
STAFF MEMORANDUM

TO: COMMISSIONERS AND ADVISORS
FROM: BRITTANY MEHLHAFF AND KAREN CREMER
RE: EL14-082- In the Matter of the Petition of Otter Tail Power Company to Establish an Environmental Quality Cost Recovery Tariff
DATE: November 18, 2014

BACKGROUND

On August 29, 2014, OTP filed with the Commission a petition requesting Commission approval of an Environmental Quality Cost Recovery (ECR) Tariff. The purpose of this request is to begin the recovery of OTP's share of the costs of the required environmental retrofits to the Big Stone Plant located near Big Stone City, South Dakota and the Hoot Lake Plant, located near Fergus Falls, Minnesota.

SDCL 49-34A-97 through 100 authorize the Commission to approve a tariff mechanism for the automatic annual adjustment of an electric utility's charges to recover costs incurred for environmental improvements to its electric generation facilities. Eligible costs are those incurred for environmental improvements required under the Clean Air Act, the Clean Water Act, or any other federal law or rule or any state law or rule implementing a federal law or rule, or voluntary environmental measures designed to protect the environment.

In Docket EL12-027, the Company initially requested approval of an ECR tariff to recover costs associated with the environmental retrofit at the Big Stone Plant. OTP later requested that action on the petition be suspended until the project neared completion or withdrawal of the petition with the intention of re-filing the petition at a later time. The Commission issued an Order Granting Request to Withdraw Petition and Close Docket on April 24, 2013.

OTP has re-filed its petition to establish an ECR tariff as the Company determined re-filing the petition at this time allows for a two-step phase-in of the rider rate to mitigate the magnitude and abruptness of rate increases at the time the Big Stone retrofit is completed. The Company also requests recovery of the costs associated with the Hoot Lake Plant environmental retrofit. OTP anticipates the rate impact associated with both projects included in this request will be approximately 7.1% on average in the first year of the rider. Once construction of the Big Stone retrofit is complete in 2015, OTP estimates the rate impact will be slightly less than 12%.

The Company proposes to recover an estimated revenue requirement of \$1,995,434 for November 2014 through October 2015 associated with the two environmental improvements. The Company proposes to implement a rate of \$0.00487 per kWh applicable to all customer classes, effective November 1, 2014.

Staff's recommendation is based on its analysis of OTP's filing, discovery information, relevant statutes, and related dockets.

ELIGIBLE ENVIRONMENTAL PROJECTS

The Big Stone Air Quality Control System (AQCS) project is required based on a Best Available Retrofit Technology determination by the South Dakota Department of Environment and Natural Resources in its Regional Haze State Implementation Plan, which was approved by the Environmental Protection Agency (EPA). Activated carbon injection (ACI) was also evaluated as part of the AQCS project, fulfilling requirements for mercury reduction under the EPA's Mercury and Air Toxics Standards (MATS) rule. The Hoot Lake project was selected to comply with the MATS rule. Staff believes both environmental projects qualify as eligible environmental improvements under SDCL § 49-34A-97.

Staff hired Kavita Maini of KM Energy Consulting, LLC, to evaluate whether OTP's decision to install the environmental retrofits at Big Stone and Hoot Lake were the least cost options compared to other alternatives. Ms. Maini previously evaluated the Big Stone AQCS project on behalf of Staff and submitted a report in Docket EL12-027 prior to the withdrawal of the Company's petition. Therefore, in the current docket, Staff requested Ms. Maini review her previous analysis regarding the Big Stone AQCS project and update the analysis if necessary. Staff also requested Ms. Maini review the Company's decision to retrofit Hoot Lake. Staff's analysis regarding Hoot Lake only addresses the MATS retrofit and does not evaluate the decision of when Hoot Lake should be retired. Attached to this memo are Kavita Maini's reports regarding her analyses determining both projects are least cost options.

ECR REVENUE REQUIREMENT AND TRACKER

Staff reviewed the Company's revenue requirement calculations on Attachments 5 and 6 of the petition and the tracker calculation on Attachment 7 of the petition. Staff agrees with all components of the calculation, as described on pages 10 and 11 of the Company's petition. The calculations are consistent with Commission approved riders for other companies and well as OTP's TCR rider. The forecasted revenue requirements are subject to later true-up to actual costs and actual recoveries.

RATE DESIGN AND EFFECTIVE DATE

OTP proposed a single rate per kWh applicable to all customers, calculated by taking the revenue requirement from November 2014 through October 2015 divided by the forecasted kWh from November 2014 to October 2015. The rate was proposed to be effective November 1, 2014. Staff and OTP agree the rate of \$0.00487 per kWh calculated on Attachment 8 of the petition will be effective on December 1, 2014, instead of November 1, 2014. Any true-up necessary as a result of delaying the implementation date by one month will be captured in the Company's annual true-up filing in 2015.

RECOMMENDATION

Staff recommends the Commission approve the Company's petition as filed, with an effective date of December 1, 2014.