


Memorandum

To: Commissioners, Randy Christmann, Julie Fedorchak, and Brian Kroshus

From: Victor Schock - Public Utility Analyst (Advocacy Staff in this proceeding)

Date: December 21, 2017



Re: Otter Tail Power Company, Economic Development, Tariff

Case No. PU-17-238

On May 30, 2017 Otter Tail Power Company (OTP) filed an application for approval of a new Economic Development Rider (EDR).

The EDR provides a mechanism for OTP to provide new or expanding large customers who meet the requirements stated in the tariff with a discount on the standard applicable rate schedule for up to 5 years. The discount would be based upon the incremental cost of providing service to the customer. The incremental cost would include both the cost of energy and the cost of system upgrades including a rate of return on investment necessary to serve the load. Once those specific costs are determined, OTP's proprietary calculation method determines the difference between the standard applicable rate versus the actual cost. If the result demonstrates the actual cost to be less than the standard rate it will propose offering a discount. The discounted rate would not be less than the actual costs, and would be applicable for no more than five years with gradual steps each year taking the discounted rate closer to the standard rate.

OTP's proprietary calculation method is very detailed and complex, which is necessary to calculate a true cost of service.

The proposed tariff requires the commission to approve the specific rate discount to be offered to any customer.

An argument could be made that this new tariff should be included in OTP's current general rate case proceeding rather than a separate case. However, I believe it would be appropriate to approve this tariff outside of that proceeding. The company does not have current plans to use the proposed tariff, but even if they did per the tariff language the potential contract would require commission approval before it can be implemented. Additionally, due to the innovative way the calculation of a potential discount is made, the resulting discount would not have an impact on existing customers and therefore would also have no impact on the overall or class revenue requirement in the general rate case. For these reasons I believe any potential discount would have no impact on the results of the current or future rate proceedings.

Staff has thoroughly reviewed and analyzed the filing and the proprietary calculation spreadsheet provided by OTP. Based on this review and analysis staff recommends approval of the proposed tariff.

C: David Prazak, OTP