BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF SOUTH DAKOTA

IN THE MATTER OF THE APPLICATION OF OTTER TAIL POWER COMPANY FOR AUTHORITY TO INCREASE RATES FOR ELECTRIC SERVICE IN SOUTH DAKOTA	))))	DOCKET NO. EL10-011

I. SETTLEMENT STIPULATION

On August 20, 2010, Otter Tail Power Company (OTP) filed with the Public Utilities Commission (Commission) an application to increase rates for electric service to customers in its service territory by approximately $2,756,000 annually or approximately 9.96% based on OTP's 2009 test year.

Commission Staff and OTP (jointly the Parties) held several settlement conferences in an effort to arrive at a jointly acceptable resolution of this matter. As a result of the sessions, the Parties resolved all issues subject to this proceeding except the addition of the Luverne wind farm and entered into this Settlement Stipulation (Stipulation). Although the Parties are unable to reach a resolution regarding cost recovery of the Luverne wind farm in OTP's rates, and will notice this item for Commission consideration, this Stipulation identifies both the revenue requirement impact of the agreed-upon issues and the agreed-upon additional revenue requirement that would be associated with the inclusion of Luverne wind farm costs.

II. PURPOSE

This Stipulation was prepared and executed by the Parties for the sole purpose of resolving all issues in Docket No. EL10-011 except for the addition of the Luverne wind farm. The Parties acknowledge they may have differing views that justify the end result, but each Party deems the end result to be just and reasonable. In light of such differences, the Parties agree the resolution of any single issue, whether express or implied by the Stipulation, should not be viewed as precedent setting. In consideration of the mutual promises hereinafter set forth, the Parties agree as follows:

1. Upon execution of the Stipulation, the Parties shall immediately file this Stipulation with the Commission together with a joint motion requesting the Commission issue an order approving this Stipulation in its entirety without condition or modification.

2. This Stipulation includes all terms of settlement except for the addition of the Luverne wind farm. The Stipulation is filed conditioned on the understanding that, in the event the Commission imposes any changes in or conditions to this Stipulation, this Stipulation, may, at the option of either Party, be withdrawn

and shall not constitute any part of the record in this proceeding or any other proceeding nor be used for any other purpose in this case or in any other.

3. This Stipulation shall become binding upon execution by the Parties, provided however, if this Stipulation is withdrawn in accordance with Paragraph 2 above, it shall be null, void, and privileged. This Stipulation is intended to relate only to the specific matters referred to therein; neither Party waives any claim or right which it may otherwise have with respect to any matter not expressly provided therein; neither Party shall be deemed to have approved, accepted, agreed or consented to any rate making principle, or any method of cost of service determination, or any method of cost allocation underlying the provisions of this Stipulation, or be either advantaged or prejudiced or bound thereby in any other current or future rate proceeding before the Commission. Neither Party nor representative thereof shall directly or indirectly refer to this Stipulation or that part of any order of the Commission as precedent in any other current or future proceeding before the Commission.

4. The Parties to this proceeding stipulate all prefiled testimony, exhibits, and workpapers on the settled issues be made a part of the record in this proceeding. The Parties understand if the issues settled in this matter had not been settled, the Commission Staff would have filed direct testimony on those issues, OTP would have filed rebuttal testimony responding to certain of the positions contained in the testimony of Commission Staff and an evidentiary hearing would have been conducted where the witnesses providing testimony on the settled issues would have been subject to examination.

5. It is understood that the Commission Staff enters into this Stipulation for the benefit of all of OTP's South Dakota customers affected by this docket.

III. ELEMENTS OF SETTLEMENT STIPULATION

1. <u>Revenue Requirement</u>

   A. The Parties agree that the revenue requirement from this case shall be as follows:

      i. If the Commission determines that the costs of the Luverne wind farm shall not be included in the cost of service, OTP's rate schedules shall be designed to produce an ongoing annual decrease in total revenues (excluding sales taxes) of $219,469 or approximately 0.79% annually for retail electric service sales in South Dakota from test year revenues.

      ii. If the Commission determines the Luverne wind farm shall be included in the cost of service, OTP's rate schedules shall be designed to produce an ongoing annual increase in total revenues (excluding sales taxes) of

$642,572 or approximately 2.32% annually for retail electric sales in South Dakota from test year revenues.

B. The Parties agree to an 8.50 % rate of return on rate base.

C. If the Commission determines that the costs of the Luverne wind farm shall not be included in the cost of service, as described in A, above, the Luverne wind farm and its output (including all energy, capacity and renewable energy credits, etc.) will not be treated as serving OTP's South Dakota retail customers and the fuel clause adjustment shall include the costs of Replacement Power for Luverne, as described in paragraph 3.H. of this Settlement Stipulation.

2. Tariffs

The Parties agree that OTP will submit tariffs through a compliance filing after the Commission renders a final decision. The Parties agree the decrease or increase (as described in paragraph 1.A., above) will be allocated to the affected rate classes as shown on attached Exhibit A or B, as applicable.

3. Commitments

A. 2010 Renewable Energy Credit Revenue

Ninety percent of the South Dakota 2010 renewable energy credits (REC) revenue shall be credited to the fuel adjustment clause rider in the month following the Commission's approval of the Stipulation in the amount of $49,070.

B. Vegetation Management

Commission Staff concurs with the Company's requested recovery of the 2010 budget amount for vegetation maintenance expenses with the condition expenses remain at or above the South Dakota 2010 budget amount of $287,728, on average, for the period rates are in effect. If the average is below the South Dakota 2010 budget amount at the time OTP files its next application for a rate increase, OTP shall make an adjustment to reflect this commitment.

C. Big Stone II Plant Costs

The Stipulation amortizes the cancelled Big Stone II generating plant costs over ten years; includes in the test year one-half of the amortizable costs, representing the average unamortized balance over the ten-year period in rate base ("Levelized Recovery"); and implements a tracking mechanism for the recovery of costs so that the Company neither over recovers nor under recovers these costs. The South Dakota annual amortization expense is

$100,332 and the amount included in rate base is $501,662. This Levelized Recovery mechanism shall be in effect in each year over the ten-year period (i.e. the rate base and annual expense amount shall remain fixed over the ten-year recovery period).

D. Renewable Energy Credits

Ninety percent of the South Dakota renewable energy credits sold going forward shall be credited to the fuel adjustment clause rider (except any RECs sold from the Luverne wind farm, if the Luverne wind farm is not included in the cost of service as described in paragraph 1.A., above).

E. Asset-Based Margins

One hundred percent of the Company's South Dakota jurisdictional asset-based margins shall be credited to the fuel adjustment clause rider.

F. Ancillary Services Market Margins

MISO ancillary services market ("ASM") transactions, excluding ancillary services revenues and expenses derived through OTP's individual FERC-approved Control Area Services Operations Tariff, shall flow through the fuel adjustment clause rider.

G. Emission Allowances

Any allocable emission allowances sold shall be credited to the fuel adjustment clause rider.

H. Replacement Power for Luverne

In the event the Luverne wind farm is not included in the cost of service as described in III.1.A.i., above, to replace the cost of generation from the disallowed Luverne wind farm, a line for "Replacement Power for Luverne" under both energy costs and associated energy (KWH) will be added to the calculation of the fuel adjustment clause rider. Under energy costs, the costs are calculated by adding the net retail MISO Day 2 and the purchases for retail, dividing the sum by the associated energy – KWH for net Retail MISO Day 2 and the purchases for retail to get an average purchase price per kWh. The average purchase price per kWh is multiplied times the associated energy – KWH, Replacement Power for Luverne kWh for the resulting cost. Purchases for retail are specifically identified and are part of purchased power costs. Purchased power costs include the costs of all bilateral purchases both non-asset and those for retail. The cost and kWh associated with non-asset sales are removed as part of the *Less: Intersystem sales* line along with asset-based sales.

This Stipulation is entered into effective this 24th day of February, 2011.

Otter Tail Power Company

By: Ron Braun

Date: 2/23/11

South Dakota Public Utilities Commission

By: Kara Semmler

Date: 2/24/11