

STAFF MEMO TO THE FILES

**Otter Tail Power Company
2017 Electric Rate Increase
Application**

PU-17-398

**Otter Tail Power Company
2017 Transmission Facility Cost Recovery (2018)
Rates**

PU-17-340

**From: Patrick Fahn
Date: February 28, 2018
Subject: OTP Cost Recovery Riders**

On November 2, 2017, Otter Tail Power Company (OTP) filed with the Commission to increase its rates for electric service. The filing included an interim rate increase. The filing also included interim rate changes for the Transmission Cost Recovery Rider (TCRR), Renewable Resource Adjustment Rider (RRAR) and Environmental Cost Recovery Rider (ECRR) to reduce interim revenue to reflect a reduced rate of return for the riders and modified allocation factors. Without adjusting the TCRR, RRAR and ECRR to reduce the rate of return and modify allocation factors, the rate and tariff changes proposed in this Notice would result in an annual increase of non-fuel base electric revenues of \$15,715,320.

On December 20, 2017, the Commission approved, subject to refund, interim rates to apply to service rendered on or after January 1, 2018.

| | Rate before Jan 1, 2018 | Rate on and after Jan 1, 2018 |
|--|----------------------------|---|
| Transmission Facility Cost Recovery (residential service) ¹ | \$0.00475 per kWh | \$0.00578 per kWh (Case No. PU-17-340) |
| Renewable Resource Cost Recovery ² | 7.005% | 7.756% |
| Environmental Cost Recovery ² | 7.904% | 6.629% |

¹Different rates for other OTP customer classes

²Percentage times the customer's monthly bill (all customer classes)

The TCRR, RRAR, and ECRR are included in the rate increase proceeding because OTP proposes to move rate base investment from those riders over to base rate.

On February 15, 2018, OTP filed a petition to reduce the approved interim rates to conform to the federal Tax Cut & Jobs Act, which reduced the federal corporate income tax rate from 35 percent to 21 percent for the highest tax bracket. The request included

revisions the TCRR, RRAR, and ECRR. The Commission's February 27, 2018 Order approved rider rate changes for service rendered on and after March 1, 2018.

| | Rate on and after March 1, 2018 |
|---|---|
| Transmission Facility Cost Recovery (residential service) ¹ | \$0.00543 per kWh (Case No. PU-17-340) |
| Renewable Resource Cost Recovery ² | 7.493% |
| Environmental Cost Recovery ² | 5.993% |

¹Different rates for other OTP customer classes

²Percentage times the customer's monthly bill (all customer classes)