

**OTTER TAIL POWER COMPANY**  
**2013 Attachment O**  
**Customer Meeting**

**October 29, 2012**



# Agenda

- Meeting Purpose
- Otter Tail Power Company Profile
- Attachment O Calculation
- Capital Projects
- Budget Risks
- Question/Answer

# Legal Disclosure

All numeric data provided in this presentation is preliminary and subject to change.

All information will be finalized by 12/31/12.

# Meeting Purpose

- To provide an informational forum regarding Otter Tail's forecasted Attachment O for 2013.
- The forecasted Attachment O for 2013 is calculated using MISO's FERC Form 1 Attachment O template with a projected net revenue requirement and projected load.
- Rates become effective on January 1, 2013 for the joint pricing zone comprised of Otter Tail, Great River Energy, and Missouri River Energy Services.

# Otter Tail Power Company



- Incorporated in 1907, Otter Tail Power Company is a subsidiary of Otter Tail Corporation, trading under the NASDAQ symbol OTTR.
- Size: 50,000 square miles
- Communities served: 423
- Customers served: 129,300
- Transmission: ~ 5,300 miles
- Generation: ~ 798 MW of owned generation

*Mission: To produce and deliver electricity as reliably, economically, and environmentally responsibly as possible to the balanced benefit of customers, shareholders, and employees and to improve the quality of life in the areas in which we do business.*

# Forward Looking Attachment 0

- Forward Rate Requirements
- Rate Base
- Operating Expenses
- Revenue Requirement and Rate
- Network Rate Summary

# Forward Rate Requirements

- By June 1 of each year, Otter Tail will post on OASIS all information regarding any Attachment O True-up Adjustments for the prior year.
  - 2012 Forward Looking Attachment O will be trued-up by June 2013.
- Beginning Sept. 1, 2010 and Sept. 1 all years thereafter, Otter Tail will post on OASIS its projected Net Revenue Requirement including the True-Up Adjustment and load for the following year, and associated work papers.
- Beginning in 2010 and each year thereafter, Otter Tail will hold a customer meeting by October 31, to explain its formula rate input projections and cost detail.

# Rate Base

Rate Base Item	2013 Projected	2012 Projected	\$ Change	% Change	Explanation
Gross Plant in Service	\$287,571,748	\$250,942,844	\$36,628,904	14.6%	The increase is due mainly to the transfer of Bemidji (approximately \$25M) and Fargo Phase II (approximately \$27M) CAPX projects to Plant in Service during the second half of 2012 and 2013, respectively. Also includes approximately \$5M - \$10M of general Transmission Plant additions.
Accumulated Depreciation	\$102,744,252	\$97,925,614	\$4,818,638	4.9%	Net result of Annual Depreciation Expense combined with projected retirements.
Net Plant in Service	\$184,827,496	\$153,017,230	\$31,810,266	20.8%	= Gross Plant – A/D
Adjustments to Rate Base	(\$44,023,296)	(\$30,971,353)	(\$13,051,943)	42.1%	ADIT - Book vs. Tax Depreciation Timing Differences originating due to accelerated tax depreciation methods such as Bonus depreciation and MACRS tables created when large Transmission (i.e., Fargo Phase I and Bemidji CAPX) projects go into service.
CWIP for CON Projects	\$53,607,317	\$46,124,486	\$7,482,831	16.2%	Additional costs to be incurred in 2013 for eligible projects. Individual projects can be found on Attachments GG and MM.
Land Held for Future Use	\$9,038	\$9,038	-	0.0%	
Working Capital	\$5,830,055	\$5,451,156	\$378,899	7.0%	Increases in CWC as well as allocated Materials and Supplies and Prepayments drove the increase.
Rate Base	\$200,250,610	\$173,630,557	\$26,620,053	15.3%	= Net Plant + Adj + CWIP + Land + Working Capital

**Note:** The above numbers are Transmission only



# Operating Expenses

Expense Item	2013 Projected	2012 Projected	\$ Change	% Change	Explanation
O&M	\$15,223,429	\$14,664,387	\$559,042	3.8%	Transmission O&M is up approximately \$2M which is mostly due to a \$1.7M increase in FERC Acct 565 related to MISO Schedule 26/26A expense. A small net increase (approximately \$150K or 1.2%) in the various other Transmission-related O&M FERC accounts and a higher TE allocator (increases expense approximately \$400K) account for the remaining increase in O&M expense from 2012 to 2013.
Depreciation Expense	\$5,923,798	\$5,120,523	\$803,275	15.7%	Increase in Depreciation Expense due to projected plant additions primarily related to Fargo and Bemidji CAPX moving into service as discussed on the previous slide for Gross Plant increases..
Taxes Other than Income	\$2,373,190	\$1,832,648	\$540,542	29.5%	An increase in Total Company Property Tax Expense as a result of higher assessed values and tax rates combined with a slight increase in the GP allocation percentage from 2012 to 2013 resulted in a higher allocation in Attachment O.
Income Taxes	\$7,938,607	\$6,379,231	\$1,559,376	24.4%	Increase in Rate Base = Increase in Return = Increase in Income Tax Expense; Also, 2013 has a slightly higher effective tax rate and lower tax credits.
Operating Expense	\$31,459,024	\$27,996,789	\$3,462,235	12.4%	= O&M + A&G + Depreciation + Taxes

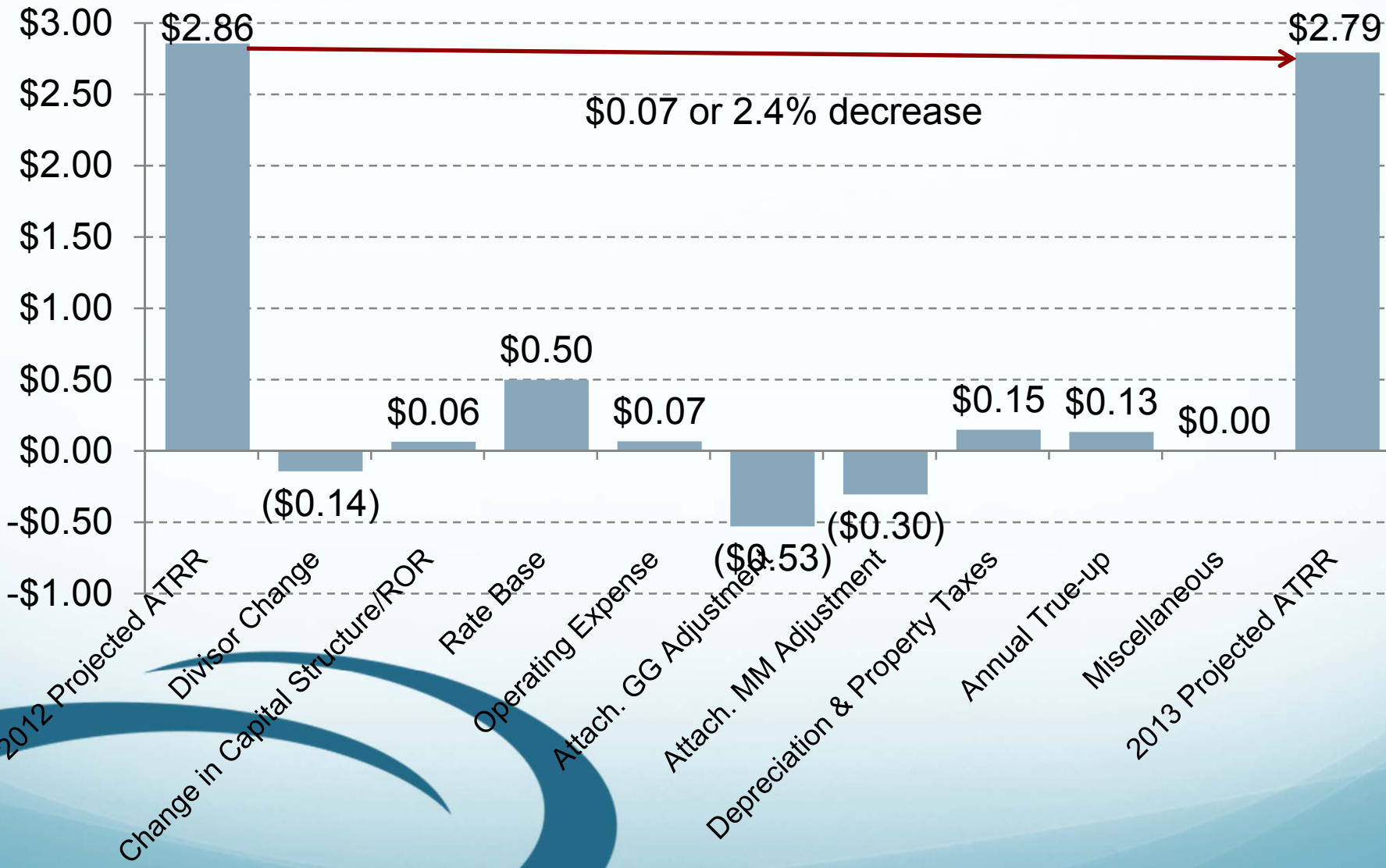
**Note:** The above numbers are Transmission only

# Revenue Requirement and Rate

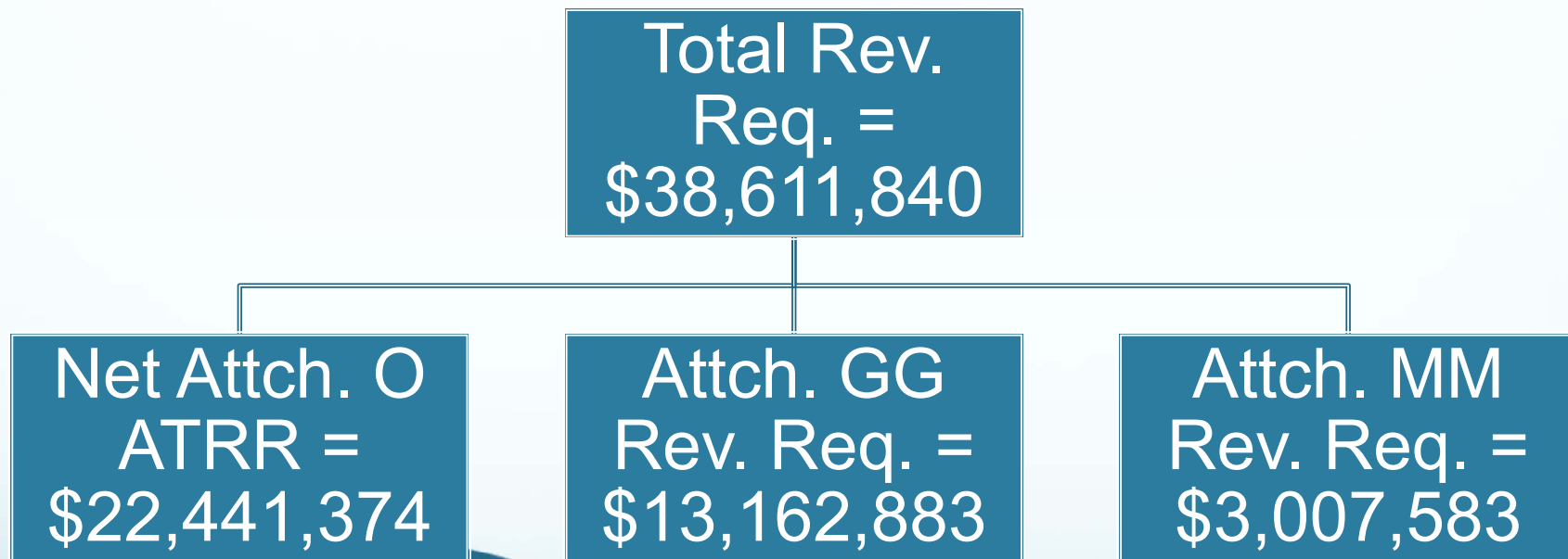
	2013 Projected	2012 Projected	\$ Change	% Change	Explanation
Long Term Debt	46.17%	48.02%		-1.85%	Overall debt balances are forecasted to remain relatively unchanged so any proposed equity issuance is going to lower the overall debt ratio. See discussion on Common Stock line for more detail.
Common Stock	53.83%	51.98%		1.85%	An equity infusion needed to keep the capital structure within jurisdictionally ordered guidelines was originally anticipated to happen in mid-2012 in the 2012 FLTY filing and now has been pushed back to late 2012/early 2013 in the 2013 FLTY filing.
<b>Total</b>	100.00%	100.00%			= Debt + Equity
Weighted Cost of Debt	5.73%	5.70%		0.03%	No material change in cost of debt from 2012 to 2013.
Cost of Common Stock	12.38%	12.38%		0.00%	Constant
Rate of Return	9.31%	9.17%		0.14%	= (LTD*Cost)+(Preferred Stock*Cost)+(Common Stock*Cost)
Rate Base	\$200,250,610	\$173,630,557	\$26,620,053	15.33%	From "Rate Base" Calculation
Allowed Return	\$18,640,643	\$15,925,445	\$2,715,198	17.05%	= Rate of Return * Rate Base
Operating Expenses	\$31,459,024	\$27,996,789	\$3,462,235	12.37%	From "Operating Expense" Calculation
Attachment GG Adjustments	\$13,162,883	\$9,123,119	\$4,039,764	44.28%	As with the discussion associated with the change in CWIP on Attachment O, GG projects have budgeted increases in accumulated cost balances eligible for recovery in 2013 over 2012.
Attachment MM Adjustments	\$3,007,583	\$728,689	\$2,278,894	312.74%	As with the discussion associated with the change in CWIP on Attachment O, MM projects have budgeted increases in accumulated cost balances eligible for recovery in 2013 over 2012.
Gross Revenue Requirement	\$33,929,201	\$34,070,426	(\$141,225)	-0.41%	= Return + Expenses - Adjustments
Revenue Credits	\$7,328,404	\$7,303,355	\$25,049	0.34%	No material change from 2012 to 2013.
2011/2010 True-up (Including Interest)	(\$4,159,423)	(\$4,939,883)	\$780,460	-15.80%	2013 includes the 2011 True-up Adjustment; 2012 includes the 2010 True-up adjustment.
Net Revenue Requirement	\$22,441,374	\$21,827,189	\$614,186	2.81%	= Gross Revenue Requirement - Revenue Credits + True-up

**Note:** The above numbers are Transmission only

# Rate Summary



# Total Transmission Revenue Requirement Breakdown



# Attachment O Capital Projects: Transmission Line Projects > \$200K

Project	Voltage	Estimated In-Service Date	Forecasted 2013 Capital Addition	Project Description
Circuit Breaker Replacements	41.6 kV	12/31/2013	\$300,000	Circuit breakers being replaced at various locations that fail testing
Rejected Pole Replacements	≥ 41.6 kV	12/31/2013	\$400,000	Transmission pole replacements throughout the OTP service territory (due to ground line inspections)
Jamestown – Edgeley – Oakes Line Rebuild	41.6 kV	12/20/2017	\$500,000	Rebuild portion of 41.6 kV line each year to improve overall reliability performance.
Parshall Area 115 kV Source	115 kV	9/1/2014	\$600,000	Add new 115/41.6 kV transformer near Parshall, ND
Summit 115/41.6 kV Transformer Replacement	115 kV	7/1/2014	\$1,000,000	Replace existing 115/41.6 kV transformer at Summit (8 MVA to 25 MVA)
Transmission Line Capacity Upgrades	≥ 115 kV	12/20/2013	\$5,000,000	Upgrade transmission facilities that could be limiting once field verification is completed
Oakes Area Transmission Improvements	230 kV	11/30/2013	\$5,637,004	Install three 230 kV breakers and second 230/41.6 kV transformer at Oakes along with 8-mile 41.6 kV line (ND)

# Attachments GG and MM Capital Projects: Transmission Line Projects > \$200K

Project	Voltage	Estimated In-Service Date	Forecasted 2013 Capital Addition	Project Description
<b>Attachment GG</b>				
Buffalo – Casselton 115 kV Line	115 kV	12/31/2014	\$7,506,464	Build new 115 kV line from Casselton – Buffalo along with underlying system improvements
Fargo – St. Cloud 345 kV Line	345 kV	5/31/2015	\$20,683,120	Build new 345 kV line from St. Cloud (Quarry) to Alexandria to Fargo (Bison) (MN/ND) (190 miles)
<b>Attachment MM</b>				
Brookings – Hampton Line	345 kV	2/13/2015	\$11,587,249	Build new 345 kV line from Brookings – Hampton (MVP) (250 miles)
Big Stone South – Brookings Line	345 kV	9/30/2017	\$1,562,040	Build new 345 kV line from Big Stone South – Brookings with Big Stone Plant Substation Expansion (MVP) (70 miles)
Big Stone South – Ellendale Line	345 kV	9/30/2019	\$3,865,059	Build new 345 kV line from Big Stone South – Ellendale with Ellendale Substation Expansion (MVP) (150-175 miles)

# Budget Risks

Revenue

Demand/  
Weather

Regulatory  
Filings

Financing

Outages

Timing of  
Capital  
Projects

Tight  
Budgets

# Questions?

If you have any additional questions after the meeting,  
please submit via e-mail to:

JoAnn Thompson

[jthompson@otpc.com](mailto:jthompson@otpc.com)

All questions and answers will be distributed by e-mail to  
all attendees. Additionally, the questions and answers  
will be posted on Otter Tail's OASIS website  
(<http://oasis.midwestiso.org/OASIS/OTP>) within two  
weeks from the date of inquiry.



# Appendix

# Relevant 2012 FERC Filings

- **Attachment O Clean Up** (FERC Docket No. ER12-297)
  - Accepted by FERC on 12/21/2011
  - Effective on 1/1/2012
  - Filing Purpose
    - Clarify inclusion of intangible plant
    - Address treatment of revenues recovered under Schedule 37.
    - Removed references to certain LSE expenses.
    - Clarify that FERC administration fees are not included in the Attachment O revenue requirements.
    - Other minor clean-up and non-substantive revisions (ex. line references)
- **Attachment MM Accumulated Depreciation Allocation Factor** (FERC Docket ER12-312)
  - Accepted by FERC on 12/29/2011
  - Effective on 1/1/2012
  - Filing Purpose
    - To change the O&M allocation factor basis from gross plant to transmission accumulated depreciation
    - Other minor changes for clarity and administration purposes.
- **Attachment MM MUR Language** (FERC Docket No. ER12-774)
  - Accepted by FERC on 3/1/2012
  - Effective on 1/1/2012
  - Filing Purpose
    - To provide transmission customers clarity in the calculation of MISO's MVP Usage Rate.
- **Attachment O Formulaic Rate Language** (FERC Docket No. ER12-1667)
  - Accepted by FERC on 6/14/2012
  - Effective on 5/1/2012
  - Filing Purpose
    - Revised the tariff language to provide that all Transmission Owners must have their financial statements independently audited.
    - Provided additional tariff language to state which data to use if audited financial statement data for the previous year is not available.