COMMERCE DEPARTMENT

July 16, 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-18-390

Dear Mr. Wolf:

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

Petition for Approval of the Annual Update to its Renewable Resource Cost Recovery Rider Rate

The Petition was filed on June 14, 2018 by:

Darlene C. Mandelke
Rates Analyst, Regulatory Administration
Otter Tail Power Company
15 South Cascade Street
PO Box 496
Fergus Falls, Minnesota 56538-0496

The Department recommends approval and is available to answer any questions the Minnesota Public Utilities Commission may have.

Sincerely,

/s/ MICHAEL N. ZAJICEK
Rates Analyst

MNZ/
Attachment

Before the Minnesota Public Utilities Commission

Comments of the Minnesota Department of Commerce
Division of Energy Resources

Docket No. E017/M-18-390

I. BACKGROUND

Minn. Stat. §216B.1645 allows the Minnesota Public Utilities Commission (Commission) to approve a "rate schedule providing for the automatic adjustment of charges to recover the expenses or costs" of renewable energy projects to meet the Renewable Energy Standard (RES) established by Minn. Stat. §216B.1691.

Otter Tail Power Company (OTP or the Company) received initial Commission approval for a Renewable Resource Recovery Rider (Renewable Rider or Rider) in Docket Nos. E017/M-08-119 and E017/M-08-131 in 2008. Since 2008, the Company has updated its Renewable Resource Adjustment Factor (RRA) on an annual basis.

In its August 10, 2009 Order in Docket E017/M-08-1529, the Commission approved a settlement between the Company and the Minnesota Chamber of Commerce in which the Company agreed to remove unrecovered 2008 costs from its 2009 Rider adjustment, and to amortize those unrecovered costs over a 48-month period beginning with its 2010 Rider adjustment.

In OTP's 2010 rate case (Docket No. E017/GR-10-239), the Commission ordered the Company to roll the Rider revenue requirements into its base rates with the exception of the unamortized balance of 2008 deferred costs. As part of its rate case compliance filing review, the Commission approved an updated RRA for 2011 reflecting recovery of the remaining 48-month amortization of 2008 deferred costs.

It its April 17, 2013 Order in Docket E017/M-12-708, the Commission approved the Company's request to change the rate factors through April 30, 2013, and to then zero out the factor until the Company's next rate case.

It its 2015 rate case (Docket No. E017/GR-15-1033) OTP proposed to recover Production Tax Credit (PTC) related expenses through the Renewable Rider after the PTCs expire. The

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Commission's May 1, 2017 *Findings of Fact, Conclusions, and Order*[1] instructed OTP to adjust its test-year rider roll-in amounts at the end of the rate case and to set its renewable rider rate to account for differences in the amount of production tax credits included in base rates and actual production tax credits. Specifically, the rate case Order allowed the Company to recover the difference between PTCs generated by its Langdon and Ashtabula wind farms included in base rates and actual PTCs generated by these facilities.

On June 14, 2018, the Company filed the instant petition to update the RRA to account for the 10-year sunset, based on facilities' original service dates, on PTCs.

II. SUMMARY OF OTP'S FILING

OTP has updated its RRA as the Company has stopped receiving PTCs for the Langdon facility and will stop receiving PTCs for the Ashtabula facility in October 2018. Since the Company's base rates reflect OTP's continued receipt of these PTCs, the Company's proposed RRA would account for this discrepancy and remain in effect until the Company's next rate case. OTP's estimated resulting revenue requirement is $5,885,819 for the recovery period of November 2018 through October 2019.

The Company also stated that based on its comparison of the calculated estimate of PTCs included in OTP's cost of service study for its last rate case and the PTCs actually generated, the Company identified the need to include the appropriate tax gross-up factor for actual generated PTCs. The Company stated that the tax gross-up is necessary to match the gross-up that occurs in the cost of service study to establish base rates.

In its September 29, 2011 Order approving the OTP's Compliance Filing in Docket No. E017/GR-10-239, the Commission directed the Company to include, in its next Renewable Rider rate update, rate design allocation methods using the demand/energy split previously approved by the Commission, as well as using a percent-of-revenue methodology. OTP provided the results of both methods, updating the demand/energy split method with class factors from the Company's 2015 rate case Docket No. E017/GR-15-1033. Table 1, below, summarizes the adjustment factors under OTP's proposal using a demand/energy split and compares them to the previous rate factor.

[1] OTP cited both the Commission's May 1, 2017 and October 30, 2017 Orders in Docket E017/M-15-1033; however, the October 30, 2017 Ordering Points did not address the Company's Renewable Rider.

Class	Prior Rate	Proposed Rate	Percent Change
Large General Service – kW	$0.104 per kW	$0.217 per kW	108.7%
Large General Service – kWh	$0.00037 per kWh	$0.00164 per kWh	343.2%
All Other Service - kWh	$0.00054 per kWh	$0.00244 per kWh	351.9%

As stated above the increase is almost entirely due to OTP no longer receiving PTCs from Langdon and the future end of PTCs from Ashtabula. This rate would largely serve to recover the discount associated with the discontinued PTCs that is built into the Company's base rates.

III. DEPARTMENT ANALYSIS

The Minnesota Department of Commerce, Division of Energy Resources (Department) reviewed the Company's filing for accuracy. The Department agrees that it is necessary to increase the RRA to account for the discontinued PTCs that were assumed to exist when base rates were established. The Department reviewed the Company's calculation and agrees that the proposed rates appear to be reasonable. Additionally the Department confirmed that the relevant tax rates applied in each year were correct, and that the Company's proposal accounts for the change in the Company's tax rate that went into effect at the beginning of 2018 as a result of the federal Tax Cuts and Jobs Act.

OTP apportioned the revenue requirement among its classes using the demand/energy split previously approved by the Commission in the Company's last rate case to calculate its proposed rate adjustment factors. As this is consistent with the method previously used and approved by the Commission the Department concludes that this method appears to be reasonable.

IV. RECOMMENDATIONS

The Department recommends that the Commission approve OTP's petition.

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