

**Minnesota Public Utilities Commission**  
*Staff Briefing Papers*

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**Meeting Date:** March 24, 2016 ..... **Agenda Item # 7\***

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**Company:** Otter Tail Power Company

**Docket No.** E-017/MR-15-1034  
In the Matter of the Application of Otter Tail Power Company for Approval of  
a New Base Cost of Energy

**Issue:** Should the Commission approve Otter Tail's proposed new base cost of  
energy?

**Staff:** Jorge Alonso ..... 651-201-2258  
Sundra Bender ..... 651-201-2247

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***Relevant Documents***

Otter Tail Power - Initial Filing ..... February 16, 2016  
Department of Commerce - Comments ..... March 7, 2016  
Otter Tail Power – Reply Comments..... March 14, 2016

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

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## **Statement of the Issue**

Should the Commission approve Otter Tail's (OTP, the Company) proposed new base cost of energy?

## **Background**

On February 16, 2016, Otter Tail Power Company filed its request to establish a new base cost of energy to be effective with the implementation of interim rates in its General Rate Case, Docket No. E-017/GR-15-1033.

On March 7, 2016, the Department of Commerce (DOC, the Department) filed comments requesting that, in reply comments, the Company provide additional supporting information.

On March 14, 2016, Otter Tail filed reply comments addressing the Department's request.

The Department did not provide any further comments

## **Otter Tail Energy's Petition**

Otter Tail's new Base Cost of Energy petition was filed in conjunction with its general rate case (Rate Case) in Docket No. E-017/GR-15-1033.

The Company has proposed a Base Cost of Energy (BCOE) of \$0.024640 per kilowatt hour (kWh), a \$0.001477 per kWh, or 6.38%, increase over the current \$0.023163 per kWh base cost of energy recently established (Docket No. E-017/MR-10-239).

Table 1 provides a synopsis Otter Tail's proposed base cost of energy calculation.

**Table 1 - Otter Tail Power Calculation of Proposed Base Cost of Energy**

<b>Month</b>	<b>Total Costs</b>	<b>Retail kWh Sales</b>
January	\$12,441,606	494,133,827
February	\$11,315,151	452,643,623
March	\$10,435,974	430,535,833
April	\$9,073,199	377,319,772
May	\$8,286,172	347,740,602
June	\$8,085,211	337,352,803
July	\$9,542,369	366,117,619
August	\$10,187,608	391,930,573
September	\$9,346,466	388,101,597
October	\$9,168,145	397,160,864
November	\$10,971,044	454,827,928
December	\$12,894,725	503,230,771
<b>Total</b>	<b>\$121,747,670</b>	<b>4,941,095,811</b>

<b>New Proposed Base Cost per kWh</b>	\$0.024640
<b>Current Base Cost from Docket 10-240</b>	\$0.023163
<b>Increase from Current Base</b>	\$0.001477
<b>% Increase from Current Base</b>	6.38%

## Department of Commerce Comments

The Department noted that Otter Tail's calculation of its new BCOE factor<sup>1</sup> differs from the methodology used in the Company's previous BCOE filing<sup>2</sup>. The Company's current BCOE does not include separate line items for a Weather Normalization Adjustment and a Normalize Congestion and Losses Adjustment that were part of the previous BCOE filing. Thus, the Department requested that, in reply comments, Otter Tail confirm if these adjustments are included in the monthly figures shown in Table 1 above.

Finally, the Department requested that OTP provide supporting information, reconciling the BCOE in this docket with the information in the general rate case. Pending provision of reasonable information, the DOC stated that it expected to recommend that the Commission approve OTP's proposed BCOE.

<sup>1</sup> Otter Tail Petition, Attachment 1

<sup>2</sup> Docket E-017/MR-10-240

## Otter Tail Reply Comments

In reply, Otter Tail explained that, in this case, it is using a forecasted test year rather than a historic test year; therefore, no Weather Normalization Adjustment is necessary.

Otter Tail used a similar explanation when addressing the Congestion and Losses Adjustment. The Company stated that, by using a historic test year in the previous case, it was able to quantify the adjustment amount. However, by using a forecasted test year in this filing, OTP cannot know what the adjustment amount will be; therefore, any Congestion and Losses Adjustments will continue to be recovered through the fuel clause.

To address the Department's final issue, Otter Tail provided a calculation for the \$65.721 million Minnesota-jurisdiction BCOE.

## Staff Analysis

Staff notes that, in the Company's general rate case<sup>3</sup>, forecasted BCOE is embedded in total Production Expenses. One of the decision alternatives in that docket would order Otter Tail to file supplemental testimony that would include the separation of the BCOE from other Production Expenses. If the Commission orders the Company to file that supplemental testimony then the Commission may want to instruct OTP to also file that testimony in this docket.

Staff points out that Otter Tail's base cost of energy is calculated on a Company-wide basis; therefore, the initial filing does not reveal the Minnesota-jurisdiction base cost of energy. In reply, OTP calculated the forecasted Minnesota-jurisdiction base cost of energy total to be \$65.721 million. Since this information is necessary for Staff and other parties to be able to reconcile the base cost of energy back to the general rate case, the Commission may want to consider instructing OTP to provide this information in all future Base Cost of Energy initial filings.

Regardless of which Base Cost of Energy factor the Commission finds to be most appropriate at this time it is important to point out that the base cost of energy is developed using projections. Ultimately, Otter Tail's fuel clause rider (or adjustment) mechanism (the FCR or the FCA) will true-up any actual deviations from the base cost of energy; therefore, regardless of the base cost of energy established in this docket, ratepayers will ultimately pay the same cost for energy.

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<sup>3</sup> Docket No. E-017/GR-15-1033

## Decision Alternatives

### Base Cost of Energy

1. Approve Otter Tail's proposed new Base Cost of Energy of \$0.024640 per kilowatt hour.
2. Reject Otter Tail's proposed new Base Cost of Energy and retain the existing Base Cost of Energy rate of \$0.023163 per kilowatt hour.

### Implementation Date

3. Approve Otter Tail's proposed implementation date for the new Base Cost of Energy to be concurrent with the implementation of interim rates in Docket No. E-017/GR-15-1033.

### Miscellaneous

4. If the Commission requires Otter Tail to file supplemental testimony in Docket No. E-017/GR-15-1033, instruct Otter Tail to also file that testimony in this docket.
5. Instruct Otter Tail to file, after its rate case is completed, a final base cost of energy that reflects the Commission's decisions in the rate case and any other relevant factors.
6. Clarify that approval of a new Base Cost of Energy does not preclude any party from disputing the assumptions used in this petition (such as projected sales), or the Commission from adopting different assumptions than those used in this petition, when reviewing and determining final rates in the general rate case (Docket No. E-017/GR-15-1033).
7. Order Otter Tail to include Minnesota-jurisdiction total sales and costs in all future base cost of energy initial filings.