

August 22, 2014

Burl W. Haar
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 300
St. Paul, Minnesota 55101

RE: **Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. E017/M-14-375

Dear Dr. Haar:

Attached are the comments of the Minnesota Department of Commerce, Division of Energy Resources (DOC or the Department) in the following matter:

Otter Tail Power Company's Request for Approval of its Transmission Cost Recovery Rider Annual Adjustment.

The petition was filed on May 1, 2014 by:

Stuart Tommerdahl
Manager, Regulatory Administration
Otter Tail Power Company
215 South Cascade Street
Fergus Falls, Minnesota 56538

The Department recommends that Otter Tail Power Company provide additional information in reply comments; the Department will provide additional comments subsequently. The Department is available to answer any questions the Minnesota Public Utilities Commission may have.

Sincerely,

/s/ MARK A. JOHNSON
Financial Analyst

MAJ/lt
Attachment

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

COMMENTS OF THE
MINNESOTA DEPARTMENT OF COMMERCE
DIVISION OF ENERGY RESOURCES

DOCKET NO. E017/M-14-375

I. BACKGROUND

On January 28, 2010, the Minnesota Public Utilities Commission (Commission) issued its Order approving Otter Tail Power Company's (OTP or the Company) first Transmission Cost Recovery Rider (TCR Rider) in Docket No. E017/M-09-881.

On March 26, 2012, the Commission issued its Order approving OTP's first annual update to its TCR Rider in Docket No. E017/M-10-1061 (10-1061).

On March 15, 2013, the Commission issued its Order approving TCR Rider eligibility for three new projects in Docket No. E017/M-12-514 (12-514).

On March 10, 2014, the Commission issued its Order approving OTP's second annual update to its TCR Rider in Docket No. E017/M-13-103 (13-103).

On June 26, 2014, the Commission issued its second Order in 13-103 approving OTP's request to keep its existing TCR Rider rates in effect pending its next annual update to its TCR Rider.

On May 1, 2014, OTP filed the instant petition.

II. SUMMARY OF FILING

OTP requests approval of its 2014 Transmission Factors under the TCR Rider to recover its Minnesota jurisdictional transmission costs. A summary of MP's proposed projects and related revenue requirements for the period from July 2014 to June 2015 is included in Table 1 below:

Table 1: Summary of Proposed Projects and Revenue Requirements

Project:	July 2014 to June 2015 Annual Revenue Requirements:
CAPX 2020 Fargo	\$5,275,631
CAPX 2020 Bemidji	\$447,497
CAPX 2020 Cass Lake - Bemidji	\$329,142
CAPX 2020 Brookings	\$1,615,638
Ramsey 230/115 kW Transformer Upgrade	\$27,481
MISO Schedule 26 Revenues	(\$7,288,323)
MISO Schedule 26 Expenses	\$5,978,798
MISO Schedule 26A Revenues	(\$2,015,113)
MISO Schedule 26A Expenses	\$1,002,418
MISO Schedules 37 & 38 Revenues	(\$255,623)
True-up	\$2,003,884
Total	\$7,121,429

The TCR Rider is applicable to electric service under all of OTP's Retail Rate Schedules.

OTP proposed to use the same allocations and rate design methods that are currently in place. Specifically, OTP proposed to use the transmission demand allocator (D2) from its last rate case to allocate total revenue requirements to the Minnesota jurisdiction and rate classes. In addition, OTP proposed to use a demand-only rate for the Large General Service class and an energy-only rate for all other customers.

OTP's current rates have been in effect since April 2012. OTP's current and proposed rates are shown below in Table 2:

Table 2: OTP's Current and Proposed TCR Rider Rates

Class	Current Energy Cents/kWh	Current Demand \$/ kW	Proposed Energy Cents/kWh	Proposed Demand \$/ kW
Large General Service	N/A	\$0.391	N/A	\$1.458
Controlled Service	0.019¢	N/A	0.069¢	N/A
Lighting	0.085¢	N/A	0.292¢	N/A
All other service	0.126¢	N/A	0.434¢	N/A

The monthly bill impact of OTP's proposal for a residential customer using, on average, about 750 kWh per month would be \$3.25 per month, or about \$39.00 per year.

OTP's proposed TCR rate factors were calculated assuming an effective date of July 1, 2014. If the actual effective date is significantly later than July 1, 2014, OTP requested that rate factors be recalculated in order to recover approved costs over the remaining recovery period. The Commission authorized similar treatment in past TCR orders.

III. DOC ANALYSIS

A. STATUTORY REQUIREMENTS

The Transmission Cost Recovery (TCR) Statute, Minn. Stat. §216B.16, subd 7b states the following:

Subd. 7b. **Transmission cost adjustment.** (a) Notwithstanding any other provision of this chapter, the commission may approve a tariff mechanism for the automatic annual adjustment of charges for the Minnesota jurisdictional costs net of associated revenues of:

(i) new transmission facilities that have been separately filed and reviewed and approved by the commission under section [216B.243](#) or are certified as a priority project or deemed to be a priority transmission project under section [216B.2425](#);

(ii) new transmission facilities approved by the regulatory commission of the state in which the new transmission facilities are to be constructed, to the extent approval is required by the laws of that state, and determined by the Midcontinent

Independent System Operator [MISO] to benefit the utility or integrated transmission system; and

(iii) charges incurred by a utility under a federally approved tariff that accrue from other transmission owners' regionally planned transmission projects that have been determined by the Midcontinent Independent System Operator to benefit the utility or integrated transmission system.

(b) Upon filing by a public utility or utilities providing transmission service, the commission may approve, reject, or modify, after notice and comment, a tariff that:

(1) allows the utility to recover on a timely basis the costs net of revenues of facilities approved under section [216B.243](#) or certified or deemed to be certified under section [216B.2425](#) or exempt from the requirements of section [216B.243](#);

(2) allows the utility to recover charges incurred under a federally approved tariff that accrue from other transmission owners' regionally planned transmission projects that have been determined by the Midcontinent Independent System Operator to benefit the utility or integrated transmission system. These charges must be reduced or offset by revenues received by the utility and by amounts the utility charges to other regional transmission owners, to the extent those revenues and charges have not been otherwise offset;

(3) allows the utility to recover on a timely basis the costs net of revenues of facilities approved by the regulatory commission of the state in which the new transmission facilities are to be constructed and determined by the Midcontinent Independent System Operator to benefit the utility or integrated transmission system;

(4) allows a return on investment at the level approved in the utility's last general rate case, unless a different return is found to be consistent with the public interest;

(5) provides a current return on construction work in progress, provided that recovery from Minnesota retail customers for the allowance for funds used during construction is not sought through any other mechanism;

(6) allows for recovery of other expenses if shown to promote a least-cost project option or is otherwise in the public interest;

(7) allocates project costs appropriately between wholesale and retail customers;

(8) provides a mechanism for recovery above cost, if necessary to improve the overall economics of the project or projects or is otherwise in the public interest; and

(9) terminates recovery once costs have been fully recovered or have otherwise been reflected in the utility's general rates.

The Renewable Cost Recovery (RCR) Statute, Minn. Stat. §216B.1645, subd. 1 states that:

Upon the petition of a public utility, the Public Utilities Commission shall approve or disapprove power purchase contracts, investments, or expenditures entered into or made by the utility to satisfy the wind and biomass mandates contained in sections 216B.169, 216B.2423, and 216B.2424, and to satisfy the renewable energy objectives and standards set forth in section 216B.1691, including reasonable investments and expenditures made to:

(1) transmit the electricity generated from sources developed under those sections that is ultimately used to provide service to the utility's retail customers, including studies necessary to identify new transmission facilities needed to transmit electricity to Minnesota retail customers from generating facilities constructed to satisfy the renewable energy objectives and standards, provided that the costs of the studies have not been recovered previously under existing tariffs and the utility has filed an application for a certificate of need or for certification as a priority project under section 216B.2425 for the new transmission facilities identified in the studies;

(2) provide storage facilities for renewable energy generation facilities that contribute to the reliability, efficiency, or cost-effectiveness of the renewable facilities; or

(3) develop renewable energy sources from the account required in section 116C.779.

Regarding cost recovery, the RCR Statute, Minn. Stat. §216B.1645, subd. 2 states that:

The expenses incurred by the utility over the duration of the approved contract or useful life of the investment and expenditures made pursuant to section 116C.779 shall be recoverable from the ratepayers of the utility, to the extent they are not offset by utility revenues attributable to the contracts, investments, or expenditures. Upon petition by a public utility, the commission shall approve or approve as modified a rate schedule providing for the automatic adjustment of charges to recover the expenses or costs approved by the commission under subdivision 1, which, in the case of transmission expenditures, are limited to the portion of actual transmission costs that are directly allocable to the need to transmit power from the renewable sources of energy. The commission may not approve recovery of the costs for that portion of the power generated from sources governed by this section that the utility sells into the wholesale market.

B. PROJECT ELIGIBILITY

All of OTP's transmission projects were approved for cost recovery in prior TCR Rider proceedings and are therefore eligible for recovery under the TCR or RCR Statutes.

C. REASONABLENESS OF PROJECT REVENUE REQUIREMENTS AND COST RECOVERY CAPS

In Xcel Energy's TCR Rider filing in Docket No. E002/M-09-1048, the Commission set a standard for evaluating of TCR project costs going forward. The Commission stated in its April 7, 2010 Order that:

...the Commission finds that TCR project cost recovery through the rider should be limited to the amount of the initial cost estimates at the time the projects are approved as eligible projects, with the opportunity for the Company to seek recovery of excluded costs on a prospective basis in a subsequent rate case. A request to allow cost recovery for project costs above the amount of the initial estimate may be brought for Commission review only if unforeseen or extraordinary circumstances arise on a project.

The Commission recently applied this same approach to Otter Tail Power Company in its 2013 TCR Rider in 13-103. The Commission stated in its March 10, 2014 Order that:

Accordingly, the Commission continues to believe that project costs included in the TCR rider should be capped at certificate of need levels, and concurs with the Department that the appropriate cap for the Bemidji project is \$74 million. The TCR rider mechanism gives Otter Tail the extraordinary ability to charge its ratepayers for facilities prior to the ordinary timing (the first rate case after the project goes into service) and without undergoing the full scrutiny of a rate case. Holding the Company to its initial estimate is an important tool to enforce fiscal discipline.

Further, imposition of a cap protects the integrity of the certificate of need process, in which it is critical that the cost estimates for the alternatives being compared are as reliable as possible. And, capping costs at the certificate of need levels is consistent with the Commission's actions in similar cases involving other utilities' riders.

The Company is recovering the cost of these transmission facilities through a rider, a unique regulatory tool essentially designed to enable utilities to begin recovering the prudent and reasonable costs of critically needed capital investments between rate cases. The rate case remains the primary vehicle for determining prudence and reasonableness.

In the absence of a rate case, the best available proxy for determining prudence and reasonableness is the cost determination made on the record of a certificate of need or cost recovery eligibility proceeding. Here, the relevant proceeding is a certificate of need case. Otter Tail should continue recovering the costs it sponsored in its certificate of need case unless and until it demonstrates in a rate case that higher costs are prudent and reasonable. [Footnotes omitted].

On pages 5-6 of its petition, OTP explained how it applied the Bemidji cost cap to its two Bemidji projects (Bemidji-Grand Rapids and Cass Lake-Bemidji). The Department reviewed OTP's Bemidji cost cap calculations as shown in Attachments 6 and 7 of the petition. Based on our review, the Department concludes that OTP appropriately calculated and applied the Bemidji cost cap.

Since OTP's petition did not address whether any of its other transmission projects were over their cost caps, the DOC asked OTP, in DOC Information Request No. 1, if any of the

other projects included in the TCR Rider were over their respective cost caps. OTP replied that none of the other projects included in the TCR Rider were over their respective cost caps.¹

D. REGIONAL EXPANSION AND COST BENEFIT CHARGES (MISO SCHEDULES 26/26A, 37 & 38)

1. MISO Schedules 26/26A

During the 2008 Minnesota Legislative Session, Minn. Stat. 216B.16, subd, 7(b) (2) was amended to allow utilities providing transmission service to recover “the charges incurred by a utility that accrue from other transmission owners’ regionally planned transmission projects that have been determined by MISO to benefit the utility, as provided for under a federally approved tariff,” upon Commission approval. The Statute further requires any recovery to “be reduced or offset by revenues received by the utility and by amounts the utility charges to other regional transmission owners, to the extent those revenues and charges have not been otherwise offset.”

MISO’s regionally planned transmission projects are also referred to as Regional Expansion and Cost Benefit (RECB) projects. Moreover, RECB charges and revenues are generally reflected under MISO Schedules 26 and 26A. MISO Schedule 26A includes projects that have been deemed to be Multi-Value Projects (MVPs). MISO Schedule 26 includes other regionally shared projects such as Market Efficiency Projects.

OTP proposed to recover the net charges it pays to other electric utilities through MISO’s Schedule 26/26A in the instant filing. Under OTP’s proposal, it would recover the estimated amount of payments it makes to other utilities under MISO Schedule 26/26A net of the estimated amount of revenues it receives from other utilities under MISO Schedule 26/26A. The Department notes that OTP’s approach is consistent with past TCR filings.

In addition to Schedules 26/26A, the DOC understands that MISO’s Auction Revenue Rights (ARRs) annual allocation for planning year 2014-2015 included ARR for MVPs. According to MISO, the revenue associated with these ARR is to be distributed to those customers who pay for the MVP projects. MISO has created a new charge type to distribute this revenue. The charge type name is Real Time MVP Distribution (RT_MVP_DIST) and will appear on the Real Time settlement statement. The distribution will occur on the last Operating Day of each month. MISO plans to implement the charge type in time for the S7² settlement of June 30, 2014. The DOC recommends that OTP explain in reply comments whether it receives ARR revenues for the MVPs included in its TCR Rider. If so, the DOC recommends that OTP explain whether these revenues should also be included in its TCR Rider.

¹ A copy of OTP’s Response to DOC Information Request No. 1 is provided in DOC Attachment No. 1.

² S7 is the settlement run performed 7 calendar days after the operating day.

2. MISO Schedules 37 & 38

In addition to MISO Schedule 26/26A charges, OTP proposed to include revenues it receives under MISO Schedules 37 and 38. According to OTP, MISO Schedule 37 revenues represent a utility's share of contributions MISO receives from American Transmission Systems, Inc., which left MISO on June 1, 2011 to integrate with PJM. Likewise, MISO Schedule 38 revenues represent a utility's share of payments from Duke-Ohio and Duke-Kentucky, which left MISO on December 31, 2011, but have an ongoing obligation to pay for MISO projects due to their previous membership.

OTP included its actual MISO Schedule 37 and 38 revenues received in its TCR Rider. In addition, OTP stated that it carved-out the portion of MISO Schedule 37 and 38 revenues that were embedded in its forecasted MISO Schedule 26 revenues and included them in its TCR Rider, in accordance with the Commission's March 10, 2014 Order in 13-103. OTP's MISO Schedule 37 and 38 revenue calculations are shown in Attachment 12 of its petition.

The Department reviewed OTP's MISO Schedule 37 and 38 calculations. Based on our review, the Department concludes that OTP's MISO Schedule 37 and 38 revenue calculations appear reasonable and in compliance with the Commission's March, 2014 Order in 13-103.

E. TRUE-UP AND TRACKER BALANCES

OTP proposed to increase its 2014 TCR revenue requirement by \$2,003,884 to reflect prior under-recoveries (tracker balance) in its TCR Rider. OTP's tracker balance calculations are shown in Attachment 4 of its petition.

On page 5 of its petition, OTP stated that it eliminated carrying charges from its tracker balance effective March 1, 2014, in accordance with the Commission's March 10, 2014 Order in 13-103.

The Department reviewed MP's true-up and tracker balance calculations. The Department notes that MP's calculations appear reasonable and in compliance with the Commission's March 10, 2014 Order in 13-103.

F. WHOLESALE TRANSMISSION REVENUES

The Department understands that some utilities receive wholesale transmission revenues from third-party transmission customers who are charged the utility's FERC jurisdictional MISO tariff rate, commonly referred to as the utility's Open Access Transmission Tariff (OATT) or Attachment O, for the use of the utility's non-RECB transmission system.

OTP's calculation of its wholesale transmission revenue credits are shown in Attachment 10 of its petition. According to OTP, the Ramsey Project is the only project in the TCR Rider to

which this wholesale revenue credit is applicable. OTP's wholesale transmission revenue credit for the Ramsey Project is reflected in Attachment 9, Line 35 of the petition.

The DOC reviewed and agrees with OTP's calculation and application of its wholesale revenue credits in its TCR Rider.

G. RATE DESIGN AND ALLOCATION OF COSTS

As noted above, OTP stated that it used the same allocations and rate design methods that were approved by the Commission in their March 26, 2012 Order in 10-1061. Specifically, OTP used the transmission demand allocator (D2) from its last rate case to allocate total revenue requirements to the Minnesota jurisdiction and rate classes. In addition, OTP used a demand-only rate for the Large General Service class and an energy-only rate for all other customers. OTP's rate design detail is provided in Attachment 3 of the petition.

In the Commission's March 26, 2012 Order in 10-1061, the Commission requested that OTP provide an analysis of the impact of using a percentage of revenue rate design method to allocate costs among and within customer classes. OTP's analysis showing the impact using a percentage of revenue rate design method as opposed to the current rate design method is shown in Attachment 3 of the petition.

The Department reviewed OTP's proposed allocations and rate design method. The DOC agrees that OTP used the same allocations and rate design method that were approved by the Commission in OTP's last TCR Rider. In addition, the DOC concludes that OTP complied with the Commission's March 26, 2012 Order. Furthermore, as shown in Attachment 3 of the petition, the Department notes that if a percentage of revenue rate design method was used rather than the current rate design method, then the average monthly bill for residential and large general service ratepayers would be slightly less and the average monthly bill for all other customers would be somewhat more.

H. INTERNAL CAPITALIZED COSTS

In last year's TCR proceeding (13-103), the Commission determined that OTP's internal capitalized costs should be excluded from recovery under the Company's TCR Rider beginning March 2014. As explained on pages 6-7 of the petition, OTP complied with the Commission's directive and excluded internal capitalized costs. The Department reviewed MP's proposed accounting for internal capitalized costs and concludes that the Company has complied with the Commission's directive.

IV. SUMMARY AND RECOMMENDATIONS

The DOC recommends that OTP explain in reply comments whether it receives ARR revenues for the MVPs included in its TCR Rider. If so, the DOC recommends that OTP explain whether these revenues should also be included in its TCR Rider.

The Department will offer additional comments and recommendations in subsequent response comments after it has reviewed OTP's reply comments.

/lt

OTTER TAIL POWER COMPANY
Docket No. E017-M-14-375

Response to: MN Department of Commerce DER
Analyst: Mark Johnson
Date Received: 7/28/2014
Date Due: 8/7/2014
Date of Response: 08/07/2014
Responding Witness: Stuart Tommerdahl, Manager Regulatory Administration, 218-739-8279

Information Request No: MN-DOC-01

Subject: Cost Recovery Caps

Otter Tail Power addressed cost recovery caps for the Bemidji Project on pages 5-7 of its petition.

A. For all other projects included in OTP's Transmission Cost Recovery Rider, please provide the following information for each project:

- 1) The total estimated cost of the project approved by the Commission in a Certificate of Need proceeding or eligibility filing (if applicable);
- 2) OTP's percentage of ownership; and
- 3) OTP's share of total estimated costs from part 1 (cost recovery cap).

B. In addition, please explain if any projects included in OTP's Transmission Cost Recovery Rider are over the cost recovery cap. If so, please provide the amount (by project) that is over the cost recovery cap.

RESPONSE:

A.

Project	CON/TCR Eligibility Docket #	Estimated Cost in Approved CON/TCR Eligibility Docket (millions)	Otter Tail Ownership Percentage	Otter Tail's Share of Total Estimated Costs (millions)
Fargo-Monticello	CN-06-1115 (CON)	\$640.0	13.2%	\$84.5
Brookings-Hampton	CN-06-1115 (CON)	\$669.6	4.1%	\$27.5
Ramsey	M-12-514 (TCR Eligibility)	\$0.9	100.0%	\$0.9

B. None of the projects have exceeded the costs estimated.

CERTIFICATE OF SERVICE

I, Sharon Ferguson, hereby certify that I have this day, served copies of the following document on the attached list of persons by electronic filing, certified mail, e-mail, or by depositing a true and correct copy thereof properly enveloped with postage paid in the United States Mail at St. Paul, Minnesota.

**Minnesota Department of Commerce
Comments**

Docket No. E017/M-14-375

Dated this 22nd day of August 2014

/s/Sharon Ferguson

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