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May 31, 2022

Will Seuffert
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, MN 55101-2147

**PUBLIC DOCUMENT – NOT PUBLIC (OR
PRIVILEGED) DATA HAS BEEN EXCISED**

**RE: In the Matter of Otter Tail Power Company's Petition to Implement Electric
Utility Infrastructure Cost Recovery Rider for Advanced Metering
Infrastructure / Outage Management System / Demand Response System,
Rate Schedule 13.11
Docket No. E017/M-21-382
Reply to Response Comments**

Dear Mr. Seuffert:

Otter Tail Power Company (Otter Tail) appreciates the opportunity to submit these Reply to Response Comments regarding its request for approval to implement an Electric Utility Infrastructure Cost Recovery Rider Rate under Otter Tail's Rate Schedule 13.11.

These Reply Comments contain information considered by Otter Tail to be Trade Secret (the "Protected Data"). The Protected Data has economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by other persons and is subject to the efforts by OTP to protect the information from public disclosure. The Protected Data therefore: (1) constitutes trade secret information, as defined in Minn. Stat. § 13.37, subd. 1(b); (2) is classified as nonpublic data pursuant to Minn. Stat. § 13.37, subd. 2; (3) is also not public data, as defined in Minn. Stat. § 13.02, subd. 8a; and (4) is protected data under Minn. R. 7829.0100, subp. 19a(A).

A Certificate of Service is also enclosed. Otter Tail has served a copy of this filing on all parties listed on the enclosed Service Lists. If you or Department Staff have any questions, please contact me at (218) 739-8042 or pfoster@otpc.com.

Very truly yours,

/s/ PAULA FOSTER
Paula Foster, Rates Analyst
Regulatory Administration

kaw
Enclosures
By electronic filing
c: Service List

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

**In the Matter of the Petition of
Otter Tail Power Company to
Implement Electric Utility
Infrastructure Cost Recovery Rider
for Advanced Metering
Infrastructure / Outage Management
System / Demand Response System,
Rate Schedule 13.11**

Docket No. E017/M-21-382

REPLY TO RESPONSE COMMENTS

I. INTRODUCTION

On June 7, 2021, Otter Tail Power Company (Otter Tail or Company) petitioned the Minnesota Public Utilities Commission (Commission) under Minnesota Statute §216B.1636 requesting approval to recover costs related to the implementation of Advanced Metering Infrastructure (AMI), Outage Management System (OMS) with updates to the Geographic Information System (GIS) and Demand Response (DR) through the Electric Utility Infrastructure Cost Recovery Rider (EUIC Rider).

On December 8, 2021, the Minnesota Department of Commerce, Division of Energy Resources (Department) filed Initial Comments in response to Otter Tail's petition. In its Initial Comments, the Department recommended that the Commission approve the AMI project but deny without prejudice the OMS Project and DR System and requested additional information from Otter Tail Power in reply comments. The Department requested further clarifications of various elements of Otter Tail's Petition. On January 18, 2022, Otter Tail filed Reply Comments in response to the Department's Initial Comments, providing additional information requested by the Department, including additional information supportive of Otter Tail's proposal to begin recovery of the OMS project in this Petition. Otter Tail agreed with the Department to remove the DR project from this filing, but requested the Department reconsider the OMS project based on the updated project status, revised costs and additional information provided at the request of the Department.

On April 19, 2022, the Department filed Response Comments, outlining numerous final recommendations regarding Otter Tail's requests within this Petition. Otter Tail addresses these recommendations in these Reply to Response Comments.

II. OTTER TAIL RESPONSES TO THE DEPARTMENT'S RESPONSE COMMENT RECOMMENDATIONS

Otter Tail provides responses to the following recommendations raised by the Department in its Comments filed on April 19, 2022:

- A. **The Department recommends that the Commission disallow the Company's inclusion of its external legal and consulting costs for the AMI Project of [TRADE SECRET DATA BEGINS ...
... TRADE SECRET DATA ENDS] in the EUIC Rider tracker mechanism.**

Otter Tail Response:

Otter Tail's development of the AMI project has required the use of external expertise from consulting and legal entities who have experience with the development of these types of projects. It is not cost effective for a utility to maintain staff to design and develop every type of project a utility may embark upon. Projects such as Otter Tail's AMI project are not routine and relying on external resources for these types of projects is necessary to help insure these projects are designed and developed effectively in order to meet the business objectives of the project.

The use of specialists in this case is no different than engaging an outside engineering firm or legal entity for consulting services related to the design and development of a new generation or transmission facility, for example. These costs are for resources over and above available internal resources for such work. While there could be certain legal or professional services costs included in a representative test year, those costs would be costs attributable to non-capital related items. The external costs specific to the AMI project are not part of normal operations and maintenance costs that may be representative of costs included in a test year or recovered in base rates. These costs are part of the capital cost of the AMI project. These legal and consulting costs are no different from the cost of an external contractor hired to do the actual installation or construction the project. External costs for capital projects have never been excluded from rider recovery for Otter Tail, nor should they be. They are not part of the expensed costs reflected in a rate case test year. For the Department's argument to make sense (that there is a representative amount of such costs in the test year of the company's last rate case), then ALL such costs incurred in the test year (both expensed and capitalized costs) would have to have been included as an annual expensed amount in the test year. Because they were not (the capitalized costs occurring in the test year are not included in the test year as a representative annual amount). If they had been (which we would not recommend, of course), the test year

expenses for such costs would have been much, much higher, and customer rates would be much higher. In summary, the Department's position conflates *expensed costs* represented in a test year with *ALL costs* occurring in a test year (both capitalized costs and expensed costs).

Otter Tail has complied with past practice to exclude internal costs in this Docket, including removing internal labor, estimated at 12% of Construction Work in Progress (CWIP), as well as removing \$1.5 million of costs for the AMI project included in the capital budget from Otter Tail's last rate case¹. Otter Tail agrees that the \$1.5 million is clearly representative of costs included in base rates as they were part of CWIP included in setting base rates.

In their Response Comments, the Department cites a recent Commission ruling in Docket G-002/M-19-664 as a basis for supporting its recommendation. Order point 5 states:

5. The Company's proposed recovery of GUIC internal capital costs for Overheads, Other, and Transportation is denied, to the extent these costs are not removed elsewhere.

From Page 4 of the Commission's Order dated May 3, 2021 in Docket G-002/M-19-664, the Commission provided the following discussion in reaching its conclusion:

V. Internal Capitalized Costs

*In Xcel's 2018 and 2019 GUIC proceedings, the Commission adopted the Department's recommendation to disallow rider recovery of costs in the categories "Overhead," "Transportation," and "Other," reasoning that Xcel was already recovering a representative amount of these costs through its base rates as **internal** capitalized costs. The Department has again recommended disallowing recovery of these costs in the 2020 GUIC rider because of concern that Xcel could expense its employee internal labor cost in a rate case and also capitalize that same labor cost in a rider, effectively charging ratepayers for the same internal labor costs twice.*

Xcel argued that these costs are appropriately included in its GUIC rider revenue requirement because they are incremental to costs being recovered in base rates.

¹ Docket No. 017/GR-20-719

*The Commission continues to conclude that Xcel's general description of these costs does not distinguish them from the internal capitalized costs recovered through base rates and will therefore require removal of these costs from the GUIC rider to ensure that double recovery does not occur. Although rider recovery for **internal** capitalized costs is denied, Xcel may request recovery of these types of costs as part of its next rate case.*

Otter Tail understands this decision to refer to certain *internal* costs being contemplated for inclusion in the rider, whereas *external* costs are being addressed in the recommendation by the Department in this case. Otter Tail respectfully requests the Commission reject the Department's recommendation regarding excluding prudent and necessary *external* costs for the development of the AMI project.

- B. The Department recommends that the Commission require Otter Tail Power to provide BCA information consistent with the Guidance Document and comply with Section 3 of the Guidance Document (Initial Filing Requirements) in future EUIC Rider petitions.**

Otter Tail Response:

The Department acknowledges that the Guidance Document was not available at the time Otter Tail submitted its request for recovery of the AMI, OMS and DR projects, of which the Department is now supporting² recovery of AMI and OMS in this petition. Otter Tail has provided BCA information, either in the Initial Filing or as supplemented in its Reply Comments to support these projects. Otter Tail is supportive of providing BCA information for future projects³ consistent with recommendations outlined in the Guidance Document, and as articulated in the Department's recommendation.

- C. For projects the Company plans to include in a future EUIC Rider petition, the Department recommends that the Company conduct a BCA consistent with the Guidance Document at a project's inception and provide required information in the initial filing, rather than in response to Department information requests or in the comment process.**

² The Department recommended denying recovery of the DR project at this time, which Otter Tail agreed to withdraw its request at this time in Reply Comments as the project timeline and cost development needed further refinement.

³ Otter Tail expects to re-submit its request for recovery of the DR project in the next annual update filing.

Otter Tail Response:

Otter Tail is not opposed to providing applicable BCA's for future projects it seeks recovery of consistent with recommendations set forth in the Guidance Document referred to by the Department.

- D. The Department recommends the Commission approve a soft cost cap of the OMS Project of \$2,002,185, representative of the Minnesota jurisdictional share of the OMS Project's total capital costs of \$4,073,428 in the EUIC Rider. However, in the next Otter Tail Power rate case, the Company can request recovery for cost overruns if it can show by clear and convincing evidence that the costs were reasonable, prudent, and beyond its control. The Department has required this in past proceedings, such as, Minnesota Power's and Xcel Energy's Renewable Energy Resources Riders and Transmission Cost Recovery Riders.**

Otter Tail Response:

As stated in Reply Comments, Otter Tail does not oppose this recommendation.

- E. The Department recommends that the Commission approve a soft cost cap of the AMI Project to the total project cost of \$55.9 million, less the internal labor costs as reflected in the EUIC Rider mechanism, and less the Minnesota jurisdictional component of the external legal and consulting costs of approximately [TRADE SECRET DATA BEGINS...
...TRADE SECRET DATA ENDS]. However, in the next Otter Tail Power rate case, the Company can request recovery for cost overruns if it can show by clear and convincing evidence that the costs were reasonable, prudent, and beyond its control. The Department has required this in past proceedings, such as, Minnesota Power's and Xcel Energy's Renewable Energy Resources Riders and Transmission Cost Recovery Riders.**

Otter Tail Response:

Otter Tail does not oppose setting a soft cap for the AMI project, with the exception of the Department's recommendation to remove external legal and consulting costs, as explained above.

- F. The Department recommends that the Commission require Otter Tail to track all savings associated with the AMI Project and, if monetizable, all savings associated with the OMS Project, to ensure they are included in the EUIC Rider, and explain any discrepancy between forecasted savings and actual savings.**

Otter Tail Response:

As noted in our Reply Comments, Otter Tail is preparing to track financial savings associated with the AMI project for the purpose of crediting customer accounts through the EUIC Rider tracker. AMI savings information will be included in the annual EUIC Rider update filings.

- G. The Department recommends that the Commission require Otter Tail Power in its next EUIC Rider petition to propose and establish performance metrics consistent with Section 4 of the Guidance Document (Ongoing Reporting Requirements) to track the performance of the AMI Project and OMS Project in an annual report published in this proceeding and for any other projects proposed in future EUIC Rider proceedings.**

Otter Tail Response:

Otter Tail is not opposed to proposing performance metrics associated with Otter Tail's projects included for recovery in the EUIC Rider. The Company will work to determine how best to measure the project implementation and ongoing performance and will propose metrics specific to Otter Tail's projects in the next EUIC Rider petition.

- H. The Department recommends that the Commission require Otter Tail to file an annual report on its grid modernization investments consistent with Section 4 of the Guidance Document (Ongoing Reporting Requirements). The annual report should include the following information:**

- o An update on the scope of the grid modernization projects proposed in the EUIC Rider and intended functionalities and plan for upcoming year;**
- o An update on the actual capital and operations and maintenance costs incurred and savings accrued compared to the forecasted amounts included in the initial filing of the EUIC Rider petition;**
- o An update on the implementation progress of the grid modernization projects proposed compared to the planned timeline;**
- o An update on the products and services that the grid modernization projects proposed may enable, including any modifications to those offerings, and a summary of implementation progress;**
- o A discussion of how the proposed grid modernization projects relate to Otter Tail's integrated distribution plan, specifically the Commission's Planning Objectives for integrated distribution plans and Otter Tail's IDP Filing Requirement 3.D (Otter Tail's Long-term Distribution**

System Modernization and Infrastructure Investment Plan); and

o An update on any performance metrics that are established in a future EUIC Rider proceeding.

Otter Tail Response:

Otter Tail will provide updates on projects included in the EUIC Rider in each annual update filing as contemplated with this recommendation.

The Department recommends the Company provide a revenue requirement analysis in a future EUIC Rider proceeding for the DR System for the years 2022 to 2045 and in total, similar to the one Otter Tail Provided for the AMI project, before the Commission approves the DR System.

Otter Tail Response:

As noted earlier, Otter Tail intend to re-submit its request for recovery of the DR project in its next EUIC Rider filing. The DR project will have a 15-year life; therefore Otter Tail will include the requested revenue requirement analysis for the DR project for that time frame in that filing.

The Department recommends that the Commission require Otter Tail Power to file an updated version of the Class Allocation and Current Rate Design (Attachment 10) and the EUIC tracker mechanism (Attachment 11) within 30 days of the Commission's Order.

Otter Tail Response:

Otter Tail is not opposed to providing this information and will submit this information in a compliance filing.

III. CONCLUSION

Otter Tail supports the Department's recommendations for approval of the recovery of Otter Tail's AMI and OMS projects and requests the Commission approve these projects for EUIC recovery. Otter Tail supports recovery of these projects under the contemplated cost caps but respectfully requests the Commission deny the Department's recommendation to exclude reasonable and necessary external costs critical to the successful development of the AMI project. Lastly, Otter Tail is amenable to providing on-going cost, benefit and performance metric information that is consistent with recommendations outlined in the Guidance Document in future filings as requested by the Commission.

Dated: May 31, 2022

Respectfully submitted,
OTTER TAIL POWER COMPANY

By: /s/ PAULA FOSTER

Paula Foster
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CERTIFICATE OF SERVICE

**RE: In the Matter of Otter Tail Power Company's Petition to Implement
Electric Utility Infrastructure Cost Recovery Rider for Advanced Metering
Infrastructure / Outage Management System / Demand Response System,
Rate Schedule 13.11
Docket No. E017/M-21-382**

I, Kim Ward, hereby certify that I have this day served a copy of the following, or a summary thereof, on Will Seuffert and Sharon Ferguson by e-filing, and to all other persons on the attached service list by electronic service or by First Class Mail.

**Otter Tail Power Company
Reply to Response Comments**

Dated this **31st** day of **May, 2022**.

/s/ KIM WARD
Kim Ward
Regulatory Filing Coordinator
Otter Tail Power Company
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Generic Notice	Commerce Attorneys	commerce.attorneys@ag.state.mn.us	Office of the Attorney General-DOC	445 Minnesota Street Suite 1400 St. Paul, MN 55101	Electronic Service	Yes	OFF_SL_21-382_M-21-382
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Generic Notice	Residential Utilities Division	residential.utilities@ag.state.mn.us	Office of the Attorney General-RUD	1400 BRM Tower 445 Minnesota St St. Paul, MN 551012131	Electronic Service	Yes	OFF_SL_21-382_M-21-382
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