

**STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION**

**Otter Tail Power Company
2016 Renewable Resource Cost Recovery Adj. Factor
Rates**

Case No. PU-16-14

FINDINGS OF FACT, CONCLUSIONS OF LAW AND ORDER

June 22, 2016

Appearances

Commissioners Julie Fedorchak, Randy Christmann and Brian P. Kalk

Bruce Gerhardson, Associate General Counsel, Otter Tail Power Company, PO Box 496, Fergus Falls, Minnesota 56538-0496, on behalf of Otter Tail Power Company.

John Schuh, Legal Counsel, Public Service Commission, State Capitol, 12th Floor, 600 E. Boulevard Ave. Dept. 408, Bismarck, North Dakota 58505-0480, on behalf of the North Dakota Public Service Commission Advocacy Staff.

Janet Demarais Seaworth, Administrative Law Judge, Office of Administrative Hearings, 2911 N 14th St., Suite 303, Bismarck North Dakota 58503, as Procedural Hearing Officer.

Preliminary Statement

On December 31, 2015, Otter Tail Power Company (Otter Tail) filed an application for approval of its 2016 Renewable Resource Cost Recovery Adjustment Factor under the company's Renewable Resource Cost Recovery Rider rate schedule. Otter Tail noted in the Application that federal legislation approving an extension of bonus depreciation for tax for 2015 and subsequent years was passed on December 18, 2015 and that it would need to assess the impact of that legislation on the revenue requirement for the recovery period requested.

On January 20, 2016, the Commission suspended Otter Tail's proposed 2016 Renewable Resource Cost Recovery Adjustment Factor and issued a Notice of Opportunity for Hearing, which provided until March 1, 2016 for filing comments or requests for hearing.

On February 26, 2016, Otter Tail made a supplemental filing to update its application to reflect the impact on the Renewable Resource Cost Recovery Rider revenue requirement caused by federal legislation approving bonus depreciation for calculating income tax.

On March 23, 2016, the Commission issued a Notice of Hearing, scheduling a public hearing on the updated application for April 27, 2016 at 9:00 a.m. in the Commission Hearing Room on the 12th Floor of the State Capitol, 600 East Boulevard Ave., Bismarck, North Dakota 58505. The Notice identified the issue to be considered as whether the updated renewable rider or some other level of cost recovery should be adopted by the Commission.

On April 27, 2016, a public hearing was held as scheduled.

Having allowed all interested persons an opportunity to be heard, and having heard, reviewed and considered all testimony and evidence presented, the Commission makes the following:

Findings of Fact

1. Otter Tail is a Minnesota corporation and a public utility authorized to provide electric service to retail electric customers in North Dakota.
2. Otter Tail's Renewable Resource Cost Recovery Rider is a rate schedule intended to impose rates to recover the costs of certain renewable energy production. The rider uses an annually updated customer billing adjustment factor to recover projected annual expenses with a balancing mechanism to true-up projected amounts to the actual expenses incurred. Otter Tail has similar rate schedule riders for recovery of transmission and environmental compliance expenses.
3. In its initial 2016 Renewable Resource Cost Recovery Adjustment Factor filing Otter Tail requested approval of a 2016 renewable revenue requirement of \$7,088,584, including a true-up balance from 2015 of \$322,071, thus increasing the adjustment factor from 4.069 percent to 5.320 percent.
4. Otter Tail's supplemental filing requested approval of a 2016 renewable revenue requirement of \$9,261,555, including a true-up from 2015 of \$1,768,795, thus further increasing the adjustment factor to 7.573 percent. The billing impact for a typical residential customer using 1,000 kWh per month would be approximately \$3.03.
5. Otter Tail explained in its supplemental filing that the increased renewable revenue requirement was the result of December 18, 2015 federal legislation allowing

bonus tax depreciation that created a tax net operating loss position for Otter Tail's 2015 tax year. As a result, federal wind production tax credits previously projected to be taken for 2015 need to be deferred to future years in order to take advantage of the bonus tax depreciation available for 2015. This deferral causes the renewable revenue requirement previously projected for 2015 to be low resulting in an under recovery of actual 2015 expenses and a corresponding increase in the 2016 true-up adjustment.

6. Otter Tail further explained that the new federal legislation enabled Otter Tail to take bonus tax depreciation on significant 2015 investments causing decreases to its transmission and environmental compliance riders, including its 2016 Environmental Cost Recovery Rate currently pending before the Commission in Case No. PU-16-148.

7. Commission Advocacy Staff and Otter Tail both testified at the hearing that they reached an agreement to adjust, effective as of May 1, 2016, the return on equity used in calculating the Renewable Resource Cost Recovery Adjustment Factor from 10.75 percent to 10.5 percent and to adjust the jurisdictional E2 factor from the currently authorized 41.018 percent to 39.209 percent. These adjustments were requested by Advocacy Staff to address concerns regarding the level of Otter Tail's overall 2015 and potential future earnings. Incorporating these changes effective May 1, 2016 reduces the renewable revenue requirement by approximately \$442,000 annually.

8. The Commission finds Otter Tail's February 26, 2016 supplemental filing of its updated 2016 Renewable Resource Cost Recovery Adjustment Factor as modified under its agreement with Advocacy Staff is reasonable and should be approved.

Based on the foregoing Findings of Fact, the Commission issues its:

Conclusions of Law

1. The Commission has jurisdiction of this matter.
2. Otter Tail's updated 2016 Renewable Resource Cost Recovery Adjustment Factor as modified under its agreement with Advocacy Staff is reasonable and should be approved.

Based on the foregoing Findings of Fact and Conclusions of Law, the Commission issues its:

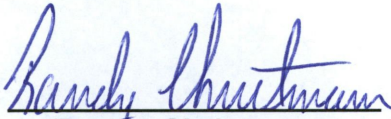
Order

The Commission orders:

1. Otter Tail's 2016 Renewable Resource Cost Recovery Adjustment Factor as updated in its February 26, 2016 supplemental filing and adjusted as ordered below is approved to be effective for bills rendered on or after July 1, 2016.

2. Otter Tail shall adjust the return on equity used in calculating the 2016 Renewable Resource Cost Recovery Adjustment Factor from 10.75 percent to 10.5 percent and shall adjust the jurisdictional E2 factor from 41.018 percent to 39.209 percent. These adjustments must be made in the Renewable Resource Cost Recovery Rider tracker account with an effective date of May 1, 2016.

PUBLIC SERVICE COMMISSION



Randy Christmann
Commissioner



Julie Fedorchak
Chairman



Brian P. Kalk
Commissioner