STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION

Otter Tail Power Company
2017 Electric Rate Increase
Application

Case No. PU-17-398

ORDER ON SETTLEMENT

September 26, 2018

Appearances

Commissioners Randy Christmann, Julie Fedorchak, and Brian Kroshus.

John M. Schuh, Special Assistant Attorney General, Public Service Commission, State Capitol, 600 E. Boulevard Avenue, Bismarck, North Dakota 58505, and Zachary Pelham, Special Assistant Attorney General, Pearce Durick PLLC, 314 E. Thayer Ave. P.O. Box 400 Bismarck, North Dakota 58502, on behalf of Public Service Commission Advocacy Staff.

Cary Stephenson, Associate General Counsel, Otter Tail Power Company, and Kristian Dahl, Associate General Counsel, Otter Tail Power Company, 215 S. Cascade Street, Fergus Falls, Minnesota 56538-0496, on behalf of Otter Tail Power Company.

Richard Savelkoul, Martin & Squires, P.A., 332 Minnesota Street, Suite W2750, St. Paul, Minnesota 55101, on behalf of Midwest Large Energy Consumers.

Talbot J. Wieczoerk and Rebecca L. Mann, Gunderson, Palmer, Nelson & Ashmore LLP, 506 Sixth Street, Rapid City, South Dakota 55701, on behalf of Wal-Mart Stores, Inc.

Ilona Jeffcoat-Sacco, Special Assistant Attorney General, General Counsel, Public Service Commission, State Capitol, 600 E. Boulevard Avenue, Bismarck, North Dakota 58505, on behalf of the Public Service Commission Advisory Staff.

Patrick Ward, Administrative Law Judge, Office of Administrative Hearings, 2911 North 14th Street, Suite 303, Bismarck, North Dakota 58503, as Procedural Hearing Officer.

Preliminary Statement

On November 2, 2017, Otter Tail Power Company (OTP) filed an Application for Authority to Increase Electric Rates in North Dakota (Application), seeking an annual increase of non-fuel base electric revenues of $15.7 million or 10.61 percent. OTP's application included proposed revisions to OTP's Transmission Cost Recovery Rider (TCRR), Renewable Resource Adjustment Rider (RRAR) and Environmental Cost

Recovery Rider (ECRR) to incorporate OTP's proposed reduced rate of return and changes in allocation factors, and to transition rider recoveries to base rates when new rates are implemented at the end of the case. Including the adjustments to the TCRR, RRAR and ECRR, OTP sought a net annual increase of non-fuel base electric revenues of $13.1 million or 8.72 percent.

Also on November 2, 2017, OTP filed an Alternative Petition for Interim Rates that would increase its Test Year revenues by $12.8 million, or a 10.44 percent increase of present retail electric revenues, on and after January 1, 2018.

On November 29, 2017, the Commission suspended OTP's proposed rates.

On December 20, 2017, the Commission issued an Order authorizing interim rates as requested by OTP, effective for services rendered on or after January 1, 2018.

On January 11, 2018, Wal-Mart Stores, Inc. (Wal-Mart) filed a Petition to Intervene.

On January 29, 2018, Wal-Mart's petition to intervene was granted.

On February 1, 2018, the Midwest Large Energy Consumers group (MLEC) filed a Petition to Intervene,

On February 5, 2018, MLEC's Petition to Intervene was granted.

On February 15, 2018, OTP filed a request to decrease interim rates to incorporate the effect of the federal Tax Cut & Jobs Act, Pub L. 115-97, H.R.1, 115th Congress, enacted December 22, 2017, (TCJA). OTP requested a reduction of interim rates from 10.44% to 6.79%, which reflected a $4.5 million decrease in the revenue requirement for interim rates from $12.8 million to $8.3 million. OTP also proposed to reduce its ECRR, TCRR and RRAR annual revenues by approximately $1.7 million, from $26.5 million to $24.8 million.

On February 27, 2018, the Commission approved the revised interim rates for services rendered on or after March 1, 2018.

On February 27, 2018, the Commission issued a Notice of Public Input Sessions and Public Hearing. The Commission scheduled Public Input Sessions for April 3, 2018 (via interactive television) and April 5, 2018 (via web conferencing), and a public hearing to begin July 11, 2018 at 9:00 a.m. CDT in the Commission hearing room, State Capitol, 12th Floor, Bismarck, North Dakota.

The notice identified the following issues to be considered:

1. What is the value of Otter Tail's property, used and useful, for the service and convenience of the public in North Dakota?

2. What is Otter Tail's rate of return on its property, used and useful, for the service and convenience of the public in North Dakota?

3. What is a just and reasonable rate of return on Otter Tail's property, used and useful, for the service and convenience of the public in North Dakota?

4. What rates and charges are necessary to provide a just and reasonable rate of return on Otter Tail's property, used and useful, for the service and convenience of the public in North Dakota?

5 Are Otter Tail's proposed rate schedules designed in such a manner that they result in a basis of charge to its customers that is just and reasonable without discrimination?

On April 3 and 5, 2018, Public Input Sessions were held as scheduled.

On March 23, 2018, OTP filed an update to its Application to reflect the impact of the TCJA and other changes, reducing OTP's revenue deficiency by $6.0 million. Of that, $4.8 million related to the TCJA and $1.2 million related to other updates to 2018 Test Year costs of service. OTP's updates reduced the amount of OTP's request to an annual increase in base electric revenue of $9.7 million, a 6.64 percent increase. When incorporating the proposed changes to the ECRR, TCRR and RRAR, the net annual requested increase in base electric revenues was $7.1 million, a 4.8 percent increase.

On June 22, 2018, OTP filed additional adjustments increasing its requested annual increase in base electric revenues to $10.1 million, a 6.91 percent increase. When incorporating the proposed changes to the ECRR, TCRR and RRAR, the net annual requested increase in base electric revenues was $7.5 million, a 5.10 percent increase.

On July 6, 2018, a Settlement Agreement among OTP, Wal-Mart, MLEC and Advocacy Staff was filed.

On July 11, 2018, a public hearing was held as scheduled.

Discussion

OTP's most recent prior rate increase was filed in 2008 in Case No. PU-08-862. Since that time, OTP states that O&M costs have increased and system investments have doubled OTP's net plant in service. Among these system investments is a new $15.8 million customer information system (CISone), to be implemented in January 2019 to replace OTP's existing 30-year old customer information system. OTP has filed several miscellaneous tariff changes to implement CISone that are now pending before the Commission in Case No. PU-18-106.

The Settlement Agreement proposes an increase in OTP's base revenue of $7,364,336, or approximately 5.03 percent. When OTP's rider revisions are incorporated, the Settlement Agreement provides OTP a net annual revenue increase of $4.8 million, a 3.22 percent increase. Other adjustments (to which OTP does not object) described below in this Order would provide OTP a net annual revenue increase of approximately $4.6 million, a 3.09 percent increase.

The Settlement Agreement proposes an overall rate of return of 7.64 percent based upon a return on equity of 9.77 percent, an equity ratio of 52.50 percent, a long-term debt ratio of 45.86 percent, a long-term debt cost of 5.35 percent, a short-term debt ratio of 1.64 percent and short-term debt cost of 3.84 percent.

The Settlement Agreement proposes the following class revenue allocations:

Proposed Class Revenue Allocations

Class	Total Revenues[1]	Percent Increase
Residential	$51,914,508	8.99%
Farms	$2,818,540	9.51%
General Service	$39,474,500	2.56%
Large General Service	$42,748,013	0.32%
Irrigation	$66,392	13.45%
Lighting	$3,111,519	9.51%
OPA	$1,301,725	9.51%
Controlled Service Water Heating	$1,219,086	13.45%
Controlled Service Interruptible	$9,412,430	13.45%
Controlled Service Deferred	$1,571,349	4.29%
Total	$153,638,061	5.03%

[1] Includes rider impacts.

The Parties to the Settlement Agreement agree that the proposed revenue allocation is reasonable because it moves all customer classes closer to their respective class cost responsibilities, while avoiding abrupt changes.

The Settlement Agreement proposes the following monthly Customer Charges:

Proposed Customer Charges
($/Month)

Class	Present	Proposed
Residential	$8.00	$15.23
Residential – Demand Control	$18.38	$20.10
Farm Service – Single Phase	$12.00	$17.40
Farm Service – Three Phase	$12.00	$17.40
Small General Service	$13.00	$24.90
General Service (Secondary)	$12.00	$31.90
General Service – Time of Use	$16.00	$219.00

[1] Includes base and rider revenue.

Class	Present	Proposed
Large General Service (Secondary)	$40.00	$215.90
Large General Service – Time of Day (Primary)	$60.00	$282.00
Standby (Secondary)	$199.00	$242.24
Irrigation – Option 1	$1.00	$24.30
Irrigation – Option 2	$5.00	$24.30
Outdoor Lighting – Metered	$2.00	$2.00
Outdoor Lighting – Non-metered	$0.00	$0.00
Municipal Pumping (All)	$4.00	$26.50
Civil Defense	$1.00	$1.22
Water Heating	$1.00	$4.00
Real Time Pricing Rider	$199.00	$282.00
Controlled Service – Interruptible- Large #1	$4.00	$20.20
Controlled Service – Interruptible- Large #2	$5.00	$20.20
Controlled Service – Interruptible - Small	$2.00	$8.50
Deferred Load Service	$3.00	$8.80
Fixed Time of Service (Secondary)	$1.00	$6.70

The Settlement Agreement incorporates new rate proposals, which will be implemented in OTP's compliance filing:

a. Residential Time of Day – Pilot
b. Super Large General Service (SLGS)
c. Generation Cost Recovery Rider (GCRR)
d. LED Street and Area Lighting – Dusk to Dawn
e. Air Conditioner Rider

The Settlement Agreement proposes that OTP use a percent-of-bill rate design for the GCRR and will address retirement related changes to the cost of service in the GCRR when OTP retires its Hoot Lake plant.

The Settlement Agreement proposes a ten-year amortization period for the North Dakota allocation of the CIShone investment.

The Settlement Agreement requires OTP to issue Interim Rate refunds to customers within ninety days of the implementation of final rates, for the difference between the interim revenue level and the final revenue level in the Settlement Agreement. The interim rate refund will be calculated to account for items specified in the Settlement Agreement, including the impact of the TCJA for January and February 2018, and OTP will reconcile the interim rate refund amount with present and past rider recoveries, interim-only adjustments, and any other adjustments necessary to ensure no over or under recovery during the interim period.

OTP stated that it was acceptable if the Commission modified the Residential Service customer charge to be $14.00 per month. OTP also stated it was acceptable to disallow recovery of approximately $200,000 in economic development costs. Finally, OTP agreed that approval of the Settlement Agreement does not mean the Commission adopts any OTP position not specifically stated as adopted.

The Commission finds the Residential Service customer charge should be no higher than $14.00 in order to lessen the impact of the rate increase on low-usage customers and mitigate rate shock.

The Commission finds the statement on page 11 of the Settlement Agreement, in Section VI, Other Terms and Conditions, paragraph 1, Issues Not Specifically Addressed, unacceptable. This statement purports to conclude that OTP's positions on issues not specifically addressed in the settlement are adopted. Such a conclusion contradicts Commission precedent and other language in the Settlement Agreement itself.

Except for recovery of $200,000 in total economic development expenses, the Commission finds the revenue increase proposed in the Settlement Agreement is necessary to provide a just and reasonable return on Otter Tail's property, used and useful, for the service and convenience of the public in North Dakota.

The return on equity of 9.77 percent and associated capital structure proposed by the Settlement Agreement is just and reasonable.

The rates and rate design proposed by the Settlement Agreement, modified to reflect removal of $200,000 in total economic development funds and a residential customer charge of $14.00 per month, result in a basis of charge to customers that are just and reasonable without unreasonable discrimination.

Except for the modifications described above, the Settlement Agreement is reasonable.

Based on the foregoing, the Commission issues the following:

Order

The Commission Orders:

1. The Settlement Agreement, attached to and made a part of this Order, is APPROVED except for the customer charge amount for residential customers, the inclusion of economic development costs, and the statement in Section VI, paragraph 1.

2. Economic Development Expenses totaling $200,000 in Section I.2 of the Settlement Agreement are not approved for recovery. OTP shall assign the corresponding decrease in revenue requirement to the residential and irrigation customer classes.

3. The Residential Service Customer Charge must not be set higher than $14.00.

4. Settlement Agreement Section VI, Other Terms and Conditions, paragraph 1, Issues Not Specifically Addressed, is not approved.

5. OTP's Application to increase its North Dakota electric service rates is APPROVED except as specifically modified by the Settlement Agreement and this Order.

6. OTP shall file, for Commission approval, an interim rate refund plan and compliance rate schedules consistent with this Order with compliance rates effective for service rendered on and after January 1, 2019.

7. Within ninety (90) days of the implementation of final rates, OTP shall issue refunds to customers to reflect the difference in annual revenues collected under the interim rates and the effective date of the compliance rates approved by the Commission. The refunds must be calculated in the manner provided in the Settlement Agreement and this Order.

PUBLIC SERVICE COMMISSION

Brian Kroshus	Randy Christmann	Julie Fedorchak
Brian Kroshus	**Randy Christmann**	**Julie Fedorchak**
Commissioner	**Chairman**	**Commissioner**

STATE OF NORTH DAKOTA
BEFORE THE
PUBLIC SERVICE COMMISSION

Application of Otter Tail Power Company for Authority to Increase Rates for Electric Service in North Dakota

Case No. PU-17-398

SETTLEMENT AGREEMENT

This Settlement Agreement is entered into by and between the North Dakota Public Service Commission Advocacy Staff (Staff), Otter Tail Power Company (OTP or the Company), Intervenor Midwest Large Energy Consumers (MLEC), and Intervenor Wal-Mart Stores, Inc. (Walmart), collectively referred to as the "Parties". This Settlement Agreement resolves all outstanding issues in the above-captioned proceedings in a manner consistent with the public interest and will result in just and reasonable rates for OTP's retail electric operations in North Dakota.

PROCEDURAL HISTORY

On November 2, 2017, OTP filed with the North Dakota Public Service Commission (Commission) an Application for Authority to Increase Electric Rates in North Dakota seeking an annual increase of non-fuel base electric revenues of $13,138,372 or 8.72 percent (Application). For its Test Year the Company used a projected calendar year ending December 31, 2018.

The Company's Application included proposed revisions to its Transmission Cost Recovery Rider (TCRR), Renewable Resource Adjustment Rider (RRAR) and Environmental Cost Recovery Rider (ECRR) to reduce the rate of return and modify allocation factors. Without adjusting the TCRR, RRAR and ECRR to reduce the rate of return and modify allocation factors, the rate and tariff changes proposed by OTP would have resulted in an annual increase of non-fuel base electric revenues of $15,715,320, or 10.61 percent.

The Company also filed an Alternative Petition for Interim Rates that would increase its Test Year revenues by $12,800,479, or a 10.44 percent increase of present retail electric revenues, on and after January 1, 2018, if its request for final rates was suspended.[1] On November 29, 2017, the Commission suspended OTP's requested final rates.

On December 20, 2017, the Commission issued an Order approving interim rates as requested by OTP, with such interim rates effective for services rendered on or after January 1, 2018. On January 29, 2018 the Commission granted Walmart's Petition to Intervene. On February 5, 2018 the Commission granted MLEC's Petition to Intervene.

On February 15, 2017, OTP petitioned the Commission to decrease interim rates so that customers would receive the immediate benefit of the Tax Cut & Jobs Act (TCJA).[2] OTP requested a reduction of interim rates from 10.44% to 6.79%, which reflected a decrease in the revenue requirement for interim rates from $12.8 million to $8.3 million, a total reduction in interim revenue of $4.5 million. OTP also proposed to reduce its ECRR, TCRR and RRAR annual revenues from $26.5 million to $24.8 million, a reduction of approximately $1.7 million. OTP also requested authority to implement the decreased interim rates on less than 30-days notice, to be effective March 1, 2018.

On February 27, 2018, the Commission issued an Order approving the decrease in interim rates as requested by OTP for services rendered on or after March 1, 2018. Also, on February 27, 2018 the Commission issued it Notice of Public Input Sessions and Public Hearing setting public input sessions for April 3 and April 5, 2018. The Commission set April 20, 2018 as the deadline for Petitions to Intervene. The public input sessions were held as scheduled.

On March 23, 2018, OTP filed Supplemental Direct Testimony which updated its Application to reflect the impact of the TCJA and other updates, reducing OTP's revenue deficiency by $6,005,205. Of this decrease, $4,772,552 related to tax reform under the TCJA and $1,232,653 related to other updates to 2018 Test Year costs of service. Stated as a

[1] The requested interim rates were exclusive of separately collected revenues related to franchise fees or gross earnings taxes imposed by local governmental units and the Company's TCRR, RRAR, and ECRR, to which the interim increase did not apply. During the period of interim rates, the riders would remain in effect at rates adjusted to match the rates stated in OTP's Application Notice until final rates become effective.

[2] On December 22, 2017, the TCJA, which enacted significant changes to the Internal Revenue Code, including a reduction in the maximum U.S. federal corporate income tax rate from 35 percent to 21 percent, became effective. On January 10, 2018, the Commission ordered an investigation to determine the effect of the TCJA on investor-owned utilities serving customers in North Dakota. OTP made a filing in Case No. PU-17-490 contemporaneously with its filing in PU-17-398.

percentage, OTP reduced the increase reflected in its Application from 10.61 percent to 6.64 percent.

Intervenors and Staff filed Direct Testimony on May 18, 2018. OTP and Intervenor MLEC filed Rebuttal Testimony on June 22, 2018.

The Parties have reached this Settlement Agreement through multiple settlement discussions. The Settlement Agreement is supported by the record, and the Parties jointly recommend the Commission issue an Order approving this Settlement Agreement without conditions or modifications.

BACKGROUND FOR SETTLEMENT

OTP provides retail electric service to approximately 131,500 customers in North Dakota, Minnesota, and South Dakota. In North Dakota, OTP serves approximately 59,000 customers in 245 communities. The average population of communities served by OTP is approximately 400, with Jamestown as the only community OTP serves in North Dakota with a population over 10,000. OTP's 70,000 square-mile service territory is approximately the size of Wisconsin. OTP is headquartered in Fergus Falls, Minnesota and is a subsidiary of Otter Tail Corporation, which has its headquarters in Fargo, North Dakota. Based on revenues, OTP is the second smallest investor-owned utility in the United States.[3]

OTP's current North Dakota base rates were set in a rate case filed in 2008 based on a 2007 Test Year (Case No. PU-08-862). OTP has made significant system investments since that case in 2008, with net plant-in-service doubling from 2007 Test Year levels. OTP's operations and maintenance (O&M) costs have also increased since the 2007 Test Year. OTP's sales have increased by just 2.5 percent over the sales used for setting OTP's rates in the 2007 Test Year, which is an annual average of 0.2 percent.[4]

OTP's average rates (reflecting an average of all customer classes and including all bill components) have been below national and regional averages and have been the lowest of all North Dakota investor-owned utilities since 2011.[5] Rates for OTP's individual rate classes have varied in relation to national and regional averages, with OTP's average industrial rates being

[3] *See*, Gerhardson Direct, pp. 4, 7-9
[4] *See*, Gerhardson Direct, pp. 15-16, 20-21,
[5] Gerhardson Direct, p. 10

higher than national and regional averages. As of July 1, 2017: (1) OTP's overall rates were 13 percent and 23 percent below regional and national averages; (2) OTP's average residential rates were 25 percent and 31 percent below regional and national averages; (3) OTP's average commercial rates were 3.5 percent and 14.5 percent below regional and national averages; and (4) OTP's industrial rates were 9.1 percent and 7.15 percent above regional and national averages.[6] OTP's rates will remain the lowest, on average, among investor-owned utilities providing service in North Dakota after implementation of the rate increase described in this Settlement Agreement.[7]

OTP has been engaged in an extensive capital expenditure program since 2012 that is expected to continue through 2021. OTP invested approximately $672 million (OTP Total) between 2012 and 2016 and is expected to invest an additional $862 million (OTP Total) between 2017 and 2021. OTP's investments between 2012 and 2016 have focused on upgrading facilities and environmental compliance at generating plants, including the Air Quality Control System project ("AQCS Project") at the Big Stone plant, and strengthening OTP's transmission system, along with routine replacements, upgrades and extensions. OTP's significant capital expenditures through 2021 include the Astoria Natural Gas and Merricourt Wind Projects – projects that have each received an advance determination of prudence from the Commission. OTP will need access to significant levels of external debt and equity financing, as well as internally generated equity to complete these significant infrastructure investments.[8]

SETTLEMENT TERMS

The Parties agree to the provisions as defined below and supported by Attachments to this Settlement Agreement.

I. RATE BASE, REVENUE INCREASE, AND AGREED UPON ADJUSTMENTS

[6] Maini Direct, p. 11-14.

[7] This Settlement Agreement results in a 5.03 percent increase. *(See*, Section I. 2 below.) A 5.03 percent increase in OTP's overall base rates would lead to overall average customer costs for OTP below $0.09 per kilowatt hour, which would be lower than the overall average customer costs for MDU-ND and Xcel-ND as of December, 2016.

[8] *See*, Gerhardson Direct, pp. 6-7

1. **Rate Base.** The Parties agree that, for purposes of recovery in base rates, the value of OTP's rate base, including property used and useful, for the service and convenience of the public in North Dakota is $364,759,818. OTP Rate Base includes the Rate Base adjustments described in the Rebuttal Testimony of OTP witness Tyler Ackerman concerning: (a) 2018 short-term Construction Work in Progress (CWIP); (b) OTP's new customer information system project (CISone) costs; and (c) Cash Working Capital, Lead/Lag Study and Interest Synchronization (including the effects of all adjustments reflected in this Settlement Agreement).

2. **Revenue Increase.** The Parties agree to an increase in OTP's non-fuel base revenue of $7,364,336, or approximately 5.03 percent for retail customers in North Dakota, including the effects of all adjustments agreed to and described herein. The Parties agree that the revenue increase is necessary to provide OTP recovery of its costs of providing electric service to its customers in North Dakota, including a just and reasonable rate of return on its property, used and useful, for the service and convenience of the public in North Dakota.

3. **Rate of Return.** The Parties agree to an overall rate of return of 7.64 percent based upon a return on equity of 9.77 percent, an equity ratio of 52.50 percent, a long-term debt ratio of 45.86 percent and long term debt cost of 5.35 percent and short term debt ratio of 1.64 percent and short term debt cost of 3.84 percent.

4. **Expense Adjustments.** For this settlement, the following expense adjustments have been made to the 2018 Test Year amounts identified in OTP's Rebuttal Testimony and are reflected in the Revenue Increase identified in Section 2.

Table 1

Expense Items	**Adjustments (Reductions)**
Employee Gifts and Recognition Expense	($31,695)
Investor Relations Expense	($83,574)
Incentive Compensation Expense	($167,000)
Stock-Based Compensation	($647,049)
Non-Employee Director Restricted Stock Grants	($118,091)
Executive Survivor and Supplemental Retirement Plan	($144,416)

Rate Case Expense	($103,149) (5-year amortization)
Deferred Income Tax Expense Adjustment for Excess Federal Accrual on non-protected Assets	($88,802) (5-year amortization)

5. **Riders & Compliance Filing**

OTP's final compliance filing will reflect: (1) inclusion of RRAR, TCRR and ECRR revenues, calculated at the 7.64 percent rate of return agreed to herein, in the calculation of present revenues;[9] (2) allocation factors calculated using the Rate Base described in Section 1 and proposed revenues reflecting the revenue increase described in Section 2; (3) actual ECRR, RRAR and TCRR plant balances at the time of implementation of final rates;[10] and (4) Midcontinent Independent System Operator expense and revenues remaining in the TCRR.

6. **Other Necessary Adjustments** As a result of the agreed-upon expense reductions reflected above, (1) total 2018 Test Year taxes are increased by $227,644 because of income increases due to the reductions of the allowed expenses listed above; (2) the $67,130 rate base portion of the excess deferred taxes; and (3) a decrease to cash working capital of $66,317as part of rate base.

II. REVENUE ALLOCATIONS AND RATE DESIGN

1. **Class Allocations**. All Parties recognize the importance of cost responsibilities to allocating revenues to customer classes.[11] At the same time, a purely-cost based allocation in this case would result in sudden or abrupt change in rates, contrary to the principles of gradualism and rate continuity.[12] For example, under a purely cost-based allocation, Residential class revenue allocation would increase by over 14%, while Large General Service (LGS) class revenue allocation would decrease by approximately 5%. The Parties agree that the proposed rate design, including the proposed revenue

[9] *See* Haugen Direct, p. 4, 11, 19.
[10] *See* Haugen Rebuttal, p. 14.
[11] Ice Direct, p. 11; Dismukes Direct, p. 52; Maini Direct, p. 22-24; Chriss, p. 18-21.
[12] Ice Direct, p. 11; Dismukes Direct, p. 52; Maini Direct, p. 22-24.

allocation, promotes gradualism while improving the competitiveness of OTP's industrial rates. The Parties agree that OTP's revenues shall be allocated to customer classes as shown in Table 2, below:

Table 2
Proposed Class Revenue Allocation

Class	Total Revenues[13]	% increase
Residential	**$51,914,508**	**8.99%**
Farms	**$2,818,540**	**9.51%**
General Service	**$39,474,500**	**2.56%**
Large General Service	**$42,748,013**	**0.32%**
Irrigation	**$66,392**	**13.45%**
Lighting	**$3,111,519**	**9.51%**
OPA	**$1,301,725**	**9.51%**
Controlled Service Water Heating	**$1,219,086**	**13.45%**
Controlled Service Interruptible	**$9,412,430**	**13.45%**
Controlled Service Deferred	**$1,571,349**	**4.29%**
Total	**$153,638,061**	**5.03%**

These class revenue allocations reflect the agreed-to adjustments to the base rate revenues contained in this Agreement, and modification of OTP's originally proposed class allocations.

2. **Rate Design – Customer Charges.** The Parties agree on the following Customer Charges.

[13] Includes base and rider revenue.

Table 3
Proposed Customer Charges
($/Month)

Class	Present	Proposed
Residential	$8.00	$15.23
Residential – Demand Control	$18.38	$20.10
Farm Service – Single Phase	$12.00	$17.40
Farm Service – Three Phase	$12.00	$17.40
Small General Service	$13.00	$24.90
General Service (Secondary)	$12.00	$31.90
General Service – Time of Use	$16.00	$219.00
Large General Service (Secondary)	$40.00	$215.90
Large General Service – Time of Day (Primary)	$60.00	$282.00
Standby (Secondary)	$199.00	$242.24
Irrigation – Option 1	$1.00	$24.30
Irrigation – Option 2	$5.00	$24.30
Outdoor Lighting – Metered	$2.00	$2.00
Outdoor Lighting – Non-metered	$0.00	$0.00
Municipal Pumping (All)	$4.00	$26.50
Civil Defense	$1.00	$1.22
Water Heating	$1.00	$4.00
Real Time Pricing Rider	$199.00	$282.00
Controlled Service – Interruptible- Large #1	$4.00	$20.20
Controlled Service – Interruptible- Large #2	$5.00	$20.20
Controlled Service – Interruptible - Small	$2.00	$8.50
Deferred Load Service	$3.00	$8.80
Fixed Time of Service (Secondary)	$1.00	$6.70

3. **Rate Design – General.** OTP will provide rate schedules implementing this Settlement Agreement in a compliance filing. The Rate Schedules to be implemented include the following new rate proposals:

   a. Residential Time of Day – Pilot
   b. Super Large General Service (SLGS)
   c. Generation Cost Recovery Rider (GCRR)
   d. LED Street and Area Lighting – Dusk to Dawn
   e. Air Conditioner Rider

The Rate Schedules to be filed in a compliance filing by OTP will conform to OTP's Direct Testimony, (subject to any revisions in OTP's Supplemental Direct and Rebuttal Testimony), with OTP working with MLEC to establish the final intra-LGS class revenue allocation and rate elements as set forth in the Rebuttal Testimony of OTP Witness Mr. David Prazak. The Parties agree that the rate schedules set forth in this Settlement Agreement are designed in such a manner that they result in a basis of charge to OTP's customers that is just and reasonable without discrimination.

III. RELATED MATTERS

1. **Tariff Changes other than Rates.** The Parties Agree to OTP's proposed changes to its Rules & Regulations.

2. **Production Tax Credits/Accumulated Deferred Income Taxes.** The Production Tax Credit (PTC)-related portion of OTP's Accumulated Deferred Income Tax (ADIT) asset, as of the date the RRAR projects are rolled into final rates, will be tracked through the RRAR, and resulting changes to revenue requirements related to changes to the PTC-related portion of OTP's ADIT asset will be updated through the RRAR on an annual basis.

3. **GCRR.** OTP will use a percent-of-bill rate design for the proposed GCRR, which is otherwise agreed to as OTP has proposed it. When OTP retires its Hoot Lake plant, retirement-related changes to costs of service will be evaluated and included as part of the calculation of the GCRR revenue requirements until those changes to costs are reflected in base rates in a general rate case.

4. **Reagents and Emissions.** OTP will move recovery of environmental reagents and emissions allowance expenses out of base rates (and out of the Reagent and Emissions Allowance Rider) into the Energy Adjustment Rider at the end of this case. OTP will make the appropriate transfer of Coyote Station's lime expense out of base rate

Operations & Maintenance (O&M) expenses and into the Energy Adjustment Rider in conjunction with the Compliance Filing and development of final rates.[14]

5. **CISone Amortization**. OTP's amortization of CISone shall be 10 years, as reflected in OTP's Rebuttal Testimony.

IV. INTERIM RATES

1. **Duration.** The Parties agree the interim rates will remain in effect for bills rendered to all customer classes until final rates are implemented.

2. **Interim Rate Refund**. Refunds will be issued to customers within ninety (90) days of the implementation of final rates for the difference between the interim revenue level and the final revenue level agreed to in this Settlement Agreement.

3. **Calculations.** For the avoidance of doubt, the Parties agree that the Interim Rate Refund calculation will include the following:

   a. The Interim Rate calculation shall include the impact of the TCJA for January and February 2018. OTP changed the Interim Rate calculation effective March 1, 2018 to include the effects of the TCJA.
   b. The Interim Rate Refund shall be calculated to account for OTP having already removed PTCs from the 2018 Test Year and therefore PTCs should not have had a separate interim rate adjustment to remove the PTCs from interim rates.[15]
   c. The Interim Rate Refund shall be calculated to include the actual amount of Economic Development Credit included in customer bills during the Interim Test Year as an offset to the interim rate revenues charged customers during that same time period. OTP will remove the credit from present revenues

[14] Tommerdahl Supplemental Direct, p. 5-6.
[15] Gerhardson Supplemental Direct, p. 4.

when calculating final rates for compliance and the Economic Development Credit Rider rate will be set to zero when final rates go into effect.[16]

d. The Interim Rate Refund shall be calculated recognizing that CISone is scheduled to go into service October 1, 2018 and that CISone was not in rates during the interim rate period. CISone for purposes of final rates is determined in service at OTP's proposed amount; all CISone costs shall be backed out for purposes of determining the interim rate refund.

V. ISSUES TO BE ADDRESSED IN OTP'S FUTURE RATE CASES

OTP will address the following issues in its next rate case.

1. **Wind Turbine Maintenance.** In advance of OTP's next rate case, OTP and MLEC will work together to attempt to identify a reasonable means of making available wind turbine maintenance data or some proxy thereof in OTP's next rate case.

2. **LGS Embedded Cost of Service**. In advance of OTP's next rate case, OTP will, in consultation with MLEC, investigate the feasibility of unbundling the embedded costs to serve LGS customers at the secondary, primary and transmission voltage service levels. The investigation will primarily look into the feasibility of: (a) unbundling the distribution costs and (b) quantifying the loss differentials between secondary, primary and transmission service respectively.

VI. OTHER TERMS AND CONDITIONS

1. **Issues not Specifically Addressed.** Except as otherwise addressed in this Settlement Agreement, OTP's positions on issues as proposed in its Rebuttal Testimony shall be deemed to be adopted for purposes of this Settlement Agreement.

2. **Basis of Settlement Agreement.** It is agreed this Settlement Agreement is a negotiated

[16] Tommerdahl Supplemental Direct, p. 4.

settlement agreement subject to approval by the Commission. This Settlement Agreement resolves disputed claims and does not establish any principle or precedent, nor adopt or recommend any specific type or amount of expense or rate base, for this or any future proceeding, nor any principle or precedent regarding rate design methodology.

3. **Effect of the Settlement Negotiations.** It is understood and agreed that all offers of settlement and discussions related to this Settlement Agreement are privileged and may not be used in any manner in connection with proceedings in this case or otherwise, except as provided by law. In the event the Commission does not approve this Settlement Agreement, this Settlement Agreement shall not constitute part of the record in this proceeding and no part thereof may be used by any party for any purpose in this case or in any other.

4. **Applicability and Scope.** This Settlement Agreement shall be binding on the Parties, and their successors, assigns, agents, and representatives. Consistent with the Commission's settlement guidelines, this Settlement Agreement does not set policy or overturn precedent. This Settlement Agreement shall not in any respect constitute an agreement, admission or determination by any of the Parties as to the merits of any specific allegation or contention made by the Parties in this proceeding.

5. **Effective Date.** This Settlement Agreement shall be effective on the date of the Commission Order approving the Settlement Agreement. The revised rates and tariff provisions agreed to by this Settlement Agreement shall be effective for all bills rendered on and after a date that shall be set by the Commission's Order approving the Settlement Agreement. The parties request that the effective date of final rates be the date OTP's CISone becomes operational, which is currently scheduled to take place on October 1, 2018.

6. **Modification.** If the Commission Order modifies or conditions approval of this Settlement Agreement, it shall be deemed terminated if any Party files a letter with the Commission within three (3) business days of the date of such Order stating that a condition or modification to the Settlement Agreement is unacceptable to such Party. In

such event, this Settlement Agreement shall not constitute a part of the record in this proceeding and no part thereof may be used by any party for any purpose in this case or otherwise.

CONCLUSION

The Parties have agreed to the forgoing terms to resolve the contested issues in the electric rate case proceeding. These terms are a result of negotiations between the Parties, are in the public interest and will result in reasonable electric rates. For these reasons, the Parties urge the Commission to approve the Settlement Agreement.

[Signature Pages Follow]

Otter Tail Power Company

By: ______________________________
Cary Stephenson
Counsel for Otter Tail Power Company

Dated this 6th day of July 2018.

North Dakota Public Service Commission Advocacy Staff

By: ______________________________
~~Zachary E.~~ Pelham
Counsel to Advocacy Staff
ND 05904

Dated this 6th day of July 2018.

Midwest Large Energy Consumers Group

By: ______________________________
Richard Savelkoul
Counsel for Midwest Large Energy Consumers

Dated this 6th day of July 2018.

Wal-Mart Stores, Inc.

By: ______________________________
Rebecca L. Mann
Counsel for Wal-Mart Stores, Inc.

Dated this 6th day of July 2018.