

The Commission met on **Friday, March 25, 2011**, with Chair Boyd and Commissioners O'Brien, Pugh, Reha, and Wergin present.

The following matters were taken up by the Commission:

### **ENERGY AGENDA**

#### **IP-6838/CN-10-80**

#### **In the Matter of the Application of Prairie Rose Wind, LLC for a Certificate of Need for an up to 200 MW Project and Associated Facilities in Pipestone and Rock Counties in Southwestern Minnesota**

Commission Boyd moved that the Commission:

1. Accept the proposed change in size of the project from 101 MW to up to 200 MW.
2. Require that comments on the change in size for the certificate of need be combined with the solicitation of comments on the revised draft site permit from persons within and adjacent to the project boundary.
3. Find that a public comment meeting be scheduled for a time after the comment period ends.

The motion passed 5-0.

#### **IP-6843/WS-10-425**

#### **In the Matter of the Application of Prairie Rose Wind, LLC for a Large Wind Energy Conversion System Site Permit for the 200 MW Prairie Rose Wind Farm in Rock and Pipestone Counties**

Commissioner Wergin moved that the Commission:

1. Approve the proposed amended draft site permit for the Prairie Rose Wind Project for notice and public comment.
2. Authorize EFP staff to implement the public participation process found in Minnesota Rules, part 7854.0900, excluding the requirement to hold an additional public meeting.

The motion passed 5-0.

**G-008/GR-05-1380**

**In the Matter of the Application of CenterPoint Energy for Authority to Increase Natural Gas Rates in Minnesota – Request for Acceptance of CenterPoint’s December 14, 2010 GAP Compliance Filing**

Commissioner Pugh moved that the Commission accept CenterPoint’s December 14, 2010 compliance filing.

The motion passed 5-0.

**E-017/GR-10-239**

**In the Matter of the Application of Otter Tail Power Company for Authority to Increase Rates for Electric Utility Service in Minnesota**

1. **ALJ Recommendations and Settled Issues** – Commissioner Pugh moved to accept the ALJ’s recommendations except where modified by Commission decisions and to approve all resolved issues.

The motion passed 5-0.

Commissioner Pugh moved to take the actions set forth below:

2. **Test Year Pension Cost** – Determine that the test year pension cost should be based on a five year average and the test year cost is \$2,051,648. (OES, ALJ)
3. **Future Pension Cost** – Direct the Company to address the concern of having ratepayers pay for 100% of OTP’s pension obligation in its next rate case.
4. **OPEB** – Determine that the total test year OPEB expense should be reduced by \$202,886. (OES)
5. **Long-Term Incentive** – Deny recovery of \$88,972 in long-term incentive compensation costs. (OES, OAG, ALJ)
6. **Achievement Awards** – Allow the Company to include \$37,000 in the test year for achievement awards.
7. **ESSRP** – Do not allow the recovery of the \$931,141 test year cost of the ESSRP. (OAG, ALJ)
8. **Roll-in of Wind into Base Rates** – Approve the roll in of wind into base rates based on the OES’s recommended revenues and expenses for the roll-in as outlined on Exhibit 105, Schedule NAC-S-8, a credit for expected Production Tax Credits will be reflected in the base rates along with the other revenue requirement components, and the remaining \$4.2 million

deferred balance from 2008 which was allowed recovery by the Commission over a 48-month period should continue in the tracker until it is concluded. (OTP, OES, MCC, ALJ)

**9. Roll-in of TCR into Base Rates –**

- Approve the roll in of the TCR into base rates and allow the rider to remain available as a mechanism for trueing-up any over- or under-recovery of costs collected through the time final rates become effective. In addition, it should be used to recover any MISO-related Schedule 26 costs and any approved future transmission costs eligible for recovery in the TCR Rider; (OTP, ALJ) and
- Require the Company to include in the rate case compliance filing a reconciliation of the transfer of costs to base rates.

**10. Unamortized Rate Case Expenses –** Deny the Company's request to recover unamortized rate case expenses from Docket E-017/GR-07-1178. (OES, ALJ)

**11. Cost of Making Charitable Contributions –** Deny recovery of the \$19,500 test year cost for making charitable contributions. (OES, ALJ)

**12. Transparency of Costs –** Require OTP to include in future rate cases both the total company and jurisdictional costs, particularly in testimony and supporting schedules as well as supporting workpapers that clearly delineate the calculation of the jurisdictional cost.

**13. Classification of 41.6 and 69 kV Lines as Transmission or Distribution –** Find that the lines in question are properly classified as transmission.

**14. Classification of 41.6 and 69 kV Lines as Transmission or Distribution –** Find that the lines in question are properly classified as transmission.

**15. Storm Damage Expense –** Adopt ALJ Finding 282, allowing OTP to recover \$423,807 in the test year for storm damage expense.

**16. Tree Trimming and Vegetation Management Expense –** Adopt ALJ Finding 283-286, setting the expense for tree trimming and vegetation management at \$1,326,448, as recommended by the OAG.

**17. Reporting Requirements on Lobbying Expenses –** Reject OTP's interpretation that Minn. Stat. §216B.16, subd. 17(a)(9) does not apply to the Company, and direct OTP to file in direct testimony in its next rate case: a) an itemized list of travel expenses that fall under the category Legislative Monitoring and Review, along with a statement indicating whether each legislative or other regulatory hearing listed there was webcast online, and an explanation justifying why travel to any hearing that was webcast was necessary, b) a schedule of its lobbying expenses as required by Minn. Stat. §216B.16, subd. 17.

18. **Cost of Long-Term Debt** – Find that the cost of Long-Term Debt is 6.68%. [OTP, OES, ALJ]
  19. **Short-Term Debt Level** – \$17,956,893 (OTP, ALJ).
  20. **Cost of Equity (ROE)** – Find that the cost of equity is 10.74% (OTP, OES, ALJ).
  21. **Rate of Return (ROR)** – The Commission will have to calculate the ROR once its decisions have been made on the amount of short-term debt, the cost of long-term debt, and the cost of equity.
  22. **Schedule E** -- Direct OTP to utilize in future rate cases a format similar to ones used by the other Minnesota utilities so that present and proposed revenues are determined properly, and direct OTP to address in the rate case compliance filing: 1. for proposed rates the incorrectly allocated total unbilled sales on a seasonal basis and 2. the incorrect proposed rate allocation of unbilled sales that needs to be taken into consideration in calculating the Unbilled and Weather Normalized Adjustment.
  23. **E8760 in CCOSS** – Adopt the ALJ Findings 168-172, supported by the OES, MCC, and Enbridge, and require OTP to use its CCOSS as revised by the OES (re-run E8760 instead of the E-1, and correct two other errors that the Company agreed to) (Now supported by OTP).
  24. **Updating Plant Costs in the CCOSS** – Adopt the ALJ Findings 174-178.
  25. **Refinement of the Embedded CCOSS** – Adopt ALJ Findings 179-182.
  26. **Class Revenue Apportionment** – Adopt ALJ Findings 403-411, and adopt the class revenue apportionment agreed to by OES and OTP, with any revenue reduction applied using the percentages that are shown in Finding 406 of total revenue apportioned to each class.
- Residential Customer Charge** – Adopt the ALJ Findings 412-414 to adopt an \$8.50 residential customer charge. (Now supported by OTP)
27. **High Load Factor Credit** – Adopt the ALJ’s Findings 421-422 on the High Load Factor Credit.
  28. **LGS and LGS Time-of-Day Rates** –
    - Adopt ALJ Findings 415-419 and 423-425; and
    - Direct OTP to provide data in direct testimony in its next rate case showing whether LGS customers have reduced their off peak energy usage as a result of the changes to rates made in the current rate case.

## 29. General Housekeeping and Compliance Filings

A. State that the final order in this docket shall include a set of financial summaries for OTP that includes: a schedule showing the calculation of OTP's authorized cost of capital, a rate base summary, an operating income statement summary, and a gross revenue deficiency calculation. Direct the parties to work with Commission staff to prepare such schedules for inclusion in the Order, should modifications be necessary to reflect the Commission's final decision.

B. Require OTP to make the following compliance filings within 30 days of the date of the final order in this docket:

1. Revised schedules of rates and charges reflecting the revenue requirement and the rate design decisions herein, along with the proposed effective date, and including the following information:

- a. Breakdown of Total Operating Revenues by type.
- b. Schedules showing all billing determinants for the retail sales of electricity.

These schedules shall include but not be limited to:

- a. Total revenue by customer class.
  - b. Total number of customers, the customer charge and total customer charge revenue by customer class.
  - c. For each customer class, the total number of energy and demand related billing units, the per unit energy and demand related cost of energy, and the total energy and demand related sales revenue.
2. Revised tariff sheets incorporating authorized rate design decisions.
3. Proposed customer notices explaining the final rates, and the monthly basic service charge.
4. A revised base cost of fuel to be put into effect with final rates, supporting schedules, and revised fuel clause tariffs.
5. A calculation of the CIP CCRSs based on the decisions made herein and schedules detailing the CIP tracker balance at the beginning of interim rates, the revenues (CCRC and CIP Adjustment Factor) and costs recorded during the period of interim rates, and the CIP tracker balance at the time final rates become effective.

6. Copies (revised as necessary) of all standard customer service agreements and contracts for inclusion in OTP's tariff book.

7. A proposal to make refunds of interim rates, including interest calculated at the average prime rate, to affected customers.

C. Authorize comments on all compliance filings within 30 days of the date they are filed.

The motion passed 5-0.

30. **Big Stone II** -- Commissioner Wergin moved to take the following actions:

- Allow the Company to recover \$6,445,062 reduced by \$3,245,761 for transmission; and
- Do not allow the Company to include the unamortized balance of the cost in rate base (earn a return); and
- Determine that the amortization period should be 5 years; and
- Require OTP to establish a tracker account to track the recovery of the Big Stone II costs, including any costs ultimately recovered under future MISO tariffs. The tracker account will be the basis used to establish a deferred credit amount for any excess amounts recovered.

The motion passed 5-0.

31. **Management Incentive Program** – Commissioner Reha moved to determine that the allowable MIP test year cost should be reduced by \$92,784.

The motion passed 5-0.

32. **Customer-Supplied Funds** – Commissioner Wergin moved to reduce rate base by \$297,581 to reflect customer supplied funds.

The motion passed 5-0.

33. **Travel and Entertainment** – Commissioner Wergin moved to take the following actions:

- Determine that OTP's lodging, meal and travel expenses are reasonable and necessary for the provision of utility service and that these expenses should be recovered in rates; and
- Deny the recovery of \$55,874.85 of test year gift expense; and
- Allow recovery of 75% of the aircraft expenses; and

- Direct OTP to file the information required by Minnesota Statutes §216B.16, subd. 17 in its next rate case in a searchable, sortable format. The Company shall modify the information describing the business purpose for each expense to more clearly describe the purpose. The filing will include the name of the employee incurring the expense and jurisdictional share of the expense. OTP shall also include a reference document that clearly describes what type of costs and activities are included in each business purpose category used by the Company. At least 90 days prior to the filing of its next rate case, the Company shall make an informational filing showing what it proposes to file to comply with this statute. The Commission encourages OTP to work with parties and staff prior to the filing of its next rate case to ensure the data it proposes to file pursuant to this statute is adequate. Parties that believe the filed information is insufficient may request that the Commission find the rate case incomplete.

The motion passed 5-0.

34. **Use of E8760 for the FCA and CCRC** – Commissioner Reha moved to take the following actions:

- Do not require OTP to use the E8760 allocator for the FCA; and
- Do not approve the use of the E8760 allocator to allocate CIP costs for the purpose of determining the CCRC because the parties have provided no evidence that justifies the change; and
- Do not approve the revision to the CIP rider tariff Section 13.02; and
- Require OTP to include in its rate case compliance filing the calculation of the CCRC; and
- Require the Company to discuss, in its next rate case, the impact of using the E8760 allocator in both the FCA and the CCRC.

The motion passed 5-0.

35. **Lobbying Expenses** – Chair Boyd moved to adopt ALJ Findings 287-296 on lobbying expenses, which would have the effect of rejecting the RUD-OAG’s recommended adjustments, except for the expenses OTP has agreed to remove (\$8,035 total company, \$3,878 on a Minnesota jurisdictional basis).

The motion passed 5-0.

36. **Rate of Return** – Commissioner Reha moved to reconsider the earlier motion on rate of return to incorporate the results of subsequent motions.

The motion passed 5-0.

Commissioner Reha moved to reflect the 8.61 rate of return resulting from earlier decisions in the Commission's deliberations.

The motion passed 5-0.

**37. Sales Forecast** – Commissioner Wergin moved to take the following actions:

- Determine that test-year sales and revenues are 2,141,125,597 kWh and \$132,806,609, respectively (OTP and ALJ position); and
- Adjust the revenue upward by \$374,825 because of the problem from using two data sets (ALJ position); and
- Require the filings requested by the OES in the next rate case.

The motion passed 5-0.

**38. Known and Measurable Changes** – Commissioner Wergin moved to determine that the costs should only be included in rate base for the time they were actually in service. Order OTP to provide the its adjustments to its filing for the plant and depreciation for the Gwinner Capacitor Banks and the Hot End Basket projects to reflect the actual in service dates.

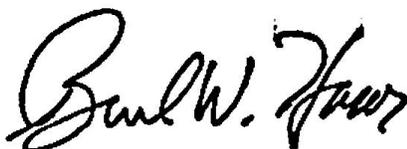
The motion passed 5-0.

**39. Jurisdictional Cost of Service Study** – Chair Boyd moved to accept the ALJ's recommendation and approve OTP's use of the equivalent peaker methodology for classifying and allocating fixed production using simple kWh sales and to direct the Company to provide a cost/benefit analysis of other methods in its next rate case.

The motion passed 5-0.

There being no further business, the meeting was adjourned.

**APPROVED BY THE COMMISSION: May 4, 2011**



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**Burl W. Haar, Executive Secretary**