

Volume 1 – Section 1

Section 1- Application for Change in Rates

Letter of Transmittal

215 South Cascade Street  
PO Box 496  
Fergus Falls, Minnesota 56538-0496  
218 739-8200  
(web site)



April 20, 2018

Ms. Patricia Van Gerpen  
Executive Director  
South Dakota Public Utilities Commission  
State Capitol Building  
500 East Capitol Avenue  
Pierre, South Dakota 57501

**Re: Transmittal Letter - Application of Otter Tail Power Company for Authority to Increase Rates for Electric Service in South Dakota & Interim Rates Pending Final Rates**

Dear Ms. Van Gerpen:

Otter Tail Power Company (OTP or Company) submits its Application to the South Dakota Public Utilities Commission (Commission) for authority and consent to increase rates for electric service provided to the Company's South Dakota customers. This increase is needed for the Company to continue providing high quality, reliable, and safe electric service. The Company's current South Dakota base rates were set in 2011 and are based on a 2009 Test Year (Docket No. EL10-011).

There are three components to the Company's Application and Notice of Proposed Rates and Charges: (1) the Company's rate increase request (Final Rates) proposed to be effective following the Commission's final disposition in this case, or no later than 180 days hereafter if interim rates are suspended or otherwise not authorized as requested; (2) Interim Rates commencing May 21, 2018, and remaining in effect pending the Commission's final disposition of the Company's rate increase request; and (3) a later incremental increase (Step Increase) to Final Rates to be effective January 1, 2020, following the Merricourt Wind Project entering service in 2019. The proposed changes would affect the billings of the approximately 11,700 customers in the Company's South Dakota service area.

The following summarizes the key components of OTP's Application.

Final Rates

The Company's proposed Final Rates constitute a net increase of non-fuel revenues of \$3,358,547, or 10.10 percent. The proposed change in rates will result in an average increase of \$11.29 per month for

Ms. Patricia Van Gerpen

April 20, 2018

Page 2

residential customers under the rate design proposed by the Company. Additional rate impacts are discussed in the Direct Testimony of Mr. David Prazak.

As part of this this request, the Company proposes to recover in base rates certain capital costs currently recovered through the Company's Environmental Cost Recovery Rider (ECRR) and Transmission Cost Recovery Rider (TCRR). To facilitate the transition from rider to base rate recovery, OTP proposes to discontinue certain cost recovery through the ECRR and TCRR when proposed Rates go into effect. Without accounting for the reduction in rider revenues, the effect of the

proposed increase to base rates and the transition of rider recoveries to base rates is a non-fuel revenue increase of \$5,978,109, or 19.50 percent. When the reduction in rider revenue is considered, the effect is a net increase in non-fuel revenue of \$3,358,574, or 10.10 percent. OTP witness Mr. Bruce Gerhardson summarizes OTP rate requests in his Direct Testimony. OTP witness Mr. Bryce Haugen discusses the transition of rider recoveries to base rates in his Direct Testimony.

The test year for the proposed increase is 2017, with known and measurable changes and other appropriate adjustments. OTP proposes that Final Rates become effective following the Commission's final disposition in this case, or no later than 180 days hereafter if interim rates are suspended or otherwise not authorized as requested.

#### Interim Rates

The proposed Interim Rates are based on a net annual increase of non-fuel revenues of \$2,386,538, or 7.17 percent, and will result in an average increase of \$6.54 per month for residential customers under the Company's current rate design. The Company has adjusted the proposed Interim Rates to remove any known and measurable changes that are included in the final rate test year but for which the changes will not have yet occurred during the interim rate period. This ensures that known and measurable adjustments for changes occurring outside the interim rate period are not the cause of any identified deficiency in the interim period. Interim Rates will be refundable to the extent they exceed the Commission's final determinations in this case, ensuring that the Interim Rates will apply only to the extent that OTP ultimately demonstrates a deficiency existed during the interim rate period.

Interim Rates as requested are permitted under South Dakota law. Specifically, SDCL § 49-34A-14 requires that a utility that has requested a rate increase may not have that request suspended for a period that lasts longer than 180 days after the proposed rate was filed. This law permits a rate to be implemented *sooner than* 180 days following the filing. Additionally, SDCL § 49-34A-17 permits implementation of a proposed rate after 30 days has passed from the date of the filing, and SDCL §§49-34A-22 and 49-34A-23 address how refunding shall be handled for rates implemented on an interim basis. OTP's request for interim rates is consistent with this statutory framework.

Mr. Bruce Gerhardson addresses Interim Rates in Section II of his Direct Testimony. As Mr. Gerhardson explains, the Company believes its Interim Rate proposal is consistent with the establishment of just and reasonable rates. Mr. Gerhardson also explains that OTP's requested Interim Rates have been calculated to recognize the effects of the Tax Cuts and Job's Act that became effective on January 1, 2018.

2019 Step Increase to Final Rates

The Company also proposes a Step Increase, effective January 1, 2020, to facilitate recovery of the Merricourt Wind Project, which is currently projected to enter service later in 2019. The Merricourt Step Increase is intended to permit OTP to commence timely recovery for the Merricourt Wind Project without exposing customers to the cost of a general rate case filed on the heels of this case. The Step Increase will result in a net increase of non-fuel revenues of \$629,107, or 1.72% percent over current rates. Mr. Bradley Tollerson describes the Merricourt Wind Project in his Direct Testimony. Mr. Tyler Akerman describes the balance sheet and income statement effects of the Step Increase in his Direct Testimony. Company witnesses Bruce Gerhardson and Stuart Tommerdahl describe why the proposed Step Increase is administratively efficient, economical for OTP customers, and in the public interest. Mr. Bryce Haugen and Mr. David Prazak address Step Increase rate design.

Description of Application

The Company submits the following as its Application:

**Volume 1 – Rate Application**

- Letter of Transmittal
- Application for Change in Electric Rates & Interim Rates Pending Final Rates
- Notice of Proposed Changes of Rates and Charges
- Attestation by Chief Financial Officer
- Request for Confidential Treatment
- Statements A-R

**Volume 2 – Testimony**

- Policy – Bruce G. Gerhardson
- Revenue Requirement – Tyler A. Akerman
- Revenue Requirement and Regulatory Issues – Stuart D. Tommerdahl
- Rider Roll-In and Class Cost of Service – Bryce C. Haugen
- Cost of Capital – Kevin G. Moug
- Big Stone AQCS and Hoot Lake MATS – Kirk A. Phinney
- Merricourt Wind Project – Bradley E. Tollerson
- Return on Equity – Robert B. Hevert
- Employee Compensation and Benefits – Peter E. Wasberg
- Rate Design – David G. Prazak

**Volume 3 – Tariffs**

- Interim Tariffs (Non-Redlined and Redlined)
- Proposed Tariffs (Non-Redlined and Redlined)
- Step In Tariffs (Non-Redlined and Redlined)

**Volume 4 – Workpapers, Supporting Information and Lead Lag Study**

Ms. Patricia Van Gerpen

April 20, 2018

Page 4

The Company certifies that notice has been or is being provided to the public in all respects as required by S.D. Admin R. 20:10:13:17 through 20:10:13:19. Specifically, the Company certifies that the Notice of Proposed Change of Rates and Charges (Notice) for the all the rate increases proposed in its Application, will be exhibited in a conspicuous place in the Company's local customer service offices for the territory affected, for at least 30 days prior to the date such change is to become effective. The Notice states that the proposed rates and charges are available in that office for inspection. The Company will also notify customers of the proposed change in rates, including proposed Interim Rates and the Merricourt Step Increase, through a bill insert, a copy of which is included in Volume 1. Upon the implementation of Interim Rates, the Company will include a message on customer bills informing customers of the interim rate increase pending Final Rates, and post additional information concerning the administration of Interim Rates at the Company's offices and on the Company's website. The bill message and informational notice are included in Volume 1.

Additionally, local media outlets will receive a news release and our website [www.otpco.com](http://www.otpco.com) will contain information describing the Application, including the Company's request for Interim Rates. We are also prepared to meet with customer groups as reasonably requested to provide detailed information regarding our Application.

The Commission's communications with the Company regarding this Application should be directed to:

Bruce G. Gerhardson  
Vice President, Regulatory Affairs  
OTP Power Company  
215 South Cascade Street  
Fergus Falls, MN 56537  
(218) 739-8475

Also, please send copies of all written inquiries, correspondence and pleadings to:

Matthew J. Olsen  
Manager, Regulatory Proceedings & Compliance  
OTP Power Company  
215 South Cascade Street  
Fergus Falls, MN 56537  
(218) 739-8657

and

Cary R. Stephenson  
Associate General Counsel  
OTP Power Company  
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Ms. Patricia Van Gerpen  
April 20, 2018  
Page 5

The Applicant's legal corporate name is Otter Tail Power Company, with its principal place of business in Fergus Falls, Minnesota. The Company is a corporation incorporated in 1907 under the laws of Minnesota. The Company provides retail electric service in South Dakota, North Dakota, and Minnesota.

The Company will provide thirteen (13) hard copy editions of this filing to the Commission by Thursday, April 26, 2018. The Company's Application includes a request for Confidential Treatment of Information seeking protection for certain documents the Company deems trade secret, proprietary or otherwise confidential and subject to protection from disclosure under South Dakota law.

As noted above, OTP's current South Dakota base rates were last set in 2011 based on a 2009 Test Year. Since then OTP has made significant system investments and operations and maintenance costs have increased. These factors, along with on-going and planned investments in infrastructure and technology support the Company's request for additional revenue.

Respectfully submitted,

Otter Tail Power Company



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Enclosures  
By electronic filing and by mail