

**STATE OF SOUTH DAKOTA
BEFORE THE
SOUTH DAKOTA PUBLIC SERVICE COMMISSION**

Docket No. EL15- ____

In the Matter of Otter Tail Power
Company's Petition for Approval
of the Annual Rate Update to Rate
Schedule, Section 13.05,
Transmission Cost Recovery Rider

**PETITION FOR ANNUAL UPDATE TO
TRANSMISSION COST RECOVERY RIDER RATE**

I. INTRODUCTION

In compliance with the South Dakota Public Utilities Commission's (Commission) Orders in Docket Nos. EL10-015 (10-015), EL12-054 (12-054), EL13-029 (13-029), and EL14-090 (14-090) Otter Tail Power Company (Otter Tail or Company) hereby Petitions for approval of its annual update to its Transmission Cost Recovery Rider (TCR) rate. In this filing, Otter Tail's TCR rate has been adjusted to reflect the TCR revenue requirements for the next recovery period (March 2016 – February 2017.) This update includes the projected tracker balance for the end of the current recovery period to help prevent over- or under-recovery of TCR costs. This update also includes new costs from the Southwest Power Pool (SPP) and new revenues from the Midcontinent Independent System Operator (MISO) that are not currently in base rates and have not previously been approved for inclusion in the Rider. Although the recovery period for this filing begins March 1, 2016, Otter Tail is requesting the inclusion of these new expenses and new revenues to be effective January 1, 2016, the date Otter Tail begins incurring them. No additional projects are being requested for inclusion in this update.

The calculation of the proposed revenue requirements within this Petition have been determined in accordance with the Settlement Stipulation approved by the Commission in Docket No. EL12-054. In the 12-054 Settlement Stipulation, projects that qualify for regional cost allocation through MISO tariff are accounted for using the "refined split" method. Projects

included in this update are projects currently in service and projects that will be placed in service by the end of the recovery period. The rate of return (ROR) included in this update is based on Otter Tail's actual capital structure as of 12/31/2014 using the return on equity (ROE) and capital structure methodology approved by the Commission in Docket No. EL12-054.

The proposed revenue to be collected for the March 1, 2016 through February 28, 2017 recovery period as shown in Attachment 2, is \$1,961,426 compared to the total revenue requirement of \$1,430,650 for the March 1, 2015 through February 28, 2016 timeframe, an increase of \$530,776.

This Petition updates the rates to collect 12 months of revenue requirements (\$1,961,426) over the 12 month recovery period of March 2016 to February 2017. The TCR has been updated to include actual investment costs, expenses and revenues through September 2015, updated forecast information for the remainder of the current recovery period which ends February 2016, and forecasted information for the proposed recovery period ending February 28, 2017. The increase in revenue requirement is driven primarily by the addition of new Southwest Power Pool (SPP) Schedule 9 Expenses and SPP Schedule 11 Expenses and increases in MISO Schedule 26 and Schedule 26A expenses. Otter Tail is also proposing the inclusion of new MISO Schedule 9 revenues Otter Tail anticipates receiving, beginning in 2016, as a result of expiring agreements with neighboring utilities.

Per the EL13-029 TCR Order, if the annual updates for MISO 26 and 26A Schedules anticipated to be released in January 2016 are materially different from current forecasts included in this Petition, Otter Tail will make a supplemental filing by February 1, 2016 to update the TCR rates.

The impact of the change in rates for a residential customer using 1,000 kWh per month is an increase of \$1.77 per month. For a large general service customer using 486 kW and 222,350 kWh, the bill impact of this update is an increase of \$232.62 per month.

II. GENERAL FILING INFORMATION

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 Power Company

Cary R. Stephenson
Associate General Counsel
Otter Tail Power Company
215 South Cascade Street
P.O. Box 496
Fergus Falls, MN 56538-0496
Phone (218) 739-8956

C. Title of utility employee responsible for filing

Bryce C. Haugen
Rates Analyst, Regulatory Administration
Otter Tail Power Company
215 South Cascade Street
P.O. Box 496
Fergus Falls, MN 56538-0496
Phone (218) 739-8385

D. The date of filing and the date changes will take effect

The date of this filing is October 30, 2015. Otter Tail proposes the update to the rates to go into effect as of March 1, 2016.

E. Statutes controlling schedule for processing the filing

ARSD Part 20:10:13:15 requires a 30-day notice to the Commission of a proposed change in a utility's tariff schedule, after which time the proposed changes take effect unless suspended. Because no determination of Otter Tail's general revenue requirement is necessary, Otter Tail requests an expedited and informal proceeding, including any variances that may be necessary.

Otter Tail will post a notice of proposed changes in each business office in Otter Tail's affected electric service territory in South Dakota for at least 30 days before the change becomes effective in compliance with ARSD 20:10:13:18. Attachment 21 to this Petition is the proposed customer notice required by ARSD 20:10:13:19, which will be sent to customers with the first bill rendered when the rate is effective. Otter Tail has also included Attachment 22 to comply with ARSD 20:10:13:26, which requires the Utility to report all rate schedule changes and customer impacts. Otter Tail is also providing notice to its customers pursuant to SDCL Chapter 49-34A-12.

III. TRANSMISSION COST RECOVERY

A. Background

In this Petition, Otter Tail has provided an update of its tariff rate schedule, Section 13.05, in compliance with Paragraph 10 of the Settlement Stipulation approved by the Commission's 10-015 TCR Order, referenced above. This Petition also incorporates the change in filing date approved by the Commission's 13-029 TCR Order, referenced above, which requires the following:

***Annual Reporting:** The Parties agree OTP will submit an annual TCR filing on a going forward basis to be received by the PUC by November 1 of each year. Based on this annual report, OTP will adjust the TCR rate each year based on actual costs and collections.*

The Commission's 10-015 TCR Order was made pursuant to SDCL §49-34A-25.1 and §49-34A-25.2. Annual updates to the approved tariff rate schedule are governed by SDCL §49-34A-25.3 and §49-34A-25.4, which read as follows:

§49-34A-25.3. Filing for annual rate adjustments—Contents. A public utility may file annual rate adjustments to be applied to customer bills paid under the tariff approved pursuant to §49-34A-25.2. In the utility's filing, the public utility shall provide:

- (1) A description of and context for the facilities included for recovery;*
- (2) A schedule for implementation of applicable projects;*
- (3) The public utility's costs for these projects;*

- (4) *A description of the public utility's efforts to ensure the lowest reasonable costs to ratepayers for the project; and*
- (5) *Calculations to establish that the rate adjustment is consistent with the terms of the tariff established in §49-34A-25.2.*

§49-34A-25.4. Standards for approval of annual rate adjustments. Upon receiving a filing under §49-34A-25.3 for a rate adjustment pursuant to the tariff established in §49-34A-25.2, the commission shall approve the annual rate adjustments if, after notice, hearing, and comment, the costs included for recovery through the tariff were or are expected to be prudently incurred and achieve transmission system improvements at the lowest reasonable cost to ratepayers.

Consistent with these statutory requirements, the Commission Approved Settlement Stipulation required as follows:

In the future, OTP's investment in new transmission projects will require Commission approval in a future TCR annual update filing through which Commission Staff shall be provided an opportunity to review such projects for statutory compliance. Such projects may be regional, like those described in this Settlement or they may be local (projects that do not qualify for regional cost allocation through MISO's FERC authorized rates). (10-015 TCR Order Settlement Stipulation, page 4, paragraph 3).

In compliance with the above referenced statutes and the Approved Settlement Stipulations, this Petition provides information on Otter Tail's calculations updating its TCR rate and each of the new items so that Commission Staff may review the calculations and projects for statutory compliance.

B. TCR annual update revenue requirements calculations

Attachments 1 - 4 are, respectively, the Revenue, Revenue Requirements Summary, Rate Design, and Tracker Summary calculations used for Otter Tail's proposed TCR rate update.

Attachments 5 – 11 provide the revenue requirement calculations for each of the transmission projects identified in this filing; all of which were previously approved in Otter Tail's prior TCR update filings.

These calculations have been made in compliance with prior TCR Settlement Stipulations approved by the Commission and are consistent with how Otter Tail calculated its current TCR rate. There are new components included in the calculations, for the upcoming recovery period,

related to the new SPP expenses and new MISO revenues referred to above, and explained more thoroughly in Part C of this Petition. Specifically, the calculations of the revenue requirement in this year's Petition include the following:

- *Rate base section.* This section provides details on the amount of plant in service, accumulated depreciation, construction work in progress (CWIP) (if applicable), accumulated deferred taxes, and includes a 13-month average rate base calculation.
- *Construction Work in Progress (CWIP).* SDCL §49-34A-25.2 allows a current return on CWIP.
- *Expense section.* The expenses applicable to a project are listed here and include operating costs, property taxes, depreciation, and income taxes.
- *Revenue requirements section.* This section shows the components of the revenue requirements, including expenses and return on investment. A credit to the revenue requirement is included for monies received for use of the lines by wholesale customers.
- *Return on investment (cost of capital).* Pursuant to Section III, 3. Rate of Return, found in the Approved 12-054 Settlement Stipulation, Otter Tail's revenue requirement for the retail load obligations of the transmission investment are to be based on the rate of return methodology agreed to in the 12-054 Settlement Stipulation using Otter Tail's actual capital structure as of December 31, 2014 and the ROE agreed to in the 12-054 Settlement Stipulation.
- *Depreciation expense.* Depreciation expense has been calculated using the Company's current depreciation rates.
- *Property taxes.* The property tax calculation is based on Otter Tail's composite tax rate for the jurisdiction in which the transmission facilities are located, and is calculated in accordance with the procedures specified by that state.
- *Operation and Maintenance (O&M) expense.* Annual O&M expense of the transmission lines typically includes costs related to line patrol and inspections, vegetation management, small repair items, and supervision of this work. Scheduled transmission line patrols are typically done once every other year on high voltage lines. Unscheduled patrols are completed for line sections where an unexplained interruption has occurred. To reduce costs of patrol after an interruption, data from distance relays are used to define the patrol area. Vegetation management of new lines is typically limited since Otter Tail's construction standard is to remove as many trees as possible and leave only low growing brush. Vegetation management is then completed based on information gathered during line patrols. O&M costs are dependent on tree growth and items found on line patrols, the cost of North American Electric Reliability Corporation reporting requirements, and supervision. Otter Tail has set up transmission O&M accounting projects to track O&M costs specifically related to each line included in the Transmission Rider.

- *MISO Schedule 26 and 26A expenses.* Schedule 26 and Schedule 26A costs for the recovery period appear on lines 14 and 15 of the Tracker Account (Attachment 4) and are shown separately in Attachment 13. As stated in the 12-054 Settlement Stipulation, Section III, 4.b., “the TCR will flow through the jurisdictional share of Schedule 26 and Schedule 26A expenses incurred by OTP as an active member of MISO, adjusted for the amount of such expenses associated with OTP’s investment in projects that are not included in the rider.”
- *SPP Schedule 7, 8, and 9 expenses.* A new expense item from SPP has been included as a revenue requirement in this year’s TCR tracker. Schedules 7, 8, and 9 are included as part of SPP’s Open Access Transmission Tariff (OATT) and refer to transmission rate schedules for serving Otter Tail load in SPP. MISO has similar schedules under its OATT, however, Otter Tail does not pay expenses related to these schedules in MISO today. Otter Tail expects that SPP Schedule 9 will be taken to serve Otter Tail load within SPP starting January 1, 2016, but the Otter Tail election of either Schedule 7, 8, and 9 (or any combination thereof) is subject to on-going discussions occurring between several parties. This expense, beginning January 2016, appears on Line 16 of the Tracker Account (Attachment 4), and is shown separately in Attachment 14. Part C below provides further information of these expenses.
- *SPP Schedule 11 expenses.* Another new expense item from SPP has also been included as a revenue requirement beginning January 2016 in this year’s TCR tracker. Schedule 11 is part of SPP’s OATT and is similar to the MISO Schedule 26 and 26A expenses that Otter Tail incurs. These expenses are for the cost of economic and reliability projects approved through SPP’s Integrated Transmission Planning process. The expenses included in this TCR update are Otter Tail’s forecasted share of the costs for facilities whose costs are shared on a regional and zonal basis. This expense appears on Line 17 of the Tracker Account (Attachment 4), and is shown separately in Attachment 14. Part D below provides further information of these expenses.
- *MISO Schedule 9 revenues.* A new revenue stream is expected to commence on January 1, 2016 in concurrence with the new SPP Schedule expenses that Otter Tail expects to begin incurring. This revenue is meant to compensate Otter Tail for the use of its transmission facilities by different utilities for serving their load within MISO. In this case, Central Power Electric Cooperative (CPEC) will begin taking Network Integration Transmission Service from MISO, which will result in compensation to Otter Tail since CPEC will be utilizing Otter Tail’s transmission system to serve its customers. The revenues included in this TCR update beginning January 2016 are Otter Tail’s share of the forecasted revenues from CPEC. This revenue appears on Line 21 of Attachment 4, and is shown separately in Attachment 15. Part E below provides further information of these revenues.
- *MISO Schedule 26 and 26A revenues.* Schedule 26 and 26A revenues, for the recovery period, appear on lines 22 and 25 of the Tracker Account Summary (Attachment 4) and are shown separately on Attachment 16 (Schedule 26) and Attachment 17 (Schedule

26A). As stated in the 12-054 Settlement Stipulation, Section III,2.c, “Retail customers will be credited a pro-rata share of FERC-authorized MISO Schedule 26 revenues associated with the Company’s MISO-determined responsibility for OTP’s investment in the regional transmission projects, offsetting corresponding Schedule 26 expenses. The Company will retain the portion of its Schedule 26 revenues associated with other MISO members’ responsibility for OTP’s investment in the projects in order to cover the remaining revenue requirements for such projects.” As a result of the inclusion of the CAPX 2020 Brookings, SD to Hampton, MN 345 kV project approved in 14-090, Schedule 26A revenues attributable to the investment in the MVP project have been included in this TCR update.

- *MISO Tariff Schedule 37 and Schedule 38 Revenue Credits.* The TCR rate update calculation includes revenue credits to reflect revenues received from MISO pursuant to Schedules 37 and 38 of the MISO Tariff. The Schedule 37 revenues represent Otter Tail’s allocation from MISO of the Schedule 26 cost allocation assigned to American Transmission Systems Inc. (ATSI) for transmission investments of MISO transmission owners. ATSI withdrew from MISO on June 1, 2011 to integrate with PJM, a different regional transmission organization. The Schedule 38 revenues represent Otter Tail’s allocation of payments from Duke-Ohio (“DEO”) and Duke-Kentucky (“DEK”) that departed MISO on December 31, 2011. ATSI, DEO, and DEK have an ongoing obligation to pay for MISO Schedule 26 transmission projects due to their prior MISO membership.

Note that in Attachment 18, there are no forecast amounts for Schedule 37 and 38 revenues. MISO does not provide a separate forecast for those revenues, but includes any Schedule 37 and 38 revenues within the Schedule 26 revenue forecasts that MISO develops. MISO does delineate Schedule 37 and 38 revenues when reporting actuals. The Schedule 37 revenue credit reflected in this TCR update is \$1,115 as shown in Attachment 4, line number 23. The Schedule 38 revenue credit reflected in this TCR update is \$1,520, shown in Attachment 4, line number 24. These are actual amounts through September 2015 and are included as part of the 2015 true-up amount.

A detailed description of this MISO schedule can be found at:

<https://www.misoenergy.org/Library/Tariff/Pages/Tariff.aspx>

- *MISO Multi-Value Project Auction Revenue Rights.* This revenue stream from MISO, attributable to Multi-Value Project Auction Revenue Rights (MVP ARR), has been included as a credit in this year’s TCR tracker. The MVP ARR revenues are derived from increased transmission capacity attributable to MVP projects placed in service within the MISO footprint. The value of these MVP ARR is determined during MISO’s annual Financial Transmission Rights auction process. The revenues are being distributed monthly to Asset Owners who pay for MVPs through MISO settlements, allocated in a manner similar to the allocation of Schedule 26A expenses. The revenue is identified in Attachment 19, and is included in the TCR Rider based on South Dakota’s jurisdictional share. As stated earlier, this revenue is reflected as a credit in the rider (Attachment 2, line 22, and Attachment 4, line 26).

MISO began distributing MVP ARR revenues in June 2014. South Dakota's share is noted on Attachment 19. Otter Tail has used the past twelve months of actual revenues to project future distributions from MISO. The estimates are subject to change based on seasonal values for transmission capacity, projects in service, and available additional transmission capacity. As with all other revenues and expenses, Otter Tail will true-up these amounts to actuals in the next Annual TCR filing.

- *Revenue credit for administrative and general expenses recovered through MISO tariff for non-retail portion of projects qualifying for regional cost allocation.* Otter Tail has included in these TCR rate update calculations an additional revenue credit (reduction to TCR revenue requirements) to account for reimbursements through MISO's tariff for administrative and general O&M expenses. The revenue credit is for the entire amount of such revenues received through the MISO tariff, whether related to the retail or nonretail portion of projects that qualify for regional cost allocations. This application of revenues to reduce the retail revenue requirement provides reimbursement to retail customers for any such costs as may already be recovered through Otter Tail's current retail rates. The revenue credit is reflected in Attachments 16, 17, and 18 on the lines titled "Overhead Credit for Non-Retail Share" for each project. For the proposed recovery period, the percentage is 1.275 percent of the total investment in the projects. This percentage was established for these costs as part of the FERC-approved MISO tariff.

C. Southwest Power Pool Schedules 7, 8, and 9 Expenses - Attachment 14

A new expense item from SPP has been included as a revenue requirement effective January 2016 in the TCR tracker covering this annual update. Schedules 7, 8, and 9 are included as part of SPP's Open Access Transmission Tariff (OATT) and refer to transmission rate schedules that represent different types of transmission service for serving load within SPP (firm point to point, non-firm point to point, and network integration transmission service represent Schedules 7, 8, and 9, respectively). Otter Tail expects to incur new schedule 7, 8, and 9 expenses (or any combination thereof) from SPP starting January 1, 2016. MISO has similar schedules under its OATT, however, Otter Tail does not pay expenses related to these schedules in MISO today due to utilizing section 37.3 of the MISO tariff ("bundled load exemption").

Otter Tail's system is integrated with CPEC's system. Currently, Otter Tail and CPEC have an Integrated Transmission Agreement (ITA) that allows for reciprocal usage rights of this integrated transmission system. The ITA between Otter Tail and CPEC expires at the end of 2015. Furthermore, CPEC has indicated it will join SPP as a transmission owner effective January 1, 2016, concurrent with the expiration of the ITA. As a result of these two events occurring at the end of this year, usage rights on the integrated transmission system will be administered through the respective tariffs of either MISO or SPP. Consequently, Otter Tail load served from transmission facilities under the SPP tariff may be subject to Schedule 7, 8, and 9 expenses (or any combination thereof) starting January 1, 2016.

While there is uncertainty about the transmission service that may be needed by Otter Tail within SPP during 2016, SPP has provided estimates indicating that Otter Tail could be charged approximately \$4 million (Total System) in 2016. South Dakota's jurisdictional share (using D2 allocator of 9.816 percent) for 2016 is estimated to be \$389,634. Any difference between the forecasted charges and the actual charges incurred as a result of SPP Schedules 7, 8, and 9 (or any combination thereof) will be trued up in next year's filing.

D. Southwest Power Pool Schedule 11 Expenses – Attachment 14

SPP Schedule 11 expenses are another new expense item that has been included as a revenue requirement effective January 2016 in this year's TCR tracker. Schedule 11 is part of SPP's OATT and is similar to the MISO Schedule 26 and 26A expenses that Otter Tail incurs. These expenses are for the cost of economic and reliability projects approved through SPP's Integrated Transmission Planning (ITP) process. The expenses included in this TCR update are Otter Tail's estimated share of the costs for facilities whose costs are shared in whole or in part on a regional basis and on a zonal basis.

As noted above, Otter Tail load that may be served from transmission facilities under the SPP tariff is expected to be subject to SPP Schedule 11 expenses starting January 1, 2016.

While there is uncertainty about the amount of these charges during 2016, SPP has provided estimates indicating that Otter Tail could be charged \$92,475 (Total System) in 2016 for Schedule 11. South Dakota's jurisdictional share (using D2 allocator of 9.816 percent) for Otter Tail's Schedule 11 expenses in SPP for 2016 is estimated to be \$9,077. Any difference between the forecasted charges and the actual charges incurred as a result of SPP Schedule 11 will be trued up in next year's filing.

E. MISO Schedule 9 Revenues – Attachment 15

MISO Schedule 9 revenues are a new revenue item that has been included as a revenue requirement effective January 2016 in this year's TCR tracker. As a result of the ITA expiration between Otter Tail and CPEC at the end of 2015, it is expected that CPEC will be required to pay for its use of Otter Tail's transmission system in MISO. This is similar to Otter Tail paying for its use of CPEC's transmission system in SPP. Since CPEC is using Otter Tail's transmission system to serve its customers, Otter Tail will collect new MISO Schedule 9 revenues. The revenues included in this TCR update are Otter Tail's estimated portion of the new revenues for transmission facilities used by CPEC.

While there is uncertainty about the amount of these revenues during 2016, Otter Tail estimates these revenues could be \$1,823,132 (Total System) in 2016. South Dakota's jurisdictional share (using D2 allocator of 9.816 percent) for Otter Tail's Schedule 9 revenues in MISO for 2016 is estimated to be \$178,953. Any differences between the forecasted revenues and the actual revenues received as a result of MISO Schedule 9 will be trued up in next year's filing.

Discussions on-going to resolve MISO/SPP Seams Issues

Discussions are on-going to find an equitable solution to address CPEC's move into SPP and the expiration of the ITA resulting in the impact on Otter Tail customers due to a portion of Otter Tail's load that may be subject to the SPP tariff expenses noted above. Should the outcome of these discussions materially alter or change the amounts associated with the SPP expenses noted above during the time this Docket is open, Otter Tail will provide updated information and revised rate calculations in a supplemental filing by February 1, 2016.

F. Projects Previously Approved for Recovery in Otter Tail's TCR

The following projects were previously approved for inclusion in Otter Tail's TCR in Docket Nos. EL10-015, EL12-054, EL13-029, and EL14-090.

1. CapX2020 Fargo – Twin Cities Phase 1
2. CapX2020 Bemidji – Grand Rapids
3. Cass Lake - Bemidji (Part of CapX2020 Bemidji–Grand Rapids)
4. Rugby Wind Interconnection
5. Casselton – Buffalo 115 kV
6. Oakes Area Transmission Improvements
7. CapX2020 Brookings - Hampton

The actual and forecast costs for these projects have been updated and carried out through February 2017 and are reflected in Attachments 5 through 11. The following, previously approved projects, will be completed and placed in service during the recovery period proposed within this update:

- All projects that make up CapX2020 Brookings to Hampton will be energized by the end of 2015 and are included in the recovery of this TCR update.

Update of Casselton to Buffalo – Attachment 9

In Docket EL14-090, the Commission approved Otter Tail's recovery of costs associated with the Casselton to Buffalo Transmission Project. Otter Tail's estimated capital costs for the project were projected at \$13,162,368 (Total System) in the approved petition. South Dakota's jurisdictional share of Otter Tail's total capital costs for the project based on the D2 allocation factor of 9.816 percent and retail share of 52.06 percent was approximately \$673,000.

Since the last filing, the overall cost of the project has changed slightly due to the Courtenay Wind Interconnection project proceeding at Jamestown, North Dakota, resulting in an opportunity to implement a different design for the Buffalo 345/115 kV Transformer portion of the project that will offer a higher level of reliability. The change also caused a slight decrease in the overall cost of the project. This portion of the project is now scheduled to be in service April 2017 so will not be recovered in the TCR until January 2018.

The current estimate for the Casselton to Buffalo Transmission Project is \$12,542,966. South Dakota's jurisdictional share of the total project based on the D2 allocation factor of 9.816 percent and retail share of 52.92 percent is \$651,560. This is a decrease of approximately \$21,000 for South Dakota customers.

Update of Oakes Area Transmission Improvements – Attachment 10

In Docket EL14-090, the Commission approved Otter Tail's recovery of costs associated with Oakes Area Transmission Improvements. Otter Tail's estimated capital costs for the project were projected at \$6,412,503 (Total System) in the approved petition. South Dakota's jurisdictional share of Otter Tail's total capital costs for the project based on the D2 allocation factor of 9.816 percent was \$629,433. In that Petition, Otter Tail projected that the substation site work and construction of the nine miles of 41.6 kV line would be completed by the end of 2014 with the remainder of the project related to the 230 kV and 41.6 kV breakers and substation work being completed in 2015.

The higher water table stemming from rainfall in the project construction zone has led to the need for modifications to the project design and has led to increased costs. Certain aspects of the project design have been modified as construction has progressed due to the higher water table. These poor conditions have resulted in higher overall project costs. Specifically, labor costs for drilling and setting structures have increased as have the costs for foundations at the structures. Some structures have needed to be modified from standard wood structures to laminated wood structures in order to preserve integrity of the line given the high water table.

The current estimate for the Oakes Area Transmission Improvements is \$6,785,549. South Dakota jurisdictional share of the total project based on the D2 allocation factor of 9.816

percent is \$666,069, an increase of \$36,636 in South Dakota's share of the project compared to the amount included in Docket EL14-090.

G. No new transmission projects included in the TCR rate update.

In this Petition, Otter Tail is not requesting the addition of any new transmission projects for TCR Rider recovery.

IV. RATE DESIGN

The TCR allocation factors and rate design follow the terms of the Approved 10-015 Settlement Stipulation Order, paragraph 6. Specifically, the TCR uses a rate design based on the transmission demand allocation factor, D2 from Otter Tail's most recent South Dakota general rate case (Docket No. EI-10-011) to allocate total revenue requirements to jurisdictions (South Dakota, 9.816 percent) and rate classes. The large general service (LGS) class's portion of retail revenue requirements based on this D2 factor is 33.96 percent. The remaining portion (66.04 percent) of the retail revenue requirements will be collected from the non-LGS rate classes.

Otter Tail's current LGS rate design, as identified in the Approved 10-015 Settlement Stipulation Order, incorporated the 2011 forecast demand (\$/kW-month) and energy (¢/kWh) revenue components to recover the transmission project costs in a manner that follows existing LGS base rate design. For this update, Otter Tail has similarly based the LGS rate design on the proposed recovery period forecast demand and energy revenue components, specifically, 35 percent demand and 65 percent energy.

For the remaining retail rate classes (non-LGS), Otter Tail proposes to continue an energy only rate, consistent with the current rate structure. A rate for each class is a separate energy based (kWh) charge calculated by dividing the total class revenue requirements by the corresponding kilowatt-hour sales for the projected period.

The rate design detail is included in Attachment 3.

V. RATE APPLICATION AND IMPACT

As indicated earlier, the annual revenue requirement to be collected for the next recovery period of March 2016 through February 2017 has increased from \$1,430,650 for the current recovery period to \$1,961,426 as shown in Attachment 22. The increase is due in large part to the inclusion of SPP expenses from Schedule 9 and Schedule 11, increases in MISO Schedule 26 and Schedule 26A expenses, and projects being placed in service and beginning recovery. In addition to these changes, the “Mar ’15 – Feb ’16 True-Up” expense as a result of a projected under-collection balance at the end of the current recovery period increases the revenue requirement \$30,342 for the proposed recovery period.

The following table compares the summaries from Attachment 2 and helps illustrate the factors which contributed to the difference between the current revenue requirement and the proposed revenue requirement. As noted above, the proposed effective date of the change in rates is March 1, 2016. If the effective date is more than 45 days later than March 1, 2016, Otter Tail requests that it be allowed to recalculate the TCR rates in order to recover all approved costs in the remainder of the recovery period.

Attachment 2 Summaries

| | A | B | C | D |
|----------|------------------------------|---|---|------------|
| Line No. | Revenue Requirements | Existing March 2015 - February 2016 | Proposed March 2016 - February 2017 | Difference |
| 1 | CAPX 2020 - Fargo | 84,096 | 103,716 | 19,620 |
| 2 | CAPX 2020 - Bemidji | 23,721 | 24,198 | 477 |
| 3 | Cass Lake-Nary-Helga-Bemidji | 24,316 | 24,770 | 454 |
| 4 | Rugby Wind Interconnection | 576 | 556 | (20) |
| 5 | Casselton – Buffalo 115 kV | 41,217 | 41,138 | (79) |
| 6 | Oakes Area Transmission | 37,396 | 63,968 | 26,572 |
| 7 | CAPX 2020 - Brookings | 1,758 | 2,184 | 426 |
| 8 | | | | |
| 9 | SD Filing Fee | 5,000 | 5,000 | - |
| 10 | | | | |
| 11 | MISO Schedule 26 Expense | 1,191,228 | 1,250,346 | 59,118 |
| 12 | MISO Schedule 26A Expense | 286,324 | 498,908 | 212,584 |
| 13 | | | | |
| 14 | SPP Schedule 9 Expense | - | 389,634 | 389,634 |
| 15 | SPP Schedule 11 Expense | - | 9,077 | 9,077 |
| 16 | | | | |
| 17 | MISO Schedule 9 Revenue | - | (178,953) | (178,953) |
| 18 | MISO Schedule 26 Revenue | (172,292) | (288,024) | (115,732) |
| 19 | MISO Schedule 26A Revenue | (7,519) | (8,581) | (1,062) |
| 20 | MISO Schedule 37 Revenue | - | - | - |
| 21 | MISO Schedule 38 Revenue | - | - | - |
| 22 | MISO MVP ARR Revenue | (3,534) | (6,478) | (2,944) |
| 23 | | | | |
| 24 | Carrying Cost | (2,777) | (374) | 2,403 |
| 25 | Mar '15 - Feb '16 True-Up | (78,860) | 30,342 | 109,202 |
| 26 | | | | |
| 27 | Total | 1,430,650 | 1,961,426 | 530,776 |

Column A in the table above reflects the components that make up the Revenue Requirements for the proposed recovery period. Column B reflects the Revenue Requirement for each component for the last approved TCR Update. Column C reflects the proposed Revenue Requirement for each component for the current TCR Update. Column D is the difference between Column B and Column C. Line 14 and Line 15 are the new SPP expenses that are being requested for inclusion in this filing and Line 17 is the new MISO revenue that is being requested for inclusion. All other components have previously been approved for inclusion in the TCR.

The impact of the change in rates for a residential customer using 1,000 kWh per month is an increase of \$1.77 per month. For a large general service customer using 486 kW and 222,350 kWh, the bill impact of this update is an increase of \$231.79 per month.

The total March 2016 through February 2017 revenue requirements, as shown on line 1 in Attachment 3, are \$1,959,454. The proposed rates are calculated on lines 2-16 of Attachment 3. The Transmission Rider is applicable to electric service under all of Otter Tail’s retail rate schedules. The charge is included, for administrative purposes, as part of the Energy and Renewable Adjustment line on customers’ bills. The proposed rates beginning March 1, 2016 are as follows:

| TCR Rate Class | Rate | |
|-----------------------|----------|-------|
| Large General Service | \$ 0.606 | /kW |
| | 0.236 | ¢/kWh |
| Controlled Service | 0.093 | ¢/kWh |
| Lighting | 0.384 | ¢/kWh |
| All Other Service | 0.653 | ¢/kWh |

The Proposed Customer Notice and Rate Impact is contained in Attachment 21.

The proposed rates are based on the assumption that they will be in effect beginning March 1, 2016 through February 28, 2017.

VI. TRANSMISSION COST RECOVERY RIDER TARIFF SHEET

Otter Tail’s redline and clean Transmission Cost Recovery Rider tariff sheet (Section 13.05) is Attachment 20 to this Petition. The rates listed in the RATE section of the tariff sheet have been updated to reflect the changes described in this annual update.

VII. FILING FEE

Under SDCL § 49-1A-8, the Commission may require a deposit of up to fifty thousand dollars for the filing of a tariff for approval under the provisions of §49-34A-4 and §49-34A-25.1 to §49-34A-25.4, inclusive, or makes a filing pursuant to §49-34A-97 to §49-34A-100. Otter Tail will pay such deposit amount as the Commission determines appropriate upon the Commission’s Order assessing such fee.

VIII. CONCLUSION

For the foregoing reasons, Otter Tail respectfully requests approval to implement the Transmission Cost Recovery Rider, Section 13.05, effective as of March 1, 2016.

Date: October 30, 2015

Respectfully submitted:

OTTER TAIL POWER COMPANY

/s/ BRYCE C. HAUGEN
Rates Analyst
Regulatory Administration
Otter Tail Power Company
215 South Cascade Street
P.O. Box 496
Fergus Falls, MN 56538-0496
Phone (218) 739-8385