as soon as possible, it recognized that implementing rates over a four month period would result in a very high rate. The ten month recovery period would result in an under recovery of costs for the Company of approximately \$1.45 million. The Company stated that under the circumstances, this appears to be the best way to move forward to reduce the balance. The Department agreed with the Company's proposal and the expectation that the next TCR rate adjustment will result in a reduction of the rate and lead to a more stable rate level going forward.

The following table represents the proposed projected revenue requirement and associated rates by class using a March 1, 2015 to December 31, 2015 recovery period.

Line No.	Class		Units	Rate per Unit	Amount
1	Large General Service	(a)	1,863,956 kW	\$2.058	\$3,836,725
2					
3	Controlled Service	(b)	121,989,880 kWh	0.122¢	\$149,271
4					
5	Lighting	(c)	16,070,645 kWh	0.420¢	\$67,543
6					
7	All other service		674,517,893 kWh	0.643¢	\$4,334,287
8					
9	Total revenue				<u>\$8,387,827</u>

The following table shows the estimated monthly rate impact by retail customer class using a March 1, 2015 to December 31, 2015 recovery period.

Rate Impact						
	Customers	Average kW/kWh	Current Rate	Proposed Rate	Change in Rate	Bill Impact
Large General Service (kW)	569	327	\$0.391	2.058	1.667	\$545.17
Controlled Service (kWh)	16,837	905	0.019 ¢	0.122	0.103	\$0.94
Lighting (kWh)	2,686	609	0.085 ¢	0.420	0.335	\$2.04
All Other Service (kWh)	61,931	1,142	0.126 ¢	0.643	0.516	\$5.90

The Company stated that assuming the Commission approves its proposed rates, the Company would file its next TCR update by October 1, 2015.

Multi-Value Project (MVP) Auction Revenue Rights (ARR)

In response to a Department informational request, the Company confirmed that it has been receiving Multi-Value Project (MVP) Auction Revenue Rights (ARR) revenues of approximately \$3,000 per month beginning in June 2014. The MVP ARR are allocated to all MISO market participants for all MVP projects. The Company and the Department agree that all MVP ARR revenues should be included in the TCR rider. The parties agreed that due to the de minimis level of revenues received at this time, Otter Tail will include them as a true-up item in its next (2015) TCR rider update. Staff notes that this recommendation is consistent with Minnesota Power's treatment for recovery of the MVP ARR through its TCR rider.

Decision Alternatives

Recovery of Costs included in the Transmission Cost Recovery (TCR) Rider:

- A.) Allow Otter Tail Power to recover its approved costs, effective March 1, 2015, over the proposed recovery period of March 1, 2015 to December 31, 2015. (Otter Tail, Department) Or
- B.) Allow Otter Tail Power to recover its approved costs over some other recovery period as determined by the Commission.

Multi-Value Project (MVP) Auction Revenue Rights (ARRS):

- C.) Approve Otter Tail Power's request to include its actual amount of MVP ARRs as a true-up item in its 2015 rider petition, with the understanding that Otter Tail will incorporate estimates of all MVP ARRs in future TCR riders beginning with its 2015 TCR rider. (Otter Tail, Department) Or
- D.) Do not approve Otter Tail Power's request to include its actual amount of MVP ARRs as a true-up item in its 2015 rider petition, with the understanding that Otter Tail will incorporate estimates of all MVP ARRs in future TCR riders beginning with its 2015 TCR rider.

Compliance Filing:

- E.) Require Otter Tail Power to make a compliance filing with revised tariff language within 15 days of the Commission's Order.
- F.) Do not require Otter Tail Power to make a compliance filing.

Recommendation

Staff recommends decision alternatives A, C & E.