
From: PUC

Sent: Tuesday, December 09, 2014 2:34 PM

To: [REDACTED]

Subject: RE: OTTER TAIL, EL14-082

Mr. Skaarer:

Thank you for your additional questions regarding Otter Tail Power's environmental cost recovery rider.

You asked if the PUC considered using part of Otter Tail's profit to pay for some of the cost of the upgrade instead of shifting the entire cost to customers.

No. The PUC determined that Otter Tail Power's decision to install environmental retrofits at the Big Stone Plant and Hoot Lake Plant were the least cost options compared to other alternatives available for complying with federal environmental regulations. Since the PUC determined that Otter Tail Power's investments were prudent decisions and in the best interest of customers, the PUC is required by law to allow Otter Tail Power to recover the costs of the investments from its customers. The PUC must allow Otter Tail Power an opportunity to earn a fair return on its investments. To require the company to use some of its profits to pay for large investments such as these environmental retrofits would not be allowing Otter Tail an opportunity to earn a fair return, and as mentioned previously, would put the company at risk of not being able to continue to provide safe and reliable electric service to its customers.

Second, you inquired if the length of time to recover Otter Tail's cost for the upgrade was used in determining the rate percentage increase and when that time is up if the PUC will automatically review Otter Tail's rates for adjustment downward.

Plant investments are recovered over a number of years. For instance, the Big Stone AQCS project is being depreciated based on a 30-year life. Thus, once the project is complete, it will take 30 years for Otter Tail to recover the cost of the investment. This allows customers to pay for the project over the life of the project, rather than paying for all of it upfront. The depreciation calculation is part of the determination of the revenue requirement and ultimately the calculation of the percentage rate increase. It is likely other costs will increase for the company and it will eventually need to request another rate increase. At that time, the Commission will determine if the increase sought is justified. Thus, the PUC will not automatically review Otter Tail's rates for adjustment downward.

I hope this answers your questions. Please let me know if I can be of further assistance.

Gary Hanson, Chairperson
South Dakota Public Utilities Commission