

OTTER TAIL POWER COMPANY
Docket No: EL23-019

Response to: SD Public Utilities Commission
Analyst: SD PUC Staff
Date Received: September 06, 2023
Date Due: September 20, 2023
Date of Response: September 20, 2023
Responding Witness: Jason A. Grenier, Manager Retail Energy Solutions - (218) 739-8639

Data Request:

Explain any changes in assumptions used in the DSMore model compared to the previously approved plan.

Attachments: 1
Attachment 1 to DR SD-PUC-01.2_PUBLIC.pdf

Response:

This response includes information Otter Tail deems to be Confidential Information under ARSD 20:10:01:39 and is provided on the condition that it is not filed or otherwise publicly disclosed pending a determination under ARSD 20:10:01:41 and 20:10:01.42, or an agreement by the parties to this proceeding regarding its disclosure. Such Confidential Information is marked “CONFIDENTIAL” and noted where applicable as [PROTECTED DATA BEGINS... ..PROTECTED DATA ENDS].

Otter Tail modified the discount rate used in the Total Resource Cost (TRC) calculation to more accurately reflect both the utility and customer costs of capital. Previously, the discount rate used in the TRC calculation was the Utility discount rate (weighted cost of capital). However, over the last few years there has been industry movement into a more hybrid discount rate that reflects the spending position of both the utility and customers of the utility who ultimately fund the programs and the equipment being installed. Alongside the conservation programs offered in South Dakota, Otter Tail provides conservation programs in Minnesota. As a part of their review, the Minnesota Department of Commerce (Department) commissioned a study from Synapse Energy Economics, reviewed comments and concerns from Minnesota gas and electric utilities with guidance from the National Standard Practice Manual.¹ The discount rate review led to modified discount rates for benefit/cost analysis by blending the Utility discount rate and the United States Department of the Treasury’s 20-year Constant Maturity (CMT) Rate to use in place of the Utility discount rate. The utility specific rates were calculated based on a weighted

¹ Docket Nos. G999/CIP-18-782, E999/CIP-18-782, Final Decision Order February 11, 2020, pages 6-23.

average derived and calculated by the Department. These rates better reflect the design behind the TRC test which is to represent a broader viewpoint than just the utility. In this filing, Otter Tail produced a blend of the Participant and Utility discount rates to reflect the interests and perspectives of customers and the utility in order to better illustrate the premise of the TRC Test. Otter Tail applied a TRC discount rate that is the simple average of the 7.09% Utility discount rate and the 3.3% Participant discount rate. This resulted in a decrease from 7.09% to 5.2% and an overall decrease of 1.89%.²

Otter Tail updated its avoided costs to its most recently filed supplemental Integrated Resource Plan in Minnesota Docket Number E017/RP-21-339 and utilized those avoided costs in the DSMore model. Otter Tail also updated its assumed line loss rate based upon the Company's 2020 System Loss Evaluation. The last update to the DSMore inputs was an update to load shapes based upon Otter Tail specific data. The load shape data is voluminous and integrated into DSMore by the Company's third-party consultant and is therefore not included in the response to this data request.

Please see Attachment 1 to DR SD-PUC-01.2 showing the changes in assumptions. During the drafting of this data request response, Otter Tail became aware that the incorrect Participant discount rate was used in the evaluation of its Programs. As shown in Attachment 1 to DR SD-PUC-01.2, the initial filing results reflect Participant Cost Test results using 7.09% when it should have used the 3.3% CMT rate. Otter Tail will work with Staff to update the record.

² The CMT rate averaged 3.3 percent between January 03, 2022, through December 30, 2022.