

**STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION
STAFF RESPONSE**

March 9, 2012

**Otter Tail Power Company
2012 Renewable Resource Cost Recovery
Factor Adjustment
Tariff**

Case No. PU-12-24

Application Background Information

The purpose of the renewable resource rider is to provide Otter Tail with cost recovery and a return on its renewable wind energy investments.

The 2012 Renewable Resource Cost Recovery Factor Adjustment (RRA) is proposed to become effective April 1, 2012, and replaces the current RRA that has been in effect since September 1, 2010. The 2012 RRA includes estimated revenue requirements and sales for the 12 months ending March 31, 2013 for Otter Tail's investments in the Langdon, Ashtabula, and Luverne Wind Projects. In addition, the RRA includes a true-up provision for the difference between past revenue requirements and actual cost recoveries to ensure no more and no less than 100% recovery.

The deadline for intervention provided for in the commission's Notice of Opportunity for Hearing was March 7, 2012, and no petitions have been received.

Advocacy Staff's Analysis

The revenue requirement for the 2012 RRA is calculated using the same methodology as in previous filings and includes no new wind projects. Included in the revenue requirement calculation is a deferred uncollected amount of \$337,256 from 2008 and part of 2009 as approved by the Commission in Case Nos. PU-08-862 and

PU-09-742. The deferred balance is being amortized over 48 months ending April 1, 2014. Including the amortized amounts related to the deferral as well as the under-recoveries and over-recoveries of the past, Otter Tail seeks to recover a total of \$10,158,012 from its 2012 RRA.

In its application, Otter Tail uses the energy allocation factor approved for its most recent rate case (PU-08-862) of 41.018% to determine North Dakota's share of total revenue requirements. Based on the Settlement Agreement in Case No. PU-08-742 and MISO's current wind capacity accreditation of 24.47%, Otter Tail is proposing a rate of \$.705 per kW and \$.0041 per kWh for its large general service customers based on their share of energy and capacity. The remaining customers will be charged a straight energy charge of \$.00556 per kWh compared to the current rate of \$.00551 resulting in a 4¢ increase per month for an average residential customer.

Following are some additional comments for clarification:

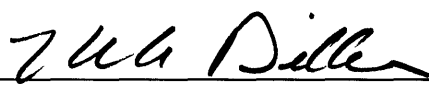
- On Page 5 at the end of the first paragraph, please note that the revenue requirement proposed in this case covers a period of 12 months whereas the revenue requirement in the last RRA covers a period of 19 months. If you do not note this, it will seem odd that the proposed revenue requirement is more than \$5 million less yet the proposed RRA increases slightly.
- The tax section beginning on Page 6 indicates that Otter Tail will not be able to make use of all potential tax deductions because it expects 2011 and 2012 net operating losses for **income tax purposes**. This is caused primarily because of the large deductions for production tax credits and bonus depreciation. Net operating losses are not expected for regulated

book purposes since assets are depreciated ratably over the life of the asset rather than the accelerated depreciation methods for tax purposes.

- The allocation section beginning on Page 7 indicates that an error was identified in Otter Tail's last filing and corrected in this application. Staff agrees and the true-up provision of the RRA mechanism will self correct for this mistake.
- The chart on Page 9 depicts a column labeled "production percentage." These numbers indicate each farms share of Otter Tail's total owned wind generation and therefore the three numbers add up to 100%. The next column "Capacity Credit" indicates MISO's determination of capacity available at each wind farm during peak use times. All three of the wind farms produced power in excess of 40% capacity for 2011 but not always at peak times. The Luverne accreditation is low because MISO uses a 3 year average and Luverne did not come on line until September, 2009. The expectation is that it will have similar numbers compared to Langdon and Ashtabula in the next filing. MISO's low accreditation for the Luverne wind farm does not significantly impact rate design between classes.

Advocacy Staff's Recommendation

Advocacy Staff recommends that the Commission approve the application. It has reviewed and approved of the bill message customers will receive. A motion and order have been placed on the March 21, 2012, agenda for approval.



Mike Diller