

Minnesota Public Utilities Commission
Staff Briefing Papers

Meeting Date: June 19, 2014 Agenda Item # 4

Company: Otter Tail Power Company

Docket No. E-017/M-13-103

In the Matter of Otter Tail Power Company's Request for Approval of a Transmission Cost Recovery Rider Including the Proposed Transmission Factor for the Recovery Period from May 2, 2013 to April 30, 2014.

Issue: Should the Commission approve Otter Tail Power's request to keep the current rates in its Transmission Cost Recovery Rider or require the Company to implement new rates in the Rider?

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Relevant Documents

Staff – Briefing PapersJanuary 23, 2014
PUC – Commission Order March 3, 2014
Otter Tail Power – Compliance Filing April 9, 2014
Department of Commerce – Comments..... April 18, 2014
Otter Tail Power – Compliance Filing Amended..... April 30, 2014
Department of Commerce - Comments.....May 21, 2014
Otter Tail Power – Reply CommentsMay 29, 2014

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June 10, 2014

Statement of the Issue

Should the Commission approve Otter Tail Power's request to keep the current rates in its Transmission Cost Recovery Rider or require the Company to implement new rates in the Rider?

Background

February 7, 2013: Otter Tail Power Company (OTP) submitted its Transmission Cost Recovery Rider (TCRR) petition to the Commission for approval of OTP's TCRR Annual Update and the proposed 2013 Transmission Cost Recovery Factors.

May 24, 2013: The Minnesota Department of Commerce, Division of Energy Resources, (Department) responded to OTP's initial filing and withheld a recommendation until the Company responded to its information requests as a result of their review of the initial filing.

June 27, 2013: OTP filed reply comments in response to the Department's information requests addressing the cancellation of the Sheyenne-Audubon 230kV line upgrade, MISO Schedule 37 and 38 revenue forecasts, Attachment O revenues, cost recovery caps and the inclusion of internal capitalized costs within the TCRR.

August 30, 2013: The Department recommended that the Commission limit the amount of capital cost recovery allowed in the rider to the amount initially approved by the Commission in Certificate of Need (CN) proceedings or, in the absence of a CN, the amount approved in the eligibility filing. Specifically, the Department is recommending the Commission limit the amount the Company is allowed to recover for the Bemidji-Grand Rapids project to \$74 million as approved in the CN filing.

The Department also recommended the Commission disallow recovery of internal capitalized costs through the rider. The Department is advising the Commission to require OTP to include all MISO Schedule 26 revenues associated with the TCRR projects that the Company receives from other utilities, including those that are attributable to its disallowed capital costs. The Department stated that OTP will have a chance to recover these costs during its next rate case.

September 25, 2013: The Company submitted reply comments arguing that it would not be appropriate to include MISO revenues which are based on the full cost of construction while excluding some of the costs of construction which are the basis for the revenues generated.

December 16, 2013: The Department submitted comments and continued to recommend the Commission require OTP to pass through the Minnesota share of all MISO Schedule 26 revenues and MISO Schedule 26 charges associated with the projects included in the rider. This includes the revenues attributable to the Company's disallowed capital costs.

January 6, 2014: The Company submitted response comments arguing that the Department's proposal would create a mismatch between the rate base used to determine revenue requirements and the rate base used to derive revenue credits for facilities included in OTP's TCRR.

January 30, 2014: The matter was heard by the Commission.

March 10, 2014: The Commission issued an Order in the matter which found:

- The Sheyenne-Audubon project is no longer needed.
- Otter Tail Power shall identify MISO Schedule 37 & 38 revenues as such in future filings.
- Projects being recovered in the TCR rider are subject to a cost cap. The cost cap for the Bemidji project is \$74 million.
- Otter Tail shall remove the capitalized internal costs of approximately \$1.76 million from the TCR rider.
- Otter Tail shall include all Schedule 26 costs and all Schedule 26 revenues in the Transmission Cost Recovery Rider.
- Otter Tail shall not add a carrying charge to the tracker balance for the TCR rider and the Renewable Resource Cost Recovery Rider effective with the date of this Order.
- All changes to the TCR rider arising from the Commission's actions in this matter will be effective as of the date of the Order. The Company shall file a compliance filing within 30 days of the date of this Order demonstrating the Company's recalculation of the TCR rider and its proposal to credit ratepayers to reflect the changes in the TCR rider set forth in this Order.
- The Order is effective immediately.

April 9, 2014: Otter Tail Power submitted its compliance filing as Ordered by the Commission. The Company updated projected costs and revenues with actual project costs and actual revenues and updated forecasted information for the May 2013 to April 2014 recovery period. The Company is not requesting an adjustment to the rates charged to customers through the TCR. The impact of the changes from the Order is only reflected in the revenue requirement.

April 18, 2014: The Department recommended the Commission reject Otter Tail Power's compliance filing. Otter Tail Power's updated information caused the proposed annual revenue requirement to increase from \$2,268,907 in its initial filing to \$3,575,856 in the compliance filing.

April 30, 2014: The Company submitted an Amended Compliance Filing reflecting the changes as ordered by the Commission and applied to the schedules and computations as initially filed. The amended filing resulted in a decrease in the revenue requirement from \$2,268,907 to \$2,066,007.

May 21, 2014: The Department agreed with the Company's revised annual revenue requirement calculations. The Department concluded that Otter Tail Power's proposal to keep the current rates in effect must be ruled on by the Commission.

May 29, 2014: Otter Tail Power submitted reply comments and stated that the Company agrees with the Departments assessment that only the Commission has the authority to approve Otter Tail Power's request to keep current rates in effect.

Party Positions

The Company and the Department agree on the Amended Compliance filing and the revised annual revenue requirement calculations. The Department does not oppose the Company's proposal to not implement the resulting rates. The Department noted that the difference between the TCR Rates approved in this docket and the rates the Company is currently charging its customers is relatively small.

The Department concluded that Otter Tail Power's proposal not to implement Commission approved rates would need to be approved by the Commission. Commission approved rates are to be implemented and are in effect until changed by the Commission. In this case, the Commission's March 10, 2014 Order is in effect. The Company is required to implement the new rates unless the Commission allows the Company not to implement the rates.

Staff Analysis

Otter Tail Power files annual petitions to establish TCR rider rates for the upcoming year. The Company proposes new transmission projects for rider recovery and removes any projects whose costs have been incorporated into base rates. Otter Tail Power also reports on transmission costs and rider revenue from the preceding year and adjusts the current year's revenue requirement for any previous over-or under-recovery, a process referred to as a "true-up."

The Company submitted an amended compliance filing on April 30, 2014. The amended filing incorporated all of the changes as ordered by the Commission. Costs associated with the Sheyenne-Audubon project have been removed from the rider calculations. Otter Tail Power identified its MISO Schedule 37 & 38 revenues in its calculation of the revenue requirement. The costs for the Bemidji project have been calculated using the \$74 million total cost cap. Otter Tail Power's investment in the Bemidji project is 20% and the Company's investment has been capped at approximately \$22,700,000. The carrying charge has been removed and Schedule 26 revenues and expenses have been identified.

Based on the ordered changes, the updated revenue requirement for the May 2013 to April 2014 recovery period is \$2,066,007. The revenue requirement computed in Otter Tail Power's initial filing for the same recovery period was \$2,268,907. For comparison purposes, recalculation of the rates results in a slight increase of the proposed rates for the Large General Service, Controlled Service and Lighting classes of customers and a slight decrease in the rate assigned to the All Other Service customer class. (See Table 1) The tracker balance as of April 30, 2014

shows an over recovery of \$397,735.

Table 1

		Existing Rates Implemented April 1, 2012	Revised Rates Following Order (Not to be Implemented)	Difference
Large General Service	\$/kW	0.391	0.421	0.030
Controlled Service	¢/kWh	0.019	0.020	0.001
Lighting	¢/kWh	0.085	0.083	0.002
All Other Service	¢/kWh	0.126	0.125	(0.001)

Calculation of the rates in the rider begins with the calculation of the return on rate base. The return on rate base is calculated beginning with the costs the Company has invested in the projects. An adjustment is then made to the plant balance for accumulated depreciation. CWIP is allowed to be included in the calculation and a deduction is allowed for accumulated deferred income taxes. The return allowed on the rate base is then calculated using the Company's overall rate of return approved in its last rate case.

For the purpose of calculating rates for this rider, the rate base is also multiplied by the weighted average cost of the equity portion of the Company's capital structure. The resulting number is the Company's income before taxes for the project. The Company's income before taxes is then grossed up for taxes. The result is multiplied by the tax rate to calculate the current and deferred income taxes. The expenses included for recovery are current and deferred income taxes, property taxes and depreciation. The expenses plus the return on rate base equals the revenue requirement which is then allocated between customer classes to derive the rate.

Any over or under-recovery of the revenue requirement is adjusted in the tracker through the application of a true-up. In this instance, Otter Tail Power's numbers are based on projections, not actual numbers. The projected true-up shows an over-recovery of \$397,735. The true-up cannot be credited to Ratepayers in this case because the Company did not submit updated actual numbers prior to the Commission's initial Order. The Commission's directive to have the Company submit a proposal to credit ratepayers cannot be executed in this instance.

The Company's request to update the revenue requirement in the tracker and to not implement the resulting rates seems reasonable as the difference between the old and new rates is not a significant amount, as shown in Table 1. The Company filed its next TCR Annual Update on May 1, 2014. The Company would like to avoid the customer impact and possible of implementing two rate changes within just a few months by simply keeping the current rates in effect and then implementing new rates following the issuance of an Order in the new TCRR docket. The Department stated that they do not oppose Otter Tail Power's proposal to keep current rates in effect.

Decision Alternatives

- 1.) Accept compliance filing and allow Otter Tail Power to keep its existing TCRR rates in effect.
- 2.) Accept compliance filing and require Otter Tail Power to implement the revised rates following the Commission's March 3, 2014 Order.

Recommendation

Staff recommends decision alternative 1.