Otter Tail Power Company
2015 Attachment O
Customer Meeting

October 29, 2014

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 12/31/14.

Meeting Purpose

- To provide an informational forum regarding Otter Tail's forecasted Attachment O for 2015.
- The forecasted Attachment O for 2015 is calculated using the FERC Form 1 Attachment O template under the MISO Tariff with a projected net revenue requirement and projected load.
- Rates become effective on January 1, 2015 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: 70,000 square miles
- Communities served: 422
- Customers served: 129,800
- 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 O

- 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.
  - 2014 Forward Looking Attachment O will be trued-up by June 2015.
- By September 1 each year, 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.
- Otter Tail will hold a customer meeting by October 31 each year to explain its formula rate input projections and cost detail.

Rate Base

Rate Base Item	2015 Projected	2014 Projected	$ Change	% Change	Explanation
Gross Plant in Service	$ 386,778,026	$ 318,287,029	$ 68,490,997	21.5%	The increase is mainly due to the transfer of Fargo Phase II (approximately $25M) and Fargo Phase III (approximately $45M) CAPX projects to Plant in Service during mid 2014 and early 2015, respectively.
Accumulated Depreciation	$ 112,631,484	$ 107,878,058	$ 4,753,426	4.4%	Net result of Annual Depreciation Expense combined with projected retirements.
Net Plant in Service	$ 274,146,542	$ 210,408,971	$ 63,737,571	30.3%	= Gross Plant - A/D
Adjustments to Rate Base	$ (62,362,196)	$ (50,181,698)	$ (12,180,498)	24.3%	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 II and Fargo Phase III) projects go into service.
CWIP for CON Projects	$ 40,886,235	$ 65,920,432	$ (25,034,197)	-38.0%	Significant reduction as the largest of the RECB (Fargo CAPX) Projects recovered through GG is projected to go into service in its entirety during early 2015. Spend is just beginning to ramp up on the MVP's.
Land Held for Future Use	$ 9,038	$ 9,038	$ -	0.0%	
Working Capital	$ 5,894,170	$ 5,710,799	$ 183,371	3.2%	Relatively unchanged with a slight increase in Materials & Supplies and Prepayments Year-over-Year.
Rate Base	$ 258,573,789	$ 231,867,542	$ 26,706,247	11.5%	= Net Plant + Adj + CWIP + Land + Working Capital

Note: The above numbers are Transmission only

Operating Expenses

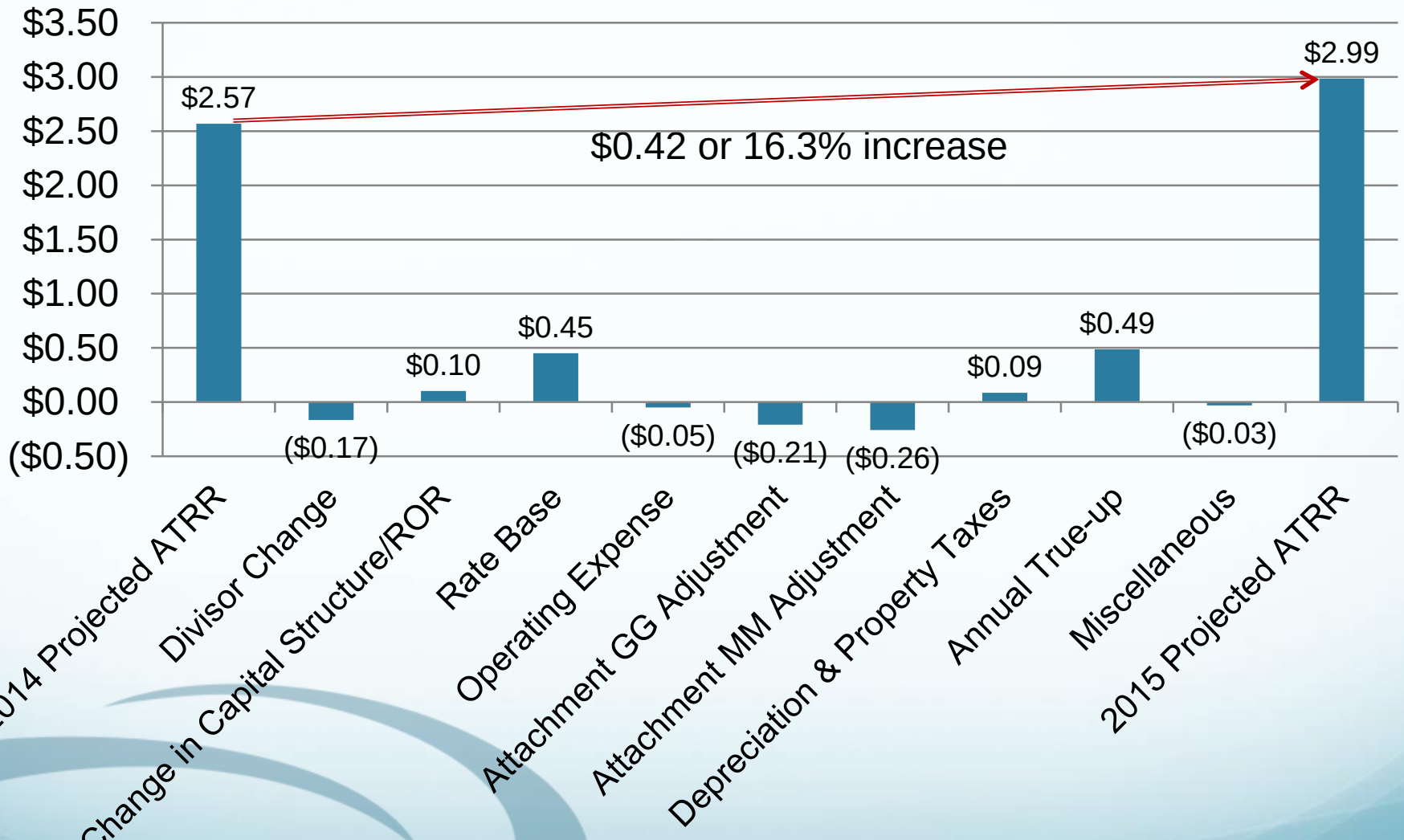
Expense Item	2015 Projected	2014 Projected	$ Change	% Change	Explanation
O&M	$ 14,024,094	$ 14,317,565	$ (293,471)	-2.0%	Total Company O&M after adjusting for the removal of Schedule 26/26A expense is up slightly (~$200K) from Projected Year 2014 but Transmission-allocated expense is down as the 2015 Projected Year is correctly removing Schedule 10 LSE charges from the calculation while 2014 does not. 2014 will be trued-up when the Historical filing is made.
Depreciation Expense	$ 7,140,892	$ 6,566,168	$ 574,724	8.8%	Increase in Depreciation Expense due to projected plant additions primarily related to Fargo Phase II (full year) and Fargo Phase III (most of a year) moving into service as discussed on the previous slide for Gross Plant increases.
Taxes Other than Income	$ 3,133,563	$ 2,711,397	$ 422,166	15.6%	An increase in Total Company Property Tax Expense as a result of higher assessed values and tax rates combined with an increase in the GP allocation percentage from 2014 to 2015 resulted in a higher allocation in Attachment O.
Income Taxes	$ 9,822,603	$ 8,343,341	$ 1,479,262	17.7%	Increase in Rate Base = Increase in Return = Increase in Income Tax Expense; Also, 2015 has lower projected tax credits then 2014.
Operating Expense	$ 34,121,152	$ 31,938,471	$ 2,182,681	6.8%	= O&M + A&G + Depreciation + Taxes

Note: The above numbers are Transmission only

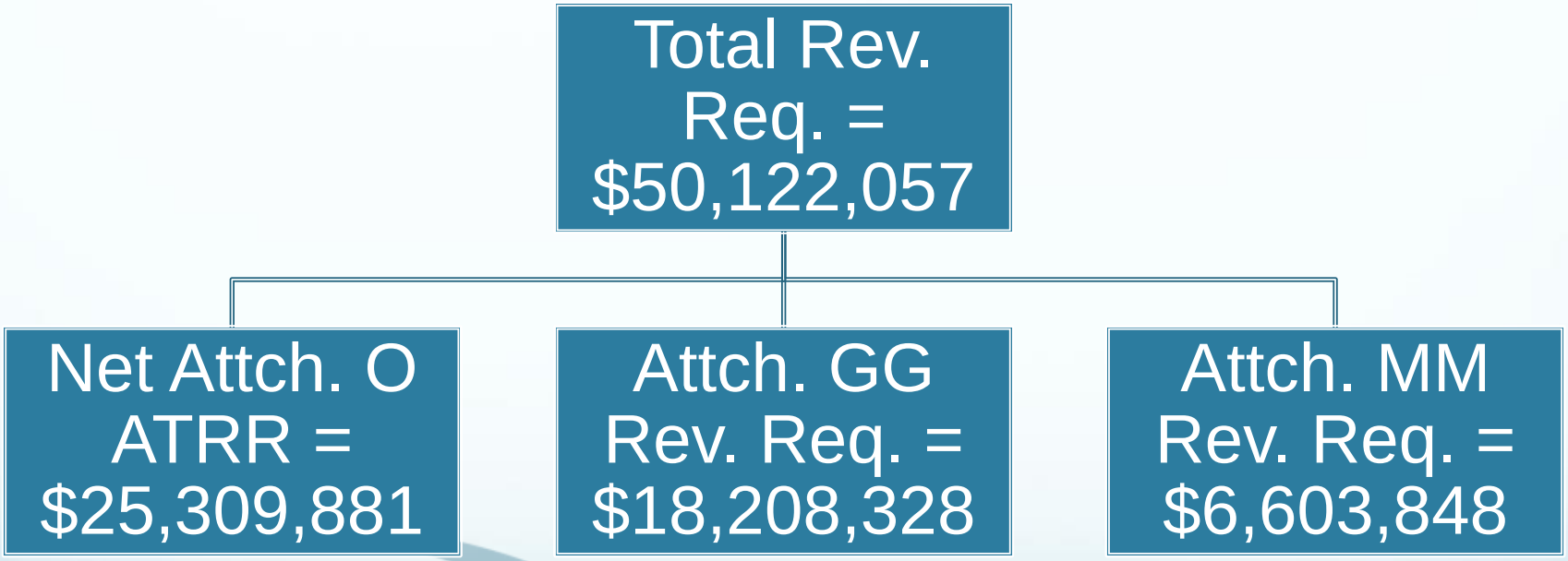
Revenue Requirement and Rate

	2015 Projected	2014 Projected	$ Change	% Change	Explanation
Long Term Debt	48.35%	50.54%		-2.19%	No new debt is being retired or issued in 2015. This is strictly a product of the equity portion of the capital structure being increased as discussed below.
Common Stock	51.65%	49.46%		2.19%	An equity infusion is projected in 2015 to keep the capital structure within jurisdictionally ordered guidelines and to help finance large projects. Increased equity with no new debt issuances projected drives the ratio up.
Total	100.00%	100.00%			= Debt + Equity
Weighted Cost of Debt	5.54%	5.49%		0.05%	There was a new debt issuance that happened in 2014 that now has a full years worth of interest expense at the lower rate projected for 2015 which slightly lowers the wtd avg cost of debt.
Cost of Common Stock	12.38%	12.38%		0.00%	Unchanged
Rate of Return	9.07%	8.90%		0.17%	= (LTD*Cost)+(Preferred Stock*Cost)+(Common Stock*Cost)
Rate Base	$ 258,573,789	$ 231,867,542	$ 26,706,247	11.52%	From "Rate Base" Calculation
Allowed Return	$ 23,465,923	$ 20,629,078	$ 2,836,845	13.75%	= Rate of Return * Rate Base
Operating Expenses	$ 34,121,152	$ 31,938,471	$ 2,182,681	6.83%	From "Operating Expense" Calculation
Attachment GG Adjustments	$ 18,208,328	$ 16,562,703	$ 1,645,625	9.94%	Spend is increasing during 2015 on Fargo Phase III as it nears completion. In addition, as Fargo Phase III moves into service in early 2015 depreciation recovery begins. Finally, the projected ROR in 2015 is slightly higher than 2014. The combination of the above variables increases the revenue requirements for 2015.
Attachment MM Adjustments	$ 6,603,848	$ 4,573,259	$ 2,030,589	44.40%	These projects continue to progress as spend is accumulating during CWIP. In addition, the ROR for 2015 is slightly higher than in 2014.
Gross Revenue Requirement	$ 32,774,899	$ 31,431,587	$ 1,343,312	4.27%	= Return + Expenses - Adjustments
Revenue Credits	$ 6,283,694	$ 6,449,668	$ (165,974)	-2.57%	Slight decrease in projected revenue credits in 2015 vs 2014.
20123/2012 True-up (Including Interest)	$ (1,181,325)	$ (4,638,732)	$ 3,457,407	-74.53%	2015 includes the 2013 True-up Adjustment; 2014 includes the 2012 True-up adjustment. Each year stands on its own and 2013's true-up was much smaller than 2012.
Net Revenue Requirement	$ 25,309,881	$ 20,343,188	$ 4,966,693	24.41%	= Gross Revenue Requirement - Revenue Credits + True-up

Rate Summary



Total Transmission Revenue Requirement Breakdown



2015 Transmission Projects

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

Project	kV	In Service Date	2015 Forecasted Spend	Description of Project
Rejected Pole Replacement	≥ 41.6 kV	12/31/2015	$275,000	Transmission pole replacements throughout the OTP service territory (due to ground line inspections).
Repair/Replace Existing Transmission Switches	≥ 41.6 kV	12/31/2015	$200,000	Replace existing transmission switches that are showing end of life failures.
Highway 34 Line Purchase	41.6 kV	9/1/2015	$525,000	Purchase structures from adjacent utility that currently has an OTP circuit attached to them in South Dakota.
Oakes Area Transmission 230kV Sub	230 kV	11/15/2015	$2,119,175	Install 4 new 230 kV breakers at Oakes 230/41.6 kV substation in North Dakota.

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

Project	kV	In Service Date	2015 Forecasted Spend	Description of Project
Proactive Relay Upgrade	41.6 kV	12/20/2015	$200,000	Replace existing relaying with new microprocessor based relaying.
Proactive-Worst Performing 41.6 kV lines	41.6 kV	12/20/2015	$200,000	Enhancements and/or rebuild of worst performing 41.6 kV lines.
NERC Facility Ratings Alert	≥ 115 kV	12/31/2016	$2,513,838	Line upgrades to numerous transmission facilities across the OTP service territory that violate NESC clearance requirements.
Clearbrook Area 115 kV Line	115 kV	10/31/2018	$1,159,000	Construct a new, approximately 16-18 mile, 115kV transmission line in the Clearbrook area of north central Minnesota.

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

Project	kV	In Service Date	2015 Forecasted Spend	Description of Project
Attachment GG				
Fargo - Monticello Line	345 kV	5/31/2015	$3,127,270	Build new 345 kV line from Alexandria to Fargo (Bison) in MN and ND.
Buffalo 345/115kV Transformer (Buffalo – Casselton Line)	345 kV	12/31/2015	$3,500,000	Underlying System improvements for 115 kV line from Casselton – Buffalo. Add more transformer capacity at Buffalo in North Dakota.
G645 Spiritwood Generator	115 kV	11/1/2014	$793,200	Rebuild existing substation with a 115 kV ring bus to accommodate MISO Generator Interconnection Project G645 near Jamestown, ND.
Attachment MM				
Brookings – Hampton Line	345 kV	4/27/2015	$1,854,407	Build new 345 kV line from Brookings – Hampton in southern MN.
Big Stone South – Brookings Line	345 kV	9/30/2017	$13,398,175	Build new 345 kV line from Big Stone South – Brookings with Big Stone Plant Substation Expansion in South Dakota.
Big Stone South – Ellendale Line	345 kV	12/31/2019	$11,482,142	Build new 345 kV line from Big Stone South – Ellendale in South Dakota and North Dakota.

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:

Stacie Hebert

shebert@otpco.com

Questions and answers will be posted on Otter Tail's OASIS website (http://www.oasis.oati.com/OTP/index.html) within two weeks from the date of inquiry.