

MEMORANDUM

To: Commissioners Christmann, Fedorchak and Kroshus
From: Sara Cardwell SC
Date: November 18, 2017
Re: Briefing Memo for Case No. PU-17-340
Otter Tail Transmission Facility Cost Recovery Rider

Otter Tail filed its 2018 annual update of its Transmission Facility Cost Recovery (TCR) rates on August 31, 2017. On November 2, 2017, the Company filed a change to its proposal to incorporate the rate of return and allocation factors from its rate case filed on November 1, 2017 that decreased the revenue requirement and rates from the Company's initial filing.

The initial filing proposed a revenue requirement of \$8,592,652. The revised filing proposed a revenue requirement of \$7,958,707, a decrease of \$633,947. However, the revised filing is still an approximate increase of \$1 million over last year's filing for the following reasons:

- **Project Costs:** There is one new project, the Bagley Switch Station, comprised of three new 115kV circuit breakers that will replace the existing 115kV switches. The total project cost is \$2.8 M. It will go into service in October of 2018. There are other ups & downs in project costs but none significant. For example, the cost for the Brookings Project – a CAPX project has decreased but not significantly.
- **MISO Expenses:** OTP's retail share of the costs for projects that qualify for regional cost allocation through MISO. These costs fluctuate as spending occurs by other Transmission Owners within the MISO footprint. The change is not significant.
- **SPP Expenses:** There were higher than anticipated expenses in 2017 because of a correction in billing for 2016 load. These higher expenses will be reduced slightly as OTP was over billed by SPP in 2017. This is expected to be corrected in late 2017/early 2018. Also driving the increase is Central Power Electric Cooperative began receiving facility credits in MISO that reduce the amount of revenue that OTP receives through Schedule 9, thereby increasing the revenue requirement.
- **MISO Revenue:** Decreased mainly due to the FERC Return on Equity being adjusted (as a result of a complaint) from 12.38 percent to 10.32 percent plus a 50 basis point adder prospectively for OTP.

- Carrying Costs: Last year there was a large true-up credit. This year it is still a credit but has decreased significantly.
- True-up: The true up was a credit adjustment last year which was going to be spread over two years but because of lower than expected sales and the settlement of the FERC ROE complaint, the actual true up for 2018 is \$11,354. So it was good that the Commission decided to only return ½ of the overcollection last year in anticipation of the settlement of the FERC complaint.

The FERC complaint was brought forth by non-transmission owners in MISO that objected to the rate of return FERC had allowed MISO. The FERC lowered the rate of return as a result of this complaint which affected all transmission owners in MISO. There is a second ROE complaint that is still outstanding.

My recommendation is that the Commission approve the Company's revised filing submitted on November 2, 2017.