

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Katie J. Sieben	Chair
Valerie Means	Commissioner
Matthew Schuerger	Commissioner
Joseph K. Sullivan	Commissioner
John A. Tuma	Commissioner

In the Matter of the Application of Otter Tail
Power Company for Authority to Increase
Rates for Electric Service in the State of
Minnesota

ISSUE DATE: February 1, 2022

DOCKET NO. E-017/GR-20-719

FINDINGS OF FACT, CONCLUSIONS,
AND ORDER

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FINDINGS OF FACT, CONCLUSIONS, AND ORDER

PROCEDURAL HISTORY

I. Initial Filings

On November 2, 2020, Otter Tail Power Company (Otter Tail or the Company) filed a general rate case seeking an annual rate increase of approximately \$14.5 million, or 6.8%, together with a proposed interim-rate schedule.

On December 24, 2020, the Commission issued three orders in this case: one finding the rate case filing substantially complete and suspending the proposed final rates; one referring the case to the Office of Administrative Hearings for contested case proceedings; and one setting interim rates for the period during which the rate case was being resolved.

II. The Parties and Their Representatives

The following parties appeared in this case:

- Cary R. Stephenson, Associate General Counsel, Otter Tail and Richard J. Johnson, Patrick T. Zomer, and Kelly C. Engebretson, Moss & Barnett, A Professional Association, appeared on behalf of Otter Tail.
- Richard J. Savelkoul, Martin & Squires, P.A. appeared on behalf of Midwest Large Energy Consumers (MLEC).
- Kristin A. Henry and S. Laurie Williams appeared on behalf of Sierra Club.
- Peter G. Scholtz, Max H. Kieley, and Joseph C. Meyer appeared on behalf of the Office of the Attorney General, Residential Utilities Division (the OAG).
- Richard E. Dornfeld, Katherine M. Hinderlie and Cha Xiong, appeared on behalf of the Department of Commerce, Division of Energy Resources (the Department).

III. Proceedings Before the Administrative Law Judge

The Office of Administrative Hearings assigned Administrative Law Judge (ALJ) Eric L. Lipman to hear the case.

The parties filed direct, rebuttal, and surrebuttal testimony prior to the opening of evidentiary hearings and initial and reply briefs after the close of evidentiary hearings. The ALJ held evidentiary hearings remotely via Microsoft Teams on June 9 and 10, 2021.

The ALJ also held public hearings in the case remotely via Microsoft Teams on April 13 and 14, 2021. There were no public comments at the public hearing, but several members of the public filed written comments.

IV. Proceedings Before the Commission

On September 20, 2021, the Administrative Law Judge filed his Findings of Fact, Conclusions and Recommendation (the ALJ's Report).

On October 1, 2021, the Company, the Department, the OAG, and MLEC filed exceptions to the ALJ's report under Minn. Stat. § 14.61 and Minn. Rules, part 7829.2700.

On October 26 and November 4, 2021, the Commission heard oral argument from and asked questions of the parties.

On November 4, 2021, the record closed under Minn. Stat. § 14.61, subd. 2.

Having examined the entire record herein, and having heard the arguments of the parties, the Commission makes the following findings, conclusions, and order.

FINDINGS AND CONCLUSIONS

I. The Ratemaking Process

A. The Substantive Legal Standard

The legal standard for utility rate changes is that the new rates must be just and reasonable. The Minnesota Supreme Court has described the Commission's statutory mandate for determining whether proposed rates are just and reasonable as "broadly defined in terms of balancing the interests of the utility companies, their shareholders, and their customers . . .", citing Minn. Stat. § 216B.16, subd. 6.¹ That statute is set forth in pertinent part below:

The commission, in the exercise of its powers under this chapter to determine just and reasonable rates for public utilities, shall give due consideration to the public need for adequate, efficient, and reasonable service and to the need of the public utility for revenue sufficient to enable it to meet the cost of furnishing the service,

¹ *In re Interstate Power Co.*, 574 N.W.2d 408, 411 (Minn. 1998).

including adequate provision for depreciation of its utility property used and useful in rendering service to the public, and to earn a fair and reasonable return upon the investment in such property. . . .

B. The Commission's Role

While the Public Utilities Act² provides baseline guidance on the ratemaking treatment of different kinds of utility costs, it generally makes only threshold determinations on rate recoverability, leaving to the Commission the tasks of determining (a) the accuracy and validity of claimed costs; (b) the prudence and reasonableness of claimed costs; and (c) the compatibility of claimed costs with the public interest.

In ratemaking, therefore, the Commission must decide a wide range of issues, ranging from the accuracy of the financial information provided by the utility, to the prudence and reasonableness of the underlying transactions and business judgments, to the proper distribution of the final revenue requirement among different customer classes.

These diverse issues require different analytical approaches, involve different burdens of proof, and require the Commission to exercise different functions and powers. In ratemaking the Commission acts in both its quasi-judicial and quasi-legislative capacities: As a quasi-judicial body it engages in traditional fact-finding, and as a quasi-legislative body it applies its institutional expertise and judgment to resolve issues that turn on both factual findings and policy judgments. As the Supreme Court has explained:

[I]n the exercise of the statutorily imposed duty to determine whether the inclusion of the item generating the claimed cost is appropriate, or whether the ratepayers or the shareholders should sustain the burden generated by the claimed cost, the MPUC acts in both a quasi-judicial and a partially legislative capacity. To state it differently, in evaluating the case, the accent is more on the inferences and conclusions to be drawn from the basic facts (i.e., the amount of the claimed costs) rather than on the reliability of the facts themselves. Thus, by merely showing that it has incurred, or may hypothetically incur, expenses, the utility does not necessarily meet its burden of demonstrating it is just and reasonable that the ratepayers bear the costs of those expenses.

C. The Burden of Proof

Under the Public Utilities Act, utilities seeking a rate increase have the burden of proof to show that the proposed rate change is just and reasonable. Any doubt as to reasonableness is to be resolved in favor of the consumer.

On purely factual issues, the Commission acts in its quasi-judicial capacity and weighs evidence in the same manner as a district court in a civil case, requiring that facts be proved by a preponderance of the evidence. On issues involving policy judgments, the Commission acts in its

² Laws 1974, chapter 429; *see also* Minn. Stat. § 216B.67.

quasi-legislative capacity, balancing competing interests and policy goals to arrive at the resolution most consistent with the broad public interest.

Utilities seeking rate changes must therefore prove not only that the facts they present are accurate, but that the costs they seek to recover are rate-recoverable, that the rate recovery mechanisms they propose are permissible, and that the rate design they advocate is equitable, under the “just and reasonable” standard set by statute. As the Supreme Court has explained:

A utility seeking to change its rates has the burden of proving by a preponderance of the evidence that its proposed rate change is just and reasonable. Minn. Stat. § 216B.16, subd. 4 (1986). “Preponderance of the evidence” is defined for ratemaking proceedings as “whether the evidence submitted, even if true, justifies the conclusion sought by the petitioning utility when considered together with the Commission's statutory responsibility to enforce the state's public policy that retail consumers of utility services shall be furnished such services at reasonable rates.” (Citation omitted.)³

II. Summary of the Issues

Many initially contested issues were resolved in the course of evidentiary proceedings. The Administrative Law Judge found that the resolutions reached by the parties were reasonable and supported by record evidence; he recommended accepting them. The Commission concurs.

The parties worked effectively to narrow the issues in this case, and by the date of oral argument, only the issues listed below remained contested:

Financial Issues

- **Hoot Lake**—Should the Commission authorize the recovery of incremental depreciation expense and decommissioning costs for the 138-megawatt coal-fired generating facility located near Fergus Falls?
- **Coyote Station**—Should the Commission authorize recovery of all 2021 test-year capital costs for Coyote Station, a 427-megawatt coal-fired power plant located in North Dakota?
- **Merricourt Wind**—Should the Commission authorize Otter Tail to include a revenue requirement of \$19.3 million in base rates for Merricourt Wind, of which \$13.6 million was the incremental revenue requirement in the test year?
- **Active Employee Medical Expenses**—Should the Commission authorize \$4,704,155 of active employee medical expenses in the test year?
- **Executive Restoration Plus Plan and Executive Survivor and Supplemental Retirement Plan**—Should the Commission authorize recovery of test-year costs of \$126,000 for its Executive Restoration Plus Plan (ERPP) and \$421,840 for its Executive

³ *In Re Petition of Minnesota Power & Light Co.*, 435 N.W.2d 550, 554 (1989).

Survivor and Supplemental Retirement Plan (ESSRP) – both non-qualified employee benefit plans?

- **Charitable Contributions**—What amount of charitable contribution expenses should be included in the test year?
- **Aviation**— Should the Company be allowed to include test-year aviation-related expenses in base rates and should Otter Tail be required to refund 2021 aviation-related operations and maintenance expenses through the interim rate refund process?
- **Bad Debt Expense**—What amount of bad debt expense should be included in the test year?
- **Late Payment Revenues**—What amount of late payment revenues should be included in the test year?
- **Investment Tax Credits**—What amount of North Dakota Investment Tax Credits (ITCs) should be included in the test year?
- **Accumulated Deferred Income Tax Assets**—Should the Commission apply an offset or a credit to rate base that corresponds to the Company’s deferral of income tax expense due to its net operating losses (NOL)?
- **Credit Card Fees**— Should the Commission authorize Otter Tail to eliminate the per-transaction customer fee and instead, treat credit card processing fees as an Operations and Maintenance (O&M) expense?
- **Economic Development Expenses**—What amount of these expenses should be included in the test year?
- **Lobbying Expenses**—What amount of these expenses should be included in the test year?
- **Ground Line Inspection Project**—What level of jurisdictional costs for the Company’s ground line inspection project should be included in the test year?
- **Organizational/Membership Dues**—What amount of these expenses should be included in the test year?
- **Expenses for employee travel, entertainment, meals, and gifts**—What amount of these expenses should be included in the test year?
- **Energy Adjustment Rider**—Should the Commission authorize the Company to include costs for chemical reagents and revenues from steam and water sales in its Energy Adjustment Rider?

Cost of Capital Issues

- **Return on Equity**—What is a fair and reasonable rate of return on equity for this Company, on this record, at this time?

Sales Forecast

- **COVID-19 Adjustment**—Should the Company be allowed to reduce its test-year sales revenue for the Small and Large Commercial Classes due to the economic impacts of the pandemic?
- **Heating Degree Day**—Should the Company be allowed to lower its Heating Degree Day from 65 degrees Fahrenheit to 55 degrees Fahrenheit?

Class Cost-of-Service-Study (CCOSS) Issues

- **CCOSS**—What action should the Commission take, if any, with respect to the Class Cost-of-Service Studies proposed in this case? What requirements, if any, should be established for future Otter Tail rate cases?

Rate-Design Issues

- **Interclass Revenue Apportionment**—What percentage of the revenue requirement should be allocated to each customer class?
- **Decoupling**—Should the Commission approve the Company’s revenue-decoupling rate design?
- **Fixed Customer Charges**—At what level should the Commission set the fixed monthly charges?

These issues are examined individually below, with issues on which the Commission declines to accept the ALJ’s recommendation discussed in greater detail.

III. Administrative Law Judge’s Report

The Administrative Law Judge’s Report is well reasoned, comprehensive, and thorough. The ALJ held two days of evidentiary hearings and two public hearings. He reviewed the testimony of some 27 expert witnesses and examined over 100 exhibits. He made some 804 findings of fact, 2 conclusions of law, and recommendations on all stipulated and contested issues based on those findings and conclusions.

Having itself examined the record and having considered the ALJ’s report, the Commission concurs in most of his findings and conclusions. On a few issues, however, the Commission reaches different conclusions, as set forth below. On all other issues, the Commission accepts, adopts, and incorporates his findings, conclusions, and recommendations. The issues disputed among the parties are addressed below.

FINANCIAL ISSUES

IV. Hoot Lake

A. Introduction

The Hoot Lake Plant (Hoot Lake) was a 138-megawatt coal-fired generating facility located near Fergus Falls, Minnesota, which ceased operations in 2021. Most of the issues relating to cost recovery for Hoot Lake have been resolved, but two issues remain in dispute – recovery of incremental depreciation expense and decommissioning costs.

1. Incremental Depreciation Expense

In 2020, the Commission directed Otter Tail to reduce the depreciable life of Hoot Lake and the associated Hydraulic Generating Facilities (referred to as the Hydros) by one year to better align with the anticipated retirement date of the facilities.⁴ To mitigate the financial impact of this increase in depreciation expense for 2020, the Commission approved the Company's request to defer the additional depreciation expense and account for it as a regulatory asset until the Company's next rate case.

Subsequently, Otter Tail obtained FERC relicensing of the Hydros and proposed extending their remaining lives by 40 years. The Commission approved the extension in 2021.⁵

Otter Tail now seeks to recover the incremental 2020 depreciation in this rate case. The Company requests that the depreciation expense be amortized over three years. The amount to be included in the rate base would be approximately \$1.75 million and annual amortization would be approximately \$583,000 over the three-year period.

Otter Tail argued that there is no dispute as to the prudence or reasonableness of fully recovering the costs of the Hoot Lake and Hydro facilities, including the deferred 2020 depreciation expense. The Company contended that incorporating this expense into final rates would be a reasonable way to ensure final recovery of the costs.

2. Decommissioning Costs

Hoot Lake ceased operations on May 27, 2021, shortly before the start of the evidentiary hearing in this matter. Additionally, the Company projected that decommissioning work would continue beyond the test year, and portions of the Hoot Lake site may be reused for a planned solar facility, further complicating the decommissioning process. Because the scope (and therefore, cost) of decommissioning was still uncertain, Otter Tail proposed to submit additional

⁴ *In the Matter of Otter Tail Power Company's Petition for Approval of its 2019 Annual Review of Depreciation Certification*, Docket No. E-017/D-19-547, Order Setting Remaining Life Values, Depreciation Parameters, and Additional Filing Requirements (October 1, 2020).

⁵ *In the Matter of the Petition of Otter Tail Power Company for Approval of its 2020 Annual Review of Depreciation Certification*, Docket No. E-017/D-20-703, Order Approving Petition with Modifications (April 21, 2021).

decommissioning cost information in compliance filings as it became available, and base the test year decommissioning expense on actual spending through the end of 2021.

B. Positions of the Parties

1. Incremental Depreciation Expense

The Department opposed recovery of incremental depreciation expense for Hoot Lake and the Hydros, arguing that the Company had previously overstated the facilities' useful lives for many years, resulting in the Company receiving larger returns than it otherwise would have earned during that time. Specifically, the Department contended that it would be unjust and unreasonable to charge ratepayers for the deferred depreciation when they had previously paid an overstated return on rate base due to the Company's accounting errors. The Department stated that the Commission's 2020 order had not altered the useful life of the facilities, nor changed the planned retirement date, but had merely corrected the accounting records that the Company should have realized were inaccurate.

As a result, the Department recommended excluding the 2020 depreciation expense from rate recovery but amortizing the expense as a non-recoverable regulatory asset for up to five years. The Department stated that this approach would hold the Company accountable for its recordkeeping errors.

2. Decommissioning Costs

The Department also opposed the inclusion of any decommissioning costs in the test year. The Department stated that Otter Tail had failed to adequately respond to the Department's queries about anticipated expenditures for 2021. The Department objected to Otter Tail's proposal to submit 2021 actual expenses in post-hearing compliance filings, arguing that parties would not be able to sufficiently vet the claimed amount.

C. Recommendation of the Administrative Law Judge

1. Incremental Depreciation Expense

The ALJ recognized that the existence of the incremental depreciation expense was due to the Company's accounting errors, but found that the most logical outcome would be to allow the Company to recover the expense. The ALJ stated that Otter Tail had not known that its depreciation schedules were inaccurate, and the schedules had been reviewed by Commission and Department staff annually for a number of years without the discovery of the problem.

As a policy matter, the ALJ argued that allowing recovery in this case would encourage Minnesota utilities to pursue decommissioning of coal-fired generation facilities, instead of continuing to run them to ensure recovery of all depreciation costs.

The ALJ recommended that the Commission allow Otter Tail to recover the incremental 2020 depreciation expense over a five-year period, include an associated regulatory asset in the 2021 test year, and ensure that cost recovery is carefully tracked to avoid over- or under-recovery.

2. Decommissioning Costs

The ALJ recommended that the Commission allow the depreciation expense, using cost detail from later compliance filings to determine the exact amounts, as proposed by the Company. The ALJ stated that excluding the expense from the test year rate base would be an unreasonably harsh consequence for lackluster replies to information requests.

D. Commission Action

1. Incremental Depreciation Expense

First, the Commission will approve recovery of Hoot Lake's incremental 2020 depreciation expense. The Commission concurs with the ALJ that it is reasonable to allow the Company to recover this cost. Although the Department would prefer that the Company bear a heavy burden for its accounting error, disallowance of the expense is an unreasonably severe consequence, especially considering that the error was unintentional and its actual cost to ratepayers has not been determined. While the Department's approach is intended to redress over-earnings, it is unclear how requiring Otter Tail to forgo recovery of legitimate costs best balances the interests of ratepayers and the Company, particularly in light of the fact that Otter Tail's filings were publicly available and subject to regulatory scrutiny.

The total amount of the depreciation expense is not in dispute. Furthermore, it is in the public interest to support the decommissioning of coal-fired generation facilities, which in turn, benefits ratepayers by reducing the financial and environmental costs of emissions through the retirement of such facilities. For these reasons, the Commission will allow the Company to recover the depreciation expense in final rates over a five-year period.

To ensure that the depreciation expense is neither over- nor under-recovered, the Commission will also direct Otter Tail to establish a tracker account for the 2020 depreciation with a sunset provision, and address the extinguishment of the 2020 depreciation tracker account in the initial filing of its next rate case.

2. Decommissioning Costs

The Commission concurs with the ALJ and will approve recovery of Hoot Lake decommissioning costs. The amount of the recovery will be equal to actual decommissioning costs incurred during the 2021 test year, to be determined based on a compliance filing to be made as soon as possible after the close of 2021.

Although the Department raised concerns about potential inaccuracies in this filing, the record does not demonstrate cause for concern and the Commission is satisfied that the compliance filing will accurately reflect the decommissioning costs incurred during the test year. Furthermore, the 2021 actual decommissioning expenses will be publicly filed, and parties may analyze the information and object if necessary. The Commission agrees with the ALJ that excluding decommissioning costs from the test year would be an excessive penalty for the failure to completely respond to an information request, especially considering that the Company proposed an alternative method of reporting the relevant information.

V. Coyote Station

A. Introduction

Coyote Station is a 427-megawatt coal-fired power plant located in North Dakota. Otter Tail owns 35% of Coyote Station. Coyote Station is one of Otter Tail's two remaining baseload generating facilities and provides approximately 16% of Otter Tail's total generating capacity. Coyote Station is forecasted to be retired from service in 2041.

In October 2012, Otter Tail and its co-owners signed a lignite sales agreement (LSA) with the Coyote Creek Mining Company, LLC (Coyote Creek), requiring Coyote Station to use the mining output of Coyote Creek through December 2040. The LSA was entered into following a request for proposals.

Otter Tail included \$1.1 million of capital expenditures for Coyote Station in the 2021 test year.

B. Positions of the Parties

1. OAG

The OAG recommended disallowing recovery of all 2021 test year capital costs for Coyote Station, as well as disallowing any return on the Coyote Station rate base. The OAG stated that it is not economical to operate Coyote Station, noting that the revenues Otter Tail received from the Midcontinent Independent System Operator, Inc. (MISO) for Coyote Station over the past five years have been less than the amount paid by Otter Tail to run the plant. The OAG stated that the largest component of Coyote Station's production costs is fuel, which is purchased through the LSA. The OAG argued that the structure of the LSA (which has a large fixed-cost component) incentivizes Otter Tail and the other plant owners to operate Coyote Station more frequently. The OAG contended that it is unreasonable to continue investing new capital into an uneconomic coal-fired power plant when lower-cost alternatives are available.

The OAG also recommended disallowance of Otter Tail's return on Coyote Station's rate base, arguing that Otter Tail should have already taken action to divest its ownership interest in Coyote Station and should not be rewarded for continuing to operate Coyote Station to customers' detriment.

2. Otter Tail

Otter Tail disagreed with the OAG, arguing that additional capital expenditures are necessary to continue operating Coyote Station safely, reliably, and in compliance with regulatory requirements over the remainder of its depreciable life. Otter Tail stated that, based on its knowledge at different points in time, it had acted prudently with respect to its ownership interest in Coyote Station, and argued that its previous resource planning decisions should not be second-guessed years later. Otter Tail pointed out that Coyote Station served a significant capacity function over the 2013-2020 period and was necessary to meet Otter Tail's resource adequacy requirements. Additionally, Otter Tail noted that, because the facility is a dispatchable generating resource, it continues to serve as a hedge against high market prices.

C. Recommendation of the Administrative Law Judge

The ALJ recommended that the Commission not disallow the Coyote Station costs as recommended by the OAG; rather, the ALJ stated that the Commission should continue to evaluate Otter Tail's generation fleet in its 2021 resource plan, including the future of Coyote Station. The ALJ found that Otter Tail had exercised reasonable care in making resource decisions for Coyote Station with the limited information that was available at the time.

D. Commission Action

The Commission will allow Otter Tail to include Coyote Station's costs, as filed, in its test year. However, the Commission has the authority to deny recovery of costs for generation facilities that are not proven to be prudent and reasonable, and the Commission may do so for Coyote Station in the future, if appropriate. The Commission will make this determination after further analysis and information gathering, including Otter Tail's impending resource plan. A future rate case is one appropriate proceeding to raise such arguments, but such arguments may be raised in other contexts as well.

However, the Commission will reject ALJ Findings 339 – 342, 345 – 347, and 354 – 355. In the Commission's view, these findings do not fully characterize the nature of the OAG's arguments on the resource planning process and could be inferred as prematurely determining the reasonableness of Otter Tail's decisions. The Commission will determine in a future proceeding whether Otter Tail's costs for Coyote Station were prudent and reasonable.

VI. Merricourt Wind

A. Introduction

The Renewable Resources Cost Recovery (RRCR) rider allows a public utility to recover capital costs and operating expenses for certain renewable energy facilities outside of a rate case. Otter Tail's RRCR rider was established in 2008 and currently includes project costs for only Merricourt Wind. The rider also provides a mechanism to increase (or reduce) rates to reflect when Otter Tail's wind facilities earn less (or more) Production Tax Credits (PTCs) than expected.

In December 2019, the Commission directed Otter Tail to discontinue RRCR rider collections for Merricourt Wind and to roll all rider costs and any related PTCs into base rates during its next rate case.⁶

Otter Tail proposed to include a revenue requirement of \$19.3 million in base rates for Merricourt Wind, of which \$13.6 million was the incremental revenue requirement in the test year. The Company planned to track the difference between the PTCs included in 2021 test year base rates and the actual PTCs generated by Merricourt Wind, and true up the amounts in a future RRCR rider filing.

⁶ *In the Matter of Otter Tail Power Company's Petition for Approval of the Annual Update to its Renewable Resource Cost Recovery Rider Rate, Rate Schedule 13.04*, Docket No. E-017/M-19-411, Order (December 20, 2019).

Otter Tail's proposed PTC for 2021 was based on an assumption of operating Merricourt Wind 29% of the time, which is less than previous forecast of 51%.

B. Positions of the Parties

MLEC argued that a higher amount for PTCs should be included in base rates, reflecting the projected PTCs for 2022. According to MLEC, by the time the new rates became effective, the use of 2022 PTC projections would be more accurate and would likely result in a smaller true-up.

Otter Tail did not oppose this proposal.

C. Recommendation of the Administrative Law Judge

The ALJ agreed with MLEC and recommended the use of projected 2022 PTCs.

D. Commission Action

The Commission concurs with Otter Tail, MLEC, and the ALJ. Under either Otter Tail's original proposal or MLEC's recommendation, customers would receive the full benefit of the PTCs; in this case, it is reasonable to use the number likely to be more accurate and result in a smaller true-up. The Commission will direct Otter Tail to include Merricourt PTCs totaling \$15,963,797 in its test year, and to annually adjust rates via the RRRCR rider to reflect the difference between forecasted PTCs and actual PTCs recovered.

VII. Active Employee Medical Costs

A. Introduction

Otter Tail provides medical and dental insurance benefits for qualifying employees. The Company included \$4,704,155 of active employee medical expenses in the test year on a Minnesota jurisdictional basis. This number was based on a projection made by a third-party consulting firm. Otter Tail stated that it has used third-party projections to determine active employee medical costs for many years and that using projections is a reasonable approach for setting costs.

B. Positions of the Parties

The Department argued that Otter Tail's proposed test-year active employee medical costs appeared to be too high. The Department noted that Otter Tail's test-year active employee medical costs were significantly higher than actual numbers for recent years. Furthermore, the Department stated that, except for the proposed test year, actual expenses for active employee medical costs had been trending downward overall, and the Company had over-recovered active employee medical costs every year between 2016 and 2020.

The Department recommended that the test-year active employee medical costs be set at 2019 actual levels, thereby avoiding any pandemic-related cost impacts that may have occurred in 2020 or 2021.

In response, Otter Tail argued that in 2019, there was an unusually low number of high-dollar health care claims in excess of \$100,000, so the third-party projection (which did include these costs) would be more accurate.

C. Recommendation of the Administrative Law Judge

The ALJ recommended that the active employee medical costs be set at 2018 actual levels. The ALJ noted that the use of 2018 would avoid COVID-19-related costs and would include more high-dollar claims than 2019, which would better align with Otter Tail's historical experience.

D. Commission Action

Often, in situations where costs vary from year to year, test-year costs are set based on historical averages rather than attempting to choose one specific year to represent likely future costs. Additionally, although Otter Tail has used third-party projections of health care costs in the past, this has resulted in overcollections each year between 2016 and 2020.

Rather than using either of these methods, the Commission will direct Otter Tail to set test-year active employee medical costs using a four-year average of the actual costs between the years 2016 and 2019, or \$4,387,000 on a Minnesota-jurisdictional basis. This will account for historical variations in high-dollar claims while removing the years of 2020 and 2021 from the average, which could skew the costs due to pandemic-related fluctuations.

VIII. Executive Restoration Plus Plan and Executive Survivor and Supplemental Retirement Plan

A. Introduction

Otter Tail proposed to include in the test year \$126,000 for its Executive Restoration Plus Plan (ERPP) and \$421,840 for its Executive Survivor and Supplemental Retirement Plan (ESSRP) – both non-qualified employee benefit plans.

Non-qualified employee benefits are supplemental benefits that do not meet federal Employee Retirement Income Security Act guidelines and are not eligible for favorable tax treatment under the Internal Revenue Code. Employers sometimes provide these benefits as supplemental compensation for executives and other highly compensated employees.

Otter Tail asserted that these benefit plans were essential to providing utility service because they allow the Company to attract and retain key executive and management employees. Otter Tail argued that these employees contribute to operational efficiency by keeping costs low and maintaining strong financial performance. Additionally, the Company stated that its total executive compensation is significantly below the market median, even with supplemental compensation.

B. Positions of the Parties

The Department recommended that costs for the ERPP and ESSRP be excluded from the test year because they are non-qualified benefits and because the Commission has disallowed recovery for these types of benefits in prior rate cases.⁷

The Department argued that Otter Tail had not provided sufficient information to demonstrate how the plans directly impact utility performance or how the Company would be unable to attract and retain employees necessary for providing utility service without test year recovery of these costs.

C. Recommendation of the Administrative Law Judge

The ALJ agreed with the Department and recommended disallowance of the ERPP and ESSRP costs. The ALJ noted that the Commission has historically disallowed rate recovery for this type of non-qualified benefit and found that there was not sufficient evidence in the record to demonstrate that these were reasonable and necessary costs of providing utility service.

D. Commission Action

The Commission concurs with the Department and ALJ and will disallow recovery of Otter Tail's ERPP and ESSRP costs. Although Otter Tail asserts that these benefits are needed to attract talented executives and managers who improve operational efficiency, the record lacks persuasive evidence that without these benefits, the Company could not secure the employees necessary to provide safe, reliable service and that these expenses are reasonable and necessary to provide utility service. The Commission has disallowed these types of costs in past rate cases and is not persuaded to depart from this practice here.

IX. Charitable Contributions

A. Introduction

Under Minn. Stat. § 216B.16, subd. 9, the Commission may allow recovery of up to 50% of a utility's charitable contributions as long as the expenses are prudent and qualify under one of the categories listed in Minn. Stat. § 300.66, subd. 3.

Otter Tail proposed to include \$158,436 in its test year for charitable contributions, which was 50% of the estimated Minnesota portion of the Company's total charitable contributions.

In addition to contributions made directly to charitable organizations, Otter Tail makes contributions to the Otter Tail Foundation (the Foundation), which supports organizations in

⁷ See, e.g., *In the Matter of the Application of Minnesota Energy Resources Corporation for Authority to Increase Rates for Natural Gas Service in Minnesota*, Docket No. G-007, 011/GR-10-977, Findings of Fact, Conclusions of Law, and Order, at 29 (July 13, 2012); *In the Matter of an Application by CenterPoint Energy Resources Corp. d/b/a CenterPoint Energy Minnesota Gas For Authority to Increase Natural Gas Rates in Minnesota*, Docket No. G-008/GR-13-316, Findings of Fact, Conclusions of Law, and Order, at 13 (June 9, 2014).

Minnesota that work in the areas of education; health and human services; community enhancement, arts, and culture; and environmental stewardship.

Otter Tail made contributions to the Foundation in 2019, 2020, and 2021, but did not make the 2021 contribution in the test year. The 2021 contribution that the Foundation received was an accrued business expense for 2020. Additionally, Otter Tail did not want to double count the donation amount in the test year, when the Foundation disbursed funds it had received from Otter Tail.

B. Positions of the Parties

The Department recommended that the entire proposed amount for charitable contributions be removed from the test year. The Department argued that the Chief Financial Officer (CFO) of Otter Tail Corporation (OTC) had stated in a conference call that OTC had not planned any charitable contributions during 2021. The Department contended that if the costs would not be incurred, it was inappropriate to recover those costs from ratepayers.

Otter Tail stated that it did in fact make a charitable contribution in February 2021, and this statement from the CFO was referring to OTC—a different corporate entity than Otter Tail Power.

In response, the Department argued that it was unclear which entity had made contributions in which year, and this doubt should be resolved in favor of the consumer; therefore, the entire expense should be denied.

C. Recommendation of the Administrative Law Judge

The ALJ recognized the confusion, but found that disallowing all recovery for charitable contributions would be an unduly harsh outcome and could have a chilling effect on utility charitable contributions, potentially resulting in less funding for civic organizations in the future. The ALJ recommended that the Commission allow recovery of 50% of the contributions made by Otter Tail and the Foundation during the test year, as requested by the Company. Alternatively, the ALJ recommended that the Commission permit recovery of 50% of the amount Otter Tail itself (not including the Foundation) had budgeted for charitable contributions during the test year.

D. Commission Action

The Commission will direct Otter Tail to set test year charitable contributions expense at \$158,436—50% of Otter Tail's budgeted 2021 charitable contributions for organizations in Minnesota. This is in line with the treatment of charitable contribution expenses during previous rate cases and the Commission does not see a compelling reason to deviate from prior practice in this case. The expenses were prudent, and no party has argued that contributions were made to non-qualified organizations.

However, the Commission understands that there was significant confusion about which contributions were made by which corporate entities during the test year. It is important to ensure that charitable contributions are correctly accounted for in rates. Therefore, in its interim rate compliance filing, Otter Tail must account for the difference between the budgeted amount of

contributions and the actual amount for 2021, and return any shortfall to ratepayers as part of the interim rates refund.

X. Aviation

A. Introduction

In 2021, following the governor's executive order directing Minnesotans to avoid unnecessary travel during the COVID-19 pandemic,⁸ Otter Tail placed its aircraft into storage until such time as it would be safe to resume regular business travel. The Company indicated that this was a temporary situation and it anticipated that normal aircraft operation would resume in 2022.

Otter Tail included aviation expenses in the test year but proposed to refund the operations and maintenance portion of 2021 aviation costs to ratepayers through the interim rate refund process, since the aircraft was not actually used in 2021. However, Otter Tail proposed that it be allowed to retain the portion of interim rates that reflect the depreciation expense and returns on aircraft-related rate base. The Company argued that the situation was akin to the aircraft being temporarily grounded for repairs.

B. Positions of the Parties

The Department recommended that Otter Tail not recover any aircraft-related costs for 2021, arguing that the aircraft was not "used and useful" for the provision of utility service during the pandemic. The Department stated that the plane had been out of service for much longer than would be expected due to typical repairs.

Furthermore, the Department argued that there had been no reduction in ratepayer benefits due to the plane not being used; therefore, the plane was not integral for the provision of utility service.

C. Recommendation of the Administrative Law Judge

The ALJ recommended that the Commission permit Otter Tail to recover depreciation and return on the aircraft-related rate base. The ALJ agreed with Otter Tail that this situation was similar to a facility undergoing repairs during the test year, which would continue to be used in the future.

D. Commission Action

The Commission concurs with the ALJ's recommendation. The aircraft was placed into storage based on public health advice during the COVID-19 pandemic, not through any fault of the Company. The aircraft will return to service once business travel resumes, so it is reasonable to allow the Company to recover the cost of ownership of the aircraft even though it was temporarily in storage during the test year. The usefulness of the plane has not changed; although many companies moved to conduct meetings and other business online during the COVID-19 pandemic, it is reasonable to assume that business travel will resume in the future. The Commission will allow Otter Tail to include test-year aviation-related expenses in base rates and

⁸ State of Minnesota Emergency Executive Order 20-99, Implementing a Four Week Dial Back on Certain Activities to Slow the Spread of COVID-19 (November 19, 2020).

will direct Otter Tail to refund 2021 aviation-related operations and maintenance expenses through the interim rate refund process.

XI. Bad Debt Expense

A. Introduction

Otter Tail included \$546,253 in the test year for the Minnesota jurisdictional share of bad debt expense. To arrive at this amount, the Company took the 2019 actual bad debt expense and increased it by approximately 7%, which is the same amount that bad debt expense increased between 2016 and 2019.

B. Positions of the Parties

The Department reviewed actual bad debt amounts in 2016 to 2019 (excluding 2020 to avoid pandemic-related impacts) and calculated an overall bad-debt-to-revenue ratio of 0.22%. The Department recommended setting the bad debt expense in the test year using the 0.22% ratio, which would be a reduction from Otter Tail's proposal.

The Department argued that, although Otter Tail's bad debt had increased by approximately 7% between 2016 and 2019, the Company's revenue had also increased by the same amount. The Department concluded that the 0.22% ratio should be used because it reflects the relationship between bad debt and revenue.

Otter Tail disagreed, pointing out that under this approach, the test year bad debt expense would be lower than both 2018 and 2019 actual amounts.

C. Recommendation of the Administrative Law Judge

The ALJ agreed with the Department and noted that bad debt correlates with both utility revenues and other, broader, economic influences; each of these factors plays a role in customers' ability or inability to pay their bills. However, the ALJ concluded that the ratio recommended by the Department was the more reasonable method of calculating bad debt expense.

D. Commission Action

The Commission concurs with the ALJ and the Department and will approve the use of the 0.22% ratio to establish test year bad debt expense. The Company's preferred method of calculating bad debt using only the dollar amount for each year only looks at half the picture – it does not account for the relationship between the bad debt amount and the revenue amount charged. It is reasonable to calculate bad debt expense using a ratio that takes revenue into account, giving fuller context to the amount of bad debt. Furthermore, this is consistent with other utilities' practice and with Commission practice in previous rate cases.

XII. Late Payment Revenues

A. Introduction

Otter Tail included late payment revenue of \$283,121 in the test year, which was the actual revenue amount from July 2019 through June 2020.

B. Positions of the Parties

The Department compared late payment revenues to the Company's billed amounts between 2016 and 2019 and calculated a 0.16% ratio. The Department recommended applying this 0.16% factor to the test year billings to establish test year late payment revenues, reasoning that late payment revenues are based on the amounts billed to customers, so it is appropriate to use a ratio that reflects both revenues and bills. The Department's recommendation would result in an increase over the amount recommended by the Company.

Otter Tail disagreed, arguing that there was an overall downward trend in late payment revenues so it was reasonable to use the actual revenue amount for the test year.

C. Recommendation of the Administrative Law Judge

As with bad debt, the ALJ noted that late payment revenue amounts correlate with overall billings and also reflect larger economic trends. The ALJ again supported the Department's position and recommended the use of the 0.16% ratio to establish test year late payment revenues.

D. Commission Action

The Commission concurs with the ALJ and the Department and will approve the use of the 0.16% ratio to establish test year late payment revenues. Similar to the issue of bad debt, it is reasonable to calculate late payment revenues using a ratio that also accounts for billings, and this is consistent with Commission practice in previous rate cases.

XIII. North Dakota ITC Amortization

A. Introduction

North Dakota Investment Tax Credits (ITCs) are earned based on wind energy investments made in North Dakota and are amortized over the life of the underlying facility. In Docket No. E-017/D-20-703, the Commission extended the remaining lives of Otter Tail's wind facilities; therefore, the ITC amortization period also needed to be extended to avoid a normalization violation. This means that fewer ITCs are utilized in the 2021 test year.

B. Positions of the Parties

To account for the extended amortization period, the Department recommended a \$272,228 reduction to Otter Tail's ITC test year amount.

Otter Tail disagreed with this recommendation because under federal tax law, utilization of ITCs only allows a reduction of tax liability, not an actual deduction for state taxes. Otter Tail argued that the change in ITC amortization and inability to complete a deduction reduces the overall value of the ITCs to the Company, and that the Department's calculation did not account for this. Therefore, the Company contended, the Department had overstated the amount of ITCs that could be utilized in the test year.

The Department argued that there was no methodological basis for making the calculation suggested by the Company and therefore declined to make any adjustment to its recommendation.

C. Recommendation of the Administrative Law Judge

The ALJ agreed with the Department, noting that Otter Tail had not established any metrics for calculating the impact of modified amortization on the overall value of the ITCs. The ALJ found that the Department's proposed reduction of \$272,228 was reasonable.

D. Commission Action

The Commission concurs with the Department and ALJ's reasoning and will approve the Department's recommended reduction of \$272,228. Although Otter Tail recommended a smaller reduction to account for its inability to take a state tax deduction, it did not provide the specific metrics used to complete this calculation. The Department's recommendation accounts for the extended amortization period, and any further adjustments based on the overall value of the ITCs to the Company have not been fully developed on this record.

XIV. ADIT Change for Tax Gross Up Due to NOL

A. Introduction

When calculating the revenue deficiency during a rate case, utilities make an adjustment to account for income taxes to be paid on the additional revenues authorized in the rate case proceeding. This adjustment, called a "tax gross up," is made to ensure that the test year reflects the full cost of providing utility service.

However, in the 2021 test year, Otter Tail was in a Net Operating Loss (NOL) position and therefore has no current income taxes included in the test year. The Company reclassified current income tax expense to deferred income tax expense due to this NOL.

B. Positions of the Parties

The Department did not challenge the tax gross up but recommended a corresponding increase to Accumulated Deferred Income Tax (ADIT), which requires a corresponding offset or credit to rate base. The Department asserted that as long as Otter Tail is in a NOL position, it is deferring income tax expense. As a result, the Department recommended a \$3,014,263 adjustment that reduces rate base. The Department stated that this recognizes the time value of money and compensates ratepayers, who are paying taxes in their rates that the Company does not have to pay in the near term (but will pay in the long term).

Otter Tail stated that, although it is in a NOL position during the test year, this is expected to end in 2023 and will not be a long-term position. Therefore, the Company argued that the

Department's recommendation would establish a revenue requirement not reflective of actual costs over the period the rates will be in effect.

In response, the Department noted that, to account for its 2021 NOL position, Otter Tail had chosen to put a deferred tax asset into rate base; therefore, it would be inconsistent to not record a deferred tax liability to account for the tax gross up of the revenue deficiency. The Department stated that it would not oppose eliminating both the deferred tax asset and the deferred tax liability, but would oppose eliminating only the liability.

C. Recommendation of the Administrative Law Judge

The ALJ agreed with the Department, noting that the deferred tax asset placed into rate base requires a corresponding deferred tax liability to decrease rate base and account for the tax gross up of the revenue deficiency.

D. Commission Action

The Commission concurs with the Department and ALJ and will approve an ADIT gross up adjustment, calculated to reflect the approved revenue deficiency in this order. While it may be true that Otter Tail will no longer be in a NOL position in the near future, this is not yet certain and may change based on new tax laws and positions. It is most appropriate to set rates using the most accurate, current, and non-speculative information.

XV. Credit Card Fees

A. Introduction

Currently, Otter Tail customers who pay their bill with a credit card also pay a \$2.25 convenience fee for each transaction, which goes to the electronic payment processor. Otter Tail stated that, based on customer surveys, its customers are dissatisfied with paying a fee to use a credit card.

Otter Tail proposed to eliminate the per-transaction customer fee and instead, treat credit card processing fees as an O&M expense and recover them in rates paid by all customers. For this purpose, the Company included \$230,588 for the Minnesota jurisdiction in the 2021 test year, based on a three-year average of forecasted expenses. Otter Tail also proposed to implement a tracker mechanism and to true-up any over- or under-collection in its next general rate case.

B. Positions of the Parties

The Department opposed this proposal and recommended that Otter Tail continue to impose per-transaction credit card fees on individual customers. The Department argued that eliminating the per-transaction fee does not benefit all ratepayers; rather, it subsidizes credit-card-using ratepayers at the expense of those who use other forms of payment.

C. Recommendation of the Administrative Law Judge

The ALJ found that Otter Tail's proposal was reasonable and consistent with its customers' service expectations, as well as Commission precedent.

D. Commission Action

The Commission concurs with the ALJ and will allow Otter Tail to eliminate per-transaction fees and instead recover credit card fees as an O&M expense. The Department argues that including these costs in rates would cause ratepayers to subsidize customers who use credit or debit cards to pay their bills, but it is not clear that any such subsidization would occur. For one thing, all residential and commercial ratepayers will have the option to use a card to pay their bills without a fee. Moreover, there is some processing cost associated with every form of payment; the

Commission's decision simply ensures that all payment processing costs are included in O&M rather than having certain customers pay that cost directly.

XVI. Economic Development Expenses

A. Introduction

Otter Tail included \$539,820 in the 2021 test year for economic development expenses, reflecting the Company's plan to add a second economic development manager to serve its large service area. Otter Tail stated that the additional staff person would likely provide similar benefits as the existing position, but that it was not possible to precisely calculate the value or cost-effectiveness of the new position.

B. Positions of the Parties

The Department and OAG opposed Otter Tail's proposal. The Department argued that Otter Tail had not adequately justified the large increase in economic development expenses and recommended that the Commission approve Otter Tail's current level of economic development costs for the test year.

The OAG argued that Otter Tail's request was excessive and that economic development activities were not necessary for the provision of utility service. The OAG recommended that any recovery should be based on a four-year average of economic development expenses from 2015 to 2018, a range that includes years with the Company's highest actual spending on economic development and excludes 2019 and 2020, which were unusual because of staff vacancies and pandemic-related impacts. Based on previous Commission practice, the OAG argued that recovery should be limited to 50% of this averaged amount, or \$96,023.

C. Recommendation of the Administrative Law Judge

The ALJ agreed with the OAG's position, noting that the Commission has historically granted 50% recovery of economic development expenses because the benefits of these efforts are shared between ratepayers and shareholders, and the use of averaged expenses is an accepted ratemaking practice to smooth year-to-year variations.

D. Commission Action

The Commission concurs with the ALJ and OAG and will allow Otter Tail to include a \$96,023 test year expense for economic development expenses. The use of the 2015 to 2018 period to calculate the average is favorable to the Company, as these are years where the Company had higher actual economic development expenses.

Furthermore, recovery of 50% of economic development expenses is consistent with the Commission's past treatment of this issue and the Commission sees no compelling reason to deviate from that practice at this time. Shareholders as well as customers benefit from economic development activities, because increased economic activity in the Company's service territory is likely to result in increased energy usage to fuel these activities. Because only a portion of the activity's benefit accrues to customers, it is appropriate for the Company to only recover a portion of the total economic development cost.

XVII. Governmental Affairs/Lobbying Expenses

A. Introduction

Otter Tail sought recovery of a portion of the cost of leasing temporary office space near the capitol for its Legislative Affairs Manager during the legislative season. The Company stated that it was in its customers' interest to have a representative near the state capitol to attend hearings, confer with stakeholders, and meet with government officials.

Based on past experience, the Company stated that approximately 35% of legislative affairs work is related to lobbying, and 65% is non-lobbying work. Therefore, Otter Tail sought to recover 65% of the cost of the lease.

As required by Minn. Stat. § 216B.16, subd. 17(a)(9), Otter Tail filed an itemized list of lobbying expenses (referred to as Schedule 8), which were classified as below-the-line expenses and not included in the test year.

B. Positions of the Parties

The OAG recommended that the Commission disallow all costs for the lease. The OAG stated that the Company had not itemized the entire amount of its governmental affairs expenses in Schedule 8, but had only itemized the amount it deemed to be a lobbying expense. The OAG argued that, because of this reporting methodology, it was impossible to know the total amount of lobbying expenses the Company had included in the test year and whether these expenses were appropriate. Based on this uncertainty, the OAG recommended that the Commission disallow the entire cost for the office lease.

C. Recommendation of the Administrative Law Judge

The ALJ found that Otter Tail's approach to the issue was reasonable and supported the inclusion of 65% of the lease expenses in the test year.

D. Commission Action

The Commission respectfully disagrees with the ALJ and will disallow \$2,600 of Otter Tail's proposed test year governmental affairs/lobbying expenses. Although Otter Tail states that its 65% non-lobbying allocation is based on past experience, the record does not contain sufficient details on this allocation or the total amount of each lobbying transaction, and the Commission cannot determine whether the Company's calculations are entirely accurate.

Historically, the Commission has disallowed recovery of lobbying expenses. In this case, the Commission believes that it is unclear whether the \$2,600 related to the temporary lease is a reasonable non-lobbying expense or not. The Commission will resolve this doubt in the ratepayers' favor pursuant to Minn. Stat. § 216B.03.

In future rate case filings, Otter Tail should consider filing the entire amount of each lobbying transaction and not only the amount that is considered a lobbying expense, in order to help the Commission understand and verify the Company's calculations.

XVIII. Ground Line Inspection

A. Introduction

Otter Tail included \$61,968 in Minnesota jurisdictional costs in the 2021 test year as an O&M expense for its ground line inspection project. This project consists of inspecting transmission poles to assess their health and determine replacement prioritization.

B. Positions of the Parties

The OAG opposed this level of spending for ground line inspection, arguing that it was much higher than in previous years – specifically, a 79.1% increase from the average of the previous four years – and that the Company had not explained why this increase in spending was necessary. The OAG recommended that the test year amount for ground line inspection be limited to the four-year average.

In response, Otter Tail noted that, although it was proposing a higher amount than had previously been spent on ground line inspection, there is a new and broader demand for ground inspection work, and the proposed project goes beyond the scope of the existing inspection and pole replacement program. Furthermore, the Company stated that the historical average spending would not be enough to keep up with the rate of upcoming asset retirements because certain infrastructure, such as wooden poles, was significantly aging and deteriorating, necessitating accelerated ground line inspections. Finally, the Company argued that additional inspections would help identify future repair and replacement needs and facilitate planning.

C. Recommendation of the Administrative Law Judge

The ALJ agreed with Otter Tail, finding that the increased spending for ground line inspection was reasonable and appropriate.

D. Commission Action

The Commission concurs with the ALJ and will allow Otter Tail to include test year ground line inspection expenses, as filed. It is reasonable and in the public interest to perform more ground line inspections than in previous years. This will allow the Company to identify and replace aging infrastructure, improving long-term system reliability while creating economic development opportunities for construction and maintenance workers. Although the amount included in the test year is indeed higher than the historical average, it is a reasonable increase considering the amount of additional work planned.

However, it is also important to ensure that the additional spending authorized in this rate case does lead to progress on asset replacement and improvements in reliability and economic development. Consequently, the Commission will direct Otter Tail to make annual compliance filings in the COVID-19 Docket,⁹ including the amount spent on ground line inspection compared to the test year amount, the average four-year amount prior to the test year, and a

⁹ *In the Matter of an Inquiry into Utility Investments that May Assist in Minnesota's Economic Recovery from the COVID-19 Pandemic*, Docket No. E,G-999/CI-20-492.

detailed description of progress made and economic development that has occurred as a result of this initiative.

XIX. Organizational/Membership Dues

A. Introduction

Otter Tail requested \$175,502 for organizational dues in the test year, based on 2019 actual data. These membership dues are for Lignite Energy Council (LEC), Utility Air Regulatory Group (UARG), McGuireWoods Clean Air Act Monitoring Service, and McGuireWoods Climate Legal Group. The two McGuireWoods services began in 2021 after the public hearings before the ALJ and are intended to replace the UARG membership, as UARG has since disbanded.

The Company stated that its membership in these organizations served to educate and inform its employees about providing improved utility service, provide essential information, or provide training to employees to become better qualified in providing improved utility service. Furthermore, Otter Tail stated that these organizations provide valuable services and information that it cannot duplicate on its own. The Company noted that the requested amount excluded the portion of dues charged for lobbying expenses.

B. Positions of the Parties

The OAG opposed the inclusion of certain organizational dues in the test year and recommended that the Commission remove \$47,545 for the LEC and fees of \$23,076 for the two McGuireWoods services.

The OAG contended that it was inappropriate for Minnesota ratepayers to pay for these dues. First, the OAG argued that LEC supports North Dakota's lignite coal industry and engages in legislative activities that are directly counter to Minnesota's carbon-reduction goals and renewable energy standards. Specifically, the OAG pointed out that LEC opposed several carbon-reduction and clean-energy bills in Minnesota, which were not passed. The OAG stated that this organization does not directly benefit Minnesota ratepayers because it opposes policy goals that are important to the state of Minnesota.

Second, the OAG opposed the dues for UARG on the basis that UARG had disbanded in 2019 and was no longer functioning. The OAG also opposed the dues for the McGuireWoods services, arguing that the organization engages in lobbying, legislative, and other advocacy activities and takes litigation positions that the OAG opposes.

C. Recommendation of the Administrative Law Judge

The ALJ found that Otter Tail's requested costs for organizational dues were reasonable and related to the continued delivery of reliable electric service. The ALJ disagreed with the OAG's position that the particular policy goals of an organization should impact whether the dues for that organization are included in utility rates.

D. Commission Action

The Commission respectfully disagrees with the ALJ's conclusion and will not allow Otter Tail to include test year expenses related to LEC, UARG, or McGuireWoods. Although the Company

argues that these organizations provide valuable services and information, it is unclear how the membership dues connect to the provision or improvement of utility services. The Commission is not convinced that without these membership dues, Otter Tail's utility service would be diminished or its quality reduced. The Commission does not make this decision on the basis of the policy or legislative activities of the organizations in question, but on the overall lack of information on the specific value of the services.

In future rate cases, if the Company wishes to seek recovery for McGuireWoods services, the Company must provide an accounting of the legal activities that are provided by McGuireWoods, the amount of subscription cost allocated to each of these activities, and McGuireWoods' billing-hour details for the legal services under the subscriptions. This information would help the Commission evaluate the services' value to ratepayers.

XX. Travel, Meals, Entertainment, and Employee Gift Expense

A. Introduction

Otter Tail requested \$661,858 for the Minnesota jurisdictional portion of employee expenses that fall under Minn. Stat. § 216B.16, subd. 17. These include expenses for employee travel, entertainment, meals, and gifts. The statute requires utilities to report the date, amount, and business purpose of the expense, and the name of the vendor.

B. Positions of the Parties

The OAG opposed portions of these expenses, arguing that they were unreasonable, unnecessary, or unsupported by the record.

First, the OAG reviewed the filed travel expenses and found that there was insufficient information to determine whether certain transactions were for mileage, parking, or other travel needs, and therefore could not confirm whether the costs were reasonable. Otter Tail responded that some of the transactions identified by the OAG were for GPS monitoring, but the Company did not provide expense reports or further information to support the remaining transactions. The OAG recommended that the Commission disallow expenses for the remaining transactions, reducing test-year expenses by \$17,659.

The OAG also reviewed the transactions relating to travel for energy industry events, including UARG and LEC meetings and Minnesota Utility Investors events. The OAG argued that these were unreasonable expenses because the Company had not provided sufficient justification and had not shown that the travel was necessary for utility service, and recommended that test-year expenses be reduced by \$4,316.

Regarding lodging expenses, the OAG reviewed the transactions and determined that certain transactions were unreasonable in amount. Although Otter Tail encourages its employees to stay at less expensive lodging when available, the OAG stated that employees nonetheless stayed at lodging that was more expensive than other nearby options. The OAG also requested information on transactions that did not include certain details and stated that the Company did not provide that information, so the OAG could not determine whether certain transactions were reasonable. Overall, the OAG argued that the reasonable cost of a one-night hotel stay was \$130 and recommended that any higher amount be disallowed. The \$130 figure was based on an average

of four-star hotels in the Minneapolis/St. Paul metro area. Overall, based on this calculation, the OAG recommended that the Commission disallow \$10,212 in lodging expenses.

Similarly, the OAG reviewed Otter Tail's meal costs and identified expenses that it considered excessive, including work lunches costing up to \$50 per person and breakfasts up to \$24 per person. The OAG stated that Otter Tail did not appear to impose any limit on meal expenses or provide guidance as to reasonable costs. The OAG concluded that the State of Minnesota's allowances for employee meals would be an appropriate standard for determining reasonable meal costs and recommended that the Commission disallow the portion of the cost of employee meals that exceeded that amount, or a total of \$17,112. The OAG argued that Otter Tail did not suggest an alternative standard or provide any justification for the meal costs, but merely stated that the expenses were incurred and were documented.

Finally, the OAG reviewed expenses related to employee gifts, including awards and recognition items. Otter Tail argued that these expenses benefit ratepayers because they result in committed, engaged, and productive employees. However, the OAG pointed out that historically, the Commission has not allowed this type of gift expense to be recovered in rates and recommended that \$7,253 be disallowed.

C. Recommendation of the Administrative Law Judge

The ALJ disagreed with the OAG's proposed disallowances for travel, industry events, and meals, and found that these expenses were reasonable. The ALJ argued that the standards used by the OAG to determine the unreasonableness of certain expenses were arbitrary. For example, the ALJ noted that the amount the OAG considered reasonable for hotels was based on Twin-Cities-area hotel data, not on hotels inside Otter Tail's service area; furthermore, the OAG's data did not account for the fact that business travel must be conducted on specific dates and cannot wait for dates when hotels are less expensive. Likewise, the ALJ disagreed with the OAG's use of state employee meal allowances to evaluate the reasonableness of Otter Tail's meal costs, arguing that state employee allowances were developed only to apply to state employees and are the result of collective bargaining.

The ALJ agreed with the OAG that the Commission has historically disallowed expenses related to employee gifts, and supported the same disallowance in this rate case. However, the ALJ noted that the Commission has approved "spot bonuses" and other limited monetary rewards in the past and stated that if the Commission wished to reconsider its previous position on gift expenses, it could do so.

D. Commission Action

Minn. Stat. § 216B.16, subd. 17, directs the Commission to disallow travel, entertainment, and related employee expenses that the Commission "deems unreasonable and unnecessary for the provision of utility service." The Commission agrees with the OAG and will disallow portions of the requested employee expenses that are not supported by sufficient evidence to demonstrate reasonableness, are unreasonable because of excessive cost, or have historically been disallowed in rate cases. Although the Commission appreciates the ALJ's perspective, the Commission respectfully disagrees that the OAG's analysis is arbitrary. Rather, the OAG's analysis of each expense provides helpful perspective on the level of expenses that is reasonable to incorporate into rates.

First, the Commission will disallow \$17,659 for the Minnesota jurisdictional allocation of travel-related test year expenses. The Commission agrees with the OAG that there simply is not enough information in the record to determine whether the identified expenses are reasonable, and doubt is to be resolved in favor of ratepayers. Otter Tail notes that for transactions below a certain threshold, employees are not required to report certain details, and that this balances the benefit of providing detailed information against the cost of entering and maintaining these details in Otter Tail's accounting systems. Certainly, the Company may implement such reporting thresholds – but it must be aware that one of the costs of declining to report certain information is that transactions may be disallowed if their reasonableness cannot be determined from the record.

Second, the Commission will disallow \$4,316 (Minnesota jurisdiction) of test year expenses related to travel for energy industry events. The Commission agrees with the OAG that the Company has not shown these expenses to be reasonable or necessary for the provision of utility service.

The Commission will disallow \$10,212 for the Minnesota jurisdictional allocation of lodging-related test year expenses. The Commission agrees with the OAG that the amounts spent on lodging were excessive in some instances, and the \$130 standard proposed by the OAG is reasonable in this case. Although it is true that the Twin Cities area is not geographically within the Company's service area, lodging prices for four-star hotels in urban areas are generally higher than prices in the more rural areas Otter Tail employees usually visit. Therefore, the threshold proposed by the OAG is, more likely than anything, to be generous to the Company. Furthermore, the OAG also examined the different types of lodging available in the specific cities to which Otter Tail employees had traveled. The OAG found that there had been less expensive lodging options available for different room types or hotels, but Otter Tail employees had chosen more expensive accommodations in some cases. Based on this detailed analysis, the Commission finds the OAG's position convincing and agrees that certain lodging-related expenses were excessive.

The Commission will disallow \$17,112 for the Minnesota jurisdictional allocation of meals-related test year expenses. The Commission agrees with the OAG that certain meal transactions were excessive. Otter Tail does not appear to set any limits or provide guidance to employees on reasonable amounts for meal reimbursement. Otter Tail argues that the thresholds proposed by the OAG are unreasonable but does not suggest any other threshold or standard that could be used instead. It is certainly not reasonable for ratepayers to pay for an unlimited amount of meal expenses incurred by Otter Tail employees. In the absence of any standard proposed by the Company, the amounts used by the State of Minnesota for its employees are a reasonable proxy.

Finally, the Commission will disallow \$7,253 for the Minnesota jurisdictional allocation of test year expenses related to employee gifts. These types of expenses have historically been disallowed in rate cases and the Commission sees no compelling reason offered on this record to deviate from past practice in this case.

XXI. Energy Adjustment Rider

A. Introduction

The Energy Adjustment Rider (EAR) reconciles the difference between energy costs recovered in base rates and the actual costs incurred by the utility; if actual costs exceed the costs in base

rates, customers are charged for the difference, and if the costs in base rates exceed the actual cost, the excess is returned to customers. This is a monthly adjustment, and accounts for variations in energy costs that occur outside of the rate case process.

Otter Tail made several recommendations regarding the EAR in this rate case, and two of those recommendations are disputed.

First, Otter Tail requested to include the cost of chemical reagents in the EAR. Chemical reagents are used to process emissions and are necessary for the Company to comply with federal air quality regulations. In 2011, Minn. Stat. § 216B.16, subd. 7, was changed to allow for reagent costs to be included in the EAR, provided that these costs were not recovered elsewhere in rates. However, in Otter Tail's 2015 rate case, the Commission denied recovery for reagent costs because they could not be carefully reviewed under the then-existing EAR mechanism. Otter Tail stated that the EAR has since been significantly reformed and that the new mechanism does provide for careful review of all forecasted costs.

Second, Otter Tail requested to include the costs and revenues from steam and water sales in the EAR. Otter Tail sells steam and water from its Big Stone Plant to POET Biorefining. Previously, these costs and revenues were not included in the EAR. However, the Company explained that since its 2015 rate case, the Big Stone Plant has been operating on an economic dispatch basis, meaning that the plant will only operate if its relative cost is lower than competing resources or if it must be run to ensure reliability. The Company argued that this makes steam and water sales more variable, and that it is now appropriate to include these costs and revenues in the monthly EAR.

B. Positions of the Parties

The Department opposed inclusion of the reagent costs in the EAR, arguing that the statutory authority for including this cost in the EAR is permissive, not mandatory, and that no other Minnesota utility recovers reagent costs in this way. Additionally, the Department stated that allowing the Company to recover reagent costs in the EAR could reduce its incentive for efficiency and cost control, since price increases would be recovered from customers much more quickly than if base rates remained the only avenue for recovery.

The Department also opposed the inclusion of costs and revenues from the POET Biorefining steam and water sales in the EAR. Specifically, the Department argued that the changes to the EAR did not contemplate recovery of fuel costs related to steam and water sales, and that the EAR reform process did not provide the opportunity for careful review that the Company had asserted. Furthermore, the Department noted that other utilities do not include any such costs in the EAR.

C. Recommendation of the Administrative Law Judge

The ALJ recommended including both reagent costs, and steam and water sale costs and revenues, in the EAR. The ALJ stated that the legislature "clearly" intended the Commission to consider the inclusion of reagent costs in the EAR when it amended Minn. Stat. § 216B.16, subd. 7, to explicitly address those costs. The ALJ suggested that inclusion of reagent costs in the EAR could be considered an "experiment" to test whether the incentive to reduce reagent costs

would be lost; when Otter Tail's final rates are implemented, the Commission can track whether the Company's reagent costs rise compared to those of other Minnesota utilities.

The ALJ also pointed out that including both reagent costs and POET revenues and fuel costs in the EAR would recognize and support the reduction in use of coal-fired generation resources under the economic dispatch model by reducing the regulatory and cost risk for utilities to use this model.

Overall, the ALJ found that Otter Tail's proposal to include reagent costs and POET steam and water sales in the EAR was reasonable and should be adopted.

D. Commission Action

The Commission concurs with the ALJ and will approve recovery of reagent costs and POET revenues and fuel costs through the EAR. Although the Commission did deny EAR recovery of reagent costs in Otter Tail's last rate case, circumstances have changed; the Company's dispatch model has moved to increasing reliance on economic dispatch, leading to greater variability in reagent costs. Additionally, the Legislature has clearly contemplated the possibility of reagent cost recovery in the EAR and it is appropriate to allow it in this case. If reagent costs do begin to rise disproportionately, the Commission will have the opportunity to investigate further and modify recovery in future EAR proceedings.

Similarly, it is reasonable to approve recovery of POET revenues and fuel costs through the EAR. As noted by the ALJ, the Commission supports the reduction in use of coal-fired generation resources under the economic dispatch model. The Commission seeks to encourage and reinforce this positive progress. However, the EAR review process includes ample opportunity to analyze and modify cost recovery if necessary to protect ratepayer interests.

COST OF CAPITAL ISSUES

XXII. Capital Structure

To determine the Company's cost of capital, it is necessary to determine reasonable ratios of long and short-term debt and common-stock equity, because the costs of each source of financing are different.

Otter Tail is a wholly owned subsidiary of Otter Tail Corporation. The Company has separately issued short-term debt and long-term debt, and has a separate credit rating, from Otter Tail Corporation. The Company argued, and the Department agreed, that the Company's proposed capital structure is a predominantly market-based capital structure that is reflective of Otter Tail's actual capital structure.

The Company proposed a capital structure that did not differ significantly from the capital structures of comparable utilities or the Company's capital structure approved in its last rate case. The Department concurred that Otter Tail's proposed capital structure is reasonable because it is consistent with those found in comparable utilities. The ALJ also concluded that the Company's proposed capital structure is reasonable. The Commission agrees and will adopt Otter Tail's proposed capital structure, as shown below.

Table 1	
Capital Structure	
Long-Term Debt	44.65%
Short-Term Debt	2.85%
Common Equity	52.50%

XXIII. Rate of Return on Equity

A. Introduction

In determining just and reasonable rates, the Commission is required to

give due consideration to the public need for adequate, efficient, and reasonable service and to the need of the public utility for revenue sufficient to enable it to meet the cost of furnishing service, including adequate provision for depreciation of its utility property used and useful in rendering service to the public, *and to earn a fair and reasonable return upon the investment in such property.*¹⁰

One of the critical components of that fair and reasonable return upon investment is the return on common equity, which—together with debt—finances utility infrastructure. The Commission must set rates at a level that permits stockholders an opportunity to earn a fair and reasonable return on their investment and permits the utility to continue to attract investment.

In short, the Commission must determine a reasonable cost of equity and factor that cost into rates. Otter Tail is a subsidiary of Otter Tail Corporation, Inc., and has no publicly traded common stock. Its cost of common equity—essential to determining overall rate of return and the final revenue requirement—must therefore be inferred from market data for companies that present similar investment risks (referred to as a proxy group). Using a proxy group also moderates the effects of one-time events on a given company’s stock.

B. Analytical Tools

Otter Tail and the Department conducted cost-of-equity studies and based their analysis on comparisons to utilities they considered similar enough to Otter Tail to serve as proxies in determining the Company’s cost of equity. They used the Discounted Cash Flow (DCF) analytical model, on which this Commission has historically placed its heaviest reliance.

The Company and the Department also used the Capital Asset Pricing Model (CAPM) as a secondary, corroborating resource, consistent with the Commission’s historical treatment of this model. The Company also conducted a third analysis using the Bond Yield Plus Risk Premium Model, which the Commission has historically relied on less heavily, considering the model is

¹⁰ Minn. Stat. § 216B.16, subd. 6 (emphasis added).

prone to producing volatile and unreliable outcomes.¹¹ The Company conducted a fourth analysis, the Expected Earnings methodology, to further corroborate the results of its DCF analyses.

The DCF model uses the current dividend yield and the expected growth rate of dividends to determine what rate of return is sufficient to induce investment. The model is derived from a formula used by investors to assess the attractiveness of investment opportunities using three inputs—dividends, stock prices, and growth rates. DCF modeling can be performed using constant, “two-growth,” and multistage dividend growth assumptions.

The CAPM model estimates the required return on an investment by determining the rate of return on a risk-free, interest-bearing investment; adding a risk premium determined by subtracting the risk-free rate of return from the total return on all market equities; and multiplying the remainder by beta, a measure of the investment’s volatility compared with the volatility of the market as a whole.

The Bond Yield Plus Risk Premium (or Risk Premium) Model determines the cost of equity by adding to the risk-free rate a premium reflecting the greater returns required by equity holders.

The Expected Earnings methodology is a comparable earnings analysis that calculates the earnings an investor expects to receive on the book value of a stock. This methodology is a forward-looking estimate of investors’ expected returns. The use of an Expected Earnings approach based on the proxy companies provides a range of the expected returns on a group of risk comparable companies to the subject company. This range is useful in helping to determine the opportunity cost of investing in the subject company, which is relevant in determining a company’s return on equity.

C. Positions of the Parties

1. Otter Tail

Otter Tail proposed a return on equity of 10.20%, including flotation costs (the cost of issuing securities), based on its DCF analysis using the constant and two-growth assumptions, along with the use of the CAPM, Bond Yield Plus Risk Premium, and Expected Earnings analysis models as checks on the reasonableness of the DCF results. The Company subsequently revised its recommended percentage, stating that a return on equity of 9.66%, which is 10 basis points above the mean-high midpoint of the proxy group, reasonably accounts for the Company’s risk factor, exceptional conservation performance, and ability to manage its costs to maintain lower rates.

The Company stated that the quantitative results of its modeling are a starting point for determining the cost of equity and that additional factors should be considered. These, the Company stated, include Otter Tail’s smaller size; lower trading volume due to its lower number of shares; smaller percentage of institutional investors; higher volume of industrial load; and higher levels of capital expenditures. These factors, the Company stated, create increased risk for the Company and result in a higher cost of equity. Further, the Company stated that these financial risk factors have increased since its last rate case in 2015 and that they warrant an

¹¹ A two-growth model assumes that dividends grow at one rate for a short time, and then grow at a second, sustainable rate in perpetuity.

upward departure from the mean average return on equity in the proxy group that is closer to the top of the range.

The Company stated that its superior performance also justifies setting a higher return on equity. Otter Tail stated that its rates are 18.6% lower than the national average and are lower than other investor-owned utilities' rates in the state, all while the Company undertook and completed major capital projects.

In response to the Department's initial recommendation that the Commission set the return on equity at 7.88%, the Company stated that the Department conducted a fundamentally flawed multi-stage DCF analysis that produced skewed results, which do not accurately reflect the cost of equity. Primarily, the Company disputed the Department's restrictive use of a gross domestic product (GDP) growth rate projection from the Social Security Administration (SSA) to the exclusion of other growth estimates, including other estimates from the SSA, to account for the uncertainty involved in the forecasting process.

Table 2			
Otter Tail Proxy Group Results			
Rank	Company	Mean	Return on Equity
1	Portland General	11.01%	
2	Ameren	10.08%	
3	ALLETE	10.04%	
4	Southern	9.90%	
5	CMS	9.80%	9.80 % (Mean high growth)
6	Avista	9.76%	
7	Evergy	9.66%	9.66 (mean high midpoint)
8	American Electric	9.60%	
9	NextEra	9.48%	9.48% (Midpoint in the 18-company ranking)
10	Entergy	9.38%	
11	Duke	9.36%	9.32% (Mean average growth)
12	Edison	9.12%	
13	Xcel	8.96%	8.87% (Low average growth)
14	Alliant	8.71%	
15	Northwestern	8.63%	
16	DTE	8.58%	
17	Pinnacle	8.44%	
18	IDACORP	7.33%	

Otter Tail also disputed the Department's screening process that excluded companies from its proxy group with less than 80% of their operating income from regulated electric utility

operations. The Company stated that this screen unreasonably excluded companies from the Department's proxy group, shrinking its size and eliminating companies that investors would view as alternatives. Similarly, the Company opposed the Department's application of a 3% screen that excluded companies with a difference between their high and low growth rates of more than 3%, an approach the Company stated belies the analysis conducted by market research companies.

After the Department conducted additional analyses to serve as a check on its initial modeling in response to the Company's claims, the Company also updated its calculations to reflect current stock prices and more recent earnings growth forecasts, updated its CAPM analyses, and updated its Risk Premium analyses. Those updates produced the following results, as shown in the table above.

2. The Department

The Department initially recommended a return on equity of 8.09% but subsequently filed an updated recommendation of 7.88%. The Department's recommendation reflected its use of a multistage DCF analysis, with a proxy group that screened out companies Otter Tail included in its proxy group. Although the Department and Otter Tail applied different screening criteria, the Department subsequently stated that the differences do not significantly affect the results, and ultimately, the Department did not object to a return on equity of 9.32%, the mean average of the Company's proxy group shown above. The Department also did not object to including flotation costs in calculating the return on equity.

In conducting its multi-stage DCF analysis, the Department's expert modeled dividend growth based on three stages. The first stage, years 1–5, assumes dividends grow at a rate equal to the average of the five-year average analyst earnings growth forecasts for the proxy companies as cited by the data sources Refinitiv (by Yahoo! Finance), Zacks, and Standard & Poor's (S&P). The second stage, years 6–10, assumes a transition from the first stage to a long-term growth rate. The third stage, beginning in year 11 and continuing, assumes that dividends grow at the rate of the general economy as measured by expected growth in GDP.

In response to Otter Tail's assertions that the Department had unreasonably avoided any additional modeling to check the reasonableness of the Department's results, the Department's expert stated that he had used a two-growth model that resulted in an average return on equity of 7.79%. The primary difference in the modeling between the Department and the Company were the projected growth rates—the Department maintained that a much lower growth rate of approximately 4.06% was more realistic than the Company's projected growth rate range of between 4.11% to 7.73%.

3. The OAG

The OAG did not conduct its own modeling but supported the Department's recommended return on equity of 7.88%. The OAG stated that the Department's analyses were reasonable and that its proxy group screening criteria help prevent an upward bias in developing the modeling by avoiding comparisons to higher-risk companies that do not accurately reflect Otter Tail's risk profile.

The OAG also disputed Otter Tail's claims that the Company's risk factors are not accounted for in the modeling and asserted that the Company's claimed need for additional consideration of its risk factors would give those factors too much weight in setting a return on equity.

D. Recommendation of the Administrative Law Judge

The ALJ recommended that the Commission adopt a 9.48% return on equity.

The ALJ found that a 9.48% return on equity reflects Otter Tail's unique characteristics and circumstances relative to other utilities in the proxy group and places the Company's return on equity at the midpoint of the ranked returns earned by its 18 closest peers, while accounting for the Company's relatively smaller size, geographically diffuse customer base, and the scope of the Company's planned infrastructure investments.

In making these findings, the ALJ found that the Company's two-growth DCF model reasonably assumes that dividends grow at one rate for an initial period and then grow at a second, permanent rate in perpetuity. He also found reliable the Company's updated proxy group, stating that it best reflects the principle that the return on equity should reflect the return that investors require to make a stock purchase, considering a company's risks and the returns available on investments with comparable risks.

The ALJ also found that a return on equity above the Company's proxy group's mean average growth rate recognizes and rewards Otter Tail's success in maintaining low rates over a period of years, as well as the Company's success in exceeding Minnesota's 1.5% energy efficiency goals.

E. Commission Action

The Commission will adopt a 9.48% return on equity for setting rates in this proceeding. The Commission concurs with the ALJ's recommendation in support of 9.48% but reaches this decision based on additional factors, as discussed below.

As an initial matter, the Commission agrees with the ALJ that the DCF analysis provides the best evidence in the record for establishing the Company's cost of equity in this case. DCF modeling continues to offer analytically rigorous, substantial evidence to support a determination of the Company's cost of equity, with the reasonableness of the results checked by CAPM and Risk Premium analyses, and in this case, by the additional Expected Earnings methodology Otter Tail also used.

The Commission further agrees with the ALJ that the two-growth DCF method is the best approach for determining Otter Tail's return on equity in this instance, compared to the Department's multi-stage growth DCF analysis, a method that may be particularly useful for smoothing out more sharply anticipated variations in growth rates. And although the Company and the Department used different models, a major point of contention between them was on the growth rates used in the modeling, rather than on the models themselves; the Commission concurs with the Company that the Department's projected growth rate is lower than the data supports, even when accounting for growth rate data from the SSA.

Another point of contention in the modeling was the selection of proxy groups—the Company and the Department applied different screening criteria; the Department subsequently concurred

on the reasonableness of the Company's proxy group, and the Commission, too, concurs that the criteria applied by the Company are reasonable.

Otter Tail's proxy group included companies that are reasonably representative of Otter Tail and produced a range of results fully supported by the record, within which the Commission could effectively set a return on equity that will allow Otter Tail to attract the capital it needs at reasonable rates. At the same time, however, the Commission recognizes that one company in the proxy group stands as a significant outlier whose inclusion increases the variability of the data in a manner that reduces its statistical usefulness in determining a reasonable return on equity considering Otter Tail's unique characteristics and increased financial risk.

IDACORP, whose return on equity is 7.33%, is nearly two full percentage points (i.e., nearly 200 basis points) lower than the mean average return on equity of 9.32. By removing IDACORP from the proxy group, the mean average of the remaining 17 companies is 9.44%; the median is 9.48%, each more than two percentage points (i.e., over 200 basis points) higher than IDACORP's return on equity. But to assess the magnitude of the impact of removing IDACORP from the proxy group, a comparison of the remaining companies is informative. The median of 9.48% is nearly half a percentage point (i.e., 50 basis points) closer to the company with the lowest remaining return on equity of 8.44% (Pinnacle) than it is to the company with the highest return on equity of 11.01% (Portland), a meaningful difference that confirms the reasonableness of removing IDACORP from the proxy group for setting a return on equity.

The Commission is persuaded that a 9.48% return on equity, inclusive of flotation costs, is well-supported by the record and will enable the Company to attract the capital it needs while maintaining rates that are just and reasonable. For these reasons, the Commission will set Otter Tail's return on equity at 9.48%.

XXIV. Cost of Long-Term and Short-Term Debt

The Company proposed a long-term debt cost of 4.81%. The Department concurred, and the OAG did not address the issue. The Company initially proposed a short-term debt cost of 1.77% in the course of evidentiary proceedings. The Department concurred in the figure, and the OAG did not address the issue. No one challenged the reasonableness of either of these agreed-upon numbers, and the ALJ recommended adopting both. The Commission concurs and will set the cost of long-term debt at 4.81% and the cost of short-term debt at 1.77%.

XXV. Final Capital Structure and Overall Cost of Capital

The final capital structure and overall cost of capital resulting from the decisions made in this order are set forth below:

Table 3			
Final Capital Structure and Overall Cost of Capital			
Type of Capital	Capital Ratio (%)	Cost (%)	Weighted Cost (%)
Long-Term Debt	44.65%	4.81%	2.15%
Short-Term Debt	2.85%	1.77%	0.05%
Common Equity	52.50%	9.48%	4.98%
Total	100.00%		7.18%

SALES FORECAST ISSUES

XXVI. COVID-19 Adjustment

A. Introduction

Otter Tail proposed a 1.5% downward adjustment to 2021 test-year Small and Large Commercial sales to account for the expected effect of the pandemic. The proposal would decrease revenues by approximately \$759,558.

B. Positions of the Parties

Otter Tail stated that its proposed downward adjustment reflects the sluggish return to economic growth compared to pre-COVID economic growth and that the proposed 1.5% likely underestimates the impact on test-year sales. The Company acknowledged that, in some instances, the Commission has authorized adjustments to the test year for *post*-test-year costs if a “known and measurable change” warranted a revision. In this case, the Company argued that there was no known and measurable change that would justify requiring the Company to assess the economic impact of COVID beyond the 2021 test year and that requiring the Company to analyze whether the decline in sales is likely to continue beyond the test year would violate ratemaking principles.

The Department argued that because the Company used pre-COVID data to calculate its downward adjustment, the Company must justify the change as a “known and measurable change.” The Department emphasized that the test year should be based on normal conditions and that authorizing the adjustment would give Otter Tail an unreasonable advantage, particularly because the Company had not substantiated how it arrived at the 1.5% figure. The

Department explained that test year sales have a significant effect on the Company's revenue requirement and impact both revenues and expenses. If test year sales are lower than actual sales, the Company would collect more revenue than is justified by its costs, and as a result, the Department stated that the absence of a methodology used to calculate the Company's proposal is problematic.

C. Recommendation of the Administrative Law Judge

The ALJ recommended that the Commission reject Otter Tail's 1.5% downward adjustment as proposed. The ALJ found that even if the Small and Large Commercial classes and companies within Otter Tail's service territory take longer to recover to pre-pandemic levels of economic activity than the country as a whole, the proposed 1.5% adjustment factor was not well-grounded in the record.

D. Commission Action

The Commission concurs with the ALJ that the Company did not meet its burden to demonstrate the reasonableness of the 1.5% downward adjustment. Expected declines in sales revenue have a significant and direct impact on the amount of revenues the Company is authorized to recover from ratepayers, and it is the Commission's regulatory responsibility to ensure that there is demonstrated record support for proposed adjustments to test year sales. In this case, the Company did not offer its calculations for how it derived a 1.5% adjustment, and for this reason, the Commission will reject the 1.5% COVID adjustment proposed by Otter Tail for the Small Commercial and Large Commercial Classes.

XXVII. Heating Degree Day

A. Introduction

Heating Degree Days (HDDs) are a component of the weather-normalization process. The HDD temperature threshold reflects the temperature point at which heating-related load begins to occur. Above the HDD threshold temperature, there is no additional heating-related load and below that temperature, heating-related load is assumed to increase proportionately with the fall in temperatures. The corollary to HDD is Cooling Degree Days (CDDs). CDDs are meant to reflect the conditions in which electricity usage is affected by cooling-related load. The CDD temperature threshold reflects the point at which cooling-related load begins to occur.

HDD values are calculated by subtracting the average daily temperature from a specified base temperature at which the system load changes. For example, if the average temperature for the day is 30°F, and the heating-related load on Otter Tail's system begins to occur at 55 degrees, the HDD for that day is 25 (the 55-degree threshold, minus the 30-degree average temperature).

Otter Tail currently uses a 55 HDD, as defined by the National Oceanic and Atmospheric Administration (NOAA). Otter Tail instead proposed using a 65 HDD going forward.

B. Positions of the Parties

Otter Tail used a 65 HDD in sales forecasting in the three most-recent rate cases and as a forecasting assumption for its 2017 resource plan. Otter Tail contended that 55°F is, however, a

better HDD threshold temperature and that this conclusion is supported by recent analysis of hourly interval data from 2017 and 2018; 20 years of comparisons between temperatures and customer usage; and regression analyses that show a 55 HDD has better predictive qualities. The Company therefore proposed changing its HDD from 65° to 55°.

The Department opposed the proposed change, stating that implementing such a change would likely under-estimate sales by lowering the point at which increased consumption is expected to begin. Under-estimating sales, the Department reasoned, would benefit the Company but adversely affect ratepayers who would pay higher revenues than are warranted. The Department stated that the Company's load data included data for only two years, 2017 and 2018, and that other investor-owned utilities do not use a 55 HDD. The Department also stated that the Company's analysis does not support use of a 55 HDD, compared to any other number below 65° F, stating that the data points in the Company's chart do not conclusively demonstrate that heating load begins to increase at 55° F compared to any other temperature between 65° F and 55° F.

C. Recommendation of the Administrative Law Judge

The ALJ found that the Company had met its burden to demonstrate that reducing the HDD to 55° F is reasonable and recommended that the Commission approve the change. According to the ALJ, the Company conducted regression analyses supporting its assertions that consumption does not increase until well below 65 HDD. The ALJ also stated that the Department's opposition to the proposal was unreasonable in light of the data filed by Otter Tail in support of its proposal.

D. Commission Action

The Commission respectfully disagrees with the ALJ that modifying the HDD as proposed by Otter Tail is supported by the record. The Commission concurs with the Department that the Company has not established that reducing the HDD by 10 degrees better captures the point at which heating load begins to increase.

The upward trends in the Company's data do not definitively show that usage increases at 55 degrees on a greater scale compared to increases in usage at another temperature between 65° and 55° F. The scatterplot chart developed by Otter Tail does not contain granular detail for differentiating and measuring usage patterns at different temperatures. Rather than re-establishing an HDD in this rate case, the Commission will have the opportunity to explore this issue again in future filings made by the Company in other dockets. The Commission will therefore accept ALJ Findings 404 through 411 but will modify Finding 412 to require the use of a 65° standard for Heating Degree Days by Otter Tail for all compliance filings in this docket.

CLASS COST-OF-SERVICE STUDY ISSUES

XXVIII. Rate Design and Cost of Service

The preceding discussion has sought to quantify the costs that a prudently managed utility serving Otter Tail's service area would bear. The following sections will address how Otter Tail may recover those costs from its ratepayers.

A public utility requesting a rate change bears the burden to prove the requested rates are just and reasonable.¹² In setting rates, the Commission considers a variety of factors, including:

- Equity, justice, and reasonableness;¹³
- Avoidance of discrimination, unreasonable preference, and unreasonable prejudice;¹⁴
- Continuity with prior rates to avoid rate shock;¹⁵
- Revenue stability;
- Economic efficiency;
- Encouragement of energy conservation;¹⁶
- Customers' ability to pay;¹⁷
- Ease of understanding and administration; and, in particular,
- Cost of service.

Estimating the cost to serve any given customer is challenging because a utility will incur different costs to serve different customers and will incur many costs that benefit multiple customers. Because similar types of customers tend to impose similar types of costs on the system, utilities simplify their analyses by first dividing customers into classes—for example, distinguishing residential customers from commercial or industrial customers. Utilities then attempt to determine the amount of revenues they should recover from each customer class.

To aid this analysis, the Commission directs utilities to conduct a class cost-of-service study (CCOSS). Minn. R. 7825.4300(C) directs a utility to file a cost-of-service study by customer class of service, geographic area, or other categorization as deemed appropriate for the change in rates requested, showing revenues, costs, and profitability for each class, area, or category, identifying the procedures and underlying rationale for cost and revenue allocations.

Otter Tail identified ten customer classes:

- Residential, subdivided into two categories: standard and demand-controlled
- Farm
- General Service
- Large General Service
- Irrigation
- Outdoor Lighting

¹² Minn. Stat. § 216B.03; Minn. Stat. § 216B.16, subd. 4.

¹³ Minn. Stat. §§ 216B.01, 216B.03.

¹⁴ Minn. Stat. §§ 216B.01, 216B.03.

¹⁵ “Rate shock” describes the adverse reactions customers may experience when a rate increase significantly impacts bills. To mitigate the risk of rate shock, utilities can make efforts to increase rates only gradually so that customers may slowly adjust to any changes.

¹⁶ Minn. Stat. §§ 216B.03, 216B.2401, 216C.05.

¹⁷ Minn. Stat. § 216B.16, subd. 15.

- Other Public Authority Service
- Controlled Service—Deferred Load
- Controlled Service—Interruptible
- Controlled Service—Off-Peak

XXIX. Class Cost-of-Service Study Methodologies

A. Introduction

The Commission considers class cost-of-service studies to identify, as accurately as possible, each customer class’s causal responsibility for each cost the utility incurred in providing service.

Performing a CCOSS involves three steps: functionalization, classification, and allocation. First, costs are grouped according to their function (generation/production, transmission, distribution, customer service/facilities, administrative). Second, costs are classified based on how they are incurred. Third, costs are allocated to the various customer classes.

Functionalization: The distribution system carries electricity from the transmission system to a customer’s location. Utilities distinguish between the primary distribution system and the secondary distribution system. In the primary distribution system, electricity travels from the high-voltage transmission system to substations, which reduce the voltage and distribute it via lines and poles to the neighborhoods of retail customers. Some large industrial customers purchase power at primary distribution voltages, but otherwise this electricity flows to the secondary distribution system, where distribution transformers again reduce the voltage, allowing it to be distributed via lines and poles to customer premises.

Classification: The cost of a function may be classified as related to energy, demand, customers, or a combination of the three. Energy-related costs increase as a customer’s consumption of energy increases. Demand-related costs increase as the rate at which the customer consumes energy increases, especially during periods of peak demand. Customer-related costs increase as the number of customers increases.

Allocation: The various costs are then allocated to each customer class using specific parameters known as “allocation factors” or “allocators.” The manner of allocation has important rate consequences. For example, because the majority of Otter Tail’s customers are residential customers, a choice to characterize a cost as a customer-related cost will result in residential customers bearing the great majority of those costs.

The parties discussed four CCOSS methods: the Minimum System method, the Basic System method (sometimes called the Basic Customer method), the Peak and Average method, and the Zero Intercept method.

The Minimum System method reflects the premise that a utility builds out its distribution plant to serve each customer regardless of the amount of demand each customer puts on the system, so some portion of the plant should be regarded as customer-related. In this method, an analyst estimates the minimum cost to build a system that would connect to all of Otter Tail’s customers, including the average cost of the minimum sized pole, conductor, cable, transformer, and service currently installed. The excess above this minimum system—that is, the extent to which Otter Tail built its system larger than strictly necessary to connect to each customer—is

classified as demand cost, attributed to Otter Tail’s need to provide the capacity to serve peak load.

The Basic System method is premised on the idea that the distribution system is designed primarily to reliably serve the cumulative demand of all customers on the system. The Basic System method identifies costs that can be attributed to individual customers—such as the costs of service lines, meters, billing, and collection—as the basis for estimating customer costs. It classifies joint distribution equipment—the common infrastructure shared by all distribution customers, such as poles, transformers, and conductors—as demand-related.

The Peak and Average method is premised on the idea that a portion of the joint distribution system is needed to serve a regular amount of energy usage at all times, while additional costs are incurred to ensure the network can meet the cumulative local peak demand. This method uses a system-load allocator to classify a portion of distribution system costs as energy-related (to reflect the baseline energy needs of the system) and the remainder as demand-related (to reflect the “upsizing” of the system to be able to meet peak demand). Energy costs are then allocated based on each customer class’s average level of usage by kilowatt, and demand costs are allocated based on the peak demand of each customer class. No costs are considered customer-related with this method.

The Zero Intercept method is similar to the Minimum System method, but it estimates the cost of a theoretical minimum system that connects all customers but is so small as to have no actual capacity to transmit energy. The Zero Intercept method is intended to perfectly distinguish the cost of connecting customers (a customer-related cost) from the cost of having capacity to provide electrical service to those customers (a demand-related cost).

B. Positions of the Parties

1. Otter Tail

Otter Tail prepared separate studies using all four CCOSS methods described above, as the Commission ordered in the utility’s last rate case. However, Otter Tail proposed to consider only the Minimum System study in apportioning class revenue responsibilities in this case. It argued that the Minimum System method is widely used in the industry and aligns most closely with the actual nature of distribution costs.

Otter Tail argued that the Basic System method over-classifies demand-related costs, under-classifies customer-related costs, and is not widely used. Otter Tail also argued that the Peak and Average method does not reflect cost responsibility accurately because it ignores customer-related components of the distribution system. It contended that both of these methods allocate less cost to residential customers than that class actually causes.

Otter Tail advocated against requiring a Zero Intercept CCOSS in future rate cases because that method produced results very similar to the Minimum System method at much greater cost.

2. MLEC

MLEC supported Otter Tail’s recommendation to consider only the Minimum System method, arguing that method best recognizes the dual objectives of the distribution framework to connect customers to the system and meet peak demand. Further, MLEC opposed requiring multiple

CCOSS methods in future rate cases because the added cost of developing multiple CCOSS methods is not justified by commensurate benefits.

3. The Department

The Department agreed with Otter Tail that the Minimum System method is a relatively accurate way to classify distribution costs. However, the Department stated that this method may tend to overstate the cost of a no-load scenario (customer costs only) by implicitly allowing a small amount of load. The Department suggested that the Zero Intercept method could provide more accuracy in that scenario, but also may be inferior to the Minimum System method when data is insufficient and unable to produce significant regression results. The Department also stated that the Minimum System method understates demand costs, but it argued that limitation was minor and could be resolved with a demand adjustment.

The Department supported considering only a single CCOSS methodology—either Minimum System or Zero Intercept—arguing that a single method would provide clear cost responsibility targets and be less expensive for the utility.

However, if the Commission chose to consider multiple studies, the Department stated it would not oppose using the Basic System study to serve as a reasonable lower bound for costs classified as customer related.

Whether alone or in conjunction with other studies, the Department opposed any consideration of the Peak and Average CCOSS, arguing that the Peak and Average method unreasonably assumes that no distribution costs are customer-related.

4. The OAG

Because each CCOSS method is subjective and founded on simplifying assumptions, the OAG recommended that the Commission consider multiple methods to reduce the impact that any particular method's assumptions might otherwise have on class revenue apportionment.

The OAG asserted that the Basic System method's classification of distribution equipment that serves a single customer as customer-related, and of joint distribution infrastructure commonly used by all customers as demand-related, reflect the fact that a distribution system is designed primarily to reliably serve the cumulative demand of the customers on the system.

The OAG argued that the Peak and Average method is helpful because it reflects the fact that a portion of the joint distribution system is needed to serve a regular amount of energy usage at all times, while additional costs are incurred to ensure the network can meet the cumulative local peak demand. The OAG contended that Otter Tail's distribution system contains energy-related costs that are captured in the Peak and Average method but are not recognized in the Minimum System method.

The OAG argued that the least weight should be given to the Minimum System method because it is based on unrealistic assumptions and involves flaws that cause it to overstate the portion of distribution cost that is customer-related. The OAG argued that this method unrealistically assumes that the mileage of the joint distribution system and the number of physical components are customer-related and that only the size of the components is demand-related, when, in fact,

much of the cost of a distribution system is required to cover an area and is not sensitive to either total load or customer number.

The OAG also criticized the Minimum System method's assumption that a minimum system would have the same number of assets as an actual system and its use of current minimum-sized units rather than the historic minimum, which assumes future demand growth. Further, the OAG argued that the Minimum System method over-allocates distribution costs to residential customers, Otter Tail's most numerous customer class, because customer-related costs are allocated by customer count.

The OAG agreed with Otter Tail that the Zero Intercept method should not be required in future rate cases, but it recommended that the Commission again require Otter Tail to produce Basic System, Peak and Average, and Minimum System method studies in its next rate case.

C. Recommendation of the Administrative Law Judge

The ALJ concluded that the Minimum System CCOSS best serves the goal of measuring each customer class's cost responsibility accurately and provides the best starting point for class revenue apportionment in this case. He stated that the Basic System method over-classifies demand-related costs and under-classifies customer-related costs, and that the Peak and Average method inappropriately ignores customer-related components of the distribution system.

The ALJ recommended that Otter Tail not be required to prepare a Zero Intercept CCOSS in the future because, although that method produces results similar to the Minimum System method, it is significantly more costly to prepare a Zero Intercept study.

Further, the ALJ recommended that the Commission not require Otter Tail to develop more than one CCOSS in its next rate case. He stated that developing multiple studies has limited value because cost is not the sole driver of revenue responsibility in the Commission's rate-design balancing of factors, and the limited additional insights obtained from considering multiple studies do not justify the higher rate-case expense.

D. Commission Action

The Commission will consider each method used to classify distribution system costs for the CCOSS in this proceeding and will decline to adopt any specific method.

Each CCOSS in the record supports a different conclusion about the appropriate allocation of cost responsibility among Otter Tail's customer classes, as follows:

Table 4					
CCOSS Results					
Customer Class	Current Apportionment	Minimum System CCOSS	Basic System CCOSS	Peak & Average CCOSS	Zero Intercept CCOSS
Residential	23.25%	25.08%	23.63%	21.92%	26.74%
Farms	1.92%	1.62%	1.67%	1.48%	1.68%
General Service	15.54%	16.28%	16.39%	16.27%	15.59%
Large General Service	52.14%	50.42%	51.11%	54.85%	49.13%
Irrigation	0.18%	0.36%	0.40%	0.26%	0.33%
Outdoor Lighting	1.43%	0.97%	0.98%	0.91%	1.02%
Other Public Authority	0.76%	0.77%	0.77%	0.76%	0.75%
Controlled Service Deferred Load	1.18%	1.27%	1.44%	1.01%	1.14%
Controlled Service Interruptible	3.30%	3.00%	3.38%	2.30%	3.04%
Controlled Service Off-Peak	0.29%	0.24%	0.24%	0.24%	0.23%

Based on the record and the parties' arguments, the Commission agrees with the ALJ, Otter Tail, the Department, and MLEC that the Minimum System method is a sound basis to guide the allocation of costs among customer classes, recognizing that the number of customers and the amount of peak consumption influence the cost of Otter Tail's distribution plant.

However, the Commission also agrees with the OAG on the merits of considering more than one cost study. No single cost-study method can be judged superior to all others in all contexts, and the choice among methods involves disputes over assumptions, applications, and data.

The Commission concludes that the Minimum System method, the Basic System method, and the Peak and Average method all provide useful tools for apportioning Otter Tail's revenue requirement among customer classes in this proceeding. While evaluating data from a variety of studies will not eliminate any study's weaknesses, it provides a broader range of perspectives from which to evaluate each study and can reduce the impact of any particular study's flaws. The Commission therefore will consider each of the CCOSS methods in the record to classify distribution system costs in this proceeding, rather than adopting any single method.

For the same reasons, the Commission will direct Otter Tail, in its next rate case, to provide class cost-of-service studies using the Minimum System, the Basic Customer, and Peak and Average methods. Compared to those methods, however, the Zero Intercept method had limited value in this proceeding relative to the cost of developing that study. Therefore, for its next rate case, Otter Tail will not be required to prepare a CCOSS using the Zero Intercept method.

For the reasons discussed in this section, the Commission declines to adopt findings 629 through 635 of the ALJ Report and the ALJ's recommendations on this issue.

XXX. CCOSS Allocation Factors

A. Classification and Allocation of D1 Peak Demand Allocator

1. Introduction

To allocate costs associated with peak demand in the CCOSS, Otter Tail calculates an allocation factor, called a D1 allocator, to identify each class's share of production costs attributable to usage during periods of peak demand. In Otter Tail's last rate case, the Commission ordered Otter Tail to use a peak demand allocator based on the demand peak in the Midcontinent Independent System Operator (MISO) system as a whole, which falls during the summer. As an alternative to this D1-MISO allocator, however, Otter Tail proposed to use a single winter peak allocator (D1-OTP) based on Otter Tail's system peak, which occurs during the winter.

2. Positions of the Parties

a. Otter Tail

Otter Tail recommended switching to a winter-peak allocator for the CCOSS because the utility employs a winter-peak allocator in the jurisdictional cost-of-service study it uses to allocate costs among the various states in which it operates. Otter Tail stated a preference for using consistent methodologies to allocate peak demand costs for jurisdictional purposes and for class purposes.

Although consistency between jurisdictional and class cost-of-service studies could also be achieved by switching to the D1-MISO allocator for the jurisdictional study, Otter Tail argued that doing so would allocate more costs to its Minnesota ratepayers relative to the other states.

Further, Otter Tail argued that the D1-MISO allocator should not be used because MISO is considering changes to its resource-adequacy rules which could render that allocator obsolete in the future. And it opposed any suggestion to use an average of the proposed allocators because that approach would be unduly complex.

b. MLEC

MLEC agreed with Otter Tail that it would be more appropriate to use the allocator based on Otter Tail's winter peak because MISO is considering changes to its methodology. Alternatively, MLEC suggested that a blend of Otter Tail's and MISO's system peaks could be used.

c. The Department

The Department opposed Otter Tail's request to allocate peak demand costs based on the utility's winter peak. The Department argued that the CCOSS should reflect the utility's actual generation planning, which must be consistent with MISO's resource-adequacy rules. Further, MISO tends to have excess capacity in the winter when Otter Tail is most likely to need it; the period when capacity might actually be scarce is during MISO's peak demand, not Otter Tail's. Therefore, the Department argued, Otter Tail should continue to use the D1-MISO allocation factor.

d. The OAG

The OAG argued that Otter Tail should continue to allocate demand-related transmission costs based on its MISO resource-adequacy obligations, which currently require Otter Tail to plan to

have enough capacity to meet demand during MISO's summer peak, as reflected in the D1-MISO allocation factor. The OAG argued that compliance with MISO obligations is the true driver of Otter Tail's peak-demand costs.

The OAG contended that it would not be reasonable to adopt a different peak demand allocator based on speculation about how MISO's resource-adequacy rules may change in the future.

3. Recommendation of the Administrative Law Judge

The ALJ concluded that it would be more appropriate to switch to the D1-OTP allocator and allocate peak-demand costs based on Otter Tail's winter peak rather than MISO's summer peak. The ALJ reasoned that, if the purpose of the allocator is to equitably distribute production costs associated with peak demand, then the demand costs apportioned should be those caused by Otter Tail's customers in Minnesota during Otter Tail's system peak, not a function of the electricity usage and peak demands of customers in other MISO states.

The ALJ also favored the consistency of using a winter peak in both the jurisdictional and class cost-of-service studies.

Additionally, the ALJ stated that requiring a peak-demand allocator based on MISO's current summer peak could carry a risk that Otter Tail eventually may still be required to use this model even after MISO has shifted away from its summer-peak model in the future.

4. Commission Action

The Commission will continue to require Otter Tail to allocate peak-demand production costs based on MISO's resource-adequacy requirements. It is reasonable to allocate these costs based on MISO's summer peak because, as a member of MISO, Otter Tail is obligated to conform to MISO's resource-adequacy rules and to plan for enough capacity to meet demand during MISO's peak-demand periods. To comply with MISO resource-adequacy obligations, Otter Tail incurs costs based on the amount of consumption on its system during MISO's peak demand period, not Otter Tail's, so the D1-MISO allocator is more reliable than D1-OTP.

The Commission disagrees with the ALJ's assessment that Otter Tail's interest in creating consistency between its jurisdictional and class cost-of-service studies outweighs the importance of aligning the peak-demand-cost allocation with the actual driver of Otter Tail's peak demand costs, which is the MISO requirement.

Nor does the fact that MISO is considering rule changes warrant a shift to a winter-peak-based allocator, given that the potential rule changes are uncertain, would depend on FERC approval, and likely would not go into effect until several years into the future, likely giving utilities time to implement any necessary changes.

For the reasons discussed in this section, the Commission declines to adopt Findings 649 and 651 of the ALJ Report and the ALJ's recommendation on this issue.

B. Classification and Allocation of Transmission Plant

1. Introduction

The parties disagreed about the best way to classify and allocate transmission costs in the CCOSS. Otter Tail currently classifies transmission plant as solely demand-related and uses the D2 allocator to allocate these costs on that basis. The D2 allocator is based on each customer class's contribution to Otter Tail's average annual six-hour transmission peak kilowatt demand.

2. Positions of the Parties

a. The OAG

The OAG argued that it is unreasonable to assume all transmission plant costs are entirely demand-related. It contended that, in addition to demand-related benefits, transmission lines in Otter Tail's system serve energy-related benefits including connecting remote generation to load centers, allowing power from a range of generators to reach any distribution substation to permit least-cost economic dispatch, and reducing energy losses between generation sources and the distribution system. The OAG asserted that half of Otter Tail's net transmission plant in service consists of regionally cost-shared projects that were constructed to meet energy policy goals and to reduce energy costs, and that Otter Tail's MISO transmission revenues are evenly split between energy-based charges and demand-based charges. Therefore, the OAG recommended that Otter Tail classify its transmission plant as 50% demand-related and 50% energy-related.

Additionally, the OAG recommended that Otter Tail allocate transmission plant costs on a monthly coincident peak basis using the 12CP allocation factor, rather than its current single-peak approach.¹⁸ The OAG asserted that demand-related transmission costs should be allocated to retail customers consistently with the way Otter Tail charges other MISO utilities to use its transmission network, based on usage during the cumulative peak for each month. The OAG argued that the 12CP allocation factor would achieve this consistency.

b. Otter Tail

Otter Tail opposed the OAG's recommendation to reclassify transmission plant costs, asserting that all the transmission plant included in the 2021 test year was built to meet demand and that MISO's revenue collection methodologies should not influence retail cost allocation. However, Otter Tail acknowledged that the OAG's recommendation could have merit in the future as more renewable energy is added and transmission-system needs and uses change.

Otter Tail viewed the OAG's two recommendations regarding classification and allocation of transmission plant as inherently related and, therefore, argued that there is no basis to change to a monthly coincident peak allocator because there is no basis to reclassify transmission plant.

¹⁸ The 12CP allocation factor is a monthly coincident peak factor that allocates costs based on a customer's monthly peak demand at the time of the system's monthly peak demand.

3. Recommendation of the Administrative Law Judge

The ALJ found that the transmission plant costs included in the 2021 Test Year were incurred to meet peak demand and, therefore, Otter Tail correctly classified those costs as demand-related.

Additionally, the ALJ found that Otter Tail's method of allocating transmission plant costs using the D2 allocator is appropriate because, in Otter Tail's system, the highest demand occurs at different times for different infrastructure, and Otter Tail's distribution substation probability of peak has moved from the summer to the winter since its 2016 marginal-cost study.

However, the ALJ recommended that the Commission require Otter Tail to evaluate potential alternative classifications and allocations of its transmission system, including an allocation based on monthly coincident peaks, for its next rate case.

4. Commission Action

The Commission agrees with Otter Tail and the ALJ that it is reasonable to allocate transmission costs using the D2 allocator, and will therefore allow Otter Tail to do so in its next rate case.

The OAG's recommendation to classify transmission plant evenly as 50% demand- and energy-related does not reflect the fact that Otter Tail's transmission plant was designed to meet demand. Equally distributing the cost to both demand and energy discounts the significant role of demand in the Company's development of transmission plant.

The Commission concurs with the ALJ that the highest demand occurs at different times for different infrastructure and that it is therefore not necessary to require Otter Tail to use a 12CP allocator for allocating transmission costs.

C. Classification of Advanced Meters

1. Introduction

A small percentage of Otter Tail's meters are advanced meters, which are meters capable of two-way communication that can be used to facilitate load management and time-of-use rate designs. The parties disagreed about the best way to classify advanced-metering costs in the CCOSS.

2. Positions of the Parties

a. Otter Tail

Otter Tail classified the costs of advanced meters as entirely customer-related in its CCOSS. It allocated meter costs using allocation factor C6, which is calculated using the weighted average cost of installed meters in service by class. The C9 allocation factor, which Otter Tail used to classify radio load-management receivers, is calculated based on the total number of locations that have radio load-management receivers in each class. Otter Tail argued that the class-based weighting in these allocation factors accurately reflects the cost burden of each class.

b. The OAG

The OAG recommended that Otter Tail classify portions of its advanced-meter costs as energy-related and demand-related in addition to customer-related, because advanced meters allow a

variety of demand- and energy-related functionalities. Because advanced meters are relatively new to Minnesota and, therefore, limited data is available to distinguish between the demand- and energy-related costs, the OAG recommended splitting the costs evenly between energy-, demand-, and customer-related classifications. The OAG argued that it would be reasonable to classify one-third of advanced-meter costs as customer-related because a traditional meter costs about one-third the cost of an advanced meter, and the additional costs are reasonably attributable to the enhanced energy and demand benefits that advanced meters offer over traditional meters.

c. The Department

The Department also supported classifying advanced-meter costs as one-third customer-related, one-third energy-related, and one-third demand-related, asserting that most of the added benefits of advanced meters over traditional meters are energy- or demand-related. Further, the Department recommended that the Commission require Otter Tail to perform an analysis to guide future cost classifications for advanced meters either in its next rate case or in its next proposed advanced-metering-infrastructure project.

3. Recommendation of the Administrative Law Judge

The ALJ found that it would be reasonable to classify Otter Tail's advanced-meter costs as customer costs because that is consistent with the current practice with standard meters and because the enhanced functionality of advanced meters helps customers using advanced meters to access lower volumetric rates.

However, the ALJ found that the alternative classification recommended by the OAG and the Department is also reasonable and is more closely aligned with the Commission's order in Otter Tail's last rate case, which concluded that the incremental cost of advanced meters over traditional meters should be understood as demand or energy costs because the incremental benefits of advanced meters benefit Otter Tail's system as a whole. Therefore, the ALJ recommended that the Commission require Otter Tail to classify the costs of advanced metering as one-third customer-related, one-third energy-related, and one-third demand-related.

4. Commission Action

For this proceeding, the Commission will allow Otter Tail's current practice of allocating costs of advanced meters and radio load-management receivers using allocation factors C6 and C9 because, as the ALJ found, that approach is consistent with the treatment of meters generally.

At this time, the Commission will not mandate a new classification because the record lacks substantial data or analysis to inform the correct allocation of marginal advanced-meter benefits between energy- and demand-related functions. Because there is limited record data on this issue, the Commission will not adopt the ALJ's Findings 664 and 665 and recommendation on this issue.

Given the limited information currently available regarding the causation of advanced-metering costs, the Commission agrees with the Department that further exploration is warranted into the most accurate classification of such costs. Further analysis is especially prudent now, as Otter Tail is considering a program to expand advanced-meter deployment in its system. Therefore, in its

next general rate case or its next advanced-metering-infrastructure proposal, Otter Tail will be required to perform an analysis to guide future cost classification for advanced meters.

D. Allocation of Customer Records Expense

1. Introduction

Otter Tail incurs costs for preparing customer billing data, verifying billing records, customer billing and postage, maintaining customer deposit records, customer communications, posting payments to customer accounts, and traveling to deliver final disconnect notices to customers. In its CCOSS, Otter Tail allocated these customer records and collection expenses using the C8 allocator, which allocates costs based on the number of customers in each class. Because the Residential class is Otter Tail's most numerous customer class, Otter Tail's approach allocates most of these costs to residential customers.

2. Positions of the Parties

a. The OAG

The OAG argued that Otter Tail's method of allocating customer records and collection expenses unreasonably assumes that customer billing expenses are the same for a customer in any class, ignoring the reality that larger customers tend to have more complicated installations, metering, and billing, which demand more time from the utility and cause more records and collection costs. The OAG contended that Otter Tail's method inequitably over-allocates records and collection costs to classes with greater numbers of customers and lower per-customer billing costs, including the Residential class.

For this rate case, the OAG recommended that Otter Tail use its meter-reading factor, the C7 allocator, to allocate customer records and collection expenses. The C7 allocator is based on total weighted meter-reading time for each class, and the OAG argued that it would reasonably approximate the class differences in records and collection expenses.

For Otter Tail's next rate case, the OAG recommended that the utility be required develop a weighted allocation factor that reflects the fact that some customer classes have higher per-customer records and collection expenses.

b. Otter Tail

Otter Tail opposed the OAG's recommendation for this rate case, arguing that the total number of customers has a greater impact on customer records and collection costs than the complex billing and other factors discussed by the OAG.

However, it agreed to address the allocation of these expenses in its next rate case.

c. The Department

The Department argued that Otter Tail's approach is reasonable because, although some customers have more complex bills, the total number of customers is the primary variable impacting customer records and collection costs. Further, the Department contended that using

the C7 allocator would increase Otter Tail's revenue requirement for the 2021 test year and that there was insufficient evidence in the record to support using the C7 allocator for this purpose.

However, the Department supported requiring Otter Tail to develop an allocation factor specific to billing expenses for its next rate case.

3. Recommendation of the Administrative Law Judge

The ALJ found reasonable, and recommended adoption of, Otter Tail's practice of allocating customer records and collection cost using the C8 allocator. He found that the most significant components of customer records and collection expense grow with the number of customers and are more closely connected with rises in the number of accounts than with the complexity of any particular account.

The ALJ rejected the OAG's suggestion to use the C7 allocator as a proxy for these costs, finding that the operation of the C7 allocator is affected by some factors that are causally unrelated to this category of costs, such as a meter's location outside a city's limits.

4. Commission Action

For this rate case, the Commission finds Otter Tail's use of the C8 allocator to allocate customer records expense reasonable. As the ALJ noted, the record demonstrates that the total number of customers is the most significant factor driving these costs in Otter Tail's system.

However, to facilitate more precise allocation of these costs in the future, the Commission will require Otter Tail to develop a weighted allocator specific to customer records and collection expense for its next rate case.

RATE DESIGN ISSUES

XXXI. Interclass Revenue Apportionment

A. Introduction

The next step in designing rates is to determine what share of the utility's revenue requirement should be recovered from each customer class. The parties agree that the cost Otter Tail incurs to provide service to each class, as reflected in one or more class cost-of-service studies, should be considered as a principal factor in apportioning revenue responsibility. The parties also agree that cost should not be the Commission's sole consideration. But they disagree about which models of CCOSS should be considered and about the relative weight to be afforded to various cost and non-cost factors when apportioning revenue responsibility among the customer classes.

B. Positions of the Parties

The parties' positions on revenue apportionment are reflected in the following table:

Table 5					
Revenue Apportionment Proposals					
Class	Current Apportionment	Proposed Apportionment			
		Otter Tail	MLEC	OAG	Dept.
Residential	23.25%	23.25%	24.14%	23.24%	23.30%
Farms	1.92%	1.92%	1.90%	1.87%	1.90%
General Service	15.54%	15.54%	15.83%	15.67%	15.70%
Large General Service	52.14%	52.14%	51.12%	52.05%	52.00%
Irrigation	0.18%	0.18%	0.19%	0.17%	0.20%
Outdoor Lighting	1.43%	1.43%	1.38%	1.48%	1.40%
Other Public Authority	0.76%	0.76%	0.76%	0.76%	0.80%
Controlled Service Deferred Load	1.18%	1.18%	1.18%	1.18%	1.20%
Controlled Service Interruptible	3.30%	3.30%	3.23%	3.29%	3.20%
Controlled Service Off- Peak	0.29%	0.29%	0.28%	0.28%	0.35%
Total:	100%	100%	100%	100%	100%

1. MLEC

MLEC stated that it developed its proposal based on Otter Tail’s Minimum System CCOSS and generally shifted each class’s revenue apportionment to be closer to the amount identified in that cost study. Of all the parties, MLEC proposed the greatest increase to the Residential class’s share of revenues and the greatest decrease to the Large General Service class’s share.

MLEC argued that the Commission should adopt its proposal because it adhered most closely to class cost responsibility as calculated in the Minimum System study.

Additionally, MLEC contended that its proposed apportionment would mitigate a disparity in the relative competitiveness of two classes’ respective rates compared to average national rates. MLEC asserted that Otter Tail’s Residential rates are significantly below the national average, while its Large General Service rates are higher than the national average. MLEC argued that this disparity is unfair, will impact business location and retention in Otter Tail’s service territory, and should be addressed through revenue apportionment.

2. Otter Tail

Otter Tail recommended a class revenue apportionment that that would align more closely with its Minimum System CCOSS than the current apportionment does, but it proposed smaller shifts toward cost than MLEC proposed. Otter Tail argued that its proposal strikes the most reasonable balance between setting class revenue responsibilities closer to cost responsibilities and competing non-cost factors such as maintaining continuity with current rates to avoid rate shock.

3. The Department

Like MLEC and Otter Tail, the Department stated that its revenue-apportionment proposal sought to move class revenue responsibility closer to class cost responsibility based on Otter Tail's Minimum System CCOSS.

However, the Department argued that Otter Tail's proposed increases of 5.24% and 5.55% for the Residential and Small General Service classes, respectively, would likely provoke rate shock, which would have a heightened effect due to the economic uncertainty created by the COVID-19 pandemic. To reduce that risk, the Department recommended more moderate increases of 4.14% for the Residential class and 4.85% for the Small General Service class. The Department then allocated the resulting revenue deficiency among the remaining classes on a proportional basis while capping the smaller class increases to arrive at its revenue-apportionment proposal.

4. The OAG

The OAG was the only party to base its proposed revenue apportionment on multiple CCOSS models. The OAG stated that it developed its proposal by seeking patterns among the Minimum System, Basic System, and Peak and Average studies, including customer classes that all the studies identified as bearing too much or too little revenue responsibility compared to their cost responsibility. The OAG then proposed apportionments to bring these misaligned classes closer to the apportionments indicated by all or most of the studies, considering the magnitude of the difference between a class's current revenue share and the shares assigned under the various cost studies. In some cases, the OAG moderated a class's movement toward cost to avoid rate shock.

The OAG argued that its revenue-apportionment proposal was the most consistent with class cost responsibility because it was the only proposal that incorporated the insights of multiple CCOSS methods, reducing the impact of any one method's weaknesses. The OAG also argued that its apportionment methodology was consistent with the methods approved by the Commission in three recent rate cases, including Otter Tail's last rate case.

Compared with the other parties' proposed apportionments, the OAG's would shift more revenue responsibility away from the Residential class and toward the Large General Service class.

C. Recommendation of the Administrative Law Judge

The ALJ found Otter Tail's proposed revenue apportionment reasonable and recommended that it be adopted. He found that, of all the proposed revenue allocations, Otter Tail's best achieves the goal of aligning class revenue responsibility with cost responsibility while reflecting other factors such as continuity with past rates and ability to pay. And acknowledging MLEC's

concern, the ALJ found that Otter Tail's proposal would take a moderate step toward balancing the relative competitiveness of the utility's Residential and Large General Service rates.

D. Commission Action

The parties have introduced credible and well-supported proposals for apportioning Otter Tail's revenue requirement. However, having thoroughly reviewed and considered the record, including significant changes to Otter Tail's revenue requirement that arose after the

apportionment proposals were developed, the Commission is not persuaded to adopt any party's proposed revenue apportionment in its entirety.

Rather, based on the record, the arguments of parties, and the various rate-design objectives discussed above, the Commission will adopt the following class revenue apportionment:

Table 6	
Authorized Revenue Apportionment	
Customer Class	Revenue Apportionment
Residential	23.35%
Farm	1.9%
General Service	15.88%
Large General Service	51.74%
Irrigation	0.20%
Outdoor Lighting	1.36%
Other Public Authority	0.77%
Controlled Service Deferred Load	1.20%
Controlled Service Interruptible Load	3.32%
Controlled Service Off-Peak	0.28%
Total:	100%

When the parties submitted their revenue-apportionment proposals, Otter Tail was advocating a 2021 test-year revenue requirement of approximately \$221.5 million, with a total net revenue increase of approximately 3.83%. However, as a result of subsequent company adjustments and Commission decisions, Otter Tail's 2021 test-year authorized operating revenues were reduced to \$208,405,008. This significantly lower revenue amount affords more flexibility to bring class revenue apportionments closer to class cost responsibility without the same risk of rate shock that might accompany the apportionment of larger dollar values.

With the updated operating revenues, the apportionment adopted herein will result in most customer classes bearing substantially the same dollar amount of revenue that they were responsible for prior to this rate case.

One exception is the Irrigation class, which will see an increased revenue responsibility with these new rates. The Commission finds this increase just and reasonable because all the CCOSS methods showed that the Irrigation class was responsible for a significantly greater portion of costs than its current revenue apportionment reflects. Moreover, given the total dollar amount at

issue, raising the Irrigation's revenue responsibility to 0.20% is not anticipated to provoke rate shock or detract from other rate-design objectives.

Additionally, the Outdoor Lighting class will see a reduction in revenue responsibility. This reduction is just and reasonable because every cost study in the record indicates that class's current proportional revenue responsibility significantly exceeds its cost responsibility.

The apportionment adopted herein generally brings customer classes closer to bearing their appropriate cost burdens as determined by the cost studies discussed above, and it does so in a

gradual manner that is unlikely to provoke rate shock among ratepayers and is otherwise consistent with rate-design objectives.

Based on the record, and for the reasons discussed herein, the Commission declines to adopt ALJ Findings 672 through 678 and his recommendations on class revenue apportionment to the extent they are inconsistent with the decisions articulated in this order.

XXXII. Fixed Monthly Customer Charges

A. Introduction

Otter Tail assesses charges to members of each customer class based on a multi-part rate. One part is a fixed monthly customer charge designed to recover the fixed costs of serving a customer. Another part consists of an energy charge that is volumetric, meaning it varies with the amount of electricity a customer uses.

The forecasted sum of revenues from a class's fixed and volumetric charges must equal the class's revenue apportionment. Rate design thus poses a tradeoff: a reduction in any one rate component must be offset by an increase in another component. An increase in the fixed charge will have the effect of reducing the volumetric charge, and vice versa.

This intraclass allocation of a class's revenue apportionment between fixed and volumetric charges can affect different class members differently. Generally, a rate design that raises fixed charges and reduces volumetric charges will decrease the bills for customers with higher energy consumption and increase the bills for customers with lower consumption. A rate design with lower fixed charges and higher volumetric charges would have the opposite result.

B. Positions of the Parties

1. Otter Tail

Otter Tail sought to modify certain classes' customer charges to bring them closer to the fixed costs of providing service to customers in those classes according to its 2021 marginal-cost study. Otter Tail argued that its marginal-cost study is a reasonable cost-based method for determining the appropriate tradeoff between fixed charges and volumetric charges.

Otter Tail asserted that its marginal-cost study showed that the cost of adding another Residential customer to its system is \$16.55, which is higher than the current Residential (non-demand-controlled) customer charge of \$9.75 per month. Otter Tail argued that the customer charge should move closer to actual fixed costs to avoid the intra-class subsidies that result when customer charges do not reflect the actual fixed costs of customers connecting to the system.

To bring customer charges closer to marginal costs, Otter Tail proposed to increase the standard Residential customer charge to \$11.50 per month. It argued that that this 18% increase would represent a reasonable balance between various rate-design considerations including cost of service, equity, and continuity with past rates to avoid rate shock.

Otter Tail proposed to raise the customer charge for demand-controlled residential customers to \$14.00 per month. Residential Demand-Controlled customers receive lower volumetric rates in exchange for their agreement to allow the utility to limit their electric usage when the system

faces peak demand. Otter Tail argued that these customers should be assessed a higher customer charge than standard residential customers because demand-controlled service requires a more sophisticated meter and more complex billing mechanisms, making the service more costly.

Additionally, Otter Tail recommended a 16% increase to the Small General Service customer charge, from \$18.50 to \$21.50. It argued that its marginal-cost study and the same rate-design objectives that support its proposed Residential customer charge also support this \$3.00 increase.

2. The Department

The Department supported increasing the Residential customer charge to bring it closer to the marginal cost of service and to mitigate intraclass subsidies, but it argued that Otter Tail's proposed increase was too extreme and may provoke rate shock. The Department recommended a more moderate 10% increase to \$10.75 per month. The Department argued that its proposal would reasonably balance competing rate-design goals by reducing intraclass subsidies without the risk of rate shock that customers can experience with abrupt rate increases.

3. The OAG

The OAG recommended reducing the Residential customer charge from \$9.75 to \$9.25 per month and reducing the Small General Service customer charge from \$18.50 to \$10.50. The OAG argued that these reduced charges would be more consistent with Otter Tail's embedded customer-specific costs, which the OAG would limit to the costs of a service line, a meter, meter reading, and billing. The OAG challenged Otter Tail's method of calculating fixed charges based on marginal costs rather than embedded costs, arguing that Otter Tail's calculation overestimates customer-specific costs.¹⁹

Further, the OAG argued that increasing fixed charges has the effect of reducing the volumetric charge, reducing the value of each kilowatt-hour saved, thereby undermining a customer's incentive to conserve energy. The OAG also argued that increasing fixed charges would reduce the customer's incentive to adopt distributed renewable energy such as rooftop solar photovoltaic systems, because the resultant reduction in volumetric rates would reduce the value to the customer of each kilowatt-hour produced by a distributed energy resource and increase the amount of time it takes customers to recoup their investments in such systems.

The OAG also contended that raising the Residential customer charge would disproportionately affect low-income customers and people of color, who are more likely to consume lower-than-average amounts of energy. The OAG argued that such customers would end up effectively subsidizing high-usage customers if more of the revenue allocation shifted from volumetric to fixed charges. Further, the OAG argued that reducing the fixed charge would give customers more control over their energy bills, which would be especially valuable to low-income customers, who typically spend a higher share of their household income on energy costs.

The OAG argued that the demand-controlled subset of residential customers should be assessed the same customer charge as standard residential customers, not a higher charge as proposed by Otter Tail. Although the advanced meters used by demand-controlled customers involve higher

¹⁹ In this context, "embedded" refers to costs the utility has actually incurred in its existing system, while a "marginal" cost study attempts to calculate the cost associated with adding additional customers.

costs than traditional meters, the OAG argued that these incremental costs are incurred to serve energy- and demand-management purposes to benefit Otter Tail's entire system, not demand-controlled customers specifically. The OAG cited the Commission's order in Otter Tail's last rate case, which found that the additional costs of advanced meters used for demand-controlled service are incurred to benefit the utility's system as a whole and, therefore, should be excluded from these customers' marginal costs for purposes of determining customer charges.²⁰

4. Otter Tail's Reply

Otter Tail disputed the OAG's argument that higher fixed charges would undermine conservation efforts, arguing that the utility's overall rate structure does not disincentivize conservation and that conservation should be promoted only in a reasonable, economically efficient manner.

Otter Tail also argued that data specific to its service area undermines the OAG's argument that higher customer charges disproportionately harm low-income households. Otter Tail cited evidence that its customers who receive Low-Income Home Energy Assistance Program (LIHEAP) assistance on average use more electricity than other customers.

Further, Otter Tail asserted that it serves a relatively high percentage of residential customers living in small communities that lack access to natural gas service and thus rely on electricity to heat their homes, and that higher volumetric charges would disproportionately harm those customers because they use more electricity than other residential customers. Otter Tail argued that these customers, as well as its low-income customers, would benefit from lower volumetric rates even at the expense of higher fixed customer charges.

C. Recommendation of the Administrative Law Judge

The ALJ recommended adopting Otter Tail's proposed Residential customer charge of \$11.50, finding that Otter Tail's proposal best balances competing rate design objectives and moves Residential customer charges closest to marginal costs. Additionally, the ALJ noted that Otter Tail's proposed 18% increase is close to the 15% increase approved in Otter Tail's last rate case.

The ALJ found the OAG's recommendation to decrease the Residential customer charge unreasonable because the record showed little precedent for downward adjustments to such charges. And the ALJ was not persuaded by the OAG's argument that the proposed shifts between volumetric and fixed charges were significant enough to meaningfully affect conservation incentives and customer behavior. Further, the ALJ found that Otter Tail's proposed rate design includes incentives to conserve energy and that Otter Tail's customers have already made progress toward conservation.

The ALJ also found Otter Tail's proposed Small General Service customer charge of \$21.50 reasonable and recommended that the Commission adopt it.

²⁰ *In the Matter of the Application of Otter Tail Power Company for Authority to Increase Rates for Electric Service in Minnesota*, Docket No. E-17/GR-15-1033, Findings of Fact, Conclusions, and Order, at 75 (May 1, 2017).

D. Commission Action

The Commission appreciates the rigor with which the parties have analyzed the monthly customer charges, the best method for calculating the fixed costs to serve a customer, the wisdom of implementing large changes in customer charges, and the potential impacts of various tradeoffs between fixed and volumetric charges on customers facing different circumstances.

As a general proposition, the Commission agrees with Otter Tail and the Department that Otter Tail's marginal-cost analysis provides an appropriate benchmark for guiding the level of customer charges and that the goal of aligning fixed customer charges with fixed marginal costs is one factor that should be considered when setting customer charges.

However, the Commission also shares the Department's concern that the magnitude of Otter Tail's proposed increase to the Residential customer charge is likely to provoke an adverse customer reaction. The Commission finds the Department's testimony on this topic credible.

The Commission is not persuaded that the record supports moving in the direction of the OAG's proposal to reduce the customer charge for the residential class. The OAG's argument that the Company's method of calculating costs is inherently flawed and would deter energy conservation are not supported by the record. Otter Tail's proposed customer increases were calculated based on an accurate method for calculating marginal costs.

Therefore, the Commission will adopt the Department's proposal to increase the Residential customer charge to \$10.75. Of the alternative charges proposed, the Department's most reasonably balances the goals of moving class allocations closer to marginal cost while maintaining a reasonable degree of continuity with past rates to avoid rate shock.

The Commission will adopt the same \$10.75 customer charge for demand-controlled residential customers. The incremental costs of demand-controlled service are incurred to facilitate energy- and demand-management activities that benefit Otter Tail's entire system. Because the benefits of demand-controlled service are not specific to demand-controlled customers, the higher costs to obtain those benefits are not attributable to demand-controlled customers specifically.

Finally, the Commission will maintain the current Small General Service customer charge of \$18.50. Based on the record and the arguments of parties, the Commission is not persuaded by the OAG's argument that an \$8.00 reduction in this monthly charge is appropriate. But Otter Tail also has not met its burden to demonstrate that its proposed increase to \$21.50 is just and reasonable in light of the various rate-design considerations.

For the reasons discussed in this section, the Commission declines to adopt ALJ Findings 698 through 705 and 709 and the ALJ's recommendations regarding the Residential and Small General Service customer charges.

XXXIII. Decoupling

A. Introduction

Under traditional rate design, when ratepayers buy more energy than forecast, they pay higher bills than expected and the utility receives higher revenues than expected. Conversely, when ratepayers buy less energy than forecast, they pay lower bills than expected and the utility

receives less revenue than expected. This dynamic produces two consequences. First, the utility and ratepayers both bear the risk that sales will differ from the forecast. Second, while the Legislature directs the Commission to encourage energy conservation and efficiency, this rate design creates a disincentive for utilities to pursue policies that would decrease energy sales.

Revenue decoupling is a type of rate design intended to align the interests of the utility and the public by severing the connection between energy sales and net revenue. Consistent with statute, the Commission has established standards for decoupling mechanisms that operate without adversely affecting utility ratepayers and has authorized programs implementing decoupling.²¹

In general terms, revenue decoupling operates by having the Commission identify the revenues a utility should recover—i.e., the revenue requirement justified in a rate case. If the utility’s revenues later exceed this revenue requirement, the difference is refunded to ratepayers. If revenues fall short of the requirement, the utility recovers the difference via a surcharge on future consumption. Thus, the utility receives, and ratepayers pay, the amounts justified in the rate case.

In a previous order, the Commission required Otter Tail to submit a pilot decoupling proposal for potential implementation in this rate case.²²

B. Positions of the Parties

1. Otter Tail

Otter Tail argued that the Commission should implement a decoupling mechanism to align its rate structure with the state’s conservation goals by reducing the financial disincentive to promote conservation inherent in Otter Tail’s current rate design. Otter Tail asserted that it has already exceeded conservation-improvement requirements despite the inherent disincentive, but that denying the utility the benefit of decoupling because of its previous successful conservation efforts would be unfair and could harm the utility’s revenue stability, disincentivizing further conservation efforts. Moreover, Otter Tail argued, aligning rate design with conservation policy will remain important as the state continues to pursue further conservation into the future.

Otter Tail proposed a full, revenue-per-meter decoupling pilot that would apply to customers from ten rate schedules, organized into six “baskets.” Under a revenue-per-meter decoupling mechanism, the allowed level of revenue would vary depending on the number of meters in each basket. Thus, if more meters were added after the rate case, the amount of allowed revenues would increase. This is in contrast to a revenue true-up form of decoupling, under which the allowed revenue would remain fixed at the level used to set the rates in effect at that time, regardless of any changes in numbers of meters.

²¹ See Minn. Stat. § 216B.2412, subds. 2–3; *In the Matter of a Commission Investigation Into the Establishment of Criteria and Standards for the Decoupling of Energy Sales from Revenues*, Docket No. E,G-999/CI-08-132, Order Establishing Criteria and Standards to be Utilized in Pilot Proposals for Revenue Decoupling (June 19, 2009).

²² *In Matter of the Application of Otter Tail Power Company for Authority to Increase Rates for Electric Service in Minnesota*, Docket No. E-017/GR-15-1033, Order Accepting Report and Requiring Filings, Ordering Para. 2 (April 4,2019).

Otter Tail proposed to cap decoupling surcharges at 5% of base revenues annually when revenues are lower than authorized levels, but not cap refunds to customers when revenues exceed authorized levels. Otter Tail argued that the lower 3% cap the OAG suggested would more often be triggered by non-conservation reasons for lower electricity usage—i.e., weather—and thus would not serve the conservation purpose of revenue decoupling.

Otter Tail argued that the cap on surcharges should be “soft,” meaning that any under-recovered amounts exceeding the cap in one year would roll forward and be available for recovery in future years. It argued that precluding future recovery of excess adjustments could undermine the goal of decoupling by limiting the utility’s ability to achieve the advantages of a decoupling mechanism, thereby leaving the utility with some disincentive to pursue conservation.

2. The Department

The Department recommended that the Commission approve Otter Tail’s decoupling proposal with certain modifications. First, the Department argued that capping adjustments at 4% annually would more reasonably balance the goals of reducing the utility’s conservation disincentive and mitigating bill consequences to ratepayers.

Additionally, the Department argued that a “hard cap,” which would preclude the utility from carrying forward any under-recovered revenues above the cap for recovery in future years, would more appropriately balance the financial interests of the utility and ratepayers than a soft cap.

3. The OAG

The OAG opposed implementing any revenue decoupling mechanism for Otter Tail, arguing that decoupling is unlikely to advance any conservation goals in Otter Tail’s case because Otter Tail is already exceeding conservation requirements without decoupling.

Alternatively, the OAG argued that if a decoupling pilot were approved, the Commission should impose a 3% hard cap on surcharges. The OAG argued that allowing a higher soft cap as Otter Tail proposed could lead to excessive adverse bill consequences for customers that would outweigh any societal and company benefits of the decoupling mechanism.

Further, to help ensure the societal benefits of decoupling are realized, the OAG recommended that any decoupling pilot prohibit the utility from collecting surcharges for years in which it does not exceed the state energy-savings goal.

4. MLEC

MLEC opposed Otter Tail’s proposed inclusion of basket 4 (which would consist of the Large General Service – Time-of-Day – Secondary and the Large General Service – Secondary rate schedules) in the decoupling pilot. MLEC recommended that the time-of-day subclass be removed from basket 4 and excluded from decoupling.

MLEC argued that it would be unreasonable to group these time-of-day and non-time-of-day subclasses together because the time-of-day rate schedule consists of relatively few customers and each of those customers is substantially larger than the typical non-time-of-day customer in the Large General Service – Secondary class. Because customers in these subclasses are not similarly sized with respect to energy intensity and revenue, MLEC argued, grouping them

together for purposes of decoupling could lead to unintended consequences and disparate customer impacts. Specifically, MLEC argued that the inclusion of time-of-day customers would skew the averages, leading to excessive volatility in the basket's allowed revenue level when new customers are added or removed. Further, MLEC argued, implementing a revenue-per-meter decoupling mechanism across such a heterogeneous basket would burden the smaller, non-time-of-day customers with disproportionate bill impacts when decoupling adjustments are calculated.

C. Recommendation of the Administrative Law Judge

The ALJ recommended that the Commission authorize a decoupling mechanism. He disagreed with the OAG's implication that avoiding customer surcharges should be prioritized over competing goals in this case, reasoning that a well-designed decoupling mechanism only allows a utility to recover its revenue requirement—no more and no less—and it is also in the ratepayers' interest for the utility to meet its revenue requirement and be financially stable.

The ALJ agreed with the Department's argument that 4% would be a reasonable level for an annual cap on decoupling adjustments, but he recommended a compromise between the hard- and soft-cap methods proposed by the parties. Under the ALJ's approach, when the cap precludes the utility from fully recovering its costs in a year, the utility would have an opportunity to petition the Commission for authority to recover those costs in the next year. Recovery would not be authorized unless the utility first demonstrated that its conservation efforts were a primary factor in reducing its energy sales and its under-recovery of costs.

The ALJ stated that, if the Commission agrees with MLEC's concern about basket 4, it would be appropriate either to remove the time-of-day subclass from basket 4 as MLEC suggested or to use a revenue true-up mechanism rather than a revenue-per-meter approach for basket 4. Under a revenue true-up form of decoupling, the total allowed revenue would remain fixed at the level used to set the rates in effect at that time, rather than fluctuating with the number of meters, thereby avoiding some of the unintended consequences raised by MLEC.

D. Commission Action

The Commission will approve Otter Tail's proposed decoupling pilot with the modifications noted below. The Commission has recognized the merits of decoupling generally in previous orders and finds, based on the specific facts presented in this case, that the public interest favors implementing a decoupling pilot for Otter Tail.

The Commission does not agree with the OAG's argument that Otter Tail's achievement of conservation goals in the past warrants denying the benefit of a decoupling mechanism at this time. It is reasonable to authorize revenue decoupling to reduce Otter Tail's disincentives to promote further conservation and to better align Otter Tail's rate structure with the state's continuing policy to promote conservation.

The Commission will implement a 4% hard cap on annual decoupling adjustments. Based on the record and under the specific circumstances presented, the Commission agrees with the Department and the ALJ that capping Otter Tail's decoupling adjustments at 4% of base revenues strikes the most reasonable balance between the utility, ratepayer, and societal interests at stake. This 4% cap will protect ratepayers from excessive surcharges while taking into account the utility's interest in rate stability and the public-interest benefits of advancing conservation.

The Commission will adopt a hard cap rather than the ALJ’s recommended approach. The OAG and the Department presented credible evidence that, in Otter Tail’s case, a hard cap would most reasonably balance the interests of the utility and ratepayers and provide reasonable assurances about the potential consequences of this new rate design without undermining conservation goals. Accordingly, the Commission does not adopt the ALJ’s Finding 771 on this issue.

Additionally, the Commission will remove the Large General Service – Time-of-Day – Secondary rate schedule from basket 4. The record supports MLEC’s argument that the differences in size, usage, and load profiles between these time-of-day and non-time-of-day subclasses may lead to inequitable consequences if the two are grouped together for purposes of decoupling. Further, if the Large General Service – Time-of-Day – Secondary rate schedule is considered a separate class, then it is reasonable on this record to exclude that schedule from Otter Tail’s decoupling pilot based on the parties’ reasonable agreement to exclude any class of fewer than 50 customers from decoupling. Therefore, the Commission will require Otter Tail to exclude Large General Service – Time-of-Day – Secondary customers from the decoupling pilot.

FINANCIAL SCHEDULES

XXXIV. Net New Revenues

The above Commission findings and conclusions result, as shown below, in a Minnesota-jurisdictional net new revenue reduction of \$2,212,650:

Description	OTP - MN
Average Rate Base	\$722,946,335
Rate of Return	7.18%
Required Operating Income	\$51,907,547
Operating Income	\$39,144,268
Income Deficiency	\$12,763,279
Gross Revenue Conversion Factor	1.403351
Gross Revenue Deficiency	\$17,911,362
Riders Rolled In	\$20,124,012
Net New Revenues	(\$2,212,650)

XXXV. Rate Base Summary

Based on the above findings, the Commission concludes that, as shown below, the average Minnesota-jurisdictional rate base for the test year ending December 31, 2021, is \$722,946,335:

Description	OTP-MN
PLANT IN SERVICE	
Production	\$685,230,232
Transmission	\$257,108,143
Distribution	\$243,962,713
General	\$49,120,284
Intangible	\$18,531,244
Total Plant in Service	\$1,253,952,616
RESERVE FOR DEPRECIATION	
Production	(\$219,505,114)
Transmission	(\$69,904,581)
Distribution	(\$104,826,467)
General	(\$18,578,551)
Intangible	(\$5,229,752)
Total Reserve for Depreciation	(\$418,044,465)
NET PLANT IN SERVICE	
Production	\$465,725,118
Transmission	\$187,203,562
Distribution	\$139,136,246
General	\$30,541,733
Intangible	\$13,301,492
Total Net Plant in Service	\$835,908,151
OTHER RATE BASE ITEMS	
Utility Plant Held for Future Use	\$13,545
CWIP	\$16,222,899
Materials & Supplies	\$11,435,710
Fuel Stocks	\$5,408,282
Prepayments	\$1,402,533
Customer Advances & Deposits	(\$1,030,647)
Cash Working Capital	\$971,048
Accumulated Deferred Income Taxes	(\$147,385,185)
Total Other Rate Base Items	(\$112,961,815)
TOTAL AVERAGE RATE BASE	\$722,946,335

XXXVI. Operating Income Summary

Based on the above findings, the Commission concludes that, as shown below, the Minnesota-jurisdictional net income, for the test year ending December 31, 2021, under present rates is \$39,144,268:

Description	OTP-MN
UTILITY OPERATING REVENUES	
Retail Revenue	\$191,120,676
Other Electric Operating Revenue	\$17,284,332
Total Operating Revenues	\$208,405,008
UTILITY OPERATING EXPENSES	
Production	\$77,924,114
Transmission	\$18,363,452
Distribution	\$7,767,335
Customer Accounting	\$7,222,661
Customer Service & Information	\$9,052,240
Sales	\$134,725
Administrative & General	\$19,928,981
Charitable Contributions	\$112,000
Depreciation	\$32,716,362
General Taxes	\$8,022,910
Total Operating Expenses	\$181,244,780
Net Operating Income Before	
Taxes & AFUDC	\$27,160,228
Taxes:	
Investment Tax Credit	(\$8,884,743)
Deferred Income Taxes	(\$2,319,235)
Federal & State Income Tax	\$0
Total Taxes	(\$11,203,978)
Net Operating Income Before AFUDC	\$38,364,206
AFUDC	\$780,062
Total Available for Return	\$39,144,268

COMPLIANCE FILING REQUIREMENTS

XXXVII. Compliance Filings

The Commission will require Otter Tail to make the following compliance filings within 30 days of the date of the final order in this docket:

- a. Revised schedules of rates and charges reflecting the revenue requirement and the rate design decisions herein, along with the proposed effective date, and including the breakdown of total operating revenues by type, as well as the following:
 - i. Schedules showing all billing determinants for the retail sales (and sale for resale) of electricity. These schedules shall include but not be limited to:
 - ii. Total revenue by customer class;
 - iii. Total number of customers, the customer charge and total customer charge revenue by customer class; and
 - iv. For each customer class, the total number of energy and demand related billing units, the per unit energy and demand cost of energy, and the total energy and demand related sales revenues.
 - v. Revised tariff sheets incorporating authorized rate design decisions;
 - vi. Proposed customer notices explaining the final rates, the monthly basic service charges, and any and all changes to rate design and customer billing.
- b. A summary listing of all other rate riders and charges in effect, and continuing, after the date final rates are implemented.
- c. A computation of the Conservation Cost Recovery Charge (CCRC) based upon the decisions made herein for inclusion in the final Order, and a schedule detailing the Conservation Improvement Program (CIP) tracker balance at the beginning of interim rates, the revenues (CCRC and CIP Adjustment Factor) and costs recorded during the period of interim rates, and the CIP tracker balance at the time final rates become effective.
- d. If final authorized rates are lower than interim rates, a proposal to make refunds of interim rates consistent with the Commission's decisions in this proceeding, including interest to affected customers.

The Commission will authorize comments on all compliance filings within 30 days of the date they are filed. However, comments are not necessary on Otter Tail's proposed customer notice.

ORDER

1. Otter Tail's authorized revenue requirement is \$208,405,008.
2. The Commission adopts the ALJ's Findings of Fact, Conclusions of Law, and Recommendation, to the extent it is consistent with the decisions herein.
3. The Commission approves recovery of the 2020 depreciation of the Hoot Lake plant.
4. Otter Tail may recover Hoot Lake's 2020 depreciation over a five-year period.
5. Otter Tail must establish a tracker account for Hoot Lake's 2020 depreciation with a sunset provision.

6. In the initial filing of its next rate case, Otter Tail must address the extinguishment of Hoot Lake's 2020 Depreciation tracker account.
7. The Commission approves Otter Tail's recovery of Hoot Lake decommissioning costs, with the amount to be equal to actual decommissioning costs, incurred through December 31, 2021, to be determined based on a compliance filing to be made as soon as possible in 2022.
8. Otter Tail may include Coyote Station's costs, as filed, in the test year.
9. The Commission rejects administrative law judge (ALJ) Findings 339 – 342, 345 – 347, and 354 – 355.
10. Otter Tail must include Merricourt Production Tax Credits (PTCs) totaling \$15,963,797 in its test year and include an annual true-up of forecast PTCs to actuals through the RRCR.
11. Otter Tail must set test-year Active Employee Medical Costs using a 4-year average of the actual costs between the years 2016 and 2019 on a Minnesota jurisdictional basis, or \$4,387,000.
12. The Commission disallows recovery of Otter Tail's Executive Restoration Plus Plan (ERPP) and Executive Survivor and Supplemental Retirement Plan (ESSRP) costs.
13. Otter Tail must set the test year charitable contributions expense at \$158,436. In its interim rate filing, Otter Tail must true up to actuals for its 2021 contributions; anything less than the test year amount must be refunded to ratepayers in the interim rates refund.
14. Otter Tail may allow test-year aviation-related expenses to be included in base rates and order Otter Tail to refund 2021 aviation-related expenses through the interim rate refund process.
15. The Commission approves the use of the 0.22 % ratio to establish test year bad debt expense.
16. The Commission approves the use of the 0.16 % ratio to establish test year late payment revenues.
17. The Commission approves the Department's recommended \$272,228 adjustment to test year costs related to amortization of Otter Tail's North Dakota Investment Tax Credits.
18. The Commission approves an Accumulated Deferred Income Tax (ADIT) Gross Up adjustment based on the Commission's final order.
19. Otter Tail may eliminate per transaction fees and instead recover credit card fees as an Operations & Maintenance (O&M) expense.
20. Otter Tail may include a \$96,023 test year expense for Economic Development Expenses.

21. The Commission disallows recovery of \$2,600 of test year Governmental Affairs/Lobbying expenses.
22. Otter Tail may recover test year Ground Line Inspection Expenses, as filed.
23. Otter Tail must make annual compliance filings in the COVID Docket²³ of the amount spent on ground line inspection compared to: (1) the test year amount; and (2) the average four-year amount prior to the test year. The compliance filing must also include a detailed description of progress made and the economic development that occurred as a result of this initiative.
24. Otter Tail may not recover test year expenses related to the Lignite Energy Council.
25. Otter Tail may not recover test year expenses related to Utility Air Regulatory Group/McGuireWoods.
26. In any future general rate case in which Otter Tail seeks to recover costs for services provided by McGuire Woods, Otter Tail must file an accounting of the legal activities that are provided by McGuireWoods, along with the amount of subscription cost allocated to each of these activities. Otter Tail should also include McGuireWoods' billing-hour details for the legal services under the subscriptions.
27. The Commission disallows recovery of \$17,659 (MN jurisdiction) of Travel-related test year expenses.
28. The Commission disallows recovery of \$10,212 (MN jurisdiction) of Lodging-related test year expenses.
29. The Commission disallows recovery of \$4,316 (MN jurisdiction) of Travel (Energy Industry Events)-related test year expenses.
30. The Commission disallows recovery of \$17,112 (MN jurisdiction) of Meals-related test year expenses.
31. The Commission disallows recovery of \$7,253 (MN jurisdiction) of Employee Gift-related test year expenses.
32. The Commission approves recovery of reagent costs through the Energy Adjustment Rider.
33. The Commission approves recovery of POET biorefining revenues and fuel costs through the Energy Adjustment Rider.
34. The Commission denies Otter Tail's proposal to include a 1.5% COVID adjustment for the Small Commercial and Large Commercial Classes.

²³ *In the Matter of an Inquiry into Utility Investments that May Assist in Minnesota's Economic Recovery from the COVID-19 Pandemic*, Docket No. E,G-999/CI-20-492.

35. The Commission modifies ALJ Finding 412 to require the use of a 65-degree standard for Heating Degree Days.
36. Otter Tail must use a Heating Degree Day standard of 65 degrees for all compliance filings in this docket.
37. The Commission adopts Otter Tail’s proposed capital structure comprised of 52.50% common equity, 44.65% long-term debt, and 2.85% short-term debt.
38. The Commission adopts the proposed cost of long-term debt of 4.81%.
39. The Commission adopts the proposed cost of short-term debt of 1.77%.
40. The Commission adopts a 9.48% return on equity for setting rates in this proceeding, with a total capital structure as follows.

Type of Capital	Capital Ratio (%)	Cost (%)	Weighted Cost (%)
Long-Term Debt	44.65%	4.81%	2.15%
Short-Term Debt	2.85%	1.77%	0.05%
Common Equity	52.50%	9.48%	4.98%
Total	100.00%		7.18%

41. The Commission approves Otter Tail’s proposed interim rate refund adjustments for Astoria for the 2021 calendar year.
42. The Commission approves Otter Tail’s proposed interim rate refund adjustments for Lake Norden for the 2021 calendar year.
43. The Commission approves the Department and MLEC’s \$584,000 adjustment.
44. Otter Tail may not recover the budgeted test-year capacity costs that did not occur as expected.
45. Otter Tail must reduce test-year pension costs by \$307,038.
46. Otter Tail must reduce test-year post-retirement medical costs by \$942,732.
47. Otter Tail must reduce test-year rate case expense by \$251,396.

48. Otter Tail may true-up any over-recovered or under-recovered rate case expenses in its next rate case.
49. Otter Tail may not recover amounts associated with Generator Interconnection Projects (GIPs) from the test year.
50. Otter Tail may not establish a GIPs tracker.
51. Otter Tail must reduce test year rate base by \$3,071,322 and test year amortization by \$1,023,774.
52. Otter Tail must reduce test year rate base by \$131,029.
53. Otter Tail must restore \$1,114,426 of excess ADIT.
54. Otter Tail must debit accumulated depreciation by \$6.0 million.
55. Otter Tail must reduce Construction Work in Progress by \$1,025,986.
56. Otter Tail must reduce depreciation expense by \$4.2 million.
57. Otter Tail must base its final cash working capital calculation on a 38.6-day billed fuel revenues lag, a 319.3-day property tax lag, and may not include bad debt.
58. Otter Tail must include irrigation revenues of \$271,872 in the test year.
59. Otter Tail must reduce test year present revenues by \$250,000.
60. Otter Tail must increase test year PTCs by \$605,330.
61. Otter Tail must decrease test year taxes by \$0.1 million.
62. Otter Tail must decrease test year rate base by \$526,136.
63. Otter Tail may collect the \$679,584 Southwest Power Pool Tracker under-recovery during the interim rate period.
64. The Commission authorizes Otter Tail to establish a new Southwest Power Pool (SPP) Tracker.
65. Otter Tail must include the appropriate Lake Norden adjustment in its final test year revenue requirement calculation.
66. Otter Tail must file Compliance Reports notifying the Commission and parties of any possible arrangements for sharing the cost of its telecommunication system.
67. Otter Tail must base the final interest synchronization calculation on the Commission's Order.

68. The Commission approves Otter Tail's proposal to eliminate the Conservation Cost Recovery Charge (CCRC) and, as a pilot project until the next rate case, instead recover all Conservation Improvement Program (CIP) expenses through the Conservation Cost Recovery Adjustment (CIP surcharge).
69. The Commission approves Otter Tail's decoupling pilot project, as modified in this rate case.
70. The Commission authorizes Otter Tail to implement a 4% hard cap on surcharges for its decoupling pilot project.
71. Otter Tail must remove the Large General Service Time of Day Secondary Class in Basket 4.
72. Otter Tail must remove Basket 7 from its decoupling pilot project.
73. Otter Tail must remove pooling and reallocation among baskets.
74. Otter Tail must file its Revenue Decoupling Mechanism compliance filing on April 1 of each year using a reporting framework based on the Commission's March 8, 2021 order (Docket Nos. G-008/M-19-558, G-004/M-20-335, G-011/M-20-332, and E-002/M-20-180).
75. The Commission accepts and considers each method used to classify distribution system costs for the Class Cost of Service Study (CCOSS) in this proceeding, and declines to adopt any specific method.
76. In its next general rate case filing, Otter Tail must file a CCOSS using the Minimum System method, the Basic Customer method, and the Peak & Average method but is not required to conduct a Zero Intercept study. The Commission declines to adopt ALJ findings 629 through 635.
77. The Commission adopts the summer peak allocator (D1-MISO).
78. The Commission adopts Otter Tail's current method of classification using allocation factor C6 for advanced meters and C9 for radio load management receivers.
79. In its next general rate case or in its next proposed advanced metering infrastructure project filing, Otter Tail must perform an analysis to guide future cost classifications for advance meters.
80. The Commission adopts the C8 allocator for customer records and collection expenses.
81. Otter Tail must develop, for its next rate case, a weighted allocator specific to customer records and collection expense so that these costs can be allocated more precisely in the future.

82. The Commission approves the following rate apportionment:

Class	Apportionment %
Residential	23.35
Farm	1.9
General Service	15.88
Large General Service	51.74
Irrigation	0.20
Outdoor Lighting	1.36
Other Public Authority	0.77
Controlled Service Deferred Load	1.20
Controlled Service Interruptible	3.32
Controlled Service Off-Peak	0.28
	100%

83. The Commission rejects the ALJ's recommendation in Finding 705 and approves the Department's proposed Residential customer charge of \$10.75.

84. The Commission approves the same Residential Demand Controlled customer charge amount as the Residential customer charge amount.

85. The Commission rejects the ALJ's recommendation in Finding 709 and maintain Otter Tail's current Small General Service customer charge of \$18.50.

86. The Commission adopts the ALJ's recommendation in Finding 599 and require all Super Large General Service Electric Service Agreements to be filed with the Commission.

87. The Commission delegates to the Executive Secretary the administrative authority to establish the form and schedule of Electric Service Agreement filings.

88. The Commission adopts the ALJ's recommendation in Finding 603 and approve Otter Tail's LED Street & Area Light rate proposal.

89. The Commission approves Otter Tail's LGS Time-of-Day \$60 metering equipment removal fee.
90. The Commission approves the agreement between Otter Tail and MLEC on intra-class revenue allocation.
91. The Commission approves Otter Tail's proposed Residential rate design.
92. The Commission approves Otter Tail's proposed General Service rate design.
93. The Commission approves MLEC and Otter Tail's agreement on Large General Service rate design.
94. The Commission adopts Otter Tail's Irrigation rate design proposal.
95. The Commission approves Otter Tail's Outdoor Lighting rate design proposal.
96. The Commission approves Otter Tail's Other Public Authority rate design proposal.
97. The Commission adopts Otter Tail's Controlled Service Deferred Load rate design proposal.
98. The Commission approves Otter Tail's Controlled Service – Interruptible Load rate design proposal.
99. The Commission approves Otter Tail's Controlled Service – Off-Peak rate design proposal.
100. The Commission approves Otter Tail's proposed Super Large General Service rate.
101. Otter Tail must make the following compliance filings within 30 days of the date of this order, including:
 - a. Revised schedules of rates and charges reflecting the revenue requirement and the rate design decisions herein, along with the proposed effective date, and including the breakdown of total operating revenues by type, as well as the following:
 - i. Schedules showing all billing determinants for the retail sales (and sale for resale) of electricity. These schedules shall include but not be limited to:
 - ii. Total revenue by customer class;
 - iii. Total number of customers, the customer charge and total customer charge revenue by customer class; and
 - iv. For each customer class, the total number of energy and demand related billing units, the per unit energy and demand cost of energy, and the total energy and demand related sales revenues.
 - v. Revised tariff sheets incorporating authorized rate design decisions;

- vi. Proposed customer notices explaining the final rates, the monthly basic service charges, and any and all changes to rate design and customer billing.
 - b. A summary listing of all other rate riders and charges in effect, and continuing, after the date final rates are implemented.
 - c. A computation of the CCRC based upon the decisions made herein for inclusion in the final Order. Direct Otter Tail to file a schedule detailing the CIP tracker balance at the beginning of interim rates, the revenues (CCRC and CIP Adjustment Factor) and costs recorded during the period of interim rates, and the CIP tracker balance at the time final rates become effective.
 - d. If final authorized rates are lower than interim rates, a proposal to make refunds of interim rates consistent with the Commission's decisions in this proceeding, including interest to affected customers.
102. Comments on compliance filings are due within 30 days of the date the compliance filing is filed. Comments are not necessary on Otter Tail's proposed customer notice.
103. This order shall become effective immediately.

BY ORDER OF THE COMMISSION



Will Seuffert
Executive Secretary



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CERTIFICATE OF SERVICE

I, Chrishna Beard, hereby certify that I have this day, served a true and correct copy of the following document to all persons at the addresses indicated below or on the attached list by electronic filing, electronic mail, courier, interoffice mail or by depositing the same enveloped with postage paid in the United States mail at St. Paul, Minnesota.

Minnesota Public Utilities Commission FINDINGS OF FACT, CONCLUSIONS, AND ORDER

Docket Number **E-017/GR-20-719**

Dated this 2nd day of February, 2022

/s/ Chrishna Beard

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Mariah	Bevins	Maria.Bevins@whiteearth-nsn.gov	White Earth Reservation Business Committee	PO Box 418 White Earth, MN 56591	Electronic Service	No	OFF_SL_20-719_Official
Tom	Boyko	tboyko@eastriver.coop	East River Electric Power Coop.	211 S. Harth Ave Madison, SD 57042	Electronic Service	No	OFF_SL_20-719_Official
Ray	Choquette	rchoquette@agp.com	Ag Processing Inc.	12700 West Dodge Road PO Box 2047 Omaha, NE 68103-2047	Electronic Service	No	OFF_SL_20-719_Official
Generic Notice	Commerce Attorneys	commerce.attorneys@ag.state.mn.us	Office of the Attorney General-DOC	445 Minnesota Street Suite 1400 St. Paul, MN 55101	Electronic Service	Yes	OFF_SL_20-719_Official
Brooke	Cooper	bcooper@allete.com	Minnesota Power	30 W Superior St Duluth, MN 558022191	Electronic Service	No	OFF_SL_20-719_Official
Jason	Decker	jason.decker@llojbwe.net	Leech Lake Band of Ojibwe	190 Sailstar Drive NW Cass Lake, MN 56633	Electronic Service	No	OFF_SL_20-719_Official
Richard	Dornfeld	Richard.Dornfeld@ag.state.mn.us	Office of the Attorney General-DOC	Minnesota Attorney General's Office 445 Minnesota Street, Suite 1800 Saint Paul, Minnesota 55101	Electronic Service	Yes	OFF_SL_20-719_Official
Charles	Drayton	charles.drayton@enbridge.com	Enbridge Energy Company, Inc.	7701 France Ave S Ste 600 Edina, MN 55435	Electronic Service	No	OFF_SL_20-719_Official
Remi	Engbers	remi.engbers@woodsfuller.com	Woods, Fuller, Shultz & Smith P.C.	300 S Phillips Ave Ste 300 PO Box 5027 Sioux Falls, SD 57117-5027	Electronic Service	No	OFF_SL_20-719_Official
Kelly C.	Engebretson	Kelly.Engebretson@lawmoss.com	Moss & Barnett	150 S. 5th St #1200 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_20-719_Official

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
James C.	Erickson	jericksonkbc@gmail.com	Kelly Bay Consulting	17 Quechee St Superior, WI 54880-4421	Electronic Service	No	OFF_SL_20-719_Official
Michael	Fairbanks	Michael.Fairbanks@whiteearth-nsn.gov	White Earth Reservation Business Committee	PO Box 418 White Earth, MN 56591	Electronic Service	No	OFF_SL_20-719_Official
Sharon	Ferguson	sharon.ferguson@state.mn.us	Department of Commerce	85 7th Place E Ste 280 Saint Paul, MN 551012198	Electronic Service	No	OFF_SL_20-719_Official
Jessica	Fyhrie	jfyhrie@otpc.com	Otter Tail Power Company	PO Box 496 Fergus Falls, MN 56538-0496	Electronic Service	No	OFF_SL_20-719_Official
Edward	Garvey	garveyed@aol.com	Residence	32 Lawton St Saint Paul, MN 55102	Electronic Service	No	OFF_SL_20-719_Official
Bruce	Gerhardson	bgerhardson@otpc.com	Otter Tail Power Company	PO Box 496 215 S Cascade St Fergus Falls, MN 565380496	Electronic Service	No	OFF_SL_20-719_Official
Adam	Heinen	aheinen@dakotaelectric.com	Dakota Electric Association	4300 220th St W Farmington, MN 55024	Electronic Service	No	OFF_SL_20-719_Official
Annete	Henkel	mui@mnuilityinvestors.org	Minnesota Utility Investors	413 Wacouta Street #230 St.Paul, MN 55101	Electronic Service	No	OFF_SL_20-719_Official
Shane	Henriksen	shane.henriksen@enbridge.com	Enbridge Energy Company, Inc.	1409 Hammond Ave FL 2 Superior, WI 54880	Electronic Service	No	OFF_SL_20-719_Official
Kristin	Henry	kristin.henry@sierraclub.org	Sierra Club	2101 Webster St Ste 1300 Oakland, CA 94612	Electronic Service	No	OFF_SL_20-719_Official

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Katherine	Hinderlie	katherine.hinderlie@ag.state.mn.us	Office of the Attorney General-DOC	445 Minnesota St Suite 1400 St. Paul, MN 55101-2134	Electronic Service	Yes	OFF_SL_20-719_Official
Faron	Jackson, Sr.	faron.jackson@llojibwe.net	Leech Lake Band of Ojibwe	190 Sailstar Drive NW Cass Lake, MN 56633	Electronic Service	No	OFF_SL_20-719_Official
Richard	Johnson	Rick.Johnson@lawmoss.com	Moss & Barnett	150 S. 5th Street Suite 1200 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_20-719_Official
Max	Kieley	max.kieley@ag.state.mn.us	Office of the Attorney General-RUD	1400 Town Square Tower 445 Minnesota Street St. Paul, MN 55101	Electronic Service	Yes	OFF_SL_20-719_Official
Michael	Krikava	mkrikava@taftlaw.com	Taft Stettinius & Hollister LLP	2200 IDS Center 80 S 8th St Minneapolis, MN 55402	Electronic Service	No	OFF_SL_20-719_Official
Bill	Lachowitz	blachowitz@ibewlocal949.org	IBEW Local Union 949	12908 Nicollet Ave S Burnsville, MN 55337-3527	Electronic Service	No	OFF_SL_20-719_Official
James D.	Larson	james.larson@avantenergy.com	Avant Energy Services	220 S 6th St Ste 1300 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_20-719_Official
Eric	Lipman	eric.lipman@state.mn.us	Office of Administrative Hearings	PO Box 64620 St. Paul, MN 551640620	Electronic Service	Yes	OFF_SL_20-719_Official
Kavita	Maini	kmaini@wi.rr.com	KM Energy Consulting, LLC	961 N Lost Woods Rd Oconomowoc, WI 53066	Electronic Service	No	OFF_SL_20-719_Official
Pam	Marshall	pam@energycents.org	Energy CENTS Coalition	823 7th St E St. Paul, MN 55106	Electronic Service	No	OFF_SL_20-719_Official

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Joseph	Meyer	joseph.meyer@ag.state.mn.us	Office of the Attorney General-RUD	Bremer Tower, Suite 1400 445 Minnesota Street St Paul, MN 55101-2131	Electronic Service	No	OFF_SL_20-719_Official
Tim	Miller	Tim.Miller@mrenergy.com	Missouri River Energy Services	3724 W Avera Dr PO Box 88920 Sioux Falls, SD 57109-8920	Electronic Service	No	OFF_SL_20-719_Official
Andrew	Moratzka	andrew.moratzka@stoel.com	Stoel Rives LLP	33 South Sixth St Ste 4200 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_20-719_Official
Matthew	Olsen	molsen@otpc.com	Otter Tail Power Company	215 South Cascade Street Fergus Falls, MN 56537	Electronic Service	No	OFF_SL_20-719_Official
Marcia	Podratz	mpodratz@mnpower.com	Minnesota Power	30 W Superior S Duluth, MN 55802	Electronic Service	No	OFF_SL_20-719_Official
David G.	Prazak	dprazak@otpc.com	Otter Tail Power Company	P.O. Box 496 215 South Cascade Street Fergus Falls, MN 565380496	Electronic Service	No	OFF_SL_20-719_Official
Rate Case Inbox	Rate Case Inbox	mnratecase@otpc.com	Otter Tail	N/A	Electronic Service	No	OFF_SL_20-719_Official
Generic Notice	Residential Utilities Division	residential.utilities@ag.state.mn.us	Office of the Attorney General-RUD	1400 BRM Tower 445 Minnesota St St. Paul, MN 551012131	Electronic Service	Yes	OFF_SL_20-719_Official
Richard	Savelkoul	rsavelkoul@martinsquires.com	Martin & Squires, P.A.	332 Minnesota Street Ste W2750 St. Paul, MN 55101	Electronic Service	No	OFF_SL_20-719_Official
Peter	Scholtz	peter.scholtz@ag.state.mn.us	Office of the Attorney General-RUD	Suite 1400 445 Minnesota Street St. Paul, MN 55101-2131	Electronic Service	Yes	OFF_SL_20-719_Official

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Robert H.	Schulte	rhs@schultheassociates.com	Schulte Associates LLC	1742 Patriot Rd Northfield, MN 55057	Electronic Service	No	OFF_SL_20-719_Official
Will	Seuffert	Will.Seuffert@state.mn.us	Public Utilities Commission	121 7th PI E Ste 350 Saint Paul, MN 55101	Electronic Service	Yes	OFF_SL_20-719_Official
Janet	Shaddix Elling	jshaddix@janetshaddix.com	Shaddix And Associates	7400 Lyndale Ave S Ste 190 Richfield, MN 55423	Electronic Service	Yes	OFF_SL_20-719_Official
Cary	Stephenson	cStephenson@otpc.com	Otter Tail Power Company	215 South Cascade Street Fergus Falls, MN 56537	Electronic Service	No	OFF_SL_20-719_Official
William	Taylor	bill.taylor@taylorlaw.com	Taylor Law Firm	4820 E. 57th Street Suite B Sioux Falls, SD 57108	Electronic Service	No	OFF_SL_20-719_Official
Stuart	Tommerdahl	stommerdahl@otpc.com	Otter Tail Power Company	215 S Cascade St PO Box 496 Fergus Falls, MN 56537	Electronic Service	No	OFF_SL_20-719_Official
Pat	Treseler	pat.jcplaw@comcast.net	Paulson Law Office LTD	4445 W 77th Street Suite 224 Edina, MN 55435	Electronic Service	No	OFF_SL_20-719_Official
Laurie	Williams	laurie.williams@sierraclub.org	Sierra Club	Environmental Law Program 1536 Wynkoop St Ste 200 Denver, CO 80202	Electronic Service	No	OFF_SL_20-719_Official
Cha	Xiong	cha.xiong@ag.state.mn.us	Office of the Attorney General-DOC	445 Minnesota St. Suite 1400 St. Paul, Minnesota 55101	Electronic Service	Yes	OFF_SL_20-719_Official

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Laurie	York	laurie.york@whiteearth-nsn.gov	White Earth Reservation Business Committee	PO Box 418 White Earth, MN 56591	Electronic Service	No	OFF_SL_20-719_Official
Patrick	Zomer	Pat.Zomer@lawmoss.com	Moss & Barnett a Professional Association	150 S. 5th Street, #1200 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_20-719_Official