OTTER TAIL POWER COMPANY
Docket No: EL15-045

Response to: South Dakota Public Utilities Commission
Analyst: SDPUC Staff
Date Received: 11/18/2015
Date Due: 12/04/2015
Date of Response: 12/04/2015
Responding Witness: Bryce Haugen, Senior Rates Analyst, Regulatory Administration

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Information Request:

01-05. Referring to the current Integrated Transmission Agreement (ITA) with Central Power Electric Cooperative (CPEC),

a. Provide a list and description of the transmission facilities included in the ITA. Also include the original cost of the facility, the amounts paid by OTP and CPEC, and the amount, if any, included in South Dakota rate base. Additionally, include the current retail load responsibility assigned to OTP and CPEC for each of the facilities.
b. Considering the current ITA has reciprocal usage rights where the transmission costs and revenue presumably net zero, shouldn't the new SPP Schedule 9 and 11 expenses equal the new MISO Schedule 9 revenue? Does the estimated SPP expense in excess of MISO Schedule 9 revenue indicate OTP's retail load responsibility is greater than CPEC's? Assuming OTP's initial investment in the projects was greater than CPEC's, does SPP calculate an allowance for this?
c. What other options are available to OTP at the expiration of the ITA at the end of 2015? What would be the corresponding cost/benefit to ratepayers?
d. Are there any ITA expenses or revenue currently built into base rates?

Attachments: 3

Attachment_1_to_SD_IR_05.pdf
Attachment_2_to_SD_IR_05.pdf
Attachment_3_to_SD_IR_05.pdf

Response:

a. The Integrated Transmission Agreement (ITA) between Otter Tail and Central Power Electric Cooperative (CPEC) was first executed in 1958. This original agreement included Exhibit E, which was a list of facilities included within the ITA. Exhibit E of the ITA from 1958 was replaced with Exhibit E-2 in early 1986 when Amendment 2 of Supplement #7 was executed between Otter

Tail and CPEC. Attachment 1 to SD-IR-01-05 includes a list of transmission lines, substations, and breakers included in the ITA as of 1986.

Otter Tail does not have the original cost of the facilities within the ITA or the amounts paid by Otter Tail and CPEC for these respective facilities. However, Otter Tail can provide a representative cost of the facilities within the ITA. The current ITA prescribes a method for assigning fixed costs to certain facilities, as shown in Attachment 2 to SD-IR-01-05. Using the fixed costs from Attachment 2, the representative investment by Otter Tail for facilities within the ITA back in 1986 was approximately $13,375,510 in total (as shown on Page 8 of Attachment 1) comprised of:

- $9,215,600 for 41.6 kV Lines
- $298,000 for 69 kV Lines
- $6000 for 115 kV Lines
- $2,670,000 for 230 kV Lines
- $304,810 for Substations
- $881,100 for Circuit Breakers

The corresponding investment by CPEC for its facilities within the ITA using this representative method was $5,570,653 in 1986 (as shown on Page 8 of Attachment 1). As shown in Attachment 3 to this information request, the corresponding load and losses for each party within the ITA back in 1986 was as follows (see Page 7 of Attachment 3):

- Otter Tail = 492,546,550 kWh
- CPEC = 438,510,708 kWh

Facility additions made after 1986, as well as increased loads, have been included in the ITA during subsequent years as prescribed within the ITA. For example, in the 2006 annual true-up, Otter Tail had $15,624,657 of representative investment in the ITA while CPEC had $9,166,343. Likewise, the retail load and losses for each party within the ITA during 2006 was calculated as being 686,487,320 kWh for Otter Tail and 784,975,874 kWh for CPEC. Updated investment and load information is not available for 2015, but the parties are working towards finalization of the last settlement under the ITA.

Otter Tail is not able to accurately determine how much of its investment in the ITA is included in South Dakota rate base, but can make an estimate using the prescribed methodology from the ITA that calculated a representative investment of $15,624,657 for Otter Tail from the 2006 ITA calculations. Using the demand (“D2”) allocator from Otter Tail’s last approved rate case in South Dakota would result in approximately 10 percent of this $15.6 Million included in South Dakota’s rate base ($1.56 Million).

b. The ITA has reciprocal usage rights, but the current arrangement under the ITA does not result in an arrangement where the transmission costs and revenues net to zero.

   SPP Schedule 9 and Schedule 11 expenses exceeding MISO Schedule 9 revenue is related to a variety of factors that are not related to Otter Tail’s retail load responsibility being greater than CPEC’s. Some of these factors include:

- The SPP rate for transmission service to Otter Tail load is approximately 135 percent of the MISO rate for transmission service to CPEC load.
- The application of the respective tariffs when paying for transmission service:
    - MISO-only charges for load actually served from the MISO transmission system versus SPP charging for the greatest possible load that could be served from the SPP transmission system.
- The configuration of the loads within the ITA:
    - CPEC has successfully moved a large portion of its load off Otter Tail transmission facilities over the past 10-15 years allowing it to pay for less MISO transmission service while Otter Tail has not had time to build away from CPEC facilities after its announcement to join SPP.

SPP will not calculate an allowance for Otter Tail's initial investments or the current Otter Tail overinvestment in the ITA. Rather, allowances for investments in the transmission system are outlined in the SPP tariff. Otter Tail has explored the possibility of receiving facility credits offered through Section 30.9 of the SPP tariff for our 41.6 kV facilities that would allow for an off-set to a portion of our charges within SPP. However, through past discussions with SPP, it has become apparent that Otter Tail's 41.6 kV facilities in SPP will not qualify for facility credits. Rather, Otter Tail will reflect the investment in our ITA facilities with the rest of our transmission facilities in the calculation of our annual transmission revenue requirement in MISO.

c. Otter Tail has explored a variety of options to protect its customers from increased costs from CPEC's decision to join SPP effective January 1, 2016. These options included:
    1. Extend the ITA
    2. Build New Facilities
    3. Seek relief through FERC

   The option of extending the ITA has been discussed with CPEC and they have recently informed Otter Tail that they are not interested in pursuing any form of an ITA going forward. Otter Tail is considering the construction of new facilities that would allow Otter Tail 41.6 kV facilities and loads to connect directly back to other MISO transmission facilities thereby eliminating the need to use SPP transmission facilities. As mentioned in SD-PUC-01-04, Otter Tail has also filed a motion to intervene and protest in SPP's filing to incorporate CPEC into the Upper Missouri Zone of SPP in FERC Docket ER16-209-000 requesting that FERC directs that SPP holds Otter Tail harmless in CPEC's decision to join SPP.
   A cost/benefit analysis has not been completed for each of these options at this time due to the several pending unknowns. As stated above, an extension of the ITA is not feasible due to the lack of a willing partner. Otter Tail is hopeful for a positive outcome in our filing within FERC Docket No. ER16-209-000, but is also prepared to build new facilities if necessary. Going forward, Otter Tail will continue to pursue options 2 and 3 and be ready to move accordingly in order to minimize impacts to ratepayers as we gain more clarity and direction from FERC.

d. Yes, the ITA revenues that Otter Tail has traditionally received from CPEC were built into base rates during our last general rate case in South Dakota in 2008. During 2007, Otter Tail's ITA revenues from CPEC were approximately $750,000. Using the demand ("D2") allocator from Otter Tail's last approved rate case in South Dakota would result in approximately 10% of this $750,000 included in South Dakota's rate base ($75,000). Given that the SPP expenses are new, they were not included in base rates during the 2008 general rate case.