

Otter Tail Corp
Form 10-K
February 29, 2016

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended **December 31, 2015**

☐ Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____

Commission File Number **0-53713**

OTTER TAIL CORPORATION

(Exact name of registrant as specified in its charter)

MINNESOTA **27-0383995**
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

215 SOUTH CASCADE STREET, BOX 496, FERGUS FALLS, MINNESOTA 56538-0496
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: **866-410-8780**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
COMMON SHARES, par value \$5.00 per share	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
(Yes ☒ No ☐)

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. (Yes ☐ No ☒)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. (Yes ☒ No ☐)

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
(Yes ☒ No ☐)

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer ☒

Accelerated Filer ☐

Non-Accelerated Filer ☐

Smaller Reporting
Company ☐

(Do not check if a smaller reporting company)

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
(Yes " No **x**)

The aggregate market value of common stock held by non-affiliates, computed by reference to the last sales price on June 30, 2015 was **\$962,858,128**.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: **38,002,593 Common Shares (\$5 par value) as of February 12, 2016**.

Documents Incorporated by Reference:

Proxy Statement for the 2016 Annual Meeting-Portions incorporated by reference into Part III

OTTER TAIL CORPORATION

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Definitions

The following abbreviations or acronyms are used in the text. References in this report to “the Company”, “we”, “us” and “our” are to Otter Tail Corporation.

AFUDC	Allowance for Funds Used During Construction
AQCS	Air Quality Control System
ARO	Accumulated Asset Retirement Obligation
ASC	Accounting Standards Codification
ASC 606	ASC Topic 606 – <i>Revenue from Contracts with Customers</i>
ASC 718	ASC Topic 718 – <i>Compensation—Stock Compensation</i>
ASC 740	ASC Topic 740 – <i>Income Taxes</i>
ASC 815	ASC Topic 815 – <i>Derivatives and Hedging</i>
ASC 820	ASC Topic 820 – <i>Fair Value Measurement</i>
ASC 980	ASC Topic 980 – <i>Regulated Operations</i>
ASM	Ancillary Services Market
ASU	Accounting Standards Update
Aviva	Aviva Sports, Inc.
BACT	Best-Available Control Technology
BART	Best-Available Retrofit Technology
Brookings Project	Brookings-Southeast Twin Cities 345 kV Project
BTD	BTD Manufacturing, Inc.
BTD – Illinois	Miller Welding & Iron Works, Inc.
CAA	Clean Air Act
CapX2020	Capacity Expansion 2020
CCMC	Coyote Creek Mining Company, L.L.C.
CCR	Coal Combustion Residuals
CIP	Conservation Improvement Program
CO ₂	carbon dioxide
CON	Certificate of Need
CPEC	Central Power Electric Cooperative
CPP	Clean Power Plan
CSAPR	Cross-State Air Pollution Rule
CWIP	Construction Work in Progress
DENR	Department of Environment and Natural Resources
DMS	DMS Health Technologies, Inc.
DRR	Data Requirement Rule
ECR	Environmental Cost Recovery
EEI	Edison Electric Institute
EEP	Energy Efficiency Plan
EPA	Environmental Protection Agency
ERCOT	Electric Reliability Council of Texas
ESSRP	Executive Survivor and Supplemental Retirement Plan

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Fargo Project	Fargo-Monticello 345 kV Project
FASB	Financial Accounting Standards Board
FCA	Fuel Clause Adjustment
FERC	Federal Energy Regulatory Commission
Foley	Foley Company
GAAP	Generally Accepted Accounting Principles in the United States
GHG	Greenhouse Gas
Impulse	Impulse Manufacturing, Inc.
IRP	Integrated Resource Plan
JPMorgan	JPMorgan Chase Bank, N.A.
JPMS	J.P. Morgan Securities LLC
kV	kiloVolt
kW	kiloWatt
kwh	kilowatt-hour
LSA	Lignite Sales Agreement
MAPP	Mid-Continent Area Power Pool
MATS	Mercury and Air Toxics Standards

MDU	MDU Resources Group, Inc.
MISO	Midcontinent Independent System Operator, Inc.
MISO Tariff	MISO Open Access Transmission, Energy and Operating Reserve Markets Tariff
MNCIP	Minnesota Conservation Improvement Program
MNDOC	Minnesota Department of Commerce
MNRRRA	Minnesota Renewable Resource Adjustment
MPCA	Minnesota Pollution Control Agency
MPUC	Minnesota Public Utilities Commission
MRO	Midwest Reliability Organization
MVP	Multi-Value Project
MW	megawatts
NAAQS	National Ambient Air Quality Standards
NERC	North American Electric Reliability Corporation
NAEMA	North American Energy Marketers Association
NDDOH	North Dakota Department of Health
NDPSC	North Dakota Public Service Commission
NDRRA	North Dakota Renewable Resource Adjustment
NICF	Notice of Intent to Construct Facilities
NPDES	National Pollutant Discharge Elimination System
Northern Pipe	Northern Pipe Products, Inc.
NO _x	Nitrogen Oxide
NSP MN	Northern States Power - Minnesota
NSPS	New Source Performance Standards
NYMEX	New York Mercantile Exchange
OTP	Otter Tail Power Company
PACE	Partnership in Assisting Community Expansion
PCOR	Plains CO ₂ Reduction Partnership
PEM	Power and Energy Market
PPB	Parts Per Billion
PS	Polystyrene
PSD	Prevention of Significant Deterioration
PTC	Production Tax Credit
PVC	Polyvinyl Chloride
RBOB	Reformulated Blendstock for Oxygenate Blending
RCRA	Resource Conservation and Recovery Act
REC	Renewable Energy Credits
ROE	Return on Equity
RRA	Renewable Resource Adjustment
RTO Adder	Incentive of additional 50-basis points for Regional Transmission Organization participation
SDPUC	South Dakota Public Utilities Commission
SEC	Securities and Exchange Commission
SF ₆	Sulfur Hexafluoride
SIP	State Implementation Plan
SO ₂	Sulfur Dioxide
SPP	Southwest Power Pool
Standex	Standex International Corporation
T.O. Plastics	T.O. Plastics, Inc.

TCR	Transmission Cost Recovery
Varistar	Varistar Corporation
VIC	Voluntary Investigation and Cleanup
VIE	Variable Interest Entity
Vinyltech	Vinyltech Corporation
Wylie	E.W. Wylie Corporation

PART I

Item 1. BUSINESS

(a) General Development of Business

Otter Tail Power Company was incorporated in 1907 under the laws of the State of Minnesota. In 2001, the name was changed to “Otter Tail Corporation” to more accurately represent the broader scope of consolidated operations and the name Otter Tail Power Company (OTP) was retained for use by the electric utility. On July 1, 2009, Otter Tail Corporation completed a holding company reorganization whereby OTP, which had previously been operated as a division of Otter Tail Corporation, became a wholly owned subsidiary of the new parent holding company named Otter Tail Corporation (the Company). The new parent holding company was incorporated in June 2009 under the laws of the State of Minnesota in connection with the holding company reorganization. The Company’s executive offices are located at 215 South Cascade Street, P.O. Box 496, Fergus Falls, Minnesota 56538-0496 and 4334 18th Avenue SW, Suite 200, P.O. Box 9156, Fargo, North Dakota 58106-9156. The Company’s telephone number is (866) 410-8780.

The Company makes available free of charge at its website (www.ottertail.com) its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, Forms 3, 4 and 5 filed on behalf of directors and executive officers and any amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission (SEC). Information on the Company’s website is not deemed to be incorporated by reference into this Annual Report on Form 10-K.

Otter Tail Corporation and its subsidiaries conduct business primarily in the United States. The Company had approximately 2,005 full-time employees in its continuing operations at December 31, 2015. The Company’s businesses have been classified in three segments to be consistent with its business strategy and the reporting and review process used by the Company’s chief operating decision maker. The three segments are Electric, Manufacturing and Plastics.

Over the last five years, the Company sold several businesses in execution of an announced strategy to realign its business portfolio to reduce its risk profile and dedicate a greater portion of its resources toward electric utility operations. In 2011, the Company sold Idaho Pacific Holdings, Inc., its Food Ingredient Processing business, and E.W. Wylie Corporation, its trucking company, which was included in its former Wind Energy segment. In January 2012, the Company sold the assets of Aviva Sports, Inc., a recreational equipment manufacturer. In February 2012, the Company sold DMS Health Technologies, Inc., its former Health Services segment business. In November 2012,

the Company completed the sale of the assets of the Company's wind tower company, and exited the wind tower manufacturing business. On February 8, 2013 the Company sold substantially all the assets of its dock and boatlift company. On February 28, 2015 the Company sold the assets of AEV, Inc., its former energy and electrical construction contractor headquartered in Moorhead, Minnesota, and on April 30, 2015 the Company sold Foley Company, its former water, wastewater, power and industrial construction contractor headquartered in Kansas City, Missouri. With the sale of these two companies in 2015 the Company eliminated its Construction segment.

On September 1, 2015 the Company acquired the assets of Impulse Manufacturing Inc. (Impulse) of Dawsonville, Georgia for \$30.8 million in cash, subject to a post-closing adjustment. Impulse, a full-service metal fabricator located 30 miles north of Atlanta, Georgia, recorded revenues of \$27 million in 2014. Impulse offers a wide range of metal fabrication services ranging from simple laser cutting services and high volume stamping to complex weldments and assemblies for metal fabrication buyers and original equipment manufacturers. The newly acquired business will operate under the name BTD-Georgia.

The chart below indicates the companies included in each of the Company's reporting segments.

Electric includes the production, transmission, distribution and sale of electric energy in Minnesota, North Dakota and South Dakota by OTP. In addition, OTP is a participant in the Midcontinent Independent System Operator, Inc. (MISO) markets. OTP's operations have been the Company's primary business since 1907.

Manufacturing consists of businesses in the following manufacturing activities: contract machining, metal parts stamping, fabrication and painting, and production of material and handling trays and horticultural containers. These businesses have manufacturing facilities in Georgia, Illinois and Minnesota and sell products primarily in the United States.

Plastics consists of businesses producing polyvinyl chloride (PVC) pipe at plants in North Dakota and Arizona. The PVC pipe is sold primarily in the upper Midwest and Southwest regions of the United States.

OTP is a wholly owned subsidiary of the Company. The Company's manufacturing and plastic pipe businesses are owned by its wholly owned subsidiary, Varistar Corporation (Varistar). The Company's corporate operating costs include items such as corporate staff and overhead costs, the results of the Company's captive insurance company and other items excluded from the measurement of operating segment performance that are not allocated to its subsidiary companies. Corporate assets consist primarily of cash, prepaid expenses, investments and fixed assets. Corporate is not an operating segment. Rather, it is added to operating segment totals to reconcile to totals on the Company's consolidated financial statements.

The Company has lowered its overall risk by investing in rate base growth opportunities in its Electric segment and divesting certain nonelectric operating companies that no longer fit the Company's portfolio criteria. This strategy has provided a more predictable earnings stream, improved the Company's credit quality and preserved its ability to fund the dividend. The Company's goal is to deliver annual growth in earnings per share between four to seven percent over the next several years, using 2013 non-GAAP earnings as the base for measurement. The growth is expected to come from the substantial increase in the Company's regulated utility rate base and from planned increased earnings from existing capacity already in place at the Company's manufacturing and plastic pipe businesses, as well as the 2015 acquisition of BTD-Georgia and the facilities expansion and addition of paint services at BTD's Minnesota facilities, which will be completed in 2016. The Company will continue to review its business portfolio to see where additional opportunities exist to improve its risk profile, improve credit metrics and generate additional sources of cash to support the growth opportunities in its electric utility. The Company will also evaluate opportunities to allocate capital to potential acquisitions in its Manufacturing segment. Over time, the Company expects the electric utility business will provide approximately 75% to 85% of its overall earnings. The Company expects its manufacturing and plastic pipe businesses will provide 15% to 25% of its earnings, and will continue to be a fundamental part of its strategy. The actual mix of earnings from continuing operations in 2015 was 83% from the electric utility and 17% from the manufacturing and plastic pipe businesses, including unallocated corporate costs.

In evaluating its portfolio of operating companies, the Company looks for the following characteristics:

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A threshold level of net earnings and a return on invested capital in excess of the Company's weighted average cost of capital within three years of the acquisition.

- Is manufacturing centric with a sustainable competitive advantage.
- An ability to quickly adapt to changing economic cycles.
- A strong management team committed to operational excellence.

For a discussion of the Company's results of operations, see "Management's Discussion and Analysis of Financial Condition and Results of Operations," on pages 36 through 59 of this Annual Report on Form 10-K.

(b) Financial Information about Industry Segments

The Company is engaged in businesses classified into three segments: Electric, Manufacturing and Plastics. Financial information about the Company's segments and geographic areas is included in note 2 of "Notes to Consolidated Financial Statements" on pages 76 through 79 of this Annual Report on Form 10-K.

(c) Narrative Description of BusinessELECTRICGeneral

Electric includes OTP which is headquartered in Fergus Falls, Minnesota, and provides electricity to more than 130,000 customers in a service area encompassing 70,000 square miles of western Minnesota, eastern North Dakota and northeastern South Dakota. The Company derived 52%, 51% and 50% of its consolidated operating revenues and 80%, 76% and 66% of its consolidated operating income from the Electric segment for the years ended December 31, 2015, 2014 and 2013, respectively.

The breakdown of retail electric revenues by state is as follows:

State	2015	2014
Minnesota	50.4 %	49.5 %
North Dakota	40.6	41.6
South Dakota	9.0	8.9
Total	100.0 %	100.0 %

The territory served by OTP is predominantly agricultural. The aggregate population of OTP's retail electric service area is approximately 230,000. In this service area of 421 communities and adjacent rural areas and farms, approximately 126,000 people live in communities having a population of more than 1,000, according to the 2010 census. The only communities served which have a population in excess of 10,000 are Jamestown, North Dakota (15,427); Bemidji, Minnesota (13,431); and Fergus Falls, Minnesota (13,138). As of December 31, 2015 OTP served 131,149 customers. Although there are relatively few large customers, sales to commercial and industrial customers are significant.

The following table provides a breakdown of electric revenues by customer category. All other sources include gross wholesale sales from utility generation, net revenue from energy trading activity and sales to municipalities.

Customer Category	2015	2014
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Commercial	35.4 %	37.3 %
Residential	32.1	32.3
Industrial	29.9	25.3
All Other Sources	2.6	5.1
Total	100.0%	100.0%

Wholesale electric energy kilowatt-hour (kwh) sales were 2.5% of total kwh sales for 2015 and 5.8% for 2014. Wholesale electric energy kwh sales decreased by 61.1% between the years while revenue per kwh sold decreased by 220.9%. Activity in the short-term energy market is subject to change based on a number of factors and it is difficult to predict the quantity of wholesale power sales or prices for wholesale power in the future.

Capacity and Demand

As of December 31, 2015 OTP's owned net-plant dependable kilowatt (kW) capacity was:

Baseload Plants	
Big Stone Plant	254,800 kW
Coyote Station	151,000
Hoot Lake Plant	140,500
Total Baseload Net Plant	546,300 kW
Combustion Turbine and Small Diesel Units	108,500 kW
Hydroelectric Facilities	2,500 kW
Owned Wind Facilities (rated at nameplate)	
Luverne Wind Farm (33 turbines)	49,500 kW
Ashtabula Wind Center (32 turbines)	48,000
Langdon Wind Center (27 turbines)	40,500
Total Owned Wind Facilities	138,000 kW

The baseload net plant capacity for Big Stone Plant and Coyote Station constitutes OTP's ownership percentages of 53.9% and 35%, respectively. OTP owns 100% of the Hoot Lake Plant. During 2015, about 47% of OTP's retail kwh sales were supplied from OTP generating plants with the balance supplied by purchased power.

In addition to the owned facilities described above, OTP had the following purchased power agreements in place on December 31, 2015:

Purchased Wind Power Agreements (rated at nameplate and greater than 2,000 kW)	
Ashtabula Wind III	62,400 kW
Edgeley	21,000
Langdon	19,500
Total Purchased Wind	102,900 kW
Purchase of Capacity (in excess of 1 year and 500 kW)	
Purchase: Great River Energy ¹	100,000 kW

¹100,000 kW through May 2017, 25,000 kW June 2017 – May 2019, and 50,000 kW June 2019 – May 2021.

OTP has a direct control load management system which provides some flexibility to OTP to effect reductions of peak load. OTP also offers rates to customers which encourage off-peak usage.

OTP's capacity requirement is based on MISO Module E requirements. OTP is required to have sufficient Zonal Resource Credits to meet its monthly weather normalized forecast demand, plus a reserve obligation. OTP met its MISO obligation for the 2015-2016 MISO planning year. OTP generating capacity combined with additional capacity under purchased power agreements (as described above) and load management control capabilities is expected to meet 2016 system demand and MISO reserve requirements.

Fuel Supply

Coal is the principal fuel burned at the Big Stone, Coyote and Hoot Lake generating plants. Coyote Station, a mine-mouth facility, burns North Dakota lignite coal. Hoot Lake Plant and Big Stone Plant burn western subbituminous coal.

The following table shows the sources of energy used to generate OTP's net output of electricity for 2015 and 2014:

Sources	2015		2014	
	Net kwhs Generated	% of Total kwhs	Net kwhs Generated	% of Total kwhs

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	(Thousands) Generated				(Thousands) Generated		
Subbituminous Coal	1,132,335	49.1	%		2,011,002	57.3	%
Lignite Coal	662,450	28.7			933,036	26.6	
Wind and Hydro	493,276	21.4			523,280	14.9	
Natural Gas and Oil	17,907	0.8			44,105	1.2	
Total	2,305,968	100.0	%		3,511,423	100.0	%

OTP has the following primary coal supply agreements:

Plant	Coal Supplier	Type of Coal	Expiration Date
Big Stone Plant	Alpha Coal Sales Company, LLC	Wyoming subbituminous	December 31, 2017
Big Stone Plant	Peabody COALSALES, LLC	Wyoming subbituminous	December 31, 2017
Coyote Station	Dakota Westmoreland Corporation	North Dakota lignite	May 4, 2016
Coyote Station	Coyote Creek Mining Company, L.L.C.	North Dakota lignite	December 31, 2040
Hoot Lake Plant	Cloud Peak Energy Resources LLC	Montana subbituminous	December 31, 2023

OTP's anticipated coal needs for Big Stone are secured under contract through December 2017.

The contract with Dakota Westmoreland Corporation expires on May 4, 2016. In October 2012, the Coyote Station owners, including OTP, entered into a lignite sales agreement (LSA) with Coyote Creek Mining Company, L.L.C. (CCMC), a subsidiary of The North American Coal Corporation, for the purchase of coal to meet the coal supply requirements of Coyote Station for the period beginning in May 2016 and ending in December 2040. The price per ton to be paid by the Coyote Station owners under the LSA will reflect the cost of production, along with an agreed profit and capital charge. The LSA provides for the Coyote Station owners to purchase the membership interests in CCMC in the event of certain early termination events and also at the end of the term of the LSA.

OTP's coal supply requirements for Hoot Lake Plant are secured under contract through December 2023.

It is OTP's practice to maintain a minimum 30-day inventory (at full output) of coal at the Big Stone Plant, a 17-day inventory at Coyote Station and 32 days of inventory at Hoot Lake Plant.

Railroad transportation services to the Big Stone Plant and Hoot Lake Plant are provided under a common carrier rate by the BNSF Railway. The common carrier rate is subject to a mileage-based methodology to assess a fuel surcharge. The basis for the fuel surcharge is the U.S. average price of retail on-highway diesel fuel. No coal transportation agreement is needed for Coyote Station due to its location next to a coal mine.

The average cost of fuel consumed (including handling charges to the plant sites) per million British Thermal Units for the years 2015, 2014, and 2013 was \$2.281, \$2.036, and \$2.031, respectively.

General Regulation

OTP is subject to regulation of rates and other matters in each of the three states in which it operates and by the federal government for certain interstate operations.

A breakdown of electric rate regulation by each jurisdiction is as follows:

Rates	Regulation	2015		2014	
		% of Electric Revenues	% of kwh Sales	% of Electric Revenues	% of kwh Sales
MN Retail Sales	MN Public Utilities Commission	47.2 %	52.0 %	44.9 %	46.8 %
ND Retail Sales	ND Public Service Commission	38.0	38.7	37.8	38.8
SD Retail Sales	SD Public Utilities Commission	8.5	9.3	8.1	8.6
Transmission & Wholesale	Federal Energy Regulatory Commission	6.3	--	9.2	5.8
Total		100.0 %	100.0 %	100.0 %	100.0 %

OTP operates under approved retail electric tariffs in all three states it serves. OTP has an obligation to serve any customer requesting service within its assigned service territory. The pattern of electric usage can vary dramatically during a 24-hour period and from season to season. OTP's tariffs are designed to recover the costs of providing electric service. To the extent that peak usage can be reduced or shifted to periods of lower usage, the cost to serve all customers is reduced. In order to shift usage from peak times, OTP has approved tariffs in all three states for residential demand control, general service time of use and time of day, real-time pricing, and controlled and

interruptible service. Each of these specialized rates is designed to improve efficient use of OTP resources, while giving customers more control over their electric bill. OTP also has approved tariffs in its three service territories which allow qualifying customers to release and sell energy back to OTP when wholesale energy prices make such transactions desirable.

With a few minor exceptions, OTP's electric retail rate schedules provide for adjustments in rates based on the cost of fuel delivered to OTP's generating plants, as well as for adjustments based on the cost of electric energy purchased by OTP. OTP also credits certain margins from wholesale sales to the fuel and purchased power adjustment. The adjustments for fuel and purchased power costs are presently based on a two month moving average in Minnesota and by the Federal Energy Regulatory Commission (FERC), a three month moving average in South Dakota and a four month moving average in North Dakota. These adjustments are applied to the next billing period after becoming applicable. These adjustments also include an over or under recovery mechanism, which is calculated on an annual basis in Minnesota and on a monthly basis in North Dakota and South Dakota.

Below are descriptions of OTP's major capital expenditure projects that have had, or will have, a significant impact on OTP's revenue requirements, rates and alternative revenue recovery mechanisms, followed by summaries of the material regulations of each jurisdiction applicable to OTP's electric operations, as well as any specific electric rate proceedings during the last three years with the Minnesota Public Utilities Commission (MPUC), the North Dakota Public Service Commission (NDPSC), the South Dakota Public Utilities Commission (SDPUC) and the FERC. The Company's manufacturing and plastic pipe businesses are not subject to direct regulation by any of these agencies.

Major Capital Expenditure Projects

The Big Stone South – Brookings MVP and CapX2020 Project—This 345 kiloVolt (kV) transmission line, currently under construction, will extend approximately 70 miles between a proposed substation near Big Stone City, South Dakota and the Brookings County Substation near Brookings, South Dakota. OTP and Northern States Power – MN (NSP MN), a subsidiary of Xcel Energy Inc., jointly developed this project. MISO approved this project as a Multi-Value Project (MVP) under the MISO Open Access Transmission, Energy and Operating Reserve Markets Tariff (MISO Tariff) in December 2011. MVPs are designed to enable the region to comply with energy policy mandates and to address reliability and economic issues affecting multiple areas within the MISO region. The cost allocation is designed to ensure the costs of transmission projects with regional benefits are properly assigned to those who benefit. A Notice of Intent to Construct Facilities (NICF) was filed with the SDPUC on February 29, 2012. The SDPUC approved the certification for the northern portion of the route on April 9, 2013 and granted approval of a route permit for the southern portion of the line on February 18, 2014. On August 1, 2014 OTP and NSP MN entered into agreements to construct the project. This line is expected to be in service in fall 2017. Construction began on this line in the third quarter of 2015. OTP's total capital investment in this project is expected to be approximately \$97 million, which includes certain assets that will be owned 100% by OTP.

The Big Stone South – Ellendale MVP—This is a proposed 345 kV transmission line that will extend 160 to 170 miles between a proposed substation near Big Stone City, South Dakota and a proposed substation near Ellendale, North Dakota. OTP is jointly developing this project with Montana-Dakota Utilities Co., a division of MDU Resources Group, Inc. (MDU). MISO approved this project as an MVP under the MISO Tariff in December 2011. OTP and MDU jointly filed an NICF with the SDPUC in March of 2012. On August 25, 2013 the NDPSC granted Certificates of Public Convenience and Necessity to OTP and MDU for ten miles of the proposed line to be built in North Dakota. On July 10, 2014 the NDPSC approved a Certificate of Corridor Compatibility and a route permit for the North Dakota section of the proposed line. On August 22, 2014 the SDPUC issued an order approving the route permit for the South Dakota section of the proposed line. A route permit amendment to shift a portion of the route in North Dakota was approved by the NDPSC on December 16, 2015. On June 12, 2015 OTP and MDU entered into agreements to construct the project. This project is expected to be completed in 2019. OTP's total capital investment in this project is expected to be approximately \$153 million, which includes certain assets that will be owned 100% by OTP.

Capacity Expansion 2020 (CapX2020) Transmission Line Projects—CapX2020 is a joint initiative of eleven investor-owned, cooperative, and municipal utilities in Minnesota and the surrounding region to upgrade and expand the electric transmission grid to ensure continued reliable and affordable service.

Fargo–Monticello 345 kV CapX2020 Project (the Fargo Project)—OTP has invested approximately \$81 million and has a 14.2% ownership interest in the jointly-owned assets of this 240-mile transmission line, and owns 100% of certain assets of the project. The final phase of this project was energized on April 2, 2015.

Brookings–Southeast Twin Cities 345 kV CapX2020 Project (the Brookings Project)—OTP has invested approximately \$26 million and has a 4.8% ownership interest in this 250-mile transmission line. The MISO granted unconditional approval of the Brookings Project as an MVP under the MISO Tariff in December 2011. The final segments of this line were energized on March 26, 2015.

Recovery of OTP's major transmission investments is through the MISO Tariff (several as MVPs) and, currently, Minnesota, North Dakota and South Dakota Transmission Cost Recovery (TCR) Riders.

Big Stone Plant Air Quality Control System (AQCS)—The South Dakota Department of Environmental and Natural Resources determined the Big Stone Plant is subject to Best-Available Retrofit Technology (BART) requirements of the Clean Air Act (CAA), based on air dispersion modeling indicating that Big Stone Plant's emissions reasonably contribute to visibility impairment in national parks and wilderness areas in Minnesota, North Dakota, South Dakota and Michigan. OTP completed construction and testing of the BART-compliant AQCS at Big Stone Plant in the fourth quarter of 2015 and placed the AQCS into commercial operation on December 29, 2015. The capitalized cost of the project as of December 31, 2015 was approximately \$367 million (OTP's 53.9% share was approximately \$198 million).

Big Stone II Project—On June 30, 2005 OTP and a coalition of six other electric providers entered into several agreements for the development of a second electric generating unit, named Big Stone II, at the site of the existing Big Stone Plant near Milbank, South Dakota. On September 11, 2009 OTP announced its withdrawal—both as a participating utility and as the project's lead developer—from Big Stone II. On November 2, 2009, the remaining Big Stone II participants announced the cancellation of the Big Stone II project. Recovery in Minnesota, North Dakota and South Dakota of amounts OTP had invested in the Big Stone II project at the time of its withdrawal is discussed below under the respective jurisdictional sections of this report.

Minnesota

Under the Minnesota Public Utilities Act, OTP is subject to the jurisdiction of the MPUC with respect to rates, issuance of securities, depreciation rates, public utility services, construction of major utility facilities, establishment of exclusive assigned service areas, contracts and arrangements with subsidiaries and other affiliated interests, and other matters. The MPUC has the authority to assess the need for large energy facilities and to issue or deny certificates of need, after public hearings, within one year of an application to construct such a facility.

Pursuant to the Minnesota Power Plant Siting Act, the MPUC has authority to select or designate sites in Minnesota for new electric power generating plants (50,000 kW or more) and routes for transmission lines (100 kV or more) in an orderly manner compatible with environmental preservation and the efficient use of resources, and to certify such sites and routes as to environmental compatibility after an environmental impact study has been conducted by the Minnesota Department of Commerce (MNDOC) and the Office of Administrative Hearings has conducted contested case hearings.

The Minnesota Division of Energy Resources, part of the MNDOC, is responsible for investigating all matters subject to the jurisdiction of the MNDOC or the MPUC, and for the enforcement of MPUC orders. Among other things, the MNDOC is authorized to collect and analyze data on energy including the consumption of energy, develop recommendations as to energy policies for the governor and the legislature of Minnesota and evaluate policies governing the establishment of rates and prices for energy as related to energy conservation. The MNDOC also has the power, in the event of energy shortage or for a long-term basis, to prepare and adopt regulations to conserve and allocate energy.

2010 General Rate Case—OTP's most recent general rate increase in Minnesota of approximately \$5.0 million, or 1.6%, was granted by the MPUC in an order issued on April 25, 2011 and effective October 1, 2011. Pursuant to the order, OTP's allowed rate of return on rate base was set at 8.61%, and its allowed rate of return on equity was set at 10.74%.

2016 General Rate Case

On February 16, 2016 OTP filed a request with the MPUC for an increase in revenue recoverable under general rates in Minnesota. In its filing, OTP requested an increase in annual revenue of approximately \$19.3 million, or 9.8%, based on an allowed rate of return on rate base of 8.07% and an allowed rate of return on equity of 10.4%, based on an equity ratio of 52.5% of total capital. Through this rate case proceeding, OTP is proposing to recover, in base rates, revenue currently subject to recovery under Minnesota TCR and Environmental Cost Recovery (ECR) riders.

Integrated Resource Plan (IRP)—Minnesota law requires utilities to submit to the MPUC for approval a 15-year advance IRP. A resource plan is a set of resource options a utility could use to meet the service needs of its customers over a forecast period, including an explanation of the utility's supply and demand circumstances, and the extent to which each resource option would be used to meet those service needs. The MPUC's findings of fact and conclusions regarding resource plans shall be considered prima facie evidence, subject to rebuttal, in Certificate of Need (CON) hearings, rate reviews and other proceedings. Typically, the filings are submitted every two years.

In the MPUC order approving the 2011-2025 IRP in February 2012, OTP was required to submit a base-load diversification study specifically focused on evaluating retirement and repower options for the Hoot Lake Plant. In an order dated March 25, 2013 the MPUC approved OTP's recommendations that Hoot Lake Plant add pollution-control equipment at a cost of approximately \$10.0 million to comply with United States Environmental Protection Agency's (EPA) mercury and air toxics standards by 2015 and discontinue burning coal by May 31, 2021.

On December 2, 2013 OTP filed its 2014-2028 IRP with the MPUC. Copies of the 2014-2028 IRP were provided to both the NDPSC and SDPUC. On December 5, 2014 the MPUC issued an order approving OTP's 2014-2028 IRP filing, which included the following items:

- Authorization to add up to 300 megawatts (MW) of wind between 2017 and 2021 if it is cost effective and does not negatively impact OTP's electric system operation.
- Construction of solar generation sufficient to comply with the Minnesota Solar Energy Standard by 2020.
- Confirmation of a 1.5% energy savings goal, as filed in OTP's triennial Minnesota Conservation Improvement Program (MNCIP) plan.
- Authorization to obtain 200 MW, subject to need, of intermediate natural gas generation in the 2019-2021 timeframe.

On June 29, 2015 OTP requested the MPUC grant a six-month extension to June 1, 2016 for filing its 2016-2030 IRP to allow OTP time to model compliance with final rules on proposed standards of performance for carbon dioxide (CO₂) emissions from fossil fuel-fired power plants published by the EPA on October 23, 2015 and to incorporate planned wind and natural gas-fired generation additions. On September 14, 2015 the MPUC granted OTP's request for a six-month extension.

Renewable Energy Standards, Conservation, Renewable Resource Riders—Minnesota law favors conservation over the addition of new resources. In addition, Minnesota law requires the use of renewable resources where new supplies are needed, unless the utility proves that a renewable energy facility is not in the public interest. An existing environmental externality law requires the MPUC, to the extent practicable, to quantify the environmental costs associated with each method of electricity generation, and to use such monetized values in evaluating generation resources. The MPUC must disallow any nonrenewable rate base additions (whether within or outside of the state) or any related rate recovery, and may not approve any nonrenewable energy facility in an IRP, unless the utility proves that a renewable energy facility is not in the public interest. The state has prioritized the acceptability of new generation with wind and solar ranked first and coal and nuclear ranked fifth, t