

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

In the Matter of Otter Tail Power Company's
2013 South Dakota Energy Efficiency Plan Status
Report and 2014 Annual Filing to Update the
Energy Efficiency Adjustment Rider

Docket No. EL14-__

SUMMARY OF FILING

Status Report

Overall results for the 2013 South Dakota EEP Program show the Company achieved 101 percent of budget, 271 percent of participation goals, 71 percent of projected energy savings goals, and 67 percent of proposed demand savings. A brief summary of each of the programs offered to South Dakota customers in 2013 is presented. Summary tables of actual results compared to goals are provided in Appendix A, Tables 1 through 3.

Financial Incentive

The South Dakota Public Utilities Commission approved a "percent of approved budget" method for calculating the financial incentive, which would equal \$84,000. A summary spreadsheet is presented in Appendix A, Table 4.

Energy Adjustment Rider

The Company is not proposing to change the Energy Efficiency Adjustment Rider at this time. The revenues collected from the Rider are currently in line with the expenses from the EEP program. The EEP tracker balance is provided in the attached report under the section "ENERGY ADJUSTMENT RIDER." A summary spreadsheet is presented in Appendix A, Table 5.

Conclusion

Otter Tail Power Company requests approval of the 2013 Financial Incentive, totaling \$84,000. The Company also requests to continue the Energy Efficiency Adjustment Rider of \$0.00103 on customer's bills. The next status report will be filed on May 1, 2015, with the program subject to modifications as proposed and approved by the Commission at that time.

**Otter Tail Power Company
South Dakota Energy Efficiency Program 2013 Status Report**

Table of Contents

INTRODUCTION.....	2
DIRECT IMPACT – RESIDENTIAL.....	4
AIR CONDITIONING CONTROL.....	4
AIR SOURCE HEAT PUMPS (Residential).....	5
GEOHERMAL HEAT PUMPS (Residential).....	6
DIRECT IMPACT – COMMERCIAL	9
AIR SOURCE HEAT PUMPS (Commercial)	9
CUSTOM EFFICIENCY PROGRAM	10
GEOHERMAL HEAT PUMPS (Commercial).....	11
LIGHTING	13
MOTORS.....	14
INDIRECT IMPACT	16
ADVERTISING & EDUCATION - Residential.....	16
MISCELLANEOUS / INACTIVE PROJECT COSTS.....	17
EEP DEVELOPMENT.....	17
FINANCIAL INCENTIVE.....	18
REGULATORY REQUIREMENTS	19
ENERGY ADJUSTMENT RIDER / CARRYING COSTS.....	19

INTRODUCTION

The purpose of this Status Report is to present the results of direct impact, indirect impact, and miscellaneous programs completed from January 1, 2013 through December 31, 2013 through Otter Tail Power Company's ("Otter Tail", "Company") South Dakota Energy Efficiency Partnership ("EEP") program. Cost recovery and the financial incentive calculations for the Program are also detailed in this report. This filing is the fifth Status Report provided to the South Dakota Public Utilities Commission ("Commission") and summarizes the results of the fifth full year of EEP activity since the Program's inception.

Direct Impact Programs

Residential

- Air Conditioning Control
- Air Source Heat Pumps
- Geothermal Heat Pumps

Commercial

- Air Source Heat Pumps
- Custom Efficiency
- Geothermal Heat Pumps
- Lighting
- Motors

Indirect Impact Programs

- Advertising & Education

Miscellaneous and Inactive Programs

- EEP Development

Financial Incentive

Regulatory Requirements

Background

- On May 25, 2011, Otter Tail requested approval of its 2012-2013 EEP.
- On August 24, 2011, the Commission approved Otter Tail's request for a financial incentive of \$73,145, approval to continue the Energy Efficiency Adjustment Rider of \$0.00063, and approved the 2012-2013 EEP. The written Order was issued on August 26, 2011.
- On April 30, 2012, Otter Tail requested approval for a financial incentive of \$78,900, and approval to increase the Energy Efficiency Adjustment Rider to \$0.00088, commensurate with the company achieving 138 percent of projected energy savings, 92 percent of proposed demand savings, 103 percent of budget and 161 percent of participation goals.
- On June 19, 2012, the Commission approved Otter Tail's request for a financial incentive of \$78,900, and approved an increase the Energy Efficiency Adjustment Rider to \$0.00088. The written Order was issued on June 26, 2012.
- On April 30, 2013, Otter Tail requested approval for a financial incentive of \$84,000 and approval to increase the Energy Efficiency Adjustment Rider to \$0.00103, commensurate with the company achieving 172 percent of projected

energy savings, 159 percent of proposed demand savings, 111 percent of budget and 162 percent of participation goals.

- On June 18, 2013, the Commission approved Otter Tail’s request for a financial incentive of \$84,000, and approved an increase the Energy Efficiency Adjustment Rider to \$0.00103. The written Order was issued on June 24, 2013.

Approved 2013 South Dakota EEP goals and budgets are listed in Appendix A, Tables 1 through 3, along with actual results for 2013.

Overview

Overall results for the 2013 South Dakota EEP Program show the Company achieved 101 percent of the budget, 271 percent of projected participation goals, 71 percent of projected energy savings goals, and 67 percent of projected demand savings. The Company’s 2013 EEP achieved cost-effective energy and demand savings.

SUMMARY OF BUDGET TO ACTUALS – 2013			
	BUDGET	ACTUAL RESULTS	% OF BUDGET
Expenses All Programs	\$280,000	\$281,549	101%
Participation	1,040	2,823	271%
Energy Savings - kWh	2,274,260	1,611,524	71%
Demand Savings - kW	671.3	452.4	67%

While the EEP program’s energy and demand savings results fell short of 2013 goals, the Company is pleased with the progress made through the 2012-2013 biennial. The two year plan achieved 121 percent of the proposed energy savings goal and 113 percent of the peak demand savings goal. These noteworthy savings were achieved with EEP spending at 106 percent of proposed budget.

With the exception of Commercial Lighting, all direct-impact programs underperformed in 2013. In particular, the Custom Efficiency Program which typically drives significant energy savings at the portfolio level, was 23 percent of its energy savings goal. Furthermore, Otter Tail speculates the portfolio’s strong 2012 results impacted 2013, but only time will tell. While one year does not make a trend, this directional shift is not taken lightly and is being watched closely by the Company.

Otter Tail appreciates the Commission’s support for our program. Energy efficiency is a long-term commitment that continues to evolve in South Dakota. Otter Tail is confident that working together we can continue to create a sustainable energy future for South Dakota, of which energy efficiency will play a critical role.

DIRECT IMPACT – RESIDENTIAL

AIR CONDITIONING CONTROL

The Air Conditioning Control Program targets residential customers with central air conditioning systems. Customers are encouraged to enroll in the program and receive a \$7/month credit for each of the 4 summer months (June-September).

In 2013, Otter Tail controlled air conditioning on 25 separate occasions for a total of 56 hours and 48 minutes. This control time is within the 300-hour control limit approved for the air conditioning rider.

Otter Tail promotes air conditioning control using various resources listed below:

- Bill inserts sent in February, March and July of 2013
- Television and radio campaign conducted in conjunction with the Advertising and Education program.
- Customer care booklet that is sent to all new customers
- Flash Ad at www.otpc.com home page
- Pocket calendar and products and services guide
- Presentations and literature distribution at workshops
- Annual and monthly service rep training
- Brochures available in customer service center lobbies and by request
- Program, rate, and rebates described within the Company's web site at www.otpc.com

This Program has been approved for continuation in the 2014 EEP.

Participation & Budget

PARTICIPATION AND BUDGET – 2013			
AIR CONDITIONING CONTROL	BUDGET	ACTUAL RESULTS	% OF BUDGET
Participation	30	9	30%
Budget \$	\$10,000	\$9,760	98%

Evaluation Methodology

Company-specific load shapes were developed for summer air conditioning control analysis.

Energy Savings & Adjustments

Air conditioning control per participant produces energy savings of approximately 49 kWh per household, and impacts summer peak demand by approximately 1.0 kW at the generator.

AIR CONDITIONING CONTROL	Budgeted Savings at the Generator	Actual Savings at the Generator	% of Budget
Energy Savings – kWh	1,464	439	30%
Demand Savings – kW Summer Coincident Peak	31.22	9.37	30%

AIR SOURCE HEAT PUMPS (Residential)

The Air Source Heat Pump Program targets residential customers currently using or considering the installation of less efficient resistance electric heating and cooling systems by offering rebates for high-efficiency air source heat pumps. For 2013, Otter Tail relied on Energy Star qualifications for the minimum equipment efficiency requirement for this program:

Energy Star – ASHP	HSPF	SEER	EER
Split System	> or = 8.2	> or = 14.5	12.0
Package Terminal			> or = 11.0

Otter Tail Power Company promotes energy efficient heat pumps through the following resources.

- *Guide to the Programs and Services* sent to contractors
- Brochures available in customer service center lobbies and by request
- Presentations and literature distribution at Builder and Electrical Workshops for contractors
- Training material covered with service representatives in annual and monthly training
- Bill messages included on all customer monthly service statements
- Bill inserts about heat pump efficiency, financing, and rebates
- Program, rate, and rebate descriptions on the Company's web site: www.otpc.com

This Program has been approved for continuation in the 2014 EEP.

Participation & Budget

PARTICIPATION AND BUDGET – 2013			
AIR SOURCE HEAT PUMPS (R)	BUDGET	ACTUAL RESULTS	% OF BUDGET
Participation	20	16	80%
Budget \$	\$14,000	\$14,673	105%

Evaluation Methodology

Energy savings estimates from the State of Minnesota’s Division of Energy Resources (“DER”) Deemed Savings Database are used for cooling energy savings assumptions. The Company’s engineering estimates are used to determine energy savings for heating for each air source heat pump system installed.

Energy Savings & Adjustments

The 2013 average annual energy savings at the generator are 9,773 kWh per unit, with peak demand savings of 0.72 kW per unit installed. Average size unit installed in 2013 was 2.9 tons.

AIR SOURCE HEAT PUMPS (R)	Budgeted Savings at the Generator	Actual Savings at the Generator	% of Budget
Energy Savings – kWh	168,130	156,361	93%
Demand Savings – kW Winter Coincident Peak	17.11	11.50	67%

GEOTHERMAL HEAT PUMPS (Residential)

Geothermal heat pumps are most often used in the coldest climates where the winter season ground temperature is significantly warmer and less variable than outside air temperatures. Because of the consistent, steady ground temperatures, geothermal heat pumps can achieve efficiencies of up to 400 percent. The Geothermal Heat Pump Program capitalizes on a renewable technology and targets customers currently using or considering the installation of less efficient resistance electric heating and cooling systems.

A minimum Energy Star qualification is required for this program. During 2013 units were required to meet an Energy Star qualification listed in the chart below.

Type	COP	
	Open	Closed
Water to air	4.1	3.6
Water to water	3.5	3.1
Direct exchange	3.6	

Otter Tail promotes energy efficient heat pumps using the following promotional resources.

- *Guide to Programs and Services* sent to contractors
- Brochures available in customer service center lobbies and by request
- Presentations and literature distribution at Builder and Electrical Workshops for contractors
- Training material covered with service representatives in annual and monthly training
- Bill messages included on all customer monthly service statements
- Promotional bill inserts about heat pump efficiency, financing, and rebates
- Program, rate, and rebate descriptions within the Company’s web site at www.otpc.com

This Program has been approved for continuation in the 2014 EEP. Required COP levels are the same for 2014 and will match Energy Star program requirements.

Participation & Budget

PARTICIPATION AND BUDGET – 2013			
GEOTHERMAL HEAT PUMPS (R)	BUDGET	ACTUAL RESULTS	% OF BUDGET
Participation	10	6	60%
Budget \$	\$21,000	\$15,687	75%

Evaluation Methodology

Engineering estimates are used to determine energy savings from each geothermal heat pump system installed.

Energy Savings & Adjustments

On average the 2013 energy savings at the generator is 14,936 kWh per unit, with peak demand savings of 11.47 kW for the seven units installed. Average size unit installed in 2013 was 4.4 tons.

GEOHERMAL HEAT PUMPS (R)	Budgeted Savings at the Generator	Actual Savings at the Generator	% of Budget
Energy Savings – kWh	120,398	104,549	87%
Demand Savings – kWh Winter Coincident Peak	86.00	80.29	93%

DIRECT IMPACT – COMMERCIAL

AIR SOURCE HEAT PUMPS (Commercial)

The Air Source Heat Pump Program targets commercial customers currently using or considering the installation of less efficient resistance electric heating and cooling systems by offering rebates for high-efficiency air source heat pumps. For 2013, Otter Tail relied on Energy Star qualifications as the minimum equipment efficiency requirement for this program:

Energy Star – ASHP	HSPF	SEER	EER
Split System	> or = 8.2	> or = 14.5	12.0
Package Terminal			> or= 11.0

Otter Tail promotes energy efficient heat pumps using various resources.

- Presentations and literature distribution at Builder and Electrical Workshops for contractors
- *Guide to Programs and Services* sent to contractors
- Brochures available in customer service center lobbies and by request
- Bill messages included on customer statements
- Bill inserts about heat pump efficiency, financing, and rebates
- Training material covered with service representatives in annual and monthly training
- Program, rate, and rebate descriptions within the Company's web site at www.otpc.com

This Program has been approved for continuation in the 2014 EEP. Required equipment efficiency specification levels will be adjusted each year to match Energy Star program requirements.

Participation & Budget

PARTICIPATION AND BUDGET – 2013			
AIR SOURCE HEAT PUMPS (C)	BUDGET	ACTUAL RESULTS	% OF BUDGET
Participation	22	7	32%
Budget \$	\$25,000	\$6,784	27%

Evaluation Methodology

Engineering estimates from the State of Minnesota Deemed Savings Database are used

for cooling energy savings assumptions. The Company's engineering estimates are used to determine heating energy savings assumptions.

Energy Savings & Adjustments

Annual energy savings on average at the generator in 2013 are 10,328 kWh with peak demand savings of 0.76 kW per unit installed. The average size unit installed was 3.1 tons.

AIR SOURCE HEAT PUMPS (C)	Budgeted Savings at the Generator	Actual Savings at the Generator	% of Budget
Energy Savings – kWh	314,403	72,296	23%
Demand Savings – kW Winter Coincident Peak	37.30	5.32	14%

CUSTOM EFFICIENCY PROGRAM

The Custom Efficiency Program pays incentives to commercial and industrial customers for energy saving installations such as new energy-efficient equipment and process changes. The Custom Efficiency Program is intended to provide incentives to customers considering energy efficiency technologies or applications not currently available through existing prescriptive rebate programs.

Efficiency Custom Projects Type of System Installation	Quantity
Building Envelope Improvements	4
Variable Speed Drive	2

Otter Tail promotes the custom efficiency program through a variety of promotional resources.

- Presentations and literature distribution at Builder and Electrical Workshops for contractors
- *Guide to Programs and Services* available to contractors
- *Make It Electric* newsletter for commercial and industrial customers
- Program, technology, and rebate information available on the Company's web site at www.otpc.com
- EEP bill inserts for South Dakota customers

This Program has been approved for continuation in the Company's 2014 Plan.

Participation & Budget

PARTICIPATION AND BUDGET – 2013			
CUSTOM EFFICIENCY	BUDGET	ACTUAL RESULTS	% OF BUDGET
Participation	5	6	120%
Budget \$	\$73,000	\$75,709	104%

Evaluation Methodology

Impact savings estimates from the Custom Efficiency Program come directly from the customer, who submits detailed information showing demand and energy savings for each proposed measure. The Company verifies the feasibility of the proposed savings, and if necessary, makes modifications to the analysis. Otter Tail offers assistance for our commercial and industrial customers to help them determine the energy and demand savings necessary in developing a Custom Efficiency Program proposal. Customers often work with internal or third-party engineers to determine and verify savings.

Energy Savings & Adjustments

Energy savings are based on customer efficiency proposals and reviewed and verified by Otter Tail engineering staff.

Custom Efficiency Program	Budgeted Savings at the Generator	Actual Savings at the Generator	% of Budget
Energy Savings – kWh	806,250	183,117	23%
Demand Savings – kW Winter Coincident Peak	161.25	125.10	78%

Energy (kWh) and demand (kW) savings from the Custom Efficiency Program were significantly short of goal in 2013. Relatively low participation is often inherent in this program and one or two large industrial projects can significantly influence results. The Company is optimistic about efficiency opportunities with large commercial and industrial customers in 2014.

GEOTHERMAL HEAT PUMPS (Commercial)

Geothermal heat pumps are most often used in the coldest climates where the ground temperature is significantly warmer and less variable than outside air temperatures.

Because of the consistent, steady ground temperatures, geothermal heat pumps can achieve efficiencies of up to 400 percent. The Geothermal Heat Pump Program capitalizes on a renewable technology and targets customers currently using or considering the installation of less efficient resistance electric heating and cooling systems. For 2013, Otter Tail relied on Energy Star qualifications as the minimum equipment efficiency requirement for this program:

Type	COP	
	Open	Closed
Water to air	4.1	3.6
Water to water	3.5	3.1
Direct exchange	3.6	

Otter Tail promotes energy efficient heat pumps using various promotional resources.

- Presentations and literature distribution at Builder and Electrical Workshops for contractors
- *Guide to Programs and Services* available to contractors
- Brochures available in customer service center lobbies and by request
- Bill messages included on customer statements
- Bill inserts about heat pump efficiency, financing, and rebates
- Training material covered with service representatives in annual and monthly training
- Program, rate, and rebates described within the Company’s web site at www.otpc.com

This Program has been approved for continuation in the 2014 EEP. Required COP levels are the same for 2014 and will match Energy Star program requirements.

Participation & Budget

PARTICIPATION AND BUDGET – 2013			
GEOTHERMAL HEAT PUMPS (C)	BUDGET	ACTUAL RESULTS	% OF BUDGET
Participation	22	7	32%
Budget \$	\$50,000	\$17,906	36%

Evaluation Methodology

Engineering estimates are used to determine energy savings from each geothermal heat pump system installed.

Energy Savings & Adjustments

The 2013 average annual energy savings at the generator is 18,006 kilowatt-hours, with peak demand savings of 12.95 kW per unit installed. The average unit size was 4.9 tons in 2013.

GEOHERMAL HEAT PUMPS (C)	Budgeted Savings at the Generator	Actual Savings at the Generator	% of Budget
Energy Savings – kWh	308,633	126,040	41%
Demand Savings – kW Winter Coincident Peak	206.56	90.68	44%

LIGHTING

The Lighting Program provides rebates to commercial and industrial customers for retrofit installations of energy-efficient lighting technologies. Possible measures implemented by customers include retrofits from inefficient incandescent, high intensity discharge, and linear fluorescent lighting systems to the following efficient technologies: screw-in compact fluorescent; fluorescent fixtures with T-8 and T-5 lamps and various electronic ballast configurations; and LED lighting systems. The 2013 program continued offering customers a tremendous opportunity to accelerate change-out of their old, inefficient lighting systems.

Otter Tail actively promotes the Lighting Program through a variety of promotional resources.

- Presentations and literature distribution at Builder, Electrical and Electric Technologies Workshops for contractors
- *Guide to Programs and Services* sent to contractors
- *Make It Electric* newsletter for commercial and industrial customers
- Program, technology, and rebate information available on the Company's web site at www.otpc.com
- EEP bill inserts for South Dakota customers

This Program has been approved for continuation in the Company's 2014 Plan.

Participation & Budget

PARTICIPATION AND BUDGET – 2013			
COMMERCIAL LIGHTING	BUDGET	ACTUAL RESULTS	% OF BUDGET
Participation	15	33	220%
Budget \$	\$37,000	\$76,983	208%

Evaluation Methodology

Engineering calculations are used for impact savings for energy and demand from the Commercial Lighting Program.

The Company has documented all existing lighting wattage that is removed at each site, and compared that to the actual energy efficient lighting wattage being installed to calculate energy savings. Hours of operation are determined by the Minnesota Technical Resource Manual according to customer type.

Energy Savings & Adjustments

For retrofit lighting, lighting systems being installed are compared with systems being removed to determine the change in wattage. The hours of operation are multiplied by the watts to determine energy savings. Company personnel conduct verification of retrofit projects as needed.

COMMERCIAL LIGHTING	Budgeted Savings at the Generator	Actual Savings at the Generator	% of Budget
Energy Savings – kWh	522,671	968,723	185%
Demand Savings – kW Winter Coincident Peak	126.47	130.11	103%

MOTORS

The goal of the Motors Program is to educate dealers and customers on the benefits of installing new and replacement electric motors that meet or exceed the National Electrical Manufacturers Association (“NEMA”) Premium® efficiency requirements. The Program provides incentives for customers to reduce peak demand and energy use by purchasing motors that meet or exceed NEMA Premium® efficiency.

Otter Tail promotes the Motors Program through a variety of promotional resources.

- Presentations and literature distribution at Builder and Electrical Workshops for contractors

- *Guide to Programs and Services* available to contractors
- *Make It Electric* newsletter for commercial and industrial customers
- Program, technology, and rebate information available on the Company's web site at www.otpc.com
- EEP bill inserts for South Dakota customers

This Program has been approved as the DrivePower program for continuation in the Company's 2014 Plan.

Participation & Budget

PARTICIPATION AND BUDGET – 2013			
MOTORS	BUDGET	ACTUAL RESULTS	% OF BUDGET
Participation	16	0	0%
Budget \$	\$17,000	\$5,435	32%

The 2013Motors Program did not achieve participation goals. The Company attributes this partly to challenges faced by customers in efforts to procure motors exceeding NEMA Premium efficiency by one full NEMA efficiency band. Recent experience in other markets leads Otter Tail to optimistically anticipate improved motor availability and higher participation in its 2014 DrivePower program, which offers incentives for motors that meet and/or exceed NEMA Premium efficiency as well as adjustable speed drives (ASD's).

Evaluation Methodology

The Company uses estimates from the State of Minnesota Technical Resource Manual, the Company's engineering estimates, and motor usage information from customers to determine the energy savings for each installed motor.

Energy Savings & Adjustments

Engineering estimates from the State of Minnesota Technical Resource Manual and the Company's engineering estimates are being used to calculate impact savings in the Motors Program. The Company also used data from Bonneville Power's MotorMaster software project to develop standard motor efficiency numbers.

MOTORS	Budgeted Savings at the Generator	Actual Savings at the Generator	% of Budget
Energy Savings – kWh	32,311	0	0%
Demand Savings – kW Winter Coincident Peak	5.36	0	0%

INDIRECT IMPACT

ADVERTISING & EDUCATION - Residential

The residential Advertising & Education Program for 2013 includes:

- Educational outreach to South Dakota school children in grades four through six.
- General advertisement of energy efficiency program opportunities through bill inserts and through company newsletters.
- Internet based resources available on the company website www.otpc.com.

The educational outreach program was operated through the Minnesota Science Museum, which was contracted to provide an energy-focused lyceum at seven schools in the Otter Tail Power Company South Dakota service territory during May 2013. The *Energy Connections* assembly program is a 50-minute assembly focusing on the science of energy and energy conservation. Through dynamic demonstrations and audience participation using one-of-a-kind equipment displays, students are encouraged to use energy wisely. *Energy Connections* aims to help schools meet their academic standards for science. It delivers and reinforces messages to make conserving energy a lifestyle and includes a component to educate students about energy production. Program results for 2013 include five assemblies reaching 270 students. The program is offered to schools on a first-come, first-served basis for those schools that respond to the invitation.

The general advertisement component of the Advertising and Education program included support for developing and printing bill inserts promoting the EEP program portfolio specifically including promotion of heat pump rebates and technology features, and the CoolSavings air conditioning cycling program.

Online resources included website updates and pages detailing EEP programs offered in South Dakota. During 2013, EEP program pages were accessed 2,469 times.

This Program has been approved for continuation as a part of the 2014-2015 EEP.

Participation & Budget

PARTICIPATION AND BUDGET – 2013			
ADVERTISING & EDUCATION	BUDGET	ACTUAL RESULTS	% OF BUDGET
Participation	900	2,739	304%
Budget \$	\$8,000	\$7,838	98%

MISCELLANEOUS / INACTIVE PROJECT COSTS

EEP DEVELOPMENT

The EEP Development Program includes EEP strategic market planning analysis, EEP-related planning work, and EEP-related regulatory coordination. It also includes program development time for research and studying new energy-efficient technologies.

The Company had a significant increase in the Development budget in 2013 related to planning for the 2014-2015 biennial filing. The investment led to several program enhancements and two new programs for the 2014 – 2015 SD biennial.

Participation & Budget

PARTICIPATION AND BUDGET – 2013			
EEP DEVELOPMENT	BUDGET	ACTUAL RESULTS	% OF BUDGET
Participation	N/A	N/A	N/A
Total EEP Development	\$25,000	\$50,773	203%

FINANCIAL INCENTIVE

On June 26, 2012, the Commission's Order approved a financial incentive investments in energy efficiency based on a percent of budgeted spending. The Commission's approval was consistent with South Dakota Staff's June 8, 2012, letter which recommended, "this method is the appropriate and most reasonable methodology based on prior mechanisms and recovery options."

As shown in Appendix A, Table 1, the Company spent \$281,549 in 2013. The approved budget for 2013 was \$280,000. The maximum incentive that can be awarded is 30 percent of \$280,000, or \$84,000. Total net benefits provided to South Dakota customers by 2013 EEP projects was \$1,883,058. **The proposed incentive is only 4.4 percent of net benefits provided by the program.**

Otter Tail requests approval of a financial incentive of \$84,000 as calculated and shown in Appendix A, Table 4.

REGULATORY REQUIREMENTS

ENERGY ADJUSTMENT RIDER / CARRYING COSTS

The South Dakota EEP account was established on February 1, 2007, when the Company started active development of an energy efficiency plan for South Dakota. This filing includes information regarding the tracker balance as of December 31, 2013. In addition, carrying charges and any applicable incentives (discussed in the financial incentive section), as well as any offsets or adjustments have been included. The Company has calculated the monthly carrying charge equivalent to the Company's approved rate of return.

The tracker will also account for amounts collected from customers through the "ENERGY EFFICIENCY ADJUSTMENT FACTOR." The energy efficiency adjustment factor was collected monthly based on a kWh charge on customers' bills. For billing purposes, the charge was a separate line item on customers' electric service bills. We are not currently recovering any of these costs in base rates; therefore, Otter Tail proposes the energy efficiency adjustment charge recovery mechanism continues as an appropriate means to recover costs associated with developing and implementing the South Dakota Energy Efficiency Partnership.

The current Energy Efficiency Adjustment Factor is \$0.00103/kWh. Otter Tail does not propose to change the EEP factor. Appendix A, Table 6 presents the EEP tracker account balances for year-end 2013 and projections for 2014 through May 2015. When including the financial incentive amount of \$84,000 in the tracker, carrying charges, and approval to keep the EEP factor unchanged, Otter Tail forecasts the tracker balance to be approximately -\$2,198 on June 1, 2015. The following table summarizes the expenses and revenues discussed above.

	Jan. 2014- May 2014	June 2014 - May 2015
Beginning Balance	\$110,115	-\$15,151
Carrying Charges	\$1,805	\$4,556
EEP Program Expenses	\$73,290	\$353,001
EEP Incentive Proposed	\$0	\$84,000
EEP Rider Revenue	-\$200,361	-\$428,604
Ending Balance	-\$15,151	-\$2,198
EEP Factor	\$0.00103/kWh	\$0.00103/ kWh