

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



March 31, 2014

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

RE: In the Matter of Otter Tail Power Company's Application for Approval of the Annual Update to its Environmental Upgrades Cost Recovery Rate Case No. PU-14-_____

Dear Mr. Nitschke:

Enclosed are an original and seven (7) copies of Otter Tail Power Company's ("Otter Tail's") Application for Approval of its Annual Update to the Environmental Upgrades Cost Recovery ("ECR") Rate along with a check in the sum of \$10,000. This application is an annual filing which simply updates the ECR Rate and should not require the amount of time and expense required for an initial application for a tariff filed under NDCC §49-05-04.2.2. Otter Tail requests the fee be reduced to \$10,000 and is therefore submitting a filing fee of \$10,000 with this application. Otter Tail will be responsible for amounts incurred in excess of the initial filing fee of \$10,000 up to \$100,000 unless the Commission approves the fee reduction request.

This filing is being sent to you electronically and by U.S. mail.

Should you have any questions, please feel free to contact me at 218-739-8607 or pbeithon@otpc.com.

Very truly yours,

/s/ PETE BEITHON
Pete Beithon
Manager, Regulatory Recovery

jce
Enclosures
By electronic filing and US mail

**STATE OF NORTH DAKOTA
BEFORE THE
NORTH DAKOTA PUBLIC SERVICE COMMISSION**

Case No. PU-14-_____

In the Matter of Otter Tail Power
Company's Application for Approval
of the Annual Update to its
Environmental Cost Recovery Rider
Rate

**OTTER TAIL POWER COMPANY APPLICATION FOR THE ANNUAL
UPDATE TO ITS ENVIRONMENTAL COST RECOVERY RIDER RATE**

I. INTRODUCTION

Otter Tail Power Company ("Otter Tail") submits this Application to the North Dakota Public Service Commission ("Commission") for approval of its annual update ("Update") to the Environmental Cost Recovery rate under Otter Tail's Environmental Cost Recovery Rider ("ECR or "Rider") Rate Schedule 13.08.

On December 18, 2013, the Commission approved Otter Tail's ECR Rider Tariff and adjustment rate for the Big Stone generation plant's Air Quality Control System ("AQCS") in Case Nos. PU-13-79, and PU-13-84. Otter Tail is now filing its annual update to the ECR rate, which includes actual AQCS project cost and revenue information through February 2014 and updated forecast cost and revenue information beginning March 2014, up to and including the requested recovery period of July 2014 through June 2015.

The updated forecast cost and revenue information includes a new project budget which is a decrease in the budgeted costs for the project of approximately five percent. The initial budget for the AQCS project was \$489 million. In the spring of 2013, that budget was decreased to \$405 million. The new budget decreases the project cost again, to \$384 million.

II. GENERAL FILING INFORMATION

Pursuant to § 69-02-02-04 of the Commission's Rules of Practice and Procedure, the following information is provided:

A. Name, address, and telephone number of the utility making the filing

Otter Tail Power Company
215 South Cascade Street
P.O. Box 496
Fergus Falls, MN 56538-0496
Phone (218) 739-8200

B. Name, address, and telephone number of the attorney for Otter Tail Power Company

Bruce Gerhardson
Associate General Counsel
Otter Tail Power Company
215 South Cascade Street
P.O. Box 496
Fergus Falls, MN 56538-0496
Phone (218) 739-8475

C. Title of utility employee responsible for filing

Peter J. Beithon
Manager, Regulatory Recovery
Otter Tail Power Company
215 South Cascade Street
P.O. Box 496
Fergus Falls, MN 56538-0496
(218) 739-8607

D. The date of filing and the date changes will take effect

The date of this filing is March 31, 2014. Otter Tail proposes an effective date of July 1, 2014 for the updated rate.

E. Other requirements of North Dakota Rules Part 69-02-02-04

A certified copy of Otter Tail's Articles of Incorporation is on file with the Commission, as is an original certificate of good standing.

F. Customer Notification

Otter Tail has begun serving notice of this filing on customers. Attachment 1 is a sample of the notice to customers that will be provided to customers on their April 2014 bills.

III. ENVIRONMENTAL UPGRADES COST RECOVERY RATE

A. Background

On February 8, 2013, Otter Tail filed an ECR tariff and proposed rates in Case Nos. PU-13-79 and PU-13-84 to recover the allocated jurisdictional costs incurred in complying with federal environmental mandates at the Big Stone generating station. On May 5, 2013, Otter Tail filed revisions to its Application. On December 18, 2013, the Commission approved Otter Tail's ECR tariff and rate¹. The Company implemented the ECR rate of 4.319 percent (applied to base rates) effective with service rendered on and after January 1, 2014 and which was calculated on a recovery period through March 2014 as stated in Paragraph 2 of the Commission's December 18, 2013 Order.

Recognizing the recent implementation of the current ECR rate, Otter Tail and Montana-Dakota Utilities ("Montana-Dakota") informed the Commission Staff in January 2014 of the companies' intentions to file applications at the end of March 2014 to update the companies' respective environmental trackers to be effective with service rendered on and after July 1, 2014. Staff acknowledged the companies' concerns recognizing that while the March filing would provide limited data, delaying further would not provide for the gradual increase in rates that the riders provide as the project moves forward.

Therefore in keeping with the principles of the tariff and in recognizing the revenue requirement time period reflected in the current ECR rate implemented January 1, 2014, Otter Tail is requesting to update its ECR rate to reflect actual costs incurred through February 2014 and projected costs through June 2015 pursuant to its Electric Rate Schedule 13.08. As stated in the introduction, the updated forecast includes a new project budget of \$384 million, which decreases the costs five percent. As shown in Attachment 2, the projected revenue requirement, as allocated to North Dakota, is \$7,507,342 with a projected under recovery of the current period's costs of \$2,372,538 (including carrying costs) for a total cost of \$9,879,880 to be recovered through the ECR rate over the period July 1, 2014 through June 30, 2015.

¹ PU-13-79 and PU-13-84, Findings of Fact, Conclusions of Law and Order, Page 7

Statutory Requirements of the Rate Adjustment

NDCC §49-05-04.2.2 provides as follows:

2. Rate adjustments filed under the tariff must be accompanied by:

- a. A description and quantification of the costs and expenses incurred by the public utility to meet federal environmental mandates which are subject to recovery;*
- b. A schedule for implementation of the applicable projects;*
- c. Calculations to establish that the rate adjustment is consistent with the terms of the tariff; and*
- d. An application fee in the amount of one hundred thousand dollars. Upon request of the commission and with the approval of the emergency commission, the applicant shall pay such additional fees as are reasonably necessary for completion of the application process by the commission. The commission may waive or reduce the fee.*

Sections B, C and D (and related attachments) below meet the requirements of the Statutory Requirements identified in 2.a, 2.b, and 2.c above.

As indicated in the cover letter for this Application, since this is an annual filing which simply updates the ECR rate, Otter Tail requests the fee be reduced to \$10,000 and is therefore submitting a filing fee of \$10,000 with this application. Otter Tail will be responsible for amounts incurred in excess of the initial filing fee of \$10,000 up to \$100,000 unless the Commission approves the fee reduction request.

B. Project Description and Cost Update

Otter Tail operates the Big Stone power plant (“Big Stone”) near Big Stone City, South Dakota. The Big Stone plant is co-owned by NorthWestern Corporation d/b/a NorthWestern Energy, Montana-Dakota Utilities Co., a Division of MDU Resources Group, Inc., and Otter Tail. The Big Stone Plant AQCS project is described in detail in Case Nos. PU-13-79, and PU-13-84, the cases in which the Commission approved the ECR for Otter Tail and Montana-Dakota. Otter Tail projects that the Big Stone AQCS will be in operation by January 2016.

Attachment 3 to this filing is the January 2014 quarterly project update filed in Case No. PU-11-165. Despite extremely cold weather conditions this past winter, the project remains on budget and on schedule.

The total cost estimate for the AQCS project is now \$384 million, a decrease of over 20 percent from the initial cost estimate. The majority of the latest decrease in the project budget from \$405 million to \$384 million is due to reductions in the contingencies associated with contracts for which work is under way. Most procurement activity is nearly complete. As a result, the contingency amount for procurements has been decreased by \$5 million. The contingency amount for the general work contractor has been decreased by \$9 million as the project is approximately 30 percent complete. With the material portion of the boiler contract delivered on site, the boiler contingency has been decreased by \$3 million. The engineering contingency has also been decreased by \$1.5 million as 90 percent of the engineering for the project is complete. The reductions in the procurement, general work, boiler, and engineering contingencies noted above account for approximately \$18.5 million of the latest project budget reduction. The remaining reductions to the budget estimates comes from a combination of identified capital cost change items, including an increase of \$2.25 million over the previous budget not related to contingencies, a reduction in engineering costs of \$3.0 million (project engineering is now 90 percent complete) and a reduction in completed procurement costs of \$1.5 million. The net \$2.25 million reduction from these items, combined with the reduction in contingencies, accounts for the total of this second AQCS budget reduction of approximately \$21 million.

Otter Tail's ownership share in the Big Stone Plant is 53.9 percent, and therefore Otter Tail is responsible for 53.9 percent of the costs, or \$207 million. Otter Tail's North Dakota ("ND") jurisdictional share of this cost responsibility is approximately 40 percent or \$83 million.

The December 18, 2013 Order in Case Nos. PU-13-79 and PU-13-84, paragraph 3 states "Otter Tail Power Company shall coordinate with Montana-Dakota Utilities Co. its Environmental Cost Recovery Rider updates so the same joint costs appear in each company's filing", Attachment 4(a) is a schedule of the same joint project costs used by both Otter Tail and Montana-Dakota for purposes of this update. Montana-Dakota's update expected to be filed concurrently.

Shared project costs of \$175.2 million (\$37.7 million Otter Tail ND share) were incurred as of February 28, 2014. The projection for 2014 project expenditures is an additional \$100.7 million (\$21.7 million Otter Tail ND share) for a cumulative total of \$275.9 million (\$59.4 million Otter Tail ND share). The projection for 2015 project expenditures is an additional \$106.6 million (\$23.0 million Otter Tail ND share) for a cumulative total of \$382.5 million (\$82.5 million Otter Tail ND share). The remaining \$1.6 million of the project will be spent in 2016 and 2017 for the total budgeted project costs of \$384.2 million. Otter Tail has also incurred costs on its own behalf which are not shared with the other owners. The Otter Tail-only costs included in the Rider tracker are \$1.1 million (Otter Tail's North Dakota share). This request covers the period of July 1, 2014 through June 30, 2015 for setting the second ECR rate.

C. Components of the revenue requirement calculation

Attachments 2 and 4 show the revenue requirement calculation for the AQCS project included in the Rider. The revenue requirement for the project included in the Rider includes several components as described below.

- *Rate base section.* This section provides details on the amount of plant in service, accumulated depreciation (if applicable), construction work in progress (“CWIP”), accumulated deferred taxes, and a 13-month average rate base calculation.
- *CWIP.* NDCC §49-05-04.2 allows a current return on CWIP.
- *Expense section.* The expenses applicable to the project are listed here and include operating costs, property taxes, depreciation, and income taxes.
- *Revenue requirements section.* This section shows the components of the revenue requirements. Included are the items computed from the sections previously mentioned, including expenses and return on rate base.
- *Return on investment (cost of capital).* The return on investment utilizes the cost of capital approved in Otter Tail's most recent general rate case.
- *Depreciation expense.* Depreciation expense is calculated using Otter Tail's latest composite depreciation rate.
- *Property taxes.* The property tax calculation is based on Otter Tail's composite tax rate for South Dakota, the jurisdiction where the facility is located, and will be calculated in accordance with the procedures specified by that state.
- *O&M Expense.* Otter Tail will track O&M costs specifically related to the AQCS project.

D. Tracker Balance

Otter Tail maintains a tracker account worksheet (Attachment 4) and accounting system to track and account for retail revenue requirements until all costs have been fully recovered or reflected in base rates as part of a general rate case. The tracker account information compares Otter Tail's North Dakota jurisdictional costs and the amount recovered through North Dakota retail revenue. The tracker account balance (either positive or negative) will accrue monthly carrying charges at a rate of 1/12 of Otter Tail's cost of capital times the tracker balance. Carrying charges on a negative tracker balance will accrue to the benefit of retail customers and carrying charges on a positive tracker balance will accrue to Otter Tail.

Attachment 4(b) reconciles the actual balance of the tracker as of the end of February 2014 to Attachment 4(a), the Schedule of Joint Project Costs.

When annual updates to the ECR Rider are filed, the tracker account is updated (trued-up) so that any over/under recovered amount at the end of the previous recovery period will be reflected in the Rider adjustment for the upcoming recovery period. This approach ensures that no under/over recovery occurs.

In preparing this filing, Otter Tail discovered that contractor retention amounts were included in the tracker balance in the initial filing. The retention amounts have now been removed (excluded), which reduces the tracker balance. When retention amounts are subsequently paid to contractors, they will be added to the tracker (CWIP) balance at that time. The correction was made back to the start of the tracker, and as a result, reduces the cumulative carrying charge for the prior periods due to the reduction in tracker balance. The impact of the correction on the revenue requirements for the previously approved collection period was approximately \$150 thousand which would have changed the ECR rate less than 0.0015 percent.

IV. RATE DESIGN

Otter Tail's proposes the continuation of the percent-of-bill method. The rate design is simply the calculated revenue requirement from July 2014 through June 2015 divided by the total base revenue from North Dakota electric retail customers from July 2014 through June 2015. The rate design calculation is shown on Attachment 5.

V. RATE IMPACT

The proposed rate is as follows:

	<u>Percent of Bill</u>
All Customers	7.531%

The total 2014 – 2015 revenue requirements, as shown on line 4 in Attachment 2, are \$9,879,880. The proposed rate is then calculated in Attachment 5.

The increase for a residential customer using 1,000 kWh would be approximately \$2.96 per month. The following table shows the estimated rate increase over the previous rate by a residential customer using 1000 kWh and a Large General Service customer using 400,000 kWh and 1,000 kW:

	Average kWh's per month	Total Current Bill	Total Proposed Bill	Percent Increase
Residential	1,000	\$103.69	\$106.65	2.86%
Large General Service	400,000	\$32,056.41	\$32,950.63	2.79%

The above rate has been calculated based on an expected implementation date of July 1, 2014. Revenue Requirement calculations are based on July 2014 through June 2015 costs, assuming revenue collection occurs during the same period. The costs incurred up to January 2013 include AFUDC accrued through December 2012. If the effective date for the rate implementation is significantly later than July 1, 2014, Otter Tail requests the option to recalculate the rate in order to recover all approved costs over the remainder of the proposed recovery period.

VI. ENVIRONMENTAL COST RECOVERY RIDER RATE SCHEDULE

Otter Tail's revised Rate Schedule 13.08 is provided in Attachment 6 to this application, in both redline and clean versions.

VII. CONCLUSION

Otter Tail respectfully requests the Commission approve the updated Environmental Cost Recovery rate effective July 1, 2014, based on the tracker activity and cost recovery for the Big Stone Plant AQCS project.

Date: March 31, 2014

Respectfully submitted:

OTTER TAIL POWER COMPANY

/s/ PETE BEITHON

Pete Beithon
Manager, Regulatory Recovery
215 South Cascade Street
P.O. Box 496
Fergus Falls, MN 56538-0496
Phone (218) 739-8607

Attachments

Attachment 1	Customer Notice
Attachment 2	Summary of Revenue Requirements
Attachment 3	January 13, 2014 Quarterly Report in Case No. PU-11-165
Attachment 4	Project Tracker
Attachment 4(a)	Schedule of Joint Project Costs for Montana-Dakota and Otter Tail
Attachment 4(b)	Reconciliation of Otter Tail Tracker Balance to Schedule 4(a)
Attachment 5	Rate Design Calculation
Attachment 6	Environmental Cost Recovery Rider, Electric Rate Schedule 13.08

On March 31, 2014, we filed a request with the North Dakota Public Service Commission to change our Environmental Cost Recovery Rider rate for bills rendered on and after July 1, 2014. The proposed rate for all classes of service is 7.531% of base charges and credits billed under certain retail rate schedules; the current rate is 4.319%.

The change applied for is proposed only and, if the rate is suspended by the Commission, the new rate will not be effective until Commission action is taken. For more information contact Customer Service at 800-257-4044 or place an inquiry from our web site at www.otpc.com.

Summary of Revenue Requirements

Line No.	Revenue Requirements	2014-2015
1	AQCS	\$7,507,342
2	Carrying Cost	85,081
3	True-Up	<u>2,287,457</u>
4	Total	<u><u>\$9,879,880</u></u>

**BIG STONE PLANT
AIR QUALITY CONTROL SYSTEM PROJECT
QUARTERLY REPORT**

TO THE

NORTH DAKOTA PUBLIC SERVICE COMMISSION

FOR THE

PERIOD OCTOBER 1 TO DECEMBER 31, 2013



January 13, 2014

Montana-Dakota Utilities Co. and Otter Tail Power Company submit this report on the Big Stone Plant Air Quality Control System (“AQCS”) Project in compliance with the North Dakota Public Service Commission May 9, 2012 Order in Cases No. PU-11-163 & PU-11-165, ordering paragraph 2.

This report describes progress made on the Project during the quarter ending December 31, 2013. Specifically, in compliance with the above-referenced Order, this report includes information on the status of the United States Environmental Protection Agency (“EPA”) review of the South Dakota Regional Haze State Implementation Plan (“SIP”); it describes the types and amounts of costs incurred on the Project to date; and it describes changed circumstances that are expected to affect the cost, schedule or installation of the AQCS Project.

Section I

Status of the United States Environmental Protection Agency’s review of the South Dakota Regional Haze State Implementation Plan

On March 29, 2012, the Administrator for EPA Region 8 signed as a final rule the approval of South Dakota’s Regional Haze SIP. The final rule was published in the *Federal Register* on April 26, 2012 and became effective on May 29, 2012.

Section II

Types and amounts of Project cost actually incurred

Actual construction commenced on the Project on March 18, 2013. A groundbreaking ceremony was held on April 26, 2013. Significant construction progress has been made during the quarter. Examples of accomplishments include:

- All major concrete foundation work completed.
- Installation of the waste ash and pebble lime silos are complete. Waste ash silo approximately 50 percent insulated.
- Siding for the waste ash and pebble lime silo nearly complete. Electrical and mechanical installation well underway.
- Scrubber vessels have been erected.
- Baghouse and scrubber structural steel nearly complete. Most of the elevated slabs have been poured. First baghouse modules have been put into place.
- Electrical equipment room concrete block walls have been installed. Equipment pads have been poured and running of cable trays has started.
- Selective Catalytic Reduction (“SCR”) structural steel towers have been installed and truss work has started.
- Ground assembly of SCR has started.
- Approximately 250 construction workers on the project at this time.
- Winter weather is challenging progress.
- Material continues to arrive.

Costs incurred through December 31, 2013, can be broken down into the following general categories:

Category	Costs Through December 31, 2013
Equipment/Material Procurement:	\$80.3M
Construction:	\$49.0M
Engineering/Field Engineering Support:	\$17.1M
Owners Cost:	\$6.4M
Total:	\$152.8M

(Project costs identified do not include individual company costs.)

Equipment and Material Procurement: All owner-procured material for the Project, such as the flue-gas desulfurization system equipment, selective catalytic reduction catalyst, induced draft fans and their motors, transformers, structural steel, ductwork, ammonia handling equipment and the distributed control system.

Construction: Payments made to Graycor (the General Work Contractor), site preparation work, testing work, surveying work and work to remove equipment that is no longer needed or which needs to be moved.

Engineering and Field Engineering Support: Engineering and procurement work done by Sargent & Lundy (Project engineer) and engineering field support for construction and commissioning.

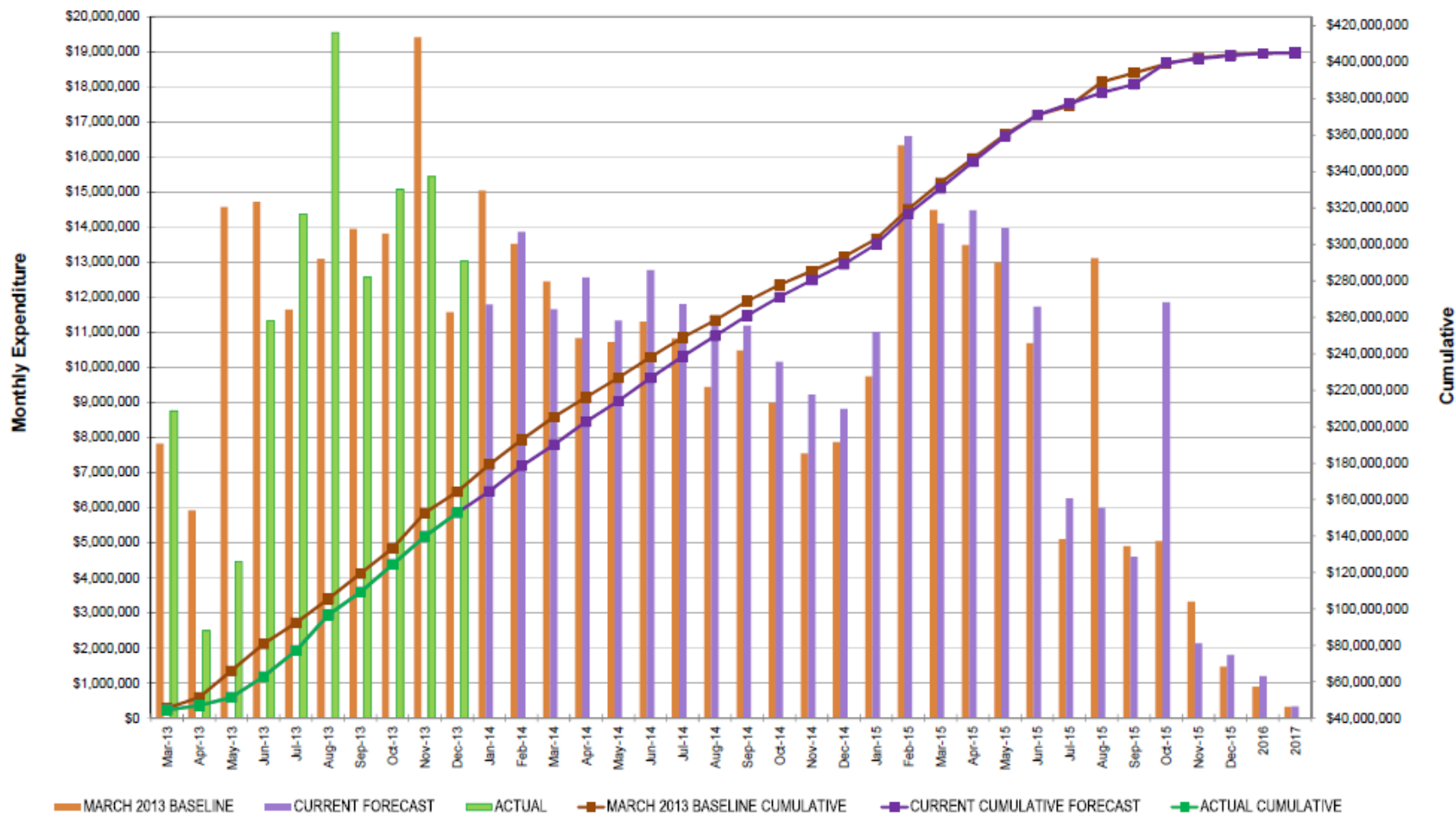
Owners Cost: Items such as labor for Project development and construction management, and such things as insurance, legal costs, permitting, office space and equipment; also spare parts and consumables used during testing and commissioning.

As described in the 2nd Quarterly report for 2013, the overall Project budget was reduced from \$489M to \$405M.

The Project's budget will be closely reviewed in the 1st quarter of 2014. If a change in the projection cost for the Project is warranted after the review, the Commission will be informed of the change in the 2nd Quarterly Report for 2014.

Actual Project cash flow and spending through December 2013, and forecast through Project completion, is illustrated on the next page.

**Big Stone Plant AQCS
Cash Flow & Spending Analysis
(Including Contingency & Escalation)
(Excluding Retention until it is paid)**



The following photographs illustrate various construction activities on the Project during the quarter:



10-07 CFB & baghouse structural steel erection



11-04 Lower baghouse modules, hydrated lime silo & scrubber



12-11 Insulation & siding on baghouse ongoing



10-07 Waste ash/pebble lime silos



11-07 WA/PL liner panel installation



12-11 Siding work almost finished WA/PL



10-26 ID Fan pedestal pour



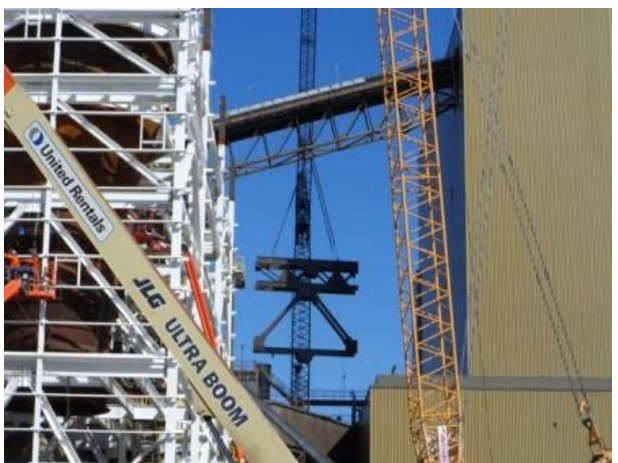
10-01 Ammonia foundation formwork



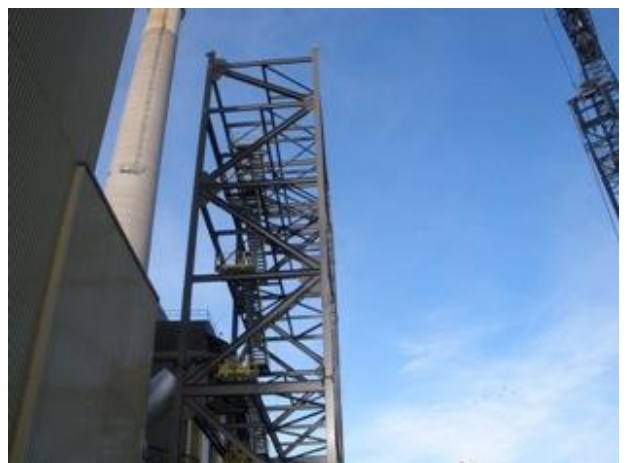
11-20 Ammonia tanks set & unloading slab poured



11-25 Setting aux boiler stack horizontal section



10-16 Center SCR bent lift



11-23 N SCR tower



10-01 Aerial photo



11-15 Aerial photo

Safety is emphasized on this Project. The table below is included to provide information on recordable and lost-time injuries and near miss incidents for the total labor hours worked on the Project through December 2013:

	Hours	Recordable	Lost Time	Near Miss	First Aid
Graycor	370,037	0	0	3	11
Project Team & Contractors	55,449	0	0	0	0
Engineering	145,285	0	0	0	0
Totals	570,771	0	0	3	11

Section III

Any changed circumstances that will affect cost or Project installation

The EPA has issued the Mercury and Air Toxic Standards (“MATS”) rule, also known as the utility Maximum Achievable Control Technology (“MACT”) rules, which require control of hazardous air pollutants. While the final rule has been issued, several petitions for review have been filed in United States Court of Appeals for the D.C. Circuit which could ultimately delay its effective date. The rule as issued requires the Big Stone Plant to reduce mercury emissions, which can be controlled by adding Activated Carbon Injection (“ACI”) to the Project. The estimated cost to add ACI as a standalone project is \$5M. Because of the synergies of installing the system at the same time as the AQCS, the owners have decided to include the ACI system as part of the scope of the AQCS Project; we have only increased the projected cost of the AQCS Project by \$2.1M to account for the ACI system. Although the standard MATS rule compliance date is April 16, 2015, on August 27, 2013 the South Dakota Department of Environment and Natural Resources granted a one year compliance extension for Big Stone Plant, such that the new compliance date is April 16, 2016.

Procurement activity is completed for the Project except for reagents that will be consumed during start-up (Lime, activated carbon, etc.). Also testing services to insure equipment is meeting its guaranteed performance.

Construction is now 26.7 percent complete. To date we have not seen anything to cause us to alter our schedule.

Summary

The Big Stone AQCS Project is currently on schedule and on budget.

Otter Tail Power Company
Environmental Cost Recovery Rider Tracker
North Dakota

Line No.	TRACKER SUMMARY Requirements Compared to Billed:	2014						Collection Period
		January Actual	February Actual	March Projected	April Projected	May Projected	June Projected	
1	Revenue Requirements							
2	Air Quality Control System	493,068	493,068	493,068	493,068	493,068	493,068	5,171,613
3	Billed (forecast kWh x adj factor)	638,868	599,833	542,584	491,598	407,238	385,712	3,065,834
4								
5	Difference	(145,800)	(106,765)	(49,515)	1,470	85,830	107,356	
6	Carrying Charge	16,534	15,605	14,951	14,703	14,819	15,541	
7	Cummulative Difference (True-Up)	2,173,461	2,082,302	2,047,738	2,063,910	2,164,559	2,287,457	
8								
9	Carrying Charge Calculation	15,605	14,951	14,703	14,819	15,541	16,424	
10	Cumulative Carrying Charge	121,664	136,615	151,317	166,136	181,678	198,102	
11	Carrying cost	8.62%	8.62%	8.62%	8.62%	8.62%	8.62%	
12								
13								
14	Forecasted Sales (MWh)	198,588	198,324	175,593	159,093	131,792	124,826	

Approved in Case Numbers PU-13-79 & PU-13-84

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

Otter Tail Power Company
Environmental Cost Recovery Rider Tracker
North Dakota

Line No.	TRACKER SUMMARY Requirements Compared to Billed:	2014						2015						Collection Period
		July Projected	August Projected	September Projected	October Projected	November Projected	December Projected	January Projected	February Projected	March Projected	April Projected	May Projected	June Projected	
1	Revenue Requirements													
2	Air Quality Control System	493,068	493,068	493,068	493,068	493,068	493,068	758,155	758,155	758,155	758,155	758,155	758,155	
3	Billed (forecast kWh x adj factor)	690,611	715,323	711,267	686,366	815,368	933,347	1,070,284	1,068,691	946,296	857,661	711,005	673,660	
4														
5	Difference	(197,543)	(222,255)	(218,198)	(193,297)	(322,300)	(440,278)	(312,128)	(310,536)	(188,141)	(99,506)	47,150	84,495	
6	Carrying Charge	16,424	15,123	13,636	12,167	10,867	8,631	5,532	3,330	1,125	(218)	(934)	(602)	
7	Cumulative Difference (True-Up)	2,106,338	1,899,206	1,694,644	1,513,514	1,202,081	770,434	463,837	156,632	(30,385)	(130,108)	(83,893)	0	
8														
9	Carrying Charge Calculation	15,123	13,636	12,167	10,867	8,631	5,532	3,330	1,125	(218)	(934)	(602)	0	
10	Cumulative Carrying Charge	213,225	226,861	239,029	249,896	258,527	264,058	267,389	268,513	268,295	267,361	266,759	266,759	
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%	
12														
13														
14	Forecasted Sales (MWh)	129,167	133,788	133,030	128,372	152,500	174,566	200,177	199,880	176,988	160,410	132,981	125,996	

	July 2014 - June 2015
SUMMARY	
Revenue requirements	\$7,507,342
Carrying Charge	85,081
2012-2013 True Up	2,287,457
Total Return on CWIP	\$9,879,880
Jul 2014 - Jun 2015 projected sales in mWh	1,847,855
Average Rate	\$0.00535

Otter Tail Power Company
Environmental Cost Recovery Rider Tracker
North Dakota

Line No.	Year>>	2015 Projected January	2015 Projected February	2015 Projected March	2015 Projected April	2015 Projected May	2015 Projected June	2015 Projected July	2015 Projected August	2015 Projected September	2015 Projected October	2015 Projected November	2015 Projected December	2015 Projected Total	
RATE BASE															
1	Plant Balance	0	0	0	0	0	0	0	0	0	207,935,794	208,958,515	209,797,124	209,797,124	
2	Accumulated Depreciation	0	0	0	0	0	0	0	0	0	(577,022)	(1,156,882)	(1,156,882)	(1,156,882)	
3	Net Plant in Service	0	0	0	0	0	0	0	0	0	207,935,794	208,381,493	208,640,243	208,640,243	
4	CWIP	157,836,818	166,293,627	174,134,733	181,352,879	188,270,630	193,861,234	196,689,671	199,510,814	201,884,872	(47,072)	(47,072)	(47,072)	5,415	
5	Accumulated Deferred Income Taxes Federal & State	0	0	0	0	0	0	0	0	0	(3,332,213)	(6,471,617)	(9,610,073)	(9,610,073)	
6	Ending Rate Base	157,836,818	166,293,627	174,134,733	181,352,879	188,270,630	193,861,234	196,689,671	199,510,814	201,884,872	204,556,509	201,862,803	198,983,097	199,035,584	
7	Average Rate Base	15,496,795	15,496,795	15,496,795	15,496,795	15,496,795	15,496,795	15,496,795	15,496,795	15,496,795	15,496,795	15,496,795	15,496,795	185,961,543	
10	Return on Rate Base	1,335,198	1,335,198	1,335,198	1,335,198	1,335,198	1,335,198	1,335,198	1,335,198	1,335,198	1,335,198	1,335,198	1,335,198	16,022,378	
12	Available for Return (equity portion of rate base)	887,878	887,878	887,878	887,878	887,878	887,878	887,878	887,878	887,878	887,878	887,878	887,878	10,654,532	
EXPENSES															
15	O&M and Depreciation	0	0	0	0	0	0	0	0	0	0	0	0	0	
16	Operating Costs	0	0	0	0	0	0	0	0	0	0	0	0	0	
17	Property Tax	0	0	0	0	0	0	0	0	0	0	0	0	0	
18	Book Depreciation	0	0	0	0	0	0	0	0	0	0	577,022	579,860	1,156,882	
19	Total O&M and Depreciation Expense	0	0	0	0	0	0	0	0	0	0	577,022	579,860	1,156,882	
21	Income before Taxes	887,878	887,878	887,878	887,878	887,878	887,878	887,878	887,878	887,878	887,878	887,878	887,878	10,654,532	
22	Available for Return (from above)	887,878	887,878	887,878	887,878	887,878	887,878	887,878	887,878	887,878	887,878	887,878	887,878	10,654,532	
23	Taxable Income (grossed up)	1,430,780	1,430,780	1,430,780	1,430,780	1,430,780	1,430,780	1,430,780	1,430,780	1,430,780	1,430,780	1,430,780	1,430,780	17,169,359	
25	Income Taxes	542,902	542,902	542,902	542,902	542,902	542,902	542,902	542,902	542,902	542,902	542,902	542,902	6,514,828	
26	Current and Def Income Taxes	542,902	542,902	542,902	542,902	542,902	542,902	542,902	542,902	542,902	542,902	542,902	542,902	6,514,828	
27	Total Income Tax Expense	542,902	542,902	542,902	542,902	542,902	542,902	542,902	542,902	542,902	542,902	542,902	542,902	6,514,828	
REVENUE REQUIREMENTS															
31	Expenses	542,902	542,902	542,902	542,902	542,902	542,902	542,902	542,902	542,902	542,902	1,119,924	1,122,762	7,671,709	
32	Return on Rate Base	1,335,198	1,335,198	1,335,198	1,335,198	1,335,198	1,335,198	1,335,198	1,335,198	1,335,198	1,335,198	1,335,198	1,335,198	16,022,378	
33	Subtotal Revenue Requirements	1,878,100	1,878,100	1,878,100	1,878,100	1,878,100	1,878,100	1,878,100	1,878,100	1,878,100	1,878,100	2,455,122	2,457,960	23,694,087	
34	Adjustments														
35	Total Revenue Requirements	1,878,100	1,878,100	1,878,100	1,878,100	1,878,100	1,878,100	1,878,100	1,878,100	1,878,100	1,878,100	2,455,122	2,457,960	23,694,087	
37	Base Demand Factor	66.87%	1,255,847	1,255,847	1,255,847	1,255,847	1,255,847	1,255,847	1,255,847	1,255,847	1,255,847	1,641,689	1,643,587	15,843,744	
38	Peak Demand Factor	33.13%	622,254	622,254	622,254	622,254	622,254	622,254	622,254	622,254	622,254	813,433	814,373	7,850,343	
40	North Dakota share - E1 factor	39.7309%	498,959	498,959	498,959	498,959	498,959	498,959	498,959	498,959	498,959	652,258	653,012	6,294,862	
41	North Dakota share - D1 factor	41.6544%	259,196	259,196	259,196	259,196	259,196	259,196	259,196	259,196	259,196	338,831	339,222	3,270,015	
42	ND Revenue Requirements	758,155	758,155	758,155	758,155	758,155	758,155	758,155	758,155	758,155	758,155	991,089	992,234	9,564,876	
44	Total North Dakota Share	758,155	758,155	758,155	758,155	758,155	758,155	758,155	758,155	758,155	758,155	991,089	992,234	9,564,876	
SUPPORTING INFORMATION / DATA															
1	ND Cap Structure with allowed ROE per order.														
2	Capital Structure	Ratio		Cost		WA Cost		Property tax		2015 composite rate					0.00%
3	Debt	43.11%		6.30%		2.72%									
4	Preferred equity	3.60%		4.75%		0.17%									
5	Common equity	53.30%		10.75%		5.73%									
6	Total	100.00%				8.62%		Overall Return							
7															
8															
9															
10	Project life (years)	Book		Tax											
11		30		7-year MACRS											
12															
13															
14	Statutory Tax Rate	37.94%		33.41%		4.53%									
15	Tax conversion factor	1.61146													
16	Base Demand Factor	66.87%													
17	Peak Demand Factor	33.13%													
18	ND share - E1 factor	39.7309%													
19	ND share - D1 factor	41.6544%													
20	Deferred Tax														
21	Book depreciation	0	0	0	0	0	0	0	0	0	0	577,022	579,860	1,156,882	
22	Tax depreciation -Federal	0	0	0	0	0	0	0	0	0	9,972,357	9,972,357	9,972,357	29,917,070	
23	Tax depreciation -State	0	0	0	0	0	0	0	0	0	9,972,357	9,972,357	9,972,357	29,917,070	
24	Federal deferred income taxes	35.00%	0	0	0	0	0	0	0	0	(3,332,213)	(3,139,404)	(3,138,456)	(9,610,073)	
25	State deferred income taxes		0	0	0	0	0	0	0	0	(451,748)	(425,609)	(425,480)	(1,302,837)	

Big Stone AQCS Budgeted Costs - Schedule of Joint Project Costs for Montana-Dakota and Otter Tail

	Actual	Forecast		2014							
	February	March	April	May	June	July	August	September	October	November	December
Monthly	\$10,627,402	\$11,293,253	\$11,518,533	\$10,281,054	\$11,854,602	\$10,466,029	\$9,908,518	\$10,214,635	\$9,198,607	\$8,174,588	\$7,786,218
Cumulative	\$175,197,887	\$186,491,140	\$198,009,673	\$208,290,727	\$220,145,329	\$230,611,358	\$240,519,876	\$250,734,511	\$259,933,118	\$268,107,706	\$275,893,924

	2015											
	January	February	March	April	May	June	July	August	September	October	November	December
Monthly	\$10,341,465	\$15,689,071	\$14,546,765	\$13,390,994	\$12,833,582	\$10,371,436	\$5,246,822	\$5,233,197	\$4,403,818	\$11,138,868	\$1,897,441	\$1,555,862
Cumulative	\$286,235,389	\$301,924,460	\$316,471,225	\$329,862,219	\$342,695,801	\$353,067,237	\$358,314,058	\$363,547,255	\$367,951,073	\$379,089,940	\$380,987,381	\$382,543,243

	2016												2017
	January	February	March	April	May	June	July	August	September	October	November	December	Annual
Monthly	\$391,722	\$70,054	(\$6,008)	\$454,757	\$174,757	\$6,757	\$6,757	\$6,757	\$6,757	\$65,863	\$17,957	\$6,757	\$356,492
Cumulative	\$382,934,965	\$383,005,019	\$382,999,011	\$383,453,768	\$383,628,525	\$383,635,281	\$383,642,038	\$383,648,795	\$383,655,552	\$383,721,415	\$383,739,371	\$383,746,128	\$384,102,620

Reconciliation to Otter Tail Tracker

1	Project actual through Feb 2014 per Attachment 4(a)	\$175,197,887 ¹
2	OTP %	<u>53.9%</u>
3	OTP share (1 x 2)	\$94,431,661
4	OTP AFUDC through 12-2012	\$921,503
5	OTP only costs	<u>\$2,629,839</u>
6	February Tracker Balance (3 + 4 + 5)	\$97,983,003 ²

¹ Attachment 4(a), February 2014

² Attachment 4, page 5, February 2014, line 4 CWIP

North Dakota Revenue Requirements \$9,879,880

RATE DESIGN CALCULATION

Forecasted Retail Sales, all classes (July 2014 - June 2015)	\$131,191,175
Revenue Requirement	\$9,879,880
Percentage of Revenue Rate	7.531%

ATTACHMENT 6
ENVIRONMENTAL COST RECOVERY RIDER
(Section 13.08)

ENVIRONMENTAL COST RECOVERY RIDER

N

DESCRIPTION	RATE CODE
All Service	50-570

RULES AND REGULATIONS: Terms and conditions of this electric rate schedule and the General Rules and Regulations govern use of this rider.

APPLICATION OF RIDER: This rider is applicable to electric service under all of the Company’s retail rate schedules in Sections 9, 10, 11, 12, 13.05, and 14, except for Section 14.09 (TailWinds) and Section 14.11 (Released Energy).

ENVIRONMENTAL COST RECOVERY FACTOR: There shall be included on each North Dakota Customer’s monthly bill an Environmental Cost Recovery (“ECR”) Charge, based on the applicable ECR Factor multiplied by the Customer’s monthly bill. The Customer’s monthly bill shall be based on all applicable charges and credits under the Company’s retail rate schedules in Sections 9, 10, 11, 12 and 14, except for Section 14.09 (**TailWinds**) and Section 14.11 (Released Energy Access Program Rider). The ECR Factor will not apply to any Mandatory Riders, except Section 13.05 (Economic Development Cost Removal Rider). The ECR charge will be a separate line item on the Customer’s bill labeled “Req Environmental Cost.”

Environmental Cost Recovery Factor - <u>4.3197.531</u> percent

R

DETERMINATION OF ECR FACTOR: The ECR Factor shall be determined by dividing the forecasted *balance of the ECR Tracker account* by the *forecasted retail revenues subject to the ECR Factor*. The forecasted ECR Tracker balance and retail revenues shall be based on the forecast for the appropriate 12 month period (or such other period as may be approved by the Commission). The ECR Factor shall be rounded to the nearest 0.001 percent.

The *balance of the ECR Tracker account* for determination of the ECR Factor shall include annual revenue requirements and any true-up balance described as follows:

The annual revenue requirements associated with environmental measures eligible for recovery under NDCC 49-05-04.2 that are determined by the Commission to be

NORTH DAKOTA PUBLIC SERVICE COMMISSION
Case No. PU-~~14-~~ 13-79 and PU-13-84
Approved by Order dated: Filed: December 20, 2013
APPROVED: Thomas R. Brause

EFFECTIVE with bills rendered on and after ~~July~~ January 1, 2014, in North Dakota

Vice President, Administration

eligible for recovery under this ECR Rider. A standard model will be used to calculate the total forecasted North Dakota revenue requirements for eligible measures for the designated period.

True-up: For each recovery period, a true-up adjustment to the ECR Tracker account will be calculated reflecting the difference between actual prior period ECR recoveries and actual prior period revenue requirements. Any resulting over/under recovery will be reflected as a carryover balance and included in calculating the next ECR Factor plus carrying charges or credits accrued at the rate of return approved in Otter Tail Power's most recent general rate case.

All costs appropriately charged to the ECR Tracker account shall be eligible for recovery through this Rider, and all revenues recovered from the applicable ECR Factor shall be credited to the ECR Tracker account.

Forecasted retail revenues used for calculating the ECR Factor shall include the forecast of retail electric revenue collected through all applicable charges and credits under the Company's retail rate schedules in Sections 9, 10, 11, 12 and 14, except for Section 14.09 (**TailWinds**) and Section 14.11 (Released Energy Access Program Rider). Retail revenue used for calculating the ECR Factor will not include any Mandatory Riders, except Section 13.05 (Economic Development Cost Removal Rider).

The ECR Factor may be adjusted annually (or other approved periods) with approval of the Commission.

ENVIRONMENTAL COST RECOVERY RIDER

DESCRIPTION	RATE CODE
All Service	50-570

RULES AND REGULATIONS: Terms and conditions of this electric rate schedule and the General Rules and Regulations govern use of this rider.

APPLICATION OF RIDER: This rider is applicable to electric service under all of the Company’s retail rate schedules in Sections 9, 10, 11, 12, 13.05, and 14, except for Section 14.09 (TailWinds) and Section 14.11 (Released Energy).

ENVIRONMENTAL COST RECOVERY FACTOR: There shall be included on each North Dakota Customer’s monthly bill an Environmental Cost Recovery (“ECR”) Charge, based on the applicable ECR Factor multiplied by the Customer’s monthly bill. The Customer’s monthly bill shall be based on all applicable charges and credits under the Company’s retail rate schedules in Sections 9, 10, 11, 12 and 14, except for Section 14.09 (**TailWinds**) and Section 14.11 (Released Energy Access Program Rider). The ECR Factor will not apply to any Mandatory Riders, except Section 13.05 (Economic Development Cost Removal Rider). The ECR charge will be a separate line item on the Customer’s bill labeled “Req Environmental Cost.”

Environmental Cost Recovery Factor - 7.531 percent

R

DETERMINATION OF ECR FACTOR: The ECR Factor shall be determined by dividing the forecasted *balance of the ECR Tracker account* by the *forecasted retail revenues subject to the ECR Factor*. The forecasted ECR Tracker balance and retail revenues shall be based on the forecast for the appropriate 12 month period (or such other period as may be approved by the Commission). The ECR Factor shall be rounded to the nearest 0.001 percent.

The *balance of the ECR Tracker account* for determination of the ECR Factor shall include annual revenue requirements and any true-up balance described as follows:

The annual revenue requirements associated with environmental measures eligible for recovery under NDCC 49-05-04.2 that are determined by the Commission to be eligible for recovery under this ECR Rider. A standard model will be used to

calculate the total forecasted North Dakota revenue requirements for eligible measures for the designated period.

True-up: For each recovery period, a true-up adjustment to the ECR Tracker account will be calculated reflecting the difference between actual prior period ECR recoveries and actual prior period revenue requirements. Any resulting over/under recovery will be reflected as a carryover balance and included in calculating the next ECR Factor plus carrying charges or credits accrued at the rate of return approved in Otter Tail Power's most recent general rate case.

All costs appropriately charged to the ECR Tracker account shall be eligible for recovery through this Rider, and all revenues recovered from the applicable ECR Factor shall be credited to the ECR Tracker account.

Forecasted retail revenues used for calculating the ECR Factor shall include the forecast of retail electric revenue collected through all applicable charges and credits under the Company's retail rate schedules in Sections 9, 10, 11, 12 and 14, except for Section 14.09 (**TailWinds**) and Section 14.11 (Released Energy Access Program Rider). Retail revenue used for calculating the ECR Factor will not include any Mandatory Riders, except Section 13.05 (Economic Development Cost Removal Rider).

The ECR Factor may be adjusted annually (or other approved periods) with approval of the Commission.