

February 27, 2020

Mr. Will Seuffert  
Executive Secretary  
Minnesota Public Utilities Commission  
121 7<sup>th</sup> Place East, Suite 350  
St. Paul, Minnesota 55101-2147

RE: **Comments of the Division of Energy Resources of the Minnesota Department of Commerce**  
Docket No. E017/M-03-30

Dear Mr. Seuffert:

Attached are the Comments of the Division of Energy Resources of the Minnesota Department of Commerce (Department) in the following matter:

    Otter Tail Power Company's Notice of Implementation of Annual Fuel Clause Adjustment  
    True-up Mechanism.

The initial docket was filed on January 8, 2003. Otter Tail Power Company's most recent compliance report was filed on January 30, 2020. The petitioner is:

    Stuart Tommerdahl  
    Manager, Regulatory Administration  
    Otter Tail Power Company  
    215 South Cascade Street, PO Box 496  
    Fergus Falls, Minnesota 56538-0496

The Department recommends that the Minnesota Public Utilities Commission (Commission) **approve** the compliance report and the new annual true-up credit (or decrease in rates) of **0.5 mills per kWh**. The Department is available to answer any questions the Commission may have.

Sincerely,

/s/ DALE V. LUSTI  
Financial Analyst

DVL/ja  
Attachment



Before the Minnesota Public Utilities Commission

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Comments of the Minnesota Department of Commerce  
Division of Energy Resources

Docket No. E017/M-03-30

**I. BACKGROUND**

On December 23, 2002, in Docket No. G,E999/AA-01-838, the Minnesota Public Utilities Commission (Commission) ordered Otter Tail Power Company (OTP, Otter Tail or the Company) to file a Fuel Clause Adjustment (FCA) true-up proposal by January 8, 2003, *i.e.*, within 90 days of the hearing date. This requirement was based on data that had consistently shown that OTP had been over-collecting fuel costs for a number of years.

At the January 22, 2004 Commission meeting in Docket No. E017/M-03-30 (the 03-30 docket), the Minnesota Department of Commerce (Department) and the Company jointly recommended that the Commission direct Otter Tail to supplement its filing with an “annual true-up” alternative to allow for comparison. It was further recommended that the supplemental filing consider implementation issues and the underlying issue as to whether it is appropriate to have a true-up.

On February 18, 2004, the Commission issued an Order in the 03-30 docket with the following requirement:

Within 60 days of the date the Department of Commerce files its initial comments in Docket E,G999/AA-03-1264, Otter Tail Power Company shall make a supplemental filing in this docket containing at least the following items:

- a. An annual true-up mechanism for its automatic fuel clause adjustment;
- b. An analysis and discussion of the current need for a fuel clause true-up; and
- c. An analysis and discussion of any implementation issues likely to arise with either the annual or monthly true-up.

On April 27, 2004, the Company submitted a supplemental filing and petition seeking approval of:

- an annual FCA true-up mechanism;
- a change in application date of the current FCA from a mid-month basis to a calendar-month basis;
- a change to tariff language to reflect the annual true-up rate and the change in the application of the monthly rate;
- a variance to Minnesota Rules 7825.2500; and
- a proposed effective date of August 1, 2004 for the annual true-up.

On December 27, 2004, the Commission approved Otter Tail's proposed annual FCA true-up effective August 1, 2005.

On July 28, 2005, the Company submitted a petition seeking approval to delay implementation of its annual true-up for 2005, from the August 1, 2005 date to at least year-end 2005, provided that the Commission has ruled on Midcontinent Independent System Operator (MISO) costs in Docket No. E017/M-05-284.

The Company's request to delay implementation of its annual true-up for 2005 was based on the following reasons:

- MISO Day 2 market activity and Docket No. E017/M-05-284. MISO costs included in Otter Tail's FCA are subject to final determination by the Commission and subject to possible refund;
- During the last three months of the true-up period (July 2004 thru June 2005), the Company experienced an under-recovery of approximately \$3.5 million. For comparison purposes, the first nine months of the period resulted in essentially a zero over-under recovery. The under-recovery in the last three months may be an indication of the instability of costs in recent months. Some of the costs may have been caused by the MISO market start-up and some by another event;
- Also during the MISO start-up period, Otter Tail had one of its major baseload generating plants (Big Stone) out of service for seven weeks for a scheduled overhaul, forcing the Company to make additional purchases in the early months of the MISO market.

On September 30, 2005, the Commission approved Otter Tail's proposal to delay implementation of its annual true-up for 2005, and Ordered that Otter Tail file its 2005 true-up by December 31, 2005.

On December 21, 2005, the Company submitted a petition seeking approval to extend implementation of its annual true-up for 2005, from the December 31, 2005 date to August 1, 2006, again citing issues related to MISO.

On March 20, 2006, via its consent calendar, the Commission approved Otter Tail's proposed extension.

On July 20, 2006, the Company submitted a petition seeking approval to implement its true-up starting with bills dated August 2, 2006. Otter Tail's request was based on the 24 months of July 2004-June 2006, to be collected over a 12-month period. The petition identified an under-recovery of \$4,202,535 over the 24-month period. The proposed true-up factor to be recovered over the next 12-month period was 2.2 mills per kWh.

On August 2, 2006, OTP implemented the true-up charge.

The Commission's September 28, 2006 Order permitted OTP to continue the FCA true-up mechanism authorized on December 27, 2004 and implemented on August 2, 2006. The Order required OTP to file within 30 days a detailed explanation supporting the true-up charge.

On October 30, 2006, the Company submitted a compliance report that included the requested supporting documentation as well as proposed true-up procedures.

The Commission's December 27, 2006 Order approved OTP's compliance report and proposed true-up procedures. The procedures applicable to future annual true-up filings were as follows:

1. The over/under amount is determined for the period July 1 through June 30 (same time period as covered by Annual Automatic Adjustment or AAA reports).
2. The amount of over/under recovery is divided by kWh sales subject to the FCA for the same historical 12 months to develop a rate. The annual true-up rate will be based on historical costs and sales, unless a material change to sales is known to occur in the period to which the true-up rate is to be applied, in which case the known change will be considered in the true-up rate calculation.
3. Notice of implementation of the new annual true-up is to be filed by September 1.
4. The rate would be applied to customers' bills beginning September 1, subject to regulatory review.
5. Otter Tail will work with Commission staff on the notification to customers of the change in timing and rate.
6. Documentation to include with filing:
  - a. Bill impact by customer class;
  - b. Documentation supporting all calculations;

- c. Sales forecast covering the time period that the true-up will be collected/refunded;
- d. Notation of unusual costs such as plant outages, market start-up, unusual increased or decreased sales; and
- e. Any additional documentation requirements resulting from the final Order in the MISO Day 2 docket (E-017/05-284) that may pertain to an annual true-up calculation.

7. Any over recovery resulting from the true-up will be refunded.

On January 16, 2007, the Company submitted a proposal to reduce the true-up rate for the months of February through July 2007 from \$0.0022 per kWh to \$0.0005 per kWh.

The Commission's March 22, 2007 Order approved OTP's reduced true-up rate for the months of February through July of 2007.

On August 31, 2007, the Company submitted a proposal to implement a true-up refund through a \$0.0004 per-kWh credit, a decrease of \$0.0009 per kWh from the prior true-up factor, ( $\$0.0005 - (-\$0.0004) = \$0.0009$ ).

The Commission's October 26, 2007 Order approved OTP's true-up refund beginning September 4, 2007.

On July 31, 2008, the Company submitted a compliance report and proposal to implement a true-up refund through a \$0.0006 per-kWh credit, an increase of \$0.0002 to the per-kWh credit previously in place. The Commission's September 4, 2009 Order approved OTP's true-up refund beginning September 2, 2008.

On July 31, 2009, the Company submitted a compliance report and proposal to implement a true-up refund through a \$0.0001 per-kWh credit, a decrease of \$0.0005 to the per-kWh credit previously in place. The Commission's September 14, 2009 Order approved OTP's true-up refund beginning September 1, 2009.

On July 30, 2010, the Company submitted a compliance report and proposal to implement a true-up rate of \$0.0003 per kWh to collect under-recoveries, an increase of \$0.0004 per kWh from the prior credit amount. The Commission's October 15, 2010 Order approved OTP's true-up increase in rates beginning September 1, 2010.

On August 1, 2011, the Company submitted a compliance report and proposal to implement a true-up increase in rates of \$0.0005 per kWh, an increase of \$0.0002 per kWh from the prior amount. The Commission's December 16, 2011 Order approved OTP's true-up increase in rates beginning September 1, 2011.

On July 31, 2012, the Company submitted a compliance report and proposal to continue to implement the same true-up rate of \$0.0005 per kWh as was approved in 2011. The Commission's October 9, 2012 Order approved OTP's true-up rate beginning September 1, 2012.

On July 31, 2013, the Company submitted a compliance report and proposal to implement a true-up refund through a \$0.0002 per-kWh credit. The Commission's October 18, 2013 Order approved OTP's true-up refund beginning September 1, 2013.

On July 31, 2014, the Company submitted a compliance report and proposal to implement a true-up rate of \$0.0008 per kWh to collect under-recoveries. The increase of \$0.0010 per kWh over the prior \$0.0002 per-kWh credit was the largest one-year increase in the true-up since its inception. The Commission's September 25, 2014 Order approved OTP's true-up increase in rates beginning September 1, 2014.

On July 31, 2015, the Company submitted a compliance report and proposal to implement a true-up refund through a \$0.0006 per-kWh credit. The resulting rate decrease of \$0.0140 per kWh was another relatively large rate change (in the other direction from the 2014 rate change). The Commission's October 6, 2015 Order approved OTP's true-up refund beginning September 1, 2015.

On July 29, 2016, the Company submitted a compliance report and proposal to implement a true-up refund through a \$0.0003 per-kWh credit, a credit reduction of \$0.0003 per kWh from the prior amount. The Commission's September 15, 2016 Order approved OTP's true-up refund beginning September 1, 2016.

On July 31, 2017, the Company submitted a compliance report and proposal to implement a true-up rate of \$0.0004 per kWh to collect under-recoveries. The Commission's September 27, 2017 Order approved OTP's true-up rate beginning September 1, 2017.

On July 31, 2018, the Company submitted a compliance report and proposal to implement a true-up refund through a \$0.0004 per kWh credit, a decrease in the true-up factor of \$0.0008 per kWh from the prior amount. The Commission's October 9, 2018 Order approved OTP's true-up credit beginning September 1, 2018.

On August 16, 2019, the Company submitted an informational filing to inform parties that the Commission on June 12, 2019 approved a variance in Docket No. E999/CI-03-802 to allow the Company to submit a one-time true-up filing for the period of July 1, 2018 – December 31, 2019. The Commission required the filing to be submitted no later than January 31, 2020, and implement the true-up rate for the period of March 1, 2020 – February 28, 2021.

## **II. SUMMARY OF OTTER TAIL'S REQUEST**

On January 30, 2020, the Company submitted the required petition seeking approval to implement its new annual true-up factor starting with bills dated March 1, 2020. Otter Tail's request was based on the 18 months of July 1, 2018 through December 31, 2019, to be credited over a 12-month period. The petition identified a credit (or net over-recovery) of \$1,410,325. The proposed true-up factor to be applied over the next 12-month period is a credit of 0.5 mills per kWh or \$0.0005 per kWh. This amount is a decrease of \$0.0001 (an increase in the credit) per kWh from the prior year's true-up credit of \$0.0004 per kWh.

## **III. DEPARTMENT ANALYSIS**

As noted above, the Commission's December 27, 2006 Order provides specific true-up procedures applicable to the Company's annual true-up filings. Therefore, the Department addresses whether the Company complied with each of the true-up procedures.

1. The Department confirmed that the over-recovery amount of \$1,410,325 was for the period July 1, 2018 through December 31, 2019.
2. The Department confirmed that the proposed true-up credit of \$0.5 mills/kWh was the result of dividing the amount of net over-recovery of actual costs of \$1,410,325 by 2,721,526,700 which was the forecasted Minnesota kWh sales for the period March 1, 2020 through February 28, 2021.
- 3, 4 and 5 The Company's January 30, 2020 filing is in full compliance with filing requirement 3, 4 and 5, as modified to comply with the new calendar year reporting method approved in the Commission's June 12, 2019 Order in Docket No. E999/CI-03-802.
6. The Department reviewed and concurs that the following documentation was in fact submitted with the filing in compliance with the December 27, 2006 Order:
  - a. Exhibit 2, Page 1 of 12 to the Petition contains dollar amounts by customer class, and Exhibit 4 contains the bill impacts on a typical (average) customer within each of the classes;
  - b. Exhibit 1 and Exhibit 3, Pages 1-32 to the Petition provide the requested supporting calculations;
  - c. Exhibit 2, Page 1 of 12 to the Petition contains the requested sales forecast;
  - d. Exhibit 2, Pages 2-11 to the Petition contains the requested plant outages and unusual costs by month for the period June 2018 through December 2019; and
  - e. Exhibit 2, Page 12 to the Petition contains the Company's statement that there were no additional requirements in the true-up due to the final Order in Docket No. E017/M-05-284.

7. At the time of this filing, the Company did not know the amount of any true-up difference for the period ending December 31, 2019; thus the amount will be reported in the 2020 annual filing, and included in the true-up calculation filed March 1, 2021.

#### **IV. DEPARTMENT RECOMMENDATION**

The Department recommends that the Commission approve OTP's compliance report and the annual true-up credit of 0.5 mills per kWh to be refunded over the 12-month period beginning March 1, 2020.

/ja