

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

In the Matter of Otter Tail Power
Company's Petition for Approval
of Rate Schedule, Section 13.09,
Phase-In Rider

Docket No. EL19-

PETITION FOR THE PHASE-IN RIDER RATE

I. INTRODUCTION

Otter Tail Power Company (Otter Tail) hereby Petitions the South Dakota Public Utilities Commission (Commission) for approval of its initial rate for the Phase-In Rate Plan Rider (Rider) under the Commission's authority granted in South Dakota Codified Laws 49-34A-73 through 49-34A-78 under Otter Tail's Rider, Electric Rate Schedule Section 13.09. This Rider filing is described in the Settlement Stipulation¹ (Settlement) and approved by the Commission's Order (Order) in Otter Tail's last general rate case in Docket No. EL18-021² (Rate Case). This initial filing includes the components described in the Settlement.

This is Otter Tail's initial filing for the Rider to recover actual and forecasted costs for the Astoria Station Natural Gas Plant project (Astoria Station), Merricourt Wind Project (Merricourt Project), and forecasted net benefits associated with additional load in the Lake Norden area in Otter Tail's South Dakota jurisdiction. Otter Tail also discusses net savings associated with Otter Tail's retirement of its Hoot Lake Plant. In this filing, Otter Tail proposes to set the initial Phase-In rate to reflect the applicable Phase-In revenue requirements for the recovery period (September 2019 – August 2020.)

¹ February 15, 2019 Joint Settlement Stipulation of Otter Tail Power Company and South Dakota Public Utilities Commission Staff IN THE MATTER OF THE APPLICATION OF OTTER TAIL POWER COMPANY FOR AUTHORITY TO INCREASE ITS ELECTRIC RATES in Docket No. EL18-021.

² Commission's March 6, 2019 Order Granting Joint Motion for Approval of Settlement Stipulation; Order Approving Settlement Stipulation IN THE MATTER OF THE APPLICATION OF OTTER TAIL POWER COMPANY FOR AUTHORITY TO INCREASE ITS ELECTRIC RATES in Docket No. EL18-021.

The rate of return (ROR) included in this filing is based on Otter Tail's actual capital structure as of December 31, 2018, using the return on equity (ROE) approved by the Commission in the Rate Case. This Petition establishes the rates to collect the 12 months of revenue requirements for the recovery period of September 2019 through August 2020. The Petition includes actual investment costs, expenses and revenues through April 2019 and forecasted information for May 2019 through August 2020. The proposed revenue to be collected for the September 1, 2019 through August 31, 2020 recovery period, as shown in Attachment 1, is \$1,026,616.

Otter Tail requests the annual update timeline for this Phase-In Rider be established in this proceeding. Otter Tail asks that the Commission consider Ordering its annual update for this rider to take place by June 1 each year that the rider is in place for proposed rates to be implemented by September 1 following the annual update filing.

The proposed Rider rate for a residential customer using 1,000 kWh per month results in a billed amount related to this Rider of \$2.40 per month. For a Large General Service (LGS) customer using 486 kW and 222,350 kWh, the bill amount related to this Rider is \$294.87 per month.

II. GENERAL FILING INFORMATION

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

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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
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C. Title of utility employee responsible for filing

Bryce C. Haugen
Senior Rates Analyst, Regulatory Administration
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D. The date of filing and the date changes will take effect

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

E. Statutes controlling schedule for processing the filing

Otter Tail files this Rider for Commission approval authorized by South Dakota Codified Laws 49-34A-73 through 49-34A-78. 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 7 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 implemented. Otter Tail includes Attachment 8 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 South Dakota Codified Laws Chapter 49-34A-12 in June 2019 billing statements.

III. PHASE-IN COST RECOVERY

A. Background

On April 20, 2018, Otter Tail filed its Rate Case with the Commission requesting to increase rates for electric service to customers in its South Dakota service territory. Otter Tail's

application proposed a step increase, to be effective January 1, 2020, to facilitate recovery of the Merricourt Project. Commission Staff and Otter Tail (together the Parties) held several settlement conferences to arrive at jointly acceptable resolutions to issues raised in the Rate Case and the Parties filed a Joint Settlement that was approved by the Order. Section 3, Part 2 of that Settlement contemplates the Merricourt Project as part of a Phase-In Rate Plan for recovery of capital projects as well as additional components. Staff's description of the Phase-In portion of the Settlement Agreement reads as follows:

The Parties agree that OTP may file for the establishment of a phase-in rate plan under SDCL 49-34A-73 through 78, seeking recovery of Merricourt and Astoria construction work in progress and continuing once the projects are in-service and until the time the Company files its next rate case. This approach provides OTP the opportunity to recover costs associated with the two capital projects while avoiding multiple rate cases³...

The phase-in rate plan will also include an adjustment reflecting the net benefit of the additional load in the Lake Norden area, including corresponding updates to jurisdictional allocation factors resulting from the increased load to South Dakota...

The phase-in plan will also include an adjustment to reflect the net savings associated with the Hoot Lake plant retirement, which is scheduled for retirement in May of 2021.

In compliance with the above referenced statutes and the approved Settlement, this Petition provides information on: the projects included in the Phase-In Plan; information associated with the Lake Norden area load growth; the retirement of Hoot Lake Plant; and Otter Tail's calculations for its Phase-In Rider rate so Commission Staff may review the calculations and projects for completeness and statutory compliance. Otter Tail provides a new tariff rate schedule, Section 13.09, as well as its updated mandatory rider applicability matrix as Attachments 9 and 10 to this filing.

³ February 21, 2019 Staff Memorandum Supporting Settlement Stipulation, beginning on page 14.

B. Components included in this Phase-In Initial Rate Petition

In this Petition, Otter Tail seeks approval for Phase-In recovery of two new projects; the Astoria Station and the Merricourt Project. The costs and revenue requirements for these projects are included in Attachments 4 and 5. Otter Tail also seeks approval of its revenue requirement calculation for the material load growth in its Lake Norden Area service territory. The adjustment reflecting the net benefit of new load in the Lake Norden area, including corresponding updates to jurisdictional allocation factors resulting from the increase load to South Dakota is provided in Attachments 6a, 6b, and 6c. Otter Tail also discusses the Hoot Lake retirement in this Petition. A detailed description of these Phase-In components is provided below.

Description Astoria Station– Attachment 4

Otter Tail is currently developing a 245 MW natural gas-fired, simple cycle combustion turbine near Astoria, South Dakota. Otter Tail will own and operate this generation resource once construction is complete. The project includes all associated facilities, including a short segment of natural gas pipeline necessary to interconnect to the Northern Border Pipeline, and a generation-tie line necessary to connect Astoria Station to the electric grid. The project will be designed with quick-start capability to serve a load-following function and provide for peak capacity needs. Otter Tail's Energy Conversion Facility Permit Application for Astoria Station⁴ (Permit Application) provides a complete description of the project and the analysis done by Otter Tail to determine the appropriateness of the project.

As discussed in the Permit Application, Astoria Station will provide: capacity, dispatchable energy, and grid support as part of Otter Tail's two-part plan⁵ to reliably meet our customers' electric needs; replace expiring capacity purchase agreements; and allow for the 2021 retirement of the 1950s-era 140 MW Powder River Basin (PRB) coal-fired Hoot Lake Plant near Fergus Falls, Minnesota. As noted in Docket No. EL17-042, Otter Tail cannot justify continuing to maintain and operate Hoot Lake Plant past 2021 given the significant balance of plant

⁴ In the Matter of the Application of Otter Tail Power Company for an Energy Conversion Facility Permit for the Construction of a Combustion Turbine Generator and Associated Infrastructure Including a Natural Gas Pipeline and Electric Transmission Line near Astoria, South Dakota in Docket No. 17-042

⁵ Otter Tail's two-part plan consists of Astoria Station and the North Dakota-based Merricourt Project deemed prudent by the Commission in Docket No. EL18-021.

investments needed to keep such aged units and associated infrastructure operational, the potential for future environmental upgrades, and the infrequency with which the units are dispatched. Consequently, the determination was made to retire Hoot Lake Plant in 2021 and replace the plant's generation capacity.

At the time of this application, Otter Tail has obtained all major permits, purchased and re-zoned all necessary land, entered into a generator interconnection agreement with the transmission provider, obtained the design services of an engineering firm, and entered into an agreement with a combustion turbine manufacturer for the supply of the major components of Astoria Station. Detailed design and procurement of the balance of plant equipment and installation services will continue through 2019 to support an in-service date of no later than May 2021.

Total project cost incurred thru April 2019 were \$7.9 million (OTP Total) / \$0.8 million (OTP SD) based on South Dakota's D1 jurisdictional allocation factor of 9.882 percent⁶. Forecasted total project cost through August 2020 is \$119.1 million (OTP Total) / \$11.8 million (OTP SD) not including allowance for funds used during construction (AFUDC). This request covers the period of September 1, 2019 through August 31, 2020 for setting the first annual rate for the Phase-In for collection over the period of September 1, 2019 through August 31, 2020 (the beginning balance includes AFUDC accrued up to and through August 2019). Otter Tail forecasts that total project expenditures will be at or under the original budget amount of \$165 million (OTP Total) / \$16.3 million (OTP SD).

Description Merricourt Project – Attachment 5

The Merricourt Project is a wind generation project that will be located near the small town of Merricourt, North Dakota, approximately 15 miles south of Edgeley in McIntosh and Dickey Counties. The Merricourt Project will consist of 75 V110-2.0 MW Vestas wind turbine generators with an aggregate nameplate capacity of 150 MW. The Project includes real property interests, tower foundations, operational equipment, electric collection circuit lines, a collector system with an on-site collector substation, and additional infrastructure such as communications systems, meteorological towers, operations and maintenance building, monitoring, safety, lighting and measuring systems. The Project's footprint is approximately 13,000 acres of land.

⁶ Attachment 6c, Column F, Line 8

The Project's energy output is expected to be approximately 666,000 megawatt hours (MWh) annually, at a projected net capacity rate of 50.7 percent.

The Project will interconnect to Montana-Dakota Utilities Company's Merricourt 230 kV substation located approximately 13 miles southwest of Kulm, North Dakota. The Interconnection Agreement is effective as of March 6, 2019.

The Merricourt Project will be developed and constructed by subsidiaries of EDF Renewable Energy, Inc. (EDF). On November 16, 2016, Otter Tail and EDF executed an Asset Purchase Agreement (APA) under which Otter Tail will purchase the development assets of the Project. Otter Tail and EDF also executed a corresponding turnkey engineering, procurement, and construction (TEPC) agreement, under which EDF will construct the Project on a turnkey basis. Otter Tail expects to close on the APA in 2019 with construction to begin in late summer or fall 2019. Construction is anticipated to continue through Fall of 2020, when the project is expected to be in-service.

The Merricourt Project qualifies for the Federal PTC for the first 10 years of production. The PTC amount is based on kWh produced each year. Based on projected generation the PTC "earned" amount is estimated to be \$160.8 million (OTP Total) / \$15.9 million (OTP SD)⁷ over the first 10 years the project is in service. In this Petition Otter Tail requests to use the PTCs as a reduction to tax expense as the PTCs are generated. The effect of the PTC flow-through is a reduction in revenue requirements for 10 years and then an increase in revenue requirements thereafter.

Applying the PTCs at the time they are generated (or "earned") to tax expense reduces the revenue requirements in the first 10 years of the facility's production. Otter Tail is not always able to fully utilize PTCs as they are generated. When the PTCs generated exceed Otter Tail's taxable income then the unused PTCs are accounted for as a deferred tax asset for future use. Even though unused PTCs will not reduce income taxes for Otter Tail, Otter Tail will reflect the tax reduction value in rates. Through this approach, Otter Tail's South Dakota customers will receive the rate reduction benefits associated with PTCs even though Otter Tail may not yet utilize the PTCs on current tax returns. The unutilized PTCs are carried forward to offset future taxable income and are part of the deferred tax asset. Through this method, the PTC benefits are not spread over the entire lives of the project; rather, they are incorporated into rates in each year

⁷ Based on South Dakota's E2 jurisdictional allocator of 9.907 percent. Attachment 6c, Column F, Line 5

PTC's are generated (based on the kWhs generated in each of the first ten years), regardless of whether the PTCs are used on the then-current-period tax return.

An alternative method of PTC flow-through is levelizing the PTC flow-through over the life of the project. Levelizing, for ratemaking purposes, would spread the tax benefit over the entire depreciable life of the asset rather than allocating the entire tax benefit only to those customers paying bills in the early years of the life of the asset. The project life for Merricourt is 25 years. Otter Tail forecasts that Merricourt will generate approximately \$160.8 million (OTP Total) / \$15.9 million (OTP SD) of PTCs. Levelizing this amount over the 25-year life of Merricourt results in approximately \$6.4 million (OTP Total) / \$0.6 million (OTP SD) of tax credit each year for 25 years. Table 1 shows the difference between PTCs as generated reduction to rate base compared to levelized PTCs reduction to rate base on an OTP Total system basis.

Table 1

Forecast Year	OTP Total System		Difference
	PTCs as Generated Reduction to Tax Expense	Levelized PTCs Reduction to Tax Expense	
2019	\$0	\$0	\$0
2020	\$2,802,500	\$1,072,055	\$1,730,445
2021	\$16,635,000	\$6,432,328	\$10,202,672
2022	\$16,635,000	\$6,432,328	\$10,202,672
2023	\$17,300,400	\$6,432,328	\$10,868,072
2024	\$17,349,800	\$6,432,328	\$10,917,472
2025	\$17,349,800	\$6,432,328	\$10,917,472
2026	\$18,017,100	\$6,432,328	\$11,584,772
2027	\$18,017,100	\$6,432,328	\$11,584,772
2028	\$18,017,100	\$6,432,328	\$11,584,772
2029	\$18,684,400	\$6,432,328	\$12,252,072
2030		\$6,432,328	(\$6,432,328)
2031		\$6,432,328	(\$6,432,328)
2032		\$6,432,328	(\$6,432,328)
2033		\$6,432,328	(\$6,432,328)
2034		\$6,432,328	(\$6,432,328)
2035		\$6,432,328	(\$6,432,328)
2036		\$6,432,328	(\$6,432,328)
2037		\$6,432,328	(\$6,432,328)
2038		\$6,432,328	(\$6,432,328)
2039		\$6,432,328	(\$6,432,328)
2040		\$6,432,328	(\$6,432,328)
2041		\$6,432,328	(\$6,432,328)
2042		\$6,432,328	(\$6,432,328)
2043		\$6,432,328	(\$6,432,328)
2044		\$6,432,328	(\$6,432,328)
2045		\$5,360,273	(\$5,360,273)
Totals	\$160,808,200	\$160,808,200	\$0

As shown in Table 1, customers receive the same PTC benefit against tax expense under both the levelized method and under the method of applying PTCs to tax expense as generated. Under the levelizing method, PTCs generated and used but not yet credit to customers would be included in rate base as a deferred tax liability thus reducing rate base.

While Otter Tail recognizes that amortization of the PTCs over the life of the project allows all customers over the 25-year life to benefit from the PTCs, Otter Tail believes both approaches are reasonable and that the determination of use depends on the Commission's preference for which years the tax advantages ought to be recognized for Otter Tail's South Dakota customers. Otter Tail includes the method of applying the PTCs to tax expense as generated for the purposes of this filing as this approach provides the greatest reduction to tax expense, and revenue requirement, in years one through ten when recovery of the project commences.

Description Material New Load Adjustment – Attachments 6a, 6b, and 6c

Otter Tail's Rate Case utilized a 2017 Test Year and included costs and revenues associated with the 2017 Test Year. As contemplated in the Rate Case and in Docket No. EL16-020⁸, Otter Tail anticipates additional revenues associated with load growth in its South Dakota Lake Norden area service territory. The Settlement in the Rate Case directed that this material new load impact be reflected in this Phase-In Plan rider. Otter Tail utilizes the 2017 actual sales and 2017 Test Year jurisdictional cost of service study (JCOSS) as the baseline upon which to compare and determine the difference (increase) for forecasted sales for the new load growth in the Lake Norden area, including the resulting revenue as well as the impact on costs associated with changes in jurisdictional allocation factors. The revenue requirement impacts (credit to customers) due to these changes from the 2017 Test Year are spread evenly over the 12-month recovery period in Attachment 3, Line 10.

The forecasted additional retail revenues above the 2017 Test Year baseline for the Lake Norden Area for the recovery period are provided in Attachment 6a, Column D, Line No. 23. This estimated additional retail revenue is calculated by applying Otter Tail's proposed final

⁸ In the Matter of the Filing by Otter Tail Power Company Regarding its Proposed South Dakota Energy Efficiency Plan for 2017-2019

rates⁹ for the Rate Case to the forecasted new load growth. As part of the Phase-In rider, Otter Tail considers the revenues related to additional load growth from the Lake Norden area as well as the impact on energy (E) and demand (D) jurisdictional allocation factors and resulting cost impacts.

Otter Tail provided the jurisdictional allocation factors for the 2017 Test Year in its initial filing¹⁰ in the Rate Case. The increase to South Dakota jurisdictional allocation factors results in additional cost assignment to South Dakota which is more than offset by the additional revenues associated with the load growth. This impact to the revenue requirement, a credit of \$644,252, is included in Attachment 3, Line No. 10 to this filing. Attachment 6a provides the Commission Ordered 2017 Test Year JCOSS information [Column B], the 2017 Test Year JCOSS updated with the new load growth [Column C], and the resulting credit to South Dakota customers through the Phase-In Rider [Column D, Line No. 21].

Otter Tail includes Attachment 6b which provides the 2017 Test Year baseline kWh [Lines 1 and 4] and the Lake Norden Area additional kWh [Lines 2 and 5]. Otter Tail includes Attachment 6c which provides the summary of the D and E allocation factors from the 2017 Test Year JCOSS to the updated 2017 Test Year JCOSS allocation factors that result from the load growth. The E jurisdictional allocation factor updates [Attachment 6c, Columns D:F, Line Nos 1 and 4] result from the estimated load growth for the September 2019 through August 2020 recovery period¹¹. Otter Tail estimates the D jurisdictional allocation factors by applying the 2017 Test Year amount of these factors compared to the E factors. For example, the 2017 Test Year D1 factor as a percent of the 2017 Test Year E1 factor is approximately 14.7 percent. This percent is applied to the MWh in Column F, Line No. 1, to arrive at the D1 generation demand factor in Column F, Line No. 7.

Otter Tail input the estimated additional revenues, updated South Dakota E and D jurisdictional allocation factors, and additional fuel costs to serve the load growth into its COSS modeling to arrive at the COSS amounts including the load growth. As with other components

⁹ As of this May 31, 2019 Initial Filing Otter Tail's final rates from the Rate Case are not yet approved. All updates to the proposed final rates and the actual load growth will be included in the revenue requirement in future Phase-In Rider updates.

¹⁰ Rate Case Initial Filing, Volume 4A, Section 1 2017 Test Year Workpapers, JCOSS, Page 15-1.

¹¹ The change provided in Column G represent the load growth provided in Attachment 6b plus a line loss factor estimate.

of this Phase-In Plan Rider the actual revenues and allocation factors will replace the forecasts when available.

These updates, summarized in Attachment 6a, to the 2017 Test Year JCOSS result in a revenue requirement credit in the Phase-In Rider of \$644,252 for the September 2019 through August 2020 recovery period.

Description Hoot Lake Plant Retirement

The Settlement in the Rate Case requires Otter Tail discuss the retirement of Hoot Lake Plant within the Phase-In Rider. Hoot Lake Plant, located in Fergus Falls, Minnesota, is 100 percent owned by Otter Tail. The plant has two units currently in operation. Unit #2 was built in 1959 with 59 MWs of capacity. Unit #3 was added in 1964 and has 85 MWs of capacity. Unit #1 was retired in 2005. Hoot Lake Plant accounts for approximately 20 percent of Otter Tail's generation and has burned sub-bituminous coal since the late 1980's. In 2012, Otter Tail completed a baseload diversification study with a focus on evaluating retirement repower options for our 1950s-era Hoot Lake Plant. The study results showed that the lowest-cost option would be to add equipment to comply with Mercury and Air Toxics Standards by 2015 and retire the plant in 2021. Hoot Lake Plant is scheduled for retirement in the spring of 2021.

The 2017 Test Year included current cost components of Hoot Lake Plant. Those components are representative of the way that the plant still operates today and will continue to operate until the spring of 2021. Since the plant is still operating similar to the 2017 Test Year, Otter Tail does not include any adjustment related to Hoot Lake Plant in this Petition. In future Phase-In Plan Rider updates, Otter Tail will provide the status of Hoot Lake Plant and will include appropriate adjustments to reflect the net savings associated with the plant's retirement.

C. Phase-In initial revenue requirements calculations

Attachments 1 - 3 are, respectively, the Revenue Requirements Summary, Rate Design, and Tracker Summary calculations used for Otter Tail's Phase-In Plan initial rate submittal. Attachments 4 and 5 provide the revenue requirement calculations for the two projects for which Otter Tail requests Phase-In Plan recovery. Attachments 6a through 6c provide the adjustment reflecting the net benefit of new load in the Lake Norden area, including corresponding updates

to jurisdictional allocation factors resulting from the increase load to South Dakota. Further information on these components is included above in Section III Part B.

Specifically, the calculations of the revenue requirement in this Petition include the following:

- *Rate base section.* This section provides details on the amount of plant in service, accumulated depreciation (if applicable), construction work in progress (CWIP), 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 rate base.
- *Return on investment (cost of capital).* The return on investment utilizes the return on equity approved in Otter Tail's Rate Case. As described on page 15 in the Settlement for the Rate Case:
While the projects are under construction, the rate of return will include the weighted average cost of debt calculated at year-end levels, including short-term debt costs, and the equity ratio calculated at year-end levels. Once the projects are in-service the weighted average cost of long-term debt calculated at year-end levels will be used.
- *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 facilities are located and is calculated in accordance with the procedures specified by that state. Based on agreements with the State of South Dakota, the year after Astoria Station is in-service, the total property tax will be subject

to a 5-year ramp up period where the total property tax will be multiplied by 20 percent the first year, 40 percent the second year, 60 percent the third year, 80 percent the fourth year, and 100 percent the fifth year and years forward. The composite rate calculation applies to Merricourt while the funds are in FERC account 10700, construction work in progress. After Merricourt is placed into service, it will be subject to taxes consisting of the following two components:

1. A tax of two dollars and fifty cents per kilowatt times the rated capacity of the wind generator.
 2. A tax of one-half of one mill per kilowatt-hour of electricity generated by the wind generator during the taxable period.
- *Operation and maintenance Expense.* Once the Astoria Station and Merricourt projects are in-service, Otter Tail will track operation and maintenance costs specifically related to these projects in Attachments 4 and 5. Annual O&M expenses related to these generation facilities include costs related to property taxes and depreciation for Astoria and operating costs, ground lease payments, property taxes and depreciation for Merricourt.
 - *Proration of Federal Accumulated Deferred Income Taxes (ADIT).* Once the Astoria Station and Merricourt projects are in-service, Otter Tail will include proration of Federal ADIT. The methodology used for proration of Federal ADIT will be consistent with the United States Internal Revenue Service (IRS) rules related to proration, including recently issued IRS private letter rulings and Otter Tail's most recent Transmission Cost Recovery Rider (Case No. EL18-048) update. 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.¹²

¹² See Treas. Reg. SS 1.167(l)-1(h)(6)(ii).

- *Federal Production Tax Credit (PTC).* Merricourt is eligible for PTCs when it is placed in service. The forecasted rate is \$25.00 per megawatt hour for the recovery period of September 2019 through August 2020. PTCs, and application to tax expense, is discussed in more detail below.
- *Baseline Year.* The Rate Case included a 2017 Test Year upon which base rates were set. Otter Tail utilizes the Commission approved 2017 Test Year as the baseline year. Attachments 6a through 6c reflect updates to the 2017 Test Year resulting from load growth in the Lake Norden Area.
- *Jurisdictional Allocation Factors.* Jurisdictional allocators are used to allocate system cost among jurisdictions. The Commission approved Otter Tail's South Dakota jurisdictional allocations for the 2017 Test Year in the Rate Case.

IV. RATE DESIGN

Otter Tail proposes to use the “percent of bill” rate design method for this Rider. Under this method, the rate is calculated by dividing the total Phase-In Plan Rider revenue requirement by the total base rate revenue for the recovery period. For this filing, this method results in a percent of base revenue charge of 3.942 percent.

This method appropriately matches the rate design with other baseload plant rate base and operating expenses by applying the percent to only base rates. The customer's base rate charges in the bill are an appropriate reflection of the Company's CCOSS and existing rate design energy and demand components and therefore, the percent of bill method provides a fair and suitably representative rate design for cost responsibility among and within classes.

Otter Tail supports the percent of bill method as it accurately reflects the costs to classification as it is based upon actual billable energy and demand for the classifications. Furthermore, this method is also simple to administer. The rate design is shown on Attachment 2.

V. RATE APPLICATION AND IMPACT

Otter Tail proposes that the Rider be applicable to electric service under all of Otter Tail's retail rate schedules. The charge will be listed under the Other Charges/Credits on customers' bills. The total recovery period revenue requirement, as shown in Attachment 2, Line 2, is \$1,026,616. The proposed rate of 3.942 percent of base rates is calculated in the same attachment on Line No. 3. The impact to a customer's total bill is approximately 2.893 percent¹³.

The impact of the Phase-In rates for a residential customer using 1,000 kWh per month is approximately \$2.40 per month. For a Large General Service (LGS) customer using 486 kW and 222,350 kWh, the bill impact of the Phase-In rates is approximately \$294.87 per month. The Proposed Customer Notice and Rate Impact is contained in Attachment 7. Otter Tail provides the report to Commission of tariff schedule changes as Attachment 8 to this filing.

The above rate is calculated based on an expected implementation date of September 1, 2019. Revenue Requirement calculations are based on September 2019 through August 2020 costs, assuming revenue collection occurs September 2019 through August 2020. If the effective date is significantly later than September 1, 2019, Otter Tail requests the option to recalculate the rate in order to recover all approved costs over the remainder of the proposed recovery period.

VI. PHASE-IN RIDER TARIFF SHEET

Otter Tail's Phase-In Rider tariff sheet (Section 13.09) is Attachment 9 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. Otter Tail includes its updated Mandatory Applicability Matrix as Attachment 10 to this filing and its updated Rate Book Index as Attachment 11.

¹³ Rider revenue of \$1,026,616 / Total Rate Case approved revenues of \$35,489,214 = 2.893 percent.

VII. FILING FEE

Under SDCL 49-34A-77, the electric utility shall pay a filing fee to be determined by the commission in an amount not to exceed two hundred fifty thousand dollars. 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 rate for Otter Tail's Phase-In Rider, Section 13.09, effective as of September 1, 2019.

Date: May 31, 2019

Respectfully submitted:

OTTER TAIL POWER COMPANY

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