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Fergus Falls, Minnesota 56538-0496
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August 1, 2019



Mr. Steve Kahl
Director of Administration/Executive Secretary
North Dakota Public Service Commission
State Capitol
600 East Boulevard, Dept. 408
Bismarck, ND 58505-0480

**RE: In the Matter of Otter Tail Power Company's Application for
Approval of the Annual Rate Update to Rate Schedule, Section 13.08,
Environmental Cost Recovery Rider
Case No. PU-19-**

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 Annual Update to the Environmental Cost Recovery Charge (ECRC) along with a check in the sum of \$10,000. This Application is an annual filing which updates the ECRC for recovery of previously approved projects included in the Environmental Cost Recovery Rider. Otter Tail requests the fee, pursuant to NDCC §49-05-04.2.2, be reduced to \$10,000 and is therefore submitting a filing fee of \$10,000 with this application. Otter Tail remains responsible for amounts incurred in excess of the initial filing fee of \$10,000 up to \$100,000 unless the Commission approves the fee reduction request.

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

If you have any questions regarding this filing, please contact me at 218-739-8562 or wrader@otpc.com.

Sincerely,

/s/ WILLIAM RADER

William Rader
Rates Analyst
Regulatory Administration

mmo
Enclosures
By electronic filing and U.S. mail

1 PU-19-292 Filed 08/01/2019 Pages: 19
Annual Update to Environmental Cost Recovery Charge (ECRC)
Otter Tail Power Company
William Rader, Rates Analyst

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

**In the Matter of Otter Tail Power
Company's Application for Approval
of the Annual Rate Update to Rate
Schedule, Section 13.08,
Environmental Cost Recovery Rider**

Case No. PU-19-

APPLICATION

I. INTRODUCTION

Otter Tail Power Company (Otter Tail or Company) hereby applies to the North Dakota Public Service Commission (Commission) for approval of an annual rate update to its Environmental Cost Recovery Charge (ECRC) under Otter Tail's Environmental Cost Recovery Rider (ECRR or Rider), Rate Schedule 13.08.

In this annual update, Otter Tail requests the ECRC change from (0.310) percent of a customer's bill to 0.000 percent effective November 1, 2019. This update includes the impacts of final rates going into effect February 2019 instead of January 2019 in Otter Tail's general rate case, Case No. PU-17-398. Otter Tail projects the ECRR tracker balance to be a credit of (\$498,241) as of the end of November 2019. Otter Tail proposes that the final actual tracker balance flow into the Renewable Resource Cost Recovery Rider (RRAR), Rate Schedule 13.04, effective December 2019. The final ECRR tracker balance will be part of Otter Tail's next RRAR update which is planned to be filed on December 31, 2019.

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 August 1, 2019. Otter Tail proposes a rate effective date of November 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 of the proposed change to the ECRC on August bills. Attachment 4 is a sample of the notice. Otter Tail will also include an implementation notice to North Dakota customers of the approved change to the ECRC on November bills. Attachment 5 is a sample of the implementation notice.

III. BACKGROUND

On December 18, 2013, the Commission approved Otter Tail's ECRR tariff and initial rate in Case Nos. PU-13-79 and PU-13-84.¹ Otter Tail's subsequent filings can be seen in Table 1 below.

Table 1

ECRR History	Case Number	Commission Approved	Effective Date	Approved Rate
Original RRA Rate and Mechanism	PU-13-79 PU-13-84	December 18, 2013	January 1, 2014	4.319%
First Update	PU-14-142	July 15, 2014	July 1, 2014	7.531%
Second Update	PU-15-131	June 17, 2015	July 1, 2015	9.193%
Third Update	PU-16-148	June 22, 2016	July 1, 2016	7.904%
Fourth Update	PU-17-122	July 12, 2017	August, 1 2017	7.633%
Fifth Update	PU-17-398	December 20, 2017	January 1, 2018	6.629%
Sixth Update	PU-17-398	February 27, 2018	March 1, 2018	5.993%
Seventh Update	PU-17-398	September 26, 2018	February 1, 2019	(0.310%)

In this eighth annual update, Otter Tail requests to update the ECRC to Zero percent as no projects remain in the Rider². Otter Tail's seventh annual update was included within the compliance filing of its most recent general rate case, Case No. PU-17-398. In that update, Otter Tail projected the ECRR to have a December 2018 ending tracker balance of (\$378,187), an over-collection, when the ECRR projects were to roll out of the Rider and into general rate base with the implementation of final rates. That update included actuals through August 2018 and projections for September 2018 through December 2019. The projected over-collection of (\$378,187) was approved to be passed back to customers over the 2019 calendar year.

This ECRR update includes actual tracker balances through June 2019, and projections for July 2019, forward. A combination of lower than projected actual billing revenue for the 2018-2019 winter, the implementation of final rates in February 2019 instead of January 2019,

¹ PU-13-79 and PU-13-84, Findings of Fact, Conclusions of Law and Order.

²The two projects recovered within the ECRR, the Big Stone Plant Air Quality Control System (AQCS) and Hoot Lake Plant Mercury and Air Toxics Standards (MATS), were rolled out of the ECRR and into base rates on February 1, 2019 with the implementation of final rates in Case No. PU-17-398.

resulting in an additional month of collections under the prior ECRR rate of 5.993 percent, results in a larger over-collected tracker balance than what was projected in Otter Tail's seventh update. As a result, the over-collected tracker balance will not be completely returned to customers before the end of 2019. In order to return the balance to customers sooner, Otter Tail proposes that the ECRC be set to 0.000 percent on November 1, 2019 and the final ECRR tracker balance be included in Otter Tail's next annual update to its RRAR, which is expected to be filed on December 31, 2019.

Statutory Requirements of the Rate Adjustment

N.D.C.C. §49-05-04.2.2 sets forth the information necessary to support a rate adjustment:

- 2. Rate adjustments filed under the tariff must be accompanied by:*
 - a. A description and quantification of the costs and expenses incurred by the public utility to meet federal environmental mandates which are subject to recovery;*
 - b. A schedule for implementation of the applicable projects;*
 - c. Calculations to establish that the rate adjustment is consistent with the terms of the tariff; and*
 - d. An application fee in the amount of one hundred thousand dollars. Upon request of the commission and with the approval of the emergency commission, the applicant shall pay such additional fees as are reasonably necessary for completion of the application process by the commission. The commission may waive or reduce the fee.*

The information required by N.D.C.C. § 49-05-04.2.2 is provided in Sections IV through VII of this Application and related attachments. Otter Tail is submitting a filing fee of \$10,000 with this annual application, and remains responsible for amounts incurred up to \$100,000.

IV. REVENUE REQUIREMENTS COMPONENTS AND TRACKER

A. Components of the Revenue Requirement Calculation

Attachments 2 and 3 show the revenue requirement calculation for the Big Stone Plant Air Quality Control System (AQCS) and Hoot Lake Plant MATS (MATS) projects that were recovered through the ECRR through January 2019. The revenue requirement for each project includes several components as described below. As described above, as part of Otter Tail's last rate case, recovery of these projects moved into base rates with the implementation of final rates.

- *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.
- *Operation and maintenance Expense.* Otter Tail tracks operation and maintenance costs specifically related to the AQCS and MATS projects.
- *Proration of Accumulated Deferred Income Tax (ADIT).* The methodology used for proration of Federal ADIT in this filing is consistent with Otter Tail's most recent Renewable Resource Cost Recovery Rider (Case No. PU-19-17) 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.³

B. Tracker Balance and Proposal for Final Tracker Balance

Otter Tail provides the tracker as Attachment 1 to this filing. The tracker 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. In this filing,

³ See Treas. Reg. SS 1.167(l)-1(h)(6)(ii).

the carrying charges on the negative tracker balance accrue to the benefit of retail customers.

The tracker account is updated so that any over/under recovered amount is reflected in the final tracker balance that Otter Tail proposes to move into the RRAR in December 2019. The RRAR tracker functions similar to the ECRR where the 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. This approach helps mitigate under/over recovery.

As shown on Attachment 1, Line No. 9 plus Line No. 11, Otter Tail projects the ECRR tracker balance at the end of November 2019 to be (\$498,241). Even though the rate is being set to "0" on November 1, 2019, the "Billed" section (Line No. 5) of the tracker for November 2019 contains an estimated amount of (\$18,159). This is due to the billing system calculation of customer bills. Customer bills rendered in November 2019 will include some October 2019 usage on the corresponding rate, (0.310) percent. As a result, the November 2019 ending tracker balance should be used rather than the October 2019 ending tracker balance. Otter Tail includes the projected November 2019 ending tracker balance as well as a (\$3,153) carrying credit for November 2019. When the carrying credit, (\$3,153), is added to the November 2019 ending balance, (\$495,088), the projected final tracker balance is (\$498,241). As discussed in Section III above, Otter Tail proposes that the final actual tracker balance be transferred to the RRAR. Including this credit balance in the RRAR will help offset a portion of the anticipated increases expected to be reflected in the next annual update to the RRAR.⁴ The final ECRR balance will be reflected in the RRAR tracker as a separate line item effective December 2019.

V. RATE DESIGN

Otter Tail proposes the continuation of the percent-of-bill method. Otter Tail proposes a rate of 0.000 percent of a customers bill.

VI. RATE IMPACT

The proposed update to the ECRC increases the factor for all customers from (0.310) percent to 0.000 percent. Table 2 below shows the estimated monthly impact on a residential

⁴ Otter Tail will be petitioning recovery of the Merricourt Wind project in its next annual RRAR update.

customer using 1,000 kWh and a Large General Service customer using 400,000 kWh and 1,000 kW.

Table 2

ECRC	Average kWh's per month	Proposed Rate	Monthly Impact
Residential	1,000 kWh	0.000%	\$0.24
Large General Service	400,000 kWh & 1,000 kW	0.000%	\$59.96

VII. ENVIRONMENTAL COST RECOVERY RIDER RATE SCHEDULE

Otter Tail’s revised Rate Schedule 13.08 is provided as Attachment 6 to this Application, in legislative and non-legislative versions.

VIII. CONCLUSION

Otter Tail respectfully requests the Commission approve the updated ECRC to be effective November 1, 2019 and the final actual ECRR balance to be transferred to Otter Tail’s RRAR tracker effective December 1, 2019.

Date: August 1, 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	Project Tracker
Attachment 2	Air Quality Control System Project Revenue Requirement Calculation
Attachment 3	Hoot Lake Plant MATS Project Revenue Requirement Calculation
Attachment 4	Customer Notice – Filing Notice
Attachment 5	Customer Notice – Rate Implementation Notice
Attachment 6	Environmental Cost Recovery Rider, Electric Rate Schedule 13.08

Line No.	TRACKER SUMMARY Requirements Compared to Billed:	2018					2019										
		September Actual	October Actual	November Actual	December Actual	YE Actual	January Actual	February Actual	March Actual	April Actual	May Actual	June Actual	July Projected	August Projected	September Projected	October Projected	November Projected
1	Revenue Requirements																
2	Air Quality Control System	568,637	576,445	563,573	584,796	6,819,712	544,513	0	0	0	0	0	0	0	0	0	0
3	Hoot Lake Plant MATS Project	41,172	41,172	41,172	41,172	494,061	38,902	0	0	0	0	0	0	0	0	0	0
4	Total Revenue Requirements	609,808	617,617	604,745	625,968	7,313,773	583,415	0	0	0	0	0	0	0	0	0	0
5	Billed (forecast kWh x adj factor)	569,826	498,563	609,845	601,357	7,453,264	776,374	507,070	(23,654)	(22,892)	(20,891)	(23,257)	(27,613)	(29,154)	(29,162)	(29,080)	(18,159)
7	Difference	39,982	119,054	(5,100)	24,610	(139,491)	(192,960)	(507,070)	23,654	22,892	20,891	23,257	27,613	29,154	29,162	29,080	18,159
8	Carrying Charge	(1,019)	(771)	(18)	(50)	(11,957)	106	(1,122)	(4,358)	(4,235)	(4,117)	(4,010)	(3,887)	(3,736)	(3,574)	(3,411)	(3,248)
9	Cummulative Difference (True-Up)	(121,053)	(2,770)	(7,888)	16,672	16,672	(176,181)	(684,374)	(665,078)	(646,421)	(629,647)	(610,400)	(586,674)	(561,256)	(535,668)	(509,999)	(495,088)
11	Carrying Charge Calculation	(771)	(18)	(50)	106		(1,122)	(4,358)	(4,235)	(4,117)	(4,010)	(3,887)	(3,736)	(3,574)	(3,411)	(3,248)	(3,153)
12	Cumulative Carrying Charge	199,205	199,188	199,137	199,244		198,122	193,763	189,528	185,411	181,401	177,514	173,778	170,204	166,792	163,545	160,392
13	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%
16	Forecasted Revenue	10,161,318	9,869,147	11,422,063	12,918,216	132,384,074	12,821,677	11,421,592	10,644,552	9,073,644	8,083,170	8,617,506	9,353,968	9,466,291	9,292,671	9,501,805	11,061,798

Approvals in interim rate order in rate case

SUMMARY	
Average Rate Jan & Feb 2018*	6.629%
Average Rate Mar 2018 - Jan 2019**	5.993%
*Dec. 20, 2017 Order from Case Number PU-17-398	
**Feb. 27, 2018 Order from Case Number PU-17-398	

Rate Approved ND Rate Case PU-17-398

SUMMARY		2/1/2019 - Present
Revenue requirements		\$0
Carrying Charge		(15,113)
True Up		(363,074)
Revenue requirements		(\$378,187)
Jan 2019 - Dec 2019 projected revenue		121,897,582
Average Rate		-0.310%

Rate Proposed in Case No. PU-19-

SUMMARY		Nov-19
Revenue requirements		\$0
Carrying Charge		0
True Up		0
Revenue requirements		\$0
Jan 2019 - Dec 2019 projected revenue		-
Average Rate		0.000%

On August 1, 2019, Otter Tail Power Company filed a request with the North Dakota Public Service Commission to update its Environmental Cost Recovery Rider (ECRR) rate. The ECRR recovered costs that we've spent to meet Federal Environmental Protection Agency regulations, including emissions-control systems at Big Stone Plant and Hoot Lake Plant. The proposed rate is 0.000 percent of your bill, and we'll include this beginning November 1, 2019. The current ECRR rate is -0.310 percent, which is a credit to customers.

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 (\$0.24 at 1,000 kWh/month), Large General Service: (\$59.96 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 website at otpc.com.

On MONTH ##, 2019, the North Dakota Public Service Commission approved our request to update our Environmental Cost Recovery Rider (ECRR) rate for bills rendered on and after November 1, 2019, to 0.000 percent of base charges and credits for all classes of service.

As of November 1, 2019, when the ECRR rate goes to 0.000 percent, the final tracker balance is projected to be -\$498,241. We will refund this final amount through the Renewable Resource Adjustment Rider.

ATTACHMENT 6

ENVIRONMENTAL COST RECOVERY RIDER

(Section 13.08)



Fergus Falls, Minnesota

ENVIRONMENTAL COST RECOVERY RIDER

DESCRIPTION	RATE CODE
All Service – Environmental Cost Recovery	NECR

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

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

ENVIRONMENTAL COST RECOVERY CHARGE: There shall be included on each North Dakota Customer’s monthly bill an Environmental Cost Recovery (ECR) Charge, based on the applicable ECR 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 ECR Factor will not apply to any Mandatory Riders. The ECR charge will be included as part of the charge reflected on the Customer’s bill on the line labeled “EPA Req Environmental Cst.”

Environmental Cost Recovery Factor - (.310)<u>0.000</u> percent

DETERMINATION OF ECR FACTOR: The ECR Factor shall be determined by dividing the forecasted *balance of the ECR Tracker account* by the *forecasted retail revenues subject to the ECR Factor*. The forecasted ECR 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 ECR Factor shall be rounded to the nearest 0.001 percent.

The *balance of the ECR Tracker account* for determination of the ECR Factor shall include annual revenue requirements and any true-up balance described as follows:

NORTH DAKOTA PUBLIC SERVICE COMMISSION
North Dakota
Case No. PU-~~17-398~~ and PU-18-106
Approved by Order dated ~~September 26, 2018~~

EFFECTIVE with bills rendered on and after ~~February~~November 1, 2019, in

APPROVED: Bruce G. Gerhardson
Vice President, Regulatory Affairs



Fergus Falls, Minnesota

ENVIRONMENTAL COST RECOVERY RIDER

DESCRIPTION	RATE CODE
All Service – Environmental Cost Recovery	NECR

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

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

ENVIRONMENTAL COST RECOVERY CHARGE: There shall be included on each North Dakota Customer’s monthly bill an Environmental Cost Recovery (ECR) Charge, based on the applicable ECR 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 ECR Factor will not apply to any Mandatory Riders. The ECR charge will be included as part of the charge reflected on the Customer’s bill on the line labeled “EPA Req Environmental Cst.”

Environmental Cost Recovery Factor - 0.000 percent

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DETERMINATION OF ECR FACTOR: The ECR Factor shall be determined by dividing the forecasted *balance of the ECR Tracker account* by the *forecasted retail revenues subject to the ECR Factor*. The forecasted ECR 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 ECR Factor shall be rounded to the nearest 0.001 percent.

The *balance of the ECR Tracker account* for determination of the ECR Factor shall include annual revenue requirements and any true-up balance described as follows:

NORTH DAKOTA PUBLIC
SERVICE COMMISSION
Case No. PU-
Approved by Order dated

EFFECTIVE with bills rendered on
and after November 1, 2019, in North Dakota

APPROVED: Bruce G. Gerhardson
Vice President, Regulatory Affairs