

October 28, 2015

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

RE: **Comments of the Minnesota Department of Commerce, Division of Energy Resources**  
Docket No. E017/M-15-874

Dear Mr. Wolf:

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

Otter Tail Power Company's Petition for Approval of its Transmission Cost Recovery Rider Annual Adjustment.

The petition was filed on September 30, 2015 by:

Bryce C. Haugen  
Rates Analyst  
Otter Tail Power Company  
215 South Cascade Street  
Fergus Falls, Minnesota 56538

The Department recommends that Otter Tail Power Company provide additional information in reply comments; the Department will provide additional comments subsequently. The Department is available to answer any questions the Minnesota Public Utilities Commission may have.

Sincerely,

/s/ MICHAEL N. ZAJICEK  
Rates Analyst

MNZ/lt  
Attachment

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

COMMENTS OF THE  
MINNESOTA DEPARTMENT OF COMMERCE  
DIVISION OF ENERGY RESOURCES

DOCKET No. E017/M-15-874

**I. BACKGROUND**

On January 28, 2010, the Minnesota Public Utilities Commission (Commission) issued its Order approving Otter Tail Power Company's (OTP or the Company) first Transmission Cost Recovery Rider (TCR Rider) in Docket No. E017/M-09-881.

On March 26, 2012, the Commission issued its Order approving OTP's first annual update to its TCR Rider in Docket No. E017/M-10-1061 (10-1061).

On March 15, 2013, the Commission issued its Order approving TCR Rider eligibility for three new projects in Docket No. E017/M-12-514 (12-514).

On March 10, 2014, the Commission issued its Order approving OTP's second annual update to its TCR Rider in Docket No. E017/M-13-103 (13-103).

On June 26, 2014, the Commission issued its second Order in 13-103 approving OTP's request to keep its existing TCR Rider rates in effect pending its next annual update to its TCR Rider.

On February 18, 2015, the Commission issued its Order approving OTP's third annual update to its TCR Rider in Docket No. E017/M-14-375 (14-375).

On September 30, 2015, OTP filed the instant petition.

## II. SUMMARY OF FILING

OTP requested approval of its 2015 Transmission Factors under the TCR Rider to recover its Minnesota jurisdictional transmission costs. A summary of MP's proposed projects and related revenue requirements for the period from April 2016 to March 2017 is included in Table 1 below:

**Table 1: Summary of Proposed Projects and Revenue Requirements**

<b>Project:</b>	<b>April 2016 to March 2017 Annual Revenue Requirements:</b>
CAPX 2020 Fargo	\$5,449,948
CAPX 2020 Bemidji	\$371,998
CAPX 2020 Cass Lake - Bemidji	\$296,618
CAPX 2020 Brookings	\$1,793,997
Ramsey 230/115 kW Transformer Upgrade	\$16,186
MISO Schedule 26 Revenues	(\$6,900,666)
MISO Schedule 26 Expenses	\$6,616,752
MISO Schedule 26A Revenues	(\$2,320,858)
MISO Schedule 26A Expenses	\$2,535,817
MISO Schedules 37 & 38 Revenues	(\$204,016)
MVP ARR Revenue	(\$31,607)
True-up	\$127,354
<b>Total</b>	<b>\$7,751,522</b>

The TCR Rider is applicable to electric service under all of OTP's Retail Rate Schedules.

OTP proposed to use the same allocations and rate design methods that are currently in place. Specifically, OTP proposed to use the transmission demand allocator (D2) from its last rate case to allocate total revenue requirements to the Minnesota jurisdiction and rate classes. In addition, OTP proposed to use a demand-only rate for the Large General Service class and an energy-only rate for all other customers.

OTP's current rates have been in effect since March 2015. Due to delays with the previous filing (14-375) the Commission modified the Company's recovery period to March 2015

through December 2015, at a rate higher than originally proposed.<sup>1</sup> OTP's current and proposed rates are shown below in Table 2:

**Table 2: OTP's Current and Proposed TCR Rider Rates**

Class	Current Energy Cents/kWh	Current Demand \$/ kW	Originally Proposed Energy from 14-375 Cents/kWh	Originally Proposed Demand from 14-375 \$/ kW	Proposed Energy Cents/kWh	Proposed Demand \$/ kW
Large General Service	N/A	\$2.058	N/A	\$1.458	N/A	\$1.444
Controlled Service	0.122¢	N/A	0.069¢	N/A	0.072¢	N/A
Lighting	0.420¢	N/A	0.292¢	N/A	0.319¢	N/A
All other service	0.643¢	N/A	0.434¢	N/A	0.464¢	N/A

The monthly bill impact of OTP's proposal for a residential customer using, on average, about 750 kWh per month would be \$3.48 per month, or about \$41.76 per year. OTP's current rate results in a bill impact of approximately \$4.82 per month, or \$57.87 per year, for a similar user, so the proposed rates represent a decrease of about \$1.34 per month, or about \$16.11 per year. However, when compared to OTP's originally proposed rate in Docket No. E017/M-14-375 the Company's instant proposal represents an increase of about \$0.23 per month, or about \$2.70 per year.

OTP's proposed TCR rate factors were calculated assuming an effective date of April 1, 2016. If the actual effective date is significantly later than April 1, 2016, OTP requested that rate factors be recalculated in order to recover approved costs over the remaining recovery period. The Commission authorized similar treatment in past TCR Orders including OTP's previous TCR Rider proceeding in Docket No. E017/M-14-375.

### III. MINNESOTA DEPARTMENT OF COMMERCE (DEPARTMENT OR DOC) ANALYSIS

#### A. STATUTORY REQUIREMENTS

The Transmission Cost Recovery (TCR) Statute, Minn. Stat. §216B.16, subd 7b states the following:

Subd. 7b. **Transmission cost adjustment.** (a) Notwithstanding any other provision of this chapter, the commission may approve a tariff mechanism for the automatic annual adjustment of charges for the Minnesota jurisdictional costs net of associated revenues of:

<sup>1</sup> See the Commission's February 18, 2015 Order in Docket E017/M-14-375.

(i) new transmission facilities that have been separately filed and reviewed and approved by the commission under section [216B.243](#) or are certified as a priority project or deemed to be a priority transmission project under section [216B.2425](#);

(ii) new transmission facilities approved by the regulatory commission of the state in which the new transmission facilities are to be constructed, to the extent approval is required by the laws of that state, and determined by the Midcontinent Independent System Operator [MISO] to benefit the utility or integrated transmission system; and

(iii) charges incurred by a utility under a federally approved tariff that accrue from other transmission owners' regionally planned transmission projects that have been determined by the Midcontinent Independent System Operator to benefit the utility or integrated transmission system.

(b) Upon filing by a public utility or utilities providing transmission service, the commission may approve, reject, or modify, after notice and comment, a tariff that:

(1) allows the utility to recover on a timely basis the costs net of revenues of facilities approved under section [216B.243](#) or certified or deemed to be certified under section [216B.2425](#) or exempt from the requirements of section [216B.243](#);

(2) allows the utility to recover charges incurred under a federally approved tariff that accrue from other transmission owners' regionally planned transmission projects that have been determined by the Midcontinent Independent System Operator to benefit the utility or integrated transmission system. These charges must be reduced or offset by revenues received by the utility and by amounts the utility charges to other regional transmission owners, to the extent those revenues and charges have not been otherwise offset;

(3) allows the utility to recover on a timely basis the costs net of revenues of facilities approved by the regulatory commission of the state in which the new transmission facilities are to be constructed and determined by the Midcontinent Independent System Operator to benefit the utility or integrated transmission system;

(4) allows a return on investment at the level approved in the utility's last general rate case, unless a different return is found to be consistent with the public interest;

(5) provides a current return on construction work in progress, provided that recovery from Minnesota retail customers for the allowance for funds used during construction is not sought through any other mechanism;

(6) allows for recovery of other expenses if shown to promote a least-cost project option or is otherwise in the public interest;

(7) allocates project costs appropriately between wholesale and retail customers;

(8) provides a mechanism for recovery above cost, if necessary to improve the overall economics of the project or projects or is otherwise in the public interest; and

(9) terminates recovery once costs have been fully recovered or have otherwise been reflected in the utility's general rates.

The Renewable Cost Recovery (RCR) Statute, Minn. Stat. §216B.1645, subd. 1 states that:

Upon the petition of a public utility, the Public Utilities Commission shall approve or disapprove power purchase contracts, investments, or expenditures entered into or made by the utility to satisfy the wind and biomass mandates contained in sections 216B.169, 216B.2423, and 216B.2424, and to satisfy the renewable energy objectives and standards set forth in section 216B.1691, including reasonable investments and expenditures made to:

(1) transmit the electricity generated from sources developed under those sections that is ultimately used to provide service to the utility's retail customers, including studies necessary to identify new transmission facilities needed to transmit electricity to Minnesota retail customers from generating facilities constructed to satisfy the renewable energy objectives and standards, provided that the costs of the studies have not been recovered previously under existing tariffs and the utility has filed an application for a certificate of need or for certification as a priority project under section 216B.2425 for the new transmission facilities identified in the studies;

- (2) provide storage facilities for renewable energy generation facilities that contribute to the reliability, efficiency, or cost-effectiveness of the renewable facilities; or
- (3) develop renewable energy sources from the account required in section 116C.779.

Regarding cost recovery, the RCR Statute, Minn. Stat. §216B.1645, subd. 2 states that:

The expenses incurred by the utility over the duration of the approved contract or useful life of the investment and expenditures made pursuant to section 116C.779 shall be recoverable from the ratepayers of the utility, to the extent they are not offset by utility revenues attributable to the contracts, investments, or expenditures. Upon petition by a public utility, the commission shall approve or approve as modified a rate schedule providing for the automatic adjustment of charges to recover the expenses or costs approved by the commission under subdivision 1, which, in the case of transmission expenditures, are limited to the portion of actual transmission costs that are directly allocable to the need to transmit power from the renewable sources of energy. The commission may not approve recovery of the costs for that portion of the power generated from sources governed by this section that the utility sells into the wholesale market.

**B. PROJECT ELIGIBILITY**

All of OTP's transmission projects were approved for cost recovery in prior TCR Rider proceedings and are therefore eligible for recovery under the TCR or RCR Statutes

**C. REASONABLENESS OF PROJECT REVENUE REQUIREMENTS AND COST RECOVERY CAPS**

In Xcel Energy's TCR Rider filing in Docket No. E002/M-09-1048, the Commission set a standard for evaluating of TCR project costs going forward. The Commission stated in its April 7, 2010 Order that:

...the Commission finds that TCR project cost recovery through the rider should be limited to the amount of the initial cost estimates at the time the projects are approved as eligible projects, with the opportunity for the Company to seek recovery of excluded costs on a prospective basis in a subsequent rate case. A request to allow cost recovery for project costs above the amount of the initial estimate may be brought for

Commission review only if unforeseen or extraordinary circumstances arise on a project.

The Commission applied this same approach to Otter Tail Power Company in its 2013 TCR Rider in 13-103, ordering that OTP should limit TCR Rider recovery of the Bemidji project to \$74 million. In Docket No. E017/M-14-375 OTP implemented a cost cap for Bemidji to ensure that recovery of costs was limited to the amount of the initial cost estimate at the time of approval.

OTP's petition did not address whether any of its other transmission projects were over the cost caps. The Department requests that the Company state in reply comments whether any of the project costs included in the TCR Rider are over their respective cost caps.

*D. REGIONAL EXPANSION AND COST BENEFIT CHARGES (MISO SCHEDULES 26/26A, 37 & 38)*

*1. MISO Schedules 26/26A*

During the 2008 Minnesota Legislative Session, Minn. Stat. 216B.16, subd. 7(b) (2) was amended to allow utilities providing transmission service to recover "the charges incurred by a utility that accrue from other transmission owners' regionally planned transmission projects that have been determined by MISO to benefit the utility, as provided for under a federally approved tariff," upon Commission approval. The Statute further requires any recovery to "be reduced or offset by revenues received by the utility and by amounts the utility charges to other regional transmission owners, to the extent those revenues and charges have not been otherwise offset."

MISO's regionally planned transmission projects are also referred to as Regional Expansion and Cost Benefit (RECB) projects. Moreover, RECB charges and revenues are generally reflected under MISO Schedules 26 and 26A. MISO Schedule 26A includes projects that have been deemed to be Multi-Value Projects (MVPs). MISO Schedule 26 includes other regionally shared projects such as Market Efficiency Projects.

OTP proposed to recover the net charges it pays to other electric utilities through MISO's Schedule 26/26A in the instant filing. Under OTP's proposal, it would recover the estimated amount of payments it makes to other utilities under MISO Schedule 26/26A net of the estimated amount of revenues it receives from other utilities under MISO Schedule 26/26A. The Department notes that OTP's approach is consistent with past TCR filings<sup>2</sup>.

In addition to Schedules 26/26A, the DOC understands that MISO's Auction Revenue Rights (ARRs) annual allocation for planning year 2014-2015 included ARRs for MVPs. According to MISO, the revenue associated with these ARRs is to be distributed to those customers who pay for the MVP projects. MISO has created a new charge type to distribute this revenue. The charge type name is Real Time MVP Distribution (RT\_MVP\_DIST) and appears

---

<sup>2</sup> The Commission's March 10, 2014 Order in 13-103 stated that OTP shall include all Schedule 26 costs and all Schedule 26 revenues in the TCR rider.



on the Real Time settlement statement. The distribution occurs on the last Operating Day of each month. The Commission's February 18, 2015 Order in 14-375 approved OTP's request to include as a true-up item in its 2015 rider petition its actual amount of ARRs that it receives for its MVPs with the understanding that OTP will incorporate estimates of all MVP ARRs in future TCR riders beginning with its 2015 TRC rider.

The Department reviewed OTP's calculations of its ARRs and concludes that OTP's calculations appear reasonable and in compliance with the Commission's February 18, 2015 Order in 14-375.

The Department also reviewed the Company's calculation of Schedule 26 Revenue and requests that OTP fully explain in reply comments the calculations resulting in the difference in value between Total Schedule 26 Revenue (Line 1 of OTP Attachment 12) and Schedule 26 Revenue (Line 8 of OTP Attachment 12).

## *2. MISO Schedules 37 & 38*

In addition to MISO Schedule 26/26A charges, OTP proposed to include revenues it receives under MISO Schedules 37 and 38. According to OTP, MISO Schedule 37 revenues represent a utility's share of contributions MISO receives from American Transmission Systems, Inc., which left MISO on June 1, 2011 to integrate with PJM. Likewise, MISO Schedule 38 revenues represent a utility's share of payments from Duke-Ohio and Duke-Kentucky, which left MISO on December 31, 2011, but have an ongoing obligation to pay for MISO projects due to their previous membership.

OTP included its actual MISO Schedule 37 and 38 revenues received in its TCR Rider. In addition, OTP stated that it carved-out the portion of MISO Schedule 37 and 38 revenues that were embedded in its forecasted MISO Schedule 26 revenues and included them in its TCR Rider, in accordance with the Commission's March 10, 2014 Order in 13-103. OTP's MISO Schedule 37 and 38 revenue calculations are shown in Attachment 12 of its petition.

The Department reviewed OTP's MISO Schedule 37 and 38 calculations. Based on our review, the Department concludes that OTP's MISO Schedule 37 and 38 revenue calculations appear reasonable and in compliance with the Commission's March, 2014 Order in 13-103 which required the inclusion of these revenues in future TCR rider filings.

## *E. TRUE-UP AND TRACKER BALANCES*

OTP proposed to increase its 2015 TCR revenue requirement by \$127,354 to reflect prior under-recoveries (tracker balance) in its TCR Rider. OTP's tracker balance calculations are shown in Attachment 4 of its petition.

The Department reviewed OTP's true-up and tracker balance calculations. The Department notes that OTP's calculations appear reasonable and in compliance with the Commission's February 18, 2015 Order in 14-375.

*F. WHOLESALE TRANSMISSION REVENUES*

The Department understands that some utilities receive wholesale transmission revenues from third-party transmission customers who are charged the utility's FERC jurisdictional MISO tariff rate, commonly referred to as the utility's Open Access Transmission Tariff (OATT), or Attachment O, for the use of the utility's non-RECB transmission system.

OTP's calculation of its wholesale transmission revenue credits are shown in Attachment 10 of its petition. According to OTP, the Ramsey Project is the only project in the TCR Rider to which this wholesale revenue credit is applicable. OTP's wholesale transmission revenue credit for the Ramsey Project is reflected in Attachment 9, Line 35 of the petition.

The DOC reviewed and agrees with OTP's calculation and application of its wholesale revenue credits in its TCR Rider.

*G. RATE DESIGN AND ALLOCATION OF COSTS*

As noted above, OTP stated that it used the same allocations and rate design methods that were approved by the Commission in their March 26, 2012 Order in 10-1061. Specifically, OTP used the transmission demand allocator (D2) from its last rate case to allocate total revenue requirements to the Minnesota jurisdiction and rate classes. In addition, OTP used a demand-only rate for the Large General Service class and an energy-only rate for all other customers. OTP's rate design detail is provided in Attachment 3 of the petition.

In the Commission's March 26, 2012 Order in 10-1061, the Commission requested that OTP provide an analysis of the impact of using a percentage of revenue rate design method to allocate costs among and within customer classes. OTP's analysis showing the impact using a percentage of revenue rate design method as opposed to the current rate design method is shown in Attachment 3 of the petition.

The Department reviewed OTP's proposed allocations and rate design method. The DOC agrees that OTP used the same allocations and rate design method that were approved by the Commission in OTP's last TCR Rider proceeding. In addition, the DOC concludes that OTP complied with the Commission's March 26, 2012 Order. Furthermore, as shown in Attachment 3 of the petition, the Department notes that if a percentage of revenue rate design method was used rather than the current rate design method, then the average monthly bill for residential ratepayers would be slightly less and the average monthly bill for all other customers would be somewhat more.

#### **IV. SUMMARY AND RECOMMENDATIONS**

The Department requests that the Company state in reply comments whether any of the project costs, other than the Bemidji project, included in the TCR Rider are over their respective cost caps. Additionally the Department requests that OTP fully explain in reply comments the calculations resulting in the difference in value between Total Schedule 26 Revenue (Line 1 of OTP Attachment 12) and Schedule 26 Revenue (Line 8 of OTP Attachment 12).

The Department will offer additional comments and recommendations in subsequent response comments after it has reviewed OTP's reply comments.

/lt

## **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  
Comments**

**Docket No. E017/M-15-874**

**Dated this 28<sup>th</sup> day of October 2015**

**/s/Sharon Ferguson**

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Julia	Anderson	Julia.Anderson@ag.state.mn.us	Office of the Attorney General-DOC	1800 BRM Tower 445 Minnesota St St. Paul, MN 551012134	Electronic Service	Yes	OFF_SL_15-874_M-15-874
Christopher	Anderson	canderson@allete.com	Minnesota Power	30 W Superior St  Duluth, MN 558022191	Electronic Service	No	OFF_SL_15-874_M-15-874
Ray	Choquette	rchoquette@agp.com	Ag Processing Inc.	12700 West Dodge Road PO Box 2047 Omaha, NE 68103-2047	Electronic Service	No	OFF_SL_15-874_M-15-874
James C.	Erickson	jericksonkbc@gmail.com	Kelly Bay Consulting	17 Quechee St  Superior, WI 54880-4421	Electronic Service	No	OFF_SL_15-874_M-15-874
Sharon	Ferguson	sharon.ferguson@state.mn.us	Department of Commerce	85 7th Place E Ste 500  Saint Paul, MN 551012198	Electronic Service	No	OFF_SL_15-874_M-15-874
Bruce	Gerhardson	bgerhardson@otpc.com	Otter Tail Power Company	PO Box 496 215 S Cascade St Fergus Falls, MN 565380496	Electronic Service	No	OFF_SL_15-874_M-15-874
Bryce	Haugen	bhaugen@otpo.com	Otter Tail Power Company	215 S Cascade St  Fergus Falls, MN 56538	Electronic Service	No	OFF_SL_15-874_M-15-874
Shane	Henriksen	shane.henriksen@enbridge.com	Enbridge Energy Company, Inc.	1409 Hammond Ave FL 2  Superior, WI 54880	Electronic Service	No	OFF_SL_15-874_M-15-874
Richard	Johnson	Rick.Johnson@lawmoss.com	Moss & Barnett	150 S. 5th Street Suite 1200 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_15-874_M-15-874
James D.	Larson	james.larson@avantenergy.com	Avant Energy Services	220 S 6th St Ste 1300  Minneapolis, MN 55402	Electronic Service	No	OFF_SL_15-874_M-15-874
Douglas	Larson	dlarson@dakotaelectric.com	Dakota Electric Association	4300 220th St W  Farmington, MN 55024	Electronic Service	No	OFF_SL_15-874_M-15-874

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
John	Lindell	agorud.ecf@ag.state.mn.us	Office of the Attorney General-RUD	1400 BRM Tower 445 Minnesota St St. Paul, MN 551012130	Electronic Service	Yes	OFF_SL_15-874_M-15-874
Kavita	Maini	kmairi@wi.rr.com	KM Energy Consulting LLC	961 N Lost Woods Rd  Oconomowoc, WI 53066	Electronic Service	No	OFF_SL_15-874_M-15-874
Andrew	Moratzka	apmoratzka@stoel.com	Stoel Rives LLP	33 South Sixth Street Suite 4200 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_15-874_M-15-874
Gary	Oetken	goetken@agp.com	Ag Processing, Inc.	12700 West Dodge Road P.O. Box 2047 Omaha, NE 681032047	Electronic Service	No	OFF_SL_15-874_M-15-874
David G.	Prazak	dprazak@otpc.com	Otter Tail Power Company	P.O. Box 496 215 South Cascade Street Fergus Falls, MN 565380496	Electronic Service	No	OFF_SL_15-874_M-15-874
Larry L.	Schedin	Larry@LLSResources.com	LLS Resources, LLC	12 S 6th St Ste 1137  Minneapolis, MN 55402	Electronic Service	No	OFF_SL_15-874_M-15-874
Stuart	Tommerdahl	stommerdahl@otpc.com	Otter Tail Power Company	215 S Cascade St PO Box 496 Fergus Falls, MN 56537	Electronic Service	No	OFF_SL_15-874_M-15-874
Daniel P	Wolf	dan.wolf@state.mn.us	Public Utilities Commission	121 7th Place East Suite 350 St. Paul, MN 551012147	Electronic Service	Yes	OFF_SL_15-874_M-15-874