

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

Docket No. EL14- ____

In the Matter of Otter Tail Power
Company's Petition for Approval
of the Annual Rate Update to Rate
Schedule, Section 13.05,
Transmission Cost Recovery Rider

**PETITION FOR ANNUAL UPDATE TO
TRANSMISSION COST RECOVERY RIDER RATE**

I. INTRODUCTION

In compliance with the South Dakota Public Service Commission's ("Commission") November 30, 2011, ORDER GRANTING JOINT MOTION FOR APPROVAL OF STIPULATION in Docket No. EL10-015 ("2011 TCR Order") and the Commission's February 21, 2014, ORDER GRANTING JOINT MOTION FOR APPROVAL OF STIPULATION in Docket No. EL13-029 ("2014 TCR Order"), Otter Tail Power Company ("Otter Tail or Company") hereby Petitions for approval of its annual update to its Transmission Cost Recovery Rider ("TCR") rate. In this filing, Otter Tail's TCR rate has been adjusted to reflect the TCR revenue requirements for the next recovery period (March 2015 – February 2016). This update includes the projected tracker balance for the end of the current recovery period to help prevent over- or under-recovery of TCR costs. The update also includes the costs of two new transmission projects that are not currently in base rates and have not previously been approved for inclusion in the Rider.

The calculation of the proposed revenue requirements within this Petition have been determined in accordance with the Settlement Stipulation approved by the Commission in Annual Update Docket No. EL12-054 ("12-054"). In the 12-054 Settlement Stipulation, projects that qualify for regional cost allocation through MISO's tariff are accounted for using what the Parties referred to as the "refined split" method. Projects included in this update are only

projects which are currently placed in service or will be placed in service by the end of the recovery period. The rate of return (ROR) included in this update is based on the Otter Tail's actual capital structure as of 12/31/2013 using the return on equity ("ROE") and capital structure methodology approved by the Commission in Docket No. EL12-054.

The proposed revenue to be collected for the March 1, 2015 thru February 29, 2016 recovery period as shown in Attachment 21, is \$1,525,790 compared to the total revenue requirement of \$1,348,603 for the March 1, 2014 thru February 28, 2015 timeframe, an increase of \$177,188.

This Petition updates the rates to collect 12 months of revenue requirements (\$1,525,790) over the 12 month recovery period of March 2015 to February 2016. The TCR has been updated to include actual investment costs, expenses and revenues through September 2014, updated forecast information for the remainder of the current recovery period which ends February 2015, and forecasted information for the proposed recovery period ending February 29, 2016. The increase in revenue requirement is driven primarily by increased investment in Otter Tail specific transmission projects as well as increased MISO Schedule 26A expenses. Per the 2014 TCR Order, if the Midcontinent Independent System Operator ("MISO") annual updates for MISO 26 and 26A Schedules, anticipated to be released in January 2015, are materially different from current forecasts included in this Petition, Otter Tail will make a supplemental filing by February 1, 2015 to update the TCR rates.

The impact of the change in rates for a residential customer using 750 kWh per month is an increase of 49 cents per month. For a large general service customer using 486 kW and 222,350 kWh, the bill impact of this update is an increase of \$72.30 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
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Phone (218) 739-8200

B. Name, address, and telephone number of the attorney for Otter Tail Power Company

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D. The date of filing and the date changes will take effect

The date of this filing is October 31, 2014. Otter Tail proposes the update to the rates to go into effect as of March 1, 2015.

E. Statute controlling schedule for processing the filing

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.

Pursuant to ARSD 20:10:13:18, 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. Pursuant to ARSD 20:10:13:19, Otter Tail provides as Attachment 20 a proposed notice to be sent to customers with the first bill rendered when the

rate is effective. Otter Tail has also included Attachment 21 to comply with ARSD 20:10:13:26, which requires the Utility to report all rate schedule changes and customer impacts.

Otter Tail is also providing notice to its customers pursuant to SDCL Chapter 49-34A-12.

III. TRANSMISSION COST RECOVERY

A. Background

In this Petition, Otter Tail has provided an update of its tariff rate schedule, Section 13.05, in compliance with Paragraph 10 of the Settlement Stipulation approved by the Commission's 2011 TCR Order, referenced above, and including the change in filing date which was approved by the Commission's 2014 TCR Order, referenced above, which requires the following:

***Annual Reporting:** The Parties agree OTP will submit an annual TCR filing on a going forward basis to be received by the PUC by November 1 of each year. Based on this annual report, OTP will adjust the TCR rate each year based on actual costs and collections.*

The Commission's 2011 TCR Order was made pursuant to SDCL §49-34A-25.1 and §49-34A-25.2. Annual updates to the approved tariff rate schedule are governed by SDCL §49-34A-25.3 and §49-34A-25.4, which read as follows:

§49-34A-25.3. Filing for annual rate adjustments—Contents. A public utility may file annual rate adjustments to be applied to customer bills paid under the tariff approved pursuant to §49-34A-25.2. In the utility's filing, the public utility shall provide:

- (1) A description of and context for the facilities included for recovery;*
- (2) A schedule for implementation of applicable projects;*
- (3) The public utility's costs for these projects;*
- (4) A description of the public utility's efforts to ensure the lowest reasonable costs to ratepayers for the project; and*
- (5) Calculations to establish that the rate adjustment is consistent with the terms of the tariff established in §49-34A-25.2.*

§49-34A-25.4. Standards for approval of annual rate adjustments. Upon receiving a

filing under §49-34A-25.3 for a rate adjustment pursuant to the tariff established in §49-34A-25.2, the commission shall approve the annual rate adjustments if, after notice, hearing, and comment, the costs included for recovery through the tariff were or are expected to be prudently incurred and achieve transmission system improvements at the lowest reasonable cost to ratepayers.

Consistent with these statutory requirements, the Commission Approved Settlement Stipulation required as follows:

In the future, OTP's investment in new transmission projects will require Commission approval in a future TCR annual update filing through which Commission Staff shall be provided an opportunity to review such projects for statutory compliance. Such projects may be regional, like those described in this Settlement or they may be local (projects that do not qualify for regional cost allocation through MISO's FERC authorized rates). (2011 TCR Order Settlement Stipulation, page 4, paragraph 3).

In compliance with the above referenced statutes and the Approved Settlement Stipulations, this Petition provides information on Otter Tail's calculations updating its TCR rate and each of the new projects so that Commission Staff may review the calculations and projects for statutory compliance.

B. TCR annual update revenue requirements calculations

Attachments 1 - 4 are, respectively, the Revenue, Revenue Requirements Summary, Rate Design, and Tracker Summary calculations used for Otter Tail's proposed TCR rate update.

Attachments 5 – 12 provide the revenue requirement calculations for each of the transmission projects identified in this filing; those projects previously included in Otter Tail's TCR and two new projects for which Otter Tail is requesting TCR recovery.

These calculations have been made in compliance with prior TCR Settlement Stipulations approved by the Commission and are consistent with how Otter Tail calculated its current TCR rate. Specifically, the calculations include the following:

- *Rate base section.* This section provides details on the amount of plant in service, accumulated depreciation, construction work in progress (CWIP) (if applicable), accumulated deferred taxes, and includes a 13-month average rate base calculation.
- *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 investment. A credit to the revenue requirement is included for monies received for use of the lines by wholesale customers. The calculation of the transmission revenue credit adjustment percent is shown in Attachment 15 and Attachment 16.
- *Return on investment (cost of capital).* Pursuant to Section III, 3. Rate of Return, found in the Approved 12-054 Settlement Stipulation, Otter Tail's revenue requirement for the retail load obligations of the transmission investment are to be based on the rate of return methodology agreed to in the 12-054 Settlement Stipulation using Otter Tail's actual capital structure as of December 31, 2013 and the ROE agreed to in the 12-054 Settlement Stipulation.
- *Depreciation expense.* Depreciation expense has been calculated using the Company's latest transmission depreciation rates.
- *Property taxes.* The property tax calculation is based on Otter Tail's composite tax rate for the jurisdiction in which the transmission facilities are located, and is calculated in accordance with the procedures specified by that state.
- *O&M expense.* Annual operation and maintenance (O&M) expense of the transmission lines typically includes costs related to line patrol and inspections, vegetation management, small repair items, and supervision of this work. Scheduled transmission line patrols are typically done once every other year on high voltage lines. Unscheduled patrols are completed for line sections where an unexplained interruption has occurred. To reduce costs of patrol after an interruption, data from distance relays are used to define the patrol area. Vegetation management of new lines is typically limited since Otter Tail's construction standard is to remove as many trees as possible and leave only low growing brush. Vegetation management is then completed based on information gathered during line patrols. O&M costs are dependent on tree growth and items found on line patrols, the cost of NERC reporting requirements, and supervision. Otter Tail has set up transmission O&M accounting projects to track O&M costs specifically related to each line included in the Transmission Rider.
- *Schedule 26 and 26A expenses.* Schedule 26 and Schedule 26A costs for the recovery period appear on lines 14 and 15 of the Tracker Account (Attachment 4) and are shown separately in Attachment 14. As stated in the 12-054 Settlement Stipulation, Section III, 4.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.*"
- *Schedule 26 and 26A revenues.* Schedule 26 and 26A revenues for the recovery period appear on lines 19 and 22 of the Tracker Account Summary (Attachment 4) and are

shown separately on Attachment 15 (Schedule 26) and Attachment 16 (Schedule 26A). As stated in the 12-054 Settlement Stipulation, Section III,2.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.”*

In prior TCR filings, no Multi-Value Project (“MVP”) projects were included in those petitions. Otter Tail is proposing the addition of one new MVP project in this Petition, the Brookings, SD - Hampton, MN 345 kV CAPX2020 project. As a result, forecasted Schedule 26A revenues attributable to the investment in the MVP project have been included in this TCR Update.

- *MISO Multi-Value Project Auction Revenue Rights* (Attachment 18). A new revenue stream from MISO attributable to Multi-Value Project Auction Revenue Rights (“MVP ARR”) has been included as a credit in this year’s TCR tracker. The MVP ARR revenues are derived from increased transmission capacity attributable to MVP projects placed in service within the MISO footprint. The value of these MVP ARR is determined during MISO’s annual Financial Transmission Rights auction process. The revenues are being distributed monthly to Asset Owners who pay for MVPs through MISO settlements, allocated in a manner similar to the allocation of Schedule 26A expenses. The revenue is identified in Attachment 18, and is included in the TCR Rider based on South Dakota’s jurisdictional share. As stated earlier, this revenue is reflected as a credit in the rider (Attachment 2, line 19, and Attachment 4, line 23). MISO began distributing MVP ARR revenues in June 2014. The revenues are currently minimal at approximately \$3,000 per month (System basis). South Dakota’s share is noted on Attachment 18. Otter Tail has used the first four actual month amounts to project future distributions from MISO. The estimates are subject to change based on seasonal values for transmission capacity, projects in service, and available additional transmission capacity. As with all other revenues and expenses, Otter Tail will true-up these amounts to actuals in the next Annual TCR filing.
- *Revenue credit for administrative and general expenses recovered through MISO tariff for non-retail portion of projects qualifying for regional cost allocation.* Otter Tail has included in these TCR rate update calculations an additional revenue credit (reduction to TCR revenue requirements) to account for reimbursements through MISO’s tariff for administrative and general O & M expenses. The revenue credit is for the entire amount of such revenues received through the MISO tariff, whether related to the retail or nonretail portion of projects that qualify for regional cost allocations. This application of revenues to reduce the retail revenue requirement provides reimbursement to retail customers for any such costs as may already be recovered through Otter Tail’s current retail rates. The revenue credit is reflected in Attachments 15, 16, and 17 on the lines titled “Overhead Credit for Non-Retail Share” for each project. For the proposed recovery period, the percentage is 1.423 percent of the total investment in the projects. This percentage was established for these costs as part of the FERC-approved MISO

tariff.

- *Revenue credit adjustment for MISO Tariff Schedule 37* (Attachment 17). The TCR rate update calculations have included revenue credits to reflect revenues anticipated to be received from MISO pursuant to Schedule 37 of the MISO Tariff in past filings. The Schedule 37 revenues represented Otter Tail's allocation from MISO of the Schedule 26 cost allocation assigned to American Transmission Systems Inc. (ATSI) for transmission investments of MISO transmission owners. ATSI withdrew from MISO on June 1, 2011 to integrate with PJM, a different regional transmission organization. Otter Tail began accruing Schedule 37 revenues in the South Dakota TCR in February 2012; however, ATSI is disputing its obligation to pay for its share of these investments. ATSI has failed to pay MISO for the charges and to date Otter Tail has not received payment for any of the Schedule 37 revenues which have already been credited back to the ratepayers through this rider.

Since February 2012, a receivable has accumulated for the Schedule 37 revenues. Otter Tail has been following the proceedings with MISO regarding Schedule 37 revenues and anticipates that these revenues are ultimately likely to be collected through Schedule 37; however, the time frame for the outcome to be established is not firm. Given this uncertainty, Otter Tail made an accounting adjustment (net adjustment of \$327,049 (System basis) between August 2014 and September 2014 in Attachment 17) to reverse the accrued Schedule 37 revenues that have been previously credited in the TCR rider. The SD share of these revenues previously credited in the TCR were reversed in August of 2014, and are reflected in lines 16-18 of attachment 17. This reversal results in a revenue requirement of \$6,829 (SD load share), as seen on lines on Attachment 17, page 2 of 2, lines 16, 17, and 18, and Attachment 4, page 1 of 2, line 20, which is part of the true-up for the proposed recovery period. Following resolution of the issue and actual receipt of payment for the revenues, Otter Tail will once again include the SD portion of those revenues as a credit in the TCR.

- *Revenue Credit for MISO Tariff Schedule 38* (Attachment 17). The TCR rate update calculations also include revenue credits to reflect revenues received from MISO pursuant to Schedule 38 of the MISO Tariff. The Schedule 38 revenues represent Otter Tail's allocation of payments from Duke-Ohio ("DEO") and Duke-Kentucky ("DEK") that departed MISO on December 31, 2011, yet have an ongoing obligation to pay for MISO Schedule 26 transmission projects due to their prior MISO membership. Note that in Attachment 17, there are no forecast amounts for Schedule 38 revenues. MISO does not provide a separate forecast for those revenues, but includes any Schedule 38 revenues within the Schedule 26 revenue forecasts that MISO develops. MISO does delineate Schedule 38 revenues when reporting actuals.

The Schedule 38 revenue credit reflected in this TCR update is \$643, seen in Attachment 4 on line 21. These are actual amounts through September 2014 and are included as part of the true-up amount.

A detailed description of this MISO schedule can be found at:

C. Projects Previously Approved for Recovery in Otter Tail's TCR

The following projects were previously approved for inclusion in Otter Tail's TCR in either Docket Nos. EL10-015, EL12-054, or EL13-029.

1. CapX2020 Fargo – Twin Cities Phase 1
2. CapX2020 Bemidji – Grand Rapids
3. Cass Lake - Bemidji (Part of CapX2020 Bemidji–Grand Rapids)
4. Rugby Wind Interconnection
5. Casselton – Buffalo 115 kV
6. Oakes Area Transmission Improvements

The actual and forecast costs for these projects have been updated and carried out through February 2016 and are reflected in Attachments 5 through 10. The following, previously approved projects, will be completed and placed in service during the recovery period proposed within this update.

- Phase two of the Fargo CAPX project includes the portion of the line between St. Cloud and Alexandria and was energized in August 2014 and is being placed into the rider January 1, 2015.
- Phase three of the Fargo CAPX project for the line between Alexandria and Fargo is underway and scheduled to be energized in 2015 and is being placed into the Rider January 1, 2016.
- The Buffalo 345/115kV Transformer portion of the Casselton-Buffalo 115 kV project will be placed in service at the end of 2015.
- Phase one of the Oakes project will be placed in service in March 2015 and phase two will be placed in service by the end of 2015. Additional information and updates on the Oaks project is provided below.

Update of Oakes Area Transmission Improvements – Attachment 10

In Docket EL13-029, the Commission approved Otter Tail's recovery of costs associated with Oakes Area Transmission Improvements. Otter Tail's estimated capital costs for the project

were projected at \$5,933,000 (Total System) in the approved petition. South Dakota's jurisdictional share of Otter Tail's total capital costs for the project based on the D2 allocation factor of 9.815717 percent was approximately \$582,000. In that Petition, Otter Tail projected that the substation site work and construction of the nine miles of 41.6 kV line would be completed by the end of 2014 with the remainder of the project related to the 230 kV and 41.6 kV breakers and substation work being completed in 2015.

During the course of construction in 2014, various soil conditions and weather related hindrances resulted in change orders which increased the expected total construction costs for the project. Soil conditions required the purchase and installation of additional laminate structures at the substation as well as additional material costs for backfill and culverts and higher installation costs. Additionally, communication equipment, motor operators, and switches were found in need of replacement once construction was in process.

As a result of the change orders, Otter Tail now expects the entire project to be completed in 2015, with the 41.6 kV line being placed in service in March of 2015 and the balance of the project being completed by December 2015. The current estimate for the Oakes Area Transmission Improvements is \$6,412,503. South Dakota's jurisdictional share of the total project based on the D2 allocation factor is \$629,433, an increase of approximately \$47,433 in South Dakota's share of the project compared to the amount included in Docket EL13-029.

D. Two new transmission projects included in the TCR rate update.

In this Petition, Otter Tail is also seeking approval for TCR Rider recovery of two new projects; the Brookings-Hampton 345 kV line (A CAPX 2020 project) and the NERC Compliance project. Portions of each of these projects are included in this TCR update. The costs and revenue requirements for the new projects are included in Attachment 11 and Attachment 12. A detailed description of these projects is provided below:

Description of Project 1 – Brookings-Hampton 345 kV line– Attachment 11

As part of the 2011 MISO Transmission Expansion Plan (“MTEP11”) approval, the MISO Board of Directors endorsed a portfolio of transmission projects across the MISO footprint called MVP projects. The MVP projects were identified and recommended to meet

public policy requirements within the MISO states through 2026. The MVPs are “priority projects,” which stem from the Regional Generator Outlet Study (“RGOS”) in collaboration with the Upper Midwest Transmission Development Initiative (“UMTDI”).

The MVP portfolio approved by the MISO Board of Directors included 18 distinct transmission projects across MISO, with Otter Tail being involved in three of the projects, namely: Brookings-Hampton 345 kV line (“Brookings CAPX”), Big Stone – Ellendale 345 kV line, and Big Stone – Brookings 345 kV line. Otter Tail is seeking to begin recovery of portions of the Brookings CAPX project in this Petition.

Otter Tail previously requested approval to add the Brookings CAPX project into its TCR rider in its Initial Filing in Docket EL12-054. As part of the Settlement Stipulation of the same Docket, the Brookings CAPX project was removed because it was not yet in service. Commission Staff and Otter Tail agreed at the time that Otter Tail may petition for TCR Rider eligibility in the future once portions of the project were brought into service.

The majority of the projects comprising the Brookings CAPX Project will be placed in service by the end of 2014 and recoverable in the proposed recovery period. These in service projects are included in this TCR rider update beginning January 2015. The remaining projects that make up Brookings CAPX project will be energized by the end of 2015 and will be recoverable starting January 2016.

Otter Tail is a 4.1 percent owner of this project with an estimated total investment of \$26 million. Using the refined split method, South Dakota’s jurisdictional share of Otter Tail’s total capital costs (by the end of construction in 2015) based on the D2 allocation factor of 9.81572 percent and a retail load share of 0.63 percent is approximately \$16,000.

Description of Project 2 – NERC Compliance – Attachment 12

In October of 2010, the North American Electric Reliability Corporation (NERC) issued a Recommendation (Rule 810 of NERC’s Rules of Procedure requires a response to NERC Recommendations) to the industry to identify discrepancies between design and actual field conditions of transmission lines. This Recommendation stemmed from an incident with another utility where an over-head line came into contact with vegetation due to insufficient ground

clearance. The Recommendation included a requirement for transmission owners to prioritize their transmission facilities and complete an evaluation of their lines within a three-year time frame depending on their priority (which was to be identified as either “high”, “medium”, or “low” priority based on guidance from NERC) and to report such evaluation to the applicable Regional Entity, which in Otter Tail’s case is the Midwest Reliability Organization (“MRO”). Otter Tail prioritized its transmission lines into medium and low priority facilities generally aligned with medium priority lines being operated at 230 kV and low priority lines being operated at 115 kV. This prioritization of lines was approved by the MRO in the second quarter of 2012. Otter Tail’s transmission system included seventeen medium priority lines, with the remaining transmission lines falling into the “low” priority category (approximately one hundred lines.) The medium priority lines were divided into Phase I, comprised of six 230 kV lines, and Phase II, comprised of the remaining eleven 230 kV lines. Initial line surveys and evaluations were performed on Phase I medium priority lines in 2012. Otter Tail began completing necessary line improvements on the Phase I medium priority lines in 2013 while continuing surveys and evaluations on the Phase II medium priority and low priority lines in 2013. Assessment of all 230 kV and 115 kV lines has continued into 2014. Specifically, aircraft-based LiDAR technology was used to carry out surveying and mapping of the lines. Data gathered through this process was then used to determine facility line clearances compared to design standards.

NERC’s original timeline to complete the necessary activities prescribed in the Recommendation was by the end of 2014. Due to the length of time needed to complete the initial assessments and the current estimated time necessary to complete that work, Otter Tail requested and received a two year extension from the Midwest Reliability Organization to meet the requirements outlined in the Recommendation. Otter Tail’s new deadline to complete this work is September 2016.

Based on Otter Tail’s evaluation to date, it is expected that some mitigations (primarily structure modifications and/or replacements as well as modifying existing guy wires) will be required to increase clearances along various transmission facilities throughout the Otter Tail service territory. Moreover, Otter Tail has applied the results of its analysis, to date, to estimate a total cost for all Otter Tail facilities that meet the statutory requirements, defined in SDCL §

49-34A-25.1, for inclusion in the TCR. Otter Tail currently estimates that expenditures for all NERC Recommendation related upgrades will cost approximately \$15.6 million (system total). Approximately \$6.5 million of these costs are for portions of the project that are scheduled to be completed and in service by the end of 2014; approximately \$4.1 million of these costs are for portions that will be completed and placed in service by the end of 2015; and the remaining portion of the project costing approximately \$5 million, will be incurred and placed in service in 2016. The total project cost is still subject to change as the final mitigation engineering becomes more clearly defined between now and the end of 2014. In next year's annual update, more definite cost estimates will be available.

IV. RATE DESIGN

The TCR allocation factors and rate design follow the terms of the Approved Settlement Stipulation of the 2011 TCR Order, paragraph 6. Specifically, the TCR uses a rate design based on the transmission demand allocation factor, D2 from Otter Tail's most recent South Dakota general rate case (Docket No. El-10-011) 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 based on this D2 factor is 33.96 percent. The remaining portion (66.04 percent) of the retail revenue requirements will be collected from the non-LGS rate classes.

Otter Tail's current LGS rate design, as identified in the Approved Settlement Stipulation of the 2011 TCR Order, incorporated the 2011 forecast demand (\$/kW-month) and energy (¢/kWh) revenue components to recover the transmission project costs in a manner that follows existing LGS base rate design. For this update, Otter Tail has similarly based the LGS rate design on the proposed recovery period forecast demand and energy revenue components, specifically, 35 percent demand and 65 percent energy.

For the remaining retail rate classes (non-LGS), Otter Tail proposes to continue an energy only rate, consistent with the current rate structure. A rate for each class is a separate energy based (kWh) charge calculated by dividing the total class revenue requirements by the corresponding kilowatt-hour sales for the projected period.

The rate design detail is included in Attachment 3.

V. RATE APPLICATION AND IMPACT

As indicated earlier, the annual revenue requirement to be collected for the next recovery period of March 2015 through February 2016 has increased from \$1,348,603 for the current recovery period to \$1,525,790 as shown in Attachment 21. The increase is due in large part to the addition of the NERC Compliance Project, the inclusion of phases two and three of the Fargo CAPX project being placed in service, and the change in expected MISO Schedules 26A Expenses. These increases are partially offset by the “Mar ’14 – Feb ’15 True-Up” credit as a result of a projected over-collection balance at the end of the current recovery period.

The following table compares the summaries from Attachment 2 and helps illustrate the factors which contributed to the difference between the current revenue requirement and the proposed revenue requirement. As noted above, the proposed effective date of the change in rates is March 1, 2015. If the effective date is more than 45 days later than March 1, 2015, Otter Tail requests that it be allowed to recalculate the TCR rates in order to recover all approved costs in the remainder of the recovery period.

Attachment 2 Summaries

	A	B	C	D
Line No.	Revenue Requirements	Existing March 2014 - February 2015	Proposed March 2015 - February 2016	Difference
1	CAPX 2020 - Fargo	16,023	60,401	44,378
2	CAPX 2020 - Bemidji	23,175	22,696	(479)
3	Cass Lake-Nary-Helga-Bemidji	23,926	24,254	328
4	Rugby Wind Interconnection	598	575	(23)
5	Casselton – Buffalo 115 kV	53,397	52,518	(879)
6	Oakes Area Transmission	7,861	35,795	27,934
7	CAPX 2020 - Brookings	-	1,849	1,849
8	NERC Compliance	-	78,961	78,961
9			-	-
10	SD Filing Fee	7,500	5,000	(2,500)
11			-	-
12	MISO Schedule 26 Expense	1,182,671	1,191,228	8,557
13	MISO Schedule 26A Expense	167,554	286,324	118,770
14			-	-
15	MISO Schedule 26 Revenue	(207,635)	(172,952)	34,683
16	MISO Schedule 26A Revenue	-	(7,517)	(7,517)
17	MISO Schedule 37 Revenue	-	-	-
18	MISO Schedule 38 Revenue	-	-	-
19	MISO MVP ARR Revenue	-	(3,534)	(3,534)
20			-	-
21	Carrying Cost	2,987	(1,859)	(4,846)
22	Mar '14 - Feb '15 True-Up	70,545	(47,948)	(118,493)
23				
24	Total	1,348,603	1,525,790	177,188

Column A in the table above reflects the components that make up the Revenue Requirements for the proposed recovery period. Column B reflects the Revenue Requirement for each component for the last approved TCR Update. Column C reflects the proposed Revenue Requirement for each component for the current TCR Update. Column D is the difference between Column B and Column C. Line 7 and Line 8 are the new projects that are being requested for inclusion in this filing; Line 19 is a new revenue credit that is being requested for inclusion in this filing. All other components have previously been approved for inclusion in the TCR.

The impact of the change in rates for a residential customer using 750 kWh per month is an increase of 49 cents per month. For a large general service customer using 486 kW and 222,350 kWh, the bill impact of this update is an increase of \$72.30 per month.

The total March 2015 through February 2016 revenue requirements, as shown on line 1 in Attachment 3, are \$1,525,790. The proposed rates are calculated on lines 2-16 of Attachment 3. The Transmission Rider is applicable to electric service under all of Otter Tail’s retail rate schedules. The charge is included, for administrative purposes, as part of the Energy and Renewable Adjustment line on customers’ bills. The proposed rates beginning March 1, 2015 are as follows:

TCR Rate Class	Rate	
Large General Service	\$ 0.471	/kW
	0.179	¢/kWh
Controlled Service	0.069	¢/kWh
Lighting	0.303	¢/kWh
All Other Service	0.508	¢/kWh

The rate impact is contained in Attachment 20.

The proposed rates are based on the assumption that they will be in effect beginning March 1, 2015 through February 29, 2016. Revenue requirement calculations are based on March 1, 2015 through February 29, 2016 costs. If the effective date is significantly later than March 1, 2015, Otter Tail requests the option to recalculate the Transmission Cost Recovery Rates in order to recover all approved costs in the remainder of the suggested time period.

VI. TRANSMISSION COST RECOVERY RIDER TARIFF SHEET

Otter Tail’s redline and clean Transmission Cost Recovery Rider tariff sheet (Section 13.05) is Attachment 19 to this Petition. The rates listed in the RATE section of the tariff sheet have been updated to reflect the changes described in this annual update.

VII. FILING FEE

Under SDCC § 49-1A-8, the Commission may require a deposit of up to fifty thousand dollars for the filing of a tariff for approval under the provisions of §49-34A-4 and §49-34A-25.1 to §49-34A-25.4, inclusive, or makes a filing pursuant to §49-34A-97 to §49-34A-100. 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 Transmission Cost Recovery Rider, Section 13.05, effective as of March 1, 2015.

Date: October 31, 2014

Respectfully submitted:

OTTER TAIL POWER COMPANY

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