

Memorandum

To: Commissioners Kalk, Christmann and Fedorchak

From: Sara Cardwell, Public Utility Analyst

Date: May 15, 2013

Re: Response to Otter Tail Power Company's Request to Continue the Big Stone II Cost Recovery Rider for an Additional Eight Months
Case Nos. PU-09-739 & PU-10-30

On March 29, 2013, Otter Tail Power Company (OTP) filed their 2013 Big Stone II Cost Recovery Rider Report and supporting work papers in compliance with the Settlement Agreement in Case Nos. PU-09-739 and PU-10-30 adopted by the Commission on June 25, 2010. On May 7, 2013 OTP provided an update to the filing to add carrying costs to the proposed additional recovery amount. The report includes a discussion of the generation costs recovered to date and remaining transmission costs that could not be assigned to other projects and are therefore recoverable as per the settlement agreement. Allowing the Company to extend the rider for an additional eight months results in a recovery of all remaining Big Stone II costs with an estimated over collection of \$49,768 at the end of the eight month period.

OTP proposes to hold the actual remaining balance as a regulatory asset or liability and refund and, or request cost recovery of the remaining balance in its next rate case. Staff believes it would be more appropriate to credit or debit the Company's Environmental Cost Recovery Rider if approved by the Commission with any remaining balance. If the Commission does not approve the Environmental Cost Recovery Rider, then Staff recommends that the balance be held as a regulatory asset or liability until the Company's next rate case.

Staff has reviewed the rate and tracker calculations to ensure that the resulting rates will collect the transmission costs in accordance with the provisions agreed to in the Settlement. Staff has also reviewed OTP's request that rates remain at the current level for the next eight-month period.

On page 7 of the settlement agreement in Case No. PU-10-30, it states:

D. If construction of all or a portion of the transmission facilities commences within three years of the Commission Order approving this settlement Agreement, the above BSP II Transmission Costs and accumulated AFUDC shall be included in the rate base investment for these future transmission facilities. If construction is not commenced on any of the transmission facilities within three years of the Commission Order approving this Settlement Agreement, then OTP may petition the Commission to either continue accounting for these costs as CWIP or to commence recovery of such costs. It shall be

OTP's burden of proof in any such proceeding to show that there is good cause to continue reflecting the costs as CWIP or that cost recovery is appropriate.

OTP has been able to transfer 31% of the remaining Big Stone II transmission costs to the Big Stone-Brookings 345 KV Multi-Value Project leaving a remainder of \$728,031 that cannot be reassigned to another project. With carrying costs, the total proposed collection amount is \$975,864. As per the settlement agreement, this amount can be collected through the Big Stone II Cost Recovery Rider. In the supporting work papers provided with the filing, OTP calculates that there will be an over-collection of \$22,659 as of the month ending July 2013. Subtracting this over collection from the remaining transmission amount to be recovered, the Company demonstrates that it can continue the rider adjustment amounts at their current levels and at the end of March 2014, there will an estimating remaining amount of \$49,768 needing to be refunded to customers.

OTP has kept the adjustment rates in this rider the same for the entire collection period even though their filings have indicated that they could make slight adjustments to the rates each and every year since the rider's inception in August 2010. By keeping the adjustment rates the same each and every year, the Company has avoided any customer confusion and increased administrative costs that could be caused by varying the adjustment rates each and every year. Staff recommends the Company be allowed to continue the current adjustment rates in the Big Stone Cost Recovery Rider for an additional eight months. At the end of the eight month period, the Staff recommends that the Company file work papers demonstrating the proposed final estimated amount that would be transferred to the Environmental Cost Recovery Rider or booked as a regulatory liability or asset for recovery in the Company's next rate case if the Environmental Cost Recovery Rider is not approved.

cc: Pete Beithon