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April 19, 2016

Ms. Patricia Van Gerpen, Executive Director
South Dakota Public Utilities Commission
500 East Capitol Avenue
Pierre, SD 57501

Re: Transmittal Letter for Otter Tail Power Company Proposed Contract with Deviations as Part of Settlement Agreement in Docket CE 15-001.

Dear Ms. Van Gerpen:

With this Transmittal Letter Otter Tail Power Company ("Otter Tail" or the "Company") files with the South Dakota Public Utilities Commission ("the Commission") revision to its electric tariff concerning a proposed contract with deviations.

Pursuant to ARSD 20:20:13:36 and ARSD 20:10:13:39 Otter Tail states the following:

1. The documents submitted with this filing include following:

- (a) The proposed revised tariff schedule, Section 16.00, Seventh Revised Sheet No. 1 Summary List of Contracts with Deviations, which includes a reference to the proposed electric service agreement with deviations between Otter Tail and Valley Queen Cheese Company, Inc. ("Valley Queen"), and the information required by ARSD 20:10:13:09.
- (b) The following items are included in the filing and confidential treatment is requested as stated in Otter Tail's REQUEST FOR CONFIDENTIAL TREATMENT OF DOCUMENTS SUBMITTED IN SUPPORT OF JOINT MOTION TO APPROVE

SETTLEMENT AND TO DISMISS CONSUMER COMPLAINT to which this filing is attached. Confidential treatment is not sought for **Exhibit D**.

- A copy of the proposed electric service agreement with deviations (the “Proposed ESA”) (**Exhibit A**).
- A copy of the current electric service agreement between Valley Queen and Otter Tail (the “Current ESA”) (**Exhibit B**).
- A copy of the settlement agreement (the “Settlement Agreement”) between Otter Tail and Valley Queen (**Exhibit C**).
- Otter Tail’s Real Time Pricing Rider Tariff (**Exhibit D**).
- A memorandum explaining the rationale for and impact of the Proposed ESA (**Exhibit E**)
- Confidential Otter Tail Financial Information & Analysis (**Addendum 1 to Exhibit E**)

2. The proposed effective date:

The proposed effective date for the new tariff and Proposed ESA is May 1, 2016. Otter Tail requests that the Commission approve this contract with deviation on less than thirty days’ notice.

3. The names and addresses of those to whom copies of this filing have been mailed:

Mr. James E. Moore - Representing: Valley Queen Cheese Factory, Inc.
Attorney
Woods, Fuller, Shultz and Smith P.C.
PO Box 5027
Sioux Falls, SD 57117
james.moore@woodsfuller.com

Mr. William G. Taylor - Representing: Valley Queen Cheese Factory, Inc.
Attorney
Taylor Law Firm
2921 E. 57th St. #10
Sioux Falls, SD 57108
bill.taylor@williamgtaylor.com

4. Brief description of the proposed changes in rates:

Otter Tail currently provides electric service to Valley Queen's main plant in Milbank, South Dakota under Otter Tail's Large General Service Rate coupled with the Real Time Pricing Rider (the "LGS-RTP rate"). The Real Time Pricing Rider requires the establishment of a Customer Baseline Load using a formula set forth in the rider. Valley Queen's current Customer Baseline Load is stated in the Current ESA. Otter Tail and Valley Queen propose a revised electric service agreement effective May 1, 2016 with an adjusted (lowered) Customer Baseline Load, allowing Valley Queen to purchase more of its electricity at wholesale market rates than it is able to purchase under the Customer Baseline Load of the Current ESA.

5. Reasons for the proposed changes:

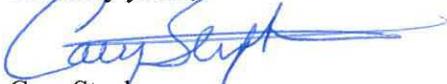
Valley Queen has filed a law suit against Otter Tail in the United States District Court for the District of South Dakota captioned *Valley Queen Cheese Factory, Inc. v. Otter Tail Power Company, Civ. 15-022* ("the Federal Lawsuit") and a mirror consumer complaint before the Commission in this docket entitled *In the Matter of the Complaint and Petition of Valley Queen Cheese Factory, Inc., Otter Tail Power Company, Respondent, CE 15-001* (the "PUC Proceeding"). In both matters Valley Queen alleges that Otter Tail did not comply with applicable tariffs and Commission rules in 2009; specifically, that Otter Tail failed to adequately advise Valley Queen of its rate options. Valley Queen claims that had Otter Tail complied with applicable tariffs and Commissions rules Valley Queen would have placed its main plant on the Large General Service rate with the Real Time Pricing Rider in July 2009, with a Customer Baseline Load established at that time. Valley Queen alleges significant and ongoing monetary damages in the Federal Lawsuit combined with accumulated interest from 2009. Otter Tail denies Valley Queen's allegations and asserts it has complied with all applicable obligations. Seeking to avoid the expense and risk of the Federal Lawsuit, Otter Tail and Valley Queen have entered into the Settlement Agreement attached as **Exhibit C**, a component of which is an adjustment to Valley Queen's Customer Baseline Load under the Real Time Pricing Rider as described herein. Otter Tail believes lowering the Customer Baseline Load is prudent and reasonable in view of the risks and expense of Federal Lawsuit. The rationale for proposed change and its impact are

described in greater detail in the attached Memorandum marked as **Exhibit E**, with supporting financial information and analysis provided in **Addendum 1 to Exhibit E**.

6. Number of customers whose cost of service will be affected and annual changes in cost of service to such customers:

Valley Queen is the only customer that will benefit directly from the contract with deviation containing a lower Customer Baseline Load than that set forth in Valley Queen's Current ESA. Otter Tail believes all other South Dakota customers will benefit indirectly by resolution of the Federal Lawsuit and PUC Proceeding as more fully described in this petition.

Sincerely yours,



Cary Stephenson
Associate General Counsel
Otter Tail Power Company
218-739-8956