

# MEMORANDUM

To: Commissioner Christmann  
Commissioner Fedorchak  
Commissioner Kroshus  
From: Sara Cardwell SC  
Date: June 15, 2017  
Re: Briefing Memo, Case No. PU-17-122  
Otter Tail 2017 Environmental Cost Recovery Rider

Otter Tail filed its annual update of its Environmental Cost Recovery Adjustment Charge (ECRC) rate on March 31, 2017. The Company proposed the rider recovery period start on July 1, 2017 and continue through June 30, 2018. The purpose of this memo is to provide background on the Company's filing. The filing requests approval of a 2017-18 Environmental Cost Recovery Rider revenue requirement of \$9.9 million, including a true-up of estimated over-collections of \$89,809 for 2016-17. The revenue requirement is a decrease of \$440,000 from last year's filing.

There are no new projects proposed for recovery in the filing. Recovery for the Big Stone Air Quality Control System (AQCS) Project was first approved by the Commission on December 18, 2013 and became effective on January 1, 2014. The Company requested approval of the Hoot Lake Plant Mercury and Air Toxics Standards (MATS) Project in its 2015 filing that became effective on July 1, 2015.

The Commission issued a notice of opportunity for hearing in this case on April 26, 2017 that ended on June 7, 2017. No requests for a hearing were received. However, the Commission scheduled an informal hearing in this case for June 27, 2017 at its April 26, 2017 administrative meeting.

Because the Company has not filed a general rate case for a number of years, I sent similar information requests to the Company asked in other recent rider filings. These requests concerned the Company's return on equity (ROE) in 2016 and the allocation factors used in this case. The ROE granted to the Company in 2008 is much higher than the ROEs that this Commission and other commissions around the country have been granting recently. The Company's actual ROE as reported in its 2016 annual report was 9.95%. Using this ROE versus the 2008 ROE would reduce the Company's revenue requirement request. If the Company were to update its allocation factors in the filing, these would also reduce the proposed rate.

However because the Company does have the lowest rates of the investor owned utilities in the state, is planning to file a rate case within the next year or so and does update the actual costs to ND based on actual allocation factors, the customers are not harmed by using higher allocation factors in the rider calculation. The Company could argue that if we required a lower ROE on their riders, it could have driven them into a

rate case earlier and there should be some benefit to having the lowest rates in the state.

I will be drafting an order for Commission consideration at the July 13, 2017 Commission meeting for a possible August 1, 2017 implementation date. Please let me know if you have any questions.

C: Bryce Haugen