

215 South Cascade Street
PO Box 496
Fergus Falls, Minnesota 56538-0496
218 739-8200
www.otpc.com (web site)

September 28, 2023



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

**RE: In the Matter of Otter Tail Power Company's Petition for Approval of the
Annual Rate Update to its Transmission Cost Recovery Rider Annual
Adjustment, Rate Schedule 13.05
Docket No. E017/M-23-152
Reply Comments**

Dear Mr. Seuffert:

Otter Tail Power Company (Otter Tail) hereby submits to the Minnesota Public Utilities Commission its Reply Comments in the above-described matter.

We have electronically filed this document with the Commission, and copies have been served on all parties on the attached service list. A Certificate of Service is enclosed.

If you have any questions regarding this filing, please contact me at 218-739-8444 or at dhaugen@otpc.com.

Sincerely,

/s/ *DEREK HAUGEN*
Derek Haugen
Rates Analyst, Regulatory Economics

vjm
Enclosures
By electronic filing
c: Service List

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

**In the Matter of Otter Tail Power
Company's Petition for Approval of the
Annual Rate Update to its Transmission
Cost Recovery Rider Annual Adjustment,
Rate Schedule 13.05**

Docket No. E017/M-23-152

Reply Comments

I. INTRODUCTION

Otter Tail Power Company (Otter Tail) submits these Reply Comments in response to the August 14, 2023 Comments (Department August 23 Comments) of the Minnesota Department of Commerce (the Department). Otter Tail respectfully requests the Commission approve its revised Transmission Cost Recovery Rider (TCRR) rates as provided in the May 26, 2023 Supplemental Filing, with the adjustment to the previously Ordered cap of \$1.2 million for the Hoot Lake 115/43/13.8 kV Transformer Project as recommended by the Department.

Otter Tail responds to the Department's recommendations and request for additional information below.

A. Otter Tail's efforts to ensure the lowest costs to ratepayers for the projects it proposed to include in its TCRR.

Otter Tail keeps prices low through alliance agreements and by competitively bidding large components of its transmission projects. Large components, including, but not limited to, transformers, site grading, and physical construction of new substations are generally procured through bidding processes. Alliance agreements provide more stable and predictable price options for common equipment and materials (breakers, switches, etc.). Alliance agreements, generally have terms of one to three years, depending on the price of materials subject to the contract.

Otter Tail has historically been exceptional at estimating projects. Rising costs and supply chain/pricing volatility has made this difficult. Otter Tail has experienced unprecedented increases in major material costs for not only the Erie Project but for all new projects that involve major materials. These increases in material costs can be attributed to several factors, such as inflation, shortage of employees at manufacturing plants, raw material costs, and transportation. We continue to work internally to develop budgets going forward that consider these cost increases and the market volatility that we are experiencing.

B. Update to Otter Tail’s request to include its proposed 115kV Oslo Breaker Station and Olso – Lake Ardoch Line project in the TCRR.

On June 16, 2023, Otter Tail applied for a Certificate of Public Convenience and Necessity (CPCN) with the North Dakota Public Service Commission (ND PSC) for the Oslo – Lake Ardoch 115 kV line. On September 6, 2023, the ND PSC issued Otter Tail a CPCN for the Oslo – Lake Ardoch 115 kV line.¹ The approval of the CPCN completes the necessary approvals required by the state of North Dakota for the Oslo – Lake Ardoch 115 kV line. Due to Otter Tail obtaining the necessary approvals from the state of North Dakota for the project, the first criterion of the eligibility criteria set forth in Paragraph (a)(2) of the MN TCRR Statute has been met.

As described in the initial filing, the Northwest Minnesota transmission system is an extensive network of 115 kV transmission lines with 230 kV sources at Drayton (North Dakota), Grand Forks (North Dakota), and Winger (Minnesota). This 115 kV transmission network in Northwest Minnesota serves both Otter Tail and Minnkota Power Cooperative (MPC) customers. Transmission planning studies have identified thermal overloads and low voltage concerns in the Northwest Minnesota network. In fact, issues were first identified in the Northwest Minnesota area in the 2007 timeframe as described in the 2007 Minnesota Biennial Transmission Projects Report and subsequent Minnesota Biennial Transmission Project Reports under Tracking Number 2007-NW-N3.²

Since the initial identification of concerns in the Northwest Minnesota area, Otter Tail and MPC have been closely monitoring the load growth in Northwest Minnesota and performing transmission studies. Through these efforts, the preferred project has evolved that will ensure we are implementing a low-cost solution at the appropriate time to maintain reliable service for customers. As mentioned in the 2019 MISO Transmission Expansion Plan (MTEP),³ Otter Tail and MPC, in collaboration with MISO, developed a coordinated transmission plan, or portfolio of projects, that could be implemented in stages to correspond with the load growth in the Northwest Minnesota area. The transmission plan includes the

¹ Case No. PU-23-228.

² Northwest Minnesota transmission concerns can be found under Tracking Number 2007-NW-N3 starting in 2007 in the Minnesota Biennial Transmission Projects Reports at [Electric Transmission Planning in the State of Minnesota \(minnelectrans.com\)](https://www.minnelectrans.com).

³ 2019 MISO Transmission Expansion Plan can be found at [Previous MTEP Reports \(misoenergy.org\)](https://www.misoenergy.org).

projects shown in Table 1 with their corresponding in-service dates (and projected in-service dates for future projects).

Table 1
Northwest Minnesota Transmission Projects

	Description	Responsible Party	Year Completed (or Forecasted)
1A	115 kV Capacitor Bank at Donaldson, MN	Otter Tail	2019
1B	115 kV Capacitor Bank at Thief River Falls, MN	MPC	2019
2A	Undervoltage Load Shedding (UVLS) at Donaldson, Plummer and Crookston	Otter Tail	2020
2B	Undervoltage Load Shedding (UVLS) at Thief River Falls	MPC	2020
3A	Replace 115 kV switches at Plummer Substation	Otter Tail	2022
3B	Replace 115 kV switches at Oslo Town Substation	Otter Tail	2022
4	Add second 230/115 kV Transformer at Winger	Otter Tail	2023
5A	New Lake Ardoch 230/115 kV Substation	MPC	2024
5B	New Lake Ardoch – Oslo 115 kV Line (7-miles)	Otter Tail	2024
5C	New Oslo 115 kV Switching Station	Otter Tail	2024
6	New Winger – Plummer 115 kV Line #2	Otter Tail / MPC	2028+

The coordinated transmission plan above replaced the Winger – Thief River Falls 230 kV project that was previously identified as the preferred project to address the concerns identified in the Northwest Minnesota area. The Winger – Thief River Falls 230 kV project was a higher cost project and did not offer flexibility to react to load growth in the Northwest Minnesota area. The plan outlined in the table above provides the necessary flexibility as the load grows.

As described in Otter Tail's response to the Department's IR MN-DOC-007, Otter Tail and MPC have strived to balance the total cost of all the new Northwest Minnesota projects in proportion to the benefitting loads. With this goal in mind, as the projects progressed and more detailed engineering and estimates became available, adjustments were made to the parties' responsibilities for completing each of the projects. The changes to the timing and responsibilities of these projects are described in Otter Tail's response to the Department's IR MN-DOC-008 which was included as Attachment 2 to the Department's August 14, 2023 Initial Comments.

The evolution of this project over the years to a more flexible and lower cost project, the attempt to balance the cost of the projects to each party's load, along with the fact that this is a joint project between MISO and non-MISO members, has created a long and complex history. Due to this complexity and the concerns of the Department, to clarify and confirm MISO's support for this project, Otter Tail has requested that MISO include the Oslo 115 kV breaker station and the Oslo – Lake Ardoch 115 kV line within the 2023 MTEP. These facilities will be included under Otter Tail's project, MTEP project 4232. MISO discussed the change of the Oslo – Lake Ardoch 115 kV line from MPC's project 17424 to Otter Tail's project 4232 and the Oslo 115 kV breaker station at the September 7, 2023 MISO West Subregional Planning Meeting.⁴ These facilities will be submitted with the 2023 MTEP projects for MISO Board approval in early December 2023, prior to the new TCRR rates going into effect.

As noted earlier, Otter Tail is in unprecedented times when it comes to estimating costs for large projects due to many different items affecting the economy. In August 2023, Otter Tail revised the estimated total cost of this project, which increased from the April 7, 2023 Initial Filing amount of \$6.6 million (OTP Total) / \$3.3 million (OTP MN) to \$11.9 million (OTP Total) / \$5.9 million (OTP MN). Otter Tail requests approval of this increased cost due to the following factors:

1. Site grading expenses were much higher than previously estimated;
 - a) The topsoil that needed to be removed was found to be twice the depth than originally assumed after geotechnical exploration was performed.

⁴ The information on the September 7, 2023 West Subregional Planning Meeting can be found here: [Microsoft PowerPoint - 20230907 WSPM Item 3d Review of Proposed Reliability Projects MP OTP MPC \(misoenergy.org\)](#).

- b) Walsh County requires the substation final finish grade to be greater than the known floodplain elevation. As a result, seven feet of fill needed to be brought in. The initial estimate only included two feet of fill to be brought in to raise it above the existing elevation.
- 2. The original estimate assumed 11 acres were to be purchased with a land value estimated to be close to \$5,000-\$6,000 per acre. This increased to a price of \$15,000 per acre due to commercial use.
- 3. Original cost estimates were from June 2021. Materials and contractor pricing has escalated by at least 20 percent each year due to supply and demand issues and factory production availability.
- 4. Easement costs for pole/line placement have increased.
- 5. Due to the poor soil conditions that were discovered, 11 concrete foundations and self-supporting steel structures are now required, as opposed to the wood poles in the original estimate.

Because North Dakota Public Service Commission has approved a CPCN for the Oslo – Lake Ardoch 115 kV line, and the Oslo – Lake Ardoch 115 kV line and Oslo 115 kV substation will be included within the 2023 MTEP with an anticipated MISO Board approval occurring in early December 2023, Otter Tail respectfully requests the inclusion of the Oslo – Lake Ardoch 115 kV line and Oslo 115 kV substation for recovery within the TCRR, conditional on MISO Board approval occurring in early December 2023, at the updated estimated cost.

C. Update to Otter Tail's request to include its proposed Winger 230/115kV Transformer project in the TCRR.

As previously stated by Otter Tail, and acknowledged by the Department, the Winger 230/115 kV Transformer project does not meet the requirements of 216B.243 and, therefore, cannot be designated as a priority project under 216B.2425. However, Otter Tail is still requesting eligibility under paragraph (a)(1) of the TCRR statute. Otter Tail acknowledges the Winger 230/115 kV transformer addition, as a stand-alone project, would not qualify as a “large energy facilities” as defined by 216B.2421. However, the Winger 230/115 kV transformer addition is part of a coordinated transmission plan, or a portfolio of projects, that is intended to be implemented in stages as described above.

The Winger 230/115 kV Transformer project and the Lake Ardoch – Oslo 115 kV line project, along with the other projects listed, are required to maintain reliability for the customers in the Northwest Minnesota area. These projects

together, implemented at the appropriate time, address the reliability concerns identified in the Northwest Minnesota pocket. Further, as described above, Otter Tail and Minnkota took a prudent approach to identifying a portfolio of actions to collectively address the Northwest Minnesota reliability needs. This portfolio approach offered flexibility in timing at a lower cost than the higher priced, but stand-alone single large project. Because of this approach to manage rate impact through an approach that incrementally met the projected area's needs, Otter Tail believes that paragraph (a) (1) was designed specifically for a scenario such as this portfolio approach.

This project was approved by the North Dakota Public Service Commission in Docket Number PU-20-383, in the order dated November 18, 2020. The budget at that time was estimated at \$4.8 million (OTP Total). In the 2023 Initial Filing, there was a typo in the petition that included this outdated estimate. The live tracker provided in IR MN-DOC-001, contained accurate information regarding the project cost, which indicated a budget of \$5.7 million. Similar to the Oslo – Lake Ardoch Line project, Otter Tail has seen an increase in the estimated cost of the Winger Transformer to approximately \$6.2 million for the following reasons:

1. Original cost estimates were from June 2020. As stated in 115 kV Oslo Breaker Station and Oslo – Lake Ardoch Line above (3), materials and contractor pricing has escalated by at least 20 percent each year due to supply and demand issues and factory production availability.
2. Engineering consultants acquired to assist with Electrical and Civil design to meet project milestones.

Despite the anticipated cost increase, the Winger 230/115 kV Transformer project being part of a larger transmission plan, or portfolio, working with other projects is still the most cost-effective and flexible approach to address reliability concerns in Northwest Minnesota, Otter Tail is requesting eligibility under paragraph (a)(1) of the TCRR statute.

D. Otter Tail would support a cost recovery cap on the Erie Substation project based on total costs of \$7.5 million.

The global pandemic's impact on supply chains has resulted in an increase in major material costs, an extraordinary circumstance Otter Tail is working to mitigate, but which is ultimately beyond the Company's control. The updated project estimate between the MN TCRR Petition and the route permit application

for the Erie Project are reasonable in the context of today's business environment described above.

The increase in the prior year filing from \$5.475 million to \$6.6 million was due mainly to material cost increases, as noted in the prior year Reply Comments.

The current increases, for which Otter Tail requests approval in this filing, are due to the following:

1. Original cost estimates were from June 2020. As stated in 115 kV Oslo Breaker Station and Oslo – Lake Ardoch Line above (3), materials and contractor pricing has escalated by at least 20 percent each year due to supply and demand issues and factory production availability.
2. The original estimate considered line terminations to be owned and paid for by Xcel. Subsequently, ownership changed to Otter Tail on the first span of the transmission lines leaving the substation, which led to increased project costs.
3. Great River Energy (GRE) required transmission line relocations at the GRE Frazee substation. This was an unforeseen circumstance that was not identified in the original scope of work.
4. Due to water table and other soil issues that were not identified in the Geotechnical soil exploration report, additional services by contractors were required to properly install foundations.

The Department noted that it was unable to tie the cost estimate of \$7.5 million to the data provided in the initial filing petition. This was due to an error in the tracker. Otter Tail will provide a revised tracker with updated approved amounts in its Compliance Filing. The total estimated cost with internal labor is \$7.5 million, and not \$8.2 million.

The Department also noted the following:

Finally, the Department notes the cost cap calculations in other rider dockets have often included inflation adjustments using the Handy Whitman construction inflation index. Because Otter Tail's response to Department IR 10 did not apply the Handy Whitman factors, the Department attempted to apply the factors and found the inflation adjustment made little difference in this instance, and therefore the Department did not include those calculations here. If Otter Tail wishes to include similar calculations in reply comments, the Department will review them at that time.

Otter Tail does not believe the Handy Whitman construction inflation index is the appropriate tool to use at this time due to the unusual inflationary period experienced over the past few years.

E. Cap TCRR cost recovery of the Hoot Lake 115/43/13.8kV Transformer Project based on total costs of \$1.2 million.

Otter Tail does not oppose this recommendation by the Department.

II. CONCLUSION

Otter Tail respectfully requests that the Commission approve recovery of the new projects and associated costs and the TCRR annual rate update as set forth Otter Tail's May 26, 2023 Supplemental Filing, with the changes Otter Tail agrees to in these Reply Comments, for usage on and after the rate effective date of January 1, 2024.

Dated: September 28, 2023

Respectfully Submitted,
OTTER TAIL POWER COMPANY

By: /s/ DEREK HAUGEN
DEREK HAUGEN
Rates Analyst, Regulatory Economics
Otter Tail Power Company
215 S. Cascade Street
Fergus Falls, MN 56537
(218) 739-8444
dhaugen@otpc.com

CERTIFICATE OF SERVICE

RE: In the Matter of Otter Tail Power Company's Petition for Approval of the Annual Rate Update to its Transmission Cost Recovery Rider Annual Adjustment, Rate Schedule 13.05
Docket No. E017/M-23-152

I, Valerie Moxness, 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 Comments

Dated this 28th day of September, 2023.

/s/ Valerie Moxness
Valerie Moxness
Regulatory Filing Coordinator
Otter Tail Power Company
215 South Cascade Street
Fergus Falls MN 56537
(218) 739-8346

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Ray	Choquette	rchoquette@agp.com	Ag Processing Inc.	12700 West Dodge Road PO Box 2047 Omaha, NE 68103-2047	Electronic Service	No	OFF_SL_23-152_M-23-152
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_23-152_M-23-152
James C.	Erickson	jericksonkbc@gmail.com	Kelly Bay Consulting	17 Quechee St Superior, WI 54880-4421	Electronic Service	No	OFF_SL_23-152_M-23-152
Sharon	Ferguson	sharon.ferguson@state.mn.us	Department of Commerce	85 7th Place E Ste 280 Saint Paul, MN 551012198	Electronic Service	No	OFF_SL_23-152_M-23-152
Paula	Foster	pfoster@otpc.com	Otter Tail Power Company	215 S Cascade St PO Box 496 Fergus Falls, MN 56538-0496	Electronic Service	Yes	OFF_SL_23-152_M-23-152
Jessica	Fyhrie	jfyhrie@otpc.com	Otter Tail Power Company	PO Box 496 Fergus Falls, MN 56538-0496	Electronic Service	No	OFF_SL_23-152_M-23-152
Adam	Heinen	aheinen@dakotaelectric.com	Dakota Electric Association	4300 220th St W Farmington, MN 55024	Electronic Service	No	OFF_SL_23-152_M-23-152
Nick	Kaneski	nick.kaneski@enbridge.com	Enbridge Energy Company, Inc.	11 East Superior St Ste 125 Duluth, MN 55802	Electronic Service	No	OFF_SL_23-152_M-23-152
James D.	Larson	james.larson@avantenergy.com	Avant Energy Services	220 S 6th St Ste 1300 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_23-152_M-23-152
Kavita	Maini	kmairi@wi.rr.com	KM Energy Consulting, LLC	961 N Lost Woods Rd Oconomowoc, WI 53066	Electronic Service	No	OFF_SL_23-152_M-23-152

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Andrew	Moratzka	andrew.moratzka@stoel.com	Steel Rives LLP	33 South Sixth St Ste 4200 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_23-152_M-23-152
Matthew	Olsen	molsen@otpc.com	Otter Tail Power Company	215 South Cascade Street Fergus Falls, MN 56537	Electronic Service	No	OFF_SL_23-152_M-23-152
Generic Notice	Regulatory	regulatory_filing_coordinators@otpc.com	Otter Tail Power Company	215 S. Cascade Street Fergus Falls, MN 56537	Electronic Service	Yes	OFF_SL_23-152_M-23-152
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_23-152_M-23-152
Will	Seuffert	Will.Seuffert@state.mn.us	Public Utilities Commission	121 7th Pl E Ste 350 Saint Paul, MN 55101	Electronic Service	Yes	OFF_SL_23-152_M-23-152
Cary	Stephenson	cStephenson@otpc.com	Otter Tail Power Company	215 South Cascade Street Fergus Falls, MN 56537	Electronic Service	Yes	OFF_SL_23-152_M-23-152
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_23-152_M-23-152