

# Memorandum

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

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

Date: August 10, 2018

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).

On August 7, 2018 OTP filed a revised EDR that takes into account issues raised by Commissioners and staff during this proceeding.

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.

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 revised tariff.

C: David Prazak, OTP