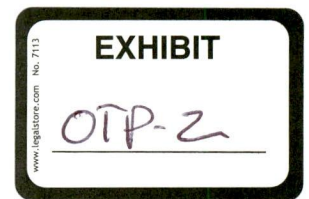


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May 8, 2013



Mr. Darrell Nitschke  
Director of Admin./Executive Secretary  
North Dakota Public Service Commission  
State Capitol  
600 East Boulevard, Dept. 408  
Bismarck, ND 58505-0408

**RE: UPDATE to In the Matter of Otter Tail Power Company's Application to Establish an Environmental Upgrades Cost Recovery Rider and Tariff.  
NDPSC Case Nos. PU-13-84 and PU-13-79**

Dear Mr. Nitschke:

Please find enclosed an update to Otter Tail Power Company's ("Otter Tail's") Application to Establish an Environmental Upgrades Cost Recovery Rider ("ECR") and Tariff (NDPSC Case Nos. PU-13-84 and PU-13-79). Updated Schedules 2-4 are attached to this filing. This update is being made to adjust the application for a lower projected cost for the project and the initial recovery period has been adjusted to reflect that the ECR rates are likely to become effective three months later than originally assumed.

The project has finalized contracts for procurement of approximately 90 percent of the project costs. With a large percentage of the costs under contract, the project has revised its total capital budget significantly from the original \$489 million to \$405 million (Otter Tail's North Dakota share of the project was originally forecast at \$105 million and is now forecast at \$87 million). The new budget is 17.5 percent lower than the original budget for the project. The large reduction in the original budget is a result of the following four factors:

1. Prudent design/engineering modifications is the first factor, accounting for approximately 45 percent of the reduction. Through prudent engineering and hard work there have been a number of changes in the design and specifications, resulting in considerable cost savings without compromising the performance or operability of the project. One example is the changes to the requirements and design of the boiler modifications that eliminated major structural changes originally contemplated. Another example is the reuse of the plant's 13.8Kv switchgear that was recently replaced. This reuse eliminates the need for a new plant substation and transformer to feed the AQCS Project. These and other changes yielded the largest share of the reductions.

2. The second factor is the project delivery method, timing and market conditions. This accounts for approximately 35 percent of the reduction. With the combination of the project delivery method, General Work Contract target pricing methodology, and a “buyer’s market” we have been able to take advantage of many very competitive situations that have often yielded bid prices below the expected market. This was not coincidental. We selected the project delivery method to allow us to get to the market at the right time, and we have aggressively pushed ahead to try and be in the market during this opportune time.
3. The third factor is project management. Otter Tail Power Company (“Otter Tail”) has taken on the duties of construction management for the project. With a project delivery method focused on having a single contractor for the construction of the AQCS equipment, the partners felt Otter Tail could take on the construction management of the project rather than using a third party. We have added very experienced people to the project staff to ensure that this is a success. This change accounts for approximately 13 percent of the reduction.
4. The final factor is a change to the contingency for the project. Being at a point where so much of the project is under contract, we went through an extensive effort to evaluate the contingency needed for the rest of the project. The outcome was a lowering of the contingency level for the project that accounts for about 7 percent of the reduction.

The attached updated schedules 1-4 also include the impact of a change in the recovery period and in the billing determinants. The schedules are also updated to include actual data through March 2013.

#### **Cost Recovery Impacts of Change in Budget, Revised Recovery Period and Billing Determinants**

The original proposal calculated the ECR rates using an effective date of April 1, 2013 and a recovery period of April 2013 - March 2014. Because it appears this case will take a bit longer than originally expected, this update has recalculated rates using an effective date of July 1, 2013, with a recovery period of July 2013 - March 2014. The new implementation date shortens the recovery period by three months. The revised budget decreases revenue requirements from \$4,983,015 to \$4,308,473 (or 13.5 percent) over the period of January 2013 through March 2014 (Updated Attachments 2 and 4). The percent reduction in revenue requirements will not necessarily match the overall reduction in the budget due to the various recovery periods.

The proposed rates are computed assuming the total proposed revenue requirement is effective January 1, 2013 through March 31, 2014. As noted in the original filing, “if the effective date is significantly later than April 1, 2013, OTP requests the option to recalculate the rate in order to recover all approved costs over the remainder of the proposed recovery period.”

While conducting a review of the forecast billing determinants, the forecasted kWh were discovered to be inconsistent with the kWh forecast used in the recently updated renewable rider. The new billing determinants for the 12-month recovery period originally proposed would have been 1,802,403 MWh versus the billing determinants originally filed of 1,643,885. Due to the shortened recovery period Otter Tail is now proposing, the proposed billing determinants for the now nine-month period

Mr. Darrell Nitschke  
May 8, 2013  
Page 3

are 1,394,198. The combination of the reduction in the revenue requirements and the change in billing determinants with a shortened recovery period create only a small increase in the rate (Updated Attachment 3). The table below summarizes the change in rate as a result of the updated budget and kWh forecast.

Rate Type	Original Proposed Rate from 2/08/13 Filing	Proposed Rate based on updated billing determinants and revised project budget
kWh Rate	\$0.00303	\$0.00309

The change in billing determinants combined with the shorter period for which revenue requirement will be collected creates a proposed rate that is only 1.9 percent higher than the rate originally proposed.

While the initial rate increases slightly under the revised proposal, the subsequent 12-month rate (April 2014 – March 2015), which was expected to be \$0.00539 at the time of the initial filing, is now expected to be \$0.00415 or almost 23 percent less due to the budget reduction.

As in the initial filing in this case, Otter Tail proposes that final approved rates and the corresponding rate schedule pages be submitted in a compliance filing in this case.

Please refer all inquiries regarding this filing to Pete Beithon at (218) 739-8607 or [pbeithon@otpc.com](mailto:pbeithon@otpc.com).

Sincerely,

/s/ PETE BEITHON

Pete Beithon  
Manager, Regulatory Recovery

dm  
Enclosures  
By electronic filing and U.S. mail

Summary of Revenue Requirements

Line No.	Revenue Requirements	2013-2014
1	AQCS	\$4,247,862
2	Carrying Cost	<u>60,611</u>
3	Total	<u><u>\$4,308,473</u></u>

North Dakota Revenue Requirements

\$4,308,473

	<u>Billing kWh</u>	<u>Rate per kWh</u>	<u>Total Revenue</u>
All Classes	1,394,197,885	\$0.00309	\$4,308,473

Line No.	TRACKER SUMMARY Requirements Compared to Billed:	2013						2014									
		January Actual	February Actual	March Actual	April Projected	May Projected	June Projected	July Projected	August Projected	September Projected	October Projected	November Projected	December Projected	January Projected	February Projected	March Projected	Collection Period
1	Revenue Requirements	214,209	214,209	214,209	214,209	214,209	214,209	214,209	214,209	214,209	214,209	214,209	214,209	214,209	214,209	214,209	214,209
2	Air Quality Control System																
3	Billed (forecast kWh x adj factor)	0	0	0	0	0	0	391,222	404,723	405,683	390,614	458,001	525,356	599,155	596,853	536,867	4,308,473
4																	
5	Difference	214,209	214,209	214,209	214,209	214,209	214,209	(177,013)	(190,514)	(191,474)	(176,405)	(243,792)	(311,147)	(40,037)	(37,735)	22,251	
6	Carrying Charge		1,538	3,087	4,647	6,219	7,801	9,395	8,192	6,883	5,557	4,331	2,611	396	112	(159)	60,611
7	Cummulative Difference	214,209	429,956	647,252	866,109	1,086,536	1,308,547	1,140,930	958,607	774,017	603,169	363,708	55,173	15,531	(22,092)	(0)	
8																	
9	Carrying Charge Calculation	1,538	3,087	4,647	6,219	7,801	9,395	8,192	6,883	5,557	4,331	2,611	396	112	(159)	(0)	
10	Cumulative Carrying Charge	1,538	4,625	9,272	15,491	23,292	32,688	40,879	47,762	53,320	57,650	60,262	60,658	60,769	60,611	60,611	
11	Carrying cost	8.62%	8.62%	8.62%	8.62%	8.62%	8.62%	8.62%	8.62%	8.62%	8.62%	8.62%	8.62%	8.62%	8.62%	8.62%	
12																	
13																	
14	Forecasted Sales (MWh)							126,597	130,966	131,277	126,401	148,207	170,002	193,883	193,138	173,727	1,394,198

SUMMARY		Jan 2013 - Jun 2014
Revenue requirements		\$4,247,862
Carrying Charge		60,611
Total Return on CWIP		\$4,308,473
July 2013 - March 2014 projected sales in mWh		1,394,198
Average Rate		\$0.00309



