

# Memo

To: Darrell Nitschke, Executive Secretary  
From: Mike Diller, Director of Economic Regulation  
Date: June 2, 2015  
Re: **Big Stone & Hoot Lake Environmental Cost Recovery Rider  
Otter Tail Power Company, Case No. PU-15-131**

## Brief History of Case

On May 9, 2012, Case No. PU-11-165, the commission granted Otter Tail Power Company (Otter Tail) an Advanced Determination of Prudence (ADP) for the Air Quality Control System (AQCS) at the Big Stone Plant except for the portion regarding the deployment of Selective Catalytic Reduction Technology (SCR) for the removal of nitrogen oxides. The total project cost including SCR was estimated to be \$489 million. Otter Tail owns 53.9% of the Big Stone Plant and is therefore responsible for 53.9% of the total project costs.

On December 18, 2013, Case No. PU-13-84, the commission approved the first Environmental Cost Recovery (ECR) rider for the Big Stone AQCS in accordance with North Dakota's law (49-05-04.2) providing for cost recovery of federal environmental mandates including initial costs for SCR amounting to a 4.319% surcharge on customers' bills effective January 1, 2014. The total estimated project cost was revised downward to \$405 million due to redesign efforts, reuse of existing plant, favorable market conditions, internal management of the project, and budget reductions for contingencies.

On July 15, 2014, Case No. PU-14-142, the commission approved Otter Tail's first update to the ECR rider increasing it to a 7.531% surcharge on customers' bills effective August 1, 2014 and further reduced the total estimated project cost to \$384 million. The actual costs incurred through February 2014 were \$175 million with a projected balance at the end of June 2015 of \$353 million.

## Current Proceeding

On March 31, 2015, Otter Tail requested to update its rider for the Big Stone AQCS plus additional costs related to the Mercury and Air Toxics Standards (MATS) project at its Hoot Lake Plant. The proposed rider will increase to a 9.193% surcharge on customers' bills effective July

1, 2016. The rider is based on estimated costs through June 2016 which are trueed up during the next rider as necessary. In this filing, additional costs of \$327,575 are included as a true-up adjustment for last year. The actual costs for AQCS incurred through January 2015 were \$277 million with a projected balance at the end of June 2016 of \$384 million.

#### Recommendation

Staff has reviewed the application and recommends approval of the proposed rate. Staff will prepare a motion for the next meeting to approve the tariff revisions as filed. Attachment 2 of Otter Tail's application summarizes the revenue requirements associated with AQCS and the MATS project at the Hoot Lake Plant. Attachment 5 of Otter Tail's application divides the total estimated revenue requirements by estimated revenues to arrive at a percentage of revenue rate increase necessary for recovery of these costs. Any differences in estimated costs or revenues will be rectified through the tracker in next year's filing.

#### Impact to Customers

Otter Tail continues its "percent-of-bill" method of recovery resulting in a surcharge of 9.193% on most of the electric bill components. The rate surcharge does not apply to certain rider charges as described in the tariff such as the Energy Adjustment Rider, Renewable Resource Rider and the Transmission Cost Recovery Rider to avoid assessing a rider on a rider. **The proposed rider in this proceeding will increase the average monthly residential bill by \$1.47 for customers using 1,000 kWh.**

#### Review

The AQCS project is expected to be completed by October 2015 for about \$105 million less than originally estimated and approved by the commission based on least cost planning. That said, staff will conduct a review of the total project costs after the project is complete. Staff understands that a review of costs for reasonableness and prudence is separate and apart from the granting of ADP. Any adjustments resulting from that final review will be factored into the final setting of rates for cost recovery once the project is complete.

On June 2, 2014, the EPA released its proposed Clean Power Plan to reduce carbon emissions 30% by 2030 as compared to 2005 levels. It appears that the new rules could impact the run time of Big Stone. However, Otter Tail and the other owners of Big Stone remain optimistic that the Clean Power Plan State Implementation Plans for North Dakota and South Dakota in concert with other mitigation measures will allow for the continued operation of Big Stone. It would make absolutely no sense for EPA to require an expenditure of nearly \$400 million for AQCS only to suggest through another rule that it should be ran less. Staff remains hopeful

that, in the end, some level of common sense will prevail at the EPA and the AQCS upgrades will be fully utilized through the economic dispatch of Big Stone. Otter Tail estimates that the total rate increase for Big Stone AQCS, Hoot Lake MATS and additional reagents for Big Stone, Hoot Lake and Coyote stations approved in PU-14-668 will be approximately 10.5% once all costs are reflected on customers' bills. The Notice to customers aptly explains the cause and effect of these expenditures as illustrated in Otter Tail's application, Attachment 1.

The MATS project at Hoot Lake power plant has been completed for less than \$7 million compared to the original estimate of \$10 million and will allow the plant to continue operating until 2020.

The Notice of Opportunity for Hearing requires that comments and requests for hearing must be received by June 5, 2015. No comments or requests for hearing have been made. Absent the filing of legitimate concerns or requests for hearing, staff will include a motion on the June 17, 2015 agenda to approve Otter Tail's application.