

Volume 1 – Section 1

Section 1- Application for Change in Rates

Notice of Proposed Change of
Rates and Charges

**STATE OF SOUTH DAKOTA
PUBLIC UTILITIES COMMISSION**

In the Matter of the Application of Otter)
Tail Power Company for Authority to)
Increase Rates for Electric Service in)
South Dakota

Case No. EL18-_____

NOTICE OF PROPOSED CHANGE OF RATES AND CHARGES

NOTICE IS HEREBY GIVEN that on April 20, 2018 Otter Tail Power Company (OTP or Company) has filed an Application with the South Dakota Public Utilities Commission (Commission) for an increase in its electric rates and other tariff changes for service to its South Dakota electric customers. The last time the Company's base electric rates were increased in South Dakota was June 2011.

The Company is seeking a net increase of non-fuel revenues of \$3,358,574, or 10.10 percent, based on a 2017 Test Year with known and measurable changes and other appropriate adjustments. The proposed change in rates will result in an average increase of \$11 per month for residential customers under the rate design proposed by the Company. As part of 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 requested 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. The Company proposes that the change in rates be effective following the Commission's final disposition of the Company's Application, provided that, pending the Commission's final disposition, the Company is authorized to implement an interim rate increase (Interim Rates) as described in this Notice. If the Commission suspends or does not authorize Interim Rates, the proposed rates would be effective 180 days from the Application's filing date and remain in effect pending the Commission's final disposition of OTP's Application.

The Company has also requested a later incremental increase in rates (Step Increase), effective January 1, 2020, to facilitate cost recovery for the Company's Merricourt Wind Project, which is projected to enter service in 2019. If approved, the Step Increase to rates would add 1.72 percent, or approximately \$1.75 per month to residential customers' bills over current rates.

Pending the Commission issuing a final order on the Company's rate increase request, the Company has asked the Commission for Interim Rates effective May 21, 2018. The Company's proposed Interim Rates are based on a net annual increase of non-fuel electric revenues of \$2,386,538, or 7.17 percent, and will result in an average increase of \$6.50 per month for residential customers. Interim Rates will be subject to refund if and to the degree final rates approved by the Commission are less than interim rates. The proposed changes would affect the billings of approximately 11,700 customers in the Company's South Dakota service area.

This notice was included as part of the Company's Application to the South Dakota Public Utilities Commission. Under South Dakota law, you have a right to join with 24 other

customers in OTP's South Dakota service area to file a written objection to this proposed rate increase, and you may request the Commission suspend the rate increase and hold a public hearing to determine whether such rate increase should be allowed.

The Application, including the proposed rates and changes and supporting testimony and schedules, is available by request by contacting our Customer Service Center at 800-257-4044 or placing an inquiry on our website at www.otpco.com. The increase in rates is needed for the Company to recover: (1) additional rate base investments and associated depreciation expense; (2) increases in operating costs incurred by the Company in providing electric service to its customers; and (3) on-going investments in infrastructure and technology. This increase is necessary to continue to serve customers as reliably, economically, and environmentally responsibly as possible. If you have any questions regarding the Company's Application, please contact OTP's Area Manager for South Dakota, Mr. Kevin Kouba.

Otter Tail Power Company

By



Bruce Gerhardson
Vice President, Regulatory Affairs

Date: April 20, 2018