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July 9, 2018



Daniel P. Wolf
Executive Secretary
Minnesota Public Utilities Commission
350 Metro Square Building
121 7th Place East
St. Paul, MN 55101-2147

**RE: In the Matter of an Investigation into the Appropriateness of Continuing to Permit
Electric Energy Cost Adjustments
Docket No. E999/CI-03-802
Reply Comments**

Dear Mr. Wolf:

Otter Tail Power Company (Otter Tail) hereby submits its Reply Comments in response to the Minnesota Department of Commerce, Division of Energy Resources (Department) and the Minnesota Chamber of Commerce (Chamber or MCC) Comments filed in the above-captioned matter on June 29, 2018.

Otter Tail electronically filed this document with the Minnesota Public Utilities Commission and is serving a copy on all persons on the Official Service List for this docket. A Certificate of Service is also enclosed.

Should you have any questions regarding this filing, please contact me at 218-739-8279 or stommerdahl@otpc.com.

Sincerely,

/s/ *STUART TOMMERDAHL*
Stuart Tommerdahl
Manager, Regulatory Administration

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Enclosures
By electronic filing
c: Service List

**STATE OF MINNESOTA
BEFORE THE
MINNESOTA PUBLIC UTILITIES COMMISSION**

In the Matter of an Investigation into the
Appropriateness of Continuing to Permit
Electric Energy Cost Adjustments

Docket No. E999/CI-03-802

OTTER TAIL POWER COMPANY REPLY COMMENTS

I. INTRODUCTION

On April 30, 2018, Otter Tail Power (Otter Tail), Xcel Energy (Xcel) and Minnesota Power (MP) (collectively “the utilities”) submitted compliance filings outlining their proposals related to implementation of the fuel clause adjustment (FCA) reforms Ordered in this Docket.

On May 17, 2018, the Commission issued a Notice of Comment Period on the compliance filings, requesting comments on the following items:

Issues: Do the Xcel Energy, Otter Tail Power and Minnesota Power’s April 30, 2018 compliance filings comply with the Commission’s December 19, 2017 Order?

Should there be any changes to the methodology approved in the Commission’s December 19, 2017 Order?

Topics Open for Comment:

- Do the Xcel Energy, Otter Tail Power and Minnesota Power’s April 30, 2018 compliance filings comply with the Commission’s December 19, 2017 Order?
- Should any changes be made to the approved methodology?
- Should any changes be made to the approved implementation timetable?
- What constitutes a “significant” change to forecasts?

- Should any changes be made to the monthly AA or annual AAA filing requirements?
- Should any changes be made to the quarterly fuel forecast filing requirements?
- What variances, if any, will be required to implement the new FCA methodology?

On June 29, 2018, the Minnesota Department of Commerce, Division of Energy Resources (Department), the Minnesota Chamber of Commerce (Chamber or MCC), and the Office of Attorney General – Residential Utilities and Antitrust Division (OAG) filed Comments regarding the utilities compliance filings and associated implementation proposals, as well as provided comments based on outcomes from meetings and discussions held between the utilities and the Department, MCC, OAG, the Minnesota Large Industrial Group (MLIG) (Consumer Advocates) and Minnesota Public Utilities Commission (MPUC) staff.

These Reply Comments are made in response to Comments submitted by the Department, MCC and OAG on June 29, 2018. Items Otter Tail addresses in these Reply Comments include: 1) Further discussion on the recommendation to delay implementation for six months to support the transition to a calendar year; 2) How Otter Tail will utilize that additional time to implement the reform; 3) Further comments on the timing of various filings and the ability to update proposed rates ahead of implementation; 4) The need to consider interim and provisional rates in certain circumstances; 5) Timing and processing of true-ups; and, 6) Transitional items for Otter Tail. Otter Tail provides its comments in the context of the discussion topics listed earlier as identified in the MPUC's Notice of Comment Period.

Otter Tail notes that the recent meetings held on May 23, 2018 and June 22, 2018 between the utilities, the consumer advocates and MPUC staff were productive in helping all parties better understand the challenges and potential impacts the FCA reform will

have on various parties and have helped create alignment on many items associated with the implementation of the reformed FCA mechanism. Otter Tail is willing and interested to continue participating in discussions between the parties to further refine details of the FCA reform implementation plan.

II. Otter Tail's Comments on Topics Open for Comment

A. Did Otter Tail's Compliance Filing comply with the Commissions December 19, 2017 Order?

Otter Tail's compliance filing submitted on April 30, 2018 provided Otter Tail's perspective on how implementation of the FCA reform should be administered based on the Commission's Order issued December 19, 2017. The Commission's Order was specific in noting that *"These Compliance filings will facilitate further discussion among the parties to develop a more complete framework for implementing the Department's proposal."* Otter Tail's compliance filing set forth a timetable and procedural steps that helped identify various items that Otter Tail feels need to be considered for implementation of the Department's proposal. All compliance filings brought to light different issues which helped facilitate further discussion between parties and information sharing that contributed to reaching agreement on certain aspects of the implementation as noted in the Department's Comments.

Otter Tail's April 30, 2018 compliance filing was put forth with the assumption of a July 1, 2019 implementation date. As noted by the Department, and as Otter Tail discusses below in Section II.C., the stakeholders agree that it would be beneficial to suspend implementation of the reform mechanism for six months and begin the new recovery mechanism on January 1, 2020 to follow a calendar year recovery period.

B. Should any changes be made to the approved methodology?

The Department provided the following list of points that stakeholders have general agreement on regarding implementation of the FCA reform:

- *Utilities should file actual costs as soon as possible after the FCA period is over (usually in 60 days), in the same format as the proposed fuel rates.*
- *Utilities should publish rates on their webpage:*
 - o *Xcel would publish total monthly fuel cost rates, and would add any true-up info when that is available; and*
 - o *MP and OTP would publish base rates, monthly FCA rates and any true-up when that information is available, and total fuel rate. Also, since customer bills would combine the FCA and true-up, MP and OTP should show the sum of the FCA and true-up to help customers understand their bills.*
- *The E8760 factors used in setting rates will be those approved in the utility's most recent rate case.*
- *To the extent that changes in factors cause a "significant unforeseen impact," such impact needs to be viewed as affecting the total fuel rate; e.g. if a large percentage change in one set of costs is either offset by decreases in other costs or does not have a material effect on the rate as a whole, that impact would not be viewed as significant.*
- *Differences in costs and revenues would be tracked in the tracker.*
- *Utilities' proposed annual rates may have different amounts for each month.*
- *Utilities' proposed annual rates should reflect expected circumstances for the FCA period, including planned outages, forced outages, PPA rates, expected market factors, etc.*
- *Utilities bear the burden of proof to show that the rates they propose to charge are reasonable.*

Otter Tail agrees with the Department on these items of clarification.

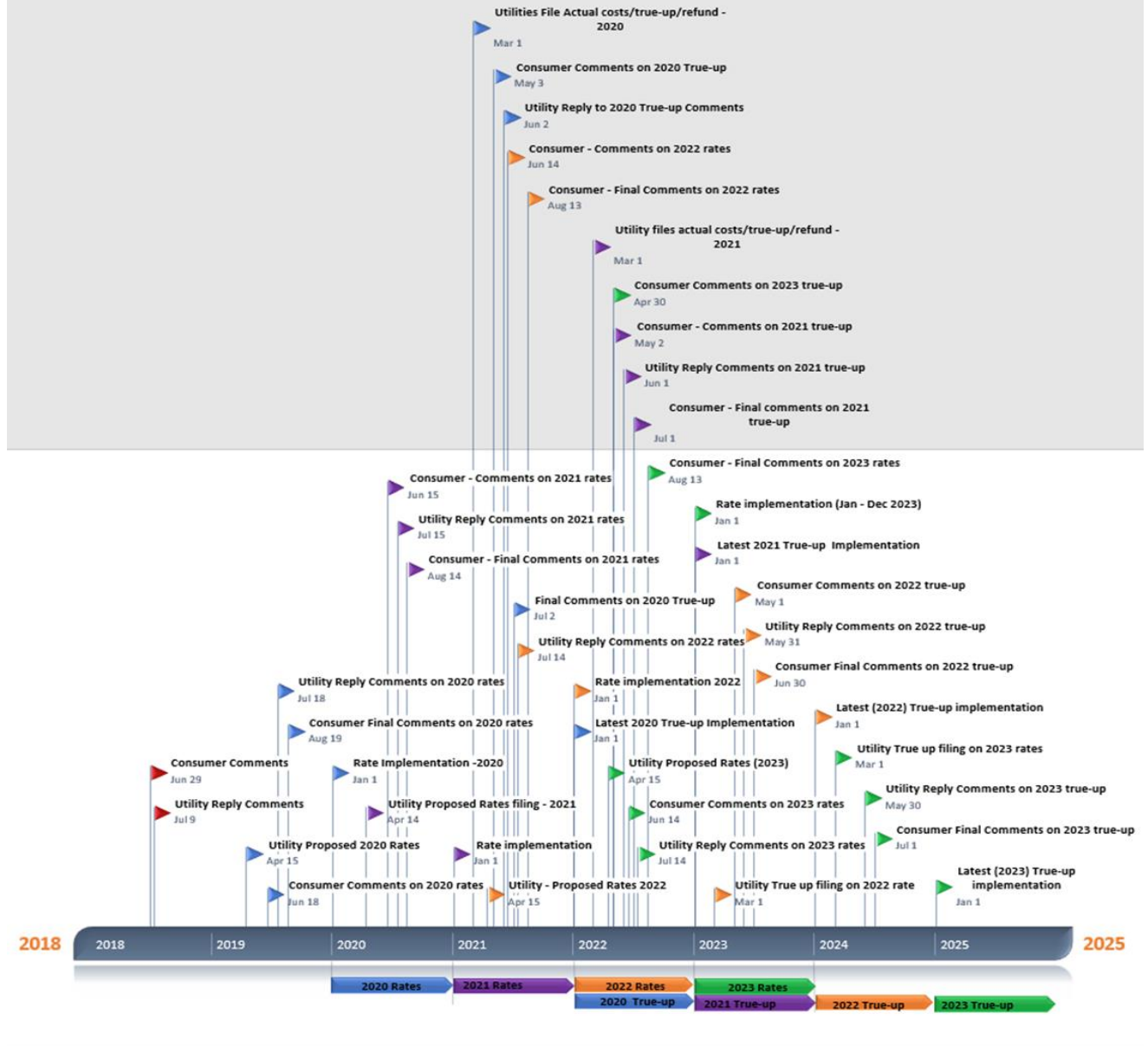
Otter Tail also recognizes that there are still some issues on which the parties differ, one being the use of provisional rates. Otter Tail discusses provisional rates in Section D in these comments. Otter Tail addresses numerous items that still need clarification in the balance of these Reply Comments.

C. Should any changes be made to the approved implementation time table?

As noted by the Department in its Comments, the utilities all recommended that the timing of the FCA reform be shifted to a calendar year basis. In addition, in order to transition to a calendar year basis, Otter Tail agrees with the other utilities that suspending the implementation of the FCA reform for six months to facilitate that transition is the preferred approach. As noted in the Department's comments, no consumer advocates objected to this approach.

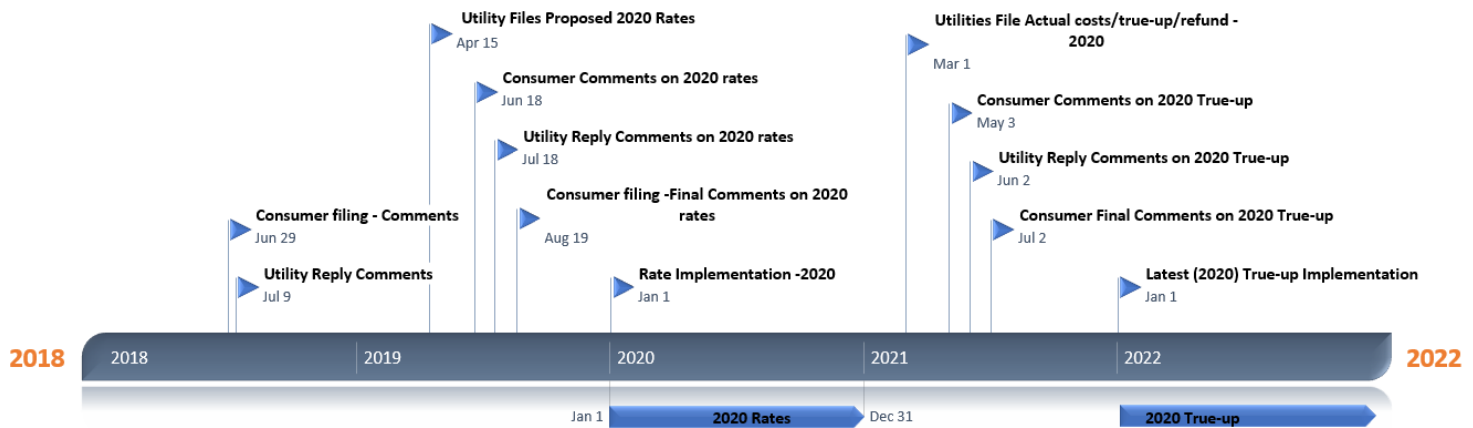
In its Comments, the Department provided Attachment 2 which reflected the various steps regarding the timing of filings, reviews, approvals, implementation of rates, and subsequent true-ups based on a calendar year implementation starting January 1, 2020. To help illustrate the Department's schedule, Figure 1 below reflects dates for forecast filings, comment periods, approvals and subsequent true-up steps contemplated in the Department's Attachment 2 for the 2020 to 2023 forecast periods.

Figure 1 - Timeline for 2020-2024 Calendar Recovery Periods



To help further illustrate one recovery period cycle of activity necessary to administer the FCA reform, Figure 2 below reflects the activity contemplated in the Department’s Attachment 2 for the calendar year 2020 recovery period. For subsequent recovery periods, a similar schedule would be followed.

Figure 2 Timeline for Calendar 2020 Recovery Period



Why shifting to a calendar year makes sense

There are several reasons why shifting to a calendar year makes sense. First, a calendar year better aligns with how Otter Tail prepares budgets and subsequently monitors and tracks actual costs and maintains forecast updates throughout a year. From a business perspective, this is more efficient than managing two forecasting and reporting cycles that are inconsistent with each other (calendar cycle for business purposes and fiscal cycle for FCA purposes). Typical rate case test years are also based on a calendar year and as such, further alignment with a rate case test year may be beneficial from a cost comparison and rate setting perspective. If a rate case is filed during the reformed FCA pilot period, any proposed changes to the base cost of fuel could be aligned with rate changes that become effective with an interim rate period beginning January 1.

Second, since the utilities engage in annual financial statement audits based on a calendar year, the associated FCA audit that is typically completed for the Annual Automatic Adjustment (AAA) filing on a July to June reporting cycle can also be aligned with the annual calendar year financial audit.

Third, moving the implementation to a calendar year recovery period (as opposed to starting July 1, 2019 and having a six-month transitional recovery period and then shifting to a calendar year for the next recovery period) avoids the utilities from filing proposed rates, having a full cycle of reviews, comments, reply comments, approval, and

implementing forecasted rates for only a six-month period. Starting the pilot and running it for the three calendar years 2020, 2021, and 2022 is a reasonable proposal to eliminate this six-month time period.

The updated schedule also affords the utilities and other parties additional time to:

- 1) Further discuss and refine the proposed implementation schedule;
- 2) Further discuss and develop criteria for off-cycle forecast updates;
- 3) Develop filing documents and formats such that parties will have adequate information to review and assess forecasted costs and associated rates;
- 4) Develop filing documents and formats of documents such that parties have adequate information to review and assess actual results; and,
- 5) Address items that are unique to each utility.

Updates to forecasted rates during review and approval process

The proposed schedules above contemplate that the utilities file their proposed forecasted rates for the upcoming calendar year by the middle of April preceding the recovery period. While the filing date is approximately eight and one-half months before rate implementation, to prepare and complete the filing, these rates will likely be computed nine or more months ahead of their implementation. Otter Tail noted its concern regarding the time-lag between the development of its rates and implementation in its compliance filing and this concern has also been shared by the utilities during the stakeholder meetings. A longer time-frame between the development of forecasts and associated rates and implementation increases the likelihood that material changes could occur that impact the accuracy of the rates.

The Department noted the following on page 5 of their Comments regarding updates to the forecasted rates during the time-period between the initial filing and rate implementation:

“the stakeholders agreed that utilities would be able to update data, but only in their reply comments, and the updates should be limited only to refreshing data rather than new proposals.

Based on the current schedule, these updates, if necessary, would occur approximately three months after the initial filing (mid-July) but still five and one-half months before implementation.

Otter Tail appreciates the opportunity to consider updating its proposed rates at this juncture in the process. However, Otter Tail believes there is more discussion needed in clarifying what is acceptable from an update perspective and what it means to “refresh data” as opposed to “new proposals.”

Otter Tail understands that refreshing data could involve changing certain inputs into the forecasting process, such as forward Mid-Continent Independent System Operator (MISO) locational marginal prices (LMPs) or perhaps updating forward fuel price curves such as natural gas. It is important to note that these changes can have a cascading effect in the forecast of costs. For example, an increase in the forecasted LMP prices may translate into a different dispatch forecast associated with owned generation facilities, and a potential corresponding change in the level of purchased power from the market. Significant changes in prices could trigger a different risk management strategy to either increase or decrease the level of exposure to the market. Otter Tail is unclear if these cascading effects would be deemed a new proposal or not.

Interim Rates

The Department also noted in Comments, and Otter Tail agrees, that there needs to be further clarity on the potential use of interim rates in the event that Commission approval of any proposed rates is not granted prior to the proposed effective date of the new annual period. The Department offered two options:

- Continue to charge the most recent monthly rate, or
- Use the monthly rate from the previous year for that month.

It is Otter Tail’s view that whatever rate is implemented in this situation would still be a provisional rate subject to true-up at the end of the reporting cycle. Otter Tail believes that a more reasonable option would be:

- Allow the proposed rate requested by the utility to be implemented.

The proposed rate would be the closest estimate to what is expected to occur within the interim period until final approval of forecasted rates is granted.

True-Up Timing

The current proposed calendar year schedule contemplates that utilities will make their true-up filings on or before 60 days (March 1) after the recovery period. That schedule also contemplates 60 days for review and comments, 30 days for reply comments, and 30 days for final comments, ending the review and comment period by approximately June 30. The schedule suggests that the latest date for the true-up to be implemented by January 1 of the following year. Otter Tail assumes this schedule will be consistent, regardless of whether the true-up is a collection from, or a refund to customers.

While the above time frames would set the maximum time for each phase of review, one consideration that was shared during stakeholder meetings was the idea of processing each utility's true-up on its own schedule, based on the specific details and circumstances of the true-up. In other words, if one utility's true-up is relatively simple and straightforward, whereas another utility's true-up has more complexity or there are questions to resolve, the review and approval process could be bifurcated between the utilities such that the first utility's true-up in the example above can be advanced for approval sooner versus waiting for all issues for all utilities to be resolved before advancing the true-ups for approval. Otter Tail believes this concept is worth further discussion and consideration to mitigate potential lag in implementing true-ups in a timely manner.

D. What constitutes a significant change to forecasts?

Otter Tail does not dispute the Department's statement that the burden of proof to justify rates is on the utilities. Otter Tail understands that it has the right to petition an "off-cycle" update to rates if a significant and anticipated sustained change to the forecasted rates occurs. What is still unclear through either Comments or discussions at

the stakeholder meetings, is how this process will work, and how timely any request for rate changes will occur. The current “normal” review cycle contemplates an eight and one-half month time frame from the filing of rates to implementation. It is unclear whether utilities should expect a similar timeframe for approval of a change in rates due to a material event, or if some type of expedited approval process can be employed. One mechanism that has been discussed, but to which the parties have not come to an agreement on, is the use of provisional rates.

Provisional rates

As noted above, one area where the utilities and consumer advocates differ is the potential use of “provisional” rates in those situations where perhaps material changes have occurred in the market or with the utility’s operations that drive the need to seek an off-cycle change in rates to properly reflect actual, reasonable and prudent costs that will be incurred. The Department and Chamber both provided comments against the use of provisional rates.

Material changes to forecasts costs contemplated above could result in either an increase or a decrease in rates, with those changes sometimes driven by factors outside of the utility’s control. For example, significant changes in market prices for natural gas which in turn drive significant changes in LMP prices in the MISO market. Otter Tail recognizes that the burden of proof is on the utilities to show that rates that are proposed are reasonable. This is no different than how Otter Tail views its rates under the current recovery mechanism, which does utilize an annual true-up and the use of provisional rates¹.

One goal of the FCA reform is to provide customers with appropriate price signals and if circumstances change, those signals should be sent in a reasonably timely manner. If significant lag occurs in addressing material changes, the amount of over or

¹ In Otter Tail’s current FCA mechanism, an annual true-up filing is submitted by July 31 for the prior July through June recovery period and the proposed true-up rate is implemented provisionally beginning September 1 of each year.

under recovery could grow much larger to the detriment of either customers or the utilities. Otter Tail offers two options for consideration and further discussion:

- If the Department and other stakeholders file Initial Comments within 60 days on an off-cycle rate request due to material changes, and in those Comments agree with the proposed changes, allow the proposed updated rates to be provisionally implemented at the proposed levels following a 30-day notice period.
- If the Department and other stakeholders file Initial Comments within 60 days on an off-cycle rate request due to material changes, and state in those Comments they do not agree with the proposed changes or seek further comment, allow the proposed updated rates be provisionally implemented at some percentage of the proposed change (50% or 75% for example) following a 30-day notice period.

In either situation, proposed rates, (whether approved, or provisional) based on updated forecasts are still subject to true-up at the end of the annual reporting cycle.

E. Should any changes be made to the monthly AA or annual AAA filing requirements?

Because rates will be published in advance of implementation, as Otter Tail noted in its compliance filing, it is Otter Tail's understanding that the current monthly automatic adjustment (AA) filings under the current FCA mechanism will no longer be necessary. This view is based on Ordering point 1.e², which states that utilities will report annually, their actual \$'s per MWh fuel costs. This may still be an issue that needs further discussion and resolution among stakeholders in terms of whether any reporting will be required during the recovery period.

Regarding Otter Tail's Current monthly AA filing, Table 1 below summarizes what's currently included in that filing:

² Commission Order dated December 19, 2017.

Table 1 – Summary of Monthly AA reported items

Items Currently Included in Otter Tail's Monthly AA Filing	Is item also included in Current AAA Filing?	Proposed Reporting under FCA Reform Mechanism
1) Calculations of the MM/YYYY Energy Adjustment Riders based on MM/YYYY and MM/YYYY data.	Yes – All monthly calculations are subsequently included in AAA filings	Forecasted Rates will be provided in initial filing Actual rates/cost included in True-up Filing
2) Monthly Detail of MISO Day 2 Charges by Charge Type for MN Energy Adjustment Rider marked as Attachment A.	Yes	Include in True-up
3) Monthly MISO Day 2 Charges for MN Energy Adjustment Rider marked as Attachment B.	Yes	Include in True-up
4) Monthly MISO Day 2 Charges for MN Non-Energy Adjustment Rider marked as Attachment C.	Yes	Include in True-up
5) Detail of MISO Day 2 Charges by Charge Group for Current Month marked as Attachment D	Yes	Include in True-up
6) Monthly MISO Day 2 Charges by Retail, Asset Based Wholesale, and Non Asset Based Wholesale for Current Month (2 pages) and Year to Date (2 pages) marked as Attachment E.	Yes	Include in True-up
7) Detail of MISO ASM Charges by Charge Type for Current Month marked as Attachment E-1.	Yes	Include in True-up
8) Detail of Asset Based Fuel Costs for Current Month marked as Attachment E-2.	Yes	Include in True-up
9) Comparison of Otter Tail's monthly FAC Forecast vs. Actuals for MM/YY marked as Attachment F. The FAC Forecast submitted in YYYY - YYYY Annual Automatic Adjustment Report (Docket No. E999/AA-17-492) is being used in the monthly Forecast vs. Actual comparison.	Yes	Include in True-up: Comparison of forecast costs from initial filing to actual costs and associated cost per kWh

10) Explanation of Monthly Deviation from Budget marked as Attachment G.	Yes	Include in True-up
11) Otter Tail's Plant Conditions for May 2018 marked as Attachment H.	Yes	Include in True-up
12) Otter Tail's Unit Outages and Cost Deviations for MM/YYYY marked as Attachment I	Yes	Include in True-up
13) Otter Tail's Energy Cost by Primary Energy Source for MM/YYYY to current month marked as Attachment J.	Yes	Include in True-up
14) Otter Tail's kWh Sales by Primary Energy Source for MM/YYYY to current month marked as Attachment K.	Yes	Include in True-up
15) Otter Tail's Wind Curtailment Report for FPL Energy North Dakota II, LLC, Langdon Wind, LLC and Ashtabula Wind III, LLC marked as Attachment L.	Yes	Include in True-up
16) Detail of Southwest Power Pool (SPP) Charges by Charge Group for Current Month and Year to Date marked as Attachment M.	Yes	Include in True-up

As noted in Table 1 above, this information is also included in the Annual Automatic Adjustment (AAA) filings for the respective reporting periods. It is Otter Tail's interpretation that the corresponding information will be included in Otter Tail's annual true-up filing following the end of each recovery period under the new recovery mechanism. Otter Tail believes a rule variance of any monthly reporting obligations under the new mechanism would be required, with the comparable information deferred to the annual true-up filing referred to above.

Regarding items currently included in the AAA filings, the information provided is the result of numerous rules and Commission Ordered compliance items issued in the past. At the time of these Reply Comments, Otter Tail is still assessing whether certain AAA filing components will no longer be necessary under the reformed mechanism. That assessment will continue to take place during the development of this next AAA filing due September 1, 2018.

F. Should any changes be made to the quarterly fuel forecast filing requirements?

This question does not apply to Otter Tail.

G. What variances, if any, will be required to implement the new FCA methodology?

The Department noted in Comments that certain rule variances are required for purposes of implementing this pilot and Minnesota Power also identified rule variances in its compliance filing related to potential changes in the timing of future AAA filings. Further discussion among stakeholders would be appropriate to identify all required variances.

III. Other Comments and Considerations

Otter Tail offers additional comments on the following items:

Formats for providing forecast and actual information

One item Otter Tail believes will be important is making sure that the information provided in support of any forecasted rates will be provided in a way that will also be consistent, for comparison purposes, with actual information included in the True-up filing. As noted earlier, Otter Tail would benefit from the additional time available with a proposed January 1, 2020 implementation and transition to a calendar year, to among other things, determine the appropriate reporting format and structure of both forecasted information and actual information for a recovery period.

In stakeholder meetings, the utilities raised the question to consumer advocates if there was any desire to see a certain amount of consistency in how information is provided. In Comments, both the Department and Chamber echoed their positions shared during stakeholder meetings, that “being too prescriptive” in what information is reported was a concern that could lead to an inappropriate shift of the burden of proof to those parties reviewing the information. Otter Tail does not view this effort as an attempt to shift the burden of proof, but more of an initiative to make sure information provided to reviewing parties is clear and complete, both in terms of forecast information and actual

information. Our goal is to provide the appropriate data to allow these reviews to be completed as efficiently and effectively as possible.

Lessons Learned Report at the End of Three Years

Otter Tail notes that at the end of three years, the utilities will file a lessons-learned report to assess the new process as noted in Order point 3. Otter Tail would like clarification as to whether utilities will continue year four under the new mechanism as well as set a date for when lessons learned reports should be filed.

Otter Tail Current True-up filings

Otter Tail noted in its compliance filing that consideration will need to be given to maintaining and incorporating Otter Tail's current annual FCA true-up component into the new forecast rate mechanism during the transition period. If implementation to a calendar year is approved, Otter Tail requests a transitional true-up filing and recovery/refund be allowed for the July 2019 to December 2019 time-frame, with implementation of that true-up component beginning March 1, 2020. Otter Tail will also address transitional items in the respective true-up filings³ between now and implementation of the new recovery mechanism.

IV. CONCLUSION

Otter Tail appreciates the work to date to try to develop a framework for implementation of the FCA reform that is workable to all parties. Otter Tail agrees with the Department on its summary of items that the parties have agreed to. Otter Tail also offers the following for consideration:

- Otter Tail supports and recommends the Commission revise the effective date for the new FCA reform mechanism to start from July 1, 2019 to January 1, 2020.

³ Otter Tail's annual true-up filings are made in Docket No. E017/M-03-30.

- Otter Tail agrees that clarification of the use of interim rates is necessary and recommends proposed rates be used in the event no order is received prior to the proposed implementation date.
- Otter Tail believes provisional rates should be utilized in certain situations and provided an option for further consideration in Section D of these comments.
- Otter Tail believes monthly AA filings are no longer necessary under the new mechanism as most monthly information will ultimately be provided in the true-up filing.
- Otter Tail recommends true-up filings be processed separately based on the utilities unique circumstances, as opposed to waiting until all issues from all utilities are resolved before bringing the to the Commission.
- Further definition of all rule variances is needed.
- Otter Tail will work to create standardized reporting for both forecast and actual information.
- Otter Tail requests more clarity and timing on the Lessons-learned report.
- Otter Tail's true-up mechanism under its current FCA will need to be preserved up to the transition to the new reformed FCA mechanism. Otter Tail will also address this transition issue in its current annual true-up filings.

Dated: July 9, 2018

Respectfully submitted,

OTTER TAIL POWER COMPANY

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