

ANNUAL REPORT
OF
JURISDICTIONAL EARNINGS
BY
OTTER TAIL POWER COMPANY
A MINNESOTA CORPORATION
TO THE
SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

FOR THE YEAR ENDING
DECEMBER 31, 2015

South Dakota Jurisdiction
Electric Utility



2015

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Otter Tail Power Company
South Dakota Retail Jurisdiction

I. Return on Equity

<u>Actual Return on Equity (ROE)</u>	<u>2015</u>	<u>2014</u>
(In Thousands)		
1 Operating Income from Electric Operations (Exhibit 2)	\$5,665	\$5,707
2 Average Regulated Rate Base (Exhibit 3)	\$75,607	\$69,358
3 Rate of Return on Rate Base (Line 1/Line 2)	7.49%	8.23%
4 Weighted Cost of Debt (Exhibit 4)	2.70%	2.81%
5 Weighted Cost of Preferred Stock (Exhibit 4)	0.00%	0.00%
6 Percent of Equity in Capital Structure	51.81%	48.57%
7 Return on Equity (ROE)	9.25%	11.16%

Normalization Impact

8 Operating Income from Electric Operations	\$5,731	\$5,707
9 Impact of weather on mWh Sales	(2,156)	479
10 Impact of Weather on Electric Operating Income	(\$65)	\$122
11 Weather Normalized Operating Income	\$5,731	\$5,585
12 Average Regulated Rate Base	\$75,628	\$69,335
13 Weather Normalized Rate of Return on Rate Base	7.58%	8.05%
14 Weather Normalized Return on Equity (ROE)	9.48%	10.49%

Otter Tail Power Company
South Dakota Retail Jurisdiction

II. OPERATING INCOME

Line	<u>2015 Total OTP</u>	<u>2015 SD Juris</u>	<u>2014 SD Juris</u>	<u>Annual Change</u>
	<u>Operating Revenues</u>			
1 Residential	\$116,279,072	\$10,503,564	\$10,890,000	-3.55%
2 Commercial	188,186,854	21,402,907	20,290,110	5.48%
3 Industrial	48,549,754			
4 Streetlighting	3,670,700	394,457	384,294	2.64%
5 OPA	3,097,479	278,763	278,281	0.17%
6 Total Retail	<u>\$359,783,859</u>	<u>\$32,579,691</u>	<u>\$31,842,685</u>	2.31%
7 Other Operating Revenue	39,759,998	1,813,370	2,461,623	-26.33%
8 Total Revenue	<u>\$399,543,857</u>	<u>\$34,393,061</u>	<u>\$34,304,308</u>	0.26%
	<u>Operating Expenses</u>			
9 Production	\$152,404,107	\$14,250,375	\$14,722,496	-3.21%
10 Transmission	28,105,079	2,744,589	2,279,038	20.43%
11 Distribution	15,514,291	1,489,600	1,583,992	-5.96%
12 Customer Accounting	12,791,342	1,135,538	1,196,427	-5.09%
13 Customer Service and Information	8,492,225	209,478	219,539	-4.58%
14 Sales	288,686	9,085	24,148	-62.38%
15 Admin & General	40,921,196	3,723,836	3,827,112	-2.70%
16 Charitable Contributions	178,377	0	0	0.00%
17 Depreciation & Amortization	44,677,098	4,170,627	4,089,312	1.99%
18 Amortization of Big Stone Plant Capitalized Costs	0	0	0	0.00%
23 Spiritwood Amortization	0	0	0	0.00%
24 Other General Taxes	13,504,765	1,083,144	1,095,560	-1.13%
25 Income Tax	14,198,397	(88,483)	(440,167)	-79.90%
25 Total Expenses	<u>\$331,075,563</u>	<u>28,727,789</u>	<u>28,597,457</u>	0.46%
26 Allowance for Funds Used During Construction	\$2,026,122	0	0	0
27 Regulated Operating Income	<u>\$70,494,416</u>	<u>\$5,665,272</u>	<u>\$5,706,851</u>	-0.73%

Otter Tail Power Company
South Dakota Retail Jurisdiction

III. Average Rate Base

Line	2015 Total OTP	2015 SD Juris	2014 SD Juris	Annual Change
1 Plant in Service	\$1,621,593,610	\$149,978,970	\$140,938,201	6.41%
2 Accumulated Depreciation	(673,936,921)	(64,912,617)	(61,815,757)	5.01%
3 Net Plant in Service	\$947,656,689	\$85,066,353	\$79,122,444	7.51%
4 Plant Held for Future Use	\$29,657	\$2,879	\$2,823	1.99%
5 Construction Work in Progress	238,322,640	0	0	
6 Materials and Supplies	19,281,360	1,872,472	1,742,424	7.46%
7 Fuel Stocks	10,837,811	1,051,235	900,006	16.80%
8 Prepayments	(11,827,320)	(1,061,679)	(1,466,366)	-27.60%
9 Customer Advances	(993,124)	(89,148)	(74,407)	19.81%
10 Cash Working Capital	11,169,724	2,372,546	2,457,443	-3.45%
11 Accum. Deferred Taxes	(230,736,416)	(13,607,260)	(13,327,372)	2.10%
12 Unamortized Holding Company Formation Expense	0	0	663	-100.00%
Unamortized Rate Case Expense	0	0	467	-100.00%
13 Total Other Rate Base	\$36,084,332	(\$9,458,955)	(\$9,764,320)	-3.13%
14 Total Average Rate Base	\$983,741,021	\$75,607,398	\$69,358,125	9.01%

Otter Tail Power Company
South Dakota Retail Jurisdiction

IV. Cost of Capital ¹

2015 Actual

Line		<u>Amount</u>	<u>% of Total</u>	<u>Cost</u>	<u>Weighted Cost</u>
1	Long-Term Debt	\$447,157,310	48.19%	5.61%	2.70%
2	Short-Term Debt	-	0.00%		0.00%
3	Total Debt	<u>\$447,157,310</u>	<u>48.19%</u>		
4	Preferred Stock	-	0.00%	0.00%	0.00%
5	Common Equity	<u>\$480,693,810</u>	<u>51.81%</u>	9.25%	4.79%
6	Total Equity	<u>\$480,693,810</u>	<u>51.81%</u>		
7	Total Capital	\$927,851,120	100.00%		7.50%

2015 Normalized

Line		<u>Amount</u>	<u>% of Total</u>	<u>Cost</u>	<u>Weighted Cost</u>
8	Long-Term Debt	\$450,007,793	48.50%	5.57%	2.70%
9	Short-Term Debt	-	0.00%	0.00%	0.00%
10	Total Debt	<u>\$450,007,793</u>	<u>48.50%</u>		
11	Preferred Stock	-	0.00%	0.00%	0.00%
12	Common Equity	<u>\$477,843,327</u>	<u>51.50%</u>	9.48%	4.88%
13	Total Equity	<u>\$477,843,327</u>	<u>51.50%</u>		
14	Total Capital	\$927,851,121	100.00%		7.59%

¹ Based on 13 month averages, consistent with methodology approved in last rate case,
Docket No. EL10-011

**Otter Tail Power Company
South Dakota Retail Jurisdiction**

V. Required Rate of Return

¹

2015 Based on Authorized ROE

Line	<u>Amount</u>	<u>% of Total</u>	<u>Cost</u>	<u>Weighted Cost</u>
	[CONFIDENTIAL DATA BEGINS...]			
1	Long-Term Debt			
2	Short-Term Debt			
3	Total Debt			
4	Preferred Stock			
5	Common Equity			
6	Total Equity			
7	Total Capital			
				...CONFIDENTIAL DATA ENDS]

¹ Based on 13 month averages, consistent with methodology approved in last rate case, Docket No. EL10-011

PUBLIC DOCUMENT- CONFIDENTIAL DATA HAS BEEN EXCISED

**Otter Tail Power Company
South Dakota Retail Jurisdiction**

VI. Revenue Deficiency

2015 Based on Authorized ROE

Line	Revenue Deficiency	Actual 2015 SD Jurisdiction [CONFIDENTIAL DATA BEGINS...	Weather Normalized 2015 SD Jurisdiction
1	Total Operating Income		
2	Total Average Rate Base		
3	Require Operating Income (Rate Base x Required Return)		
4	Operating Income	_____	_____
5	Operating Income Deficiency		
6	Incremental Taxes	_____	_____
7	Revenue Deficiency (Income Deficiency x Conversion Factor)		

...CONFIDENTIAL DATA ENDS]

Otter Tail Power Company (SD)
Electric Utility - South Dakota Retail Jurisdiction
Cost of Service Study
2015 Actuals

Rate Base Summary ¹

	Total Company	South Dakota	All Others
	13 Month	13 Month	13 Month
	Average Balance	Average Balance	Average Balance
1 Plant Investment	\$1,621,593,610	\$149,978,970	\$1,471,614,640
2 Depreciation Reserve	(673,936,921)	(64,912,617)	(609,024,304)
3 Net Utility	947,656,689	85,066,353	862,590,336
4 Plant Held for Furture Use	29,657	2,879	26,778
5 CWIP	238,322,640	0	238,322,640
6 Accumulated Deferred Taxes	(230,736,416)	(13,607,260)	(217,129,156)
Other Rate Base:			0
7 Cash Working Capital	11,169,724	2,372,546	8,797,178
8 Materials & Supplies	19,281,360	1,872,472	17,408,888
9 Fuel Inventory	10,837,811	1,051,235	9,786,576
10 Non-Plant Assets & Liab	0	0	0
11 Prepays & Other	(12,820,444)	(1,150,827)	(11,669,617)
12 Total Rate Base	\$983,741,021	\$75,607,398	\$908,133,623

¹ Based on 13 month averages, consistent with methodology approved in last rate case,
Docket No. EL10-011

Otter Tail Power Company (SD)
 Electric Utility - South Dakota Retail Jurisdiction
 Cost of Service Study
 2015 Actuals

Income Statement Summary

	Total Company Electric	SD Retail Electric	All Others
Operating Revenues			
Retail	\$359,783,859	\$32,579,691	\$327,204,168
Other Operating	39,759,998	1,813,370	37,946,628
Total Operating revenues	\$399,543,857	\$34,393,061	\$365,150,796
Expenses			
Operating Expenses:			
Fuel & Purchased Energy	\$74,264,109	\$6,980,620	\$67,283,489
Power Production	78,139,998	7,269,754	70,870,244
Transmission	28,105,079	2,744,589	25,360,490
Distribution	15,514,291	1,489,600	14,024,691
Customer Accounting	12,791,342	1,135,538	11,655,804
Customer Service & Information	8,492,225	209,478	8,282,747
Sales, Econ Dvp & Other	288,686	9,085	279,601
Administrative & General	40,921,196	3,723,836	37,197,360
General Taxes	13,504,765	1,083,144	12,421,621
Charitable Contributions	178,377	0	178,377
Total Operating Expenses	\$272,200,068	\$24,645,644	\$247,554,424
Depreciation	\$44,677,098	\$4,170,627	\$40,506,471
Amortization	0	0	0
Taxes			
Investment Tax Credit	(\$8,840,083)	(\$817,607)	(\$8,022,476)
Deferred Income Taxes	49,036,607	3,873,324	45,163,284
Current Income Taxes (Addendum 3)	(25,998,128)	(3,144,200)	(22,853,928)
Total Taxes	\$14,198,397	(\$88,483)	\$14,286,880
Total Expenses	\$331,075,563	\$28,727,788	\$302,347,775
AFUDC	2,026,122	0	2,026,122
Total Operating Income	\$70,494,416	\$5,665,273	\$64,829,143

Otter Tail Power Company (SD)
 Electric Utility - South Dakota Retail Jurisdiction
 Cost of Service Study
 2015 Actuals

Current Income Tax Summary

	Total Company Electric	SD Retail Electric	All Others
Income Before Taxes			
Total Operating Revenues	\$399,543,857	\$34,393,061	\$365,150,796
less: Total Operating Expenses	(258,695,303)	(23,562,501)	(235,132,802)
Book Depreciation & Amortization	(44,677,098)	(4,170,627)	(40,506,471)
Taxes (Other Than Current Income)	(13,504,765)	(1,083,144)	(12,421,621)
Total Before Tax Book Income	\$82,666,691	\$5,576,789	\$77,089,902
less: Interest Cost	24,624,631	2,666,379	21,958,252
Net Income Before Tax	\$58,042,060	\$2,910,410	\$55,131,650
Federal Schedule M Adjustments			
Additional Tax Depreciation	\$129,911,058	\$11,661,459	\$118,249,599
Cost to Remove	5,262,893	472,423	4,790,470
Directly Assigned Schedule M Items	(223,316)	(4,335)	(218,981)
Accrued Vacation Pay	(15,583)	(1,399)	(14,184)
Charges - Operating Reserves	5,923,207	531,696	5,391,511
Provisions - Operating Reserves	(7,662,768)	(687,848)	(6,974,920)
Unbilled Revenues	0	0	0
Preferred Dividends Paid Credits	0	0	0
Other Schedule M Items	(870,730)	(78,161)	(792,569)
Total Schedule M Adjustments	\$132,324,761	\$11,893,835	\$120,430,926
Federal Adjusted Income Before Income Taxes	(74,282,701)	(8,983,425)	(65,299,276)
Less:			
Minnesota State Income Tax	1,278,696	0	1,278,696
North Dakota State Income Tax	(1,277,440)	0	(1,277,440)
Federal Taxable Income	(74,283,957)	(8,983,425)	(65,300,532)
Federal Tax Rate	35%	35%	35%
Federal Income Tax Before Credits	(25,999,385)	(3,144,199)	(22,855,186)
Investment Tax Credit - Debits Utilized	0	0	0
Federal Income Taxes	(\$25,999,385)	(\$3,144,199)	(\$22,855,186)
State Income Taxes			
Minnesota State Income Tax	1,278,696	0	1,278,696
North Dakota State Income Tax	(1,277,440)	0	(1,277,440)
Total Current Income Taxes	(\$25,998,129)	(\$3,144,199)	(\$22,853,930)

Otter Tail Power Company (SD)
 Electric Utility - South Dakota Retail Jurisdiction
 Cost of Service Study
 2015 Actuals

Revenue Requirement & Return Summary

[CONFIDENTIAL DATA BEGINS...]

Capital Structure

- 1 Long Term Debt
 - 2 Short Term Debt
 - 3 Preferred Stock
 - 4 Common Equity
 - 5 Required Rate of Return
-

Rate of Return (ROR)

- 6 Total Operating Income
- 7 Total Average Rate Base
- 8 **ROR (Operating Income/Rate Base)**

Return on Equity (ROE)

- 9 Total Operating Income
- 10 Debt Interest (Rate Base x Weighted Debt Cost)
- 11 Preferred Stock (Rate Base x Weighted Preferred Cost)
- 12 Earnings Available for Common
- 13 Equity Rate Base (Rate Base x Equity Ratio)
- 14 ROE (Earnings for Common / Equity Rate Base)

Revenue Deficiency

- 15 Require Operating Income (Rate Base x Required Return)
 - 16 Operating Income
 - 17 Operating Income Deficiency
 - 18 Incremental Taxes
 - 19 **Revenue Deficiency**
-

Total Retail Revenue Requirements

- 20 Retail Related Revenues
- 21 Revenue Deficiency
- 22 **Total Retail Revenue Requirements**

- 23 Percentage Increase (Decrease)

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