

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

Docket No. EL16-

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, EL12-054, EL13-029, EL14-090, and EL15-045, Otter Tail Power Company (Otter Tail or Company) hereby Petitions for approval of its annual update to its Transmission Cost Recovery Rider (TCRR) rate.

In this filing, Otter Tail's TCRR rate has been adjusted to reflect the TCRR revenue requirements for the next recovery period (March 2017 – February 2018.) This update includes the projected tracker balance for the end of the current recovery period to help prevent over- or under-recovery of TCRR costs. This update also includes: (1) the addition of one new transmission project that is not currently in base rates and has not previously been included in the Rider and (2) details of the Midcontinent Independent System Operator (MISO) Return on Equity complaints.

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 EL12-054 Settlement Stipulation, projects that qualify for regional cost allocation through the 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 12/31/2015 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, 2017 through February 28, 2018 recovery period as shown in Attachment 2, is \$1,969,053 compared to the total revenue requirement of \$1,895,428 for the March 1, 2016 through February 28, 2017 timeframe, an increase of \$73,625.

This Petition updates the rates to collect 12 months of revenue requirements over the 12 month recovery period of March 2017 to February 2018. The TCRR has been updated to include actual investment costs, expenses and revenues through September 2016, updated forecast information for the remainder of the current recovery period which ends February 2017, and forecasted information for the proposed recovery period ending February 28, 2018. The increase is due to an increase in MISO Schedule 26A expenses and projects being placed in service and beginning recovery, offset by a reduction in Southwest Power Pool related charges.

Per the EL13-029 TCRR Order, if the annual updates for MISO 26 and 26A Schedules anticipated to be released in January 2017 are materially different from current forecasts included in this Petition, Otter Tail will make a supplemental filing by February 1, 2017 to update the TCRR rates.

The impact of the change in rates for a residential customer using 1,000 kWh per month is an increase of \$0.51 per month. For a large general service customer using 486 kW and 222,350 kWh, the bill impact of this update is a decrease of \$8.95 per month.

II. GENERAL FILING INFORMATION

A. Name, address, and telephone number of the utility making the filing

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B. Name, address, and telephone number of the attorney for Otter Tail Power Company

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

The date of this filing is November 1, 2016. Otter Tail proposes the update to the rates to go into effect as of March 1, 2017.

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 23 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 24 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 provides an update of its tariff rate schedule, Section 13.05, in compliance with Paragraph 10 of the Settlement Stipulation approved by the Commission’s EL10-015 TCRR Order, referenced above. This Petition also incorporates the change in filing date approved by the Commission’s EL13-029 TCRR 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 EL10-015 TCRR 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). (EL10-015 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 TCRR rate and each of the new items so that Commission Staff may review the calculations and projects for statutory compliance.

B. TCRR 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 TCRR rate update.

Attachments 5 – 12 provide the revenue requirement calculations for each of the transmission projects identified in this filing – both those previously approved in Otter Tail's prior TCRR update filings (Attachments 5-11) and the one new project for which Otter Tail is requesting TCRR recovery (Attachment 12).

These calculations have been made in compliance with prior TCRR Settlement Stipulations approved by the Commission and are consistent with how Otter Tail calculates its current TCRR rate. 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 (if applicable), accumulated deferred taxes including the effect of proration on Federal amounts, and 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 and any credits to the revenue requirement 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 EL12-054 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 EL12-054 Settlement Stipulation. This method uses Otter Tail's actual capital structure as of December 31 of the prior year for the following year's calculation and the ROE agreed to in the EL12-054 Settlement Stipulation.
- *Depreciation expense.* Depreciation expense is 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, storm restoration, and supervision of this work. Scheduled transmission line patrols are typically done annually on single pole 115 kV lines. Unscheduled patrols are completed for line sections where an unexplained interruption has occurred. To reduce the cost of patrols after an interruption, data from protective relays is used to limit the patrol area. Vegetation management of new lines is typically limited during the first five years since Otter Tail's construction standard for new transmission lines is to remove as many trees as possible and leave only low growing brush. After five years, vegetation management is completed based on information gathered during line patrols. Other O&M costs are dependent on the severity of storms and resulting damage, tree growth, items found on line patrols, the cost of North American Electric Reliability Corporation reporting requirements, and supervision. Where appropriate, Otter Tail has set up transmission O&M accounting to track O&M costs specifically related to each line included in the TCRR.
- *Proration of Federal Accumulated Deferred Income Taxes (ADIT).* The proration of Federal ADIT was first introduced by Otter Tail in its TCRR Supplemental Filing in

Docket No. EL15-045. Proration of Federal ADIT is necessary for compliance with Internal Revenue Service (IRS) normalization rules with regard to ADIT. Otter Tail became aware of the issue in 2015 following the release of several Private Letter Rulings (PLRs) issued by the IRS.

Otter Tail provides Attachment 21 to this filing to show the ADIT proration calculation impact on the revenue requirement for the recovery period. As data moves from projected to actual, the amount previously recorded prorating each month's ADIT balance is trued-up to the actual amount of ADIT. The methodology used to calculate the proration of Federal ADIT in this Filing is consistent with that provided in Docket No. EL 15-045.

- *Midcontinent Independent System Operator (MISO) Schedule 26 and 26A expenses.* Schedule 26 and Schedule 26A costs for the recovery period appear on lines 15 and 16 of the Tracker Account (Attachment 4) and are shown separately in Attachment 14. As stated in the EL12-054 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.*” In this filing, Otter Tail has estimated Schedule 26 and 26a expenses based on our expectation of how these schedules may be impacted due to the recent MISO Return on Equity proceedings discussed below.
- *Southwest Power Pool (SPP) Related Expenses (Attachment 15) and Revenues (Attachment 16)* In TCRR Docket EL15-045, the Commission approved the inclusion of SPP Schedule 7, 8, or 9 and 11 expenses as well as MISO Schedule 9 revenues from Central Power Electric Cooperative’s (CPEC). Otter Tail and CPEC have a highly integrated transmission system as a result of joint planning and development spanning over 65 years. CPEC joined SPP as a transmission owner effective January 1, 2016, and placed some of its eligible facilities within the Otter Tail/CPEC integrated transmission system under the SPP tariff. As a result, a portion of Otter Tail load is subject to the SPP tariff, and started to incur SPP Schedule 9 and 11 expenses for transmission service on January 1, 2016. Otter Tail’s load that is served along a transmission path that includes transmission facilities under the SPP tariff may be subject to SPP Schedule 7, 8, or 9 charges and SPP Schedule 11 charges.

Schedule 7, 8 or 9 refer to different types of transmission service that Otter Tail may secure for serving Otter Tail load in SPP, which represent firm point-to-point, non-firm point-to-point, and network integration transmission service, respectively. To date, Otter Tail has only secured network integration transmission service for its load in SPP (SPP Schedule 9), but could opt to secure either type of point-to-point transmission service in the future for locations on the edge of the Otter Tail/CPEC integrated transmission system or in other locations where Otter Tail has the potential to utilize existing interconnections to neighboring non-CPEC utilities that own transmission facilities under the SPP tariff.

Concurrent with Otter Tail paying SPP charges for transmission service, CPEC started paying MISO charges for transmission service it receives through MISO on January 1, 2016. A portion of these MISO charges paid by CPEC for transmission service in MISO are received by Otter Tail as Schedule 9 revenue. In the TCRR, Otter Tail includes as a credit to the overall revenue requirement, its share of the MISO Schedule 9 revenues from CPEC to offset Otter Tail's SPP transmission service charges. The inclusion of these revenues results in a reduction to the TCRR revenue requirement.

Starting in 2017, Otter Tail anticipates CPEC will begin collecting Facility Credits in MISO for CPEC owned transmission facilities that are eligible for inclusion in MISO. These Facility Credits will entitle CPEC to collect a revenue requirement for its transmission facilities which are highly integrated with other transmission facilities in MISO, in exchange for utilities within MISO taking transmission service over these facilities to serve their load. These CPEC Facility Credits result in a revenue stream to CPEC that will effectively reduce Schedule 9 charges that CPEC will incur in MISO, thereby reducing the amount of MISO Schedule 9 revenue Otter Tail receives from CPEC load in MISO. Therefore, Otter Tail includes any amount of CPEC Facility Credits that Otter Tail has to pay to CPEC as a reduction to the MISO Schedule 9 revenues from CPEC. SPP Schedule 9 expenses appear on Line 17 of the Tracker Account (Attachment 4) and is also shown separately in Attachment 15. MISO Schedule 9 revenue from CPEC appears on Line 22 of the Tracker Account (Attachment 4) and is shown separately in Attachment 16.

- *Schedule 11* is part of SPP's tariff and is similar to the MISO Schedule 26 and 26A expenses that Otter Tail incurs. These expenses are for projects approved through SPP's Integrated Transmission Planning process. The expenses included in this TCRR update are Otter Tail's forecasted share of the costs for transmission facilities approved by SPP, whose costs are shared on a regional and zonal basis. SPP Schedule 11 expense appears on Line 18 of the Tracker Account (Attachment 4) and is also shown separately in Attachment 15.
- *MISO Schedule 26 and 26A revenues.* Schedule 26 and 26A revenues, for the recovery period, appear on lines 23 and 26 of the Tracker Account Summary (Attachment 4) and are shown separately on Attachment 17 (Schedule 26) and Attachment 18 (Schedule 26A). As stated in the EL12-054 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 proposed inclusion of the BSAT-Brookings 345 kV project in this filing, Schedule 26A revenues attributable to the investment in this MVP project have been included in this TCRR update.
- *MISO Return on Equity (ROE) Complaint* – On November 12, 2013 and February 12, 2015, two groups of industrial customers and other stakeholders filed complaints at

FERC which sought to reduce the ROE component of the transmission rates that MISO Transmission Owners, including Otter Tail, may collect under the MISO Tariff. The two groups of complainants were seeking to reduce the current ROE of 12.38 percent to 9.15 percent and 8.67 percent, respectively. FERC issued its decision on the first complaint on September 28, 2016 granting approval of a 10.32 percent base ROE and ordering MISO and its transmission owners to provide refunds by October 28, 2016. As of January 5, 2015, Otter Tail and other MISO Transmission Owners were granted a 50 basis point adder for participation in a Regional Transmission Organization (RTO). This adder will be applied to the base ROE. While the RTO adder was effective on January 6, 2015, collection of the RTO adder was deferred until a decision was issued in the first complaint. The second complaint is still pending. The Administrative Law Judge issued an Initial Decision on June 30, 2016 recommending a 9.7 percent base ROE, but FERC is not expected to issue its order on the second proceeding until the spring of 2017.

The new base ROE became effective on September 28, 2016. This rate will be applied prospectively and will also be used in the calculation of refunds for the 15-month refund period (November 12, 2013 through February 11, 2015) associated with the first complaint. While the complaints proceedings have been underway, MISO has continued to use the 12.38 percent base ROE. The 15 month refund obligation will require MISO to recalculate bills issued during that 15-month time period using the 10.32 percent base ROE (and any appropriate adders such as the RTO adder). The difference between that calculated value and what was actually collected using the 12.38 percent ROE will be Otter Tail's refund obligation. Because Otter Tail uses a forward-looking rate formula, we also have a true-up procedure. The true-up is generally calculated by determining the difference between the projected revenue requirement used in developing the rates for billing and the actual revenue requirements based on actual operating results. Any true-up amounts during the refund period will need to be recalculated. Due to the complexity of this true-up calculation, Otter Tail has not included any ROE true-up adjustments in this filing.

During the 15-month refund period, Otter Tail paid certain MISO expenses (Schedules 9, Schedule 26, and Schedule 26A) that were based on a 12.38 percent ROE. As a transmission customer, we will receive a refund of the difference between what Otter Tail paid at the 12.38 percent and what the calculated value is at the new base ROE. Otter Tail has provided its best estimate of what the ROE impact may be on Schedule 26 and 26A expenses in this filing.

MISO has indicated that the refund calculation and implementation process will be highly complex and time consuming given the number of transmission owners, the different revenue requirement methodologies, the various effective dates of individual transmission owners' refund obligations and commitments, and the number of rate schedules that are affected by this new base ROE. Given the complexity, on October 21, 2016, MISO and the MISO Transmission Owners, including Otter Tail, filed a request for an extension with FERC that defers the implementation of any refunds in this proceeding until July 28, 2017. FERC granted the request for extension on October 28, 2016.

- *MISO Tariff Schedule 37 and Schedule 38 Revenue Credits.* The TCRR 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 19, 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 TCRR update is \$1,645 as shown in Attachment 4, line number 24. The Schedule 38 revenue credit reflected in this TCRR update is \$2,090, shown in Attachment 4, line number 25. These are actual amounts through September 2016 and are included as part of the 2016 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 (MVP ARR).* 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 distributed monthly to all MISO market participants similar to how Schedule 26A expenses are allocated to MISO market participants for all MVP projects. The revenue is identified in Attachment 20, and is included in the TCRR based on South Dakota's jurisdictional share. This revenue is reflected as a credit in the rider shown in Attachment 4, line 27.

MISO began distributing MVP ARR revenues in June 2014. 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 includes actuals as available in TCRR filings.

- *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 TCRR rate update calculations an additional revenue credit (reduction to TCRR revenue requirements) to account for reimbursements through MISO's tariff for administrative and general operating and maintenance expenses. The revenue credit is for the entire amount of such revenues received through the MISO tariff, whether related to the retail or non-retail 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 1.336 percent of the total investment in the projects. This percentage was established for these costs as part of the FERC-approved MISO tariff.

C. Overall Impacts of Bonus Depreciation and Deferred Tax Asset to the 2017 Rider Revenue Requirement

The bonus tax depreciation taken on 2015, 2016, and 2017 investments increases the ADIT balance in Otter Tail's TCRR, *and reduces the rate base in the rider*. As a result, the rate is lower in this annual update than it would have been without the bonus tax depreciation. The incremental impact of including bonus depreciation results in a reduction of approximately \$36 thousand, offset by the corresponding Deferred Tax Asset of \$9 thousand for a net decrease of \$27 thousand on the 2017 revenue requirement.

D. Change in SPP Related Expenses - Attachments 14 & 15

SPP originally provided rate estimates to Otter Tail in July of 2015 for various charge types that could apply to Otter Tail's load in SPP starting January 1, 2016. Otter Tail used this information to estimate that Otter Tail could incur charges of approximately \$3.62 million in SPP Schedule 7, 8, or 9 expenses (Total System) and \$165 thousand in SPP Schedule 11 expenses (Total System) in 2016, as seen in Otter Tail's Supplemental Filing in its 2016 TCRR annual update in Docket No. EL15-045. South Dakota's jurisdictional share of Schedule 7, 8, or 9 and Schedule 11 expenses (using the D2 allocator of 9.816 percent) for 2016 was estimated to be \$355,250 and \$16,181 respectively.

Charges incurred by Otter Tail so far during 2016 are coming in lower than originally forecasted primarily due to a delay in CPEC receiving facility credits in MISO. Otter Tail has updated the forecast for SPP Schedule 9 and Schedule 11 expenses through the balance of 2016 based on the monthly invoices that Otter Tail has received from SPP so far during 2016. As seen in Attachment 15 of this filing, Schedule 7, 8, or 9 expenses are now forecasted to be \$2.0 million (Total System) / \$193 thousand (SD), and Schedule

11 expenses are forecasted to be \$36 thousand (Total System) / \$4 thousand (SD) in 2016. Any difference between the forecasted charges and the actual charges incurred as a result of SPP Schedules 7, 8, or 9 and 11 will be trued-up in the next TCRR update.

On-going efforts to resolve MISO/SPP Seams Issues associated with CPEC's integration into SPP

Otter Tail is committed to on-going efforts with CPEC and SPP to find an equitable solution to minimize the impact of the SPP tariff expenses noted above due to CPEC placing some of its eligible transmission facilities within the Otter Tail/CPEC integrated transmission system under the SPP tariff on January 1, 2016. Should the outcome of these efforts 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, 2017.

E. Projects Previously Approved for Recovery in Otter Tail's TCRR

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

1. CapX2020 Fargo – Twin Cities
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 2018 and are reflected in Attachments 5 through 11.

F. New transmission project included in this TCRR rate update

In this Petition, Otter Tail is also seeking approval for TCRR recovery of one new project; the Big Stone South to Brookings Multi-Value Project (BSAT-Brookings). The costs and revenue requirements for this project are included in Attachment 12. A detailed description of the project is provided below:

Description of BSAT-Brookings 345 kV line – Attachment 12

As part of the 2011 MISO Transmission Expansion Plan (MTEP11) approval, the MISO Board of Directors endorsed a portfolio of transmission projects across the MISO footprint called Multi-Value Projects (MVP). The MVP project portfolio was identified to meet public policy requirements within the MISO states through 2026. The MVPs stem from the Regional Generator Outlet Study (RGOS), which was completed by MISO in collaboration with the Upper Midwest Transmission Development Initiative (UMTDI).

The MVP portfolio approved by the MISO Board of Directors included 17 distinct transmission projects across MISO, with Otter Tail being involved in three of the projects, namely: Brookings-Hampton 345 kV line (Brookings CAPX), Big Stone South – Ellendale 345 kV line (BSAT-Ellendale), and Big Stone South – Brookings 345 kV line (BSAT-Brookings). Otter Tail is seeking to begin recovery of the BSAT-Brookings project in this Petition.

The facilities that comprise the BSAT-Brookings project are anticipated to be in service in the third quarter of 2017. The BSAT-Brookings project has been included in this TCRR update beginning in January 2018 following its in-service date in 2017.

Otter Tail is a 50 percent owner of the jointly owned facilities with an estimated investment of \$81.3 million. The total cost for the BSAT-Brookings project is approximately \$226.7 million. Using the refined split method, South Dakota's jurisdictional share of Otter Tail's total capital costs based on the D2 allocation factor of 9.816 percent and a composite retail load share of 1.5 percent is approximately \$125,203.

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 \$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.

In Docket EL15-045, Otter Tail described a decrease in the overall cost of the project as coordination from the Courtenay Wind Interconnection project allowed a more cost effective design of the Buffalo 345/115kV Transformer portion of the project that also offered a higher

level of reliability.

Otter Tail is now projecting a cost increase of \$658,525 for this project. While the updated design resulting from the coordination with the Courtenay Wind Interconnection Project created a higher level of reliability, it resulted in an increase in costs due to an expansion of the existing property at Buffalo to support a second transformer. This involved the purchase of additional property, site grading, and expansion of the 115 kV bay and control house. This portion of the project is scheduled to be in service July 2017, so it will not be recovered in the TCRR until January 2018.

The current estimate for the Casselton to Buffalo Transmission project is \$13,201,491, which is close to the original estimate approved in EL14-090. South Dakota's jurisdictional share of the total project based on the D2 allocation factor of 9.816 percent and retail share of 50.41 percent is \$653,242.

IV. RATE DESIGN

The TCRR allocation factors and rate design follow the terms of the Approved EL10-015 Settlement Stipulation Order, paragraph 6. Specifically, the TCRR 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. EL10-011) 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 EL10-015 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 2017 through February 2018 has increased from \$1,895,428 for the current recovery period to \$1,969,053 as shown in Attachment 24. The increase is due to an increase in MISO Schedule 26A expenses and a project being placed in service and beginning recovery, offset by a reduction in Southwest Power Pool related charges. In addition to these changes, the “Mar ’16 – Feb ’17 True-Up” expense as a result of a projected under-collection balance at the end of the current recovery period increases the revenue requirement \$66,880 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, 2017. If the effective date is more than 45 days later than March 1, 2017, Otter Tail requests that it be allowed to recalculate the TCRR 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	94,597	89,619	(4,978)
2	CAPX 2020 - Bemidji	23,033	22,220	(813)
3	Cass Lake-Nary-Helga-Bemidji	23,645	23,292	(353)
4	Rugby Wind Interconnection	567	564	(3)
5	Casselton – Buffalo 115 kV	39,415	44,609	5,194
6	Oakes Area Transmission	63,784	60,747	(3,037)
7	CAPX 2020 - Brookings	2,026	1,869	(157)
8	BSAT - Brookings	-	2,182	2,182
9				
10	SD Filing Fee	5,000	5,000	-
11				
12	MISO Schedule 26 Expense	1,184,152	1,202,576	18,424
13	MISO Schedule 26A Expense	494,857	649,651	154,794
14		-	-	
15	SPP Schedule 9 Expense	355,250	232,659	(122,591)
16	SPP Schedule 11 Expense	16,181	5,503	(10,678)
17				
18	MISO Schedule 9 Revenue	(188,318)	(147,311)	41,007
19	MISO Schedule 26 Revenue	(272,266)	(278,363)	(6,097)
20	MISO Schedule 26A Revenue	(8,621)	(8,653)	(32)
21	MISO Schedule 37 Revenue	-	-	-
22	MISO Schedule 38 Revenue	-	-	-
23	MISO MVP ARR Revenue	(6,478)	(6,003)	475
24				
25	Carrying Cost	1,036	2,009	973
26	Mar '16 - Feb '17 True-Up	67,568	66,880	(688)
27				
28	Total	1,895,428	1,969,053	73,625

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 TCRR Update. Column C reflects the proposed Revenue Requirement for each component for the current TCRR Update. Column D is the difference between Column B and Column C. All components, except for BSAT-Brookings (in Line 8), have previously been approved for inclusion in the TCRR.

The impact of the change in rates for a residential customer using 1,000 kWh per month is a increase of \$0.51 per month. For a large general service customer using 486 kW and 222,350 kWh, the bill impact of this update is a decrease of \$8.95 per month.

The total March 2017 through February 2018 revenue requirements, as shown on line 1 in Attachment 3, are \$1,969,053. 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, 2017 are as follows:

TCRR Rate Class	Rate	
Large General Service	0.595	\$ / kW
	0.222	cents / kWh
Controlled Service	0.090	cents / kWh
Lighting	0.386	cents / kWh
All Other Service	0.683	cents / kWh

The Proposed Customer Notice and Rate Impact is contained in Attachment 23.

The proposed rates are based on the assumption that they will be in effect beginning March 1, 2017 through February 28, 2018.

VI. TRANSMISSION COST RECOVERY RIDER TARIFF SHEET

Otter Tail’s redline and clean Transmission Cost Recovery Rider tariff sheet (Section 13.05) is Attachment 22 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, 2017.

Date: November 1, 2016

Respectfully submitted:

OTTER TAIL POWER COMPANY

/s/ BRYCE C. HAUGEN

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