

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

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Docket No. EL18-

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

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

**I. INTRODUCTION**

In compliance with the South Dakota Public Utilities Commission's (Commission) Orders,<sup>1</sup> 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 is adjusted to reflect the applicable TCRR revenue requirements for the next recovery period (March 2019 – February 2020.) 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 impacts of Otter Tail's current general rate case, Docket No. EL18-021 (Rate Case), in which the implementation of interim rates occurred on October 18, 2018, (2) the addition of two new transmission projects not currently in base rates and not previously included in the TCRR, (3) details of the pending Midcontinent Independent System Operator, Inc. (MISO) Return on Equity (ROE) complaints, and (4) details of Southwest Power Pool, Inc. (SPP) related expenses.

Otter Tail's current Rate Case proceeding impacts this TCRR annual update. On April 20, 2018 Otter Tail filed a general rate case with the Commission. On September 17, 2018, Otter

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<sup>1</sup> Previous TCRR Docket Nos. EL10-015, EL12-054, EL13-029, EL14-090, EL15-045, EL16-035 and EL17-048.

Tail filed a Notice of Intent to Implement Interim Rates with the Commission. For the purposes of this annual update, Otter Tail provides details and revenue requirement data that includes the implementation of interim rates as of October 18, 2018 and includes:

- South Dakota jurisdictional D2 factor of 9.187 percent effective October 18, 2018; and
- Eight complete and in-service projects moving from the TCRR into interim rates as of October 18, 2018.

The calculation of the proposed revenue requirements within this Petition are 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. The rate of return (ROR) included in this update is based on Otter Tail’s actual capital structure as of December 31, 2017, using the ROE and capital structure methodology approved by the Commission in Docket No. EL12-054.

The proposed revenue to be collected for the March 1, 2019 through February 29, 2020 recovery period, as shown in Attachment 2, is \$1,605,992 compared to the total revenue requirement of \$1,778,992<sup>2</sup> for the March 1, 2018 through February 28, 2019 timeframe. Subsequent to Otter Tail’s last approved annual TCRR update we made our Rate Case filing. In the Rate Case Otter Tail proposed interim rates for the TCRR (TCRR Interim Rates) that went in to effect October 18, 2018. The TCRR Interim Rates, which are a decrease from Otter Tail’s 2017 TCRR Annual update, are based on an annualized revenue requirement of \$1,560,801<sup>3</sup> resulting in a \$45,191 increase in revenue requirement.

This Petition updates the rates to collect the 12 months of revenue requirements over the 12-month recovery period of March 2019 through February 2020. The TCRR is updated to include actual investment costs, expenses and revenues through September 2018, updated

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<sup>2</sup> Approved by Commission’s February 28, 2018 Order in Docket No. EL 17-048.

<sup>3</sup> TCRR Interim Rates proposed in Otter Tail witness Haugen Direct Testimony, Schedule 6, of approximately nine-month revenue requirement of \$1,170,601 (including true-up) annualized ( $\$1,170,601 / 9 * 12 = \$1,560,801$ ).

forecast information for the remainder of the current recovery period which ends February 2019 and forecasted information for the proposed recovery period ending February 29, 2020.

Per the EL13-029 TCRR Order, if the annual updates for MISO 26 and 26A Schedules anticipated to be released in January 2019 are materially different from current forecasts included in this Petition, Otter Tail will make a supplemental filing by February 1, 2019 to update the TCRR rates for the upcoming recovery period.

The impact of the change in rates, from TCRR Interim Rates to this annual update, for a residential customer using 1,000 kWh per month is an increase of \$0.33 per month. For a Large General Service (LGS) customer using 486 kW and 222,350 kWh, the bill impact of this update is an increase of \$4.70 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**

Lynn A. Wolters  
Rates Analyst, Regulatory Administration  
Otter Tail Power Company  
215 South Cascade Street  
P.O. Box 496  
Fergus Falls, MN 56538-0496  
Phone (218) 739-8577

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

The date of this filing is October 31, 2018. Otter Tail proposes the update to the rates to go into effect for bills rendered on and after March 1, 2019.

**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 18 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 includes Attachment 19 to comply with ARSD 20:10:13:26, which requires the Utility to report all rate schedule changes and customer impacts. Otter Tail will provide notice of this proceeding to its customers pursuant to SDCL Chapter 49-34A-12 in November 2018 billing statements.

### 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 so 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 and 6 provide the revenue requirement calculations for two new projects that Otter Tail is requesting TCRR recovery. Further information on these projects is included below.

These calculations are 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 transmission lines by wholesale customers.
- *Return on investment (cost of capital).* Pursuant to Section III, 3. Rate of Return, 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. Otter Tail proposes an updated ROE in its Rate Case that is higher than the ROE last approved by the Commission. Because Otter Tail's proposed ROE in the Rate Case is higher than the last approved ROE, Otter Tail maintains the last Commission approved ROE in this annual update.
- *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 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 all high voltage transmission lines operated at 100 kV and above. Unscheduled patrols are completed for line sections with unexplained interruptions. 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 in the right-of-way as possible. After five years, vegetation management is completed based on information gathered during line patrols.
- Proration of Federal Accumulated Deferred Income Taxes (ADIT).* Otter Tail provides Attachment 15 to this filing to show the ADIT proration calculation impact on the revenue requirement for the recovery period. Otter Tail preserved the effect of the proration for the true-up period in order to maintain compliance with Section 1.167(l)-l(h)(6)(ii) of the IRS regulations and to avoid a tax normalization violation. Otter Tail includes Attachment 16 in this filing, which shows the preservation of the proration of ADIT results in a decrease of \$392 plus any applicable carrying charge to the revenue requirement. This item is included on Line 16 of Attachment 4 to this filing.
- Midcontinent Independent System Operator (MISO) Schedule 26 and 26A expenses.* Schedule 26 and Schedule 26A costs for the upcoming recovery period appear on lines 19 and 20 of the Tracker Account (Attachment 4) and are shown separately in Attachment 8. 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.*”
- Southwest Power Pool (SPP) Related Expenses (Attachment 9) and MISO Related Revenues (Attachment 10).* SPP Schedules 7, 8 and 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. Expenses that Otter Tail has incurred and estimates to



incur through SPP Schedule 7, 8, and 9 as a result of securing transmission service in SPP appear on Line 21 of the Tracker Account (Attachment 4) and are also shown separately in Attachment 9.

SPP Schedule 11 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 these new transmission projects approved by SPP, whose costs are shared on a regional and zonal basis. SPP Schedule 11 expense appears on Line 22 of the Tracker Account (Attachment 4) and is also shown separately in Attachment 9.

Otter Tail receives MISO Schedule 9 revenues related to Central Power Electric Cooperative (CPEC) paying MISO charges for transmission service they secure through MISO. These revenues are offset by facility credits CPEC began collecting in MISO for CPEC-owned transmission facilities that were eligible for inclusion in MISO in May 2017. The revenues associated with MISO Schedule 9 results in a reduction to the TCRR revenue requirement. MISO Schedule 9 revenue from CPEC appears on Line 26 of the Tracker Account (Attachment 4) and is shown in detail in Attachment 10.

- *MISO Schedule 26 and 26A revenues.* Schedule 26 and 26A revenues, for the recovery period, appear on lines 27 and 30, respectively, of the Tracker Account Summary (Attachment 4) and are shown separately on Attachment 11 (Schedule 26) and Attachment 12 (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.”*
- *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 seeking 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 sought to reduce the, then 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 plus any applicable adder effective prospectively from that date. Otter Tail and other MISO Transmission Owners were granted a 50-basis point adder for participation in a Regional Transmission Organization (RTO) to be applied to the base ROE.

The second complaint for the time period of February 12, 2015 through May 11, 2016 is still pending before FERC. The Administrative Law Judge issued an Initial Decision on June 30, 2016 recommending a 9.7 percent base ROE plus any applicable adders. The timing of the FERC decision on the second complaint is unknown. Otter Tail does not include any adjustments in this filing related to the second complaint due to the uncertainty of timing and ultimate decision outcome.

- *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 share of the Schedule 26 cost allocation assigned to former MISO transmission owners that have withdrawn from MISO. These owners have an ongoing obligation to pay for MISO Schedule 26 transmission projects due to their prior MISO membership.

In Attachment 13, 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 \$1,240 as shown in Attachment 4, line 28. The Schedule 38 revenue credit reflected in this TCRR update is \$1,551, shown in Attachment 4, line 29. These are actual amounts through September 2018 and are included as part of the 2018 true-up amount.

- *MISO Multi-Value Project Auction Revenue Rights (MVP ARR) Revenue.* The MVP ARR revenues are derived from increased transmission capacity attributable to MVP projects placed in service within the MISO footprint. The value of the MVP ARR is determined during MISO’s annual Financial Transmission Rights auction process. The revenues are distributed monthly to all MISO Transmission Owners similar to how Schedule 26A expenses are allocated to MISO Transmission Owners for all MVP projects. The revenue is identified in Attachment 14 and is reflected as a credit in the rider shown in Attachment 4, line 31.

Otter Tail 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.

**C. Revenue credit for administrative and general expenses recovered through MISO tariff for non-retail portion of projects qualifying for regional cost allocation.**

These TCRR rate update calculations include a 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 provides reimbursement to retail customers for any such costs through the TCRR that may already be recovered through Otter Tail’s current retail rates. The revenue credit is reflected in Attachments 11, 12, and 13 on the lines titled “Overhead Credit for Non-Retail Share” for each project. For the 2019 calendar year, the percentage is 0.977 percent of the total investment in the projects. This percentage was established as part of the FERC-approved MISO tariff.

**D. Change in SPP related expenses – Attachment 9**

SPP related charges incurred by Otter Tail during 2018 are lower than originally forecasted in EL17-048. This is mainly driven by the timing of SPP invoice corrections caused

by Otter Tail being over billed by SPP in early 2017. These 2017 invoice corrections came through SPP settlements in early 2018; thereby reducing the amount of SPP expenses incurred during 2018. In addition to these invoice corrections, the amount of Otter Tail load subject to the SPP tariff during 2018 decreased when compared to the load forecasted in Docket No. EL17-048.

MISO Schedule 9 revenues related to CPEC paying for transmission service in MISO are higher than originally forecasted. Due to the complex nature of unwinding the long-standing agreements that had been in place between Otter Tail and CPEC for nearly 60 years, CPEC's relatively recent move in joining the SPP, and Otter Tail's requirement to secure transmission service through SPP, the parties continue to work together to ensure that charges and revenues are accurately assigned to the appropriate party with any billing errors from prior periods being handled through settlements in later periods.

As seen in Attachment 9 of this filing, 2019 SPP Schedule 7, 8 and 9 expenses are forecasted to be approximately \$2.3 million (OTP Total) \$0.22 million (OTP SD), and SPP Schedule 11 expenses are forecasted to be approximately \$0.19 million (OTP Total), \$0.017 million (OTP SD) in 2019. MISO Schedule 9 revenues as seen on Attachment 10 of this filing are forecasted to be approximately \$2.8 million (OTP Total), \$0.26 million (OTP SD) in 2019. Should the amounts associated with the SPP expenses or MISO revenues materially change during the time this Docket is open, Otter Tail will provide updated information and revised rate calculations in a supplemental filing by February 1, 2019.

#### **E. Projects previously approved for recovery in Otter Tail's TCRR**

Eight projects, listed in Table 1 below, are in-service and have been previously approved for inclusion in Otter Tail's TCRR. During Otter Tail's Rate Case, Otter Tail has rolled recovery of these projects out of the TCRR and into base rates on October 18, 2018 with the implementation of interim rates.

**Table 1**  
TCRR Projects Rolled Into Base Rates

<b>Project</b>	<b><u>Approved for Rider Recovery</u></b>	<b><u>In Service Date</u></b>	<b><u>Recovery as of October 18, 2018*</u></b>
Fargo to Monticello CAPX 2020	EL10-015	April 2015	Base Rates
Bemidji to Grand Rapids CAPX 2020	EL10-015	August 2012	Base Rates
Bemidji to Cass Lake CAPX 2020	EL10-015	August 2012	Base Rates
Rugby Wind Interconnection	EL10-015	August 2011	Base Rates
Casselton – Buffalo 115 kV	EL12-054	November 2017	Base Rates
Brookings to Hampton CAPX2020	EL14-090	March 2015	Base Rates
Big Stone Area Transmission to Brookings	EL16-035	September 2017	Base Rates
Oakes Area Transmission Improvements	EL13-029	October 2015	Base Rates

\*Projects rolled into base rates as part of Otter Tail’s Rate Case as reflected in the interim rates implemented on this date.

**F. New transmission projects included in this TCRR rate update**

In this Petition, Otter Tail seeks approval for TCRR recovery of two new projects; the Lake Norden Area Transmission Project and the Big Stone South to Ellendale Multi-Value Project (MVP) (BSAT Ellendale). Otter Tail verified that the costs requested for recovery in this TCRR for these two projects are not included in its pending Rate Case and therefore, will not be recovered as a result of that proceeding. The costs and revenue requirements for these projects are included in Attachments 5 and 6. A detailed description of the projects is provided below:

**Description of New Project – Lake Norden Area Transmission Improvements – Attachment 5**

Otter Tail owns and operates an extensive 41.6 kV transmission network in northeastern South Dakota. As a result of load growth occurring in the general Lake Norden, South Dakota area and the lack of sufficient capability of the existing 41.6 kV transmission network, Otter Tail identified the need for a new 115 kV transmission project to maintain reliability for the growing load in that area.

The Lake Norden Area Transmission Improvement Project includes construction of approximately 47 miles of 115 kV line, along with upgrades to the existing Hetland, Lake Norden and Toronto substations, to provide an additional 115 kV transmission path to the

area in the event the existing 115 kV transmission path is unavailable. This project benefits the system by increasing reliability, decreasing line exposure, as well as adding operational flexibility to perform routine maintenance on facilities in the local area without putting as many customers at risk for a service interruption. MISO has reviewed this project through its stakeholder process and is recommending approval of this project through their 2018 MISO Transmission Expansion Plan (MTEP18) in December 2018.

The current estimate for the Lake Norden Area Transmission Improvement project is approximately \$37.4 million (OTP Total) with an estimated in-service date of December 2020. Phase I is expected to be complete in June 2019 with an estimated cost of \$13.1 million (OTP Total). South Dakota's jurisdictional share of the total project cost based on the D2 allocation factor of 9.187 percent is approximately \$3.4 million (OTP SD).

#### **Description of New Project – Big Stone South – Ellendale Project – Attachment 6**

Otter Tail is working collaboratively with Montana-Dakota Utilities (MDU) to complete a new 345 kV transmission project that extends 163 miles from an expanded Big Stone South 345 kV substation in South Dakota to a new 345 kV substation near Ellendale, North Dakota. Otter Tail will own 50 percent of the 345 kV line with an expected in-service date no later than March 2019. The BSAT Ellendale 345 kV project is the western most segment of a series of 345 kV lines being developed through the MISO Multi-Value Project (MVP) portfolio approved as part of 2011 MISO MTEP (MTEP11) which will allow for the efficient delivery of low-cost generation resources from the western portion of the MISO footprint.

Otter Tail's share of the total expected capital costs for the BSAT Ellendale project is \$115.6 million (OTP Total). Using the refined split method, South Dakota's jurisdictional share of Otter Tail's total capital costs based on the D2 allocation factor of 9.187 percent and a composite retail load share of 0.71 percent is approximately \$0.75 million (OTP SD).

#### **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 Rate Case starting with the implementation of interim rates on October 18, 2018 to allocate total revenue requirements to jurisdictions (South Dakota, 9.187 percent) and rate classes. The LGS class's portion of retail revenue requirements based on this D2 factor is 42.54 percent. The remaining portion (55.25 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 Commission-approved 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 2019 through February 2020 increased from the annualized TCRR Interim Rates revenue requirement of \$1,560,801<sup>4</sup> to \$1,605,992 for the proposed recovery period. The increase in the proposed recovery period is primarily due to the request to include two new projects for recovery. The projected over-collected balance at the end of the current recovery period decreases the revenue requirement by \$226,325, not including carrying cost credit, for the proposed recovery period.

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<sup>4</sup> See footnote 3 detailing the annualized TCRR Interim Rates revenue requirement calculation.

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, 2019. If the Commission decides the effective date for the upcoming recovery period is more than 45 days later than March 1, 2019, 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.



**Table 2**  
Attachment 2 Summaries

	A	B	C	D	E
		Rate Case EL18-021	Rate Case EL18-021	Proposed	
Line No.	Revenue Requirements	May 1, 2018 - February 28, 2019 *	May 1, 2018 - February 28, 2019 Annualized **	March 2019 - February 2020	Difference
1	CAPX 2020 - Fargo	4,244		-	
2	CAPX 2020 - Bemidji	1,109		-	
3	Cass Lake-Nary-Helga-Bemidji	1,186		-	
4	Rugby Wind Interconnection	28		-	
5	Casselton – Buffalo 115 kV	3,754		-	
6	Oakes Area Transmission	3,235		-	
7	CAPX 2020 - Brookings	95		-	
8	BSAT - Brookings	581		-	
9	BSAT - Ellendale	-		1,451	
10	Lake Norden Area Transmission	-		165,603	
11					
12	SD Filing Fee	4,167		5,000	
13					
14	MISO Schedule 26 Expense	935,741		1,165,418	
15	MISO Schedule 26A Expense	566,058		774,330	
16				-	
17	SPP Schedule 9 Expense	180,037		218,732	
18	SPP Schedule 11 Expense	15,179		17,246	
19				-	
20	MISO Schedule 9 Revenue	(80,739)		(254,694)	
21	MISO Schedule 26 Revenue	(223,832)		(229,571)	
22	MISO Schedule 26A Revenue	(13,787)		(0)	
23	MISO Schedule 37 Revenue	(0)		(0)	
24	MISO Schedule 38 Revenue	(0)		(19,597)	
25	MISO MVP ARR Revenue	(3,192)		(2,866)	
26					
27	Carrying Cost	(7,583)		(8,736)	
28	True-Up	(215,678)		(226,325)	
29					
30	<b>Total</b>	<b>1,170,601</b>	<b>1,560,801</b>	<b>1,605,992</b>	<b>45,191</b>

\* Otter Tail witness Haugen Direct Testimony, Schedule 6, Rate Case

\*\* Note: To provide a commensurable comparison, OTP annualized the SD TCRR Interim Rate revenue requirements from the Rate Case:  $(\$1,170,601 / 9) * 12$

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 from the TCRR Interim Rates. Column C reflects the TCRR Interim Rate Revenue

Requirements annualized<sup>5</sup>. Column D reflects the proposed Revenue Requirement for each component for the current TCRR Update. Column E is the Total difference between Column D and Column C

The impact of the change in rates, from TCRR Interim Rates to this annual update, for a residential customer using 1,000 kWh per month is an increase of \$0.33 per month. For a Large General Service (LGS) customer using 486 kW and 222,350 kWh, the bill impact of this update is an increase of \$4.70 per month.

The total March 2019 through February 2020 revenue requirements, as shown on line 1 in Attachment 3, are \$1,605,992. 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, 2019 are as follows:

<b>TCRR Rate Class</b>	<b>Rate</b>	
Large General Service	0.606	\$ / kW
	0.169	cents / kWh
Controlled Service	0.072	cents / kWh
Lighting	0.239	cents / kWh
All Other Service	0.454	cents / kWh

The Proposed Customer Notice and Rate Impact is contained in Attachment 18.

The proposed rates are based on the assumption they will be in effect beginning March 1, 2019 through February 29, 2020.

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<sup>5</sup> See footnote 3 detailing the annualized TCRR Interim Rates revenue requirement calculation.

## **VI. TRANSMISSION COST RECOVERY RIDER TARIFF SHEET**

Otter Tail's redline and clean Transmission Cost Recovery Rider tariff sheet (Section 13.05) is Attachment 17 to this Petition. The rates listed in the RATE section of the tariff sheet are 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 these updates to Otter Tail's Transmission Cost Recovery Rider, Section 13.05, effective as of March 1, 2019.

Date: October 31, 2018

Respectfully submitted:

OTTER TAIL POWER COMPANY

/s/ LYNN A. WOLTERS

Rates Analyst  
Regulatory Administration  
Otter Tail Power Company  
215 South Cascade Street  
P.O. Box 496  
Fergus Falls, MN 56538-0496  
Phone (218) 739-8577