

Memorandum

To: Commissioners Christmann, Fedorchak and Kroshus

From: Victor Schock, Director, Public Utilities Division VS

Date: June 20, 2022

Re: Otter Tail Power Company, General Rules and Regulations, Tariff and Rates,
Case No. PU-22-190

On May 11, 2022, Otter Tail Power Company (OTP) filed an application to implement revisions to sections 5.01, 10.02, 10.03, 10.04, 10.05, 11.05, 11.07 and 14.07 of its existing tariffs. OTP states the changes are administrative in nature and are part of OTP's ongoing efforts to provide clarity, proper billing and consistency for its North Dakota electric customers.

The details of each change are as follows:

5.01 – This change clarifies that when connecting a new customer or upgrading the service to an existing customer, that sales taxes, franchise fees and other governmental charges will be excluded from the calculation that determines if a contribution is necessary from the new or upgrading customer.

10.02, 10.03, 10.04, 10.05 – The changes to each of these tariff sections are identical. The change is intended to clarify that customers will be billed based on Billing Demand rather than Measured Demand for purposes of determining the Facility Charge Demand. This section is a bit technical, so please try to contain your excitement. Large Commercial or Industrial customers are billed for both kilowatt hours used and demand. Demand is the highest 15-minute call for kilowatts(kW) that a particular customer had during the billing period. That demand must be adjusted for reactive power or kilovolt-ampere reactive (kVar). The adjustment is necessary because it is a real cost borne by utilities. You may recall a reference to voltage support that certain power plants provide. Reactive power is where that voltage support comes into play. If you can imagine when you turn on a large electric motor, it draws a significant amount of power in order to initially begin spinning, and then settles at a lesser amount once up to speed. kVar is intended to measure those short term draws upon the electric system. Now that we know what demand and kVar are, we can discuss how these are billed. This level of customer sees a customer charge (basic service charge) that is a flat fee, a facilities charge (this is a volumetric way to collect the cost of the facilities used to serve customers), and for some large customers a separate demand charge. Both the facilities charge and the demand charge are based on demand in kW. Now that we have discussed electrical engineering and accounting, it is time for our history lesson. Historically, OTP's legacy customer information system pulled the demand amount both with and without the kVar penalty. OTP's new customer information system only pulls a demand number that includes the kVar penalty. Since OTP's tariff does not permit them to add the kVar penalty to the

facilities charge amount, the change is necessary to ensure they are not overbilling customers relative to their approved tariff for facilities charges. For clarification, OTP did cease billing all kVar penalties for both the facilities charge and the demand charge until this tariff

11.05 – This change is identical to the changes to sections 10.02-10.05. However, it is worth noting that until OTP recently installed new meters capable of measuring demand for this class of customer, they had no way of measuring their demand. With that in mind, these customers did not receive a per kW facilities charge on their bill from the time of OTP's last rate case until now. If the Commission approves this change, they will likely see that as an addition to their bill even though they were slated to be paying that cost the entire time.

11.07 – This is a simple error correction. The tariff currently references the state of Minnesota rather than North Dakota.

14.07 – This is clarification language. The applicable rates are not changing, but rather a clarification of which rates apply to a given situation. The change is primarily driven by similar changes in OTP's Minnesota and South Dakota tariffs.

Staff believes the proposed tariff changes are just and reasonable, that the rates comply with the tariff and the proposed rates are just and reasonable. Staff recommends approval of OTP's proposed changes.

c. Svetlana Fedje