

**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 2014 Transmission) SETTLEMENT STIPULATION
Cost Recovery Eligibility and Rate Adjustment)
) EL13-029**

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 (“Order”), in Docket EL10-015, the South Dakota Public Utilities Commission (“Commission”) approved OTP’s Transmission Cost Recovery Rider (“TCR”) and established initial TCR rates based upon costs and collection projected through the 2012 calendar year. That approval also required 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 the Order, on August 30, 2013, OTP filed its Petition for Annual Update to Transmission Cost Recovery Rider Rate (Petition) in the above-captioned matter requesting Order of its 2014 TCR rate adjustment based upon costs and collections actually received and projected through the 2014 calendar year and including one (1) new transmission project.

Since the Petition was filed, Commission Staff and OTP (“the Parties”) have held discussions regarding OTP’s Petition and specifically on the optimal timing for making these annual filings and establishing annual TCR rates. In their discussions, the Parties noted that the current annual filing schedule (filing by September 1 with an assumed implementation by January 1) does not coordinate well with the timing of information going to and coming from MISO. Therefore, in this Settlement Stipulation, in addition to reaching agreement on all other issues relating to this matter, the Parties are recommending a later implementation date and a shift in the filing dates and implementation dates for future annual TCR updates. The purpose of the shift in filing and implementation dates is to more closely synchronize the annual TCR updates with the annual MISO filing OTP makes for Attachments O, MM and GG and subsequent availability from MISO of updated rates for annual Schedules 26 and 26A Expenses and Revenues. OTP makes its

filing with MISO by September 1 of each year and final MISO rates are generally available in January. On these 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 and the schedule for future TCR update filings.

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. EL13-029. 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:

The Parties agree the estimated 2014 TCR revenue requirement is \$1,348,603. This amount takes into account the 2013 tracker balance of \$43,366 attributable to the 2013 collection period, as well as estimated revenues received from January-February 2014 of \$148,046 collected under the current TCR rates.

2. Addition of One (1) New Project:

The Parties agree that portions of one new project, the first phase of the Oakes Area Transmission Improvement project to be completed and placed in service in December of 2014, will be included in this TCR Rider update as proposed in the initial filing.

3. Addition of One (1) Previously Approved Project:

The Parties agree that Phase II of the Fargo to Monticello CapX2020 project previously approved as TCR Eligible in Docket No. EL10-015, and going into service in 2014, will be included in the TCR Rider effective January 1, 2015.

4. Timing of Future Filings Shifted to November 1:

The Commission's Order in OTP's last TCR update required OTP to make its annual TCR update filing by September 1 each year, with a targeted implementation of January 1 of the following year. The Parties agree that OTP will file future TCR updates by November 1 each year with a targeted rate implementation date of March 1 of the following year. As explained above, the purpose of the shift in filing dates is to more closely synchronize the annual TCR update filing with the annual MISO filing OTP makes for Attachments O, MM and GG and subsequent availability from MISO of updated rates for annual Schedules 26 and 26A Expenses and Revenues. Final MISO rates are generally available in January. If these updated MISO rates (or any other updated cost, expense or revenue items) result in a 5% or greater change in the overall revenue requirement than what was proposed in the initial filing, OTP will submit a supplemental filing with the updated information by the end of January of each year.

5. Recovery Period for this TCR update:

The Parties agree that the projected recovery period for this TCR update will run from March 1, 2014 to February 28, 2015. The proposed rates included in this Settlement Stipulation are calculated with an assumption of recovery over that time period.

6. Remaining TCR provisions approved in Docket Nos. EL10-015 and EL12-054 remain unchanged:

The Parties agree that the other components of the TCR shall remain as approved in Docket No. EL10-015 and Docket No. EL12-054. Those provisions include the following:

- a. The annual rate of return applicable to eligible investments included in the TCR rate base shall be 7.39% in 2014. The overall 2014 rate of return is based on an agreed upon return on equity and OTP's actual capital structure as of December 31, 2013. The cost of long term debt is based on the stated interest rates for each debt issuance, weighted according to each issuance's balance as of December 31, 2013. The Parties' agreement on the rate of return and ROE for use in the TCR annual update has been made for the sole purpose of resolving the issues in Docket No. EL 13-029. 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.
- b. Project cost allocations under the refined split method, as well as jurisdictional cost allocations shall continue as established in Docket No. EL12-054.
- c. The rate design shall continue as established in Docket No. EL12-054.
- d. The carrying charge shall remain as established, calculated at the TCR overall rate of return, and 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;
- e. The TCR shall flow through the jurisdictional share of Schedule 26 and Schedule 26A expenses incurred by OTP as an active member of MISO and reflect recovery of Schedule 26 and Schedule 26A expense, adjusted for the amount of expense associated with projects for which OTP is part owner and are not included in the rider.

7. Implementation of Rates:

The revised rates below shall be implemented on bills rendered on and after March 1, 2014. These rates are designed to reflect the TCR revenue requirements through February 2015; they will be in effect until the Commission approves the next TCR rate update.

<u>Class</u>	<u>¢ / kWh</u>	<u>\$ / kW</u>
Large General Service	0.160¢	\$0.417
Controlled Service	0.064¢	N/A
Lighting	0.253¢	N/A
All other service	0.448¢	N/A

8. Updated Attachments:

The following Attachments from the initial filing have been updated to reflect actual cost and revenue information as well as updated forecast information used to compute the updated proposed rates reflected above:

- a. Attachment 1 Revenue
- b. Attachment 2 Revenue Requirements Summary
- c. Attachment 3 Rate Design
- d. Attachment 4 Tracker Summary
- e. Attachment 5 CAPX Fargo-Monticello Revenue Requirements Calculation
- f. Attachment 6 CAPX Bemidji-Grand Rapids Revenue Requirements Calculation
- g. Attachment 7 Cass Lake-Bemidji Revenue Requirements Calculation
- h. Attachment 8 Rugby Wind Interconnection Revenue Requirements Calculation
- i. Attachment 9 Casselton-Buffalo 115kV Project Revenue Requirements Calculation
- j. Attachment 10 Oakes Area Transmission Revenue Requirements Calculation
- k. Attachment 11 Attachment O Revenue Credit Calculation for Non-MISO Projects
- l. Attachment 12 MISO Schedule 26 and 26A Expense
- m. Attachment 13 MISO Schedule 26 Revenue
- n. Attachment 14 MISO Schedule 37 and 38 Revenue
- o. Attachment 15 Electric Rate Schedule Section 13.07 Redline and Clean
- p. Attachment 16 Proposed Customer Notice and Rate Impact
- q. Attachment 17 Report to Commission of tariff schedule changes on notice.

9. Tariffs:

OTP will submit revised tariff sheets through a compliance filing after the Commission renders a final decision in this docket.

10. Annual Reports of South Dakota Jurisdictional Earnings:

The Parties agree that, by June 1 of each year, 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**

By: KAREN E. CREMER (Print)

Karen E. Cremer (Sign)

Title: Staff Attorney

Date: Feb. 10, 2014

Otter Tail Power Company

By: BRUCE GERHARDSON (Print)

Bruce Gerhardsen (Sign)

Title: ASSOCIATE GENERAL COUNSEL

Date: Feb. 10, 2014