

Memorandum

To: Commissioners Christmann, Haugen-Hoffart, and Fedorchak

From: Adam Renfandt



Date: December 15, 2023

Re: Otter Tail Power Company, Transmission Facility Cost Recovery (2024), Rates, Case No. PU-23-306

On September 15, 2023, Otter Tail Power Company (OTP) filed an annual update to its Transmission Cost Recovery Rider (TCRR) rates to reflect updated electric transmission revenues and costs. The filing proposed a revenue requirement of \$8,693,198.

On October 5, 2023, Staff notified OTP that they were incorrectly allocating general and administrative (G&A) credits for MISO Schedules 26 and 26a based on FERC formula rates. Correcting this error would reduce the revenue requirement by \$0.7 million per year.

Also on October 5, 2023, and after replying to one of Staff's data requests, OTP indicated they did not incorporate the actual project cost for the Gackel Rural Loop project, and that they would need to explain this oversight in a subsequent filing.

On October 11, 2023, OTP and Staff had a conference call to discuss the G&A credits and the Gackel Rural Loop project, and OTP had indicated they would file a corrected TCRR by November 2, 2023.

On November 2, 2023, OTP filed an updated, corrected TCRR filing as well as an electric rate case. In the updated, corrected TCRR filing they:

1. Corrected the G&A credit, which reduced the revenue requirement by \$0.7 million
2. Included an explanation of the actual Gackel Rural Loop project costs
3. Moved 40 projects out of the TCRR into base rates
4. Updated the capital structure and allocation factors

On November 22, 2023, the Commission held an Informal Hearing with OTP.

OTP's original TCRR had a 2024 revenue requirement of \$8,693,199. This represented an increase of \$1,157,526 in revenue requirements over the 2023 requirement. The additional \$716,444 G&A credit reduced this increase to \$441,082.

Out of the total increase in the 2024 revenue requirement, the project revenue requirement increased \$1.3 million. Three new projects, seven Extenda-Life and transmission rebuild projects, and a change in scope of an existing project added approximately \$0.5 million to 2024 revenue requirements. The remaining increase was driven by a \$0.3 million increase based on an over-budget project starting construction (Oslo 115 kV Break Station and Oslo to Lake Ardoch 115 kV line (Oslo)), a \$0.2 million increase to costs associated with line replacements and Extenda-Life projects (one project was the Gackle Rural Loop), and a \$0.3 million increase in costs associated with the Erie substation and Winger Transformer. The remaining cost increase was spread across several previously approved projects.

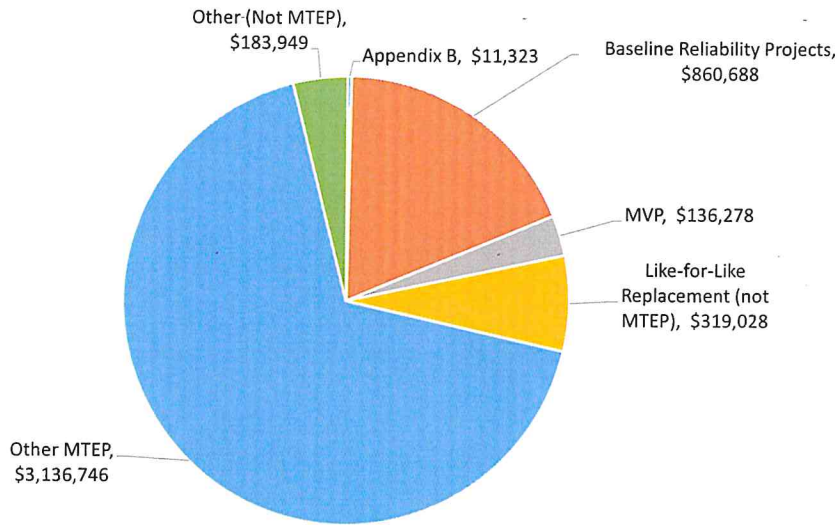
Based on one of Staff's data request questioning total project costs in the original filing, OTP indicated that they had incorrectly incorporated the actual project cost of the Gackle Rural Loop project, and they would need to explain this oversight in a subsequent filing. The actual project cost would increase ND's cost by \$7.2 million. The issue was discussed at the Commission's Informal Hearing. OTP explained the full scope of the project, which involves several additional miles of transmission to be rebuilt or refurbished. OTP indicated to Staff that going forward they will be performing Staff's analysis, which was asked for in a data request, prior to submitting future TCRR updates. Staff had also requested OTP perform this analysis prior to submitting TCRR updates a year ago.

OTP noted in their original filing that total ND project costs for Oslo increased by \$2.1 million. The reason provided was that topsoil had to be removed at twice the depth as originally assumed, that they had to purchase land at three times the cost originally assumed, and that materials and contractor pricing had escalated by 20% each year.

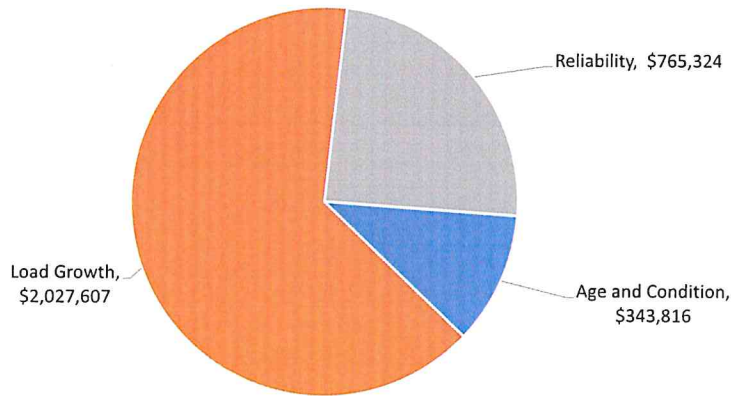
Two MISO Long Range Transmission Projects (LRTP) were included as new projects for the first time. The first is the Jamestown to Ellendale 345 kV project, which OTP estimates the ND retail share of total project cost to be \$2.1 million. The Commission should be expecting a Certificate of Public Convenience & Necessity from OTP and Montana-Dakota Utility on this project. The second LRTP project is the Big Stone South to Alexandria to Big Oaks 345 kV project, which OTP estimates the ND retail share of total project cost to be \$4 million. The Commission currently has an Advance Determination of Prudence application under consideration with NSP on the portion of this project that NSP owns (Case No. PU-23-329).

The charts below show the 2024 total revenue requirement for all the projects, including the projects that moved to base rates, by MISO MTEP project type. The majority are considered MTEP Other, which is further broken out into load growth, reliability, and age and condition. Most of the transmission spending is driven by load growth.

2024 MTEP Breakdown by Revenue Requirement



2024 MTEP Other Breakdown By Revenue Requirement



With the G&A correction, MISO and SPP expenses drove the 2024 revenue requirement down \$0.5 million. The true-up drove an additional \$0.3 million reduction to the 2024 revenue requirement.

OTP also proposes to move \$3,475,970 worth of in-service projects from the TCRR to base rates. With the G&A correction and the projects moving to base rates the corrected, updated 2024 revenue requirement is \$4,481,941.

	Original Filing	G&A Correction	Projects to Base	Other Changes	Updated Filing
Project Revenue Requirement	\$4,648,013		-\$3,475,970		\$1,172,043
MISO & SPP Expenses	\$4,465,368	-\$716,444	\$0	-\$53,782	\$3,695,142
True-up	-\$420,183			\$34,939	-\$385,244
Total Revenue Requirement	\$8,693,199	-\$716,444	-\$3,475,970	-\$18,843	\$4,481,941

Staff believes the costs detailed in OTP’s filing are reasonable and prudent, comply with OTP’s tariff, and are eligible for recovery through the TCRR. Based on this and the details contained within the filing, Staff recommends approval of OTP’s 2024 TCRR rates.