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October 9, 2017



Daniel P. Wolf
Executive Secretary
Minnesota Public Utilities Commission
350 Metro Square Building
121 7th Place East
St. Paul, MN 55101-2147

**RE: In the Matter of the 2015-2016 Annual Automatic Adjustment Reports
Docket No. E999/AA-16-523
Reply Comments of Otter Tail Power Company**

Dear Mr. Wolf:

Otter Tail Power Company (Otter Tail) hereby submits its Reply Comments in response to the Minnesota Department of Commerce, Division of Energy Resources (Department) review in the above-captioned matter which the Department filed September 13, 2017.

Otter Tail has electronically filed this document with the Minnesota Public Utilities Commission and is serving a copy on all persons on the Official Service List for this docket. A Certificate of Service is also enclosed.

Should you have any questions regarding this filing, please contact me at 218-739-8279 or stommerdahl@otpc.com.

Sincerely,

/s/ STUART TOMMERDAHL
Stuart Tommerdahl
Manager, Regulatory Administration

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Enclosures
By electronic filing
c: Service List

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

In the Matter of the 2015-2016 Annual
Automatic Adjustment Reports

Docket No. E999/AA-16-523

OTTER TAIL POWER COMPANY REPLY COMMENTS

I. INTRODUCTION

These Reply Comments are made in response to Comments submitted by the Minnesota Department of Commerce, Division of Energy Resources (Department) in their *Review of the 2015-2016 Annual Automatic Adjustment Reports (FYE16 AAA)* issued September 13, 2017, filed in the above-captioned docket. In these Reply Comments, Otter Tail Power Company (Otter Tail): 1) acknowledges the Department's approval of several of Otter Tail's reporting requirements in its FYE16 AAA Report; 2) provides a response to the Department's request that Otter Tail explain whether Day Ahead (DA) and Real-Time (RT) Ramp Capability amounts were included in the fuel clause; 3) provides comment on the Department's recommendation on the adoption of two possible industry standards, and; 4) provides additional analysis and insight into the Department's comparisons of average bills and average fuel costs for 2015.

With the submission of the additional information contained in these Reply Comments, Otter Tail respectfully requests approval of its FYE16 AAA report.

II. ACKNOWLEDGEMENT OF RECOMMENDATIONS BY DEPARTMENT

The Department has recommended the Commission accept Otter Tail's compliance filings as discussed in Section III, items A through M of the Department's Comments. In addition, the Department recommends the Commission accept Otter Tail's MISO Day 1, Day 2 and ASM reporting in the FYE16 AAA report (With clarification of one item noted in Section III below). Otter Tail respectfully requests Commission approval of these reporting and compliance items.

III. OTTER TAIL REPLIES TO DEPARTMENT REVIEW

Ancillary Services Market (ASM) - Ramp Capability Products

On pages 54 and 55 of the Department's Comments, the Department addresses the May 2016 implementation of the new MISO Ramp Capability Product and two new charge types: DA Ramp Capability Amount and RT Ramp Capability Amount. The Department requests that Otter Tail explain whether these two charge types were included in Otter Tail's monthly fuel clause calculations.

Otter Tail has included these charge types in the fuel clause beginning with the energy adjustment rate that was effective July 2016. The July 2016 rate was calculated based on April and May 2016 data which was inclusive of these new Ramp Capability charge types. In Otter Tail's Initial Filing in this Docket, Part E Section 10 Attachment I-1, which provides the detail of MISO Day 2 Charges by Charge Group, shows the DA and RT Ramp Product charge types and associated monthly amounts reflected on lines 47 and 48 of pages 21, 23, and 25 of 26. These same amounts are also reflected in Part H Section 3, Attachment K pages 21, 23, and 25 of 26 in Otter Tail's Initial Filing.

The net total (revenues less costs) for these charge types for the July 2015 to June 2016 reporting period was net revenue of \$1,264.

Evidence of these charges being included in Otter Tail's monthly energy adjustment filings can also be found in Attachments A through E of those filings, beginning with the July 2016 rate. Otter Tail has continued to include these charge types in the monthly fuel clause rate calculations since their inception.

IV. ADDITIONAL DEPARTMENT RECOMMENDATION

The Department includes the following recommendation on page 34 as part of its Total Fuel Cost Review:

In addition, the Department suggests two possible industry standards for the Commission to consider putting in place, if the FCA regulations continue to operate as they currently do, namely:

- *Hold utilities at least partially if not fully responsible for incremental costs of replacement power due to forced outages caused by improper work by contractors, and*
- *Hold utilities financially responsible for replacement power costs due to any failure to remove all foreign material from generation facility work areas.*

The Department first advanced this recommendation in Docket No. E999/AA-15-611. That Docket came before the Commission on May 25, 2017. At that Commission meeting, the Commission took no action on this recommendation at the suggestion of the utilities who felt this issue was better addressed in Docket E999/CI-03-802 where the Commission is investigating whether there is any need to reform the current fuel clause mechanisms. OTP recommends a similar deferral of action in this Docket.

V. AVERAGE RESIDENTIAL BILLS AND AVERAGE ENERGY CHARGE + FCA COSTS

On page 60 of the Department's Comments, the Department provides a written summary of Average Residential bills for 2015 for each utility, as well as the average Energy + FCA rate for each utility as reflected in the Department's Attachment E-9. Those summaries are provided below:

IX. FUEL COSTS AND EFFECTS ON CUSTOMER BILLS

Attachment E9 shows various aspects of fuel charges and the effects on customers' bills for informational purposes.

1. Average Residential Bills for 2015

The graph on page 1 of 4 of Attachment E-9 illustrates the monthly average bills for residential customers in calendar year 2015. The information includes customer charges, energy charges, fuel clause adjustments, and Conservation Improvement Program (CIP) surcharges (as described on pp. 3-4 of Attachment E-9). Overall, Otter Tail had the highest average monthly residential bill of \$88.67, followed by Dakota Electric at \$83.86, Xcel Electric at \$76.21 and Minnesota Power with the lowest average of \$64.30 per month.

2. Energy Charge + FCA (cents per kWh) for Each Utility

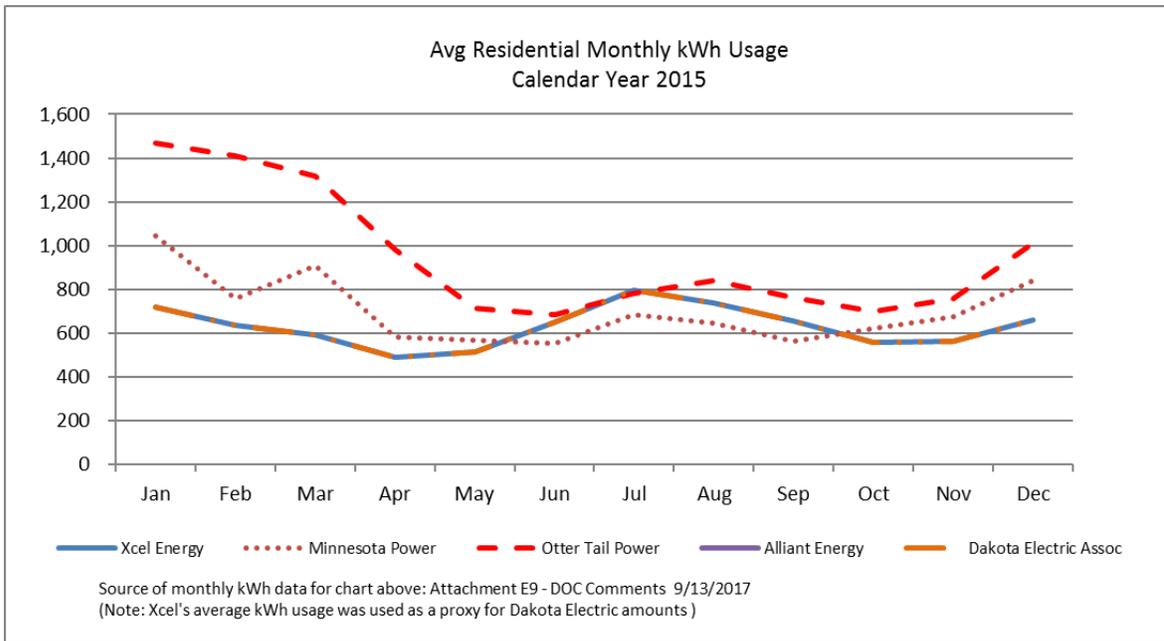
The graph on page 2 of 4 of Attachment E-9 shows the amounts that residential customers paid during calendar year 2015 in energy charges plus fuel clause adjustments. The ranking from highest to lowest average monthly amounts paid are: Dakota Electric with a 12-month average of 11.91¢/kWh, Xcel Electric 10.67¢/kWh, Otter Tail with an average of 8.35¢/kWh, and Minnesota Power 7.45¢/kWh. However, the Department notes that, because utilities recover different amounts of fixed costs in the energy charges, this comparison is not as useful as the bill comparison in item 1 above.

The Department has provided similar comparisons in prior year’s AAA filings. Otter Tail appreciates the information provided by the Department in Attachment E-9 but wants to provide some additional insight into the results shared that aren’t obvious unless further review of the data on pages 1 and 2 of Attachment E-9 is done. In particular, Otter Tail notes that the Average Monthly Bill results presented in the first paragraph above were not computed using consistent sales levels for each utility (Except for Dakota Electric Association’s amount which the Department used Xcel Energy monthly volumes as a proxy). Instead, actual monthly sales were used. A summary of the average monthly sales by utility is included in the following table, as summarized from Attachment E-9 data.

Utility	Average # of Residential Customers	2015 Average Monthly Residential Sales (kWhs)
Xcel Energy	1,122,172	632
Minnesota Power	121,515	704
Otter Tail Power Company	48,026	951
Dakota Electric Association (Xcel Energy amount used as a proxy)	Not reported	632

As the table above highlights, the profile of Otter Tail’s average residential customer usage is much different than the average residential customer usage profile for the other utilities in terms of average monthly residential sales. To further illustrate this

difference, the following chart was prepared from the monthly average residential kWh sales data included for each utility by the Department in Attachment E-9:



As the chart above shows, Otter Tail residential customers have a much higher level of usage during the winter months as compared to the other utilities, a characteristic driven in large part, by the nature of Otter Tail’s service territory.

Otter Tail serves approximately 48,000 Minnesota residential customers who live in and around 149 communities in northwest and west central Minnesota. Otter Tail’s median town in Minnesota is Winger, with a population of 220 people (2010 census). The majority of Otter Tail served communities do not have natural gas service, so alternative means for home heating are used during the winter, including a higher percentage of customers using some form of electric heat. Otter Tail is a winter peaking utility due in large part to weather sensitive loads.

While the Department notes that Otter Tail has the highest average monthly bill (\$88.67/month), naturally, a higher amount of usage (weather driven) is going to yield a higher bill amount. The average bill is not higher due to higher than normal fuel related costs. In fact, Otter Tail’s combined Energy + FCA rate, as noted by the Department in their second paragraph (8.35¢/kWh) is actually the second lowest rate among the utilities.

Otter Tail believes that the per kWh rate comparisons provided by the Department provide a much more “apples to apples” comparison as opposed to comparing total average bill amounts. Otter Tail appreciates the opportunity to highlight some of its unique operational differences within its service territory and hopes the information provided is helpful and beneficial to the Commission.

VI. CONCLUSION

Otter Tail appreciates the opportunity to provide these Reply Comments and to address the Department’s request in this Docket. With the submission of the requested information provided in these Reply Comments, Otter Tail respectfully requests Commission approval of its FYE 2016 AAA report. If further information is desired, please contact the undersigned.

Dated: October 9, 2017

Respectfully submitted,

OTTER TAIL POWER COMPANY

By /s/ STUART TOMMERDAHL
Stuart Tommerdahl
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CERTIFICATE OF SERVICE

**RE: In the Matter of the 2015-2016 Annual Automatic Adjustment Reports
Docket No. E999/AA-16-523**

I, Jana C. Hrdlicka, hereby certify that I have this day served a copy of the following, or a summary thereof, on Daniel P. Wolf and Sharon Ferguson by e-filing, and Letters of Availability to all other persons on the attached service list by electronic service or by first class mail.

**Otter Tail Power Company
Reply Comments**

Dated: October 9, 2017

/s/ JANA C. HRDLICKA
Jana C. Hrdlicka
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