STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION
STAFF RESPONSE

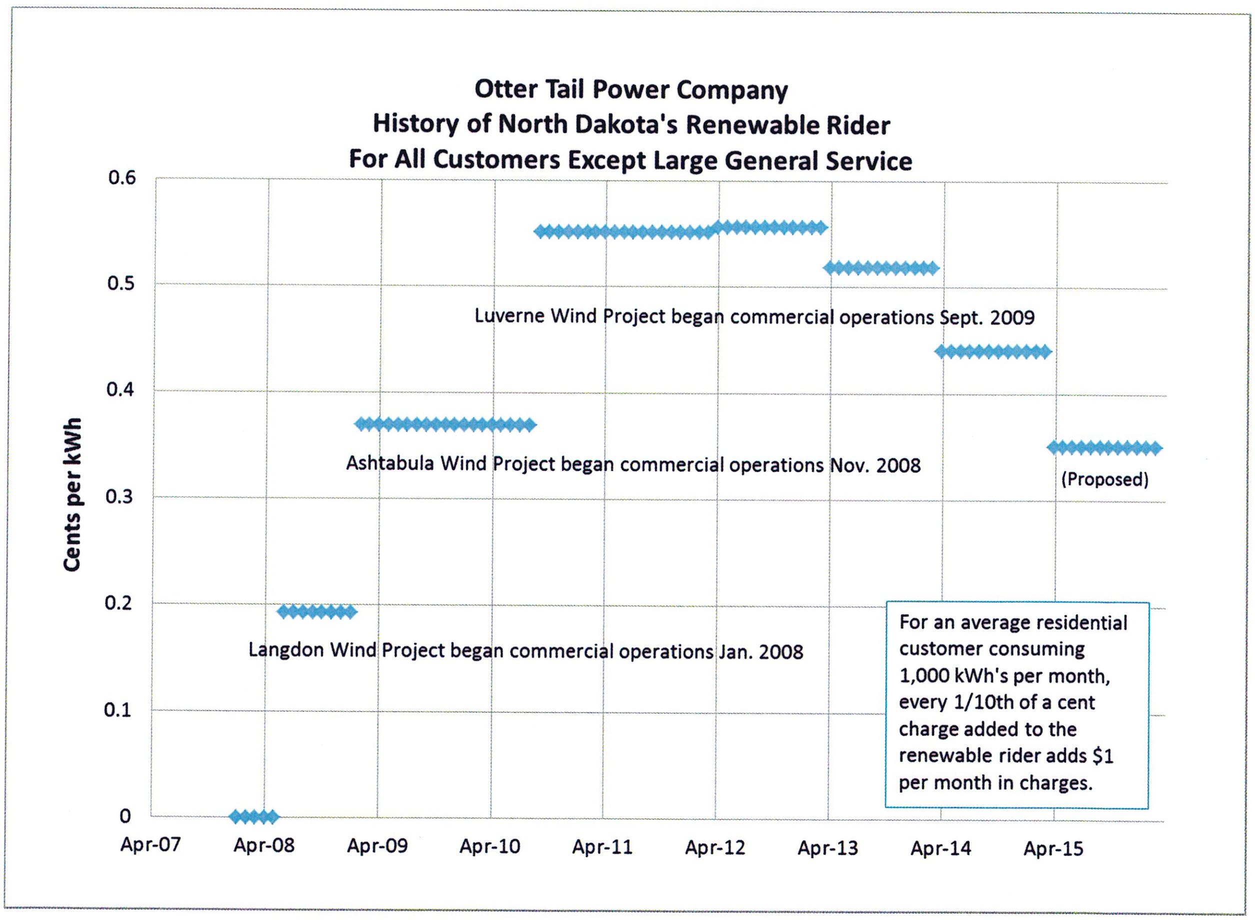
March 5, 2015

Otter Tail Power Company
2015 Renewable Resource Cost Recovery Factor Adjustment Tariff

Case No. PU-15-14

Application Background Information

The purpose of the Renewable Resource Adjustment (RRA) is to provide Otter Tail Power Company (Otter Tail) with cost recovery and a return on its renewable wind energy investments; namely the wind farms of Langdon, Ashtabula and Luverne. The following graph depicts the monthly rider rates approved since inception and the new proposed rate.



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Memorandum
Public Service Commission Staff
Mike Diller

As can be noted from the above chart, the RRA continued to increase as new wind farms were brought on line peaking at .556 cents per kWh in 2012. Since then, the RRA has been decreasing. The reductions are occurring as plant is depreciated and the Company is able to take advantage of early tax benefits such as accelerated depreciation, production tax credits and investment tax credits. The need for cost recovery has also been offset through the selling of Renewable Energy Credits totaling nearly $1 million since inception (North Dakota's share).

On December 31, 2014, Otter Tail filed its 2015 RRA. The 2015 RRA will become effective April 1, 2015, and replace the 2014 RRA that has been in effect since April 1, 2014. The 2015 RRA includes estimated revenue requirements and sales levels for the year ending March 31, 2016. In addition, the 2015 RRA includes a true-up provision for the differences between actual revenue requirements and actual cost recoveries in the past to ensure no more and no less than 100% recovery.

Staff's Analysis

The North Dakota revenue requirement for the 2015 RRA is $5,441,178 or $2,626,488 less than last year. Otter Tail notes that some of the reduction is due to a colder than normal 2013/2014 winter resulting in higher sales and therefore higher RRA collections; and a higher use of production tax credits. The revenue requirement is calculated by using the same methodology as in previous filings and includes no new wind projects.

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 the wind farms' total revenue requirements. The following table depicts the difference between the energy allocation factor used for North Dakota in calculating the revenue requirement for the RRA since inception and the actual share of energy used by North Dakota customers. As can be seen below, the ordered rate has generally been a net benefit to North Dakota customers in comparison to North Dakota's actual share of energy consumed.

	Energy Allocation Factor		
Year	Ordered	Actual	Difference
2008	38.830%	38.34%	0.49%
2009	38.830%	40.33%	-1.50%
2010	41.018%	40.95%	0.07%
2011	41.018%	42.22%	-1.20%
2012	41.018%	41.38%	-0.36%
2013	41.018%	42.22%	-1.20%

In the past, Otter Tail has used both a demand and energy charge to recover renewable costs from its large general service customers and an energy charge only for all remaining customers. In this filing, Otter Tail proposes to use a percent of bill approach for renewable cost recoveries similar to the method approved for its Environmental Cost Recovery Rider. Staff has been supportive of the percent of bill method because it results in no change to existing rate design and is easier to explain and administer.

Staff's Recommendation

Staff has reviewed the filing and concludes that it is in order and fairly represents the costs of the wind farms. We recommend that the Commission approve the application and will put a motion on the March 25, 2015 agenda for approval once the Notice of Opportunity for Hearing deadline expires on March 20, 2015.

M. Diller

Mike Diller, Director of Economic Regulation