

The Commission met on **Thursday, March 2, 2017**, with Chair Lange, and Commissioners Lipschultz, Schuerger, Sieben, and Tuma present.

The following matters were taken up by the Commission:

ENERGY FACILITIES PERMITTING AGENDA

E-999/CI-17-123

In the Matter of the Department of Commerce Workgroup on Decommissioning of Wind and Solar Facilities

Commissioner Tuma moved to authorize the creation of the wind and solar decommission workgroup as outlined in the DOC EERA memos filed February 6 and 17, 2017.

The motion passed 5 – 0.

ENERGY AGENDA

E-017/GR-15-1033

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

1. *Recovery of Expired Production Tax Credits (PTCs) Through the Renewable Resource Adjustment Rider (RRAR)*

Commissioner Lipschultz moved that the Commission

- Approve Otter Tail's recovery of expired PTCs through the RARR. For Langdon recovery will begin on December 1, 2017 and for Ashtabula it will begin on November 1, 2018.
- Order Otter Tail to perform a true-up of the PTCs compared to what is included in base rates through the Renewable Energy Rider. The true-up would be for the January 1 to November 30, 2017 period for Langdon and the January 1, 2017 to October 31, 2018 for Ashtabula.

The motion passed 5 – 0.

2. *Environmental Cost Recovery Rider (ECRR)*

Commissioner Lipschultz moved that the Commission order Otter Tail to specify the mechanism it plans to use to collect/refund any remaining ECRR balance in its compliance filing.

The motion passed 5 – 0.

3. *Big Stone II Generation Related Costs*

Commissioner Schuerger moved that the Commission order OTP to provide a detailed reconciliation of Big Stone II generation-related development costs as part of its compliance filing that reflects the Commission’s final order and include any over-recoveries as part of the interim rates refund.

The motion passed 5 – 0.

4. *Interim Rates Recoveries*

Commissioner Tuma moved that the Commission find that Otter Tail’s Environmental Cost Recovery Rider, Transmission Cost Recovery Rider, and Renewable Resource Adjustment Rider adjustments were appropriate and should be recovered in interim rates.

The motion passed 5 – 0.

5. *Rate Base – Unadjusted*

Commissioner Tuma moved that the Commission order that, in its next rate case, Otter Tail must file all rate base amounts as unadjusted.

The motion passed 5 – 0.

6. *Multi-Value Transmission Projects (MVPs)*

Commissioner Schuerger moved that the Commission order Otter Tail to use the all-in approach and include the Big Stone Area Transmission projects in the Company’s 2016 Transmission Cost Recovery Rider, in Docket No. E-017/M-16-374.

The motion passed 5 – 0.

7. *Aircraft Expenses*

Commissioner Sieben moved that the Commission:

- Approve Otter Tail’s proposal to recover airplane costs totaling \$117,453.
- Order Otter Tail to provide more detailed, granular information of aircraft-related fixed costs and avoided costs of driving in future rate cases.

The motion passed 5 – 0.

8. Pension Asset and Other Post-Employment Benefits (OPEB) Liability

Commissioner Lipschultz moved that the Commission require OTP to exclude the prepaid pension asset and OPEB liabilities and associated accumulated deferred income taxes from test-year rate base.

The motion passed 5 – 0.

9. Discount Rates for Pension and OPEB Expenses

Chair Lange moved that the Commission:

- Accept the parties’ agreement to update the expected return on plan assets for qualified pension to 7.75% and update the census data for qualified pension, retiree medical, and LTD medical expense to January 1, 2016.
- Allow OTP to use the 2012–2016 five-year average discount rates of (1) 4.81% to calculate test year pension expense, and (2) 4.63% to calculate test year OPEB expenses.
- Require OTP to make the correct adjustments to total test-year pension and OPEB expenses, those in O&M expenses and the capitalized pension and OPEB expenses.

The motion passed 5 – 0.

10. Energy Rider and the TailWinds Program

Chair Lange moved that the Commission Deny OTP’s proposal to charge unsubscribed energy costs, associated with OTP’s TailWinds Program, to non-enrolling customers through the Energy Adjustment Rider (FCA).

The motion passed 5 – 0.

11. Fuel Clause Adjustment—Reagents and Emissions Allowances

12. Fuel Clause Adjustment—E8760 Allocator

Commissioner Tuma moved that the Commission:

- Not allow OTP to include Test Year reagent cost and emission allowance amounts in the Base Fuel Cost, or to adjust test-year reagent costs and emission allowance amounts through the FCA.
- Adopt the following finding, modifying ALJ finding 229:

OTP’s proposal to use the E8760 allocator to allocate both base fuel costs and amounts recovered through the Energy Adjustment Rider is reasonable and shall ~~should~~ be adopted. Further, OTP ~~should~~ shall only begin using the ~~10-class~~ E8760 allocation for the energy adjustment upon implementation of the new CIS in

2018. When the new system is operational, it would make allocations across the ten customer classes as recommended by the Department. Finally, OTP shall ~~should~~ submit a compliance filing at least 120 days ahead of the proposed implementation date of the new rates, consistent with the recommendation of the Department.

The motion passed 5 – 0.

13. *Cash Working Capital (CWC)*

Commissioner Lipschultz moved that the Commission reject ALJ Finding 219 and find that the Cash Working Capital lag days for Property Taxes, Labor and Associated Payroll Expense, and Tax Collections Available-Franchise Taxes should be adjusted as agreed upon between the Department and OTP, and Cash Working Capital should be updated to reflect the Commission-approved expense levels.

The motion passed 5 – 0.

14. *Southwest Power Pool (SPP) Energy Market Charges*

Commissioner Lipschultz moved that the Commission adopt ALJ Finding 243 and allow OTP to include SPP energy market charges and revenues in the FCA, and to modify Section 13.01 of its Electric Rate Schedule as proposed.

The motion passed 5 – 0.

15. *Southwest Power Pool (SPP) Transmission Costs*

Commissioner Schuerger moved that the Commission Adopt the agreement between OTP and the Chamber and allow OTP to include a base amount of net costs of \$530,000 (OTP MN) in the test year and to set up a tracker to track the amounts over and under on an annual basis.

The motion passed 5 – 0.

16. *Management Incentive Compensation*

Commissioner Lipschultz moved that the Commission allow OTP to recover management incentive costs in test year expenses with the removal of the agreed to amounts of management incentive costs and Board of Directors long term incentive costs.

The motion passed 5 – 0.

17. Transmission Cost Recovery (TCR) Rider—MISO Revenues and Expenses

Commissioner Schuerger moved that the Commission approve OTP's proposal to include all MISO Schedule 26, 26A, 37, 38, and ARR revenues and expenses associated with the transmission projects included in base rates or in the TCR rider at the conclusion of this rate case and allow these items to be recovered through the TCR rider.

The motion passed 5 – 0.

18. Production Tax Credits (PTCs)

Chair Lange moved that the Commission:

- Adopt ALJ finding 202 and approve OTP's proposal to true-up and recover the difference between its projected PTCs in base rates and its actual PTCs in its Renewable Rider when the PTCs begin to expire in late 2017.
- Adopt the Department's proposal to increase the PTCs in the 2016 test year and reduce OTP's tax expense by \$76,828.
- Allow the Company to true-up and recover the difference between its projected PTCs in base rates and its actual PTCs in its Renewable Rider prior to the PTCs expiration.

The motion passed 5 – 0.

19. Charitable Contributions—Donations

Commissioner Sieben moved that the Commission allow OTP to recover the cost of the following donations in its test year expenses:

- \$9,741 for the purchase of circus tickets and grills
- \$221 for other events and services.

The motion passed 5 – 0.

20. Charitable Contributions—Administrative Costs

Chair Lange moved that the Commission adopt ALJ findings 230 – 232 that exclude OTP's administrative costs incurred to administer its charitable contributions program.

The motion passed 5 – 0.

21. Prorated Accumulated Deferred Income Tax Assets

Commissioner Lipschultz moved that the Commission take the following action:

- Subject to a review of this issue on the merits when the Commission reopens the record later in this rate case, conditionally approve (on a provisional basis subject to future adjustment and refund) Otter Tail's proposed proration for accumulated deferred income tax (ADIT). If appropriate, a partial interim rate refund may be determined without risk of normalization violation (if the federal Internal Revenue Service (IRS) does not respond to Otter Tail's request for a private letter ruling (PLR) within an acceptable timeframe).
- Adopt as reasonable and appropriate to the circumstances the proposal of OTP, DOC and OAG proposal to wait for the results of the PLR as recommended by the ALJ.
- Proceed in accordance with OTP's agreement to extend the time for resolving the OTP rate case, to accommodate this process.
- Final rates would not be established and interim rates would remain in place during any extension of time to accommodate this process.
- If the PLR is received on or before July 31, 2017 require OTP within 15 days of the PLR's receipt to make a compliance filing detailing the IRS decision and its estimated impact on rates, after which the parties to this rate case would have opportunity to reply in a time frame determined by the Commission. However, an outside time limit of July 31, 2017, is established for the receipt of the PLR, after which the Commission would decide this issue on the merits, establish final rates and determine the interim rate refund.
- If OTP has not received the PLR by July 31, 2017, Otter Tail shall notify the Commission by August 15, 2017 and provide the Commission with a compliance filing detailing its proposal for implementing final rates.
 - If OTP has not received the PLR by July 31, 2017, the Commission would only conditionally approve Otter Tail's ADIT proration, and order Otter Tail to establish a regulatory liability that accounts for the impact of proposed ADIT proration on final rates.
 - If the regulatory liability is established as ordered above, then instruct Otter Tail to include in its next rate case's initial filing or another date established by the Commission a proposal detailing how to dispose of the regulatory liability if the PLR determines that proration of final rates and/or a portion of previously charged interim rates is not necessary to meet normalization requirements.
 - By July 1, 2017, file a written update on the status of the PLR and the process established above.

The motion passed 5 – 0.

22. Integrated Transmission Service Agreement – Missouri River Energy Services

Commissioner Lipschultz moved that the Commission disallow recovery of all but \$182,500 of the expenses, and require additional detail justifying recovery if OTP seeks recovery for the agreement in future rate cases.

The motion passed 5 – 0.

23. Operations & Maintenance Expenses

Commissioner Tuma moved that the Commission Adopt ALJ recommendation 394 and find that OTP's 2016 O&M budget represents a reasonable 3.2% increase over 2014 actuals, or approximately 1.6% per year.

The motion passed 5 – 0.

24. Investor Relations Expense

Commissioner Tuma moved that the Commission:

- Not accept the ALJ's recommendation for OTP's proposed investor relation expense and disallow OTP inclusion of any of these expenses in their test year. Adopt the ALJ Report with the following changes:

406. As described by the Company, the proposed investor relations expenditures principally benefit shareholders. Ex. 510 at 9–12 and LL-8 (La Plante Direct). These expenses included:

- Providing shareholders and relation services;
- Participating in investor relations association;
- Lobbying costs related to investor-service organizations;
- Dues for various organizations, such as NASDAQ and the security transfer association;
- Costs of mailing items such as proxies and dividend re-investment payments;
- Software maintenance fees and office supplies for Shareholder Services;
- Maintaining programs such as the dividend reinvestment plan program, employee stock purchase plan; and
- Promotion for annual meeting and other investor-relation meetings.

~~In the view of this Administrative Law Judge, both the trend line in the cases, and the blunt exclusion of half of properly incurred costs, is inappropriate. Particularly so because the public, through~~

~~its regulation of utility service, will attribute a very specific level of equity capital to OTP with the expectation that this amount will be assembled by the Company from the securities market. When the Commission sets a particular capital structure for a utility, on the grounds that the utility's property is "devoted to public use," the Commission should apply a reasonableness standard with respect to the costs of obtaining the capital that it has required.~~

~~407. Importantly, the Department does not maintain that the investor relations expenses proposed by OTP are profligate, improvident, or unusual for a company of OTP's size only that the connection between these costs and later retail sales of electricity is remote.~~

~~408. In the view of the Administrative Law Judge, that is not the appropriate standard. Investor relations activities benefit ratepayers by ensuring that: OTP can meet the capital requirements set by the Commission, that its stock is fairly valued and that OTP maintains solid credit ratings all of which reduce the cost of ~~debt~~ acquiring capital on reasonable terms. Nonetheless, the activities identified by OTP as investor relations are the very activities an investment firm would provide investors seeking to acquire capital that is represented in the flotation transaction costs.~~

~~409. Further, OTP will have extensive capital needs in the near term. Through 2020, OTP estimates that it will invest \$858 million in generation and transmission facilities and as a result OTP is receiving a premium on its return on equity that is built for which ratepayers will continue to pay regardless if OTP doesn't seek outside equity to cover these investments.~~

[Delete findings 410 through 414]

~~415. The Administrative Law Judge ~~recommends that the Commission permit OTP to recover 50 percent of the Minnesota share of~~ finds that since OTP will be recovering a substantial premium from ratepayers through the inclusion of flotation in the consideration of the ROE the investor relations expenses should be excluded from allocated to OTP by Otter Tail Corporation for the 2016 Test Year.~~

Commissioner Tuma withdrew the motion.

Commissioner Tuma moved that the Commission not accept the ALJ's recommendation and allow OTP to recover 50 percent of its investor relations expense.

The motion passed 5 – 0.

25. Allowance for Funds Used During Construction and Construction Work in Progress

Commissioner Sieben moved that the Commission adopt ALJ findings 398 through 401.

The motion passed 5 – 0.

26. Employee Expense – Flex Field

Commissioner Sieben moved that the Commission adopt ALJ finding 437.

The motion passed 4 – 1; Commissioner Tuma voted no.

27. Employee Expense – One Page Summary

Chair Lange moved that the Commission adopt ALJ finding 658, amended as follows:

The Administrative Law Judge agrees and finds that OTP did not meet the presentation requirement. In its next rate case, it should produce a one-page summary of total amounts in each expense category for the 2016 Test Year.

The motion passed 5 – 0.

28. Employee Expense – Gifts

Commissioner Sieben moved that the Commission adopt ALJ finding 424 and disallow the \$18,310 (MN) for gifts, life events and other employee recognition expenses and require the Company to make an adjustment to its 2016 test year to account for the disallowance. Likewise, exclude the \$7,380 in employee recognition, travel, and entertainment expenses from 2016 Test Year expenses.

The motion passed 5 – 0.

29. Lobbying & Organizational Dues

Commissioner Tuma moved that the Commission:

- Modify ALJ finding 444 to exclude recovery of LEC dues in the 2016 Test Year expenses.
- Require the Company to provide information that identifies, on their respective membership invoices, the amount of dues paid and the portion of dues charged for lobbying activities in future rate cases to support their claim.

The motion passed 5 – 0.

30. Capital Structure

Chair Lange moved that the Commission

- Adopt the Company’s proposed capital structure comprising 44.06 percent long-term debt, 3.44 percent short-term debt, and 52.50 percent common equity.
- Adopt the proposed cost of long-term debt of 5.62 percent.
- Adopt the proposed cost of short-term debt of 2.55 percent.

The motion passed 5 – 0.

31. Cost of Equity

Commissioner Lipschultz moved that the Commission adopt a cost of equity of 9.41%.

The motion passed 5 – 0.

32. Overall Cost of Capital

Commissioner Tuma moved that the Commission determine that some other overall cost of capital is appropriate and have the staff calculate the proper value, based on the component parts, for inclusion in the order.

The motion passed 5 – 0.

33. Future Cost of Equity Supporting Information

Commissioner Tuma moved that the Commission require OTP, in its next rate case, to provide a detailed explanation of all costs necessary to obtain equity in the proposed test year, provide a description of plans to acquire capital through equity markets for the 5 years following the test year, and compare that to any proposals for adjustments to the ROE for floatation costs.

The motion passed 5 – 0.

34. Sales Forecast

Chair Lange moved that the Commission:

- Find that OTP and the Department disagree on certain methodological aspects of the sales forecast. For purposes of this case, sales and revenues should be those calculated by the Department in its Surrebuttal Testimony. The sales and revenues amounts included in the Department's Surrebuttal Testimony are reasonable and adopted for use in this case.
- Require that in its next rate case OTP provide an analysis, and fully linked spreadsheets, which ties the Company's test-year customer counts and test-year meter counts together in pre-filed forecasting data.
- Require that in its next rate case OTP correct its CIS/A data, in the same manner that it does at the end of each calendar year, prior to the initial filing and completion of future rate case forecasts; if OTP uses actual data in the base year as it did in this case (i.e., through August 2015), then OTP must insure that, to the fullest extent possible, all billing or other errors are corrected before the Company files its general rate case and such corrections should be made to the month(s) in which the error occurred.

The motion passed 5 – 0.

35. Class Cost of Service Study (CCOSS)

Chair Lange moved that the Commission accept OTP's proposed minimum system CCOSS (with CIP expenses allocated based on sales), the basic customer CCOSS, and the peak and average CCOSS, as useful tools for the purpose of apportioning revenue requirements among the different customer classes.

The motion passed 5 – 0.

Commissioner Lipschultz moved that the Commission require that OTP, in its next rate case, take the following actions prior to and upon filing its embedded CCOSS:

- Work with the OAG to update its CCOSS to address the discovery and model issues raised by the OAG in this proceeding;
- Calculate its peak demand allocator to reflect MISO resource adequacy rules, whether this be a single summer peak or a seasonal approach;
- Address the classification and allocation of advanced meters, RCD Meters and any other customers that have radio load management receivers;

- File a basic customer and peak-and-average CCOS; and
- File a zero-intercept method and improve its minimum-size study with the use of the disaggregated data needed to perform the zero-intercept method.

The motion passed 5 – 0.

36. *Class Revenue Apportionment*

Commissioner Tuma moved that the Commission approve the OAG’s proposed revenue apportionment.

The motion passed 5 – 0.

37. *Fixed Customer Charges*

Chair Lange moved that the Commission adopt a \$9.75 per month residential service fixed customer charge.

The motion passed 4 – 1; Commissioner Tuma voted no.

Commissioner Schuerger moved that the Commission:

- Adopt a \$11.00 per month RCD fixed customer charge; and
- Require OTP to recover the costs for fixed facilities through the volumetric rate; and to abolish the fixed facilities charge for the RCD class.

The motion passed 5 – 0.

Chair Lange moved that the Commission adopt a \$18.50 small general-service fixed customer charge.

The motion passed 5 – 0.

Commissioner Tuma moved that the Commission adopt a \$27.00 per month general (secondary) fixed customer charge.

The motion passed 5 – 0.

38. Decoupling

Commissioner Lipschultz moved that the Commission:

- Require OTP to commit to research, work with stakeholder groups, and propose alternative rate designs;
- Require OTP to file a report by April 1, 2018, analyzing the potential customer impacts of Fresh Energy's proposed revenue decoupling mechanism for the Residential, Farm, and Small General Service rate classes. Interested parties would be invited to file comments on the report addressing identified customer impacts, potential strategies for implementing a decoupling mechanism for OTP and other matters. The report shall include at least the following:
 - Comparison of actual 2016 and 2017 revenues to 2016 Test Year baseline revenues (with baseline revenue per customer calculated using the final rates, sales and customer counts of this rate case); and
 - Comparison of actual 2014 and 2015 revenues to 2009 baseline revenues (baseline revenue per customer calculated using the final rates, sales and customer counts from OTP's 2010 Rate Case (Docket No. 10-239)).

The motion passed 5 – 0.

39. General Housekeeping and Compliance

Chair Lange moved that the Commission:

- State that the final order in this docket shall contain summary financial schedules including: a calculation of Otter Tail's authorized cost of capital, a rate base summary, an operating income statement summary, a gross revenue deficiency calculation, and a statement of the total allowed revenues. Direct parties to work with Commission staff to prepare such schedules for inclusion in the Order, should modifications be necessary to reflect the Commission's final decision.
- 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 following information:
 - i. Breakdown of Total Operating Revenues by type;
 - ii. Schedules showing all billing determinants for the retail sales (and sale for resale) of electricity. These schedules shall include but not be limited to:

- a. Total revenue by customer class;
 - b. Total number of customers, the customer charge and total customer charge revenue by customer class; and
 - c. 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.
- iii. Revised tariff sheets incorporating authorized rate design decisions;
 - iv. 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 revised base cost of energy, supporting schedules, and revised fuel adjustment tariffs to be in effect on the date final rates are implemented.
 - c. A summary listing of all other rate riders and charges in effect, and continuing, after the date final rates are implemented.
 - d. Direct Otter Tail to file 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.
 - e. 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.
- Authorize comments on all compliance filings within 30 days of the date they are filed. However, comments are not necessary on Otter Tail Power Company's proposed customer notice.
 - Determine that the written order memorializing these decisions may rearrange, reorganize, or renumber the items included as necessary for clarity; standardize or correct abbreviations, phraseology, punctuation, and format; and correct errors as necessary for consistency with the Commission's decision and may amend the ALJ's findings as necessary to be consistent with the Commission's decision.
 - Direct Commission staff to draft an order consistent with the Commission's decisions with such changes necessary for organization, consistency, and clarity

The motion passed 5 – 0.

40. ALJ Report

Commissioner Lipschultz moved that the Commission adopt the ALJ's Report and recommendation with modifications, to the extent it is consistent with the decisions made by the Commission at this meeting.

The motion passed 5 – 0.

41. Sales Forecast

Chair Lange moved that the Commission adopt proposed findings 403 through 459, pertaining to the Sales Forecast, as set forth in the Department's proposed findings to the ALJ dated December 1, 2016.

The motion passed 5 – 0.

There being no further business, the meeting was adjourned.

APPROVED BY THE COMMISSION: May 17, 2017

A handwritten signature in black ink that reads "Daniel P. Wolf". The signature is written in a cursive style with a large, stylized 'D' and 'W'.

Daniel P. Wolf, Executive Secretary