

August 2, 2024

PUBLIC DOCUMENT

Will Seuffert
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
Saint Paul, Minnesota 55101-2147

RE: PUBLIC Comments of the Minnesota Department of Commerce, Division of Energy Resources
Docket No. E017/M-24-186

Dear Mr. Seuffert:

Attached are the **PUBLIC** Comments of the Minnesota Department of Commerce (Department) in the following matter:

 Otter Tail Power Company's Petition for Approval of the Annual Update to its Electric Utility Infrastructure Rider, Rate Schedule 13.11.

The Petition was filed on May 3, 2024, by Otter Tail Power Company.

The Department preliminarily recommends certain modifications to Otter Tail's petition and requests Otter Tail provide additional information in reply comments. The Department will provide final recommendations to the Minnesota Public Utilities Commission (Commission) after reviewing Otter Tail's reply comments. The Department is available to answer any questions the Commission may have in this matter.

Sincerely,

/s/ Dr. Sydnie Lieb
Assistant Commissioner of Regulatory Analysis

SL/AU/ar
Attachment

Before the Minnesota Public Utilities Commission

PUBLIC Comments of the Minnesota Department of Commerce Division of Energy Resources

Docket No. E017/M-24-186

I. INTRODUCTION

On May 3, 2024, Otter Tail Power Company (Otter Tail, OTP, or the Company) filed a petition in Docket No. E017/M-24-186 requesting the Minnesota Public Utilities Commission (Commission) approve increased rates in the Company's Electric Utility Infrastructure Cost (EUIC) Rider, effective January 1, 2025, or on the first day of the month following Commission approval, should its decision be thereafter. The increased rates reflect continued recovery of the Advanced Metering Infrastructure (AMI) and Outage Management System (OMS) projects approved in the Commission's August 4, 2022, Order in Docket No. E017/M-21-382, as well as the addition of a new Demand Response (DR) System project. The DR System was introduced in Docket No. E017/M-21-382, the Commission deferred a decision on recovery of DR costs until future EUIC rider updates. The current petition is the second update for the EUIC Rider.

The Minnesota Department of Commerce, Division of Energy Resources (Department) analyzes Otter Tail's petition below, starting with some background information.

II. BACKGROUND

A. EUIC STATUTE

Minn. Stat. § 216B.1636 allows the Commission to approve rate riders to recover EUIC. EUIC is defined as costs for "electric utility infrastructure projects"¹ not included in the electric utility's rate base in its most recent general rate case. The costs allowed for recovery are a rate of return, income taxes on the rate of return, incremental property taxes, if any, and incremental depreciation expense associated with the EUIC.²

EUIC rider petitions can only be filed once a year and must provide the following information:³

- i) the location, description, and costs associated with the project;
- ii) evidence that the electric utility infrastructure project will conserve energy or use energy more efficiently than similar utility facilities currently used by the electric utility;
- iii) the proposed schedule for implementation;

¹ The statute defines "electric utility infrastructure projects" as projects that (1) replace or modify existing electric utility infrastructure, including utility-owned buildings, if the replacement or modification is shown to conserve energy or use energy more efficiently, consistent with § 216B.241, subdivision 1c; or (2) conserve energy or use energy more efficiently by using waste heat recovery converted into electricity as defined in § 216B.241, subdivision 1, paragraph (o).

² Minn. Stat. § 216B.1636, subd. 2(a).

³ Minn. Stat. § 216B.1636, subd. 2(b)(2).

- iv) a description of the costs, and salvage value, if any, associated with the existing infrastructure replaced or modified as a result of the project;
- v) the proposed rate design and an explanation of why the proposed rate design is in the public interest;
- vi) the magnitude and timing of any known future electric utility projects that the utility may seek to recover under this section;
- vii) the magnitude of EUIC in relation to the electric utility's base revenue as approved by the commission in the electric utility's most recent general rate case, exclusive of fuel cost adjustments;
- viii) the magnitude of EUIC in relation to the electric utility's capital expenditures since its most recent general rate case;
- ix) the amount of time since the utility last filed a general rate case and the utility's reasons for seeking recovery outside of a general rate case;
- x) documentation supporting the calculation of the EUIC; and
- xi) a cost and benefit analysis showing that the electric utility infrastructure project is in the public interest.

Upon approval of the proposed projects and associated EUIC rate schedule, the utility may implement the electric utility infrastructure projects.⁴

B. ESTABLISHMENT OF OTTER TAIL'S EUIC RIDER

1. Overview

On June 7, 2021, Otter Tail filed a petition in Docket No. E017/M-21-382 requesting Commission approval of an EUIC rider.

On August 4, 2022, the Commission issued an Order approving Otter Tail's petition with certain modifications, discussed below.

On August 31, 2022, Otter Tail submitted a compliance filing with rates reflecting the August 4, 2022, Order.

The Commission has since approved the first update to Otter Tail's EUIC in its March 13, 2024, Order in Docket No. E017/M-23-131.

⁴ Minn. Stat. § 216B.1636, subd. 2(c).

2. AMI

The Commission's August 4, 2022, Order in Docket No. E017/M-21-382 approved a soft cost cap⁵ on the AMI Project of \$55.9 million in OTP total (across all jurisdictions) project capital costs,⁶ less (a) internal labor costs, and (b) external legal and consulting costs unless Otter Tail demonstrates that external legal and consulting costs are specific to the AMI project and qualify to be capitalized under Generally Accepted Accounting Principles (GAAP).

As required by the August 4, 2022, Order, Otter Tail's August 31, 2022, compliance filing included the AMI costs from Otter Tail's reply comments. Regarding the requirement that Otter Tail show external legal and consulting costs are specific to the AMI project and qualify to be capitalized under Generally Accepted Accounting Principles,⁷ this issue was resolved for the 2022 rate implementation since OTP provided the required information.⁸

3. OMS

The Commission's August 4, 2022, Order in Docket No. E017/M-21-382 approved a soft cost cap⁹ of \$2,002,185 for Minnesota capital costs for OMS, representative of OTP total OMS capital costs of \$4,073,428.¹⁰

As required by the August 4, 2022, Order, Otter Tail's August 31, 2022, compliance filing included the OMS costs from Otter Tail's initial petition. However, Otter Tail clarified that its reply comments updated the OMS capital costs to remove internal costs, update cost of capital, and to correct a minor error in the spreadsheet. Otter Tail stated it would true up the costs in the next annual EUIC filing, to account for the changes from Otter Tail's reply comments.

⁵ The "soft cap" as approved means Otter Tail may request cost recovery for cost overruns during its next rate case, if it can show clear and convincing evidence that the costs were reasonable, prudent, and beyond its control.

⁶ See also the Department's April 19, 2022, comments, pages 12-13.

⁷ If no agreement with the Department was reached within 30 days, the Company was required to file for resolution of the appropriate incremental external legal and consulting costs for this and future years in its next EUIC rider request or rate case. However, as discussed in Otter Tail's August 31, 2022, compliance filing, the Department and Otter Tail did in fact reach an agreement.

⁸ The compliance filing stated as follows:

In its comments dated April 19, 2022, the Minnesota Department of Commerce, Division of Energy Resources (Department) raised the concern about whether Otter Tail could be recovering external legal and consulting fees twice – once in base rates as a result of the most recent rate case, and again in this rider. Prior to the hearing, Otter Tail and the Department agreed upon the inclusion of external legal and consulting costs in this Rider, and the Commission approved this agreement in its Order.[footnote removed] The Commission stated in Order Point 2 that "Otter Tail must show external legal and consulting costs are specific to the AMI project and qualify to be capitalized under Generally Accepted Accounting Principles." Following receipt of the Order, Otter Tail provided the Department with the required documentation regarding the external legal and consulting fees included in the 2022 EUIC revenue requirement. The Department has reviewed the documentation and agrees that the fees meet the requirements to be capitalized with the AMI Project costs.

⁹ See footnote 5.

¹⁰ See the Department's April 19, 2022, comments, page 12.

4. Reporting

The Commission's August 4, 2022, Order in Docket No. E017/M-21-382 required Otter Tail, in its next EUIC rider petition, to propose and establish performance metrics to track the performance of the AMI Project and OMS Project and any other projects proposed. In addition, Otter Tail must file an annual report (in future EUIC rider petitions) on its grid modernization investments. According to the Order, the annual report should include the following information:

- an update on the scope of the grid modernization projects proposed in the EUIC rider and intended functionalities and plan for upcoming year;
- an update on the actual capital and operations and maintenance costs incurred and savings accrued compared to the forecasted amounts included in the initial filing of the EUIC rider petition;
- an update on the implementation progress of the grid modernization projects proposed compared to the planned timeline;
- an update on the products and services that the grid modernization projects proposed may enable, including any modifications to those offerings, and a summary of implementation progress;
- a discussion of how the proposed grid modernization projects relate to Otter Tail's integrated distribution plan, specifically the Commission's Planning Objectives for integrated distribution plans and Otter Tail's integrated distribution plan Filing Requirement 3.D (Otter Tail's Long-term Distribution System Modernization and Infrastructure Investment Plan); and
- an update on any performance metrics that are established in a future EUIC rider proceeding.

In addition, the March 13, 2024, Order for Docket No. E017/M-23-131 requires Otter Tail to "report annually in electric utility infrastructure cost petitions on all metrics included in attachment 10 of Otter Tail's March 20, 2023, petition, or explain why reporting for a given metric was not possible."

5. Tariff Implementation

In the August 4, 2022, Order in Docket No. E017/M-21-382, the Commission approved Otter Tail's tariff changes as requested in the Company's June 20, 2022, supplemental filing.

Otter Tail's August 31, 2022, compliance filing provided its rates and tariff to be implemented on September 1, 2022, with Otter Tail stating that the rates had been updated to include recovery of the AMI and OMS projects as approved in ordering paragraphs 2 and 3. As shown in Attachment 1 to the compliance filing, the updated rates reflected Minnesota revenue requirements for the calendar year 2022 EUIC Rider of \$833,580.

The Commission also required Otter Tail, within 30 days of the date of the Order, to file an updated version of the class allocation and current rate design and the EUIC tracker, reflecting the decisions in the Order and any agreement with the Department on adjustments for incremental external legal and

consulting costs. Attachment 1 to Otter Tail's August 31, 2022, compliance filing provided the updated version of the class allocation and current rate design. Attachment 2 of the compliance filing provided the updated tracker.

In the March 13, 2024, Order in Docket No. E017/M-23-131, the Commission approved Otter Tail's tariff changes as requested in the Company's March 20, 2023, filing. Otter Tail's March 20, 2024, compliance filing provided its rates and tariff to be implemented on April 1, 2024, with Otter Tail stating that the rates had been updated to reflect the Commission's approved changes.

III. DEPARTMENT ANALYSIS

Otter Tail is requesting continued recovery of costs for two projects: AMI and OMS. The Company is also requesting to recover costs for a new DR System. The Department first reviews the two reoccurring projects for AMI and OMS as updated in the current petition, second reviews the additional new DR project presented in the current petition, and then reviews Otter Tail's overall proposed cost recovery and rates.

A. AMI

1. AMI Overview

The AMI project primarily consists of deploying 175,000 AMI meters across Otter Tail's overall service territory, including over 80,000 AMI meters in Minnesota. In addition, Otter Tail will deploy local data collectors in a Field Area Network (FAN) that collects and transmits meter data back to Otter Tail.

Finally, Otter Tail will also install a head-end system and Meter Data Management System to route and store data, as needed, to facilitate automatic meter reading and distribution control. The main benefit of AMI in terms of direct dollars saved comes from eliminating the need to manually read meters by physically visiting customer premises.¹¹

2. AMI Implementation

Page 5 of the current petition provided the following update on the implementation of the AMI project, noting a delay in the deployment schedule:

The original implementation plan for the AMI project anticipated business process development, system integration, and initial deployment to occur in late 2021 to the fourth quarter of 2022, with full deployment from late 2022 to the third quarter 2024. The deployment schedule has been delayed due to the integration requirements of the software systems and the associated testing challenge was discussed in the previous filing. The AMI pilot of 500 occurred in December 2023. Full meter deployment started in

¹¹ Docket No. E017/M-23-131.

mid-February 2024 and will continue throughout the year. While it is anticipated that most AMI meters will be installed by the end of 2024, there will be some AMI meter installations occurring in the first quarter of 2025. Allegiant Utility Services, Otter Tail's meter installation contractor, plans to complete the contracted portion of the installations in 2024, which represents approximately 91 percent of the total meter installations. The remaining meters, which represent meters associated with complex rates, complexity of metering configurations, and heightened impact to customer processes will be installed by Otter Tail employees. Allowing Otter Tail staff to manage these meter exchanges will reduce delays for Allegiant Utility Services and allow for a more coordinated exchange process for this customer group, which includes larger commercial and industrial loads.

The Department sent Otter Tail an information request (IR) asking whether the delay in the deployment schedule "due to integration requirements of the software systems" had been resolved, and, if not, to explain steps being taken to resolve any integration challenges. The Department also asked Otter Tail if they foresee any integration and/or installation challenges associated with the meters their employees will be installing. Lastly, the Department asked the Company to explain whether they expect any further integration and/or installation challenges that may further delay the AMI project. Otter Tail's response was as follows:

Otter Tail Power began deploying AMI meters in February 2024. As of May 24, 2024, approximately 70,000 AMI meters have been installed, which makes up about 40 percent of Otter Tail's total meter fleet. Otter Tail expects Allegiant Utility Services, Otter Tail's meter installation contractor, to complete the contracted portion of the installation in 2024, which represents approximately 91 percent of Otter Tail's meter fleet. While there are still some integrations to be completed, Otter Tail does not anticipate any significant delays. The project team is working on complex rate testing, which will allow Otter Tail to install the remaining 9 percent of its meter fleet. At this time, Otter Tail does not anticipate any challenges that would cause delays with physical complex meter installations that will be occurring during the first quarter of 2025.¹²

Otter Tail's response is generally consistent with its statement in the petition, referenced above, and does not anticipate in any further delays. Allegiant Utility Services is expected to complete their contracted services by the end of 2024, with Otter Tail completing the complex meters in the first quarter of 2025.

¹² DOC IR 2.

3. *O&M Savings due to AMI*

a.) *May 3, 2024, Initial Petition*

Page 5 of the petition provided an update on AMI costs and savings, stating:

Otter Tail’s actual cost through 2023 for the AMI project is \$19.9 million. The projected total spend on the project is \$56.0 million, which is slightly over the \$55.9 million approved amount. Actual costs through 2024 are projected to remain under the \$55.9 million soft cap.

Because full deployment of AMI began in February 2024, Otter Tail has not yet realized any O&M savings. Otter Tail estimates that approximately 25 percent of total expected annual savings will be realized in 2024, 75 percent in 2025, and nearly 100 percent expected savings will beginning in 2026.

Table 1: Total Company Estimated Cost Savings Shifts Due to Updated AMI Project Timeline

	2023	2024	2025
Initial Filing [21-382]	\$1,744,453	\$5,390,360	\$7,402,761
2023 Update [23-131]	\$150,102	\$4,540,372	\$7,402,761
2024 Update [current petition ¹³]	\$0	\$1,087,647	\$4,350,588

Otter Tail stated it would track actual O&M savings related to the AMI project in Attachment 8. According to Otter Tail, these savings “primarily include costs related to manual meter reading, of which a certain portion is completed by third party contract services and a certain portion conducted internally by service rep[resentative]s across Otter Tail’s system.”¹⁴

The Department issued an IR regarding the cost savings reflected in Petition Attachment 8. The Company provided an updated version of Petition Attachment 8¹⁵ as part of their response to the Department’s IR 3. Table 1 above reflects the updated cost savings.

The total O&M savings have been reduced from the initial filing and this change is reflected in Attachment 8 of the current petition. The projected annual savings based on meter reading amount included in base rates for 2024 and 2025 revenue requirements (as shown on line 8 of Attachment 8)) was reduced from \$7.4 million to \$5.8 million. Otter Tail provided the following explanation in DOC IR 2 of Docket No. E017/M-23-131:

¹³ DOC IR 3, Attachment 1.

¹⁴ Current Petition, Page 16.

¹⁵ DOC IR 3, Attachment 1.

In the initial analysis and tracker file, Otter Tail used the total company cost savings when displaying the credit to customers. Upon further analysis, it was noted that the total savings were being escalated annually to demonstrate estimated cost increases over time. Because base rates do not escalate as costs increase, the credit to customers will be lower than the calculated future savings to the company. Otter Tail will track actual savings and credit the rider with the amount the customers are being charged in approved base rates. With this change, Otter Tail estimates that \$5,800,784 of the total company escalated savings of \$7,402,761 in 2025 may be credited to customers.

As noted above, 75% of expected annual savings will be realized in 2025 and nearly 100% annual savings will begin in 2026.¹⁶ This timeline has updated since the prior filing IR response was received.

The Department agrees with Otter Tail that it is correct to only credit customers for the amount reflective of what customers are actually paying for meter reading costs in base rates. Since base rates reflect 2021 meter-reading costs, the credit should also reflect 2021 meter-reading costs. The Department has reviewed the O&M savings due to AMI implementation and believes the Company's calculation is reasonable.

B. OMS

1. OMS Overview

The June 7, 2021, petition in Docket No. E017/M-21-382 described the OMS project as follows:

As part of the OMS project, Otter Tail will develop the electrical connectivity model from meter to substation and specific attribution data of Otter Tail's GIS [Geographic Information System] features. The data collection effort will ensure the Company has accurate and complete data and can track how each customer on the delivery system is connected from the meter to a delivery transformer, to a feeder, and finally to a distribution substation. This updated data will facilitate better outage response when outage information is sent to the OMS. The GIS work will be performed by a third-party vendor that has extensive experience updating GIS models in preparation for grid modernization tools. In addition, the attribution data will be leveraged by Otter Tail engineers to refine various asset health programs, such as underground cable replacement and overhead line replacement projects. The connectivity model will also be utilized by the MDM[S] [Meter Data Management

¹⁶ Current Petition, Page 5.

System] for operational and planning tools and will be available for future tools, such as Volt/Var optimization, DR controls, and automated system reconfiguration. As such, the GIS effort is foundational to the I2030 initiative.

Lastly, the implementation of AMI will enhance the speed in which the OMS receives outage information and therefore improve restoration times even further. The individual meters will provide power-off and power-on notifications to be utilized by the OMS.

...

Currently, a customer will call to report an outage and must speak to a live call agent. The call agent or on-call management then must compile data from calls, field devices, and employees and dispatch a field crew to respond to the information. With an OMS, all outage related data will funnel into the system, including field updates, and automated outage call information received from customers through an outage Interactive Voice Response (IVR) system.

2. OMS Updates

The current petition provided the following update on the implementation of the OMS project:

The GIS update portion of the OMS project is nearing completion and is expected to be completed by May of 2024. The first phase of the OMS installation was completed in December 2022. The final go-live improvements to the OMS system, including modeling improvements as part of the GIS portion of the project, were completed in February of 2024. Since project completion, these items have improved available outage and restoration information and communications.

The next stage of OMS development ties closely with the installation of the advanced meter infrastructure and the implementation of the new CEP [Customer Experience Portal]. Meters included in the pilot were installed in December 2023. Full meter deployment began in February 2024 and will continue through early 2025. Together, OMS, CEP, and AMI will improve the customer experience featuring two-way communication for service outages and speeding up the restoration process. The CEP system allows customers to receive communication based on their preferences and will give customers the ability to sign up for outage and estimated restoration notifications that pertain specifically to their service.¹⁷

¹⁷ Current Petition, Pages 6-7.

The Department issued DOC IR 4 to gain clarity on the delay of the GIS update which was originally anticipated to be completed in May 2023. The Company provided the following detail in their response:

The delay in the GIS update portion of the OMS project was due to work force shortages and severe winter weather challenges that the third-party contractor had to work through. The contractor also underestimated the time it would take to complete the collection. Otter Tail will not experience any further delays as the GIS update portion of the OMS project is now complete.

Page 7 of the current petition provided an update on OMS costs and savings, stating:

Total OMS with GIS project cost through 2023 is \$3.1 million. The projected total spend on the project is \$3.7 million (OTP Total)/\$1.8 million (OTP MN). The \$1.8 million is under the \$2.0 million soft cap for the Minnesota jurisdictional share.

C. *DEMAND RESPONSE (DR) SYSTEM*

1. *DR System Overview*

According to Otter Tail, the Company's DR programs are core Company service offerings utilized by nearly one-third of Otter Tail customers, resulting in revenue over \$43.5 million (\$16.8 million OTP MN) in revenue in 2022.¹⁸ As noted by Otter Tail, this strong customer participation makes Otter Tail's DR portfolio one of the largest in the country by customer adoption – allows Otter Tail to control between 10-15 percent of total winter peak load, reducing overall system capacity needs, and lowering costs materially for customers. However, the Company's existing DR infrastructure is technologically obsolete, threatening the Company's ability to continue to offer DR options in the future. These programs reduce individual customer energy costs and allow Otter Tail to lower overall system energy and fuel costs for all customers and create efficiencies to the grid and generators. Other benefits for customers may include avoided generation capacity, avoided energy and transmission, frequency regulation, and emergency system protection.

The Company's DR program uses a communications network, load control switches, and a software platform to interface with customers' devices and reduce load during peak events for customers participating in DR programs. This allows Otter Tail, and customers, to save costs by interrupting load to shift or reduce load during periods of high market prices. But Otter Tail procured its current DR software in 2003 and now, more than 20 years later, the software is running unsupported from the vendor. Necessary components of Otter Tail's current DR System (communications equipment, receivers) are no longer available for purchase and run unsupported by the original manufactures. As a result, full replacement of the system is required.

¹⁸ Current Petition, Page 7.

The project was previously introduced in Docket No. E017/M-21-382, when the EUIC was initially introduced. The Commission deferred a decision on recovery for DR costs since the project was still under development.¹⁹ Since the original filing in 2021, an internal team was formed, and the Company hired a consultant. These individuals have attended industry conferences, met with top vendors of DR programs, and interviewed other utilities across the country on their DR programs.

In the summer of 2022, initial filings for the DR project were filed in both North Dakota and South Dakota. The DR project was subsequently approved by both state commissions. In the fall of 2022, interviews were held with top vendors and ultimately two were selected, Landis + Gyr (L+G) and Open Access Technology International (OATI).

Page 9 of the Petition gives the following insight into the partnership with L+G and cost savings stemming from the AMI project:

The Company is currently partnering with L+G to provide the communications backbone used for its AMI Initiative where a Field Area Network (FAN) provides two-way communications with devices. Rigorous vetting against alternative cellular options for DR proved that the FAN procured under the AMI project added value to the DR project as the communications backbone.

Further into discovery, it was determined that the meters deployed under the AMI project could potentially replace a portion of the existing LCDs in the field for a select group of rates. This discovery has the potential to reduce the overall cost of the DR project and optimize asset management to the benefit of the DR program.

OATI will provide the Demand Response Management System (DRMS) used “for the analytics needed to interface with organized markets and effectively hedge against the costs of high market prices.”²⁰ They are able to integrate data for Otter Tail’s operators to coordinate multiple technologies from multiple vendors.

The Company is also working with the University of Minnesota at Morris (UMN Morris) on a flow state battery project. It “is a first in edge system (endpoints on the system such as meter and substations) innovation and control for the Company.”²¹ Collaboration with UMN Morris requires the Company to purchase a system to interface with the battery software. OATI has included this expense in their bid for the project, as they will be collaborating with UMN Morris.

As noted in the Company’s Petition with regards to implementation schedule, installation is expected to begin in the third quarter of 2024 with full implementation being completed in 2027.

¹⁹ August 4, 2022, Order, Point 4.

²⁰ Current Petition, Page 10.

²¹ Id.

2. *Eligibility Determination*

The Department notes that the eligibility determination of projects included in an EUIC Rider petition is separate and apart from the eligibility determination of whether energy savings from those projects can be included in a utility's Conservation Improvement Program (CIP). Minn. Stat. §216B.241, subd. 1c(d) stipulates that a utility may achieve its 1.75 percent annual energy savings goal, in part, from "electric utility infrastructure projects approved by the commission under section 216B.1636 that result in increased efficiency greater than that which would have occurred through normal maintenance activity...."

The Deputy Commissioner of the Department of Commerce issued a Guidance Document on October 22, 2018, in Docket No. E999/CIP-18-543, which describes how to determine "normal maintenance" activities, an EUIC project's baseline energy use, and a step-by-step process to help standardize how EUIC projects are reviewed and approved for CIP energy savings credit.²²

The Department's analysis in the EUIC Riders generally is concerned only with a determination of whether the proposed projects are eligible for inclusion in a EUIC Rider, and *not* whether the same projects can be included in a utility's CIP. The Department's "EUIC Rider eligibility determination" does not prejudice the Deputy Commissioner's "CIP Eligibility Determination." For all "CIP Eligibility Determinations," a utility must follow the Deputy Commissioner's process as outlined in the Guidance Document if the utility seeks to include EUIC Rider projects in its CIP.

3. *Statutory Requirements*

Minn. Stat. §216B.1636 specifies five requirements for approval:

- 1) The rider must only include costs that were not in Otter Tail's rate base in the Company's most recent general rate case, per Minn. Stat. §216B.1636 subd. 1(b);
- 2) Otter Tail must show that the associated projects increase energy conservation or efficiency, consistent with Minn. Stat. §216B.241, subd. 1c, by replacing or modifying existing electric utility infrastructure, per Minn. Stat. §216B.1636, subd. 1(c);
- 3) Otter Tail must not have submitted another request under Minn. Stat. §216B.1636 at any other time this year, per Minn. Stat. §216B.1636, subd. 2(b)(1);
- 4) Otter Tail must submit all required information required under Minn. Stat. §216B.1636 subd. 2(b)(2); and

²² Decision, In the Matter of Determining Normal Maintenance Activities and CIP Review Process for Electric Utility Infrastructure Projects, Docket No. E999/CIP-18-543, dated October 22, 2018. Accessed at: <https://www.edockets.state.mn.us/EFiling/edockets/searchDocuments.do?method=showPoup&documentId=%7b0849C66-0000-C310-A767-92B206A5993B%7d&documentTitle=201810-147198-01>.

- 5) Otter Tail must show that the rider is in the public interest by, at minimum, providing a justification of the proposed rate design, per Minn. Stat. §216B.1636, subd. 2(b)(2)(v), and a cost-benefit analysis of the project, per Minn. Stat. §216B.1636, subd. 2(b)(2)(xi).

The Department reviews each of these requirements regarding the DR project in the following sub-sections.

- i. The rider must only include costs that were not in Otter Tail's rate base in the Company's most recent general rate case, per Minn. Stat. §216B.1636 subd. 1(b)*

The Department reviewed both recent OTP rate cases in Docket Nos. E017/GR-15-1033 and E017/GR-20-719 that was approved by the Commission at the November 4, 2021, Commission agenda meeting. The capital costs for the DR System represent expenditures for equipment of a sufficiently different purpose and capability that they can be reasonably considered incremental from that included in base rates.

The Department concludes that including the DR System in the EUIC Rider will effectively only include costs that were not in Otter Tail's rate base in the Company's two most recently approved general rate cases in Docket Nos. E017/GR-15-1033 and E017/GR-20-719.

- ii. Otter Tail must show that the associated projects increase energy conservation or efficiency, consistent with Minn. Stat. §216B.241, subd. 1c, by replacing or modifying existing electric utility infrastructure, per Minn. Stat. §216B.1636, subd. 1(c)*

The DR System would replace an existing, technologically obsolete, DR System. The proposed DR System would shift or reduce load when called upon by activating Load Control Devices (LCDs) located at customer homes and businesses. Reducing individual customer energy use and costs in this way allows the Company to lower overall system energy and fuel costs for all customers and create efficiencies to the grid.²³

The remaining question is whether Otter Tail has shown the DR System will increase energy conservation or efficiency, consistent with section 216B.241, subdivision 1c. Minnesota Statutes section 216B.241, subd. 1c, states that in order to count towards a utility's energy savings goal, energy savings resulting from electric utility infrastructure projects must be sourced from projects "that result in increased efficiency greater than would have occurred through normal maintenance activity."

As noted above, Otter Tail's Petition describes several ways in which the proposed DR System would reduce system losses and/or result in the more efficient use of energy.

The DR System is expected to enable Otter Tail to continue offering DR programs as well as enable improvements and support expansions to its offerings. DR programs can curtail demand, shift load to different time periods to reduce system impacts, and utilize the near real-time usage information to

²³ Current Petition, Page 7.

offer more advanced DR programs and offerings, all of which can result in the more efficient use of energy.

Based on our review, the Department concludes that the DR System satisfies this requirement.

- iii. Otter Tail must not have submitted another request under Minn. Stat. §216B.1636 at any other time this year, per Minn. Stat. §216B.1636, subd. 2(b)(1)*

The Department reviewed all Otter Tail petitions submitted in 2024. The petition in this case is the only one relating to a request under Minn. Stat. §216B.1636. **Therefore, this requirement is satisfied.**

- iv. Otter Tail must submit all required information required under Minn. Stat. §216B.1636 subd. 2(b)(2)*

As noted above, Minn. Stat. §216B.1636, subd. 2(b)(2) lists 11 filing requirements. The Department reviewed the Company's petition compliance with each filing requirement for the DR System.

The first filing requirement is "the location, description, and costs associated with the project." Otter Tail provided this information on pages 7 through 10, 13 through 15, and Attachment 7 of its petition. **Therefore, the first filing requirement is satisfied.**

The second filing requirement is "evidence that the electric utility infrastructure project will conserve energy or use energy more efficiently than similar utility facilities currently used by the electric utility."

Otter Tail provided this information on page 11 of this petition and in the business case of the filing which is analyzed in the subsequent section of these comments. **Therefore, the projects will use energy more efficiently than similar utility facilities currently used by Otter Tail and the second filing requirement is satisfied.**

The third filing requirement is "the proposed schedule for implementation." Otter Tail provided this information on page 11 of its petition. **Therefore, the third filing requirement is satisfied.**

The fourth filing requirement is "a description of the costs, and salvage value, if any, associated with the existing infrastructure replaced or modified as a result of the project." Otter Tail provided this information on page 11 of its petition. **Therefore, the fourth filing requirement is satisfied.**

The fifth filing requirement is "the proposed rate design and an explanation of why the proposed rate design is in the public interest." Otter Tail provided this information on pages 11, 16, and Attachment 3 of the Petition. **Therefore, the fifth filing requirement is satisfied.**

The sixth filing requirement is "the magnitude and timing of any known future electric utility projects that the utility may seek to recover under this section." Otter Tail indicated on page 11 of the petition that "the scope of each current project for which Otter Tail is seeking EUIC recovery is detailed in this filing." **Therefore, the sixth filing requirement is satisfied.**

The seventh filing requirement is “the magnitude of EUIC in relation to the electric utility's base revenue as approved by the commission in the electric utility's most recent general rate case, exclusive of fuel cost adjustments.” Otter Tail provided this information on page 11 of its petition in relation to the Company's most recent approved rate case (Docket No. E017/GR-20-719). **Therefore, the seventh filing requirement is satisfied.**

The eighth filing requirement is “the magnitude of EUIC in relation to the electric utility's capital expenditures since its most recent general rate case.” Otter Tail provided this information on page 12 of the petition, summarized in Table 1 “Net Capital Additions” from 2021 – 2023. **Therefore, the eighth filing requirement is satisfied.**

The ninth filing requirement is “the amount of time since the utility last filed a general rate case and the utility's reasons for seeking recovery outside of a general rate case.” On page 12 of Otter Tail's petition, the Company stated that the proposed projects were not included in its most recent rate case (filed November 2, 2020) because they would not be completed and in-service prior to the end of the case. **Therefore, the ninth filing requirement is satisfied.**

The tenth filing requirement is “documentation supporting the calculation of the EUIC.” Otter Tail provided the tracker it would use to calculate the EUIC rate in Attachment 4 of the petition and explained that the EUIC adjustment would be filed with the Commission annually and implemented as approved in the annual filing or the month immediately following the Commission's order. **Therefore, the tenth filing requirement is satisfied.**

The eleventh and final filing requirement is a “cost and benefit analysis.” Otter Tail's petition provides a summary-level information related to costs and benefits of the proposed projects on pages 13 through 15. Additionally, Otter Tail provided additional information in response to Department Information Requests referenced in these comments. **Therefore, the eleventh filing requirement is satisfied.**

- v. *Otter Tail must show that the rider is in the public interest by, at minimum, providing a justification of the proposed rate design, per Minn. Stat. §216B.1636, subd. 2(b)(2)(v), and a cost-benefit analysis of the project, per Minn. Stat. §216B.1636, subd. 2(b)(2)(xi)*
 - a. *Rate Design*

Otter Tail uses a monthly per meter charge rate design for the EUIC rider. The proposed calculation, like the AMI and OMS projects, will determine the average cost per meter for materials and labor for each customer class. The weighted average cost per customer class is then used to determine the percentage of project costs to be charged to each class. The weighted average cost per class divided by the average annual number of meters per class equals the monthly per meter charge.

Otter Tail's Attachment 1 provides the Projected Revenue Requirements by Customer Class for 2025. The Department notes that Otter Tail's Attachment 1 shows a \$1.31 per month and as result a \$15.72 per year rate increase for residential customers, with an estimated implementation date of January 1, 2025. This rate increase accounts for all projects in the EUIC, including the DR system.

In our review of the DR system, the Department noted that the hardware and related operating and maintenance expenses are a significant portion of the overall costs. Therefore, OTP's use of a fixed per meter charge that assigns material and operating costs for meters to each class, is a reasonable rate design method that fairly assigns costs to the appropriate customer classes. Based on our review, the Department considers OTP's fixed per meter charge to be consistent with the rate design for the other projects included in this EUIC filing, along with Dakota Electric's Grid Modernization project, which was approved by the Commission in its May 8, 2018 Order in Docket No. E111/M-17-821. The Department concludes that Otter Tail's proposed rate design of a fixed per meter charge assigned to appropriate customer classes is reasonable.

b. Rate Application

Consistent with the other projects in the EUIC, Otter Tail proposed that the EUIC be applicable to electric service meters under all of Otter Tail's retail rate schedules, as defined in Rate Schedule 13.11. OTP stated that charges for the current petition will be included as part of the Resource Adjustment line on customers' bills. Otter Tail's customer notice on Attachment 12 of its petition shows the applicable tariff section where the EUIC charge for each customer class can be found. Attachment 12 reflects the rate schedule for all projects in the EUIC, not just the proposed DR system.

Based on the Department's review, we consider OTP's rate application and customer billing to be shown on the Resource Adjustment line to be reasonable and consistent with past approved EUIC rider petitions.

c. Cost-Benefit Analysis

The Department reviewed Otter Tail's petition and responses to Department information requests for information related to a cost-benefit analysis (CBA) of the DR System proposal.

Response to DOC IR 1 provides an estimate of the new expenses for the DR System project and an estimate of the reduction in existing expenses as a result of the savings that the project will generate. This analysis is supported with figures that identify the costs, benefits, and other expenses related to the DR System from 2024 through 2043. While these figures are not discounted to present value dollars, the overall conclusion is that the DR System will provide substantial net benefits to Otter Tail Power's customers over the life of the project.

In DOC IR 1, the Department asked Otter Tail to provide additional information related to its cost-benefit analysis of the DR System. First, Otter Tail provided detail which enumerates the cost and benefits of the DR System over the life of the project. Information is recreated in Table 2, below.

Table 2: Costs and Benefits of the AMI Project

Demand Response Costs	Explanation
Project Costs	Costs for hardware and software for the DR System.
Operations and Maintenance	Ongoing activities involved in the management of the DR System.
Property Taxes	Property tax calculation based on Otter Tail's composite tax rate for the jurisdictions in which the facilities are located. Tax is calculated in accordance with the procedures specified by the states.
Income Taxes	The statutory rate and calculation for income taxes.

Demand Response Benefits	Explanation
Energy Arbitrage	Benefits received from economic dispatch of the current demand response program. The value included in this analysis is based upon historical Otter Tail load compared to controlled load during precise load control events. Historic load is compared to the load during called events to determine the MW load that was shed during a specific event. The estimated MW quantities are then configured with real time hourly Otter Tail locational marginalized pricing to calculate the monetary savings tied to the shed load during each hour at five-minute intervals.
Avoided Electric Capacity	The amount of installed capacity required to meet the forecasted peak load, which typically includes an additional reserve margin. A utility will either need to build generation capacity or procure it (for instance through bilateral contracts or wholesale market purchases) to ensure it has sufficient generation capacity to meet its planning requirement. If a Distributed Energy Resource (DER) results in a net decrease in load (e.g., from energy efficiency savings, curtailment through demand response, PV generation, injections from storage) during the system peak, the utility will experience benefits in the form of lower generation capacity needs. ²⁴
Avoided Electric Transmission and Distribution	Transmission capacity refers to the availability of the electric transmission system to transport electricity in a safe and reliable manner. In areas with insufficient transmission capacity available to support transmission of lowest-cost electricity, there will be transmission congestion costs due to the need to utilize higher-cost generation to avoid the transmission constraint. A DER's impact on transmission capacity depends on its load impact profile during the times coincident with the transmission peaks. If a DER increases load at the time of the transmission system peak, it will result in added costs. Alternatively, if a DER reduces load at the time of the transmission system peak, it will result in reduced costs. ²⁵

²⁴[Electric Utility System Impacts - NESP \(nationalenergyscreeningproject.org\)](https://www.nescreeningproject.org/)

²⁵[Electric Utility System Impacts - NESP \(nationalenergyscreeningproject.org\)](https://www.nescreeningproject.org/)

In addition to this information, Otter Tail provided a table (recreated below) that listed the undiscounted estimated ongoing total costs and benefits for the years 2024 – 2043.

**Table 3: Undiscounted Costs and Benefits of the DR System²⁶
 (Otter Tail Total)**

Costs (undiscounted millions USD)		Benefits (undiscounted millions USD)	
Hardware Costs	[TRADE SECRET DATA HAS BEEN EXCISED]	Avoided Electric Capacity	[TRADE SECRET DATA HAS BEEN EXCISED]
Software Costs		Avoided Electric Transmission and Distribution	
Project O&M		Energy Arbitrage	
Property Taxes			
Income Taxes			
Total		Total	

In addition to the information above, the Department asked Otter Tail to provide a net present value (NPV) calculation of the DR System and to justify the discount rate used. The Company provided a summary of the NPV net benefit, seen in Table 4 below. Otter Tail indicated that the discount rate used is the Conservation Improvement Program (CIP) Utility Discount Rate designated for Otter Tail in Docket No. E,G999/CIP-23-46: 5.61%.²⁷

Table 4: Otter Tail’s DR System Project NPV Calculation²⁸

Total Benefits	[TRADE SECRET DATA HAS BEEN EXCISED]
Total Costs	
Net Benefits	

The Department performed their own calculation of the NPV of the DR System based on the information received in DOC IR 1, see Table 5 below. Like Otter Tail, the Department used Otter Tail’s designated CIP Utility Discount Rate: 5.61%.

²⁶ Otter Tail’s response to DOC IR 1, page 5 of 6.

²⁷ Docket No. E,G999/CIP-23-46, March 31, 2023 Decision, Input 12.

²⁸ Otter Tail’s response to DOC IR 1, page 5 of 6.

Table 5: Department’s DR System Project NPV Calculation

Year	Period		Savings		NPV		
2024	0		\$17,120,327		\$15,506,679		
2025	1		\$17,261,163		\$8,742,654		
2026	2		\$17,407,365		\$6,204,784		
2027	3		\$17,559,148		\$13,637,718		
2028	4		\$17,716,734		\$13,639,590		
2029	5		\$17,880,356		\$13,052,929		
2030	6		\$18,050,255		\$12,491,530		
2031	7		\$18,226,682		\$11,953,755		
2032	8		\$18,409,901		\$11,440,761		
2033	9	[TRADE SECRET DATA HAS BEEN EXCISED]	\$18,600,185	[TRADE SECRET DATA HAS BEEN EXCISED]	\$10,952,534		
2034	10		\$18,797,818		\$10,487,914		
2035	11		\$19,003,096		\$10,045,768		
2036	12		\$19,216,329		\$9,624,970		
2037	13		\$19,437,840		\$9,224,443		
2038	14		\$19,667,962		\$8,843,165		
2039	15		\$19,907,047		\$8,480,167		
2040	16		\$20,155,458		\$8,134,527		
2041	17		\$20,413,576		\$7,805,373		
2042	18		\$20,681,795		\$7,491,877		
2043	19		\$20,960,529		\$7,193,253		
Totals					\$376,473,566		\$204,954,393

The NPV of the DR System project is determined after considering the costs, expenses, and savings (benefits) of the DR System over the life of the project. The DR System has capital costs of \$20 million, expenses of \$12.7 million over the life of the project, and \$376.5 million in savings over the life of the project, representing a difference and hence net benefit of \$343.7 million in nominal dollars. Based on both Otter Tail’s and the Department’s NPV calculation, that is \$205 million in net benefits in today’s dollars. Therefore, the DR System project is expected to provide benefits to Otter Tail’s ratepayers.

The Department concludes that Otter Tail Power demonstrated that the DR project will provide benefits to its ratepayers and that the DR project is in the public interest consistent with Minn. Stat. §216B.1636, subd. 2b(b).

4. Review of DR Business Case and Cost Recovery Cap

According to Otter Tail, the radio communication system that forms the backbone of the Company’s DR program is approaching its obsolescence. Much of the hardware used to support the current “legacy” radio system and its associated load control switches is antiquated and/or obsolete. The L+G FAN communication system installed as part of the AMI implementation will provide the foundation for upgrading to an updated system along with the potential for improvement and expansion of the Company’s DR offerings in the future.

The Company has developed a phased approach for this project to mitigate the risk of a failure of the obsolete legacy system and to take advantage of rapidly evolving technology.

In the first phase, OATI will be integrated with the legacy system. This integration will improve the analytics of directing the actions for DR and lay the foundation to begin replacing the Comverge LCDs for L+G devices. This work can begin immediately. It is important to note that the Comverge software cannot be completely retired until every Comverge LCD is removed from the program and replaced with a new L+G device.

In the second phase, deployment will begin to replace the Comverge LCDs with the new L+G LCDs for approximately 26,000 devices. These new devices will then be integrated to the previously established OATI headend.

The Company will also be working with L+G during this time to develop meter disconnect for use under a DR event. Meters deployed under the current AMI project will work as a load control switch for those customers solely on a water heating rate. This development would effectively reduce the number of LCDs in the field by more than 14,000, realizing significant cost savings on the hardware and deployment.

L+G has indicated it will take at least six months to complete the financial assessment and groundwork to include meter disconnect in its DR product processes, and prior to the commencement of the product development. Scheduling this capability for phase three of the project mitigates the risk of the legacy system failing by deploying devices early in the project for those rates that require an LCD while providing the development time needed for meter disconnect use as a DR product for those customers on a water heating rate solely.

Phase three of this project is dependent on L+G's ability to develop the meter disconnect application as a DR product with no further development or integration cost to the Company, so two cases have been developed for the project costs based on the switch count.²⁹

²⁹ Current Petition, Pages 13-14.

The Company developed a base case where all LCDs are replaced. Otter Tail provides the following detail on project costs:

The Company has developed, with its vendors, a base case that replaces every LCD in the field resulting in a project cost of **[TRADE SECRET DATA HAS BEEN EXCISED]**.³⁰

Otter Tail is actively looking and applying for funding mechanisms to lessen the financial impact on customers for the DR project. The Company has submitted a funding request to the U.S. Department of Energy’s Grid (DOE) Resilience and Innovation Partnership program on a bundle of projects including the DR System. The DOE has instructed the Company to proceed to the full application phase. Otter Tail plans to file their application in May 2024. The Company also applied to the Minnesota State Competitiveness Fund. The Department indicated funds have been reserved for this project should the Company receive DOE funding.³¹

The Company expects the capital cost of the DR project to be **[TRADE SECRET DATA HAS BEEN EXCISED]** on a company-wide basis. The Department recreates the figure from DOC IR 1 below, which provides a breakdown of the estimated capital costs of the DR project for the total company and the Minnesota jurisdictional share.

Table 6: Components of the DR Project’s Capital Costs³²

	Total Costs	Minnesota Cost
Hardware Costs	[TRADE SECRET DATA HAS BEEN EXCISED]	
Software Costs		
Project O&M		
Property Taxes		
Income Taxes		
Total		

The Department notes that there is a **[TRADE SECRET DATA HAS BEEN EXCISED]** in estimated costs between the base case³³ and capital cost included in DOC IR 1 (as shown in Table 6 above).

The Department also notes the importance of the principles that the Commission established in rider Orders: that recovery is capped at the cost estimate used in the Certificate of Need or analogous proceeding. The Commission’s regulatory tools to hold utilities financially accountable are focused largely on mechanisms to ensure that utilities have adequate incentives to minimize costs. For example, as noted by the National Regulatory Research Institute (NRRI), because utilities must pay for cost increases

³⁰ Id.

³¹ Id.

³² Otter Tail’s response to DOC IR 1, page 4 of 6.

³³ Otter Tail’s current petition on page 14.

between rate cases, a rate case “provides strong motivation for the utility to control those costs between rate cases.”³⁴

Holding utilities accountable for minimizing costs is particularly important when there are new types of facilities being built, since regulators are responsible for protecting ratepayers from paying unreasonable costs, and the Commission’s approach of holding a utility accountable to the costs originally proposed and certified for a facility is critical to protect the public interest.

Before the Department can recommend the Commission to approve a soft cost cap for the DR Project, the Department requests Otter Tail to provide in reply comments (1) supporting cost documentation for the five categories of costs included in Table 6 above and (2) the estimate of annual revenue requirements for the years 2024 to 2043 for the DR System on a total company basis. Otter Tail should also explain the difference in costs for the DR project between its base case noted on page 14 of its current petition and its response to DOC IR 1 as shown in Table 6 above.

The Department recommends that the Commission require Otter Tail to track all savings associated with the DR project, ensure they are included in the EUIC Rider, and explain any discrepancy between forecasted savings and actual savings.

D. CAPITAL SPEND RECOVERY AND COST CAPS

1. AMI Capital Spend

As noted above, the Commission issued a soft cost cap on the AMI project of \$55.9 million³⁵ in OTP total (across all jurisdictions) project capital costs, less (a) internal labor costs, and (b) external legal and consulting costs unless Otter Tail demonstrates that external legal and consulting costs are specific to the AMI project and qualify to be capitalized under GAAP.

The Department reviewed Otter Tail’s compliance with the cost cap by adding up plant additions in Attachment 14 of the current petition.³⁶ Summing these together, total capital additions for 2020-2025 equaled \$56.0 million which is slightly higher than the \$55.9 million cap.

³⁴National Regulatory Research Institute, *The Two Sides of Cost Trackers: Why Regulators Must Consider Both*, Abstract, page iii. October 27, 2009. Accessed at:

https://mn.gov/puc/assets/nrri_two_sides_cost_trackers_2007_tcm14-12043.pdf.

³⁵Otter Tail’s January 18, 2022, reply comments in Docket No. E017/M-21-382, page 7 of 37, state the \$55.9 million includes \$1.5 million included in the 2021 rate case test year in Docket No. E017/GR-20-719. In contrast, as discussed in footnote 20 below, Department concludes the cost cap for OMS does not include the 2021 test year costs.

³⁶ Docket No. E017/M-24-186, May 3, 2024.

Table 7: Otter Tail Proposed AMI Capital Spend Recovery (OTP Total)

Year	Meters	FAN	Software	Total
2020	\$103,983	\$ -	\$ -	\$103,983
2021	\$934,829	\$ -	\$ -	\$934,829
2022	\$1,777,245	\$174,827	\$2,596,279	\$4,548,351
2023	\$7,959,679	\$2,595,819	\$3,744,616	\$14,300,114
2024	\$30,330,399	(\$277,675)	\$4,282,824	\$34,335,548
2025	\$1,769,532	\$ -	\$33,930	\$1,803,462
2020-2025	\$42,875,667	\$2,492,971	\$10,657,649	\$56,026,288

Source: 'AMI Components' worksheet, additional CWIP, initial petition Att. 14

As shown in Otter Tail’s January 18, 2022, reply comments (pages 5-6 of 37), the \$55.9 million cost cap figure includes legal and consulting fees. As noted above, these costs are only recoverable if Otter Tail demonstrates that external such costs are specific to the AMI project and qualify to be capitalized under GAAP. According to Attachment 1 to DOC IR 4 in Docket No. E017/M-23-131, total external legal and consulting costs for the AMI project were \$1,241,508. The Department concluded that the Company demonstrated the external legal and consulting costs are indeed specific to the AMI project and qualify to be capitalized under GAAP.

Legal and consulting costs were reported in Docket No. Docket No. E017/M-23-131 through May 2023. **The Department requests Otter Tail, through reply comments, (1) quantify the dollar amount of external and legal consulting costs from May 2023 to present, (2) demonstrate that the proposed external legal and consulting costs are specific to the AMI project and qualify to be capitalized under GAAP, and (3) provide receipts corresponding to all proposed external legal and consulting costs from May 2023 to present.**

The Department will conclude if the external legal and consulting costs are specific to the AMI project and qualify to be capitalized under GAAP after reviewing the Company’s reply comments.

With the external costs included, Otter Tail’s total proposed capital spend recovery of \$56,026,288 is above the \$55.9 million cap. **The Department therefore recommends the Commission require Otter Tail to adjust its proposed rate recovery to cap OTP total AMI capital spending at the \$55.9 million required figure.**

2. OMS Capital Spend

As noted earlier in these comments, the Commission approved a soft cost cap of \$2,002,185 for Minnesota capital costs for OMS, representative of OTP total OMS capital costs of \$4,073,428.³⁷

As with the AMI cost cap, the Department reviewed Otter Tail’s compliance with the OMS cost cap by adding up plant additions in current Petition Attachment 14, which provided Otter Tail’s tracker. As shown in the table below, Otter Tail’s requested recovery for Minnesota capital spending is \$1,795,827

³⁷ Otter Tail’s June 7, 2021 petition, page 16, states that the \$4 million in OTP total capital spending does not include \$1 million of GIS capital spend included in Otter Tail’s 2021 test year in the base rates approved in Docket No. E017/GR-20-719. The Department therefore does not account the additional \$1 million as part of the soft cost cap.

in total, which is under the \$2,002,185 cap. Therefore, the Department concludes that Otter Tail’s proposed OMS revenue requirements have complied with the OMS soft cap.

Table 8: Otter Tail Proposed EUIC OMS Capital Spend Recovery

Year	OTP Total	Minnesota
2020	\$ -	\$ -
2021	\$ 381,439	\$ 187,486
2022	\$ 2,544,513	\$ 1,250,688
2023	\$ 190,944	\$ 93,853
2024	\$ 536,698	\$ 263,800
2025	\$ -	\$ -
2020-2025	\$ 3,653,594	\$ 1,795,827

Source: 'Att6 OMS with GIS Updates' worksheet, additional CWIP, initial petition Att. 14
 Minnesota Share uses 49.152% P90 allocator.

E. PROPOSED RATES

Table 9, below, shows Otter Tail’s proposed rates from Attachment 12 of the petition.

Table 9: Otter Tail’s Proposed EUIC Rates

Service Category	Monthly \$ per Meter Charge	
	Existing	Requested
Residential	1.43	2.74
Residential RDC	3.47	6.40
Farm	3.4	8.39
Small General Service (Under 20 kW)	N/A	4.41
General Service (20kW or Greater)	5.52	17.39
General Service - TOU	11.33	28.17
Large General Service - Primary / Transmission	41.24	150.71
Large General Service - Secondary	13.31	27.29
Irrigation Service	9.31	14.78
Outdoor Lighting (Metered)	3.54	2.95
OPA (Metered)	3.96	7.33
Controlled Service Deferred Load	3.47	6.40
Controlled Service Interruptible – Self- Contained	3.54	6.52
Controlled Service Interruptible – CT Metering	14.24	29.58
Controlled Service Off Peak	4.33	8.28

Otter Tail’s rate proposal results in a zero expected tracker balance at the end of 2025. The Department agrees with Otter Tail that intending to zero-out the tracker balance 12 months following implementation of rates is a reasonable approach.

In terms of rate design and cost allocation, the Department notes that Otter Tail proposes to continue using the same jurisdictional and class allocators approved in Docket Nos. E017/M-21-382, E017/GR-20-719, and E017/M-23-131.³⁸ The Department concludes it is reasonable to continue using these approved allocators.

F. OVERALL REVENUE REQUIREMENTS

Otter Tail’s proposed revenue requirements as reflected in the initial petition are shown in Table 10, below.

Table 10: Otter Tail’s Proposed EUC Minnesota Revenue Requirements – Current Petition³⁹

Line	Item	2023	2024	2025
		Actuals	Actuals (Jan-Mar) + Forecast (Apr-Dec)	Forecast
[1]	AMI Rev. Req.	\$416,177	\$2,844,007	\$5,433,069
[2]	OMS Rev. Req.	\$161,686	\$361,317	\$416,255
[3]	DR Rev. Req.	\$0	\$0	\$750,970
[4]	ADIT Preservation of Proration	\$0	\$3,237	\$0
[5] = [1] + [2] + [3] + [4]	Total Rev. Req. (Gross)	\$577,863	\$3,208,561	\$6,600,294
[6]	O&M Savings due to AMI	\$0	\$(528,567)	\$(2,114,267)
[7] = [5] + [6]	Net Rev. Requirements	\$577,863	\$2,679,994	\$4,486,027
[8]	EUC Rider Recoveries	\$811,851	\$2,197,380	\$4,563,521
[9] = [7] - [8]	Tracker Balance	\$(233,988)	\$482,614	\$(77,494)
[10]	Cumulative Tracker Balance	\$(405,120)	\$77,494	\$0

Otter Tail’s proposed gross revenue requirement nearly doubles from 2024 to 2025, which based on the Department’s review is due to (1) increase in AMI expenses, specifically operating costs and (2) addition of the DR System implementation ramping up in 2025. The operating costs for AMI are further examined below.

Table 11: Otter Tail Proposed EUC Operating Costs⁴⁰

Year	Meters	FAN	Software	Total
2023	\$22,688	\$7,441	\$3,400	\$33,529
2024	\$308,626	\$118,476	\$320,421	\$747,522
2025	\$2,769,009	\$234,889	\$523,190	\$3,527,088
Total	\$3,100,323	\$360,805	\$847,011	\$4,308,140

In response to DOC IR 9, Otter Tail confirms that the operating costs include annual maintenance fees for new assets and labor to run the new software systems.

³⁸ Current Petition, Attachment 14.

³⁹ Current Petition, Attachment 4.

⁴⁰ Current Petition, Attachment 14, ‘AMI Components’.

Based on the Company's response to DOC IR 9 and review of the Company's tracker, the Department concludes that (1) the recovery of the operating costs are reasonable and recoverable under Minn. Stat. 216B.1636, subdivision 1 and (2) the revenue requirement calculation is reasonable.

G. REPORTING REQUIREMENTS

a.) Performance Metrics

The Commission's August 4, 2022, Order in Docket No. E017/M-21-382 required Otter Tail, in its next EUIC rider petition, to propose and establish performance metrics to track the performance of the AMI Project and OMS Project and any other projects proposed. The Company provided a proposed metrics in their Petition filed in Docket No. E017/M-23-131 on March 20, 2023.⁴¹

The Commission's March 13, 2024, Order in Docket No. E017/M-23-131 further required Otter Tail to report annually in EUIC petitions on all metrics included in their Docket No. E017/M-23-131 Petition, Attachment 10, or explain why reporting for a given metric is not possible. The current petition provided the required metrics reporting in Attachment 11 for the AMI and OMS projects, however, no performance metrics was included for the DR project. The Department issued DOC IR 6 to obtain a preliminary performance metrics for the DR project. The Department reviewed Otter Tail's proposed metrics in Attachment 11, supplemental detail on pages 17-18 of the petition, and the Company's response to DOC IR 6 and concludes the proposed metrics are reasonable. The Department therefore recommends the Commission approve Otter Tail's proposed performance metrics.

The Department recognizes that that the DR System is still in the planning stage, with installation starting in the third quarter of 2024 and not being fully implemented until 2027. **The Department recommends that the Commission require Otter Tail in its next EUIC Rider petition, and annually thereafter as the project continues to develop and be implemented, to establish performance metrics to track the performance of the DR System in Attachment 11 with the AMI and OMS projects. Consistent with the March 13, 2024, Order, Otter Tail should also report annually on the metrics or explain why reporting for a given metrics is not possible.**

b.) Annual Report on Grid Modernization Investments

The August 4, 2022, Order also required that Otter Tail file an annual report (in future EUIC rider petitions) on its grid modernization investments. According to the Order, the annual report should include the following information:

- an update on the scope of the grid modernization projects proposed in the EUIC rider and intended functionalities and plan for upcoming year;
- an update on the actual capital and operations and maintenance costs incurred and savings accrued compared to the forecasted amounts included in the initial filing of the EUIC rider petition;

⁴¹ Docket No. E017/M-23-131, Petition, Attachment 10.

- an update on the implementation progress of the grid modernization projects proposed compared to the planned timeline;
- an update on the products and services that the grid modernization projects proposed may enable, including any modifications to those offerings, and a summary of implementation progress;
- a discussion of how the proposed grid modernization projects relate to Otter Tail's integrated distribution plan, specifically the Commission's Planning Objectives for integrated distribution plans and Otter Tail's integrated distribution plan Filing Requirement 3.D (Otter Tail's Long-term Distribution System Modernization and Infrastructure Investment Plan); and
- an update on any performance metrics that are established in a future EUIC rider proceeding.

The Department concludes Otter Tail has provided this required information.

H. CAPITAL EQUIPMENT SALES TAX REFUND

Under Minn. Stat. § 297A.68, subd. 5, capital equipment is exempt from sales tax. Otter Tail noted that all meters purchased to date, for the AMI project, have been charged sales tax. The Company will file for a sales tax refund to recover \$0.9 million; the refund is expected later in 2024.⁴²

The Department issued DOC IR 8 to confirm that Otter Tail applied the refund to their tracker and obtain detail of the sales taxes charged. The Department reviewed Otter Tail's response in DOC IR 8 and Attachment 1 and finds the Company's refund allocation reasonable.

IV. RECOMMENDATIONS

The Department provides the following preliminary recommendations to the Commission:

- Require Otter Tail to track all savings associated with the DR project, ensure they are included in the EUIC Rider, and explain any discrepancy between forecasted savings and actual savings.
- Require Otter Tail to adjust its proposed rate recovery to cap OTP total AMI capital spending at the \$55.9 million required figure.
- Require Otter Tail in its next EUIC Rider petition, and annually thereafter as the project continues to develop and be implemented, to establish performance metrics to track the performance of the DR System in Attachment 11 with the AMI and OMS projects. Consistent with the March 13, 2024, Order, Otter Tail should also report annually on the metrics or explain why reporting for a given metrics is not possible.

⁴² Current Petition, Page 16.

The Department requests that Otter Tail provide the following in reply comments:

- Supporting cost documentation for the five categories of costs included in Department Table 6.
- An estimate of annual revenue requirements for the years 2024 to 2043 for the DR System on a total company basis.
- Explain the difference in costs for the DR project between its base case noted on page 14 of its current petition and its response to DOC IR 1 as shown in Table 6 above.
- Quantify the dollar amount of external and legal consulting costs from May 2023 to present.
- Demonstrate that the proposed external legal and consulting costs are specific to the AMI project and qualify to be capitalized under GAAP.
- Receipts corresponding to all proposed external legal and consulting costs from May 2023 to present.

The Department will provide final recommendations after reviewing Otter Tail's reply comments.

CERTIFICATE OF SERVICE

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

**Minnesota Department of Commerce
Public Comments**

Docket No. E017/M-24-186

Dated this **2nd** day of **August 2024**

/s/Sharon Ferguson

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Ray	Choquette	rchoquette@agp.com	Ag Processing Inc.	12700 West Dodge Road PO Box 2047 Omaha, NE 68103-2047	Electronic Service	No	OFF_SL_24-186_M-24-186
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_24-186_M-24-186
Lauren	Donofrio	ldonofrio@otpc.com	Otter Tail Power Company	215 South Cascade Street Fergus Falls, MN 56538-0496	Electronic Service	Yes	OFF_SL_24-186_M-24-186
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_24-186_M-24-186
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Matthew	Olsen	molsen@otpc.com	Otter Tail Power Company	215 South Cascade Street Fergus Falls, MN 56537	Electronic Service	No	OFF_SL_24-186_M-24-186
Generic Notice	Regulatory	regulatory_filing_coordinators@otpc.com	Otter Tail Power Company	215 S. Cascade Street Fergus Falls, MN 56537	Electronic Service	Yes	OFF_SL_24-186_M-24-186
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_24-186_M-24-186
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_24-186_M-24-186
Amber	Stalboerger	astalboerger@otpc.com	Otter Tail Power Company	215 South Cascade St. PO Box 496 Fergus Falls, MN 56538-0496	Electronic Service	Yes	OFF_SL_24-186_M-24-186
Cary	Stephenson	cStephenson@otpc.com	Otter Tail Power Company	215 South Cascade Street Fergus Falls, MN 56537	Electronic Service	No	OFF_SL_24-186_M-24-186
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