
MEMORANDUM

To: Commissioners and Advisors

From: Brian Rounds, Dave Jacobson, Bob Knadle, Steve Wegman, and Karen Cremer

RE: EL07-011 In The Matter of the Filing by Otter Tail Power Company for Approval of its Proposed Energy Efficiency Partnership Plan for 2008.

May 19, 2008

Following the direction the Commission gave at its March 26, 2008 Commission meeting, Staff has come to an agreement with Otter Tail on the terms of its energy efficiency plan. Included in this memorandum are the specifics of Otter Tail's revised filing and its cost recovery mechanism. The following is a brief summary of the changes along with Staff's explanation.

Program Changes

The revised plan is, for the most part, a scaled back version of Otter Tail's original filing, as requested by Staff. The *HotPacks*, *Change A Light*, and *Financing* programs were removed as a result of Staff's prior objections. The education portion of the *Advertising and Education* program was expanded by \$4,000 to include additional education for building contractors, HVAC installers, and other industry experts as requested by Staff. The *Air Conditioning Control*, *Residential Demand Control*, *Heat Pumps*, *Motors* and *Lighting* programs remain unchanged. However changes were made to the *Grants* program.

In order to maximize the number of grants available to public entities, the *Grants* program was altered to give public entities preference over private entities. The program will have a three month application process for grants with a maximum award of \$10,000 per grant. To qualify for a grant, projects must meet a minimum cost-benefit ratio as set by Otter Tail. Projects will then be ranked based on their cost-benefit ratio, with public projects that meet the minimum level having preference.

The program changes detailed above were made in an attempt to make Otter Tail's energy efficiency plan as effective as possible for South Dakota. Staff still has reservations about some of the programs, but as a pilot program, we are eager to see how the program fares. A survey being conducted alongside the program will make that easier.

Cost Recovery

Otter Tail proposes to recover costs through a conservation cost recovery charge beginning the date the Plan is implemented. The charge will be on a per kWh basis and appear as a separate line item on the customer's bill. Staff suggests allocating the costs across customer classes in proportion to benefits, as the customers receiving the incentives are receiving the majority of the benefits. Otter Tail suggests that all customers will benefit equally as a result of less need to build new generation, and therefore suggests applying the same charge per kWh across all customer classes. The initial rate is expected to be \$0.00063/kwh. The tracker will include a carrying charge and a bonus should Otter Tail reach or exceed its energy savings goal. Otter Tail will estimate its bonus and carrying charge and recover those while the program is being implemented. The first phase will be implemented from October 1, 2008 to December 31, 2009.

Otter Tail will then file with the Commission in 2010 for approval of its 2008-2009 expenditures and its 2010 calendar year budget. The Commission would then be able to work with Otter Tail to adjust the programs and recovery rate of the Plan as needed. Requiring Otter Tail to make an annual filing would also alleviate any concern about the Plan being an automatic adjustment.

Single Issue Ratemaking

Staff requests that if the Commission approves Otter Tail's Energy Efficiency Partnership Plan that it clarify on the record that it anticipates the Plan to produce a net rate benefit to all of Otter Tail's ratepayers. Approval of the Plan does not constitute a rate increase due to one particular issue without the consideration of other issues which may lower Otter Tail's revenue requirement resulting in rates which may not be just and reasonable. One such measure submitted by Otter Tail might be the Ratepayer Impact Test. Because the Plan at this point is based largely on forecasts and estimates, Otter Tail should be required to show in annual reporting the results of such analysis utilizing actual historic data.

Recommendation

Having reviewed Otter Tail's revised filing to implement its Energy Efficiency Partnership Plan, Staff recommends approval of the Plan. Being that this program is an experiment in South Dakota, Staff does have reservations. For instance, although Staff would rather see costs spread across customer classes based on the availability of incentives to that class, we believe Otter Tail's argument against that proposition has merit. Under the assertions that this Plan was designed to be a pilot program and the Commission will have the opportunity to review it on a yearly basis, Staff believes this program has the potential to have a positive effect on ratepayers. That being said, Staff recommends approval under the condition that Otter Tail files its Plan with the Commission annually for approval beginning March 1, 2010 and works with Staff to conduct a survey of the customers participating in the programs.

The attached documents from Otter Tail illustrate how the cost recovery rider will function. Attachment A is Otter Tail's proposed tariff for implementing the program. Staff recommends editing the tariff to reflect Otter Tail's mandatory annual filing for approval, and including the date Otter Tail must make their first annual filing, March 1, 2010. Attachment B shows the estimated costs incurred up to the program's expected implementation date. Attachment C shows how the rider rate will be calculated, and Attachment D illustrates Otter Tail's estimated balance by month with the carrying cost.

Otter Tail Corporation
d/b/a OTTER TAIL POWER COMPANY
Fergus Falls, Minnesota
ELECTRIC RATE SCHEDULE

Section No. 3, Volume I
Original Sheet No. 98.3
Rate Designation M-62S, Page 1 of 1
Original _____, 200x

ENERGY EFFICIENCY PARTNERSHIP (EEP) COST RECOVERY RIDER

APPLICATION OF SCHEDULE: This rate schedule is applicable to electric service under all of Otter Tail Power Company's retail rate schedules.

ENERGY EFFICIENCY ADJUSTMENT: There shall be added to each customer's bill an Energy Efficiency Adjustment based on the applicable adjustment factor multiplied by the customer's monthly energy (kWh) usage.

DETERMINATION OF ENERGY EFFICIENCY ADJUSTMENT FACTOR: The Energy Efficiency Adjustment Factor shall be the quotient of the recoverable EEP Tracker Balance, divided by projected retail sales (kWh) for a designated recovery period. The Adjustment Factor may be updated annually and filed for approval by the South Dakota Public Utilities Commission (SD PUC). The recoverable EEP Tracker Balance is determined as follows:

1. EEP Tracker account balance as of the end of the prior year;
2. Plus EEP expenditures;
3. Plus financial incentives awarded by the SD PUC;
4. Plus carrying charge;
5. Minus EEP cost recovery through this Rider or base rates, if any.

All costs appropriately charged to the EEP Tracker account will be debited to the EEP Tracker account, and all revenues received from the application of the Energy Efficiency Adjustment will be credited to the EEP Tracker account.

ENERGY EFFICIENCY ADJUSTMENT FACTOR

Effective with bills rendered on and after October 1, 2008, the Energy Efficiency Adjustment Factor is \$0.00063.

SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION
Docket No. EL07-011
Approved: _____, 200x

EFFECTIVE for services rendered on
and after _____, 200x, in SD

APPROVED: Bernadeen Brutlag
Manager, Regulatory Services

Otter Tail Power Company

EEP Tracker Balances - carrying cost calculation

	Expenses	Ending Balance	Carrying Cost
Feb 2007	1,348	1,348	
Mar	11,868	13,216	10
Apr	802	14,018	98
May	134	14,152	104
Jun	429	14,581	105
Jul	-	14,581	108
Aug	3,761	18,342	108
Sep	5,628	23,970	136
Oct	579	24,548	178
Nov	2,938	27,487	182
Dec	-	27,487	204
Jan 2008	-	27,487	204
Feb	1,490	28,977	204
Mar	2,244	31,220	215
Apr	630	31,850	231
May	630	32,480	236
Jun	630	33,110	241
Jul	630	33,740	245
Aug	630	34,370	250
Sep	630	35,000	255
	35,000		3,311

April-Sept expenses are estimated

Carrying cost 8.89%

Otter Tail Power Company

EEP Tracker Account - Example for Illustration Only

Line #			
1	EEP Expenditures (Feb 07-Mar 08)	\$31,220	(1)
2	Estimated additional expenditures through Sept 2008	3,780	(2)
3	EEP estimated spending Oct-Dec 2008	39,275	(3)
4	EEP Estimated 2008-2009 SD Budget (calendar year 2009)	<u>157,100</u>	(4)
5	Total expenditures	\$231,375	
6	Months in this cost recovery period (Sept 08-Dec 09)	<u>15</u>	(5)
7	Average spending per month	\$15,425	(6)
8			
9			
10	Total expenditures	\$231,375	
11	Carrying cost through Sept 2008	3,311	(7)(8)
12	Estimated incentive	<u>47,130</u>	
13	Total eligible for recovery	\$281,816	
14			
15	SD sales (kWh) budget (Sept 08-Dec 09)	540,774,289	
16			
17	Rate per kWh	\$0.00052	(9)
18	Rate per kWh used in Rider	\$0.00063	(10)

(1) EEP expenditures through Mar 2008

(2) Estimated expenditures Apr-Sept 2008

(3) 3/12 of 2009 annual amount

(4) Estimated expenditures during 2009

(5) Assumes rate remains unchanged through 2009

(6) Flat spending amount is used for the example; actual spending will vary
OTP's current proposed ROR; last SD OTP rate case

(7) allowed ROR of 9.964% 8.89%

Carrying cost for expenditures through Sept 2008 (total of
(8) lines 1 & 2)

(9) Line 13 divided by line 15

(10) Rate needed so that Tracker Balance approaches zero by 12/31/2009

Otter Tail Power Company

EEP Tracker Account - Example for Illustration Only

	EEP Exp	Rider revenue	Incentive	Ending Balance	Carrying cost	Sales budget
Sept 2008	\$35,000			\$38,311	\$3,311	
Oct	\$15,425		\$3,142	\$57,162	\$284	33,428,343
Nov	\$15,425	(\$22,307)	\$3,142	\$53,845	\$423	35,408,030
Dec	\$15,425	(\$23,438)	\$3,142	\$49,373	\$399	37,203,555
Jan 2009	\$15,425	(\$27,064)	\$3,142	\$41,242	\$366	42,958,594
Feb	\$15,425	(\$25,836)	\$3,142	\$34,278	\$306	41,009,669
Mar	\$15,425	(\$24,292)	\$3,142	\$28,808	\$254	38,558,165
Apr	\$15,425	(\$23,020)	\$3,142	\$24,568	\$213	36,539,383
May	\$15,425	(\$20,787)	\$3,142	\$22,530	\$182	32,995,780
Jun	\$15,425	(\$20,672)	\$3,142	\$20,592	\$167	32,811,965
Jul	\$15,425	(\$22,209)	\$3,142	\$17,103	\$153	35,252,568
Aug	\$15,425	(\$22,060)	\$3,142	\$13,737	\$127	35,015,632
Sep	\$15,425	(\$21,455)	\$3,142	\$10,950	\$102	34,056,301
Oct	\$15,425	(\$20,773)	\$3,142	\$8,825	\$81	32,972,478
Nov	\$15,425	(\$21,926)	\$3,142	\$5,532	\$65	34,803,093
Dec	\$15,425	(\$23,789)	\$3,142	\$351	\$41	37,760,733
	\$266,375	(\$319,628)	\$47,130		\$6,474	

EEP Rate (Oct 08-Dec 09)

\$ 0.00063

Carrying cost (applied to previous
month-end balance)

8.89%