

215 South Cascade Street
PO Box 496
Fergus Falls, Minnesota 56538-0496
218 739-8200
www.otpc.com (web site)

April 30, 2018



Daniel P. Wolf
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, MN 55101

**RE: In the Matter of an Investigation into the Appropriateness of Continuing to Permit
Electric Energy Cost Adjustments
Docket No. E999/CI-03-802
Compliance Filing**

Dear Mr. Wolf:

Otter Tail Power Company (Otter Tail) hereby submits its Compliance filing in response to the Minnesota Public Utilities Commission Orders dated December 19, 2017 and February 27, 2018 in the above referenced Docket.

Otter Tail has electronically filed this document with the Minnesota Public Utilities Commission and is serving a copy on all persons on the Official Service List for this docket. A Certificate of Service is also enclosed.

Should you have any questions regarding this filing, please contact me at 218-739-8279 or stommerdahl@otpc.com.

Sincerely,

/s/ STUART TOMMERDAHL
Stuart Tommerdahl
Manager, Regulatory Administration

jch
Enclosures
By electronic filing
c: Service List

STATE OF MINNESOTA
BEFORE THE
MINNESOTA PUBLIC UTILITIES COMMISSION

In the Matter of an Investigation into the
Appropriateness of Continuing to Permit
Electric Energy Cost Adjustments

Docket No. E999/CI-03-802

**OTTER TAIL POWER COMPANY
COMPLIANCE FILING**

I. INTRODUCTION

On December 19, 2017, the Minnesota Public Utility Commission (Commission), issued its Order in the above referenced docket, *“Approving New Annual Fuel Clause Adjustment Requirements and Setting Filing Requirements.”* In the Order, the Commission adopted the Minnesota Department of Commerce, Division of Energy Resources (Department) proposal to reform the electric fuel clause adjustment or Energy Adjustment Rider (FCA) mechanism used to recover energy costs for Otter Tail Power Company (Otter Tail or Company), Xcel Energy and Minnesota Power (The Utilities). In that Order, the Commission ordered The Utilities to make *“a compliance filing addressing implementation of the Commission’s decision. These filings will facilitate further discussion among the parties to develop a more complete framework for implementing the Department’s proposal.”*

In this Compliance filing, Otter Tail will: provide background information on Otter Tail’s current FCA mechanism and how that framework will be utilized in the reformed FCA mechanism; provide its recommendations on how the new FCA mechanism should be implemented including a proposed timeline and anticipated filings necessary to implement and administer the new mechanism; provide an overview of forecast information that will be provided and key assumptions that go into developing those forecasts; address transitional issues related to moving from the current FCA mechanism to the new mechanism; and provide recommendations to address out-of-cycle updates or revisions when circumstances change materially. This compliance filing assumes the FCA reform applies to all costs currently recovered through the FCA. Otter Tail is not opposed to a version of the FCA reform that is scaled back to certain cost categories, such a replacement power, should the Commission deem that a more appropriate approach.

II. OTTER TAIL’S CURRENT FCA MECHANISM

Otter Tail’s current FCA mechanism facilitates recovery of allowed fuel and purchased power costs through two components: base rates and the monthly FCA rider. In this section, a description is provided for each of those components and how they currently work together to recover FCA costs. A summary of the cost components currently being recovered through the

FCA is also provided along with a recommendation as to how this interplay between base rate recovery and rider recovery should work under the new reformed FCA mechanism. Last, an overview of Otter Tail’s transition to a separate FCA rate for each of Otter Tail’s ten customer classes using the E8760 allocator is provided.

A. Base Rate Recovery

The majority of Otter Tail’s current FCA eligible costs are recovered through base rates that were set in Otter Tail’s most recent general rate case, Docket No. E017/GR-15-1033 (15-1033). Based on the outcome of that case, Otter Tail’s current base cost of energy¹ is 2.4652¢ per Kilowatt-Hour. The amount currently included in base rates serves as the threshold for determining the delta between base rate recovery and the rate to be assessed and charged (or credited) through the FCA rider each month.

B. Energy Adjustment Rider Recovery

As discussed above, the majority of Otter Tail’s fuel costs are recovered through base rates. Any deviation between actual fuel costs on a per kWh basis and the amount currently included and collected through base rates is recovered through Otter Tail’s FCA rider. As described in Otter Tail’s tariff, Section 13.01, the monthly FCA rate is calculated as follows:

There shall be added to or deducted from the monthly bill the amount per Kilowatt-Hour (rounded to the nearest 0.001¢) that the average cost of energy is above or below 2.4652¢ per Kilowatt-Hour. The average cost of energy shall be based upon the cost of energy during the two months immediately preceding the month when the cost of energy is calculated, divided by all Kilowatt-Hour sales exclusive of intersystem sales for the same two-month period. The applicable adjustment will be applied to each Customer's bill beginning with cycle 1 of the calendar month following the month when the adjustment is calculated.

For example, currently, the monthly FCA rate effective January 1 Year 2, would be calculated in December Year 1 using historical information (actual fuel costs and kWh sales) for October Year 1 and November Year 1. Like the amount included in base rates, the monthly per kWh FCA rate is based on total system costs. The difference between the actual costs incurred per kWh during the two trailing months and the costs collected in base rates per kWh would be the incremental charge (credit) for the monthly FCA.

If, for example, the 2-month trailing average cost was \$.0250 per kWh, the January FCA rate would be calculated as follows:

Actual Average Cost of Fuel (Base on prior 2 months)	\$.025000
Less: Current Base Cost of Fuel (Portion in Base Rates)	<u>(\$.024652)</u>

¹ For example, In Otter Tail’s October – May (Winter) Residential Rate, 2.4652¢ of the 9.064¢ rate is applicable to the recovery of FCA eligible fuel and purchased power costs.

FCA Rate for January

\$.000348

Once the new rate is calculated and the monthly filing is made, the updated rate is posted on Otter Tail's website, ahead of the beginning of the month. The rate that goes into effect at the beginning of the month is applied to Minnesota customer's bills rendered throughout the month.

C. Base Rate and FCA Rider Under Reformed FCA

The Commission's Ordering point 1.c states that: *the monthly fuel clause adjustment will not operate – each electric utility will charge an approved monthly rate*, which Otter Tail understands to mean the rate won't change each month in the same manner as it does today (based on a calculation driven by current, actual costs). In Otter Tail's case, the monthly mechanism will continue to function, but only to support the application of the pre-approved forecasted rates to customer bills. In other words, Otter Tail believes the same recovery mechanisms will continue to facilitate recovery and support the implementation of the reformed FCA mechanism.

To further explain, under the Department's proposal, a forecasted monthly rate will be established and used for collection of FCA costs each month during the annual recovery period those forecasted rates are in effect. Because Otter Tail's current base rates recover \$.024652 per kWh, the difference between that base rate amount and the forecasted total monthly rate will be the amount included in the monthly FCA rate. This is the approved rate Ordering point 1.c refers to. The hypothetical example in Table 1 below is provided to help illustrate how base rate and FCA rider recovery would work.

Table 1

	Recovery Example		
	A	B	C
Month	Base Rate	Forecast Rate	Forecast Rider Rate (B - A)
Jul	0.024652	0.025000	0.000348
Aug	0.024652	0.025000	0.000348
Sep	0.024652	0.024500	(0.000152)
Oct	0.024652	0.024400	(0.000252)
Nov	0.024652	0.024900	0.000248
Dec	0.024652	0.025100	0.000448
Jan	0.024652	0.025500	0.000848
Feb	0.024652	0.025400	0.000748
Mar	0.024652	0.024800	0.000148
Apr	0.024652	0.024000	(0.000652)
May	0.024652	0.024200	(0.000452)
Jun	0.024652	0.024400	(0.000252)

Column A in Table 1 reflects Otter Tail’s base rate amount applicable to FCA recovery. Assuming the amounts in column B are the monthly forecast rates per kWh to be implemented, the delta between that forecasted rate and the base rate (column B minus column A) would be the rate that would be included in the FCA mechanism each month during the collection period. This approach preserves the structure of existing rates and avoids the administrative costs of removing costs out of current base rates. In the future all fuel cost recovery could be moved to the FCA rider in a general rate case proceeding. Otter Tail notes that currently, on a customer’s bill in Minnesota, the monthly FCA amount is aggregated with other riders and presented as one aggregate amount titled “Resource Adjustment.”²

D. E8760

Prior to implementation of the FCA reform, Otter Tail expects to transition from the current single monthly FCA rate for all customers to the E8760 methodology approved in Otter Tail’s last general rate case once implementation of Otter Tail’s new customer information system (CISone) is put into service. Otter Tail expects CISone to be implemented before the end of 2018 and will be submitting a compliance filing in Docket 15-1033 in the near future to address the transition to this methodology. This methodology will result in a separate rate for each of Otter Tail’s ten customer classes. Under the FCA reform mechanism, Otter Tail anticipates submitting its forecasted rates for each class for each month during the recovery

² The Resource Adjustment reflects five costs: The Energy Adjustment Rider, the Conservation Improvement Program surcharge, the Transmission Cost Recovery Rider, Renewable Resource Cost Recovery Rider, and the Environmental Cost Recovery Rider.

period. Using the hypothetical information from Table 1, the E8760 rates would look something like what is reflected in Table 2 below.

Table 2

Recovery Example				E8760 ALLOCATION										
	A	B	C											
Month	Base Rate	Forecast Rate	Forecast Rider Rate (B - A)		Residential	Farms	General Service	Large General Service	Irrigation Services	Outdoor Lighting	OPA	Controlled Service Water Heating	Controlled Service Interruptible	Controlled Service Deferred
				E8760 Alloc. Ratio	1.0833	1.0467	1.0567	0.9546	0.9585	0.8367	1.0373	1.0898	1.0945	0.9846
Jul	0.024652	0.025000	0.000348		0.000377	0.000364	0.000368	0.000332	0.000334	0.000291	0.000361	0.000379	0.000381	0.000343
Aug	0.024652	0.025000	0.000348		0.000377	0.000364	0.000368	0.000332	0.000334	0.000291	0.000361	0.000379	0.000381	0.000343
Sep	0.024652	0.024500	(0.000152)		(0.000165)	(0.000159)	(0.000161)	(0.000145)	(0.000146)	(0.000127)	(0.000158)	(0.000166)	(0.000166)	(0.000150)
Oct	0.024652	0.024400	(0.000252)		(0.000273)	(0.000264)	(0.000266)	(0.000241)	(0.000242)	(0.000211)	(0.000261)	(0.000275)	(0.000276)	(0.000248)
Nov	0.024652	0.024900	0.000248		0.000269	0.000260	0.000262	0.000237	0.000238	0.000208	0.000257	0.000270	0.000271	0.000244
Dec	0.024652	0.025100	0.000448		0.000485	0.000469	0.000473	0.000428	0.000429	0.000375	0.000465	0.000488	0.000490	0.000441
Jan	0.024652	0.025500	0.000848		0.000919	0.000888	0.000896	0.000809	0.000813	0.000710	0.000880	0.000924	0.000928	0.000835
Feb	0.024652	0.025400	0.000748		0.000810	0.000783	0.000790	0.000714	0.000717	0.000626	0.000776	0.000815	0.000819	0.000736
Mar	0.024652	0.024800	0.000148		0.000160	0.000155	0.000156	0.000141	0.000142	0.000124	0.000154	0.000161	0.000162	0.000146
Apr	0.024652	0.024000	(0.000652)		(0.000706)	(0.000682)	(0.000689)	(0.000622)	(0.000625)	(0.000546)	(0.000676)	(0.000711)	(0.000714)	(0.000642)
May	0.024652	0.024200	(0.000452)		(0.000490)	(0.000473)	(0.000478)	(0.000431)	(0.000433)	(0.000378)	(0.000469)	(0.000493)	(0.000495)	(0.000445)
Jun	0.024652	0.024400	(0.000252)		(0.000273)	(0.000264)	(0.000266)	(0.000241)	(0.000242)	(0.000211)	(0.000261)	(0.000275)	(0.000276)	(0.000248)

E. Annual True-Up

Otter Tail’s current FCA mechanism includes a provision for an annual true-up as spelled out in Tariff Schedule 13.01:

“In addition, there shall be an annual true-up for any amount collected over or under the actual cost of energy for the twelve months ending June 30 of each year as reported in the Annual Automatic Adjustment report filed according to Minnesota Rule 7825.2810. The annual true-up shall be based on a historic twelve-month period and shall be applied to the subsequent twelve months. The annual true-up will be effective on billings beginning September 1 of the current year through August 31 of the following year, when a new true-up rate will be calculated and applied. In years when the over- or under-recovery amount is small (a rate rounded to less than 0.001¢), an annual true-up rate shall not apply.

The annual true-up rate shall be calculated as follows. The over- or under-recovery amount as shown in the current year Annual Automatic Adjustment report will be divided by the Minnesota Kilowatt-Hours subject to the fuel adjustment clause from the same report. This calculation will produce a true-up rate per Kilowatt-Hour (rounded to the nearest 0.001¢) that will be applied to Customers’ bills in the same manner as the monthly cost of energy adjustment.”

The annual true-up filing is typically filed at the end of July and the proposed true-up rate provisionally incorporated into the monthly FCA rates billed beginning with bills rendered on and after September 1 to August 31 of the recovery period. Commission approval of the annual true-up has generally occurred in September or October.

As Otter Tail transitions from the current FCA mechanism where costs and associated rates are based on historical actual costs, to the new Reformed FCA mechanism where rates are based on forecast costs, a transitional true-up component will need to be incorporated into the new FCA forecast rates to address any over or under recovery that will exist at the time of transition in July of 2019. Otter Tail's recommendations for handling these transitional true-ups are included in Section IV below which discusses Otter Tail's proposal outlining the timing and details of the transition to, and implementation of, the Reformed FCA mechanism.

III. CURRENT COST COMPONENTS INCLUDED IN FCA

There are several different types of costs currently authorized for recovery in Otter Tail's FCA rider. In this section, a general overview of these cost components is included to provide further background on the types of costs that will be forecasted in order to develop forecasted FCA rates. The majority of the FCA costs come from three cost categories: Plant generation; MISO Day 2 Charges; and Purchased Power. Other cost/credit components are derived from Wind Curtailment; MISO ASM, Inter System Sales and Asset Based Margins. Later in this filing, a general overview of the forecast process will be provided for these cost categories, along with the potential risks of these costs changing and having a material impact on actual costs.

A. Plant Generation

The fuel and associated handling costs attributable to Otter Tail's baseload and peaking generation facilities are an approved cost recoverable through the FCA mechanism. This includes the costs of coal, natural gas, oil, and related delivery and handling costs. Fuel costs are directly tied to the per unit cost of these fuels and the volumes of these fuels based on the dispatch of Otter Tail's generation fleet by the Midcontinent Independent System Operator (MISO) in the daily energy market.

Otter Tail also has a significant amount of owned wind generation, as well as a small amount of hydro generation. While these sources of energy have no direct fuel cost associated with them, the variation of their output has a significant impact on the overall cost of energy Otter Tail incurs from other resources whose dispatch is either increased or decreased based on changes in wind generation, or from increases or decreases in level of purchases required from the MISO market.

B. MISO Day 2 Charges

Included in this cost category are all day ahead and real time energy, congestion and loss related charges and associated MISO and Southwest Power Pool (SPP) market-related charges. Otter Tail's reliance on the MISO market is dictated by Otter Tail's Day Ahead and Real Time energy needs to serve its load, the availability and economic dispatch of Otter Tail's generation fleet offered into the MISO market (including wind generation) and Otter Tail's other purchased power agreements which serve Otter Tail's load. Any deviations between hourly loads and the

resources listed above to serve these loads is handled through MISO market purchases and sales.³ MISO is in effect, the balancing market that ultimately matches our load to the appropriate level of energy necessary to meet that load.

C. Purchased Power

Included in this cost category are major purchased power agreements from three different wind generation facilities and various other purchased power contracts. This cost category may also include seasonal bilateral fixed price purchases or replacement power purchases executed to mitigate market exposure during periods of high seasonal energy demand, or during extended periods when generation is off line.

D. Wind Curtailment

Certain wind generation purchased power agreements include provisions for making curtailment payments if generation is curtailed due to economic conditions (negative LMP prices). In certain circumstances, it is more economic to pay curtailment costs as opposed to keeping wind facilities operating and incurring higher costs by paying negative LMP prices.

E. MISO ASM

MISO ancillary services market (ASM) transactions (excluding ancillary services net revenues derived through Otter Tail's FERC-approved Control Area Services Operations Tariff) are credited to the cost of energy.

F. Intersystem Sales

Fuel related costs recovered through intersystem sales are excluded from the monthly FCA calculation. This is typically a small adjustment to the overall FCA costs.

G. Asset Based Margins

In those situations where Otter Tail generation exceeds Otter Tail retail load needs and that excess generation is sold into the MISO market, any margins generated from those asset-based sales are credited to Otter Tail's FCA. In recent years, due to changes in the marketplace and associated prices for energy, the volume of Asset-Based sales and associated margins has declined. Otter Tail's current FCA mechanism flows these margins back to customers.

As noted earlier, the majority of Otter Tail's FCA costs come from plant generation, purchased power, and MISO purchases and associated costs. Wind curtailment, MISO ASM, Intersystem Sales and Asset Based Margins have much smaller impacts on the overall FCA costs.

³ In the event OTP generation resources, economically dispatched by MISO exceed Otter Tail's load, excess generation would be sold into the MISO market and accounted for as an asset-based sales and the net proceeds credited to the FCA as discussed below.

IV. IMPLEMENTATION OF NEW FCA MECHANISM

A. Implementation Timeline – Assumes July 1, 2019 implementation date with forecasts submitted no more than six months in advance

In this section, Otter Tail provides a detailed outline of the steps envisioned to transition to and implement the new Reformed FCA mechanism. In order to meet the current proposed July 2019 implementation date, Otter Tail assumes that the final implementation plan and associated timing will be decided on and finalized by the Commission by September 30, 2018. Otter Tail is also working under the assumption that proposed forecast rates for the 12-month period beginning July 1, 2019 will need to be filed by January 1, 2019 to allow time for review of those rates by the Department and other interested parties, and ultimately have those rates approved by the Commission. Otter Tail's timeline of events has been developed with these assumptions in mind.

While Otter Tail is assuming six months between filing the proposed rates and implementation of those rates, conditions can change that may materially alter what actual FCA-approved costs may be. While some parties may advocate that forecasted rates should be filed more than six months before implementation to allow for adequate review, Otter Tail would strongly discourage extending that time beyond six months unless some opportunity to refresh those cost estimates and projected rates is built into the schedule ahead of implementing those rates.

Otter Tail is also proposing that consideration be given to building in mid-year adjustments for material changes to costs that occur that will impact the last half of the forecast recovery period.

B. Consideration should be given for a Calendar Year Schedule

Otter Tail does offer that if any modifications to the schedule are ultimately considered, Otter Tail strongly recommends the Commission consider shifting the twelve-month recovery period to a calendar year (January to December). Using a calendar period will better align with how Otter Tail and other utilities develop annual budgets and forecasts, how actual reporting and annual financial audits⁴ occur, as well as align with typical test year periods used in general rate cases.

C. Summary of Implementation Timeline and Associated Steps

Table 3 below is provided to summarize the key components of the implementation timeline and associated activities that Otter Tail envisions necessary to implement and administer the Reformed FCA mechanism. As mentioned earlier, Otter Tail is assuming a July 2019

⁴ If an annual FCA audit is still required going forward, following a calendar year schedule may allow utilities to incorporate the FCA audit with the overall year-end financial audit as opposed to a separate engagement for a July to June reporting period.

implementation date. In the outline, Otter Tail includes both currently scheduled and proposed filings and associated approvals to be considered over the next couple years. The table provides a specific date for each action or event associated with both the current mechanism or the new FCA mechanism, a brief description of the action, and brief clarifying comments about each step as needed. Some items are specific to Otter Tail- for example, the timing and handling of Otter Tail's current FCA annual true-up. Following Table 3, further detail is provided for each section of the table.

Table 3

Item	Date	Action	Rate Change X = Yes	Summary Comments
1	7/31/2018	OTP - Annual FCA True-up Filing- Docket No. E017/M-03-30		This OTP filing establishes the true-up portion of the Monthly FCA rate for any over or under recovery for the July 2017 to June 2018 reporting period.
2	9/01/2018	All Utilities - 2017/2018 AAA Report Filed		Annual AAA filing for the July 2017 to June 2018 reporting period.
3	9/01/2018	OTP - Annual July 2017 to June 2018 True-up rate goes into effect	X	OTP's Monthly FCA rates include new True-up component. – Approval by Commission in Sept/Oct.
4	By 9/30/2018	Commission - approves and issues Order on FCA Reform Implementation Plan		Approval of implementation plan required to allow adequate time to meet submission deadline for forecasted rates.
5	01/01/2019	All Utilities- Submit Forecast Rates for July 1, 2019 Reform Forecast Filing		Submit forecasted monthly FCA rates for July 1, 2019 - June 30, 2020
6	By 05/1/2019	All Utilities - Commission Issues Order approving forecasted rates		Between 1/1/2019 and 05/01/2019, review, approval and issuance of Order approving forecasted rates will be needed to allow publication of rates at least 30 days before implementation.
7	By 06/01/2019	All Utilities – Issue Customer Notices and publish Forecast Rates		Proposed monthly rates published on website and provided to customers through bill notices during month of May.
8	07/01/2019	All Utilities -New Reformed FCA Forecasted Rates go into effect	X	Forecast Rates July 2019 to June 2020 (Includes OTP's applicable prior period true-up rate, if recovery period extends to August 2019).
9	07/31/2019	OTP- Annual July 2018 - June 2019 True-Up Filing - Docket No. E017/M-03-30		This filing will address OTP's over/under collection balance that exists as of June 30, 2019 under the current FCA mechanism.
10	09/01/2019	All Utilities – 2018/2019		Annual AAA filing for the July 2018 to June

		AAA filing		2019 reporting period. <i>Option: Include forecast rate updates for Jan – June 2020 if material changes are forecasted for that time period.</i>
11	09/01/2019	OTP - Annual July 2018 - June 2019 True-Up rate goes into effect.	X	New true-up incorporated into rates. This follows same schedule as prior OTP true-ups. OTP will propose 10-month true-up period.
12	By 11/01/2019	*Commission – If applicable, approval of possible rate revisions		<i>Option: If material changes to forecast are proposed in September 1 filing, review and approval would be needed by 11/01.</i>
13	By 12/01/2019	*Utility specific - If applicable, publish updated rates		<i>Option: Publish updated rates for Jan – Jul if changes requested and approved</i>
14	01/01/2020	*Utility specific - Updated rate goes into effect to reflect any material revisions	X	<i>Option: If changes requested and approved, revised rates for material changes go into effect.</i>
15	01/01/2020	All Utilities- Submit Forecast Rates for next recovery period		Submit forecasted monthly FCA rates for July 1, 2020 - June 30, 2021
16	By 05/01/2020	Commission Order All Utilities - Commission Issues Order approving forecasted rates		Between 1/1/2020 and 05/01/2020, review, approval and issuance of Order approving forecasted rates will be needed to allow publication of rates at least 30 days before implementation.
17	By 06/01/2020	All Utilities – Issue Customer Notices and publish Forecast Rates		Proposed monthly rates published on website and provided projected rates to customers through bill notices during month of May.
18	07/01/2020	All Utilities- New FCA Reform Rates go into effect	X	Forecast Rates July 2020 to June 2021
19	09/01/2020	All Utilities-First FCA Reform Settlement Filing - July 2019- June 2020.		Annual report on actual costs vs collections. Determination of over/under recovery for July 2019 to June 2020 recovery period. <i>Option: Include request for updates for material changes to Jan 2021 – Jun 2021 rates.</i>
20	By 11/01/2020	Commission - Approval of Year 1 True-up and possible rate revisions for remaining 6 months.		Approval of Settlement <i>and any proposed forecast changes</i> to be effective Jan 2021.
21	By 12/01/2020	All Utilities - Publish Updated Rates		Proposed monthly rates published on website and provide projected rates to customers through bill notices during month of November.
22	01/01/2021	All Utilities – True-up rate included in revised rates	X	Revised rates – incorporate settlement to be recovered over next 12 months and include

				material changes to Jan – Jun rates if requested.
23	01/01/2021	All Utilities- Submit Forecast Rates for next recovery period		Submit forecast for Jul 1, 2021 - Jun 30, 2022
Annual Cycle Continues				

D. Details on Implementation Steps

This section provides additional information associated with each of the steps outlined in Table 3 above.

1. 7/31/2018 Otter Tail True-up Filing

As discussed earlier, Otter Tail’s current FCA mechanism includes an annual true-up component as authorized in Docket no. E017-M-03-30. The annual Otter Tail filing due July 31, 2018 will provide a report summarizing the actual FCA costs from July 1, 2017 to June 30, 2018 compared to actual collections that occurred over that same time-period. Based on the level of over or under-collection during the prior recovery period, a rate is computed to facilitate the return of any over-collection (negative rate) to customers or allow Otter Tail to recover any under-collection (positive rate) over the subsequent twelve-month period beginning September 1, 2018. Consistent with the provisions of Otter Tail’s current FCA tariff, this updated true-up rate will become part of Otter Tail’s monthly FCA rate implemented in September 2018 and each subsequent month for the following twelve months.

Considering the transition to the new FCA mechanism is currently scheduled for July 1, 2019 and assuming that schedule has not changed as of the time this true-up filing is made, it is Otter Tail’s intention to propose shortening the true-up period, for this true-up, to ten months and compute the true-up rate based on a ten-month period ending June 30, 2019. This proposed adjustment would allow the true-up of the July 2017 to June 2018 recovery period to be completed prior to the transition to the new FCA mechanism. As a result, no true-up component for the July 2017 to June 2018 period would be included in the determination of the forecasted rates to be effective July 1, 2019.

Otter Tail’s proposal for the annual true-up of the July 1, 2018 to June 30, 2019 recovery period under Otter Tail’s current FCA mechanism will be discussed below in the section applicable to that true-up filing which would be due July 31, 2019.

2. 09/01/2018 - 2017/2018 AAA Filing

On or before September 1, 2018, all utilities will file their Annual Automatic Adjustment (AAA) report for the July 1, 2017 to June 30, 2018 reporting period. It is Otter Tail’s expectation that this filing will be consistent in content with prior filings per prior Commission Orders.

3. 09/01/2018 – Otter Tail 2017/2018 True-Up Rate Effective

As discussed earlier, beginning with bills rendered on and after September 1, 2018, the monthly fuel clause rate under Otter Tail's current FCA mechanism will include the new true-up rate for the July 1, 2017 to June 30, 2018 reporting period.

4. 09/30/2018 (On or Before) – Commission Approval of FCA Reform

Otter Tail believes that if implementation of the FCA reform mechanism is to occur by July 1, 2019, with proposed rates submitted by January 1, 2019, that a final determination of the implementation of the reform and associated filing and reporting requirements needs to be finalized by the end of September 2018. This timing will insure that utilities will have at least three months to compute their proposed rates and prepare their filings for submission by January 1, 2019.

5. 01/01/2019 - Submit Forecasted Rates for July 1, 2019 to June 30, 2020

All Utilities make filings to submit their respective forecasted rates to be effective July 1, 2019 to June 30, 2020. These filings will include the necessary details and assumptions utilized in developing the forecasted rates to allow the Department and other interested parties to review and assess these rates for reasonableness and prudence. Otter Tail envisions providing these forecasts by the various categories of costs eligible for FCA recovery discussed above. Further detail on key issues and assumptions associated with these various cost categories are discussed later in this filing.

6. By 05/01/2019 - Approval of Forecasted Rates and Issuance of Order

Between January 1 and May 1 of 2019, forecasts would be reviewed by the Department and other interested parties and comments filed according to a pre-determined schedule with the goal to have the forecasted rates brought before the Commission for approval in April 2019 and an Order issued no later than May 1, 2019.

7. By 06/01/2019 – Customer Notices of Proposed Rates Issued

Assuming a July 1, 2019, implementation date and the desire to inform customers at least 30 days ahead of when rates become effective, an Order should be issued at least 60 days ahead of implementation so that customer notices can be provided through bill stuffers during the month of May 2019. This will insure that by the last billing cycle of the month, customers will have been given notice at least 30 days before the first month's rate becomes effective. Each utility will also publish their proposed rates on their respective website.

8. 07/01/2019 –Forecasted rates go into effect

Beginning with billings rendered on and after July 1, 2019, Otter Tail's forecasted rate will be charged for the July prorated portion of the customer's bill. For a billing cycle that has 20 days in June and 10 days in July, 20/30ths of the bill would be billed on the effective June 2019 rate and 10/30ths of the bill would be billed at the effective July 2019 forecasted rate.

Otter Tail's July 2019 forecasted rate will also include Otter Tail's true-up rate adder from the July 2017 to June 2018 true-up period that Otter Tail began recovering September 1, 2018, unless, the Commission allows that true-up period to be shortened to 10 months and end June 30, 2019. As noted above, Otter Tail will make that request for a 10-month recovery period when the July 2017 to June 2018 true-up filing is made.

9. 7/31/2019 – Otter Tail Files True-up Filing for July 2018 to June 30, 2019

Otter Tail will submit its annual true-up filing for the July 2018 to June 2019, recovery period in Docket No. E017/M-03-30. This true-up will address any over or under-recovery balance as of June 30, 2019, prior to the transition to the new reformed FCA mechanism. As stated earlier, the annual true-up rate generally goes into effect on September 1 each year and is incorporated into Otter Tail's monthly rates. Otter Tail recommends keeping this same schedule for this true-up but recommends that the recovery period again be shortened to 10 months, ending on June 30, 2020. This timing will coincide with the end of the first 12 months of recovery under the new reformed FCA mechanism.

10. 09/01/2019 -2018/2019 AAA Filing

On or before September 1, 2019, all utilities will file their Annual Automatic Adjustment (AAA) report for the July 1, 2018 to June 30, 2019 reporting period. It is Otter Tail's expectation that this filing will be consistent in content with prior filings per prior Commission Orders.

Optional Forecast Update Submission: As of September 1, 2019, it will have been approximately nine to ten months since the forecasted rates for July 2019 to June 2020 would have been developed, assuming they were filed by January 1, 2019. If changes have occurred that will have a material impact on forecasted rates for the last half of the recovery period, Otter Tail recommends that consideration be given to allowing an update to the forecasted rates for the remaining January to June time-frame to incorporate these material changes. This request could be filed as a companion filing to the AAA filing, or as a supplement to the filing establishing the initial forecasted rates for the recovery period.

Otter Tail is also recommending that any over- or under-collection true-ups under the new Reformed FCA mechanism be implemented on January 1 of each year following the end of a July to June recovery period, with the annual true-up handled over the January to December recovery period. This will be discussed further below in Section IV.D.14. This timing would set two dates each year within the recovery period when forecasted rates would be updated and become effective; July 1, the start of a new recovery period, January 1 for the incorporation of any prior period true-up plus any material updates to forecasted rates.

11. 09/01/2019 – Otter Tail Only - Annual True-up Rate Goes into Effect

As noted above, Otter Tail’s July 2018 to June 2019 true-up adder would become effective on September 1, 2019 and run through the end of the proposed recovery period, which Otter Tail will recommend ending June 30, 2020.

12. By 11/01/2019 - Commission Approval of Potential Forecast Revisions (Optional)

In the event there are forecast updates requested for the last six months of the initial rate forecast recovery period filed in conjunction with the September 1, 2019 AAA filing, Commission approval of these updates would be requested by November 1, 2019, to allow the utility to notify its customers ahead of a proposed January 1 implementation date for that update.

13. By 12/01/2019 – Publish Updated Rates (Optional)

During the month of November, customers would be notified of any changes to rates for the last 6 months of the recovery period beginning January 2020. Like before, this would include providing either a bill stuffer or bill message during the November billing cycles and publishing updated rates on the utility’s website. Customers would have at least 30 days’ notice under this schedule of any rate changes.

14. 01/01/2020 – Revised Rates go Into Effect (Optional)

If authorized, January 2020 updated rates would be applied to bills rendered on and after January 1, 2020. If no revised rates were requested, rates approved in April of 2019 would remain in effect. If no updates were proposed or authorized, rates originally published for January through June would remain in effect.

15. 01/01/2020 – Submit Forecasted Rate for Next Recovery Period

All Utilities make filings to submit their respective forecasted rates for the second year of the FCA reform to be effective July 1, 2020 to June 30, 2021.

16. 05/01/2020 - Approval of Forecasted Rates and Issuance of Order

Between January 1 and May 1 of 2020, forecasts would be reviewed by the Department and other interested parties and comments filed according to a predetermined schedule with the goal to have the forecasts brought before the Commission for approval in April 2020 and an Order issued no later than May 1, 2020.

17. By 06/01/2020– Customer Notices of Proposed Rates Issued

Rates for the next recovery period will be implemented starting July of 2020. To inform customers at least 30 days ahead of when rates become effective, an Order should be issued at least 60 days ahead of implementation so that customer notices can be provided through bill stuffers during the month of May 2020. This will insure that by the last billing cycle of the

month, customers will have been given notice at least 30 days before the first month's rate becomes effective. Each utility will also publish proposed rates on its respective website.

18. 07/01/2020 - Forecasted Rates go into Effect

July 1, 2020, begins the second recovery period using forecasted rates for the recovery of FCA costs under the reformed FCA mechanism.

19. 09/01/2020 – First Reformed FCA Settlement Report (True-up) filing

By September 1, 2020, (two months after the end of the recovery period), utilities will file their respective annual Settlement Report (True-up) for the July 2019 to June 2020 recovery period. In that report, utilities would provide a schedule showing actual collections received during the recovery period based on forecasted rates charged and actual sales, compared to actual costs incurred during the recovery period.

In the event the actual cost per kWh for the recovery period is below the forecasted cost per kWh for the recovery period, a determination of the applicable amount of over-recovery will be provided along with a proposed rate (a credit) per kWh that will be used to return the over-recovery to ratepayers.

In the event actual costs per kWh for the recovery period exceeds the forecasted cost per kWh and associated collections, a determination of the amount of under-recovery will be provided, along with information and support explaining why costs were higher than forecasted and justification as to why those costs should be recovered. A proposed true-up rate will also be computed and provided in this situation

Otter Tail proposes the True-up rate per kWh should be determined based on the overall dollar amount to either be returned to customers or collected from customers, divided by the forecasted monthly kWh sales for the period the true-up rate will be in effect. Otter Tail proposes the true-up period would run from January 2021 to December 2021. The true-up period sales forecast will include the projected sales for January 2021 to June 2021 portion of the current recovery period plus the forecasted sales for the remainder calendar year 2021. Otter Tail proposes the true-up rate (a charge or a credit), will be included in the total monthly forecasted FCA rates for the recovery period.

Optional Forecast Update Submission: As of September 1, 2020, approximately nine to ten months will have passed since the forecasted rates for July 2020 to June 2021 were developed, based on a January 1, 2020 filing date. If material changes have occurred that will have an impact on forecasted rates over the remaining six months of the current recovery period (January -June), Otter Tail proposes that the option to submit an update to the forecasted rates should be available in conjunction with the True-up filing. Otter Tail proposes that because rates will be changing beginning January 1, 2021, to include any approved True-up amount, incorporating other material changes to forecasted rates should be considered in order to best match projected

costs with anticipated actual costs. Any material changes to the forecasted rates with this update would again be limited to the subsequent January 2021 to June 2021 recovery period.

20. By 11/01/2020 - Commission - Approval of Year One True-up and Possible Rate Revisions

In Order to incorporate year one true-up amounts into rates to become effective January 1, 2021, Commission approval of those updates would be needed by November 1, 2020, to allow the utility to notify its customers ahead of a proposed January 1 implementation date for that update. Otter Tail anticipates that if actual costs are relatively close to forecasted costs, the actual amount of true-up may be relatively small on a per kWh basis. If that is the case, customer notice requirements could be modified or deferred and simply incorporated into bill messaging when the actual true-up rate is put into effect (January 2021).

In the event material changes dictate the need to submit updates to forecasted rates for the balance of the recovery period (January to June), Commission approval of those changes would also be required.

21. By 12/01/2020 – Customer Notices Provided for Updated Rates for January – June 2021

Following approval of the True-up rate (and potential material updates to forecasted rates), customers will be notified of material changes to rates that will be in effect from January to June 2021 during the November billing cycle to give customers at least 30 days’ notice of those changes.

22. 01/01/2021 – True-up and Potential Material Changes Incorporated into Updated Rates

Updated rates that include the True-up for the July 2019 to June 2020 recovery period and any material updates to the January to June 2021 forecast rates become effective.

23. 01/01/2021 – Submit Forecasted Rate for Next Recovery Period

All Utilities make filings to submit their respective forecasted rates for the third year of the FCA reform to be effective July 1, 2021 to June 30, 2022.

The schedule of events in 2021 and associated timing will mirror items 15 to 22 that occurred during 2020 as listed in Table 3 and as described in the respective sections above.

V. MONTHLY FILINGS TO CEASE

Otter Tail’s current FCA mechanism that is in place today requires a monthly filing which is generally submitted during the last week of the month. This filing provides the updated FCA rider rate for the following month. This filing provides detail on the various costs for the trailing two months used to determine the updated rate for the subsequent month. It is Otter

Tail's expectation that these monthly filings will no longer be necessary under the reformed FCA mechanism as the forecasted monthly rates will have already been predetermined and published for customers. Details on the calculations used to derive the forecasted rates will be provided in the annual filings in which forecasted rates are submitted for approval, and details on the actual costs incurred will be included in the annual true-up filing.

Internally, Otter Tail will continue to monitor actual costs and collections on a monthly basis to assess the status of actual results relative to forecasts as well as monitor any material changes to forecasts that could trigger a potential update.

VI. FORECASTED RATES FILING OVERVIEW

This section describes in general terms, what information Otter Tail believes will need to be provided in the annual filing containing Otter Tail's proposed monthly forecasted FCA rates to be implemented.

A. Sales Forecast

The starting point in determining the estimated monthly FCA costs for a year will be dictated by the sales forecast for the proposed recovery period. Otter Tail anticipates providing the sales forecast and associated supporting information in a manner similar to what Otter Tail provided in its last general rate case.

Otter Tail's sales forecast is developed based on the product of two key forecasted data points: 1) forecasted average energy use per customer (based on customer type), and; 2) the forecasted number of customers (based on customer type). Otter Tail's sales forecast assumes normal weather. Weather will, however, be a key variable that will impact the level of deviation between actual energy sales (and associated costs) and forecasted energy sales.

B. Fuel and Purchased Power Forecasts

Otter Tail uses a modeling program called Strategist to initiate the development of fuel and purchased power forecasts. In that model, key assumptions are used in the development of those forecasts, including: Generation facilities and their assumed availability during each month of the recovery period, forecasted fuel costs (volume and price: coal, gas, oil) and associated dispatch costs at which those plants are offered into the MISO market; estimated MISO energy market prices which impact estimates on how much energy will be supplied by Otter Tail's generation and how much may be procured from the MISO market. Because of Otter Tail's increasing percentage of generation coming from both owned wind generation facilities and purchased power agreements from wind facilities, deviations between forecasted and actual wind generation will have significant impacts on overall energy costs. If actual generation is less than forecasted, the delta will be procured from the MISO market or from other base load generation at a cost differential from zero dollars for the wind generation (for owned facilities) and the

dispatch cost of other baseload generation, and/or the hourly Locational Marginal Prices (LMPs) in MISO.

In addition to energy purchased from the MISO market, there are numerous market related charges that flow through the FCA every month. From a forecast perspective, Otter Tail does not attempt to forecast each MISO charge type, but rather forecasts an average all-inclusive cost that reflects both MISO energy and associated market related charges.

Other assumptions included in the fuel cost forecast include volumes and associated pricing of purchased power agreements; timing and duration of planned maintenance outages which impact plant availability assumptions during the year. Also plant availability levels include assumptions for typical levels of forced outages.

If forecasted market prices for energy indicate plant dispatch levels may exceed load requirements, projected asset-based sales and estimated margins from those sales are also included in the FCA forecast.

As noted earlier, much more detail will be provided in any proposed FCA forecasted rate filings that will be submitted for review and approval ahead of implementation. Otter Tail believes that it will be important to provide a clear understanding of the key assumptions being incorporated into its FCA forecasted rates, as well as note the potential levels of exposure or risk associated with those assumptions and how Otter Tail may or may not be able to manage those exposures or risks.

C. Material Changes to Forecast Rates Requiring Off-Cycle Adjustment to Rates

Earlier in this filing, Otter Tail discussed the potential to incorporate scheduled updates to capture potential material changes that could affect fuel and purchased power costs and associated rates. That proposal effectively allows for rates to be adjusted twice a year (every 6 months - July 1 and January 1). Otter Tail's proposal for the mid-year adjustment aligned with the timing of when the proposed annual true-ups would be incorporated into rates. It is Otter Tail's goal to minimize the magnitude of over- or under-collected costs. Otter Tail strives to set rates as close as possible to actual costs.

It is possible that certain situations could arise that would require a more immediate adjustment to rates as opposed to waiting for the semi-annual update to rates based on Otter Tail's proposals above. For example, impacts of extreme weather on either fuel supply costs, market prices, or possible disruptions to certain infrastructure that impact costs. Another example would be major unforeseen plant outages that alter overall cost estimates for an extended period of time. Circumstances could also change that would result in a material drop in costs that are expected to continue going forward. These types of situations could drive a more immediate need to update rates.

The Department's proposal did acknowledge that utilities could petition to seek approval for off-cycle changes in rates if impacts were expected to be material. Otter Tail proposes that in the event one of these situations occurs, which triggers a request to adjust rates due to material change, that consideration be given to allow the updated rates to be implemented within 30 to 60 days after filing on a provisional basis until the Commission reviews and renders a decision on the request.

VII. CONCLUSIONS/RECOMMENDATIONS

Otter Tail based this compliance filing on the assumption that the reformed FCA mechanism will be implemented July 2019. Otter Tail provides a draft schedule/timeline that it deems necessary to meet that deadline and properly administer the mechanism. Otter Tail further assumes and/or recommends the following;

1. Otter Tail's current mechanism of base rate recovery and rider recovery can still function under the new reformed FCA mechanism.
2. Forecasted rates will be filed no later than six months before they become effective.
3. Customers will be notified at least 30 days before rates become effective.
4. Otter Tail's true-up mechanism, with proposed revisions, will remain in effect to address the transition from the current FCA mechanism to the reformed FCA mechanism.
5. If material changes to forecasted rates occur, an opportunity to submit updates to incorporate those changes should be considered and is contemplated in Otter Tail's proposed schedule.
6. Annual True-up filings under the reformed FCA mechanism would be filed by September 1 following the end of the recovery year.
7. Annual True-up rates would be incorporated into the subsequent January – December twelve month recovery period to either return to customers or collect from customers, any over or under-collections.
8. While the proposed annual schedule follows a July to June annual recovery period, strong consideration should be given to shifting the forecasted rate recovery period to a calendar year. Otter Tail believes the various steps and timing between those steps would generally still be the same, but simply shifted six months.
9. Monthly FCA rate filings will no longer be necessary.

Otter Tail acknowledges that the proposed schedule may be tight in certain situations, but nonetheless believes it can serve as a meaningful guide as to what is or is not reasonable regarding implementing and administering the reformed FCA mechanism. Otter Tail will continue to participate in the process to reach a viable plan for implementing the new FCA mechanism that is acceptable to all interested parties.

Dated: April 30, 2018

Respectfully submitted,

OTTER TAIL POWER COMPANY

By: /s/ STUART TOMMERDAHL
Stuart Tommerdahl
Manager, Regulatory Administration
Otter Tail Power Company
215 S. Cascade Street
Fergus Falls, MN 56537
(218) 739-8279