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218 739-8200
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March 1, 2019

Mr. Steve Kahl
Director of Administration/Executive Secretary
North Dakota Public Service Commission
State Capitol
600 East Boulevard, Dept. 408
Bismarck, ND 58505-0408

**RE: In the Matter of Otter Tail Power Company's Application for Approval of the Initial Rate of the Generation Cost Recovery Rider, Rate Schedule 13.06
Case No. PU-19-
Initial Filing**

Dear Mr. Kahl:

Enclosed are an original and seven (7) copies of Otter Tail Power Company's (Otter Tail's) Application for Approval of its Initial Rate for the Generation Cost Recovery Rider (GCRR), along with a check in the sum of \$10,000. This Application is an initial filing which sets the GCRR Charge for recovery of the previously approved Astoria Station project.

An electronic copy of this filing is being sent to the North Dakota Public Service Commission at ndpsc@nd.gov.

Should you have any questions, please feel free to contact me at 218-739-8562 or wraeder@otpc.com.

Sincerely,

/s/ WILLIAM RADER
William Rader
Rates Analyst
Regulatory Administration

kaw
Enclosures
By electronic filing and US mail

**STATE OF NORTH DAKOTA
BEFORE THE
NORTH DAKOTA PUBLIC SERVICE COMMISSION**

Case No. PU-19-

In the Matter of Otter Tail Power
Company's Application for Approval
of the Initial Rate of the
Generation Cost Recovery Rider,
Rate Schedule 13.06

APPLICATION

I. INTRODUCTION

Otter Tail Power Company (Otter Tail or OTP) submits this Application to the North Dakota Public Service Commission (Commission) for approval of its initial rate for the Generation Cost Recovery Charge (GCRC) under Otter Tail's Generation Cost Recovery Rider (GCRR or Rider), Electric Rate Schedule Section 13.06. This initial filing results in a revenue requirement of approximately \$2,720,265, and a corresponding rate of 2.547 percent.

This filing is Otter Tail's initial filing for the GCRR to recover actual and forecasted costs through June 2020 for the Astoria Station Natural Gas Plant project (Astoria Station). These costs are proposed to be recovered through the recovery period of July 2019 through June 2020. Astoria Station is a 245 MW natural gas-fired, frame-style, simple cycle combustion turbine generation facility located near Astoria, South Dakota. Astoria Station received an Advance Determination of Prudence in Case No. PU-17-140 and the recovery mechanism for Astoria Station, the GCRR, was approved in Otter Tail's most recent rate case, Case No. PU-17-398. Implementing cost recovery as the project is constructed will mitigate the magnitude of rate increase at the time the project is complete.

II. GENERAL FILING INFORMATION

Pursuant to § 69-02-02-04 of the Commission's Rules of Practice and Procedure, the following information is provided:

A. Name, address, and telephone number of the utility making the filing

Otter Tail Power Company
215 South Cascade Street
P.O. Box 496
Fergus Falls, MN 56538-0496
Phone (218) 739-8200

B. Name, address, and telephone number of utility attorney

Cary Stephenson
Associate General Counsel
Otter Tail Power Company
215 South Cascade Street
P.O. Box 496
Fergus Falls, MN 56538-0496
Phone (218) 739-8956

C. Title of utility employee responsible for filing

William Rader
Rates Analyst, Regulatory Administration
Otter Tail Power Company
215 South Cascade Street
P.O. Box 496
Fergus Falls, MN 56538-0496
(218) 739-8562

D. The date of filing and the date changes will take effect

The date of this filing is March 01, 2019. Otter Tail proposes a rate effective date of July 1, 2019.

E. Other requirements of North Dakota Rules Part 69-02-02-04

A certified copy of Otter Tail's Articles of Incorporation is on file with the Commission, as is an original certificate of good standing.

F. Customer Notification

Otter Tail will include a notice to North Dakota customers on March bills of the proposed GCRC rate. Attachment 5 is a sample of the notice.

III. BACKGROUND

Cost recovery through this Rider, and recovery of revenue requirements for the new investment is under the authority granted to the Commission under N.D.C.C. §§ 49-02, 49-05, and 49-06. On September 26, 2018, the Commission approved Otter Tail's GCRR tariff in Case No. PU-17-398.¹

Otter Tail requests in this Application to set the initial rate for the GCRC to recover actual costs incurred through January 2019 and projected costs through June 2020, pursuant to its Electric Rate Schedule Section 13.06.

The projected revenue requirement (found in Attachment 1) for Astoria Station, as allocated to North Dakota, is \$2,720,265 for the July 2019 to June 2020 recovery period.

IV. ASTORIA STATION PROJECT DESCRIPTION

Otter Tail is currently developing a 245 MW natural gas-fired, simple cycle combustion turbine near Astoria, South Dakota. Otter Tail will own and operate this generation resource once construction is complete. The project includes all associated facilities, including a short segment of natural gas pipeline necessary to interconnect to the Northern Border Pipeline, and a generation-tie line necessary to connect Astoria Station to the electric grid. The project will be designed with quick-start capability to serve a load-following function and provide for peak capacity needs. Otter Tail's Advance Prudence application for Astoria Station (Case No. PU-17-140) provides a complete description of the project and the analysis done by Otter Tail to determine the appropriateness of the project.

As discussed in Case No. PU-17-140, Astoria Station will provide: capacity, dispatchable energy, and grid support as part of Otter Tail's two-part plan² to reliably meet our customers' electric needs; replace expiring capacity purchase agreements; and allow for the 2021 retirement of the 1950s-era 140 MW Powder River Basin (PRB) coal-fired Hoot Lake Plant near Fergus

¹ *Otter Tail Power Company Application for Authority to Increase Electric Rates in North Dakota*, Case No. PU-17-398.

² Otter Tail's two-part plan consists of Astoria Station and the North Dakota-based Merricourt Wind project deemed prudent by the Commission in Case No. PU-17-141.

Falls, Minnesota.³ As noted in Case Nos. PU-17-140 and PU-17-141, Otter Tail cannot justify continuing to maintain and operate Hoot Lake Plant past 2021 given the significant balance of plant investments needed to keep such aged units and associated infrastructure operational, the potential for future environmental upgrades, and the infrequency with which the units are dispatched. Consequently, the determination was made to retire Hoot Lake Plant in 2021 and replace the plant's generation capacity.

The most recent Astoria Station quarterly construction progress report, filed in Case No. PU-17-140 on January 15, 2019, is included as Attachment 7. At the time of this application, Otter Tail has obtained all major permits, purchased and re-zoned all necessary land, entered into a generator interconnection agreement with the transmission provider, obtained the design services of an engineering firm, and entered into an agreement with a combustion turbine manufacturer for the supply of the major components of Astoria Station.

Detailed design and procurement of the balance of plant equipment and installation services will continue through 2019. Project status updates will continue to be provided on a quarterly basis in Case No. PU-17-140 through the end of the project. Construction is anticipated to begin May 2019 to support an in-service date of no later than May 2021.

Total project cost incurred thru January 2019 was \$5.9 million (OTP Total) and \$2.4 million (OTP ND). Forecasted total project cost through June 2020 is \$104.7 million (OTP Total) and (\$41.7 million (OTP ND) not including AFUDC. This request covers the period of January 2019 through June 2020 for setting the first annual rate for the GCRR for collection over the period of July 1, 2019 through June 30, 2020 (*the beginning balance includes the allowance for funds used during construction ("AFUDC") accrued up to and through December 2018*). The proposed initial collection period of July 1, 2019 through June 30, 2020 is 12 months, while the costs cover the 18-month period of January 2019 through June 30, 2020. Future Rider updates will match the collection period to the cost forecast for the same annual period. Based on information known to date, Otter Tail forecasts that the project costs will come in at or under the original budget amount of \$165 million that the Commission approved in the Astoria Station Advance Determination of Prudence proceeding.

³ The closure of Hoot Lake Plant was contemplated in OTP's 2011-2025 Integrated Resource Plan filed with the Commission in Case No. PU-10-346. The Integrated Resource Plan and associated 2012-2026 Baseload Diversification Study was filed and approved by the Minnesota Public Utilities Commission in Docket No. E017/RP-10-623.

V. REVENUE REQUIREMENTS COMPONENTS AND TRACKER

A. Components of the Revenue Requirement Calculation

Attachment 4 shows the revenue requirement calculation for the Astoria Station project included in the GCRR. The revenue requirement includes several components as described below.

- *Rate base section.* This section provides details on the amount of plant in service, accumulated depreciation (if applicable), construction work in progress (CWIP), accumulated deferred taxes including the effect of proration on Federal amounts, and a 13-month average rate base calculation.
- *Expense section.* The expenses applicable to the project are listed here and include operating costs, property taxes, depreciation, and income taxes.
- *Revenue requirements section.* This section shows the components of the revenue requirements. Included are the above-mentioned expenses and return on rate base.
- *Return on investment (cost of capital).* The return on investment utilizes the cost of capital approved in Otter Tail's most recent general rate case, Case No. PU-17-398.
- *Depreciation expense.* Depreciation expense is calculated using Otter Tail's latest composite depreciation rate.
- *Property taxes.* The property tax calculation is based on Otter Tail's composite tax rate for the jurisdiction in which the facilities are located and is calculated in accordance with the procedures specified by that state. Based on agreements with the State of South Dakota, the year after Astoria Station is in-service, the total property tax will be subject to a 5-year ramp up period where the total property tax will be multiplied by 20 percent the first year, 40 percent the second year, 60 percent the third year, 80 percent the fourth year, and 100 percent the fifth year and years forward.
- *Operation and maintenance Expense.* Otter Tail tracks operation and maintenance costs specifically related to the Astoria Station project.
- *Proration of Accumulated Deferred Income Tax (ADIT).* Once the Astoria Station project is in-service, Otter Tail will include proration of Federal ADIT. The methodology used for proration of Federal ADIT will be consistent with Otter Tail's most recent Transmission Cost Recovery Rider (Case No. PU-18-329) update and the United States Internal Revenue Service (IRS) rules related to proration, including recently issued IRS

private letter rulings. This calculation methodology is necessary in order to comply with Section 1.167(l)-1(h)(6)(ii) of the IRS regulations and to avoid a tax normalization violation.⁴

B. Tracker Balance

Otter Tail maintains a tracker account (Attachment 3) and accounting system to track and account for retail revenue requirements until all costs are fully recovered or reflected in base rates as part of a general rate case. The tracker account compares Otter Tail's North Dakota jurisdictional costs and the amount recovered through North Dakota retail revenue. The tracker account balance (either positive or negative) accrues monthly carrying charges at a rate of 1/12 of Otter Tail's cost of capital times the tracker balance.

When annual updates to the GCRR are filed, the tracker account is updated (trued-up) so that any over/under recovered amount at the end of the previous recovery period is reflected in the Rider adjustment for the upcoming recovery period. This approach ensures that no under/over recovery occurs.

VI. RATE DESIGN

The Commission approved the percent-of-bill method for the GCRC in Otter Tail's most recent North Dakota general rate case.⁵ The rate design is the calculated revenue requirement from January 2019 through June 2020 divided by the total forecasted base revenue from North Dakota electric retail customers from July 2019 through June 2020. Otter Tail proposes a GCRC of 2.547 percent of bill for the proposed recovery period. The rate design calculation is shown on Attachment 2.

VII. RATE IMPACT

The impact of the GCRR rate for a residential customer using 1,000 kWh is approximately \$1.96 per month. The following table shows the estimated monthly impact on a residential customer using 1,000 kWh and a Large General Service customer using 400,000 kWh and 1,000 kW:

⁴ See Treas. Reg. SS 1.167(l)-1(h)(6)(ii).

⁵ *Otter Tail Power Company Application for Authority to Increase Electric Rates in North Dakota*, Case No. PU-17-398. The Commission issued its Order on Settlement on September 26, 2018. The GCRR and percent of bill methodology are referenced on page 9 of the Settlement Agreement approved by the Commission.

	Average kWh's per month	Proposed Rate	Monthly Impact
Residential	1,000	2.547%	\$1.96
Large General Service	400,000 kWh & 1,000 kW	2.547%	\$492.67

The above rate is calculated based on an expected implementation date of July 1, 2019. Revenue Requirement calculations are based on January 2019 through June 2020 costs, assuming revenue collection occurs July 2019 through June 2020.⁶ The costs incurred up to January 2019 include AFUDC accrued through December 2018. If the effective date is different than July 1, 2019, Otter Tail requests the option to recalculate the rate in order to recover all approved costs over the approved recovery period.

VIII. GENERATION COST RECOVERY RIDER RATE SCHEDULE

Otter Tail's revised Rate Schedule 13.06 is provided in Attachment 6 to this application, in both legislative and non-legislative versions. In section "Determination of Generation Cost Recovery Charge" of the tariff sheet, a typographical error was found and corrected from "GCC factor" to "GCR Factor".

IX. CONCLUSION

Otter Tail respectfully requests the Commission approve the initial rate for the GCRC effective July 1, 2019.

⁶ This is consistent with the treatment approved in Otter Tail's initial Environmental Cost Recovery Rider rate setting in Case Nos. PU-13-79 & PU-13-84, where the revenue requirement period was January 2013 through March 2014, with a recovery period of July 2013 through March 2014.

Date: March 01, 2019

Respectfully submitted:

OTTER TAIL POWER COMPANY

/s/ WILLIAM RADER

William Rader, Rates Analyst

Regulatory Administration

215 South Cascade Street

P.O. Box 496

Fergus Falls, MN 56538-0496

Phone (218) 739-8562

Attachments

Attachment 1	Summary of Revenue Requirements
Attachment 2	Rate Design Calculation
Attachment 3	Project Tracker
Attachment 4	Astoria Station Project Revenue Requirement Calculation
Attachment 5	Customer Notice
Attachment 6	Generation Cost Recovery Rider, Electric Rate Schedule 13.06
Attachment 7	January 15, 2019 Quarterly Construction Progress Report

Summary of Revenue Requirements

Line No.	Revenue Requirements	2019 - 2020
1	Astoria Station	\$2,725,003
2	Carrying Cost	<u>(4,738)</u>
3	Total	<u><u>\$2,720,265</u></u>

Rate Design Calculation

Forecasted Retail Sales, all classes (July 2019 - June 2020)	\$106,794,873
Revenue Requirement (January 2019 - June 2020)	\$2,720,265
Percentage of Revenue Rate	2.547%

Otter Tail Power Company
Generation Cost Recovery Rider Tracker
North Dakota

Line No.	TRACKER SUMMARY Requirements Compared to Billed:	2018	2019												2020								
		YE Actual	January Actual	February Projected	March Projected	April Projected	May Projected	June Projected	July Projected	August Projected	September Projected	October Projected	November Projected	December Projected	YE Projected	January Projected	February Projected	March Projected	April Projected	May Projected	June Projected	Collection Period	
1	Revenue Requirements	0	69,733	69,733	69,733	69,733	69,733	69,733	69,733	69,733	69,733	69,733	69,733	69,733	69,733	836,801	314,700	314,700	314,700	314,700	314,700	314,700	2,725,003
2	Astoria Station	0	69,733	69,733	69,733	69,733	69,733	69,733	69,733	69,733	69,733	69,733	69,733	69,733	69,733	836,801	314,700	314,700	314,700	314,700	314,700	314,700	2,725,003
3	Total Revenue Requirements	0	69,733	69,733	69,733	69,733	69,733	69,733	69,733	69,733	69,733	69,733	69,733	69,733	69,733	836,801	314,700	314,700	314,700	314,700	314,700	314,700	2,725,003
4	Billed (forecast kWh x adj factor)	0	0																				
5																							
6	Difference	0	69,733	69,733	69,733	69,733	69,733	69,733	(165,176)	(172,959)	(171,585)	(121,197)	(144,019)	(158,800)	(515,336)	62,347	63,917	82,402	98,057	125,052	88,298		
7	Carrying Charge	0	0	444	891	1,341	1,793	2,249	2,707	1,673	582	(507)	(1,282)	(2,208)	7,683	(3,233)	(2,856)	(2,468)	(1,959)	(1,347)	(559)	(4,738)	
8	Cummulative Difference (True-Up)	0	69,733	139,911	210,535	281,610	353,136	425,119	262,650	91,363	(79,640)	(201,344)	(346,645)	(507,653)	(507,653)	(448,538)	(387,477)	(307,543)	(211,444)	(87,739)	0		
9																							
10	Monthly Carrying Charge		444	891	1,341	1,793	2,249	2,707	1,673	582	(507)	(1,282)	(2,208)	(3,233)		(2,856)	(2,468)	(1,959)	(1,347)	(559)	0		
11	Carrying cost		7.64%	7.64%	7.64%	7.64%	7.64%	7.64%	7.64%	7.64%	7.64%	7.64%	7.64%	7.64%		7.64%	7.64%	7.64%	7.64%	7.64%	7.64%	7.64%	
12																							
13																							
14	Forecasted Revenue								9,222,312	9,527,880	9,473,922	7,495,739	8,391,696	8,972,001	53,083,551	9,907,119	9,845,481	9,119,788	8,505,200	7,445,402	8,888,331	106,794,873	

SUMMARY		July 2019 - June 2020
Revenue requirements (Jan 2019 - June 2020)		\$2,725,003
Carrying Charge		(4,738)
Total Revenue Requirement		\$2,720,265
July 2019 - June 2020 projected revenue		\$106,794,873
Average Rate		2.547%

NOTICE TO OTTER TAIL POWER COMPANY CUSTOMERS

On March 1, 2019, Otter Tail Power Company filed an application with the North Dakota Public Service Commission to set the initial rate for the Generation Cost Recovery Rider (GCRR). We developed the GCRR to allow recovery of costs associated with Astoria Station, a natural gas-fired electricity generating plant. The proposed rate is 2.547 percent of your bill, and we'll include the cost as a part of the Energy and Renewable Adjustment line item on and after July 1, 2019.

The new rate described in this notice is proposed only, and, if suspended by the Commission, the new rate will not be effective until the Commission acts. If approved, customers can expect the following average monthly bill impacts: Residential (\$1.96 at 1,000 kWh/month), Large General Service: (\$492.67 at 400,000 kWh/month, 1,000 kW/month).

For more information contact Customer Service at 800-257-4044 or place an inquiry from our web site at otpc.com.

Attachment 6
Legislative and Non-Legislative Versions of
Tariff Sheet ND 13.06 – Generation Cost Recovery Rider

GENERATION COST RECOVERY RIDER

DESCRIPTION	RATE CODE
All Services	NGCR

RULES AND REGULATIONS: Terms and conditions of this rider and the General Rules and Regulations govern use of this schedule.

APPLICATION OF RIDER: This rider is applicable to electric service under all of the Company's Retail Rate Schedules in Section 9, 10, 11, 12, and 14, except for Section 14.09 (*TailWinds*).

COST RECOVERY CHARGE: There shall be included on each North Dakota customer's monthly bill a Generation Cost Recovery (GCR) charge based on the applicable cost recovery factor multiplied by the Customer's monthly bill. The Customer's monthly bill shall be based on all applicable charges and credits under the Company's retail rate schedules in Sections 9, 10, 11, 12, and 14, except for Section 14.09 (*TailWinds*). The GCR charge will not apply to any Mandatory Riders or sales tax and any local assessments as provided in the General Rules and Regulations for the Company's electric service. The following charges are applicable in addition to all charges for service being taken under the Company's standard rate schedules and will be included in the Energy and Renewable Adj line item on the Customer's bill.

Generation Cost Recovery Factor - ~~0.0002~~2.547 percent

DETERMINATION OF GENERATION COST RECOVERY CHARGE: The GCR Factor shall be determined by dividing the forecasted *balance of the GCR Tracker account* by the *forecasted retail revenues subject to the ~~GCR~~ Factor*. The forecasted GCR Tracker balance and retail revenues shall be based on the forecast for the appropriate 12 month period (or such other period as may be approved by the Commission). The GCR Factor shall be rounded to the nearest 0.001 percent.

GENERATION COST RECOVERY RIDER

DESCRIPTION	RATE CODE
All Services	NGCR

RULES AND REGULATIONS: Terms and conditions of this rider and the General Rules and Regulations govern use of this schedule.

APPLICATION OF RIDER: This rider is applicable to electric service under all of the Company’s Retail Rate Schedules in Section 9, 10, 11, 12, and 14, except for Section 14.09 (TailWinds).

COST RECOVERY CHARGE: There shall be included on each North Dakota customer’s monthly bill a Generation Cost Recovery (GCR) charge based on the applicable cost recovery factor multiplied by the Customer’s monthly bill. The Customer’s monthly bill shall be based on all applicable charges and credits under the Company’s retail rate schedules in Sections 9, 10, 11, 12, and 14, except for Section 14.09 (TailWinds). The GCR charge will not apply to any Mandatory Riders or sales tax and any local assessments as provided in the General Rules and Regulations for the Company’s electric service. The following charges are applicable in addition to all charges for service being taken under the Company’s standard rate schedules and will be included in the Energy and Renewable Adj line item on the Customer’s bill.

Generation Cost Recovery Factor - 2.547 percent
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DETERMINATION OF GENERATION COST RECOVERY CHARGE: The GCR Factor shall be determined by dividing the forecasted *balance of the GCR Tracker account* by the *forecasted retail revenues subject to the GCR Factor*. The forecasted GCR Tracker balance and retail revenues shall be based on the forecast for the appropriate 12 month period (or such other period as may be approved by the Commission). The GCR Factor shall be rounded to the nearest 0.001 percent.

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Attachment 7
January 15, 2019
Quarterly Construction Progress Report

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218 739-8200
www.otpc.com (web site)

January 15, 2019



Steve Kahl
Director of Administration/Executive Secretary
North Dakota Public Service Commission
State Capitol
Bismarck, ND 58505

**RE: Otter Tail Power Company's Application for Astoria Natural Gas Project.
Case No. PU-17-140
Quarterly Report - Compliance Filing**

Dear Mr. Kahl:

On November 3, 2017 the North Dakota Public Service Commission issued an Order on Settlement and approved a Settlement Agreement between Otter Tail and Advocacy Staff in the above-described case. The Settlement Agreement requires Otter Tail to "provide the Commission quarterly construction progress reports on the Astoria Project until the project is in service."

Enclosed are an original and seven (7) copies of Otter Tail's quarterly report for the quarter ending December 31, 2018. This report has also been electronically filed.
If you have any questions regarding this report, please contact me at (605) 862-6306 or at kphinney@otpc.com.

Sincerely,

/s/ KIRK PHINNEY
Kirk Phinney
Manager, Supply Engineering

mmo
Enclosures
By electronic filing and US mail

**ASTORIA NATURAL GAS PROJECT
QUARTERLY CONSTRUCTION PROGRESS REPORT**

TO THE

NORTH DAKOTA PUBLIC SERVICE COMMISSION

FOR THE

PERIOD OCTOBER 1 THROUGH DECEMBER 31, 2018

January 15, 2019

Astoria Natural Gas Project Quarterly Construction Progress Report

Otter Tail Power Company (OTP) submits this report on the Astoria Natural Gas Project in compliance with the North Dakota Public Service Commission’s November 3, 2017 Order on Settlement in Case Number PU-17-140, which requires OTP to provide the Commission quarterly construction progress reports on the Astoria Natural Gas Project until the project is in service. This report concerns project activities through December 31, 2018.

Project activities for the fourth quarter of 2018 focused on detailed design, equipment procurement, and finalizing generator interconnection and associated transmission facility construction agreements.

The chart below provides the number of major procurements identified for the project, the number of active procurements, and the number of procurements for which contracts have been executed. For clarity, active procurements are procurements whose specifications are under development, proposals have been requested, or proposals are under review.

Procurement Type	Project Total	Active	Executed
Major equipment supply agreements	10	7	1
Service agreements	6	1	2
Interconnection-related agreements	6	5	1
Site utilities	4	2	0

In the fourth quarter of 2018, OTP entered into an agreement for the supply of the combustion turbine generator. This single procurement represents a significant portion of the total project costs and drives the balance of plant’s detailed design and equipment. The generator interconnection agreement between the transmission provider, transmission owner, and the project was also executed and negotiations on all other associated major transmission-related agreements were completed. Procurement bids and lead times to date are within the project budget and schedule.

The focus for the first quarter of 2019 will be detailed design and procurement of much of the balance of plant equipment. The project team will also commence pre-construction activities consistent with various permits, along with other pre-construction planning activities.