

OTTER TAIL POWER COMPANY

Docket No: E999/CI-19-704

Response to: Fresh Energy

Analyst: Isabel Ricker

Date Received: 12/11/2019

Date Due: 01/10/2020

Date of Response: 01/10/2020

Responding Witness: Stuart Tommerdahl, Manager, Regulatory Administration, 218 739-8279

Information Request:

Reference:

- Fresh Energy Comments in response to Otter Tail's May 8, 2019 Filing, Docket No. 18-373, September 24, 2019.
- Otter Tail response to Fresh Energy IR 1, Docket No. 18-373, July 25, 2019.
- Otter Tail response to PUC IR 3, Attachment 2, Docket No. 18-373, August 30, 2019.

Request:

In our September 24, 2019 comments, Fresh Energy pointed to a differential between the production cost figures in Otter Tail's May 8, 2019 Compliance Filing and those reflected on the company's FERC Form 1 for 2017 and 2018.¹ Fresh Energy stated:

We hope that this discrepancy is the result of certain costs being included in the FERC Form 1 report that the utilities do not typically consider variable fuel or O&M costs, or that are not included in the MISO offer curves for these plants. However, we were not able to determine what costs are driving this difference and if they are properly excluded from Otter Tail's analysis.

A. Please provide an itemized list of the expenses included in:

1. Otter Tail's definition of fuel and variable O&M cost (as used in your MISO offer curve) for 2018 for Big Stone plant and Coyote Station,
2. Otter Tail's definition of fixed O&M costs for 2018 for Big Stone plant and Coyote Station,
3. The 2018 production costs Otter Tail submitted via FERC Form 1 (page 402, rows 19-33) for Big Stone plant and Coyote Station.

B. Please provide a narrative explanation of how Otter Tail differentiates between fixed and variable O&M and approximate ratio of variable to fixed O&M for Big Stone plant and Coyote Station.

C. We understand that one or more of Otter Tail’s fuel contracts for coal generating plants (as described in Otter Tail’s response to PUC IR 3 in Docket 18-373) contain terms of service (e.g. take or pay, liquidated damages) that impact Otter Tail’s treatment of fuel as variable versus fixed. Please confirm that this is correct.

1. If yes: Note which contracts this applies to, the specific terms of these contracts, and the amount of each that Otter Tail assigns to marginal (variable) costs and fixed costs for the applicable unit(s). Describe your methodology for assigning fuel cost under these contracts to variable or fixed costs.

Attachments:

Attachment 1 to IR MN-FE-001_PUBLIC.pdf

Response:

OTP has taken reasonable efforts to maintain the secrecy of the information marked as PROTECTED DATA, which derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use (the “Protected Data”). The Protected Data is therefore “trade secret information” and “nonpublic data” under Minn. Stat. § 13.37.

A.

1. Table 1 below provides the 2018 itemized list of fuel and variable O&M expenses [Column A] for Big Stone Plant and Coyote Station. An “X” in Big Stone Plant [Column B] and Coyote Station [Column C] designates that the expense type is incurred at that plant.

Table 1

Line No.	A	B	C
	<u>Variable Expense</u>	<u>Big Stone Plant</u>	<u>Coyote Station</u>
1	Coal	X	X
2	Fuel Oil (only for generation but does not include startup gallons)	X	X
3	Lime	X	X
4	Activated Carbon	X	X
5	Ammonia	X	-
6	Coal freight tariff	X	-
7	Coal conversion tax	-	X
8	SO2 Allowances	X	X
9	Misc. Variable (includes chemicals for the boiler, demin, and circ water; hydrogen; boiler cleaning; fuel conditioner maintenance; condenser cleaning; etc.)	X	X
10	Train related (maintenance, moving, holding & storage, side release, Btu & SO2 adjustments, railcar tax, and labor)	X	-

2. Table 2 below provides the 2018 itemized list of the fixed O&M expenses [Column A] for Big Stone Plant and Coyote Station. An “X” in Big Stone Plant [Column B] and Coyote Station [Column C] designates that the expense type is incurred at that plant.

Table 2

Line No.	A	B	C
1	<u>Fixed Expense</u>	<u>Big Stone Plant</u>	<u>Coyote Station</u>
2	All labor including operations, maintenance, engineering, and supervision	X	X
3	Dispatching	X	X
4	Fuel Expenses (excluding coal and oil – examples include labor for purchasing and handling fuel, fuel oil for plant heat during shutdown, equipment	X	X
5	Maintenance of structures, boiler plant, electric plant, misc. steam plant	X	X
6	Expenses for steam, electric, and misc. steam power (admin and operator labor, care of grounds, general operating and safety supplies, training, etc.)	X	X
7	Property tax	X	X
8	Train Lease	X	-
9	Coal Invoice fixed costs	-	X
10	Coal conversion tax	-	X
11	Transmission expenses	X	X
12	Maintenance of transmission substation	X	-

3. Attachment 1 to IR MN-FE-001_PUBLIC provides the production costs Otter Tail submitted via its 2018 FERC Form 1, (page 402, rows 19-33).
- B. Otter Tail defines fixed costs as those costs that are incurred whether the plant is running or not. Variable costs are costs that are not paid when the plant is not running. Attachment 1 to IR MN-FE-001 provides the approximate ratio of variable to fixed O&M for Big Stone Plant and Coyote Station in Lines 83-87.
- C. Yes, the fuel contracts for each of the coal generating plants in which Otter Tail has an ownership interest contain terms that impact Otter Tail’s treatment of fuel as variable versus fixed.
1. Otter Tail’s coal supply requirements for Hoot Lake Plant, which is wholly owned by Otter Tail, are secured under contract through the intended retirement date.
[PROTECTED DATA BEGINS...

...PROTECTED DATA ENDS]

2. The coal supply requirements for Otter Tail and its Big Stone Plant co-owners are secured under contract through 2020. **[PROTECTED DATA BEGINS...**

...PROTECTED DATA ENDS]

3. The coal supply requirements for Otter Tail and its Coyote Station co-owners are secured under contract through 2040. **[PROTECTED DATA BEGINS...**

...PROTECTED DATA ENDS] The contract includes both variable and fixed costs. Coyote Station coal expenses for 2018 were **[PROTECTED DATA BEGINS... ... PROTECTED DATA ENDS]** percent fixed costs and **[PROTECTED DATA BEGINS... ...PROTECTED DATA ENDS]** percent variable costs.

Otter Tail Power

Production Cost Detail - FERC Form 1, Page 402, lines 19-34

		Big Stone	Coyote
1	FERC Account type		
2	5000 - Steam Power Generation - Operation supervision and engineering		
3	[PROTECTED DATA BEGINS...		
4			
5			
6			
7			...PROTECTED DATA ENDS]
8		689,363	672,858
9	5010 & 5011 - Steam Power Generation - Fuel		
10	[PROTECTED DATA BEGINS...		
11			
12			
13			
14			...PROTECTED DATA ENDS]
15		25,674,367	22,354,695
16	5020 - Steam Power Generation - Steam expenses		
17	[PROTECTED DATA BEGINS...		
18			
19			
20			
21			
22			
23			...PROTECTED DATA ENDS]
24		2,596,358	2,259,378
25	5050 - Steam Power Generation - Electric expenses		
26	[PROTECTED DATA BEGINS...		
27			
28			
29			...PROTECTED DATA ENDS]
30		855,553	716,082
31	5060 - Steam Power Generation - Miscellaneous steam power expenses		
32	[PROTECTED DATA BEGINS...		
33			
34			
35			
36			
37			
38			
39			...PROTECTED DATA ENDS]
40		2,372,434	1,625,798
41	5070 - Steam Power Generation - Rents		
42	Lease / Rental		7,828
43			
44	5100 - Steam Power Generation - Maintenance supervision and engineering		
45	[PROTECTED DATA BEGINS...		
46			
47			...PROTECTED DATA ENDS]
48		419,020	287,420
49	5110 - Steam Power Generation - Maintenance of structures		
50	[PROTECTED DATA BEGINS...		
51			
52			
53			
54			...PROTECTED DATA ENDS]
55		450,006	293,163
56	5120 - Steam Power Generation - Maintenance of boiler plant		
57	[PROTECTED DATA BEGINS...		
58			
59			
60			
61			
62			
63			
64			...PROTECTED DATA ENDS]
65		4,631,798	2,721,629
66	5130 - Steam Power Generation - Maintenance of electric plant		
67	[PROTECTED DATA BEGINS...		
68			
69			
70			...PROTECTED DATA ENDS]
71		1,844,279	228,267
72	5140 - Steam Power Generation - Maintenance of miscellaneous steam plant		
73	[PROTECTED DATA BEGINS...		
74			
75			
76			
77			
78			...PROTECTED DATA ENDS]
79		338,473	384,303
80			
81	Total Production Expenses	39,871,651	31,551,421

Big Stone

Coyote

82
83
84
85
86
87

[PROTECTED DATA BEGINS...



...PROTECTED DATA ENDS]

OTTER TAIL POWER COMPANY

Docket No: E999/CI-19-704

Response to: Fresh Energy

Analyst: Isabel Ricker

Date Received: 02/10/2020

Date Due: 02/17/2020

Date of Response: 03/04/2020

Responding Witness: Stuart Tommerdahl, Manager, Regulatory Administration, 218 739-8279

Information Request:

Reference:

- Otter Tail response to Fresh Energy IR 1, Docket No. 19-704, part C.
- Otter Tail response to PUC IR 3, Docket 18-373, Attachment 2.

Request:

- A. Please explain how the coal supply contract between Coyote Station and Coyote Creek Mine includes a fixed cost but does not include a fixed minimum purchase requirement.
- B. Does the fixed cost amount (in dollars) of this contract change over the course of the contract? If so, please explain how changes are determined and provide a schedule of the fixed cost portion from 2016-2025, or for the duration the contract.
- C. Does this contract include a liquidated damages clause?
 1. If yes, what is the rate or dollar amount charged for liquidated damages?

Attachments: 1

Attachment 1 to IR MN-FE-002_PUBLIC

Response:

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- A. Coyote Station is a mine mouth generation facility that obtains its coal requirements through a Lignite Sales Agreement with Coyote Creek Mining Company, LLC (Coyote Creek), a subsidiary of North American Coal Corporation. **[PROTECTED DATA BEGINS...**

B.

...PROTECTED DATA ENDS]. Attachment 1 to MN-FE-002_PUBLIC does provide 2016-2019 historical amounts. Additional information concerning the Lignite Sales Agreement is provided in Otter Tail Corporation's most recent 10-K filed on February 20, 2020 with the United States Security and Exchange Commission.
<https://www.ottertail.com/Doc/Index?did=57205801>

- C. **[PROTECTED DATA BEGINS... ...PROTECTED DATA ENDS]**.

Otter Tail Power Company
Fixed Expense Portion of Coyote Fuel

	<u>Amount</u>
	[Protected Data Begin.....]
2016	July
2016	August
2016	September
2016	October
2016	November
2016	December
2017	January
2017	February
2017	March
2017	April
2017	May
2017	June
2017	July
2017	August
2017	September
2017	October
2017	November
2017	December
2018	January
2018	February
2018	March
2018	April
2018	May
2018	June
2018	July
2018	August
2018	September
2018	October
2018	November
2018	December
2019	January
2019	February
2019	March
2019	April
2019	May
2019	June
2019	July
2019	August
2019	September
2019	October
2019	November
2019	December

....Protected Data Ends]