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June 19, 2015

Daniel P. Wolf  
Executive Secretary  
Minnesota Public Utilities Commission  
350 Metro Square Building  
121 7<sup>th</sup> Place East  
St. Paul, MN 55101-2147

**PUBLIC DOCUMENT – TRADE SECRET  
DATA HAS BEEN EXCISED**

**Re: In the Matter of the 2013-2014 Annual Automatic Fuel Adjustment Reports  
Minnesota Docket No. E999/AA-14-579  
Reply Comments of Otter Tail Power Company**

Dear Mr. Wolf:

Otter Tail Power Company (“Otter Tail”) hereby submits its Reply Comments in response to the Minnesota Department of Commerce, Division of Energy Resources review in the above-captioned matter.

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](mailto:stommerdahl@otpc.com).

Sincerely,

*/s/ STUART TOMMERDAHL*  
Stuart Tommerdahl  
Manager Regulatory Administration

wao  
Enclosures  
By electronic filing  
c: Service List

**STATE OF MINNESOTA  
BEFORE THE  
MINNESOTA PUBLIC UTILITIES COMMISSION**

In the Matter of 2013-2014 Annual  
Automatic Adjustment Reports

Docket No. E999/AA-14-579

**OTTER TAIL POWER COMPANY REPLY COMMENTS**

**I. INTRODUCTION**

These Reply Comments are made in response to Comments submitted by the Minnesota Department of Commerce, Division of Energy Resources (“Department”) in their *Review of the 2013-2014 Annual Automatic Adjustment Reports (FYE14 AAA)* issued May 19, 2015, filed in the above-captioned docket. In these Reply Comments, Otter Tail Power Company (“Otter Tail”) acknowledges the Department’s approval of several of Otter Tail’s reporting requirements in its FYE14 AAA Report. Otter Tail also provides responses to specific questions the Department identified and requested of Otter Tail in their review. Lastly, Otter Tail provides additional analysis associated with bill comparison information provided by the Department within their review. With the submission of the additional information contained in these Reply Comments, Otter Tail respectively requests approval of its FYE14 AAA report.

**II. ACKNOWLEDGEMENT OF RECOMMENDATIONS BY DEPARTMENT**

**A. Enbridge Compliance Reporting**

On pages 10 and 11 of the Department’s Comments, the Department recommends approval of Otter Tail’s compliance filing in this Docket, related to Enbridge Energy. The Department also reviewed a request made by Otter Tail that Otter Tail no longer be required to submit, in future Annual Automatic Adjustment reports, the reporting obligation related to Enbridge Energy, as ordered in Docket E017/M-06-1332 (“06-1332”). A pricing change took place within the electric service agreement approved

in Docket 06-1332 and the Department wanted the opportunity to review whether the pricing change affected Enbridge Energy’s energy usage in any way. After years of review, the Department states they don’t have any concerns with the change in pricing and recommends Otter Tail no longer be required to report this information. Otter Tail respectfully requests Minnesota Public Utilities Commission (“Commission”) approval of this request to end the reporting obligation ordered in Docket E017/M-06-1332.

**B. MISO Day 1 Reporting**

The Department reviewed and recommends approval of all the utilities’ MISO Day 1 reporting, as summarized on pages 32-37 of their Comments. Otter Tail respectfully requests Commission approval of Otter Tail’s MISO Day 1 reporting.

**C. Ancillary Services Market (“ASM”)**

On page 62 of the Department’s Comments, the Department summarizes their review of Otter Tail’s ASM reporting and recommends approval of Otter Tail’s reporting. Otter Tail respectfully requests Commission approval of Otter Tail’s ASM reporting.

**III. RESPONSES TO THE DEPARTMENT’S QUESTIONS**

The following five questions were raised by the Department in their review of FYE14 AAA and outlined in their May 19, 2015 Comments. Otter Tail provides the following responses to those questions.

**RAIL DELIVERY ISSUES:**

*1. The Department requests that Otter Tail explain in reply comments why it chooses to transport coal under tariff, rather than under long-term contracts.*

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**2. *The Department requests that Otter Tail discuss options under either tariffs or contracts for railroads to pay for a portion of the costs of replacement power due to unacceptable service.***

**RESPONSE:** Otter Tail is not aware of a contract or tariff provision that would require railroads to pay for a portion of the costs of replacement power due to unacceptable service.

**3. *The Department requests that Otter Tail explain in reply comments whether it believes transporting its coal under contracts, rather than under tariff, would help alleviate some of these delivery issues.***

**RESPONSE:** [TRADE SECRET DATA BEGINS . . .

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**COAL CONSERVATION MEASURES:**

**4. *The Department requests that Otter Tail provide in reply comments a detailed explanation of the coal conservation measures it took during calendar year 2013 and June 2014, and explain what portion of the \$0.8 – \$1.0 million in total associated incremental costs were incurred in 2013 and June 2014.***

**RESPONSE:** The Joint Owners of the Big Stone Plant (“BSP”) established an Operating Procedure (Attachment 1) in May of 2006 for situations when coal supply reserves fall below established levels. The BSP Engineering and Operating (“E&O”) Committee, consisting of representatives from each plant owner, administer the procedure.

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Typically, Otter Tail offers BSP to the MISO market on a “Commit Status” of “Must-Run” up to its share of the minimum load; meaning that the unit will be dispatched to cover load at minimum generation levels regardless of the price of energy. Any amount of generation in excess of the minimum load is offered as “Economic,” and all hours are offered at the cost of the unit.

In an effort to reduce coal usage, [TRADE SECRET DATA BEGINS...

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**INCREMENTAL COST ESTIMATES:**

In Otter Tail’s response to the Department’s information request number MN-DOC-26 where the Department requested estimate of Otter Tail’s incremental costs incurred for coal conservation measures, Otter Tail provided the following:

- f. Incremental costs associated with the replacement energy are estimated to be between \$800k and \$1 million (OTP total system basis). OTP estimated this by analyzing hourly load and resource data during 2014, comparing actual generation to actual load to see if OTP was short resources to cover load. If short, we analyzed if typical operation of Big Stone plant would have covered at*

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*least a portion if not all of the load. Using the lower of either the LMP price, or the cost of generation for Big Stone, we estimated the costs identified above, only including those hours where operating the plant at a higher level would have been more economical than simply purchasing from the market. While the detailed analysis only focused on the June-December 2014 timeframe, because there was some intermittent coal conservation measures implemented in 2013 as well, we provided a range estimate for the collective cost associated with coal conservation measures.*

As noted above, this range estimate was developed from information gathered from the June through December 2014 timeframe; the continuous period of time where coal conservation measures were in place at BSP. Otter Tail provides the following information to help clarify its estimates for the FYE 2014 AAA reporting period.

During the FYE 2014 AAA period, intermittent coal conservation took place on the following dates at BSP:

- November 14, 2013 through December 4, 2013
- December 11, 2013
- December 12, 2013
- December 17, 2013 through December 19, 2013
- February 13, 2014 through February 21, 2014
- June 19, 2014 through June 30, 2014

Otter Tail's Power Services group estimates the incremental costs incurred during the FYE 2014 AAA period was approximately \$218,000 (System amount). Otter Tail notes that both this estimate and earlier estimates provided in the information request response that provided a range estimate for the entire window of time coal conservation was in place from 2013 through the end of 2014, inherently have some limitations with regard to the process used in developing these estimates. Those limitations include the following:

- Power Services does not possess modeling software that can accurately describe what would have been dispatched had offers been made under normal operating conditions and had the offers not had embedded conservation operations built into them.

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- Price Volatility and Make Whole Payment (“PVMWP”) and Revenue Sufficiency Guarantee (“RSG”) amounts were not included or estimated. There may have been times in which the PVMWP or RSG calculations were applicable to the hourly financial settlement at BSP. These credits were not included.
- Ancillary Service Market (“ASM”) credits were also not included. There may have been a few hours when either spinning or regulation service would have cleared on BSP. These credits were also not included.

As noted, the incremental cost estimate is approximately \$218,000 for the reporting period for this Docket (system basis). Otter Tail’s Minnesota share would be approximately 50 percent of that amount for the FYE 2014 AAA reporting period.

**REVIEW OF OTTER TAIL’S MISO DAY 2 CHARGES:**

***5. The Department asks Otter Tail to explain in its reply comments why ratepayers are better off under Option A compared to Option B, and to document that all ARRs are being returned to ratepayers.***

**RESPONSE:** Otter Tail noted in its initial filing in the FYE 2013 AAA filing that the Grandfathered Agreements had been changed from Option B to Option A. The following narrative excerpts are from that original filing documentation on pages 185 – 187 and help explain the reasoning and benefits behind the change.

*For the company’s two largest generating stations (Big Stone and Coyote), we have grandfathered transmission rights. These grandfathered transmission rights allow the company to choose between different congestion hedging instruments on an annual (ARR market year) basis. Through May of 2013, Otter Tail has chosen to utilize the Option B grandfathered right. The Option B status allows the company to receive a refund of congestion costs incurred on the energy scheduled between generator and loads. However, Option B congestion revenues are lost if the company schedules energy in excess of the actual energy cleared by the unit in the DA market. Due to increasing difficulty in forecasting DA cleared MW volumes at our units, and for other reasons noted below, Otter Tail chose to change their grandfathered right status for both Big Stone and Coyote from Option B to Option A. This change was effective on June 1st, 2013. Option A grandfathered status is equivalent to holding an FTR between the generating unit and the load zone. As a result, the revenues*



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*identified in the table below for those two paths are a combination of the congestion rebates received under both the Option A (June 2013) and Option B (July 2012 – May 2013) treatment.*

Notes:

*1. As noted above, the company utilized grandfathered Option B status for these units through May of 2013. The MISO scheduling rules for Option B require that the Option B schedule be less than or equal to the day-ahead clearing from the unit. If the Option B schedule exceeds the DA clearing MWs from the unit, the hourly congestion hedge is lost. Due to increased volatility and difficulty in predicting DA cleared MW values, Otter Tail has chosen to switch its grandfathered status from Option B to Option A. Otter Tail review and analysis points towards Option A as a better congestion hedge for our customers. Option A is the equivalent of holding an FTR between our generating stations and our load zone.*

*Option A treatment of our grandfathered rights took effect June 1 of 2013, the*  
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Otter Tail has continued to utilize Option A treatment for the reasons stated above. In addition, the paths have been primarily positive over the life of the products and provide a net revenue stream to the customer.

All retail ARR and FTR costs and revenues associated with BSP and Coyote are included in the amounts reported annually within the Retail section of Otter Tail’s Detail of MISO Day 2 Charges (FYE 2014 AAA Attachment K) schedules. Specifically, lines 20 through 35 of Attachment K include the charge types associated with ARR and FTR portfolios.

**IV. AVERAGE RESIDENTIAL BILLS AND AVERAGE ENERGY CHARGE + FCA COSTS**

On page 66 of the Department’s Comments, the Department provides a written summary of Average Residential bills for 2013 for each utility, as well as the average Energy + FCA rate for each utility as reflected in the Department’s Attachment E15. Those summaries are provided below:

**IX. CHARTS FOR INFORMATIONAL PURPOSES**

*Attachment E15 shows various aspects of fuel charges and the effects on customers’ bills.*

*1. Average Residential Bills for 2013*

*The graph on page 1 of 4 of Attachment E15 illustrates the monthly average bills for residential customers in calendar year 2013. The information includes customer charges, energy charges, fuel clause adjustments, and Conservation Improvement Program (CIP) surcharges (as described on pp. 3-4 of Attachment E15). Overall, Otter Tail had the highest average monthly residential bill of \$94.52, followed by Dakota Electric at \$87.05, Interstate Electric at \$86.84, Xcel Electric at \$79.12 and Minnesota Power with the lowest average of \$67.12 per month.*

*2. Energy Charge + FCA (cents per kWh) for Each Utility*

*The graph on page 2 of 4 of Attachment E15 shows the amounts that residential customers paid during calendar year 2013 in energy charges plus fuel clause adjustments. The ranking from highest to lowest average monthly amounts paid are: Dakota Electric with a 12-month average of 11.59¢/kWh, Interstate Electric with an average of 10.70¢/kWh, Xcel Electric 10.42¢/kWh, Otter Tail with an*

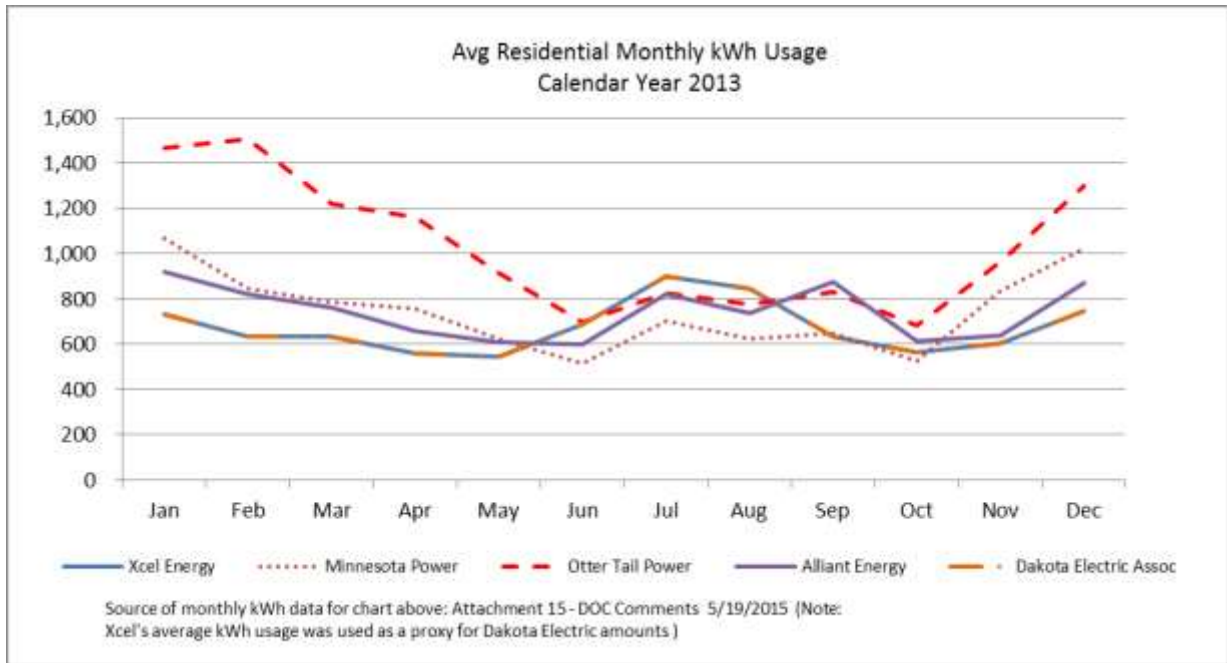
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*average of 8.16¢/kWh, and Minnesota Power 7.66¢/kWh. However, the Department notes that, because utilities recover different amounts of fixed costs in the energy charges, this comparison is not as useful as the bill comparison in item 1 above.*

Otter Tail appreciates the information provided by the Department in Attachment E15 but wants to provide some additional insight into the results shared that aren't obvious unless further review of the data on pages 1 and 2 of Attachment E15 is done. In particular, Otter Tail notes that the Average Monthly Bill results presented in the first paragraph were not computed using consistent sales levels for each utility (Except for Dakota Electric Association's amount which the Department used Xcel Energy monthly volumes as a proxy). Instead, actual monthly sales were used. A summary of the average monthly sales by utility is included in the following table, as summarized from Attachment E15 data.

Utility	# of Residential Customers	2013 Average Monthly Residential Sales (kWhs)
Xcel Energy	1,105,154	674
Minnesota Power	121,314	746
Otter Tail Power Company	47,699	1,027
Alliant Energy	396,039	744
Dakota Electric Association (Xcel Energy amount used as a proxy)	Not reported	674

As the table above highlights, the profile of Otter Tail's average residential customer usage is much different than the average residential customer usage profile for the other utilities. To further illustrate this difference, the following chart was prepared from the monthly average residential kWh sales data included for each utility by the Department in Attachment E15:



As the chart shows above, Otter Tail residential customers have a much higher level of usage during the winter months as compared to the other utilities, a characteristic driven in large part, by the nature of Otter Tail’s service territory.

Otter Tail serves approximately 48,000 Minnesota residential customers who live in and around 149 communities in northwest and west central Minnesota. Otter Tail’s median town in Minnesota is Winger, with a population of 220 people (2010 census). The majority of Otter Tail served communities do not have natural gas service, so alternative means for home heating are used during the winter, including a higher percentage of customers using some form of electric heat. Otter Tail is a winter peaking utility due in large part to weather sensitive loads.

While the Department notes that Otter Tail has the highest average monthly bill (\$94.52/month), naturally, a higher amount of usage (weather driven) is going to yield a higher bill amount. The average bill is not higher due to higher than normal fuel related costs. In fact, **Otter Tail’s combined Energy + FCA rate, as noted by the Department in their second paragraph (8.16¢/kWh) is actually the second lowest rate among the utilities.** Otter Tail believes that the per kWh rate comparisons provided

by the Department provide a much more “apples to apples” comparison as opposed to comparing total average bill amounts. Otter Tail appreciates the opportunity to highlight some of its unique operational differences within its service territory and hopes the information provided is helpful and beneficial to the Commission.

**V. CONCLUSION**

Otter Tail appreciates the opportunity to provide these Reply Comments and to address the Department’s questions in this Docket. With the submission of the requested information provided in these Reply Comments, Otter Tail respectfully requests Commission approval of its FYE 2014 AAA report. If further information is desired, please contact the undersigned.

Dated: June 19, 2015

Respectfully submitted,

OTTER TAIL POWER COMPANY

By           /s/ STUART TOMMERDAHL            
Stuart Tommerdahl  
Manager, Regulatory Administration  
215 South Cascade  
Fergus Falls, MN 56538-0496  
(218) 739-8279

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Joint Owner's Operating Procedure  
Big Stone Plant  
Plant Power Production Reductions to Conserve Fuel Supply  
May 22, 2006

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## CERTIFICATE OF SERVICE

**Re: In the Matter of the 2013-2014 Annual Automatic Fuel Adjustment Reports  
Minnesota Docket No. E999/AA-14-579**

I, Wendi A. Olson, 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 all other persons on the attached service list by electronic service or by first class mail.

**Otter Tail Power Company  
Reply Comments**

Dated this **19th** day of **June 2015**.

/s/ WENDI A. OLSON

Wendi A. Olson  
Regulatory Filing Coordinator  
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