

PUBLIC UTILITIES COMMISSION
STATE OF SOUTH DAKOTA

In the Matter of the Petition of Otter Tail Power
Company for Approval of Deferred Accounting
for Certain Transmission-Related Costs
Incurred During its Participation in the
Big Stone II Project

Docket No. EL13-_____

PETITION

Otter Tail Power Company (“Otter Tail”) requests authority to use deferred accounting until its next rate case for certain transmission-related costs incurred during its participation in the Big Stone II generation project.

I. BACKGROUND

The Commission previously granted deferral of the costs described in this Petition in its February 11, 2010 Order in Docket No. EL09-024. That Order authorized deferral of all of Otter Tail’s development costs relating to the cancelled Big Stone II generation project, including the transmission-related costs. At that time, it appeared that the Big Stone II transmission project would be cancelled along with the generation project. Soon thereafter, however, as described in Otter Tail’s 2010 rate case proceeding, it was determined that it was not yet appropriate to treat the transmission-related project as cancelled (Commission Docket EL10-011). Instead, at that time it was determined appropriate to continue treating the transmission-related project as “active” because there were still transmission needs identified in the area around Big Stone, and therefore it was thought that the transmission project, or aspects of the project, had a reasonable chance to go forward in some form.

Based upon this determination in the rate case, the Commission authorized recovery of the Big Stone II cancelled generation project costs, with recognition that the recovery would be

reduced by \$259,898, which would continue as active transmission-related project costs and were therefore not yet ripe for recovery.¹ Since then, that amount has remained on Otter Tail's books as active project costs and Otter Tail has maintained its Minnesota and South Dakota route permits and other assets in order that it could be in a position to continue with the project or aspects of the project if the need developed any further.

As of this filing, however, there does not appear to be a need that would justify completing the project in the form conceived at the time the Big Stone II project was under development. The number of projects progressing through the MISO interconnection queue has been reduced dramatically over the past year due to queue reform and the associated penalties for withdrawal of a project within the later stages of the interconnection process (i.e. DPP studies). No projects progressed far enough by March 17, 2013 within the MISO interconnection process to warrant a Certificate of Need filing for a project that would use the route identified in the Route Permit. The Minnesota Route Permit expired March 17, 2013 since there was not a project that would use the route.² For this reason, Otter Tail has determined that it is no longer appropriate to treat the Big Stone II transmission-related project as active nor to account for these costs as active project costs, and therefore it is bringing this deferred accounting request.

Despite this change in the project classification from active to cancelled, there are, as anticipated, some project assets that can be used in another project in the area and therefore this deferral request is for an amount less than the amount identified in Otter Tail's rate case. Specifically, several assets from the Big Stone II transmission-related project have been transferred for use in the Big Stone South – Brookings 345 kV Multi-Value Project ("MVP") being developed by Otter Tail and Xcel Energy. This transferring of assets and related costs has

¹ \$259,898 is the South Dakota jurisdictional share of the \$2,612,036 system-wide amount.

² Minnesota rule authorizes route permits to remain valid for four years, after which they expire if the projects contemplated are not constructed.

resulted in a reduction of the total cancelled project cost amount by approximately 30 percent (specifically a reduction of \$80,237).

As noted above, this deferred accounting request is similar to the request granted by the Commission in its February 11, 2010 Order in Docket No. EL09-024. Following the deferral in that Order, the Big Stone II generation-related costs were authorized for recovery in Otter Tail's last general rate case (See March 14, 2011 Order in Docket No. EL-10-011). Likewise, Otter Tail requests this deferral of Big Stone II transmission-related costs in order that it can request recovery of the costs in its next general rate case. Specifically, this request is to defer \$179,661 of cancelled project costs until Otter Tail's next general rate case, which it expects to file before 2016.

II. GENERAL FILING INFORMATION

Otter Tail provides the following general filing information:

A. Name, address, and telephone number of utility.

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B. Name, address, and telephone number of utility attorney.

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C. Date of filing.

This Petition is being filed on March 28, 2013.

D. Controlling statute for time in processing the filing.

There is no set period for a Commission decision on the Petition.

E. Title of utility employee responsible for filing.

Peter Beithon
Manager, Regulatory Recovery
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F. Service list.

Otter Tail requests that the following persons be placed on the Commission's official service list for this matter and that any trade secret comments, request, or information be provided to the following on behalf of Otter Tail:

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III. DESCRIPTION OF COSTS FOR WHICH DEFERRAL IS REQUESTED

The Big Stone II costs (both the generation and transmission-related costs) were described in detail in Docket EL09-024, Otter Tail's original request for deferred accounting for the cancelled Big Stone II project costs.

As described above, after that original deferred accounting petition was granted, the question of what costs were ripe for recovery was considered in Otter Tail's 2010 general rate case, Docket No. EL10-011. As part of the settlement in that case, the Commission approved the removal of the transmission-related costs from recovery at that time so that they could continue to be reflected as active project costs. Attachment 1 is Staff's Exhibit RLK-1, Sch 10, which shows the transmission costs withheld from recovery on Line 2 of the table.³ When the Big Stone project was cancelled in 2009, Otter Tail retained ownership of the Big Stone II transmission project assets, which included rights to route permits in Minnesota and South Dakota, easements, and other real property interests. There was recognition at that time that if the projects could be completed, or if the work completed for the projects could be used for other projects, it could reduce the amount of cancelled project costs allocated to Otter Tail's retail customers for recovery. As described herein, some of the Big Stone II transmission-related project costs will be used in the Big Stone-Brookings project, and, as anticipated, the transferring of costs to that project has reduced the cancelled project cost totals by a significant amount.

Attachment 2 to this request reflects the costs that make up the \$2.6 million (total company amount) that were described in Docket EL10-011. Attachment 2 also shows the costs that will be transferred to the Big Stone-Brookings project resulting in the net amount requested for deferral. Of the \$80,237 total, \$41,353 is transmission related and \$38,884 had previously

³ \$2,612,036, total company; \$259,898 SD jurisdictional share.

been classified as generation costs. Otter Tail proposes to use the total of both amounts to reduce the amount of the deferral request.

IV. OTTER TAIL SHOULD BE ALLOWED IN ITS NEXT RATE CASE TO RECOVER THESE PRUDENTLY INCURRED CANCELLED PROJECT COSTS

Otter Tail is not seeking a final determination of its right to recover these cancelled project costs in this proceeding. Otter Tail will seek recovery of these costs in its next general rate case, and it is requesting by this Petition the authority to use deferred accounting for the costs until then. Otter Tail currently expects it will file a rate case by 2016.

Denial of deferred accounting would cause Otter Tail to reflect the approximately \$179,661 South Dakota jurisdictional share of development costs as an expense on its financial reports for the current period even though the costs are expected to be reviewed for recovery and amortization over a period of years in the Company's next rate case.

V. DEFERRED ACCOUNTING IS APPROPRIATE

The need for deferred accounting for costs incurred on abandoned utility projects is a consequence of the change in the accounting treatment for those costs upon the cancellation of the transmission project. Prior to cancellation, the project development costs are capitalized as CWIP typically over multiple years. In Otter Tail's most recent rate case, Big Stone II transmission-related costs were excluded from the 2009 test year — those costs were reflected in the CWIP account and, therefore, were not reflected in the revenue requirement either as an expense or as an investment included in rate base.

Upon the determination that these costs will not be recovered as part of future projects, absent deferred accounting, all costs would be expensed in the current period. Through the use of deferred accounting, the financial status quo can be preserved until Otter Tail's next rate case so

that the Company’s financial statements are not unreasonably impacted prior to a Commission decision whether the costs should be included in rates. If the Company were required, for financial reporting purposes, to write off \$179,661 because deferral was not granted, it would have a negative impact on earnings in the current period. Then, if the costs are later authorized for recovery in the next rate case that would cause an increase to earnings in that period.

The Commission has previously allowed deferred accounting when necessary to allow a utility to obtain full recovery its costs. In fact the Commission has allowed deferred accounting on these very costs previously in Docket EL09-024. In this case, as explained above, Otter Tail has not previously recovered any of the costs for which it is requesting deferral. In addition, the Commission approved new retail rates, in Docket No. EL10-030, that do not include any of the Big Stone II transmission-related preconstruction costs and investments. For these reasons the use of deferred accounting should be granted.

VI. CONCLUSION

Otter Tail should be authorized to use deferred accounting until Otter Tail’s next rate case for \$179,661 of unrecovered Big Stone II transmission-related costs.

Dated: March 28, 2013

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