
STAFF MEMORANDUM

TO: COMMISSIONERS AND ADVISORS
FROM: BRITTANY MEHLHAFF AND ADAM DE HUECK
RE: EL15-029- In the Matter of the Petition of Otter Tail Power Company for Approval of the Environmental Cost Recovery Rider Charge
DATE: October 6, 2015

BACKGROUND

On August 31, 2015, the Commission received a petition from Otter Tail Power Company (Otter Tail) for approval of its annual update to the Environmental Cost Recovery Rider rate under its Environmental Cost Recovery (ECR) Rider, Rate Schedule 13.08, for the actual and forecasted costs and revenue through the recovery period of November 2015 through October 2016 for Big Stone Plant's Air Quality Control System (AQCS) and Hoot Lake Plant's Mercury and Air Toxics Standards (MATS).

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 Rider tariff to recover costs associated with the environmental retrofit at the Big Stone Plant. Otter Tail 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.

On August 29, 2014, Otter Tail filed a new petition with the Commission requesting approval to establish an ECR Rider tariff. At that time, Otter Tail anticipated the rate impact associated with both projects would be approximately 7.1% on average in the first year of the rider and once construction of the Big Stone AQCS was complete in 2015, Otter Tail estimated the rate impact would be slightly less than 12%. The Commission approved the establishment of the ECR Rider and issued an Order Establishing the Environmental Quality Cost Recovery Tariff on December 10, 2014. The initial rate was effective December 1, 2014.

The projected South Dakota revenue requirement associated with the two environmental improvements for the period November 1, 2015, through October 31, 2016, is \$2,752,150. This revenue

requirement less a projected over recovery of the current period's costs of \$15,043 plus a carrying credit to the customers' benefit of \$(9,492) gives a total cost of \$2,727,616 to be recovered through the ECR charge over the period November 1, 2015, through October 31, 2016. Otter Tail states the rate impact of the current request (for both projects) will increase the ECR Rider Rate from \$.00487 per kWh to \$.00643 per kWh. Otter Tail anticipates the rate impact, in total, after this update will be just over 9% of a customer's bill on average, less than its previous estimate of slightly less than 12%. The rate impact associated with this rate update is approximately 2.5% on average. Otter Tail estimates the rate impact will decline each year in subsequent filings.

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

ENVIRONMENTAL PROJECT UPDATES

As stated in the Company's application, the Hoot Lake MATS project was placed in-service in October 2014. The actual project cost was \$6.8 million, including AFUDC, as compared to the original cost estimate of approximately \$10 million and the estimate of \$8.2 million included in the Company's filing in Docket EL14-082. Otter Tail's South Dakota cost is approximately \$680,000.

The Big Stone AQCS project's total estimated cost is \$384 million. Otter Tail's share is approximately \$207 million, with Otter Tail's South Dakota costs being approximately \$20.7 million. Otter Tail provided Staff with an update on the project. The Company stated the actual construction is now 100 percent completed. The start-up and tuning process is currently taking place and may reveal minor modifications that will need to be made. The demolition of the old baghouse, ID fans, and ash silo remain to be completed. Compliance testing started in late November.

The Big Stone AQCS project was anticipated to be placed in-service in October 2015. However, the revised projected in-service date is now December 1, 2015. The testing and in-service date for Big Stone AQCS was delayed to address cracks found during normal maintenance inspections performed at the same time as the final AQCS project cutover was occurring. The HP section of the turbine was sent to a vendor's facility for replacement of the blades, requiring an extension of the current scheduled outage. AQCS testing was delayed since testing could not begin until the plant was operational. If conditions allow, the in-service date may be earlier than December 1, 2015. The actual in-service date will be reflected in the tracker in the next filing.

1ST YEAR TRACKER BALANCE

The rate approved in Docket EL14-082 was based on the estimated revenue requirement for the time period November 2014 through October 2015. This filing updates the revenue requirement to actual costs through June 2015 and updated projected costs for July 2015 and after. The Company's tracker account compares the updated revenue requirement to forecasted recoveries. A carrying charge (or credit) based on the overall rate of return is calculated on the over/under balance. The estimated balance, including the carrying credit, as of October 31, 2015, is a \$15,043 over recovery. This over

balance is carried over to the next year in the tracker account and reduces the 2nd year revenue requirement.

2ND YEAR REVENUE REQUIREMENT AND RATE

The total estimated 2nd year revenue requirement of \$2,727,616, subject to later true-up to actual costs and recoveries, is based on the over-collection in the tracker account and the estimated November 2015 – October 2016 revenue requirement associated with Big Stone AQCS and Hoot Lake MATS, less the projected carrying credit. These calculations are found on Attachments 3, 4, and 5 of the Petition.

Otter Tail's ECR continues to use a single rate per kWh applicable to all customers, calculated by taking the revenue requirement from November 2015 through October 2016 divided by the forecasted kWh from November 2015 through October 2016. A rate of \$0.00643 per kWh is calculated on Attachment 6 of the Petition. The average impact of this rate change for all customers is approximately 2.5%. The estimated rate impact by customer class is shown on pages 8 and 9 of the Petition.

RECOMMENDATION

Staff recommends the Commission approve the Company's petition as filed, with an effective date of November 1, 2015.