

STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION

In the Matter of Otter Tail Power Company's Application to Establish a Transmission Cost Recovery Tariff	Case No.: PU-11-153
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COMMENTS of the LARGE INDUSTRIAL GROUP

I. INTRODUCTION

Goodrich Corporation, Cargill Corporation, Cavendish Farms, Inc., Archer Daniels Midland Company, ComDel Innovation, Tharaldson Ethanol LLC, Enbridge Energy LP and PrimeWood, Inc., (the "LIG" or "Large Industrial Group"), appreciates this opportunity to provide Comments in this Transmission Cost Recovery Tariff proceeding. The Large Industrial Group are ratepayers of Otter Tail Corporation ("OTP") that will pay a significant portion of the proposed rider submitted to the North Dakota Public Service Commission (the "Commission") and, therefore, offer these Comments.

OTP's Petition requests an increase in rates through the Transmission Cost Recovery Tariff ("Transmission Rider"). The LIG's comments are limited to two issues. First, allocation of costs within the Large General Service ("LGS") class or rate design concerns, and second, the inclusion of costs associated with CAPX2020 - whether 100% of the costs and revenues are included in the Transmission Rider ("All-In") method or whether only a portion of those costs and revenues are included ("Split") method.

The LIG recommends a demand based charge for recovering costs from the LGS ratepayer class and the All-In method for investments in CAPX2020.

I. DEMAND CHARGE FOR THE LGS CLASS

With respect to rate design and allocation of these costs within the LGS class LIG maintains that these investments are capacity related and are added to meet a customer's demand. Demand allocation is how these costs are allocated at FERC and otherwise within the industry, it is how OTP proposes to allocate these costs among the classes and LIG believes it is appropriate to allocate the costs consistently, according to demand within its class. It is LIG's understanding that the parties involved in this proceeding are in agreement that using a demand charge for the LGS class is appropriate and acceptable.

II. ALL-IN METHOD FOR INVESTMENTS IN CAPX2020

For calculating the costs and revenues associated with the CAPX2020 lines, LIG supports use of the All-In method. The following reasons support the recommendation for the All-In method:

- **Our analysis indicates that the inclusion of one hundred percent of the costs and revenues is economically beneficial to ratepayers from a relative standpoint, both in the short term and based on net present value over the life of the projects.** Attachment 1, page 1 shows that ratepayers will pay close to \$540,000 less in revenue requirements using the All-In Method compared to the Split method for 2011 and 2012. Attachment 1, page 2 shows the NPV results using three approaches for estimating rate impacts by changing the treatment of an O&M adder (additional profit) to FERC approved recovery:

1. **Current treatment of O&M adder.** Lines 1 through 4 show the calculations and results for the O&M adder treatment currently in place at MISO for reliability projects such as Fargo and Bemidji. With this current O&M adder treatment, the All-In method is the most favorable compared to the Split method since the MISO

tariff allows the O&M adder to result in a stronger incentive (it is tied to the gross plant associated with the transmission lines)

2. MVP type treatment for O&M adder: Lines 5 through 8 show the calculations and results for the O&M adder treatment recently approved for MVP projects within MISO. Under this treatment, the O&M adder is tied to the accumulated depreciation (instead of gross plant as mentioned under #1) and hence results in lesser profits for the All-In method as well as the Split method. It is likely that at some point in the future, the treatment of the O&M adder for reliability projects such as Fargo and Bemidji will be similar to what FERC recently approved for MVP projects.
3. OTP O&M adder treatment: Lines 9 through 12 shows the calculation and results for the OTP O&M adder treatment provided in response to LIG-11 that excludes the O&M adder entirely. This treatment is not prevalent today.

As can be seen in the Attachment, under all three O&M scenarios the results are more favorable under the All-In method compared to the Split method

- **Returning all the revenues act as a good hedge against Schedule 26 expenses.** As can be seen in Attachment 1, page 1, under the All-In method for the 2011/2012 revenue requirements, the net Schedule 26 revenue in Line 3 is \$1.24 million whereas under the Split method, there is a net Schedule 26 expense of just over \$204,000.
- **The All-In Method has more transparency and simplifies future filings and auditing of expenses and revenues.** It would simply apply MISO Schedule 26 costs and revenues to

ratepayers with no adjustments and ensures that OTP is not under recovering at the same time provides protection for ratepayers that they are not overpaying for these costs.

CONCLUSION

LIG appreciates this opportunity to comment in this proceeding and for the reasons stated herein supports a demand charge for cost recovery within the LGS class, as well as supports the “All-In” method for calculating the overall costs associated with the Fargo and Bemidji CAPX2020 investments.

Comparison of All in Method and Split Methods for OTP's Proposed Revenue Requirements

Line No:		All In Method	Split Method	Difference (all in method minus split method)
1	Sch 26 Expenses	\$3,903,294	\$3,903,294	\$0
2	Sch 26 Revenues	-\$5,146,369	-\$3,699,202	-\$1,447,167
3	Net Schedule 26	-\$1,243,075	\$204,093	-\$1,447,167
4	Rev. Req. for Capital Investment			
5	Fargo	\$1,953,980	\$1,558,783	\$395,197
6	Bemidji	\$1,365,398	\$836,306	\$529,092
7		\$3,319,378	\$2,395,089	\$924,289
8	Carrying Charge	\$57,975	\$75,037	-\$17,062
		All In Method	Split Method	
9	Net Rev. Req.(Line 3+ Line 7+ Line 8)	\$2,134,279	\$2,674,219	-\$539,941

**NPV Analysis comparing All-In Method and Split Method using Current Treatment,
MVP Treatment and OTP Treatment of O&M Adder in Attachment GG**

Line No:		SPLIT METHOD	ALL IN METHOD	Difference (ALL IN MINUS SPLIT)
1	Current Method			
2	NPV of Revenue Req. (Fargo and Bemidji)	\$38,806,281	\$51,315,355	\$12,509,073
3	NPV of Sch. 26 Revenues	\$58,268,053	\$77,348,820	\$19,080,767
4	Net Rev. Req (line 3 - line 2)	(\$19,461,772)	(\$26,033,465)	(\$6,571,693)
5	Current MVP Method			
6	NPV of Revenue Req. (Fargo and Bemidji)	\$38,806,281	\$51,315,355	\$12,509,073
7	NPV of Sch. 26 Revenues	\$43,001,824	\$57,149,160	\$14,147,336
8	Net Rev. Req (line 7 - line 6)	(\$4,195,543)	(\$5,833,805)	(\$1,638,262)
9	OTP Method (UG-11)			
10	NPV of Revenue Req. (Fargo and Bemidji)	\$38,806,281	\$51,315,355	\$12,509,073
11	NPV of Sch. 26 Revenues	\$39,076,828	\$51,945,417	\$12,868,589
12	Net Rev. Req (line 11 - line 10)	(\$270,547)	(\$630,062)	(\$359,515)

Assumptions

- a. NPV analysis for the life of Fargo and Bemidji
- b. Year by year revenue requirements for the capital investments for Fargo and Bemidji provided by OTP
- c. Year by year Schedule 26 revenues calculated by using Attachment GG methodology provided by OTP; the year by year Schedule 26 revenues are solely for Fargo and Bemidji
- d. Since Schedule 26 expenses will be the same for the All In and Split methods, those are not considered in the analysis
- e. Discount rate used is 8.62%, overall current return approved for Otter Tail in North Dakota