

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

**In the Matter of the Petition of Otter Tail Power)
Company for Approval of its 2016 Transmission) SUPPLEMENTAL FILING
Cost Recovery Eligibility and Rate Adjustment)
) EL15-045**

This Supplemental Filing reflects Otter Tail Power Company's (Otter Tail) updates in the above-captioned docket.

I. BACKGROUND

In Compliance with the South Dakota Public Service Commission's (Commission) November 30, 2011, ORDER GRANTING JOINT MOTION FOR APPROVAL OF STIPULATION in Docket No. EL10-015 and the Commission's February 21, 2014, ORDER GRANTING JOINT MOTION FOR APPROVAL OF STIPULATION (Order) in Docket EL13-029, Otter Tail submitted its initial filing in Docket EL15-045 (Petition) on October 30, 2015 as required by the Order for the purpose of annually adjusting the Transmission Cost Recovery Rider (TCRR) rate effective March of the following year and to give the Commission an opportunity to review new transmission revenues and expenses for TCRR eligibility.

Otter Tail's Initial Petition requested approval of its 2016 TCRR rate adjustment to be effective March 1, 2016 based upon actual data through September 2015 and projected costs and collections from October 2015 through February 2017. This Supplemental filing includes actual data through December 2015 and updated projected costs and collections from January 2016 through February 2017.

Since the Initial Petition was filed, Commission Staff and Otter Tail (the Parties) have held discussions regarding Otter Tail's Petition. In their discussions, the Parties identified updates that would be incorporated into the determination of the Revenue Requirement and associated rates. This supplemental filing incorporates the updates that were discussed, details of which are listed in the following section.

II. REVENUE REQUIREMENT AND RATE CALCULATION UPDATES

The following items have been incorporated into the updated Revenue Requirement calculations provided in this Supplemental Filing. In aggregate, these adjustments decrease the

revenue requirement from \$1,961,427 in the Initial Filing to \$1,895,428 in this Supplemental Filing. These revenue requirement amounts assume the new Southwest Power Pool (SPP) Schedule 9 and Schedule 11 expenses and new Midcontinent Independent System Operator (MISO) Schedule 9 revenues are approved for inclusion in the TCRR.

1. Data Request 1-2: The revenue requirement calculation has been updated to include the estimated 12/31/2015 Capital Structure and Cost of Debt.
2. Data Request 1-3: In all Attachments, where applicable, actual revenues and expenses through December 2015 have been updated from the forecasted data filed in the Initial Filing. The forecasts, where applicable, for the remaining months of the recovery period have also been updated.
3. Data Request 1-8: SPP Schedule 9 and Schedule 11 expense forecasts have been updated based on current projections. These updated amounts are included in Attachment 14. As noted in the Initial Filing, responses to information requests, and discussion between the Parties, these are new costs Otter Tail began incurring January 1, 2016 due to the share of Otter Tail's load now in the SPP footprint due to Central Electric Power Cooperative (CPEC) joining SPP and the expiration of the Integrated Transmission Agreement between CPEC and Otter Tail. The SPP expenses, and associated MISO Schedule 9 revenues, provided in this filing are Otter Tail's best estimates of these expenses and revenues, as of January 29, 2016 for the proposed recovery period.

Otter Tail continues to explore options to protect its customers from increased costs from CPEC's decision to join SPP effective January 1, 2016 including seeking relief from FERC through participation in FERC Docket ER16-209-000 and exploring the option to build new facilities. Going forward, Otter Tail will continue to pursue both of these options and be ready to move accordingly in order to minimize impacts to ratepayers as we gain more clarity and direction from FERC.

4. Otter Tail has updated the South Dakota Gross Receipts Tax Levy amount from 0.15% to 0.14% per the Order in Docket AA14-001.
5. Actual MISO expense and revenue has been updated through December 2015 and forecasts for January 2016 and forward have been updated based on January 2016 data available on the MISO website.

The Parties are aware of the complaint filed with the Federal Energy Regulatory Commission (FERC) in Docket EL14-12-000 and the recent ruling made by the Administrative Law Judge in that case recommending a reduction of the return on equity (ROE). Since a decision in this FERC case is still pending, the MISO revenues and expenses included in this update are still based on the current FERC ROE. Otter Tail anticipates that any changes in the FERC ROE and settlements associated with an ROE change to be handled through the MISO settlement process. Otter Tail will include any changes due to FERC Docket EL14-12-000 in the earliest TCRR update following the final decision and settlement through the MISO process.

6. Otter Tail has made a one-time adjustment in December 2015 to remove the month-lag that previously existed in the recording of MISO revenues and expenses. This was done to comply with Generally Accepted Accounting Principles.
7. Otter Tail has elected to take bonus depreciation for 2015 which was approved by Congress late December 2015.
8. Otter Tail has adjusted project tax depreciation due to Congress' approval of bonus depreciation for 2015 and 2016. Due to the election of bonus depreciation for 2015, Otter Tail will recognize a Net Operating Loss Deferred Tax Asset (NOL DTA) and includes this amount, by project, in conjunction with the bonus depreciation.
9. The incorporation of an adjustment to plant related Accumulated Deferred Income Taxes (ADIT) offset to rate base in accordance with the proration requirements found in Internal Revenue Service (IRS) regulation section 1.167(1)-1(h)(6) is included.

Subsequent to Otter Tail's Initial Filing in this Docket, Otter Tail completed an analysis on an IRS rule interpretation related to the normalization of ADIT in a forward looking test year used for rate-making purposes. This matter was brought to light by a series of Private Letter Rulings issued by the IRS to a number of other utilities.

IRS Regulation Section 1.167(1)(h)(6) provides that ratemaking procedures and adjustments must be consistent with normalization accounting. This section defines the procedures a company must use to normalize the impact on rate making if a company elects to use accelerated depreciation methods. Specifically, this section stipulates that the monthly changes to the deferred taxes balance, as calculated by the company, must be prorated prior to computing the average of beginning and ending balances for ADIT. According to the rule, Otter Tail would risk losing its ability to take accelerated depreciation if it fails to comply with this rule. Accelerated depreciation is a benefit to ratepayers as ADIT amounts are credited against rate base amounts when establishing rates making adherence to this rule important to South Dakota customers.

As noted earlier, at the time of the Initial Filing, Otter Tail had not fully analyzed the impact of the ADIT proration issue and had therefore not incorporated the implications of this rule in its revenue requirement calculation. Otter Tail recently completed its analysis and application of the proration methodology to its project ADIT balances and has included a new attachment, Attachment 23, in this supplemental filing that reflects the revenue requirement changes (an increase to the revenue requirement) for the projects from the prorating of forecast ADIT amounts. In Otter Tail's next update to its TCRR, actual ADIT balances will replace the prorated forecast ADIT amounts included in this filing; the difference between the actuals and prorated forecast amounts will be incorporated into the true-up applicable to the next collection period.

Adherence to this IRS rule results in an increase of \$586 (Revised Attachment 2, Line 24) to the Revenue Requirement for the proposed recovery period. This adjustment also impacts the prior period and results in a \$64 increase to the Revenue Requirement by increasing the under-collection depicted in the True-Up (Revised Attachment 2, Line 26). In total, compliance with this rule results in a \$650 increase to the revenue requirement in this Docket due to the lower ADIT balance as a result of the proration.

Updated Revenue Requirements and Rate Impacts

The following table has been prepared to quantify the impact of the updates outlined above from the revenue requirement provided in the Initial Petition. Specifically, the table shows a comparison of the revenue requirement and rate proposed in the Initial Filing (Column B), the Supplemental Filing (Column C) and the difference between the two (Column D).

Comparison of Revenue Requirements and Associated Rates

Line No.	A	B	C	D	
		October 30, 2015 Initial Filing	January 29, 2016 Supplemental Filing		
		March 1, 2016 - February 28, 2017	March 1, 2016 - February 28, 2017	Change (C-B)	
1	CAPX 2020 - Fargo	\$103,716	\$94,596	(\$9,120)	
2	CAPX 2020 - Bemidji	24,198	23,033	(\$1,165)	
3	Cass Lake-Nary-Helga-Bemidji	24,770	23,645	(\$1,125)	
4	Rugby Wind Interconnection	556	567	\$11	
5	Casselton – Buffalo 115 kV	41,138	39,415	(\$1,723)	
6	Oakes Area Transmission	63,968	63,784	(\$184)	
7	CAPX 2020 - Brookings	2,184	2,026	(\$158)	
8					
9	SD Filing Fee	5,000	5,000	\$0	
10					
11	MISO Schedule 26 Expense	1,250,346	1,184,152	(\$66,194)	
12	MISO Schedule 26A Expense	498,908	494,857	(\$4,051)	
13					
14	SPP Schedule 9 Expense	389,634	355,250	(\$34,384)	
15	SPP Schedule 11 Expense	9,077	16,181	\$7,104	
16					
17	MISO Schedule 9 Revenue	(178,953)	(188,318)	(\$9,365)	
18	MISO Schedule 26 Revenue	(288,024)	(272,266)	\$15,758	
19	MISO Schedule 26A Revenue	(8,581)	(8,621)	(\$40)	
20	MISO Schedule 37 Revenue	0	0	\$0	
21	MISO Schedule 38 Revenue	0	0	\$0	
22	MISO MVP ARR Revenue	(6,478)	(6,478)	(\$0)	
23					
24	Pro-Rate ADIT	0	\$586	\$586	
25	Carrying Cost	(374)	1,036	\$1,410	
26	Mar '15 - Feb '16 True-Up	30,342	66,982	\$36,640	
27					
28	Total	\$1,961,427	\$1,895,428	(\$65,999)	
29					
30	Large General Service Class	\$ / kW	0.606	0.586	(0.02)
31	Large General Service Class	cents / kWh	0.236	0.228	(0.01)
32					
33	Controlled Service	cents / kWh	0.093	0.089	(0.00)
34	Lighting	cents / kWh	0.384	0.371	(0.01)
35	All Other Service	cents / kWh	0.653	0.631	(0.02)

1. Implementation of Rates and Customer Impact:

Approved final rates shall be implemented on bills rendered on and after March 1, 2016. These rates are designed to reflect the TCRR revenue requirements through February 2017; they will be in effect until the Commission approves the next TCRR rate update.

Proposed Rates:

<u>Class</u>	<u>¢ / kWh</u>	<u>\$ / kW</u>
Large General Service	0.228¢	\$0.586
Controlled Service	0.089¢	N/A
Lighting	0.371¢	N/A
All other service	0.631¢	N/A

The impact of the change in rates for a residential customer using 800 kWh per month is an increase of \$1.24 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 \$205.03 per month.

2. Tariffs:

Otter Tail will submit revised tariff sheets through a compliance filing after the Commission renders a final decision in this docket.

III. SUMMARY

Otter Tail respectfully requests Commission approval of the updated revenue requirement and associated rates, including the new SPP expenses and MISO revenues proposed in the Initial Filing for inclusion in the TCRR, and to implement the updated Transmission Cost Recovery Rider, Section 13.05 rates, effective as of March 1, 2016.

Date: February 3, 2016

Respectfully submitted:

OTTER TAIL POWER COMPANY

/s/ BRYCE C. HAUGEN

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