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 2013 Transmission Cost Recovery Eligibility and Rate Adjustment	))))	**SETTLEMENT STIPULATION** **EL12-054**

This Stipulation reflects the resolution reached between Otter Tail Power Company ("OTP") and the Commission Staff on all issues in the above-captioned docket.

I. BACKGROUND

In its November 30, 2011, ORDER GRANTING JOINT MOTION FOR APPROVAL OF STIPULATION, in Docket EL10-015, the South Dakota Public Utilities Commission ("Commission") approved OTP's Transmission Cost Recovery Rider ("TCR") and established the first annual TCR rates based upon costs and collection projected through the 2012 calendar year. That approval also requires OTP to submit an annual TCR rate update filing by September 1 of each year for the purpose of annually adjusting the TCR rate and to give the Commission an opportunity to review new transmission projects for TCR eligibility.

In compliance with that approval, on September 4, 2012, OTP filed a Petition requesting approval of its 2013 TCR rate adjustment based upon costs and collections actually received and projected through the 2013 calendar year and requesting approval of OTP's proposal to include in the TCR twelve (12) new transmission projects.

The rates proposed in OTP's Petition would have resulted in an average TCR bill impact of $1.55 per month for a typical residential customer using 750 kWh per month and $256.14 for a typical large general service customer using 486 kW and 222,350 kWh. This was an increase of $0.20 per month for a typical residential customer and $36.62 per month for a typical large general service customer over the current TCR recoveries. Specifically, OTP's Petition proposed to implement the following TCR rates on January 1, 2013:

Class	¢ / kWh	$ / kW
Large General Service	0.075¢	$0.184
Controlled Service	0.030¢	N/A
Lighting	0.117¢	N/A
All other service	0.207¢	N/A

Since the Petition was filed, Commission Staff and OTP ("the Parties") held several discussions regarding OTP's Petition and, as a result of these discussions, the Parties have been able to resolve all issues. The Parties have reached an agreement in the form of this Settlement Stipulation, which, if accepted and ordered by the Commission, will determine the rates that result from this proceeding.

II. PURPOSE OF THIS SETTLEMENT STIPULATION

This Settlement Stipulation has been prepared and executed by the Parties for the sole purpose of resolving the issues in Docket No. EL12-054. The Parties acknowledge that 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 that the resolution of any single issue, whether express or implied by the Settlement 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 this Settlement Stipulation, the Parties shall immediately file this Settlement Stipulation with the Commission together with a joint motion requesting that the Commission issue an Order approving this Settlement Stipulation in its entirety without condition or modification.

2. This Settlement Stipulation includes all terms of settlement. The Settlement Stipulation is filed conditioned on the understanding that, in the event the Commission imposes any changes or conditions to the Settlement Stipulation, this Settlement 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 shall it be used for any other purpose in this case or in any other.

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

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

III. ELEMENTS OF THE STIPULATION

1. **Revenue Requirement.** Attachments 4-12 to this Settlement Stipulation reflect the estimated 2013 revenue requirement subject to later true up to the actual costs and recoveries. The Parties agree the estimated 2013 TCR revenue requirement is $433,418. This amount takes into account the 2011-2012 tracker balance of $188,757 attributable to the 2011-2012 collection period, as well as estimated revenues received from January-April 2013 of $199,955 collected under the current TCR rates.

2. **Regional Transmission Investment Allocation.** For the purpose of determining inclusion of regional transmission investments (those that qualify for regional cost allocation through MISO's tariff) in the TCR rider, the Parties agree to utilize a method of project cost allocation referred to by the Parties as the "refined split" method. This method was approved by the Commission for Xcel Energy's TCR in its ORDER APPROVING SETTLEMENT STIPULATION in Docket No. EL12-035. This is a change to how OTP's regional transmission investments were originally included in the TCR. The Parties find the refined split method better conforms to traditional ratemaking philosophy and facilitates proper jurisdictional allocation of the transmission investments and corresponding recoveries. Under this method, OTP's regional transmission investments will be allocated into state or FERC jurisdictions for recovery as follows:

    a. The portion of the regional transmission investments associated with the Company's MISO-determined retail responsibility of OTP's investment in the projects will be included in retail rate base for recovery through the TCR mechanism.

    b. Retail customers will be assessed Schedule 26 expenses relating to the Company's full responsibility of projects costs, as discussed in section 4b.

    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.

The Parties agree the MISO-determined retail responsibility of the Company's investment in the following regional transmission investments shall be included in retail rate base for rate recovery in the TCR:

a. CapX2020 Fargo –Twin Cities Phase I (Approved as TCR Eligible in Docket No. EL10-015)

b. CapX2020 Bemidji – Grand Rapids (Approved as TCR Eligible in Docket No. EL10-015)

c. Rugby Wind Interconnection (Approved as TCR Eligible in Docket No. EL10-015)

d. Cass Lake – Bemidji (Approved as TCR Eligible in Docket No. EL10-015 as part of the CapX202 Bemidji – Grand Rapids Project)

e. Casselton-Buffalo 115 kV

The Parties are in agreement that the Fargo to Monticello Phase II and III CapX2020 projects, which were approved as eligible for inclusion in the TCR in Docket No. EL10-015, have been removed from TCR recoveries for this recovery period because they are under construction and not yet in service. It is the Parties' intention that OTP may petition for TCR eligibility in the future once these projects are brought into service (or OTP may seek recovery in some other proceeding such as a general rate case). Also, the Parties agree that other projects not yet in service were included in OTP's Petition and they are in agreement that they shall not be included in the TCR for this recovery period. Likewise, it is the Parties' intention that OTP may petition for TCR eligibility in the future once these projects are brought into service (or OTP may seek recovery in some other proceeding such as a general rate case).

3. **Rate of Return.** The Parties agree that the rate of return applicable to eligible investments included in the TCR rate base shall be 7.58% in 2013. The overall 2013 rate of return is based on an agreed upon ROE and the Company's actual capital structure and long-term debt costs as of December 31, 2012. The Parties' agreement on the rate of return and ROE for use in this TCR annual update has been made for the sole purpose of resolving the issues in Docket No. EL12-054. The agreement has been reached in consideration of the mutual promises described throughout this Settlement Stipulation and it should not be viewed as precedent setting.

4. **Remaining TCR provisions approved in Docket No. EL10-015 remain unchanged.** The Parties agree that the other components of the TCR shall remain as approved in Docket No. EL10-015. Those provisions include the following:

a. a carrying charge calculated at the TCR overall rate of return shall be applied to the monthly over-or-under-recoveries determined as the estimated TCR revenues and costs are trued-up to actual revenues and costs;

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.

5. **Rate Design.** The Parties agree that the TCR rate design previously approved for the TCR in Docket No. EL10-015 will remain unchanged, except the demand/energy split for the LGS revenue requirement will be updated to reflect 2013 forecast demand and energy. More specifically, the TCR will utilize the transmission demand allocation factor from OTP's last South Dakota general rate case (Commission Docket No. EL10-011) to allocate total revenue requirements to jurisdictions (South Dakota, 9.815717%) and rate classes. The Large General Service (LGS) class's portion of retail revenue requirements is 33.96%. The remaining 66.04% of the retail revenue requirements will be collected from the non-LGS rate classes.

   OTP's LGS rate design for the TCR rider will incorporate demand ($/kW-month) and energy (¢/kWh) rates that recover the transmission project costs in a manner that follows existing LGS base rates design. Specifically, the LGS revenue requirements will be split between demand and energy based on the 2013 forecast base rate demand and energy revenue proportion of approximately 35% demand and 65% energy. As part of future filings, this split will be reviewed as necessary to reflect any material load changes. The LGS demand rate will be calculated as the LGS demand revenue requirements divided by the LGS class billing demand for the projected period. The LGS energy rate will be calculated as the LGS energy revenue requirements divided by the LGS kilowatt-hour sales for the projected period.

   For the remaining rate classes (non-LGS) of Controlled Service, Lighting and All Other Service classes, OTP will charge a separate energy-based (kWh) rate based on the revenue requirement for each class divided by the projected kilowatt-hour sales for each class over the recovery period.

6. **Implementation of Rates.** The revised rates below shall be implemented on bills rendered on and after May 1, 2013. These rates are designed to reflect the TCR revenue requirements through December 2013; they will be in effect until the Commission approves the next TCR rate update.

Class	¢ / kWh	$ / kW
Large General Service	0.082¢	$0.202
Controlled Service	0.049¢	N/A
Lighting	0.134¢	N/A
All other service	0.250¢	N/A

7. **Tariffs.** A revised tariff sheet consistent with the terms of this Settlement Stipulation is attached as Attachment 13.

8. **Annual Reports of South Dakota Jurisdictional Earnings.** The Parties agree that, by June 1 of each year, beginning June 1, 2013, OTP will file with the Commission a report of its South Dakota jurisdictional earnings (Cost of Service Study) for the preceding calendar year showing, among other things, the overall rate of return and ROE earned, and the South Dakota revenue excess or deficiency based on the ROE reflected in the last general rate case. The determination will be presented on an actual and weather-normalized basis and will reflect South Dakota ratemaking practices.

South Dakota Public Utilities Commission Staff

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Date: April 17, 2013

Otter Tail Power Company

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