

May 30, 2018

Daniel P. Wolf
Executive Secretary
Minnesota Public Utilities Commission
121 7th 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-18-119

Dear Mr. Wolf:

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

A Request by Otter Tail Power Company (OTP) of the Company's Annual Filing of the Demand Side Management Financial Incentive Project and Annual Filing to Update the Conservation Improvement Project Rider (*Petition*).

The *Petition* was filed on March 30, 2018 by:

Jason Grenier
Manager, Market Planning
Otter Tail Power Company
215 South Cascade Street
P.O. Box 496
Fergus Falls, MN 56538-0496

The Department recommends that the Minnesota Public Utilities Commission (Commission) **approve** OTP's *Petition* with adjustments. The Department is available to answer any questions the Commission may have.

Sincerely,

/s/ DANIELLE WINNER
Rate Analyst

DW/lt
Attachment



Before the Minnesota Public Utilities Commission

Comments of the Minnesota Department of Commerce Division of Energy Resources

Docket No. E017/M-18-119

I. SUMMARY OF THE UTILITY'S PROPOSAL

On March 30, 2018, Otter Tail Power Company (Otter Tail, OTP or the Company) submitted its annual Conservation Improvement Program (CIP) filing (*Petition*) for 2017 with the Minnesota Public Utilities Commission (Commission) in Docket No. E017/M-18-119. The *Petition* contains the following requests:

- approval of a Demand Side Management (DSM) financial incentive of \$2,642,360;
- approval to carry forward energy savings of 9,006,674 kWh and net benefits of \$4,053,482 from 2017 to 2018, for purposes of calculating the 2018 financial incentive;
- approval of proposed recoveries and expenditures in the Company's CIP tracker account during 2017 resulting in a year-end 2017 balance of \$7,362,345;
- approval of a 2018/2019 Conservation Cost Recovery Adjustment (CCRA) of \$0.00600 per kWh for bills rendered on and after October 1, 2018; and
- approval of a variance to Minnesota Rule 7820.3500 to allow Otter Tail to continue to combine the Fuel Clause Adjustment (FCA) with the Conservation Improvement Adjustment on customer bills.

The filing also contains the Company's 2017 CIP Status Report (*Status Report*). The *Status Report* is intended to fulfill the requirements of the Minnesota Department of Commerce, Division of Energy Resources' (Department) annual CIP reporting rules contained in Minnesota Rules part 7690.0550. Since the Company's *Status Report* does not require Commission approval, this portion of the *Petition* has been assigned to a separate docket.¹

II. COMMISSION'S 2017 ORDER

On September 15, 2017, in Docket No. E017/M-17-246, the Commission approved Otter Tail's 2017/2018 CCRA and 2016 Shared Savings DSM Financial Incentive. The Commission's Order:

¹ See Docket No. E017/CIP-16-116.01.

1. Approved OTP's 2016 CIP tracker account, resulting in a December 31, 2015 tracker balance of \$4,835,852.
2. Approved an incentive of \$5,031,678 for OTP's 2016 CIP achievements.
3. Approved a CCRA of \$0.00536/kWh with an effective date of October 1, 2017.
4. Granted OTP a variance to Minnesota Rules part 7820.3500 (K) and a variance to Minnesota Rules part 7825.2600 for one year after the issue date of that Order.
5. Required OTP to submit a compliance filing, within 10 days of the issue date of that Order, with revised tariff sheets reflecting the Commission's determinations in this matter.

The Company submitted a compliance filing on September 25, 2017 to fulfill the Commission's Order Point 5.

III. DEPARTMENT ANALYSIS

The Department provides its analysis of Otter Tail's *Petition* below in the following sections:

- in Section III.A, Otter Tail's proposed 2017 DSM financial incentive;
- in Section III.B, Otter Tail's proposed carry forward of energy savings and net benefits from 2017 to 2018, for purposes of calculating the 2018 DSM financial incentive;
- in Section III.C, Otter Tail's proposed reconciliation for the 2017 CIP Tracker Account;
- in Section III.D, Otter Tail's proposed CCRA for 2018/2019;
- in Section III.E, OTP's request for a waiver from Minnesota Rules part 7820.3500 (E) and (K) ; and
- in Section III.F, Otter Tail's historical CIP achievements and incentives.

A. OTTER TAIL'S PROPOSED FINANCIAL INCENTIVE FOR 2017

1. *Background and Summary of Otter Tail's Proposed 2017 DSM Incentive*

The Shared Savings DSM financial incentive plan was initially approved by the Commission in Docket No. E,G999/CI-08-133 on January 27, 2010.²

The Commission approved a modified Shared Savings DSM financial incentive mechanism in its August 5, 2016, *Order Adopting Modifications to Shared Savings Demand-Side Management Financial Incentive Plan*, Docket No. E,G999/CI-08-133. The new mechanism, which began

² For more information, see the Commission's December 20, 2012 *Order Adopting Modifications to Shared Savings Demand Side Management Financial Incentives*.

January 1, 2017, is triggered when electric utilities achieve energy savings of 1 percent, and gas utilities achieve 0.7 percent, of the utility's most recent three-year average of weather-normalized retail sales.³ For 2017, the electric and gas incentives are capped at 13.5 percent of net benefits and 40 percent of Conservation Improvement Program (CIP) expenditures. The Commission's Order included the following:

1. The Commission hereby revises its Shared Savings DSM Financial Incentive Plan with the modifications set forth below.
 - A. For electric utilities, the plan is modified to do the following:
 - 1) Authorize financial incentives for a utility that achieves energy savings of at least 1.0 percent of the utility's retail sales.
 - 2) For a utility that achieves energy savings equal to 1.0 percent of retail sales, award the utility a share of the net benefits as set forth in Attachment A.
 - 3) For each additional 0.1 percent of energy savings the utility achieves, increase the net benefits awarded to the utility by an additional 0.75 percent until the utility achieves savings of 1.7 percent of retail sales.
 - 4) For savings levels of 1.7 percent and higher, award the utility a share of the net benefits equal to the Net Benefits Cap.
 - B. For gas utilities, the plan is modified to do the following:
 - 1) Authorize financial incentives for a utility that achieves energy savings of at least 0.7 percent of the utility's retail sales.
 - 2) For a utility that achieves energy savings equal to 0.7 percent of retail sales, award the utility a share of the net benefits as set forth in Attachment A.
 - 3) For each additional 0.1 percent of energy savings the utility achieves, increase the net benefits awarded to the utility by an additional 0.75 percent until the utility achieves savings of 1.2 percent of retail sales.
 - 4) For savings levels of 1.2 percent and higher, award the utility a share of the net benefits equal to the Net Benefits

³ Excluding retail sales to customers who are owners of a large customer facility and have been granted an exemption by the Department's Commissioner under Minnesota Statutes § 216B.241, Subd. 1a(b).

Cap.

- C. For all utilities, set the following Net Benefit Caps:
 - 1) 13.5 percent in 2017,
 - 2) 12.0 percent in 2018, and
 - 3) 10.0 percent in 2019.

- D. For all utilities, set the following Conservation Improvement Plan (CIP) Expenditure Caps:
 - 1) 40 percent in 2017,
 - 2) 35 percent in 2018, and
 - 3) 30 percent in 2019.

- 2. The Commission retains certain provisions from the current Shared Savings DSM Financial Incentive Plan, with slight modifications, as follows:
 - A. CIP-exempt customers shall not be allocated costs for the new shared savings incentive. Sales to CIP-exempt customers shall not be included in the calculation of utility energy savings goals.

 - B. If a utility elects not to include a third-party CIP project, the utility cannot change its election until the beginning of subsequent years.

 - C. If a utility elects to include a third-party project, the project's net benefits and savings will be included in the calculation of the energy savings and will count toward the 1.5 percent savings goal.

 - D. The energy savings, cost, and benefits of modifications to non-third-party projects will be included in the calculation of a utility's DSM incentive.

 - E. The costs of any mandated, non-third-party projects (e.g., the 2007 Next Generation Energy Act assessments,⁴ University of Minnesota Initiative for Renewable Energy and the Environment costs⁵) shall be excluded from the calculation of net benefits and

⁴ See 2007 Laws, art. 2.

⁵ *Id.*, § 3, subd. 6.

energy savings achieved and incentive awarded.

- F. Costs, energy savings, and energy production related to Electric Utility Infrastructure Costs,⁶ solar installation,⁷ and biomethane purchases⁸ shall not be included in energy savings for DSM financial incentive purposes.
3. The new Shared Savings DSM Incentive Plan shall be in effect for 2017-2019.
4. Utilities may discontinue the annual February 1 compliance filing because a scale of net benefits will no longer be required since the Department's proposal sets percentages at certain savings thresholds and calibrates the mechanism to dollars per unit of energy.

Otter Tail estimated that its 2017 achievements resulted in \$23,562,360 of net benefits.⁹ Otter Tail also stated in its *Petition* that its CIP activities achieved energy savings in 2017 of 52,497,167 kWh, which is approximately 3.02 percent of Otter Tail's 3-year average weather normalized, non-CIP-exempt retail sales of 1,741,875,298 kWh.¹⁰ Based on the terms and conditions of its approved DSM incentive plan, Otter Tail requested recovery of a DSM financial incentive of \$2,642,360 for 2017, which is approximately 40 percent ($\$2,642,360/\$6,605,899$) of the Company's 2017 CIP actual expenditures.¹¹

2. *The Department's Review of Otter Tail's Proposed 2017 DSM Incentive*

As noted above, Otter Tail calculated that its 2017 performance results in a Shared Savings DSM financial incentive of \$2,642,360.

The Department's engineering-oriented analysis of the demand and energy savings that underpin Otter Tail's proposed 2017 DSM financial incentive is ongoing. This analysis will not be completed before the instant *Comments* are due. The existence of this lag between the Company's request for recovery of the incentive and the completion of the DOC's engineering review is a recurring phenomenon.

⁶ Minn. Stat. § 216B.1636.

⁷ Minn. Stat. § 216B.241, subd. 5a.

⁸ *Id.*, subd. 5b.

⁹ Net benefits amount excludes Next Generation Energy Act Assessments, as well as the following OTP programs: House Therapy, Company-Owned Street and Area Lighting, and Publicly-Owned Property Solar Program.

¹⁰ Savings amount excludes Made in Minnesota Program and allocated savings from OTP's Company-Owned Street and Area Lighting Program and Publicly-Owned Property Solar Program.

¹¹ The 13.5 percent net benefits cap on the 2017 incentive would have resulted in a DSM financial incentive of \$3,180,919. However, the cap is limited to the lesser of the net benefits or expenditures cap.

In 2017, as in previous years, the Department compensated for this lag by simply assuming OTP's claimed energy savings for 2016 were correct as filed and planned to make in the instant filing any adjustments approved by the Deputy Commissioner of the Department. However, the Deputy Commissioner approved Otter Tail's 2017 Status Report, covering 2016 CIP activity, without any adjustments in Docket No. E017/CIP-13-277.03, and thus no adjustments need to be made this year.

In the event that the Deputy Commissioner of the Department approves a different 2017 CIP energy savings or budget, the Commission can approve any adjustments to the Company's DSM financial incentive for 2017 achievements as part of the Company's 2018 filing, which will be made by April 1, 2019.

B. OTTER TAIL'S CARRY FORWARD PROPOSAL FOR PURPOSES OF CALCULATING THE 2018 DSM FINANCIAL INCENTIVE

Otter Tail proposed to carry forward energy savings equal to 9,006,674 kWh, along with the associated net benefits of \$4,053,482, from 2017 to 2018. This amount of energy savings and net benefits is the amount exceeding the level of energy savings equal to 1.7 percent of retail sales, the threshold at which electric utilities can achieve an incentive calculated at the highest percent of net benefits.

As noted in the Company's *Petition*, Minn. Stat. § 216B.241, subd. 1c(b) permits utilities to carry forward achieved energy savings in excess of its 1.5 percent savings goal. The Company stated that its proposal is in line with the Deputy Commissioner of Commerce's February 20, 2018 Decision in Docket No. E,G999/CIP-17-586,¹² which outlines the proper methodologies for carrying forward savings. Otter Tail noted that although the Statute does not specify that net benefits can also be carried forward, the Company interprets the Statute to suggest so, and stated that net benefits should be recorded with corresponding energy savings.

The Department notes that per Minn. Stat. 216B.241, the assessment and approval of carry-forward energy savings is not under Commission jurisdiction, but rather, under the jurisdiction of the Deputy Commissioner of Commerce. Therefore, the Department's Deputy Commissioner will review Otter Tail's carry-forward savings proposal at the time that the Company's Status Report is reviewed. The Department notes that part D. 4. of the Decision states:

The amount of savings carried forward shall only be enough to reach the 1.5% energy savings goal of a particular year.

¹² *In the Matter of Claiming Energy Savings through Electric Utility Infrastructure Improvements and the Energy Savings Carry Forward Provision.*

Thus, whether Otter Tail is able to carry forward energy savings from 2017 to 2018 will depend on the Company's actual energy savings in 2018, which will be reported in its 2018 CIP Status Report, due April 1, 2019. The Deputy Commissioner will make a determination on this issue at that time. In other words, Otter Tail's proposal to carry forward energy savings is likely premature.

However, the Department observes that the Statute is silent on the matter of carrying forward net benefits. Theoretically, the Department agrees that if the Deputy Commissioner approves the carrying forward of energy savings, the net benefits associated with those energy savings could also be carried forward to the year they are claimed. However, when doing so, the utility must demonstrate that it is not claiming the energy savings and/or the net benefits twice, once in the year actually saved, and again in the year to which they are carried forward.

Since the financial incentive is based on the utility's share of net benefits, it is important to note that, while the Deputy Commissioner has jurisdiction over the carry forward of energy savings, there is nothing in Minnesota Statutes to suggest that the Commission does not have jurisdiction over the carry forward of net benefits. Since the Commission has jurisdiction over the financial incentive, the Commission may find that it has jurisdiction over net benefits for purposes related to calculating the financial incentive, such as the Company's proposal to carry forward the net benefits associated with its proposed energy savings carry forward.

Minnesota Statute 216B.16 Subd 6c addresses the financial incentive.

Subd. 6c. Incentive plan for energy conservation improvement.

(a) The commission may order public utilities to develop and submit for commission approval incentive plans that describe the method of recovery and accounting for utility conservation expenditures and savings. In developing the incentive plans the commission shall ensure the effective involvement of interested parties.

(b) In approving incentive plans, the commission shall consider:

- (1) whether the plan is likely to increase utility investment in cost-effective energy conservation;
- (2) whether the plan is compatible with the interest of utility ratepayers and other interested parties;
- (3) whether the plan links the incentive to the utility's performance in achieving cost-effective conservation; and
- (4) whether the plan is in conflict with other provisions of this chapter.

Therefore, if the Commission decides that it has jurisdiction over the carry forward of net benefits, the Department concludes that it should evaluate the Company's proposal to carry

forward net benefits based on the statutory criteria. To that end, the Department provides the following analysis.

- (1) whether the plan is likely to increase utility investment in cost-effective energy conservation;

The Company's proposal does not meet this criteria. Commission approval of this proposal may hinder investment in conservation because in the years after which a utility exceeded its 1.5 percent energy savings goal, it could decide to be less aggressive in promoting energy savings in future years if it can include previous years' savings, net benefits, and budget to calculate its achieved energy savings.

- (2) whether the plan is compatible with the interest of utility ratepayers and other interested parties;

The Company's proposal to carry forward net benefits does not meet this criteria. Otter Tail's proposal has the potential for providing Otter Tail with a higher incentive in a future year, paid for by the customer, without encouraging Otter Tail to achieve higher energy savings. Further, Otter Tail's proposal allows utilities to avoid the Shared Savings expenditure cap.

- (3) whether the plan links the incentive to the utility's performance in achieving cost-effective conservation;

If the carried forward net benefits are not counted twice, it appears that approving Otter Tail's proposal would meet this criteria.

- (4) whether the plan is in conflict with other provisions of this chapter.

The Company's proposal to carry forward net benefits meets this criteria. The Department is unaware of any conflicts with any other provisions of the chapter.

The Department concludes that there are both costs and benefits associated with the Company's proposal to carry forward net benefits. While this proposal may better link the Company's 2017 performance to its 2017 financial incentive, this proposal almost certainly raises important public policy questions as outlined above. Specifically, the proposal gets around the purpose of the caps in the new incentive mechanism calculation, and has the potential to create situations in which the Company carries forward net benefits year after year, thus reducing investment in conservation.

Therefore, if the Commission decides that it does have authority to permit Otter Tail to carry forward net benefits, the Department recommends that the Commission deny the Company's request because it fails the statutory criteria as discussed above.

C. OTTER TAIL'S PROPOSED 2017 CIP TRACKER ACCOUNT

In its *Petition*, Otter Tail requested approval of its report on recoveries and expenditures included in the Company's CIP tracker account balance during 2017. Activity in Otter Tail's CIP tracker account during 2017 is summarized below in Table 1.

Table 1: A Summary of OTP's 2017 CIP Tracker Account

Description	Time Period	Amount
Beginning Balance	December 31, 2016	\$4,835,852
CIP Expenses	January 1 through December 31, 2017	\$ 6,605,899
DSM Financial Incentive	Approved in 2017 for 2016	\$5,031,678
Carrying Charges	January 1 through December 31, 2017	\$105,386 ¹³
CCRC Recovery (in base rates)	January 1 through December 31, 2017	(\$3,217,008)
CCRA Recovery	January 1 through December 31, 2017	(\$5,999,462)
Ending Balance	December 31, 2017	\$7,362,345

The Department reviewed Otter Tail's CIP Tracker account and concludes that the Company correctly calculated its CIP tracker account for 2017. The Department recommends that the Commission approve Otter Tail's 2017 CIP Tracker account as summarized in Table 1.

D. OTTER TAIL'S PROPOSED UPDATED CIP RIDER AND CCRA

OTP's approved CCRA (CIP adjustment rate) is \$0.00536 per kWh, as approved by the Commission on September 15, 2017 in Docket No. E017/M-17-246. For October 2018 through September 2019, Otter Tail proposed an increase in the surcharge to \$0.00600/kWh or an increase of approximately 11.9 percent from the Company's current surcharge.

Otter Tail projects that its proposal will reduce the Company's under-recovered CIP tracker balance from \$5,409,507 on October 1, 2018 to \$1,740,225 by September 30, 2019. OTP estimated that this CCRA increase will increase an average residential customer's bill by \$0.51/month. The Company estimated that the carrying costs associated with this proposal

¹³ In Appendix A, Table 1, Otter Tail inadvertently entered October carrying charges of \$14,345 instead of the correct figure of \$17,345, with the result that carrying charges were equal to \$102,386 with a 2017 year-end tracker balance of \$7,359,345, as shown in Appendix A, Table 5. The Department confirmed with the Company that this was a typo, and that the correct carrying charges for the year are \$105,386 with a 2017 year-end tracker balance of \$7,362,345.

for the October 1, 2018 through September 30, 2019 time period would be equal to \$61,782. Table 2 below delineates the Company's estimate.

Table 2: OTP's Forecasted 2018-2019 CIP Tracker Account

Line No.	Description	Time Period	Amount
1.	Beginning Balance	October 1, 2018	\$5,409,507
2.	CIP Program Expenses	October 1, 2018 - September 30, 2019	\$7,734,123
3.	CIP Incentive	Forecasted 2018 incentive that would be approved in 2019 ¹⁴	\$2,753,418
4.	Carrying Charges	October 1, 2018 - September 30, 2019	\$61,782
5.	CIP Expenses Subtotal (Line 1 + Line 2 + Line 3 + Line 4)	As of September 30, 2019	\$15,958,830
6.	Conservation Cost Recovery Charge -Included in Base Rates	October 1, 2018 - September 30, 2019	(\$3,852,672)
7.	CCRA	October 1, 2018 - September 30, 2019	(\$10,365,933)
8.	CIP Revenues Subtotal (Line 6 + Line 7)	As of September 30, 2019	(\$14,218,605)
9.	Ending Balance (Line 8 - Line 5)	As of September 30, 2019	\$1,740,225

The Department typically recommends that the CCRA be set to a value that brings the projected tracker balance to \$0 over the time that the proposed rate is in place. This is largely due to the fact that maintaining a higher tracker balance engenders associated carrying charges, and thus increases costs to ratepayers. This can be seen in the 2017 tracker, which maintains a high tracker balance throughout the year, and results in \$105,386 of carrying charges. However, the goal of recovering the tracker balance quickly through a higher rate must be balanced with the goal of avoiding rate shock.

In its *Petition*, Otter Tail appears to be pursuing the goal of avoiding rate shock, as the Company proposed to set the CCRA at a rate that brings the tracker balance to \$1,740,225 rather than \$0. However, Otter Tail did not explicitly state this intent in its filing, and so the Department contacted the Company to ask its intent. Otter Tail confirmed that the Company's goal is to mitigate rate shock.

¹⁴ This forecasted incentive for 2018 CIP achievements represents the second year in which the revised financial incentive mechanism will be in place, as approved in the Commission's August 5, 2016 Order in Docket No. E,G999/CI-08-133. This financial incentive for 2018 CIP achievements should not be confused with OTP's proposed incentive of \$2,642,360 for 2017 CIP achievements that Otter Tail proposed in its *Petition*.

The Department notes that this proposal is also in line with the Commission's Order from last year. The Company is currently in a transitional period wherein the tracker balance and CCRA are higher than usual.¹⁵ When the Company proposed a CCRA that would bring the tracker balance to \$0 within one year, the Commission ruled that this was too much of a rate increase for CIP-applicable customers, and approved the lower CCRA of \$0.00536/kWh. The lower approved CCRA meant that the Company would maintain a higher tracker balance for two years rather than one; this year is the second year of that higher balance. The Department observes that under this year's CCRA proposal, with the Company reducing the tracker balance from approximately \$5.4 million to approximately \$1.7 million, the Company should be set up to return to a lower CCRA and a pattern of bringing the tracker back to \$0 within one year in next year's filing.

Therefore, the Department concludes that the Company's request is reasonable, and recommends that the Commission approve a CCRA of \$0.00600/kWh.

E. OTP'S ANNUAL REQUEST FOR VARIANCES FROM COMMISSION RULES

Otter Tail requested two rule variances:

- a variance from Minnesota Rules part 7820.3500 (K), which requires the fuel clause adjustment to be listed on customers' bills as a separate line item; and
- a variance from a variance from Minnesota Rules part 7825.2600, which states that the FCA should be stated on a per-kWh basis on customer bills.

OTP requested a variance of these two rules so that the Company may combine the FCA and CIP adjustment rate on one bill line-item called a "Resource Adjustment."

OTP stated that "as in prior years, Otter Tail is requesting a variance to Minnesota Rule 7820.3500 K and Minnesota Rules part 7825.2600, which require that the Fuel Clause Adjustment ("FCA") be stated as a separate line item on customer bills. The requested variance would allow the Company to continue to combine the FCA with the CCRA on customer bills."¹⁶

Minnesota Rules part 7829.3200 authorizes the Commission to grant a variance to its rules when:

- enforcement of the rule would impose an excessive burden upon the applicant or others affected by the rule;

¹⁵ Specifically, two of the Company's large customers became CIP-exempt in January, 2017. This meant that the Company experienced a decrease in CIP revenues, which drove the tracker balance up, and subsequently drove the CCRA up.

¹⁶ *Petition* pg. 4.

- granting the variance would not adversely affect the public interest; and
- granting the variance would not conflict with standards imposed by law.

With respect to the first rule requirement, Otter Tail stated that the Company has been combining its FCA and CIP Rider as a Resource Adjustment line item on customers' bills since July 1995, and that customers have become familiar with the single-line item on their bills. With respect to the second rule requirement, Otter Tail stated that continuation of the variances would not adversely affect the public interest and may avoid customer confusion if the presentation of customers' bills were altered at this time. With respect to the third rule requirement, Otter Tail stated that there are no statutory provisions that would prohibit the Commission from granting the variance.

Based on its review of the Company's rationale for the proposed variances, the Department concludes that Otter Tail has met the conditions set forth in Minnesota Rules part 7829.3200 for the Commission to grant the requested variances. Thus, the Department recommends that the Commission grant Otter Tail's proposed variances to Minnesota Rules part 7820.3500 (K) and Minnesota Rules part 7825.2600 for one year after issue date of the Commission's *Order* in the present docket.

F. HISTORY OF OTTER TAIL'S CIP ACHIEVEMENTS AND FINANCIAL INCENTIVES

The Department has included a summary of historical and forecasted CIP-related information for Otter Tail in Attachment A. The information in Attachment A provides summary information for the period from 2007 through 2017. In addition, the Department developed Table 3 below, reproduced from OTP's *Petition* that summarizes the Company's DSM financial incentives, CIP expenditures, reported energy savings, and first year average cost per kWh saved between 2013 and 2017.

As indicated in Table 3, Otter Tail's 2017 energy savings have risen significantly since 2013. Otter Tail's 2017 average cost per kWh saved is in line with Otter Tail's historical savings cost, due in part to the revised Shared Savings DSM financial incentive mechanism. Further, the Company achieved its highest percentage of energy savings to date at 3.01 percent. However, the Department notes that this is not due to increased savings (the numerator in the percent savings equation), which actually declined by approximately 5 million kWh from 2016 to 2017. Instead, the reported 3.01 percent savings is largely due to the aforementioned exemption of two large CIP customers, which reduced the weather-normalized 3-year average retail sales figure (the denominator in the percent savings equation).

Table 3: Selected Summary Statistics for OTP’s CIP Program (2013-2017)

Description	2013	2014	2015	2016	2017
DSM Financial Incentive	\$4,026,600	\$2,957,972	\$4,257,105	\$5,031,678	\$2,642,360
CIP Expenditures	\$5,259,625	\$5,188,931	\$6,105,445	\$7,770,781	\$6,605,899
Achieved Energy Savings (kWh)	35,792,002	33,805,392	48,652,628	57,504,891	52,497,167
Average Cost per kWh Saved	\$0.15	\$0.15	\$0.13	\$0.14	\$0.13

The information included in Attachment A and Table 3 demonstrate that Otter Tail’s CIP efforts have been very successful to date.

IV. THE DEPARTMENT’S RECOMMENDATIONS

At this time, and based on the analysis provided above, the Department recommends that the Commission:

1. approve Otter Tail’s 2017 CIP tracker account, as summarized in Table 1 above, resulting in a December 31, 2016 tracker balance of \$7,362,345;
2. approve an incentive of \$2,642,360 for Otter Tail’s 2017 CIP achievements;
3. approve a CCRA of \$0.00600 per kWh, to be effective October 1, 2018;
4. grant Otter Tail a variance to Minnesota Rules part 7820.3500 (K) and a variance to Minnesota Rules part 7825.2600 for one year after the issue date of the Commission’s *Order* in the present docket; and
5. require Otter Tail to submit a compliance filing, within 10 days of the issue date of the *Order* in the present docket, with revised tariff sheets reflecting the Commission’s determinations in this matter.

Finally, if the Commission finds that it has jurisdiction over the Company’s proposal to carry forward net benefits, the Department recommends that the Commission deny the Company’s proposal to carry forward \$4,053,482 of net benefits from 2017 to 2018. The Department is available to answer any questions.

Attachment A

**Table 1. Otter Tail Power's Historical CIP Achievements, Incentives, and Tracker Balance
2007-2017**

Line No.	1	2	3	4	5	6	7	8	9	10	11	12	13
Year	Achieved First Year Energy Savings (kWh)	CIP Expenditures	Net Benefits	DSM Financial Incentive	Carrying Charges	Year-End Tracker Balance	Average Cost per first year kWh Saved	Average cost per kWh Saved (including incentives)	Incentive as a % of CIP Expenditures	Incentive as a % of Net Benefits	Incentive per first year kWh saved	Carrying Charges as a % of Expenditures	Year-End Tracker Balance as a % of Expenditures
2007	11,468,831	\$1,862,697	\$6,860,618	\$25,066	\$53,025	\$490,713	\$0.16	\$0.17	1%	0%	\$0.00	3%	26%
2008	15,994,719	\$2,345,874	\$9,891,448	\$273,798	(\$4,830)	\$265,056	\$0.15	\$0.16	12%	3%	\$0.02	0%	11%
2009	35,706,319	\$4,093,050	\$35,624,398	\$1,101,060	\$26,437	\$1,927,314	\$0.12	\$0.15	27%	3%	\$0.03	1%	47%
2010	31,792,750	\$5,030,119	\$28,444,292	\$3,531,538	\$146,441	\$3,721,665	\$0.16	\$0.27	70%	12%	\$0.11	3%	74%
2011	27,957,635	\$4,344,581	\$19,307,820	\$2,608,098	\$221,862	\$5,188,129	\$0.16	\$0.25	60%	14%	\$0.09	5%	119%
2012	30,793,654	\$4,816,994	\$21,167,988	\$2,681,575	\$222,097	\$3,572,621	\$0.16	\$0.24	56%	13%	\$0.09	5%	74%
2013	35,792,002	\$5,253,935	\$32,764,856	\$4,026,600	\$237,859	\$4,835,558	\$0.15	\$0.26	77%	12%	\$0.11	5%	92%
2014	33,805,392	\$5,188,931	\$26,035,459	\$2,957,972	\$219,788	\$5,731,183	\$0.15	\$0.24	57%	11%	\$0.09	4%	111%
2015	48,652,628	\$6,105,445	\$38,079,065	\$4,257,105	\$31,473	\$4,333,061	\$0.13	\$0.21	70%	11%	\$0.09	1%	71%
2016	57,504,891	\$7,770,781	\$49,691,112	\$5,031,678	\$26,368	\$4,835,852	\$0.14	\$0.22	65%	10%	\$0.09	0.3%	62%
2017	52,497,167	\$6,605,899	\$23,626,518	\$2,642,360	\$102,386	\$7,362,345	\$0.13	\$0.18	40%	11%	\$0.05	1.5%	111%

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-18-119

Dated this 30th day of May 2018

/s/Sharon Ferguson

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Christopher	Anderson	canderson@allete.com	Minnesota Power	30 W Superior St Duluth, MN 558022191	Electronic Service	No	OFF_SL_18-119_M-18-119
Tom	Balster	tombalster@alliantenergy.com	Interstate Power & Light Company	PO Box 351 200 1st St SE Cedar Rapids, IA 524060351	Electronic Service	No	OFF_SL_18-119_M-18-119
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William	Black	bblack@mmua.org	MMUA	Suite 400 3025 Harbor Lane North Plymouth, MN 554475142	Electronic Service	No	OFF_SL_18-119_M-18-119
Christina	Brusven	cbrusven@fredlaw.com	Fredrikson Byron	200 S 6th St Ste 4000 Minneapolis, MN 554021425	Electronic Service	No	OFF_SL_18-119_M-18-119
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Ray	Choquette	rchoquette@agp.com	Ag Processing Inc.	12700 West Dodge Road PO Box 2047 Omaha, NE 68103-2047	Electronic Service	No	OFF_SL_18-119_M-18-119
Generic Notice	Commerce Attorneys	commerce.attorneys@ag.state.mn.us	Office of the Attorney General-DOC	445 Minnesota Street Suite 1800 St. Paul, MN 55101	Electronic Service	Yes	OFF_SL_18-119_M-18-119
Gary	Connett	gconnett@grenergy.com	Great River Energy	12300 Elm Creek Blvd N Maple Grove, MN 553694718	Electronic Service	No	OFF_SL_18-119_M-18-119
George	Crocker	N/A	North American Water Office	PO Box 174 Lake Elmo, MN 55042	Paper Service	No	OFF_SL_18-119_M-18-119

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
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First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
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First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
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First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
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First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
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First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
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First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
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