

# Memorandum

To: Commissioners Christmann, Haugen-Hoffart and Fedorchak

From: Robert Frank Public Utility Analyst

Date: February 16, 2013

Re: Otter Tail Power Company, 2023 Renewable Resource Cost Recovery Adj. Factor, Rates, Case No. PU-22-429

On December 30, 2022, Otter Tail Power Company (OTP) filed an application to update its annual Renewable Resource Cost Recovery (RRCR) rider. The rider recovers projected costs from April 1, 2023, through March 31, 2024. The projected North Dakota revenue requirement of \$17,006,718 is related to investments in the Merricourt Wind Energy Project (Merricourt), the Ashtabula III Wind Farm (Ashtabula), and a true-up of unused Production Tax Credits (PTC) associated with Ashtabula and Langdon Wind Energy Facilities which are currently being recovered in the rate base.

Merricourt is located near Merricourt, ND, in McIntosh and Dickey Counties. It consists of 75 wind turbines with a nameplate capacity of 150 MW. All 75 units were fully in service by December 19, 2020. The life of Merricourt is 35 years and the PTCs generated in its first 10 years of production are applied over the entire life of the facility. This will result in approximately \$1.8 million of tax credit to ND customers each year helping to evenly spread out the tax benefit. The amount to be recovered for Merricourt for the current filing is \$12,290,465.

OTP entered into a Purchased Power Agreement with Ashtabula III, LLC in 2013 which included an option to purchase the wind facility assets in 2023. Consistent with this option on July 2021, OTP entered a Purchase and Sale Agreement (PSA) with Ashtabula III, LLC with an anticipated closing date of January 2, 2023. The PSA for Ashtabula includes 39 wind turbines placed into service in 2010 with a nameplate capacity of 62.4 MW. The amount to be recovered for Ashtabula for the current filing is \$3,584,637.

On September 26, 2018, the Commission approved the treatment of unutilized PTCs associate with Ashtabula and Langdon Wind Energy as a deferred tax asset that can be utilized to offset tax liability. The revenue requirement related to the difference between the amount of deferred tax asset related to PTCs included in base rates and actual amounts is provided as a credit to customers through the RRCR. Any difference will be trued-up in the next RRCR update filing.

OTP requests approval of an annual update to its Renewable Resource Cost Recovery Adjustment Factor (RRCR Factor) under its RRCR and the continuation of the percent-of-bill rate design method. The RRCR Factor is determined by taking the percentage of the estimated revenue requirements compared to the forecasted retail revenue of all classes. The update results in an increase to the RRCR Factor for North Dakota from 7.108 percent to 15.541 percent for the recovery period beginning April 1, 2023. A North Dakota residential customer using 1,000 kWh would see a monthly bill increase of approximately \$5.77.

The change in the RRCR Factor is mainly attributed to the change in OTP's E2 allocation factor driven primarily by the addition of the Applied Digital blockchain load. By convention, the E2 allocation factor does not typically change between rate cases, but OTP believes a substantial shift has occurred that warrants adjustment. The current E2 allocation factor for North Dakota's share of revenue requirement approved in 2018 is 37.577 percent. OTP proposes changing the 2022 E2 allocation factor to 41.783 percent and the 2023 E2 allocation factor to 43.489 percent. The estimated impact of the change in the E2 allocation factor for both 2022 and 2023 combined is approximately a \$4.4 million increase to North Dakota customers. A question to consider is whether the method of percent-of-bill rate design is fairly recovering the impact of Applied Digital.

OTP has made an additional filing on January 23, 2023, in Case No. PU-23-27, to modify its tariff to include capacity related revenues and expenses on its Energy Adjustment Rider. The recent Mid-Continent Independent System Operator (MISO) Planning Resource Auction (PRA) for the 2022/2023 planning year generated \$9.33 million with North Dakota's share equaling approximately \$4.2 million. It is OTP view that this will help mitigate the impact of the E2 allocator change to the customer in the short term. It is worth noting that MISO is changing its capacity market to a seasonal construct and other factors, including currently undetermined changes in resource accreditation, will have impacts on the PRA.

Staff believes that there are issues pertaining to the filing that need further discussion and clarification.

c. Emily Ketelsen