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January 29, 2018



Ms. Patricia Van Gerpen
Executive Director
South Dakota Public Utilities Commission
Capitol Building, 1st floor
500 East Capitol Avenue
Pierre, SD 57501-5070

**PUBLIC – NOT PUBLIC DATA HAS
BEEN EXCISED**

**Re: 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
Docket No. EL17-048
Supplemental Filing**

Dear Ms. Van Gerpen:

Enclosed please find Otter Tail Power Company’s Supplemental Filing to the above referenced Docket. Otter Tail is providing an update to its Initial Filing as requested by Commission Staff and is requesting approval of the annual update to its Transmission Cost Recovery Rider rates.

If you have any questions regarding this filing, please contact me at 218-739-8275 or gice@otpco.com.

Sincerely,

/s/GINA S. ICE
Gina S. Ice
Rates Analyst, Regulatory Administration

ljh
Enclosures
By electronic filing

**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 2017
Transmission Cost Recovery Eligibility and
Rate Adjustment

Docket No. EL17-048

SUPPLEMENTAL FILING

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 EL17-048 (Petition) on November 1, 2017 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 transmission revenues and expenses.

Otter Tail's Initial Filing requested approval of its 2017 TCRR rate adjustment to be effective March 1, 2018, based upon actual data through September 2017 and projected costs and collections from October 2017 through February 2019. Since the Initial Filing, Commission Staff and Otter Tail (the Parties) identified updates to be incorporated into the determination of the revenue requirement and associated rates. This Supplemental Filing incorporates the updates identified by the Parties, the details of which are provided in the following sections.

II. REVENUE REQUIREMENT AND RATE CALCULATION UPDATES

The following items are incorporated into the updated revenue requirement calculations provided in this Supplemental Filing. In aggregate, these adjustments increase the revenue requirement by \$6,808 from \$1,772,184 in the Initial Filing to \$1,778,992 in this Supplemental Filing.

1. In all Project Attachments, actual revenues and expenses through December 2017 have been updated from the forecasted data provided in the Initial Filing. These updates result in an approximately \$4,854 increase to the revenue requirement.

2. Actual MISO expense and revenue is updated through December 2017 as well as forecasts for January 2018 and forward. Revenues included are based on Otter Tail's 2018 Budgeted Attachments O, GG, and MM. These updates result in an approximately \$20,107 increase to the revenue requirement.
3. Tax Cut and Jobs Act: On December 22, 2017, the Tax Cut and Jobs Act was signed into law. Otter Tail reflects in this Supplemental Filing a corporate tax rate of 21 percent effective January 1, 2018. Also included within this bill is the elimination of bonus depreciation as of the end of Q3 2017. The updates related to Tax Reform resulted in a \$25,764 decrease to the revenue requirement.

While the project attachments are updated to reflect the corporate tax rate change, the MISO Attachments are currently still at the 35 percent federal income tax rate. Otter Tail and other MISO Transmission Owners are currently assessing when the Tariff allows for these changes to be made to 2018 rates. Ultimately, these changes to MISO revenues and expenses to account for the change in the tax rate will flow through future MISO settlements and those true-ups will be incorporated into future TCR updates as applicable.

4. Proration of Federal Accumulated Deferred Income Taxes (ADIT): Based on further research and analysis of United States Internal Revenue Service (IRS) rules related to proration, including recently issued IRS private letter rulings, Otter Tail identified revisions needed to its Accumulated Deferred Income Tax (ADIT) balances to preserve the effect of the application of the proration methodology for the true-up period. This calculation methodology is necessary in order to comply with Section 1.167(l)-1(h)(6)(ii) of the IRS regulations and to avoid a tax normalization violation.¹ Otter Tail includes Attachment 22 in this filing, which shows the preservation of the proration of ADIT results in an increase of \$1,829 plus any applicable carrying charge to the revenue requirement. This item is included on Line No. 14 of Attachment 4 to this filing.
5. Capital Structure: The revenue requirement calculation is updated to include the Capital Structure and Cost of Debt as of December 31, 2017. This update increases the revenue requirement by approximately \$5,636.

Updated Revenue Requirements and Rate Impacts

Table 1 on the next page compares the revenue requirement and rates proposed in the Initial Filing (Column B), the Supplemental Filing (Column C) and the difference between the two (Column D) resulting from the updates outlined above.

¹ See Treas. Reg. SS 1.167(l)-1(h)(6)(ii).

TABLE 1: Comparison of Revenue Requirements and Associated Rates

	A	B	C	D	
		November 1, 2017 Initial Filing	January 29, 2018 Supplemental Filing		
Line No.	Revenue Requirements	March 1, 2018 - February 28, 2019	March 1, 2018 - February 28, 2019	Difference (C-B)	
1	CAPX 2020 - Fargo	85,311	78,992	(6,319)	
2	CAPX 2020 - Bemidji	22,639	21,077	(1,562)	
3	Cass Lake-Nary-Helga-Bemidji	23,716	22,001	(1,715)	
4	Rugby Wind Interconnection	566	520	(46)	
5	Casselton – Buffalo 115 kV	68,942	68,055	(887)	
6	Oakes Area Transmission	57,439	59,845	2,406	
7	CAPX 2020 - Brookings	1,846	1,732	(114)	
8	BSAT - Brookings	13,389	12,334	(1,056)	
9		-	-		
10	SD Filing Fee	5,000	5,000	-	
11		-	-		
12	MISO Schedule 26 Expense	1,192,520	1,192,520	-	
13	MISO Schedule 26A Expense	710,815	710,810	(5)	
14					
15	SPP Schedule 7,8, or 9 Expense	229,731	229,731	-	
16	SPP Schedule 11 Expense	19,368	19,368	-	
17		-	-		
18	MISO Schedule 9 Revenue	(110,953)	(110,953)	-	
19	MISO Schedule 26 Revenue	(306,646)	(291,587)	15,059	
20	MISO Schedule 26A Revenue	(18,102)	(17,910)	192	
21	MISO Schedule 37 Revenue	(0)	(0)	-	
22	MISO Schedule 38 Revenue	(0)	(0)	-	
23	MISO MVP ARR Revenue	(4,074)	(4,074)	-	
24					
25	Carrying Cost	(10,047)	(10,148)	(101)	
26	True-Up	(209,275)	(208,321)	954	
27					
28	Total	1,772,184	1,778,992	6,808	
29					
30	Large General Service	\$ / kW	0.547	0.549	0.002
31	Large General Service	cents / kWh	0.186	0.187	0.001
32					
33	Controlled Service	cents / kWh	0.087	0.087	0.000
34	Lighting	cents / kWh	0.333	0.334	0.001
35	All Other Service	cents / kWh	0.610	0.612	0.002

Implementation of Rates and Customer Impact:

Approved final rates shall be implemented on bills rendered on and after March 1, 2018. These rates are designed to reflect the TCRR revenue requirements through February 2019; 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	0.187	0.549
Controlled Service	0.087	
Lighting	0.334	
All Other Service	0.612	

The impact of the change in rates for a residential customer using 1,000 kWh per month is a decrease of \$1.00 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 \$139.99 per month.

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 proposed in this filing and to implement the associated updated Transmission Cost Recovery Rider, Section 13.05 rates, effective on bills rendered on and after March 1, 2018.

Date: January 29, 2018

Respectfully submitted:

OTTER TAIL POWER COMPANY

/s/ GINA S. ICE

Rates Analyst, Regulatory Administration
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