

MEMORANDUM

To: Commissioners Fedorchak, Christmann and Kalk
From: Sara Cardwell *SC*
Date: November 22, 2016
Re: Briefing Memo for Informal Hearing, Case No. PU-16-624
Otter Tail Transmission Facility Cost Recovery Rider

Otter Tail filed its 2017 annual update of its Transmission Facility Cost Recovery (TCR) rate on September 1, 2016. On November 30, 2016, the Company will discuss its case in more detail at an informal hearing.

The purpose of this memo is to provide background on the Company's filing prior to the informal hearing. The original filing requested approval of a 2017 TCR revenue requirement of \$5.7 million which included a true-up of estimated over-collections of \$2.6 million for 2016. The large over collection in 2016 is due to bonus tax depreciation, lower than anticipated SPP expenses and an adjustment for the MISO ROE complaint.

Because of the size of the over-collection, the Company refiled its adjustment revenue requirement on September 14, 2016 to spread the return of the over collection to customers over a two year period and help keep the rates to customers more stable. The resulting revenue requirement is \$6.9 million, a \$3.1 million decrease from the current adjustment. The typical residential electric customer, using 1000 kWh, will see a decrease in their monthly bill of \$2.05 per month.

Otter Tail is adding costs for three new transmission projects in 2017 and has removed the costs associated with the Rugby to Harvey 115 kV project to further study the effects of changes that have already been made. The three new projects are as follow:

- Max to Ryder 41.6 kV Line Upgrade – improvements include replacing poles and insulators, moving structures out of deep water and re-conductoring with anti-galloping conductor.
- Rugby 41.6 kV Breaker Station – This is an expansion of the Rugby substation to enhance reliability.
- Granville Junction Breaker Station – This project adds a breaker station at the interconnection of three existing transmission lines and improves reliability by decreasing the exposure from the existing mileage between stations.

In September of 2016, I sent the Company four information requests. Two of the requests were similar to questions asked in regards to the Company's renewable and environmental rider filings that became effective earlier this year. The first question was that of the D2 allocation factor and whether or not the 2008 rate case factor is still the applicable factor. The 2008 D2 Factor is 41.25725%. The D2 Factor that the Company reported in its 2015 annual report is 41.528%. The D2 Factor that would result from the Company's pending Minnesota General Rate Case, if approved would be 40.034% As

a result, the 2008 D2 factor seems to still be appropriate as it is in the middle of the range of the 2015 factor and the proposed MN rate case factors.

The second question was in regards to the Company's return on equity (ROE) used in the rider. The Company has not filed a general rate case since 2008 so the ROE that has been granted to the Company is much higher than the ROEs that this Commission and other commissioners around the country have been granting recently. In response to this question, the Company stated that it has looked at its year to date ND cost of service and estimates that it will actually earn a 9.75 ROE in 2016 which is in the same range that the Company would be granted if it were to file a rate case. Seeing the Company has the lowest rates of any of the investor owned utilities in the state, Staff finds there is no need to request the Company adjust its filing for ROE.

In regards to the industrial customer complaint at FERC regarding the ROE that was being used in the formula rates of MISO transmission owners, an order lowering the ROE was issued on September 28, 2016. The Company provided an estimate of the impact of this change for 2017. The Company believes the change would lower the proposed revenue requirement by \$100,000. Because not all elements of the potential change are known and the amount is currently estimated as a small decrease, Staff does not believe that the Company needs to revise its filing.

My recommendation is that the Commission approve the Company's revised filing submitted on September 14, 2016.

C: Bryce Haugen