

**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 2017
Transmission Cost Recovery Eligibility and
Rate Adjustment

Docket No. EL16-035

SUPPLEMENTAL FILING

This Supplemental Filing reflects Otter Tail Power Company's (Otter Tail) updates in the above-captioned docket.

I. BACKGROUND

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 and the Commission's February 21, 2014, ORDER GRANTING JOINT MOTION FOR APPROVAL OF STIPULATION (Order) in Docket EL13-029, Otter Tail submitted its Initial Filing in Docket EL16-035 (Petition) on November 1, 2016 as required by the Order for the purpose of annually adjusting the Transmission Cost Recovery Rider (TCRR) rate effective March of the following year and to give the Commission an opportunity to review transmission revenues and expenses.

Otter Tail's Initial Filing requested approval of its 2017 TCRR rate adjustment to be effective March 1, 2017, based upon actual data through September 2016 and projected costs and collections from October 2016 through February 2018. Since the Initial Filing was filed, Commission Staff and Otter Tail (the Parties) have held discussions regarding Otter Tail's Petition. In the discussions, the Parties identified updates to be incorporated into the determination of the revenue requirement and associated rates. This Supplemental Filing incorporates the updates that were discussed, details of which are listed in the following sections.

II. REVENUE REQUIREMENT AND RATE CALCULATION UPDATES

The following items have been incorporated into the updated revenue requirement calculations provided in this Supplemental Filing. In aggregate, these adjustments increase the

revenue requirement by \$84,152, from \$1,969,053 in the Initial Filing to \$2,053,205 in this Supplemental Filing.

1. In all Project Attachments, actual revenues and expenses through December 2016 have been updated from the forecasted data provided in the Initial Filing. These updates result in an approximately \$8,000 reduction to the revenue requirement.
2. Actual MISO expense and revenue is updated through December 2016 as well as forecasts for January 2017 and forward. Revenues included are based on Otter Tail's 2017 Budgeted Attachments O, GG, and MM. These updates result in an approximately \$16,000 decrease to the revenue requirement. These files are available on MISO's website at: [https://www.misoenergy.org/MarketsOperations/TransmissionSettlements/Pages/OtterTailPowerCompany\(OTP\).aspx](https://www.misoenergy.org/MarketsOperations/TransmissionSettlements/Pages/OtterTailPowerCompany(OTP).aspx)
3. Proration of Federal Accumulated Deferred Income Taxes (ADIT): Based on further research and analysis of IRS rules related to proration, Otter Tail adjusted the starting point for proration of ADIT to be consistent with the 365 day recovery period beginning March 1, 2017, the effective date for the proposed rate, rather than for all forecasted amounts as reflected in the Initial Filing. This update results in a decrease of \$939 to the revenue requirement.
4. MISO Entergy Regional Through and Out Settlement: A lump sum settlement amount related to Entergy's integration into MISO was included in the Initial Filing in August 2016 as a reduction to MISO Schedule 26 revenues. The refund from Entergy's integration into MISO should have been included based on the allocation percentages in place during the time period of December 2013 through December 2015. Appropriately allocating Otter Tail's refund obligation consistent with its load percentages during the applicable timeframe results in a reduction to the revenue requirement of \$984 from the Initial Filing.
5. MISO Return on Equity (ROE) first complaint: MISO anticipates the settlement of the first ROE complaint, for the time period of November 12, 2013, through February 11, 2015, will be billed in February 2017. During the first complaint period, Otter Tail received revenues and paid expenses through MISO based on a 12.38 percent ROE. Based on the FERC Order issued on September 28, 2016, that approved a 10.32 percent base ROE for the first complaint period, Otter Tail has included estimates for both MISO revenue and expense settlements in this Supplemental Filing. As mentioned in the Initial Filing, Otter Tail and other MISO Transmission Owners were granted a 50 basis point adder to the approved base ROE for participation in a Regional Transmission Organization, which became effective on January 6, 2015. The net impact of the FERC Order for the first complaint period is estimated to be a reduction of approximately \$150,000 to the revenue

requirement for the proposed recovery period. Actual settlement data will be included in Otter Tail's next annual update.

A second ROE complaint exists for the time period of February 12, 2015, through May 11, 2016, that is still pending at the FERC. As noted in Otter Tail's Initial Filing, the Administrative Law Judge issued an Initial Decision in that proceeding on June 30, 2016, recommending a 9.7 percent base ROE. Due to uncertainty with the outcome and timing of that proceeding, Otter Tail has not included any estimates of possible settlements for the second complaint period in this Supplemental Filing.

6. Southwest Power Pool (SPP) related forecasts: Otter Tail includes four components in its TCRR related to Central Power Electric Cooperative's (CPEC) integration into SPP. These components are: (1) SPP Schedule 7, 8, or 9 expenses, (2) Schedule 11 expenses, (3) MISO Schedule 9 revenues, and (4) CPEC facility credits in MISO, all of which are provided in detail in Attachments 15 and 16 respectively.

Described in greater detail in both the Initial Filing in this Docket and in Docket No. EL15-045, settlement discussions between SPP and Otter Tail began in the fall of 2014 and are ongoing. Since the Initial Filing, Otter Tail has identified updates needed for its 2017 and 2018 forecast of the various expense and revenue components listed above. These updates stem from (1) a correction to the amount of Otter Tail load subject to the SPP tariff during 2016 leading to higher SPP expenses that will be trued-up with SPP in 2017 (2) an update to the amount of Otter Tail load subject to the SPP tariff during 2017 and (3) an updated estimate and implementation date of CPEC facility credits in MISO.

The updated forecasts for these components are included in this Supplemental Filing and result in an increase of \$256,000 to the revenue requirement.

7. Forecasted Sales: Otter Tail corrected a formula referencing the amount of demand forecasted for Large General Service customers seen on Attachment 3, Line 7. This correction results in the appropriate rate design for Large General Service Customers.
8. Capital Structure: The revenue requirement calculation has been updated to include the Capital Structure and Cost of Debt as of 12/31/2016. This update increases the revenue requirement by approximately \$4,000.
9. Gross Receipts Tax: Based on Commission Staff's discovery, Otter Tail corrected its application of this tax resulting in a \$22 decrease in the revenue requirement.

Updated Revenue Requirements and Rate Impacts

Table 1 on the next page compares the revenue requirement and rates proposed in the Initial Filing (Column B), the Supplemental Filing (Column C) and the difference between the two (Column D) resulting from the updates outlined above.

TABLE 1: Comparison of Revenue Requirements and Associated Rates

Line No.	A Revenue Requirements	B	C	D	
		November 1, 2016 Initial Filing	January 20, 2017 Supplemental Filing	Difference (C-B)	
		March 1, 2017 - February 28, 2018	March 1, 2017 - February 28, 2018		
1	CAPX 2020 - Fargo	89,619	91,548	1,928	
2	CAPX 2020 - Bemidji	22,220	22,721	501	
3	Cass Lake-Nary-Helga-Bemidji	23,292	23,828	535	
4	Rugby Wind Interconnection	564	573	9	
5	Casselton – Buffalo 115 kV	44,609	45,284	675	
6	Oakes Area Transmission	60,747	61,543	796	
7	CAPX 2020 - Brookings	1,869	1,953	83	
8	BSAT - Brookings	2,182	2,111	(72)	
9					
10	SD Filing Fee	5,000	5,000	-	
11					
12	MISO Schedule 26 Expense	1,202,576	1,219,520	16,943	
13	MISO Schedule 26A Expense	649,651	644,170	(5,482)	
14					
15	SPP Schedule 9 Expense	232,659	426,682	194,023	
16	SPP Schedule 11 Expense	5,503	8,380	2,878	
17					
18	MISO Schedule 9 Revenue	(147,311)	(112,706)	34,605	
19	MISO Schedule 26 Revenue	(278,363)	(279,736)	(1,373)	
20	MISO Schedule 26A Revenue	(8,653)	(8,741)	(87)	
21	MISO Schedule 37 Revenue	-	(0)	(0)	
22	MISO Schedule 38 Revenue	-	(0)	(0)	
23	MISO MVP ARR Revenue	(6,003)	(6,003)	-	
24					
25	Carrying Cost	2,009	(4,049)	(6,058)	
26	True-Up	66,880	(88,873)	(155,753)	
27					
28	Total	1,969,053	2,053,205	84,152	
29					
30					
31	Large General Service	\$ / kW	0.595	0.630	0.035
32	Large General Service	cents / kWh	0.222	0.232	0.010
33					
34	Controlled Service	cents / kWh	0.090	0.094	0.004
35	Lighting	cents / kWh	0.386	0.403	0.017
36	All Other Service	cents / kWh	0.683	0.712	0.029

Implementation of Rates and Customer Impact:

Approved final rates shall be implemented on bills rendered on and after March 1, 2017. These rates are designed to reflect the TCRR revenue requirements through February 2018; they will be in effect until the Commission approves the next TCRR rate update.

Proposed Rates:

<u>Class</u>	<u>¢ / kWh</u>	<u>\$ / kW</u>
Large General Service	0.232	0.630
Controlled Service	0.094	
Lighting	0.403	
All Other Service	0.712	

The impact of the change in rates for a residential customer using 1,000 kWh per month is an increase of \$0.81 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 \$29.40 per month.

Tariffs:

Otter Tail will submit revised tariff sheets through a compliance filing after the Commission renders a final decision in this Docket.

III. SUMMARY

Otter Tail respectfully requests Commission approval of the updated revenue requirement proposed in this filing and to implement the associated updated Transmission Cost Recovery Rider, Section 13.05 rates, effective on bills rendered on and after March 1, 2017.

Date: January 20, 2017

Respectfully submitted:

OTTER TAIL POWER COMPANY

/s/ BRYCE C. HAUGEN

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