

Staff Briefing Papers

Meeting Date March 29, 2018 Agenda Item *3

Company Otter Tail Power Company

Docket No. **E-017/M-16-373**

In the Matter of Otter Tail Power Company's Petition for Approval of the Annual Rate Update to its Environmental Upgrades Cost Recovery Rider Rate, Rate Schedule 13.08

Issues Should the Commission close this docket?

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Relevant Documents

| | Date |
|---|-------------------|
| OTP – Initial Filing | April 29, 2016 |
| Department – Request for Extension/Variance | May 17, 2016 |
| OTP – Company Response | May 27, 2016 |
| PUC – Order | July 5, 2016 |
| Department – Comments | February 1, 2017 |
| OTP – Reply Comments | February 21, 2017 |
| OTP – Supplemental Filing | August 28, 2017 |
| Department – Response to Reply Comments | October 3, 2017 |
| OTP – Reply Comments | October 10, 2017 |
| Department – Response to Reply Comments | October 13, 2017 |
| Commission Order in OTP Rate Case (Docket No. E-017/GR-15-1033) | October 30, 2017 |

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

I. Statement of the Issues

On October 19, 2017, the Commission approved the annual rate update of Otter Tail Power's Environmental Upgrades Cost Recovery Rider (ECRR) in the Company's most recent rate case¹. The issue needs to be heard before the Commission in order to close this docket.

II. Description

The Big Stone Plant is a large electric generating power plant as defined in Minn. Stat. §216B.2421, subd. 2, clause (1), and is located outside the state of Minnesota (in South Dakota). An Air Quality Control System (AQCS) project was needed to comply with the Environmental Protection Agency's Regional Haze Rule under South Dakota's State Implementation Plan. The AQCS project was placed in service on December 29, 2015.

Through the ECRR Otter Tail Power is allowed to recover its share of eligible costs for the Big Stone Plant's AQCS. This filing is Otter Tail's third request to update the ECRR rate. The request includes actual AQCS project cost and revenue information through March 2016 and updated forecast cost and revenue information through August 2017.

In this filing, the Company was over collecting the ECRR revenue requirement from ratepayers and approval of the ECRR would result in an approximately \$8.00 a month refund per customer. According to the Company's tariff, the ECRR factor for bills rendered has been as follows:

| ECRR factor for bills rendered (the factor is multiplied by the customer's monthly bill): | |
|--|----------------|
| On or after November 1, 2017 | -0.935 percent |
| From September 1, 2016 through October 31, 2017 | 6.927 percent |
| From December 1, 2014 through August 31, 2016 | 7.006 percent |

III. Relevant Statute

Minn. Stat. § 216B.1692, subd. 1(b) states that:

Notwithstanding paragraph (a), a project may be approved for the emission reduction rate rider allowed in this section if the project is to be installed on existing large electric generating power plants, as defined in section 216B.2421, subdivision 2, clause (1), that are located outside the state and are needed to comply with state or federal air quality standards, but only if the project has received an advance determination of prudence from the commission under section 216B.1695.

Minn. Stat. § 216B.1692 , subd. 3 states:

Filing petition to recover project costs. (a) A public utility may petition the commission for approval of an emissions- reduction rider to recover the costs of a qualifying emissions-

¹ *In the Matter of the Application of Otter Tail Power Company for Authority to Increase Rates for Electric Service in the State of Minnesota*, MPUC Docket No. E017/GR-15-1033.

reduction project outside of a general rate case proceeding under section 216B.16. In its filing, the public utility shall provide:

- (1) a description of the planned emissions-reduction project;
- (2) the activities involved in the project;
- (3) a schedule for implementation;
- (4) any analysis provided to the Pollution Control Agency regarding the project;
- (5) an assessment of alternatives to the project, including costs, environmental impact, and operational issues;
- (6) the proposed method of cost recovery;
- (7) any proposed recovery above cost; and
- (8) the projected emissions reductions from the project.

IV. Background

April 29, 2016: OTP filed the Petition and requested the Commission approve its annual update to the ECRR rate under Otter Tail's Rate Schedule 13.08. The ECRR factor is multiplied by the Customers monthly bill. It does not apply to any mandatory riders, sales tax, or any local assessments.

May 17, 2016: The Department filed a Extension/Variance request for an extension of time to review the Company's filing. The Department stated that the Company's request for an update at this time would impose a significant burden on the Commission and the Department due to the current work load and resource constraints. The Department stated the time constraints present a significant barrier in its ability to thoroughly review the petition at this time.

The Department stated that the Company has also filed a general rate case (Docket No. E017/GR-15-1033), requesting an annual rate increase of approximately 9.8 percent. The Department requested that the Commission grant provisional approval of OTP's petitions in Docket Nos. E017/M-16-373 and E017/M-16-374, with the understanding that a final decision on these matters would be made subsequent to receipt of interested parties' comments. The Department made its recommendation based on Minn. Stat. Sec. 216B.03 which states that, "Any doubt as to reasonableness should be resolved in favor of the consumer," and because the petitions request a rate reduction.

May 27, 2016: OTP filed comments and stated it agreed with the Department's recommendation that the Commission provisionally approve its request for an ECR percentage of bill rate reduction.

July 5, 2016: The Commission issued an Order and granted provisional approval of OTP's petition with the understanding that the final decision will be made subsequent to the comment period, which will be noticed at a later date.

February 1, 2017: The Department submitted comments and requested that OTP file reply comments in response to the Department's request for additional information. The Department

stated it would provide additional comments and recommendations after it has reviewed OTP's reply comments.

February 21, 2017: OTP submitted its response to the Department's request.

August 28, 2017: OTP submitted a supplemental filing to update the return on equity decision for its return on rate base. Otter Tail requested that these rates be put into effect on November 1, 2017 in conjunction with the expected implementation of final rates in its rate case.

October 3, 2017: The Department submitted its response comments and based on its review made two recommendations to Commission:

- Require OTP to use the "hybrid approach" which would require OTP to perform two calculations: the stand-alone method and total-company method when accounting for NOL's in its ECRR, and use the method that results in the lowest annual revenue requirements for each year; and
- Approve OTP's revised annual revenue requirements, remaining tracker balance, proposal for refund, and the resulting ECR factors.

October 10, 2017: OTP argued that there is no reason for the Commission to require the Company to use the hybrid approach in its ECRR because as of November 1, 2017 there will be no projects remaining in the ECRR. The Big Stone Plant Air Quality Control project is the only project being recovered through the ECRR and it will be folded into base rates at the same time final rates become effective in the rate case.

OTP noted that any delay implementing the updated reduced rate beyond November 1, 2017 would result in further over-collections within the ECRR.

October 13, 2017: The Department recommended the Commission set aside any decision on the ECRR rider, provisional or otherwise, until interested parties have had time to review and respond to OTP's reply comments. The Department opined that the ECRR should be dealt with outside of the rate case and that the rider proceeding develop as it normally would.

October 30, 2016 Rate Case Order: Otter Tail recommended at the hearing that the ECRR rider costs be moved to base rates effective November 1, 2017 with the implementation of final rates. The Company argued that the renewable energy rider costs were moved to base rates in the Company's last rate case. Otter Tail emphasized that while the rider dockets were not scheduled to be heard by the Commission with the rate case docket, the results of the riders being placed into base rates would be a reduction in costs and a benefit for ratepayers.²

At the Commission meeting, the Company and the Department stated that there was no dispute among the parties with respect to the calculation of ECR rider factor.

² At the hearing, Otter Tail estimated that, consistent with the rate case order, the Company would be over-collecting the rider amounts until the rider dockets are resolved.

The Commission determined to continue cost recovery through the ECRR rather than roll the costs into rate base. The Commission unconditionally approved implementation of the new ECR rider rate effective November 1, 2017.

On page five of the Commission's October 30, 2017 *Order Approving Compliance Filing And Provisionally Approving Transmission Cost Recovery Rider Rate*, the Commission said:

With respect to Otter Tail's request to reset its ECR and TCR rider rates, on October 16, 2017, the Company made a letter filing in this matter to incorporate reply comments it had previously made in its ECR and TCR rider dockets. In those filings, Otter Tail proposed that the Commission allow Otter Tail to reset the TCR and ECR rates.

At the Commission meeting, Otter Tail stated that there was no dispute among the parties with respect to incorporation of its ECR rider amount into base rates to be effective November 1, 2017. The Commission agrees, and will unconditionally approve implementation of the new ECR rider rate effective November 1, 2017. [footnotes omitted]

V. Decision Alternatives

1. Close this docket, or
2. Take no action and do not close this docket.