

# Memorandum

To: Commissioners Christmann, Haugen-Hoffart and Kringstad

From: Chris Hanson, Public Utility Analyst

*CH*

Date: April 30, 2025

Re: Otter Tail Power Company, 2025 Renewable Resource Cost Adj. Factor, Rates, PU-24-390

On December 31, 2024, Otter Tail Power Company (OTP) filed a request for approval of its 2025 Renewable Resource Cost Recovery Rider (RRCR) Adjustment Factor.

On February 29, 2025, OTP submitted a supplemental filing in response to the Public Service Commission's (PSC's) December 31, 2024, order related to the Otter Tail Electric general rate case (PU-23-342). In addition to addressing the items related to the rate case, OTP also requested recovery of \$571,558 related to Langdon depreciation and property taxes, which were not included in the 2024 test year as part of the general rate case.

On April 22, 2025, an informal hearing was held to discuss the RRCR filing in general, and the additional Langdon base rate items specifically. A summary of the facts and timelines related to the Langdon base rate items is provided below to better inform the commission's decision on this matter.

OTP filed case PU-23-342, Otter Tail Power Company, 2023 Electric Rate Increase on November 2, 2023.

On October 4, 2024, Ms. Kavita Maini provided direct testimony referencing the Midwest Large Energy Customer (MLEC) data request #103 item c dated July 29, 2024, requesting a spreadsheet showing the revenue requirement that was being proposed for inclusion in base rates.

Per Ms. Maini's testimony, Paula Foster, Supervisor of Regulatory Analysis, from OTP responded to that data request on September 16, 2024, noting:

*"In reviewing information for this data request, a correction was identified related to the depreciable life of the Landgon Upgrade. The 2024 Test Year revenue requirement was calculated using a 35-year depreciable life for the Langdon upgrade, commencing at the in-service date of the upgrade. In preparing this response we determined the Langdon Upgrade Project depreciable life should be equal to the approved remaining life for the Landgon (18 years in 2024). This correction increases the 2024 Test Year revenue requirement by approximately \$631,472 (OTP ND). An associated correction to the*

*levelization of production tax credits (PTCs) increases annual credits by approximately \$350,908, resulting in a net revenue requirement effect of approximately \$280,564.”*

In the same response, Ms. Foster also referenced a correction of \$42,602 related to the omission of property taxes from the revenue requirement. She further stated:

*“We will provide updated information about the Langdon Upgrade as the case develops and ensure that final rates reflect updated project costs and the updated depreciable life and property tax”.*

On November 4, 2024, Ms. Foster filed rebuttal testimony in which she noted on pages 1:27-2:3 that:

*“the actual costs will include a correction to the remaining life of the Langdon Upgrade Project”.*

On page 2:12-26 she further notes that she disagrees with Ms. Maini’s recommendation that the Langdon costs remain in the RRCR, stating:

*“rolling projects from the riders into base rates during a rate case is standard regulatory practice in North Dakota”.*

On December 11, 2024, a Settlement Agreement was submitted by OTP, resulting in a \$13.1 million net increase to OTP base rate revenue. This settlement made no reference to an increase in the 2024 revenue requirement due to an increase depreciation expense resulting from the shortening of the Langdon depreciable life or the omitted property taxes noted above.

On December 19, 2024, OTP submitted Proposed Findings of Fact, Conclusions of Law and Order with the same \$13.1 million increase in base rate revenue. Again, no mention was made of the change to Langdon depreciation or property taxes in the explanation of the reduction of the revenue increase from the \$21.5 million requested by OTP in its rebuttal testimony to the \$13.1 million settlement. There were no financials changes from the proposed to the final Findings of Fact, Conclusions of Law and Order which were approved on December 30, 2024.

According to Adam Renfandt, OTP sent an email on January 15, 2025, requesting a meeting to discuss the compliance filing. It was in this meeting that OTP requested that the depreciation and property tax adjustments be included in the case. Mr. Renfandt declined to make these changes.

Based upon these facts, it appears that OTP became aware of the error in the Langdon depreciable life and the omitted property taxes in September 2024. OTP further noted in November 2024 that the depreciable life changes would be submitted as part of their final costs for Langdon. However, no attempt was made to include these changes in the

settlement, and they did not appear in the approved Findings of Fact, Conclusions of Law and Order for OTP Base Rate Case (PU-23-342).

Additional pertinent facts related to this issue include:

- The inclusion of an additional \$571k would have increased the rate adjustment from \$13.1 million and 6.18 percent to \$13.7 million and 6.46 percent. This addition would likely have affected the negotiations that led to the settlement agreement.
- The depreciation expense is not a 'lost' expense. Rather, when the next rate case is filed and the correct remaining life is utilized, it will result in an annual increase in the depreciation rate to fully recover the costs.
- The \$42,602 in annual property taxes will not be recoverable.