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July 14, 2022



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

**PUBLIC DOCUMENT –
NOT PUBLIC (OR PRIVILEGED)
DATA HAS BEEN EXCISED**

**RE: In the Matter of Otter Tail Power Company's Application for Approval of
Economic Development Rider Rate and Electric Service Agreement
Case No. PU-22-
Initial Filing**

Dear Mr. Kahl:

Otter Tail Power Company (Otter Tail) hereby submits to the North Dakota Public Service Commission (Commission) its Application for Approval of Economic Development Rider Rate and Electric Service Agreement.

This filing contains trade secret information. In accordance with N.D. Admin. Code § 69-02-09-02, an Application for Trade Secret Protection is being provided along with a single copy of the trade secret version of the Application and supporting testimony in a sealed envelope marked **PROTECTED INFORMATION – PRIVATE**.

Enclosed please find an original and copies along with the \$10,000 filing fee.

An electronic copy of this filing is being sent to you at ndpsc@nd.gov. Please feel free to contact me at sfedje@otpco.com or 218-739-8799 with any questions.

Sincerely,

A handwritten signature in black ink, appearing to read "S Fedje", written over a light blue horizontal line.

Svetlana A. Fedje
Pricing Analyst

sjw
Enclosures
By electronic filing and U.S. mail

STATE OF NORTH DAKOTA

BEFORE THE PUBLIC SERVICE COMMISSION

**In the Matter of Otter Tail Power
Company’s Application for Approval of
Economic Development Rider Rate and
Electric Service Agreement**

**Case No. PU-22-
APPLICATION**

I. INTRODUCTION

Otter Tail Power Company (Otter Tail or Company) hereby applies to the North Dakota Public Service Commission (Commission) for approval, a rate request for a new customer to take service under Otter Tail Rate Schedule 14.13, Economic Development Rate Rider – Large General Service (EDR).

This rate schedule was submitted and approved in Case No. PU-17-238¹ and was referenced in Case No. PU-17-398.² The approved rate schedule established a rate formula that allows the Company to respond to service inquiries by providing potential customers with rate quotes using a Commission-approved rate determination process. This approach enables potential customers to make timely business decisions, protects the Company’s ratepayers by ensuring net benefits, and allows the Company to plan service to the new load(s). Otter Tail has received such a request and hereby submits this application for approval to serve the customer under this rate schedule.

This application provides general information about the filing's compliance with the approved tariff Section 14.13, a summary of net benefits, the rate negotiated with the customer, and the associated electric service agreement. Key points of this application include the following:

- The EDR rate schedule has been previously approved by the Commission. Otter Tail is seeking approval of the individualized rate plan for this customer.
- The proposed EDR rate limits the discount to the customer over a five-year period which, upon completion, transitions the customer to standard Company rates.
- The proposed EDR discount is not collected from existing customers. The proposed EDR rate is greater than the cost to provide service yet provides net system benefits to all customers.

¹ Order Approving, August 22, 2018, *Economic Development Rider Tariff*, Case No. PU-17-238.

² Order on Settlement, September 26, 2018, *Otter Tail Power Company 2017 Rate Case Application*, Case No. PU-17-398.

- The addition of this customer is in the public interest as it incents the customer to locate in North Dakota, provides net system benefits to Otter Tail customers, and enhances the economic climate in North Dakota.

II. GENERAL FILING INFORMATION

Pursuant to N.D. Admin. Code § 69-02-02-04, 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 the attorney for Otter Tail.

Cary Stephenson
Associate General Counsel
Otter Tail Power Company
215 South Cascade Street
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Phone (218) 739-8956
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C. Title of Utility Employee Responsible for Filing

Svetlana A. Fedje
Pricing Analyst
Regulatory Administration
215 South Cascade Street
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D. The date of the filing and the date that Otter Tail proposes the rate or service change to go into effect.

The date of the filing is July 14, 2022, and Otter Tail proposes an effective date of June 1, 2024, to support the customer request to begin taking service.

E. State and/or administrative rule which Otter Tail believes controls the reason for, and the time of, the filing.

Pursuant to ND Century Code 49-05-05.

III. COMPLIANCE

Description

The Economic Development Rate Rider – (EDR) rate is designed to attract customers into North Dakota that provide net benefits to ratepayers. Customers that meet the criteria will have access to individual contract pricing based on Otter Tail’s marginal cost of service. The rate schedule incorporates a pre-approved process defined in Case No. PU-17-238 which, along with ratepayer protections, will ensure net benefits to all customers. Unlike standard rate schedules where customers within the same rate class essentially pay the same rates for customer, facility, energy and demand charges, customers served under the EDR rate receive a rate discount based on their specific load characteristics and the investment needed to serve them. EDR customers receive the discount based in part on marginal costs versus embedded costs.³

Proposed Customer meets Rate Schedule Criteria

Otter Tail has received a customer request for service under the electric rate schedule Section 14.13 with a proposed commercial operation date of June 1, 2024. The customer meets the following criteria defined in Section 14.13:

The rate schedule will be available to greenfield Customers who reasonably demonstrate to the Company (1) an expected metered demand of at least 500 kW at a single Metering point, and (2) Seasonal Load Factor that is above the seasonal system average load factor and above the seasonal class average load factor corresponding to existing customers under the otherwise applicable rate code. Customers seeking service under this rate schedule shall provide the Company data and written assurances supporting the Customer’s application. Customers shall meet the above criteria to obtain and maintain service on this rate. Customers who are served on this rate and do not meet the above criteria will be moved to the most applicable rate schedule. The Company will require, a written electric service agreement (“ESA”) between the Company and the Customer. This schedule is not applicable for Energy for resale. Emergency and supplementary/standby service will be supplied only as allowed by law.

³ Marginal costs are costs on a prospective basis (expected or forecasted) versus embedded costs which are retrospective (historical).

This customer will be constructing a soybean crushing facility for the purpose of processing soybeans into soybean oil, soybean meal and hulls. Based on customer and Otter Tail expectations, a load of **[PROTECTED DATA BEGINS...**

...PROTECTED DATA ENDS]. These service parameters meet or exceed the criteria of Section 14.13.

The rate calculation model approved in Case No. PU-17-238 was last submitted for review in a compliance filing to the Public Service Commission on December 30, 2021. Since that filing, we have received an updated Marginal Cost study that was used in this model.

The model submitted as Attachment 1 to this filing shows the customer will be taking **[PROTECTED DATA BEGINS...**

...PROTECTED DATA ENDS] is factored into the marginal cost to serve this customer resulting from the benefits other customers will receive from the necessary system upgrades. The new customer taking service under the EDR rate will require Otter Tail to incur marginal energy costs, marginal transmission costs (FERC-approved transmission rate), as well as marginal customer costs (meter, service drop, and associated customer services). Otter Tail has incorporated marginal costs associated with the customer addition from Otter Tail's most recent Marginal Cost Study into the pricing model. Additional changes were included to advance Marginal Cost values to the year the customer will be taking service.

The negotiated EDR rate discount requires this customer to pay at least its marginal cost of service. This means other customers are not harmed by the EDR pricing. Further, to the extent that the marginal costs associated with the addition of an EDR customer includes certain fixed costs, adding this customer to the system makes a valuable contribution to the cost of service.

Consistent with Section 14.13, the Company has offered the customer a rate under the following terms:

1. The minimum rate under this schedule shall recover at least the incremental cost of providing the service, including any energy-related marginal costs plus the cost of additional generation capacity or network capacity that is to be added while the rate is in effect, and any marginal customer-related costs. The goal of this calculation is to establish a floor price to ensure that the revenue requirement of other customers will not increase due to the addition of the new load.
2. The rate after rate discount offered to the customer under this rate schedule shall not exceed the Company's standard tariff and all applicable riders and shall not be lower than incremental costs as described in the preceding paragraph.

3. The Company will utilize the Economic Development Rate Model (EDRM) to compare expected revenues from the prospective customer and expected costs of serving the added load over the time period described in item 4 of these terms and conditions. The EDRM will be made available only to the Commission to verify the calculations used to establish the rate quote and Rate Discount offered to the customer.
4. The contract term for a customer who meets all requirements under this rate schedule must be no less than one year and no longer than five years commencing the first day of commercial operations.
5. The contract will indicate the Rate Discount percent level during each year of the one- to five-year period for the particular customer. The stated Rate Discount will be an annual discount percentage to be applied to the Large General Service rate and Mandatory Riders.
6. Customers who do not meet the three-year minimum revenue guarantee as per Otter Tail's line extension policy will not qualify for this rate schedule.
7. The Company will not need to verify, nor will customers served on this rate schedule need to demonstrate, the creation of a minimum number of jobs upon adding the new load.
8. Customer will allow Company to undertake an energy efficiency audit of the facility.
9. The Company will provide the Commission the current version of the EDRM and total annual value of Rate Discounts given with its Annual Jurisdictional Report to the Commission.

The model, included on a USB storage drive as Attachment 1 to this application, demonstrates that comparison of expected revenues to expected costs has occurred.

Service under this schedule requires an Electric Service Agreement (ESA) with at least a five-year term, commencing on the first day of commercial operation. The ESA, which is trade secret protected in its entirety, is included with this application as Attachment 3.

The proposed EDR Rate Discount Schedule is set forth in Attachment 3.

Net Benefits Scorecard

The customer is selecting this specific site in North Dakota due in large part to the availability of Otter Tail's EDR Tariff. Otter Tail and the customer have negotiated a discount rate based on the analysis presented in this filing that is mutually agreeable to both parties – which provide net benefits to Company ratepayers. The full table with a

summary of the calculation and allocation of net benefits for the EDR proposal is included on a USB storage drive as Attachment 2 to this filing. The new customer operates in a price sensitive environment and needs to be priced at this level to remain competitive in their industry. Otter Tail believes this pricing sufficiently compensates current rate payers for adding the new customer at a discounted rate under this rate schedule.

Otter Tail has analyzed the overall net benefits to other customers from serving this customer under the rates negotiated in the ESA. Otter Tail notes that the splitting of the discount from standard rates between the new customer and existing customers noted above is a different comparison than the overall net benefits shown in this “Net Benefits Scorecard.” The cumulative five-year contribution to system costs from having a negotiated rate above marginal cost is estimated to be approximately **[PROTECTED DATA BEGINS... ...PROTECTED DATA ENDS]**. Attachment 2 illustrates the benefit to other customers, or net contribution to system costs considering the margin along with Mandatory Riders. All customers are materially advantaged from the addition of this new customer in the form of rider rate reductions and delays on base rate increases (and smaller future base rate increases when they would occur).

IV. ELECTRIC SERVICE AGREEMENT

The EDR rate schedule requires an Electric Service Agreement (ESA) with the customer as a condition of providing service. The executed trade secret ESA is included in Attachment 3. Otter Tail notes the ESA is based on its standard ESA with deviations addressing the requested EDR rate schedule. These non-standard provisions were negotiated to comply with the EDR requirement that other rate payers not be required to pay for costs associated with attracting and serving this new customer.

V. CONCLUSION

With the joint agreement of the proposed EDR discount quote between Otter Tail and the customer using the Commission approved template, Otter Tail respectfully requests Commission approval of the proposed EDR discount and the ESA along with any other applicable billing rate.

Dated: July 14, 2022

Respectfully submitted,

OTTER TAIL POWER COMPANY

/s/ SVETLANA A. FEDJE

Svetlana A. Fedje

Pricing Analyst

Regulatory Administration

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Case No. PU-22-
Attachment 1 – Economic Development Rider Model
Attachment 2 – Summary of Net Benefits
Attachment 3 – Electric Service Agreement
are **CONFIDENTIAL**
in their Entirety

...PROTECTED DATA ENDS]