STAFF MEMORANDUM

TO: COMMISSIONERS AND ADVISORS

FROM: JOSEPH REZAC, AND AMANDA REISS

RE: EL21-017 - In the Matter of Otter Tail Power Company's Petition for Approval of Phase-In Rider Rate

DATE: August 24, 2021

BACKGROUND

On June 1, 2021, the South Dakota Public Utilities Commission (Commission) received a petition from Otter Tail Power Company (OTP or Company) for approval of its second annual update to its Phase-In Rider (PIR) rate. The proposed PIR rate reflects the PIR revenue requirements for September 1, 2021 through August 31, 2022.

SDCL §§ 49-34A-73 through 78 authorize the Commission to approve a tariff mechanism for the 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 Docket EL20-019, the Commission approved a $1,624,525 revenue requirement for the September 1, 2020 through August 31, 2021 plan year and a 6.521 "percent of bill" phase-in rider factor effective September 1, 2020.

In this current filing, OTP requests to recover a projected September 1, 2021 through August 31, 2022 revenue requirement of $345,134 associated with the Merricourt and Astoria projects, the revenue credit due to the new load growth in Lake Norden, and the net savings associated with the Hoot Lake Plant (HLP) retirement. The Company's proposed revenue requirement results in a proposed "percent-of-bill" base revenue charge of 1.351 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 revenue requirement calculation, class allocation, and rate design. Each of these items are discussed below.

REVENUE REQUIREMENT

Staff reviewed the forecasted September 1, 2021 through August 31, 2022 revenue requirement associated with the Merricourt and Astoria projects, Lake Norden load growth credit, and HLP retirement. The September 1, 2021 through August 31, 2022 phase-in rate is based on estimated costs of Astoria and Merricourt, estimated Lake Norden load growth revenue credit, and estimated HLP retirement savings, all subject to later "true-up" to reflect the actual costs, actual revenues, and actual recoveries.

Revenue Requirement Updates and Analysis

Astoria

Astoria is a new 245 MW natural gas-fired simple cycle combustion turbine constructed near Astoria, South Dakota. OTP commissioned the Astoria project earlier this year and is expected to be completed under the initial budget. OTP's current cost estimate is $153.4 million (OTP Total) / $15.6 million (OTP SD). Costs will continue to be incurred as is typical with a large project close out.

In the Petition, OTP discussed the facility service agreement revenues it receives from Tatanka Ridge Wind, LLC (Tatanka). As the transmission owner for the network upgrades required to accommodate the interconnection of Tatanka and Astoria, OTP receives facility service agreement revenues over a 20-year term. For the September 2021 through August 2022 recovery period, OTP estimates receiving approximately $308,000 (OTP Total) / $31,300 (OTP SD).

OTP also discussed the Long-Term Service Agreement (LTSA) it entered into with Mitsubishi. Under the LTSA, the manufacturer maintains a parts pool for its fleet of combustion turbines and takes on the risk of the repair and/or replacement of the combustion components. OTP in turn makes prepayments to the manufacturer for major maintenance based on the hours the unit is operated and/or the number of starts until the major maintenance is complete. The annual LTSA fee is $1.9 million (OTP Total) / $0.2 million (OTP SD). Staff inquired as to the analysis completed to determine the prudency of the LTSA in last year's annual update in TC20-019 and found it to be prudent from a cost perspective.

Merricourt

OTP is completing the construction of Merricourt, a project consisting of 75 V110-2.0 MW Vestas wind turbine generators with an aggregate nameplate capacity of 150 MW, near Merricourt, North Dakota. The entire Merricourt facility was deemed commercially operational in December of 2020 with a cost estimate of $258 million (OTP Total) / $26 million (OTP SD).

OTP's Petition discussed that its current forecast has Merricourt at reduced output while certain transmission network facilities are being constructed throughout 2021. Merricourt could be subject to MISO's quarterly operating limits until all network facility upgrades are in service. OTP explained that a generator seeking to interconnect in MISO has conditional interconnection service until all required upgrades and contingent facilities are completed, and thus is subject to quarterly operating limits. The 2021 generation forecast for Merricourt is about 80 percent of the expected output at full operation.

In this filing OTP has increased the depreciation for the Merricourt Project from 25 years to 35 years starting in 2021. This change stems from OTP's 2020 depreciation filing made in Minnesota. The request to extend this average service of Merricourt was primarily due to an engineering firm study that points to an expected service life of 40 years and investments made by OTP in life extending equipment for Merricourt. This has an impact of decreasing the revenue requirement by $3.5 Million (OTP Total) / $0.35 Million (OTP SD) for the September 2021 through August 2022 recovery period.

Lake Norden Area Load Growth Credit

OTP used the same methodology for calculating this adjustment to the Rider as was used in Docket EL19-025. Due to the decrease in estimated load growth, OTP has now included an estimate of revenue in recognition of an electric service agreement with the customer.   OTP discusses this in further detail in its Petition.

As shown in Attachment 3 in this docket, as compared with Revised Attachment 3 in EL19-025, these changes increase the September 2020 through August 2021 credit amount by approximately $1,705,488.

Hoot Lake Plant Retirement Savings

The settlement in EL18-021 requires OTP include net savings associated with the HLP retirement within the PIR. OTP incurred normal operation costs associated with HLP through May 2021, the coming PIR plan year will be the first full year to include these credits. The HLP adjustment compares calendar years to the 2017 Test Year and results in a HLP adjustment credit spread evenly over the twelve months of the calendar year. The HLP adjustment credit for 2021 in this filing is $222,572. The first full year of credit for 2022 is estimated to be $880,339. These estimates and forecasts will be updated to actuals and subject to true up in next year's rider update.

OTP has indicated that once HLP is fully decommissioned the labor part of the HLP credit will include the difference between the 37 full time equivalent employees in the 2017 test year and the expected four remaining employees that will continue at HLP to service ongoing hydro operations, leachate hauling, and site reclamation.

<u>Supplemental Filing</u>

In past PIR update filings, OTP has made a supplemental filing to update capital costs and collections through June as well as make any revisions as identified by Staff or OTP. The originally filed PIR in this docket is based on actual data through April 2021 and projected activity beginning May 2021. After discussions between OTP and Staff, the parties have agreed to forgo a supplemental filing in this docket as any revisions or updates appear to be immaterial and would not have a significant effect on the final rate. Foregoing the supplemental filing will also reduce administrative costs for OTP. All changes in actuals when compared to the included estimates will be subject to true up and captured in next year's annual PIR update.

CLASS ALLOCATION AND RATE DESIGN

OTP proposes to continue the "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 changes the "percent-of-bill" phase-in rider factor to 1.351 percent, effective September 1, 2021. OTP states the impact of the change in rates for a residential customer using 1,000 kWh per month is a decrease of $3.75 per month.

RECOMMENDATION

Staff recommends the Commission approve the $345,134 revenue requirement for the September 1, 2021 through August 31, 2022 plan year. This results in a 1.351 "percent of bill" phase-in rider factor effective September 1, 2021.