
STAFF MEMORANDUM

TO: COMMISSIONERS AND ADVISORS
FROM: BRITTANY MEHLHAFF, PATRICK STEFFENSEN, AND KRISTEN EDWARDS
RE: EL19-025 - In the Matter of Otter Tail Power Company's Petition for Approval of Phase-In Rider Rate
DATE: August 15, 2019

BACKGROUND

On May 31, 2019, the South Dakota Public Utilities Commission (Commission) received a petition from Otter Tail Power Company (OTP or Company) for approval of its initial phase-in rider rate. The proposed phase-in rate reflects the phase-in revenue requirements for September 1, 2019 through August 31, 2020.

SDCL §§ 49-34A-73 through 78 authorize the Commission to approve a tariff mechanism for the automatic annual adjustment of charges for a phase-in rate plan for rate increases due to plant additions.

Previously, on March 6, 2019, the Commission issued an Order Granting Joint Motion for Approval of Settlement Stipulation; Order Approving Settlement Stipulation in Docket EL18-021. This settlement established OTP's phase-in rider, allowing OTP the opportunity to recover the Merricourt Wind Project (Merricourt) and the Astoria Natural Gas Project (Astoria), along with offsetting revenue credits for new load growth in the Lake Norden area and net savings associated with OTP's retirement of its Hoot Lake Plant. As part of this settlement, OTP agreed to not file a rate case until the test year for such filing reflects twelve months in-service for the Merricourt and Astoria projects, with April 1, 2022 being the earliest OTP can file.

In this filing, OTP initially requested to recover a projected September 1, 2019 through August 31, 2020 revenue requirement of \$1,026,616 associated with the Merricourt and Astoria projects and the revenue credit due to the new load growth in Lake Norden. The filing does not include any credit due to savings associated with the Hoot Lake retirement, as those credits will not be realized until the September 1, 2020 through August 31, 2021 plan year. The Company's initially proposed revenue requirement resulted in a "percent-of-bill" base revenue charge of 3.942 percent.

STAFF'S ANALYSIS AND UPDATES

Staff's recommendation is based on its analysis of OTP's filing, discovery information, relevant statutes, and previous Commission orders. Staff's analysis consisted of review of the eligible projects, revenue requirement calculation, class allocation, and rate design. Each of these items are discussed below.

ELIGIBLE PROJECTS

Merricourt is a 150 MW wind generation facility located south of Edgeley, North Dakota. Astoria is an approximate 250 MW natural gas-fired simple cycle combustion turbine generation facility located near Astoria, South Dakota. These two projects make up OTP's two-part plan to provide needed capacity, low-cost and dispatchable energy, and load-following capabilities for its system, in order to reliably meet its customers' electric needs, replace expiring capacity purchase agreements, and prepare for the 2021 retirement of the coal-fired Hoot Lake Plant. Staff believes these generation projects qualify for inclusion in the Phase-in Rider pursuant to the plant additions defined in SDCL 49-34A-73.1.

Staff hired Kavita Maini of KM Energy Consulting, LLC, to evaluate whether OTP's decision to build Astoria and Merricourt were the least cost options compared to other alternatives. Ms. Maini began her analysis of Merricourt when the Company requested recovery of the wind project in Docket EL18-021. In this docket, Staff requested Ms. Maini review her analysis regarding Merricourt and also address the Company's decision to invest in Astoria. Attached to this memo is Ms. Maini's report regarding her analyses determining both projects are least cost options.

Ms. Maini's analysis is based on the associated IRP analysis and the estimated project costs to-date. Staff reserves the right to review actual final project costs for prudence. If actual project costs are ultimately significantly more than currently estimated, OTP should demonstrate to the Commission in future dockets why the project costs are still reasonable for recovery.

REVENUE REQUIREMENT

Staff reviewed the forecasted September 1, 2019 through August 31, 2020 revenue requirement associated with the Merricourt and Astoria projects and Lake Norden load growth credit. The September 1, 2019 through August 31, 2020 phase-in rate is based on estimated costs of Astoria and Merricourt and an estimated Lake Norden load growth revenue credit, both subject to later "true-up" to reflect the actual costs, actual revenues, and actual recoveries.

Supplemental Filing

OTP and Staff identified updates to be incorporated into the Company's proposed revenue requirement, and OTP submitted a Supplemental Filing on August 2, 2019, to reflect these updates. Staff agrees with OTP's updated rider revenue requirement of \$863,665. This represents a decrease of approximately \$163,000 from OTP's initial Petition filed on May 31, 2019.

Section II of OTP's Supplemental Filing provides a description of the changes made from the initial filing. Staff agrees with the changes made, and the following paragraphs provide a brief recap of these changes.

Updated Capital Costs and Collections

The originally filed phase-in was based on actual data through April 2019 and projected activity beginning May 2019. OTP's Supplemental Filing provides an updated report of actual costs and

collections through June 2019. These changes result in a decrease to the revenue requirement of approximately \$2,000.

Revised Attachment 1 provided with the Company's Supplemental Filing provides a summary of revenue requirements and Revised Attachment 3 summarizes the tracker activity by month. Individual project detail for the two projects is found on Revised Attachments 4 and 5.

Corrected Error in Calculation of Carrying Charge

During discovery, the Company and Staff determined there was an error in a formula that calculated the carrying charge on line 18 of Attachment 3. This error has been corrected in the Supplemental Filing and increases the revenue requirement by approximately \$2,000.

Updated Merricourt Property Tax Expense

The Supplemental filing also includes an update to property taxes associated with the Merricourt project, due to a better understanding of how property taxes will be calculated in North Dakota for this project. This update decreases the property tax expense as shown in Revised Attachment 5 and decreases the revenue requirement by approximately \$47,000.

Corrected Astoria with Inclusion of AFUDC

During discovery, the Company and Staff realized AFUDC was incorrectly omitted from the Astoria revenue requirement calculation in Attachment 4. As explained in the following section, this revision only adds an AFUDC component to January through March 2019 and increases the revenue requirement by approximately \$1,000.

Included Additional Lake Norden Load Growth Credit

The stipulation in Docket EL18-021 requires OTP to reflect future benefits associated with an additional post-test year load in the Lake Norden, South Dakota area in the phase-in filings. The initial filing included a revenue credit associated with this additional load starting September 2019; however, during discovery, OTP verified that the additional loads started in April 2019.

OTP agreed that since Merricourt and Astoria are earning AFUDC the months prior to the September 2019 effective date of the phase-in rider, the additional revenues resulting from the increased Lake Norden load should also be credited prior to the September 2019 effective date of the rider.

In adding the additional five months of revenue credits to the revenue requirement, it is also appropriate to allow Merricourt and Astoria recoveries by shifting from AFUDC to CWIP recovery for those five months. This revision created a balance in the April 2019 through August 2019 tracker and resulted in a net increase to the revenue requirement of approximately \$44,000. Staff believes capturing the additional revenue credit is both appropriate and beneficial to ratepayers, even in light of the net increase to the current year revenue requirement. This revision eliminates nearly \$100,000 of AFUDC going forward for the Merricourt and Astoria projects. The elimination of AFUDC as a result of a timing

difference will be reflected in future base rates when the projects are rolled into base rates in a future rate case.

Updated Lake Norden Load Growth Credit with Final Rates Established in EL18-021

On July 9, 2019, the Commission issued an Order Approving Interim Refund Plan; Order Approving Tariff Revisions in Docket EL18-021. With the final rates approved in this order, OTP was able to revise the Lake Norden load growth credit to reflect the rates and revenues as approved in Docket EL18-021. This revision decreases the revenue requirement by approximately \$160,000.

As stated above, the net result of these changes is a decrease of approximately \$163,000 to the revenue requirement initially proposed by the Company.

CLASS ALLOCATION AND RATE DESIGN

OTP proposes a “percent-of-bill” rate design method for the phase-in rider. This is calculated by dividing the total phase-in rider revenue requirement by the total base rate revenue for the recovery period. OTP believes this method is simpler to administer while providing a fair and representative rate design for the cost responsibility among and within the classes.

Staff supports this method for the reasons stated above and understands this method will appropriately distribute the revenue requirement uniformly among customers. The revisions to the revenue requirement in the Supplemental filing decrease the “percent-of-bill” phase-in rider factor to 3.345 percent, effective September 1, 2019.

RECOMMENDATION

Staff recommends the Commission approve the \$863,665 revenue requirement for the September 1, 2019 through August 31, 2020 plan year. This results in a 3.345 percent phase-in rider factor effective September 1, 2019.