BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF SOUTH DAKOTA

IN THE MATTER OF THE APPLICATION OF OTTER TAIL POWER COMPANY FOR AUTHORITY TO INCREASE ITS ELECTRIC RATES	))))	DOCKET NO. EL18-021

I. SETTLEMENT STIPULATION

On April 20, 2018, Otter Tail Power Company (OTP or Company) filed with the Public Utilities Commission (Commission) an application to increase rates for electric service to customers in its South Dakota service territory. OTP's application sought a net increase of non-fuel revenues of $3,358,547, or 10.10 percent based on OTP's 2017 test year. The net increase reflected transitioning costs currently recovered through the Company's Environmental Cost Recovery Rider (ECRR) and Transmission Cost Recovery Rider (TCRR) to base rates. Without accounting for the corresponding reduction in rider revenues caused by the transition of rider recoveries to base rates, the Company's application sought a non-fuel revenue increase to base rates of $5,978,109, or 19.50 percent. OTP's application also proposed a step increase, to be effective January 1, 2020, to facilitate recovery of the Merricourt Wind Project. If granted, the step increase would result in an additional net increase of non-fuel revenues of $629,107, or 1.72 percent over current rates. On June 28, 2018, Valley Queen Cheese Factory, Inc. (Valley Queen) filed a Petition to Intervene. On July 16, 2018, the Commission issued an Order Granting Late Filed Intervention to Valley Queen. Valley Queen is not a party to this Stipulation.

Commission Staff and OTP (jointly the Parties) held several settlement conferences to arrive at jointly acceptable resolutions to issues raised in this matter. As a result of the conferences, the Parties resolved all issues subject to this proceeding except for the Company's authorized Return on Equity, which for purposes of this Settlement Stipulation includes any figure derived in whole or part from determination of Return on Equity.

Although the Parties are unable to reach a resolution regarding Return on Equity and will notice this one unresolved item for Commission consideration, this Stipulation identifies the operating revenue, operating expense and rate base components of the Cost of Service based on the agreed-upon issues, exclusive of impacts related to Return on Equity.

II. PURPOSE

This Stipulation was prepared and executed by the Parties for the sole purpose of resolving all issues in Docket No. EL18-021 except for Return on Equity. The Parties acknowledge they may have differing views that justify the result, but each Party deems the result to be just and reasonable. Considering such differences, the Parties agree the resolution of any single issue, whether express or implied by the Stipulation, should not be viewed as precedent setting. In consideration of the mutual promises hereinafter set forth, the Parties agree as follows:

1. Upon execution of the Stipulation, the Parties shall immediately file this Stipulation with the Commission together with a joint motion requesting the Commission issue an order approving this Stipulation in its entirety without condition or modification.

2. This Stipulation includes all terms of settlement except for Return on Equity. The Stipulation is filed conditioned on the understanding that, in the event the Commission imposes any changes in or conditions to this Stipulation, this Stipulation, may, at the option of either Party, be withdrawn and shall not constitute any part of the record in this proceeding or any other proceeding nor be used for any other purpose in this case or in any other.

3. This Stipulation shall become binding upon execution by the Parties, provided however, if this Stipulation is withdrawn in accordance with Paragraph 2 above, it shall be null, void, and privileged. This Stipulation is intended to relate only to the specific matters referred to therein; neither Party waives any claim or right which it may otherwise have with respect to any matter not expressly provided herein; neither Party shall be deemed to have approved, accepted, agreed or consented to any rate making principle, or any method of cost of service determination, or any method of

cost allocation underlying the provisions of this Stipulation, or be either advantaged or prejudiced or bound thereby in any other current or future rate proceeding before the Commission. Neither Party nor representative thereof shall directly or indirectly refer to this Stipulation or that part of any order of the Commission as precedent in any other current or future proceeding before the Commission.

4. The Parties to this proceeding stipulate all prefiled testimony, exhibits, and workpapers on the settled issues be made a part of the record in this proceeding. The Parties understand if the issues settled in this matter had not been settled, the Commission Staff would have filed direct testimony on those issues, OTP would have filed rebuttal testimony responding to certain of the positions contained in the testimony of Commission Staff and an evidentiary hearing would have been conducted where the witnesses providing testimony on the issues would have been subject to examination.

5. It is understood that the Commission Staff enters this Stipulation for the benefit of all of OTP's South Dakota customers affected by this docket.

III. ELEMENTS OF SETTLEMENT STIPULATION

1. **Revenue Requirement.** The Company's Revenue Requirement will be determined based on this Settlement Stipulation and is dependent upon the Commission's decision resolving the non-settled issue of Return on Equity.

The Parties agree on the rate treatment of a significant number of issues and that the treatment of settled issues is not dependent on the Commission's decision on the contested issue. However, the precise revenue requirement value of certain settled issues will be impacted by the Commission's decision on the unresolved issue of Return on Equity. All recalculation necessary and resulting from the Commission's decision on the Return on Equity will be completed and presented for review in compliance with the Commission's Order after hearing. Additionally, Parties agree the following financial elements cannot be determined until the Return on Equity is known: Interest Synchronization, Cash Working Capital, and Tax Collections Available. These recalculations will be completed and presented for review in compliance with the Commission's Order after hearing.

The position described in OTP's initial filing on Return on Equity, along with the issues resolved in this Settlement Stipulation result in an overall rate of return of 7.91%, and a final net revenue deficiency of $3,071,673, adjusted to reflect prudent, actual rate case expenses through resolution of the non-settled issue of Return on Equity.

The position of Commission Staff on Return on Equity along with the issues resolved in this Settlement Stipulation result in an overall rate of return of 6.83%, and a final net revenue deficiency of $1,928,830, adjusted to reflect prudent, actual rate case expenses through resolution of the non-settled issue of Return on Equity. Staff's Return on Equity will be supported by the testimony of Basil L. Copeland Jr., to be filed on February 19, 2019.

2. **Phase-In Recovery of Capital Projects**. The Parties agree that in lieu of the step increase for the Merricourt Wind Project requested by OTP, the Company will file for Commission approval a phase-in rate plan (Phase-In Plan) authorized by SD Codified Laws 49-34A-73 through 49-34A-78 for cost recovery of the Merricourt Wind Project and the Company's Astoria Natural Gas Project, with the Phase-In Plan continuing until the projects' costs can be included in base rates following the Company's next rate case filing.

   Commission Staff agrees OTP can seek recovery of the aforementioned capital projects via the Phase-In Plan. However, such recovery is subject to Commission Staff's ongoing right to review project costs for prudency and to comment on the Phase-In Plan's recovery mechanics. The Parties agree the revenue requirement resulting from this proceeding shall constitute the full cost of service analysis required by SDCL 49-34A-74. The Parties agree that the Phase-In Plan revenue requirement shall include adjustments reflecting the net benefit of the additional load in the Lake Norden area (New Load Adjustment) and net savings associated with OTP's retirement of its Hoot Lake Plant (Hoot Lake Adjustment).

The New Load Adjustment will commence with the effective date of the phase-in rates and will reflect the incremental base rate revenues calculated by comparing the customer's estimated increased sales to the proforma test year sales from this rate case. For the year 2019, sales will be compared, in total, for the months the phase-in is effective. For each year thereafter sales will be compared annually. The adjustment will also be net of the revenue requirement impact caused due to the corresponding updates to jurisdictional allocation factors resulting from the increased load to South Dakota. The New Load adjustment may be trued-up based on actual sales each year.

The Hoot Lake Adjustment will commence upon the retirement date of the Hoot Lake plant. Upon filing the Phase-In Plan, OTP will identify all costs being recovered through base rates associated with Hoot Lake based on the pro forma 2017 test year. The net savings identified will be reflected in the revenue requirement. The Hoot Lake adjustment will be trued-up each year.

The Rate of Return for the Phase-In Plan shall incorporate the Return on Equity to be determined at hearing. While the projects are under construction, the Rate of Return for the Phase-In Plan will include OTP's weighted average cost of debt calculated at year-end levels in a manner consistent with that used in this stipulation, including short-term debt costs, the return on equity set by the Commission in this proceeding, and the equity ratio calculated at year-end levels in a manner consistent with that used in this stipulation. Once the projects are in-service, the Rate of Return for the Phase-In Plan will include OTP's weighted average cost of long-term debt calculated at year-end levels in a manner consistent with that used in this stipulation, the Return on Equity set by the Commission in this proceeding, and the equity ratio calculated at year-end levels in a manner consistent with that used in this stipulation. The Company will continue to file annual earnings reports while the Phase-In Plan is in effect. The annual earnings report will be filed in each applicable year's TCRR docket.

3. <u>Merricourt Wind Project Capacity Factor</u>. The Parties agree that the Phase-In Plan for the Merricourt Wind Project will reflect production tax credits (PTCs) based on Merricourt's actual production. If recovery for the Merricourt Wind Project under the Phase-In Plan remains in effect after October 1, 2022 because the Company has not filed an application for an increase in base rates (Rate Case) to be effective by that date, the Phase-In Plan will reflect PTCs based on a Merricourt capacity factor of 50.7% until updated in OTP's next Rate Case.

4. **Moratorium.** If the Company's Merricourt Wind Project and Astoria Station are in service by December 31, 2020, OTP will not file a Rate Case before April 1, 2022. If either Merricourt or Astoria are not in service by December 31, 2020, the Company shall not file a Rate Case until the test year for any filing can reflect twelve months in-service for both projects. If for some unforeseen reason, one of the projects were not to proceed, the moratorium period shall not be tied to the timing of such project. If for some unforeseen reason both projects were not to proceed, then there would be no moratorium on when OTP could file a Rate Case. The moratorium shall not prevent OTP from requesting Commission approval of deferred accounting for the annual revenue requirements for any non-routine capital projects that OTP can demonstrate are beneficial to customers. The Parties agree that this rate moratorium does not apply to any Commission-approved rider or other adjustment mechanism including but not limited to the Phase-In Plan. Also, it shall be a condition precedent to the moratorium described in this Agreement that the Phase-In-Plan will be approved as contemplated in this Agreement (i.e. if the Phase-In-Plan for Merricourt and/or Astoria is not approved for any reason, there shall be no moratorium or limitation on when OTP may file any general rate case or other rate proceeding).

5. **Amortization Periods.** The Parties agree that amortization periods for rate case expense, non-protected excess ADIT resulting from the Tax Cut & Jobs Act, and Big Stone Plant II costs shall be four years.

6. **Rate Design**. The Parties agree upon the following rate design issues:
    a. Final rates shall be designed to spread the revenue increase uniformly among all customer classes.
    b. The monthly residential general service customer charge shall be increased to $10.

c. The residential time of day pilot customer charge shall be set at $15.

d. In its next application for an increase in base rates OTP will study and evaluate Staff's recommended approach to the Class Cost of Service and the Minimum Distribution System Study.

e. OTP final rates will reasonably address Staff's concerns about seasonal rate adjustments and gradualism.

7. Miscellaneous

a. **CISone Expenses.** The Parties agree the Revenue Deficiency stated in Article III, Section 2 includes actual CISone expenses through December 31, 2018; however, the Revenue Deficiency only includes Allowance for Funds Used During Construction as calculated through October 31, 2018. OTP may seek recovery of actual plant in service balances, net of accumulated depreciation, in the Company's next rate case.

b. **Rate Case Expenses.** The Revenue Deficiency stated in Article III Section 1 includes rate cases expense based on actual expenses to date and an estimate of expenses through resolution of the non-settled issue of Return on Equity. The Parties agree that rate case expense shall be adjusted to reflect prudent, actual expenses through resolution of the non-settled issue of Return on Equity.

c. **Tax Cuts and Jobs Act.** The Parties agree that the Company has fully addressed any obligations it may have under the federal Tax Cuts and Jobs Act in Docket No. GE17-003 and in this proceeding, and that no additional reductions or refunds relating to Tax Cuts and Jobs Act will be made, including reductions or refunds for the period prior to commencement of interim rates. The Parties agree to enter a Stipulation requesting the Commission to close Docket No. GE17-003 with respect to OTP.

d. **Transmission Cost Recovery Rider (TCRR).** The Return on Equity resulting from this case will be used in the Transmission Cost Recovery Rider, effective October 18, 2018.

e. **Tariffs.** The Parties agree that OTP will submit final tariffs for Commission approval after the Commission renders a final decision. The Parties agree to certain language changes as reflected on the tariffs sheets attached as Exhibit A. The changes denoted are changes from OTP's proposed tariffs filed with its application.

f. **Interim Rate Refund.** Interim rates were implemented on October 18, 2018. If the Commission authorizes a rate increase less than the interim rate level in effect, the Company agrees to refund customers that portion of the interim rates collected during the interim rate period in excess of the final approved amount of interim revenue the Company is entitled to retain. The Company will file a separate proposal for the interim rate refund following the Commission's final decision.

g. **Customer Notice.** Customers will be notified of the change in rates through a bill insert with the first month of bills to which new rates apply.

This Stipulation is entered effective this 15th day of February 2019.

Otter Tail Power Company	**South Dakota Public Utilities Commission Staff**
By:	By: Kristen Edwards
Date: February 15, 2019	Date: 14 February 2019