

**STATE OF SOUTH DAKOTA
BEFORE THE
SOUTH DAKOTA PUBLIC UTILITIES COMMISSION**

**In the Matter of Otter Tail Power
Company’s Petition for Approval
of Rate Schedule, Section 13.09,
Phase-In Rider**

**Docket No. EL21-

PETITION FOR ANNUAL
UPDATE TO PHASE-IN RIDER**

I. INTRODUCTION

Otter Tail Power Company (Otter Tail) hereby Petitions the South Dakota Public Utilities Commission for approval of its second annual update to its Phase-In Rate Plan Rider (Rider). This filing is made in compliance with the South Dakota Public Utilities Commission’s (Commission) Order¹ in Otter Tail’s 2019 Rider Filing (2019 Filing) and under the Commission’s authority granted in South Dakota Codified Laws 49-34A-73 through 49-34A-78 under Otter Tail’s Rider, Electric Rate Schedule Section 13.09. This Rider is described in the Settlement Stipulation² (Settlement) and approved by the Commission’s Order (Order) in Otter Tail’s last general rate case in Docket No. EL18-021³ (Rate Case). This filing includes the components described in the Settlement.

In this filing, Otter Tail’s Rider rate is adjusted to reflect the applicable Rider revenue requirements for the next recovery period (September 2021 – August 2022). This update includes the projected tracker balance for the Rider to recover actual and forecasted costs for the Astoria Station Natural Gas Plant project (Astoria Station), Merricourt Wind Project (Merricourt Project), together (Projects), forecasted net benefits associated with additional load in the Lake Norden area, and net savings associated with Otter Tail’s retirement of its Hoot Lake Plant (HLP) in Otter Tail’s South Dakota jurisdiction.

¹ Commission’s August 26, 2019 Order in the Matter of Otter Tail Power Company’s Petition for Approval of Rate Schedule, Section 13.09, Phase-In Rider in Docket No. EL19-025.

² February 15, 2019 Joint Settlement Stipulation of Otter Tail Power Company and South Dakota Public Utilities Commission Staff IN THE MATTER OF THE APPLICATION OF OTTER TAIL POWER COMPANY FOR AUTHORITY TO INCREASE ITS ELECTRIC RATES in Docket No. EL18-021.

³ Commission’s March 6, 2019 Order Granting Joint Motion for Approval of Settlement Stipulation; Order Approving Settlement Stipulation IN THE MATTER OF THE APPLICATION OF OTTER TAIL POWER COMPANY FOR AUTHORITY TO INCREASE ITS ELECTRIC RATES in Docket No. EL18-021.

The rate of return (ROR) included in this filing is based on Otter Tail's actual capital structure as of December 31 of the preceding year using the return on equity (ROE) approved by the Commission in the Rate Case. This Petition establishes the rates to collect the 12 months of revenue requirements for the recovery period of September 2021 through August 2022 as well as the projected tracker balance at the end of August 2021. The Petition includes actual investment costs, expenses, and revenues through April 2021 and forecasted information for May 2021 through August 2022. The proposed revenue to be collected for the September 1, 2021 through August 31, 2022 recovery period, as shown in Attachment 1, is \$345,134.

For a residential customer using 1,000 kWh per month, the change from the current factor to that proposed in this annual update results in a decrease of \$3.75 per month. For a Large General Service (LGS) customer using 486 kW and 222,350 kWh, the bill impact of this update is a decrease of \$558.91 per month.

II. GENERAL FILING INFORMATION

A. Name, address, and telephone number of the utility making the filing

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B. Name, address, and telephone number of the attorney for Otter Tail Power Company

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D. The date of filing and the date changes will take effect

The date of this filing is June 1, 2021. Otter Tail proposes the update to the Rider factor to go into effect for usage on and after September 1, 2021.

E. Statutes controlling schedule for processing the filing

Otter Tail files this Rider for Commission approval authorized by South Dakota Codified Laws 49-34A-73 through 49-34A-78. ARSD Part 20:10:13:15 requires a 30-day notice to the Commission of a proposed change in a utility's tariff schedule, after which time the proposed changes take effect unless suspended. Because no determination of Otter Tail's general revenue requirement is necessary, Otter Tail requests an expedited and informal proceeding, including any variances that may be necessary. Otter Tail will post a notice of proposed changes in each business office in Otter Tail's affected electric service territory in South Dakota for at least 30 days before the change becomes effective in compliance with ARSD 20:10:13:18. Attachment 11 to this Petition is the proposed customer notice required by ARSD 20:10:13:19, which will be sent to customers with the first bill rendered when the rate is implemented. Otter Tail includes Attachment 12 to comply with ARSD 20:10:13:26, which requires the Utility to report all rate schedule changes and customer impacts. Otter Tail will provide notice of this proceeding to its customers pursuant to South Dakota Codified Laws Chapter 49-34A-12 in June 2021 billing statements.

III. PHASE-IN COST RECOVERY

A. Background

On April 20, 2018, Otter Tail filed its Rate Case with the Commission requesting to increase rates for electric service to customers in its South Dakota service territory. Otter Tail's application proposed a step increase, to be effective January 1, 2020, to facilitate recovery of the Merricourt Project. Commission Staff and Otter Tail (together the Parties) held settlement

conferences to arrive at jointly acceptable resolutions to issues raised in the Rate Case and the Parties filed a Joint Settlement that was approved by the Order. Section 3, Part 2 of that Settlement contemplates the Merricourt Project as part of a Phase-In Rate Plan for recovery of capital projects as well as additional components. Staff's description of the Phase-In portion of the Settlement Agreement reads as follows:

The Parties agree that OTP may file for the establishment of a phase-in rate plan under SDCL 49-34A-73 through 78, seeking recovery of Merricourt and Astoria construction work in progress and continuing once the projects are in-service and until the time the Company files its next rate case. This approach provides OTP the opportunity to recover costs associated with the two capital projects while avoiding multiple rate cases⁴...

The phase-in rate plan will also include an adjustment reflecting the net benefit of the additional load in the Lake Norden area, including corresponding updates to jurisdictional allocation factors resulting from the increased load to South Dakota...

The phase-in plan will also include an adjustment to reflect the net savings associated with the Hoot Lake plant retirement, which is scheduled for retirement in May of 2021.

The Parties agree OTP will submit an annual Phase-In Rider filing on a going forward basis to be received by the PUC by June 1 of each year. Based on this annual report, OTP will adjust the Phase-In rate each year based on actual costs and collections.

In compliance with the above referenced statutes and the approved Settlement, this Petition provides information on the projects included in the Phase-In Plan; information associated with the Lake Norden area load growth; the retirement of Hoot Lake Plant; and Otter Tail's calculations for its Phase-In Rider rate. Otter Tail provides an updated tariff rate schedule, Section 13.09 as Attachment 10 to this filing.

⁴ February 21, 2019 Staff Memorandum Supporting Settlement Stipulation, beginning on page 14.

B. Components included in the Rider Petition

In this Petition, Otter Tail provides updated costs and revenue requirements for the Projects. The costs and revenue requirements for the Projects are included in Attachments 4 and 5. Otter Tail also provides its revenue requirement calculation for the material load growth in its Lake Norden Area service territory. The adjustment reflecting the net benefit of new load in the Lake Norden area, including corresponding updates to jurisdictional allocation factors resulting from the increased load to South Dakota is provided in Attachments 6a, 6b, 6c, and 6d. Otter Tail provides detail on cost implications with the Hoot Lake retirement in Attachment 7 in this Petition.

C. Astoria Station – Attachment 4

Otter Tail has commissioned a 245 MW natural gas-fired simple cycle combustion turbine near Astoria, South Dakota. Otter Tail's Energy Conversion Facility Permit Application for Astoria Station⁵ (Permit Application) provides a complete description of the project. All cold commissioning was completed the first quarter 2021 and the first fire of the combustion turbine was achieved on January 24, 2021. Once full load was achieved, testing and tuning continued for emissions; startup and online ramp rates; heat rate; generator capability testing; noise emissions; and cold and hot start parameters. On February 13, 2021, Astoria successfully completed a key commissioning milestone of running at full load for at least one hour to satisfy requirements necessary for the unit to meet MISO capacity accreditation for the 2021/2022 planning year which begins June 1, 2021. Formal performance and acceptance testing was conducted in early April and the Unit was made available for dispatch on April 30. Final project activities include punch list items and warm weather-dependent base-scope works such as final grading, asphaltting, touchup painting and cleaning; and administrative and contractual closeout items. Cost will continue to be incurred as is typical with large project close out and the Astoria Station project is expected to be completed under budget even while managing the implications of the COVID-19 pandemic. Additional project costs due to COVID-19 have remained relatively low and with the project winding down, the number of workers in close proximity to one another is much lower. As

⁵ In the Matter of the Application of Otter Tail Power Company for an Energy Conversion Facility Permit for the Construction of a Combustion Turbine Generator and Associated Infrastructure Including a Natural Gas Pipeline and Electric Transmission line near Astoria, South Dakota in Docket No. EL17-042.

shown in Attachment 4, the current estimate at completion is \$153.4 million (OTP Total) / \$15.6 million (OTP SD) with an accounting in-service date of February 2021.

The Astoria Station Project includes transmission network upgrades required to accommodate the interconnection of these facilities into the integrated transmission system. Transmission network upgrades of approximately \$8.7M (OTP Total) were included in the total cost estimate of the project. Per prior FERC Orders^{6,7}, Transmission owners may elect to self-fund the transmission network upgrades. The Transmission Owner will pay for and build the necessary transmission network upgrades that are needed by the interconnection customer(s). The interconnection customer(s) will then pay the transmission owner for the cost of the network upgrade through facility service agreement (FSA) revenues over a 20-year term.

In the case of the transmission upgrades necessary to interconnect the Astoria Station Project, Otter Tail is the owner of those transmission facilities. In addition, the Midcontinent Independent System Operator (MISO) determined that the costs of those transmission upgrades benefitted two interconnection customers, and so therefor, the costs are being shared between Astoria Station and the Tatanka Ridge Wind, LLC project. MISO determined Astoria Station is responsible for 65.48 percent of the interconnection costs, while Tatanka Ridge Wind, LLC is responsible for 34.52 percent of the interconnection costs. As Otter Tail owns the transmission facilities and is the owner of Astoria Station, the network upgrades are included as part of the overall capital spend of the project along with the associated FSA revenues received and paid for from Tatanka Ridge Wind, LLC. Attachment 4, Line 24 identifies forecasted Net FSA Revenues for the Astoria Station interconnection of approximately \$308,000 (OTP Total) / \$31,300 (OTP SD) to be paid to Otter Tail during the September 2021 through August 2022 recovery period. This revenue stream represents the FSA revenues to be received from Tatanka Ridge Wind, LLC to pay for their share of the interconnection upgrades. No revenue stream exists related to Otter Tail's ownership of both Astoria and the Transmission facilities under the FSA.

Otter Tail entered into a Long-Term Service Agreement (LTSA) with Mitsubishi. The arrangement of an LTSA is one where the manufacturer maintains a parts pool for its fleet of

⁶ See FERC Order dated August 31, 2018 in FERC Docket No. ER18-2513 and FERC Orders on Remand dated August 31, 2018 under FERC Docket Nos. EL15-36, EL15-68, ER16-696, ER18-1964 and EL18-1965. See Remand Order at PP 28-88; see also *Ameren Srvs. Co. v. FERC*, 880 F.3d 571, 581 (D.C. Cir. 2018). FERC further denied requests for rehearing of the Commission's August 31, 2018 order on remand in a December 20, 2019 order under Docket No. ER18-2513, Midcontinent Independent System Operator, Inc., 164 FERC ¶ 61,158 (2018).

⁷ See FERC Order dated December 20, 2019 under FERC Docket No. ER18-2513. (169 FERC ¶ 61,233).

combustion turbines and takes on the risk of the repair and/or replacement of the combustion components. The owner makes prepayments to the manufacturer for the major maintenance based on the hours and/or starts the unit is operated up until the major maintenance is complete. There are many benefits to an LTSA which include: predictable major maintenance costs paid overtime; predictable planned outage lengths, long-term parts warranties, coverage for damage caused by failed parts, and remote monitoring of the combustion turbine by the manufacturer. The annual LTSA fee is estimated to be \$1.9 million (OTP Total) / \$0.20 million (OTP SD) during a typical year Astoria Station is in service. Attachment 4, Line No. 8 includes approximately 80 percent of the LTSA agreement as capital costs, as estimated by Mitsubishi. The remaining 20 percent is included as part of operating costs for Astoria Station on Attachment 4, Line No. 23. The capital portion of the LTSA Prepayments is included in rate base until major maintenance is completed. At that point, the amount of accumulated LTSA Prepayments that have been utilized during major maintenance will be included in Plant Balance and subject to depreciation.

D. Merricourt Project – Attachment 5

Otter Tail is currently completing the construction of the Merricourt Project located near the town of Merricourt, North Dakota, approximately 15 miles south of Edgeley in McIntosh and Dickey Counties. This project consists of 75 V110-2.0 MW Vestas wind turbine generator with an aggregate nameplate capacity of 150 MW Commissioning of turbines began in October 2020, with some beginning to operate. All 75 units were fully in service by December 19, 2020 with the entire facility deemed commercially operational December 2020. The coronavirus pandemic created additional complexities for project management, however, the project is still on time and under budget. Total project costs incurred through April 2021, is \$254 million (OTP Total) / \$25.0 million (OTP SD) based on jurisdictional allocation factor of 9.948 percent. As shown in Attachment 5, the current estimate at completion is \$258 million (OTP Total) / \$26 million (OTP SD), not including allowance for funds used during construction (AFUDC).

This forecast has the Merricourt Project at reduced output while certain transmission network facilities are being constructed throughout 2021. When fully operational, the Merricourt Project will add approximately 666,000 megawatt hours (MWh), at a projected net capacity rate of 50.7 percent, of zero fuel cost energy to Otter Tail's generation portfolio. Merricourt Project generation will result in a reduction to the cost of energy paid through the Energy Adjustment

Rider in tariff rate schedule, Section 13.01. Merricourt Project generation is expected to be fairly level over the life of the project.

In Otter Tail's 2020 Minnesota depreciation filing, Otter Tail proposed to increase the service life of the Merricourt Project, from 25 years to 35 years for rates applicable in 2021⁸. Otter Tail bases this average service life extension request for its wind farms on two primary factors. First, a recent engineering firm study points to an expected service life for the Merricourt Project of forty years. Second, Otter Tail has made significant investments in life extending equipment for Merricourt. In this filing Otter Tail has increased the depreciation for the Merricourt Project from 25 years to 35 years starting in 2021. This has an impact of decreasing the revenue requirement by \$3.5 Million (OTP Total) / \$0.35 Million (OTP SD) for the September 2021 through August 2022 recovery period.

The 2021 Merricourt Project generation forecast is about 80 percent of the expected output at full operation. Otter Tail estimates this slightly lower generation as the project comes online due to the timing of MISO network upgrades in addition to the performance of remedial action schemes Otter Tail obtained to ensure available transmission pathways. As with other components of the Rider, Otter Tail will update the actual dispatch as it is available in future updates.

The Merricourt Project includes transmission interconnection upgrades required to accommodate the interconnection of these facilities into the integrated transmission system. These transmission interconnection upgrades were originally included in the total cost of the project. While the costs of these necessary transmission interconnection upgrades are included as part of the project, ownership of the facilities may be held by other transmission owners. In these cases, the transmission owners may elect to self-fund the transmission interconnection upgrade which reduces Otter Tail's overall capital investment in the project and increases the project's ongoing facility charge payments, which are reflected as an operations and maintenance expense. In the case of these transmission facilities being owned by Otter Tail, the interconnection investments are included as part of the overall capital spend of the project, as are associated revenues.

In this filing, Otter Tail includes greater detail for the transmission interconnection upgrades necessary for the Merricourt Project. Attachment 5, Line 27 identifies the annual Net

⁸ In the Matter of the Filing by Otter Tail Power Company Regarding its 2020 Annual Review of Deprecation. Docket No. E-07/D-20-703. Order approving Petition with Modifications issued on April 21, 2021.

Self-Fund Transmission Payment of the Merricourt Project interconnection of \$686 Thousand (OTP Total) / \$69 Thousand (OTP SD). This payment stream is related to other transmission owners self-funding approximately \$12.5 Million of transmission upgrades needed for its facilities to accommodate the interconnection of the Merricourt Project.

E. Lake Norden Area Load Growth Credit – Attachments 6a, 6b, 6c and 6d

As contemplated in the Rate Case and in Docket No. EL16-020⁹, Otter Tail anticipates additional revenues associated with load growth in its South Dakota Lake Norden area service territory. The Settlement directed that Otter Tail reflect future benefits associated with the additional post-test year load in the Lake Norden, South Dakota area in the Rider. Otter Tail's Rate Case utilized a 2017 Test Year and included costs and revenues associated with the 2017 Test Year. Otter Tail utilizes the same methodology approved in its 2019 Filing for calculating the Lake Norden Area load growth credit in this annual update. This Rider credit due to Lake Norden Area load growth includes the impact of the new load revenues as well as the impact on costs associated with changes in jurisdictional allocation factors for each recovery period. The impacts of the Lake Norden Area load growth are provided in comparison to the 2017 Test Year in Attachment 6a. The revenue requirement credit to customers due to the Lake Norden Area load growth compared to the 2017 Test Year are spread evenly over the months of each respective recovery periods included in the Rider and shown in Attachment 3, Line No. 10.

The jurisdictional allocation factors for the 2017 Test Year were included in Otter Tail's initial filing¹⁰ in the Rate Case. Otter Tail includes Attachment 6b which provides the 2017 Test Year baseline kWh [Lines 4, 7 and 10] and the Lake Norden Area additional kWh [Lines 5, 8 and 11]. Otter Tail includes Attachment 6c which provides the summary of the D and E allocation factors from the 2017 Test Year jurisdictional cost of service study (JCOSS) [Columns C & D] compared to the inclusion of the Lake Norden Area load growth in the 2017 Test Year allocation factors for the various recovery periods [Columns E:P]. The E jurisdictional allocation factor updates provided in Attachment 6c for the various recovery periods result from the actual and

⁹ In the Matter of the Filing by Otter Tail Power Company Regarding its Proposed South Dakota Energy Efficiency Plan for 2017-2019.

¹⁰ Rate Case Initial Filing, Volume 4A, Section 1 2017 Test Year Workpapers, JCOSS, Page 15-1.

forecasted Lake Norden Area load growth.¹¹ Otter Tail estimates the D jurisdictional allocation factors for the same recovery periods by applying the 2017 Test Year amount of these factors compared to the E factors. For example, the 2017 Test Year D1 factor as a percent of the 2017 Test Year E1 factor is 14.7 percent. This percent is applied to the MWh in Column F, I, L and O, Line No. 1, to arrive at the D1 generation demand factor in Column F, I, L and O, Line No. 7. These updates to South Dakota jurisdictional allocation factors result in additional JCOSS allocations to South Dakota which is more than offset by the additional revenues associated with the load growth.

Otter Tail provides Attachment 6d that includes a revenue summary of the Lake Norden Area load growth for the 2017 Test Year revenues compared to the respective recovery periods. The 2017 Test Year baseline sales and sales forecast for the Lake Norden Area are provided in Attachment 6b.

The actual Lake Norden Area load growth change from the 2017 Test Year baseline for September 2019 through August 2020 are provided in Attachment 6a, Columns E & F and result in a \$1,379,731 [Column F, Line No. 21] credit to the Rider. This credit is spread evenly by month over the September 2019 through August 2020 time period.

The Lake Norden Area load growth change from the 2017 Test Year baseline for the September 2020 through August 2021 time period (actuals through April 2021) are provided in Attachment 6a, Columns G & H and result in a \$1,705,488 [Column H, Line No. 21] credit to the Rider. This credit is spread evenly by month over the September 2020 through August 2021 time period.

The forecasted Lake Norden Area load growth change from the 2017 Test Year baseline for the September 2021 through August 2022 time period are provided in Attachment 6a, Columns I & J and result in a \$575,584 [Column J, Line No. 21] credit to the Rider. This credit is spread evenly by month over the September 2021 through August 2022 time period.

Detailed in Attachment 6a, the Lake Norden Area load growth results in a revenue requirement credit, including forecast through August 2022, of \$3,835,344 [Attachment 6a, Columns D, F, H & J, Line No. 21]. Otter Tail will update the actual revenues as they are available in future updates.

¹¹ The change provided in Column P represent the load growth provided in Attachment 6b plus a line loss factor estimate.

[PROTECTED DATA BEGINS...

...PROTECTED DATA ENDS]

Description Hoot Lake Plant Adjustment

The Settlement requires Otter Tail to discuss the retirement of Hoot Lake Plant (HLP) and include the net savings associated with Otter Tail’s retirement of this facility (HLP Adjustment) within the Rider. HLP, located in Fergus Falls, Minnesota, is 100 percent owned by Otter Tail.

HLP will incur normal operational costs through May 2021. For 1-2 months after operations cease, there will be staff present to perform certain pre-demolition work to assure certain plant components are placed into a final “locked out” condition and ready for demolition; provide assistance with remediation crews, draining oils or otherwise preparing for site demolition, etc. Labor and expense costs charged to HLP will continue to decrease over the subsequent months. Otter Tail expects to have 17 FTEs budgeted in 2021 not including FTEs that will move from Hoot Lake Plant to other departments at the conclusion of Hoot Lake Plant operations or our expectation that a number of employees will be using vacation for several months in advance of their retirement or end of employment.

Some operational costs will continue to be charged to HLP in 2022 and 2023. For example, the air emission permit fees paid by Otter Tail are paid two years in arrears, so the fees related to 2021 operations are not paid until 2023.

The 2017 Test Year included components of HLP that are representative of the way that the plant continues to operate today and will continue to operate through May 2021. Starting in June of 2021, Otter Tail includes a credit in the Rider that reflects the HLP Adjustment. Otter Tail provides a summary of the HLP Adjustment as Attachment 7. The HLP Adjustment in this filing compares calendar year 2021 to the 2017 Test Year and results in a HLP Adjustment credit for 2021 of \$222,572 [Attachment 7, Column C, Line 27]. This adjustment is spread evenly over the months of June 2021 through December 2021. Otter Tail also includes the 2022 annual forecasted credit totaling \$880,339 as shown in Attachment 7, Column D, Line 27, spread evenly over the twelve months of 2022. Otter Tail will update forecasts and actuals in its next annual update for the Rider.

F. Phase-In initial revenue requirements calculations

Attachments 1 - 3 are, respectively, the Revenue Requirements Summary, Rate Design, and Tracker Summary calculations used for Otter Tail's Phase-In Plan initial rate submittal. Attachments 4 and 5 provide the revenue requirement calculations for the Projects for which Otter Tail requests Phase-In Plan recovery. Attachments 6a through 6c provide the adjustment reflecting the net benefit of new load in the Lake Norden area, including corresponding updates to jurisdictional allocation factors resulting from the increased load to South Dakota. Further information on these components is included above in Section III Part B.

Specifically, the calculations of the revenue requirement in this Petition include the following:

- *Rate base section.* This section provides details on the amount of plant in service, accumulated depreciation (if applicable), construction work in progress (CWIP), accumulated deferred taxes including the effect of proration on Federal amounts, accumulated deferred and utilized LTSA, and a 13-month average rate base calculation.
- *Construction Work in Progress (CWIP).* SDCL §49-34A-25.2 allows a current return on CWIP.
- *Expense section.* The expenses applicable to a project are listed here and include operating

costs, property taxes, depreciation, and income taxes.

- *Revenue requirements section.* This section shows the components of the revenue requirements, including expenses and return on rate base.
- *Return on investment (cost of capital).* The return on investment utilizes the return on equity approved in Otter Tail's Rate Case. As described on page 15 in the Settlement for the Rate Case:

While the projects are under construction, the rate of return will include the weighted average cost of debt calculated at year-end levels, including short-term debt costs, and the equity ratio calculated at year-end levels. Once the projects are in-service the weighted average cost of long-term debt calculated at year-end levels will be used.

- *Depreciation expense.* Depreciation expense is calculated using the Company's current depreciation rates.
- *Property taxes.* The property tax calculation is based on Otter Tail's composite tax rate for the jurisdiction in which the facilities are located and is calculated in accordance with the procedures specified by that state. Based on agreements with the state of South Dakota, the year after Astoria Station is in-service, the total property tax expense will be subject to a ramp-up period where the total property tax will be multiplied by 0 percent the first year, 20 percent the second year, 40 percent the third year, 60 percent the fourth year, and 80 percent the fifth year, and 100 percent the sixth year and years forward. With Astoria Station going into service in 2021, the 0 percent treatment begins with property tax expense in 2022 (based on 2021 year-end values). The composite rate calculation applies to Merricourt while the funds are in FERC account 10700, construction work in progress. After Merricourt is placed into service, it will be subject to taxes consisting of the following two components:
 1. A tax of two dollars and fifty cents per kilowatt times the rated capacity of the wind generator.
 2. A tax of one-half of one mill per kilowatt-hour of electricity generated by the wind generator during the taxable period.
- *Operation and maintenance Expense.* Once the Astoria Station and Merricourt projects are in-service, Otter Tail will track operation and maintenance costs specifically related to these projects in Attachments 4 and 5. Annual O&M expenses for these generation

facilities include operating costs, ground lease payments, property taxes and depreciation.

- *Proration of Federal Accumulated Deferred Income Taxes (ADIT)*. Otter Tail provides Attachment 8 to this filing to show the Federal ADIT proration calculation impact on the revenue requirement for the recovery period. Otter Tail provides Attachment 9 calculating the Accumulated Deferred Income Tax (ADIT) balances to preserve the effect of the application of the proration methodology for the true-up period. The methodology used for proration of Federal ADIT will be consistent with the United States Internal Revenue Service (IRS) rules related to proration, including recently issued IRS private letter rulings and Otter Tail's most recent Transmission Cost Recovery Rider (Case No. EL20-032) update. This calculation methodology is necessary in order to comply with Section 1.167(l)-1(h)(6)(ii) of the IRS regulations and to avoid a tax normalization violation.¹²
- *Federal Production Tax Credit (PTC)*. Merricourt is eligible for PTCs when it is placed in service. The forecasted rate is \$25.00 per megawatt hour for the recovery period of September 2020 through August 2021 and September 2021 through August 2022. As approved in the 2019 Filing, Otter Tail includes the PTCs as a credit to tax expense [Attachment 5, Line No. 42] at the time they are generated.
- *Baseline Year*. The Rate Case included a 2017 Test Year upon which base rates were set. Otter Tail utilizes the Commission approved 2017 Test Year as the baseline year. Attachments 6a through 6c reflect updates to the 2017 Test Year resulting from load growth in the Lake Norden Area.
- *Jurisdictional Allocation Factors*. Jurisdictional allocators are used to allocate system cost among jurisdictions. The Commission approved Otter Tail's South Dakota jurisdictional allocations for the 2017 Test Year in the Rate Case.

IV. RATE DESIGN

The Commission approved the percent-of-bill method for the Rider in Docket No. EL19-025. Under this method, the rate is calculated by dividing the total Phase-In Plan Rider revenue requirement for September 2021 through August 2022 by the total base rate revenue for this

¹² See Treas. Reg. SS 1.167(l)-1(h)(6)(ii).

recovery period. For this filing, this method results in a percent of base revenue charge of 1.351 percent. The rate design is shown on Attachment 2.

V. RATE APPLICATION AND IMPACT

As indicated earlier, the annual revenue requirement to be collected for the next recovery period of September 2021 through August 2022 is estimated at \$345,134. The proposed rate of 1.351 percent of base rates is calculated on Attachment 2, Line No. 3. The impact to a customer's total bill is approximately 0.973 percent¹³. At full operating capacity, the Merricourt Project will generate energy that will displace other costs of fuel. These average savings for a 1,000 kWh residential customer will be approximately \$2.58 per month.¹⁴

The total billed charge amount of the Phase-In rates for a residential customer using 1,000 kWh per month is approximately \$0.98 per month. For a Large General Service (LGS) customer using 486 kW and 222,350 kWh, the total billed charge of the Phase-In rates is approximately \$146.06 per month. The Customer Notice and Rate Impact is contained in Attachment 11 which represents the incremental increase/decrease between the prior rate and updated rate. Otter Tail provides the report to Commission of tariff schedule changes as Attachment 12 to this filing.

VI. PHASE-IN RIDER TARIFF SHEET

Otter Tail's Phase-In Rider tariff sheet (Section 13.09) is Attachment 10 to this Petition. The rates listed in the RATE section of the tariff sheet are updated to reflect the changes described in this annual update.

VII. FILING FEE

Under SDCL 49-34A-77, the electric utility shall pay a filing fee to be determined by the commission in an amount not to exceed two hundred fifty thousand dollars. Otter Tail will pay

¹³ Rider revenue of \$345,134 / Total Rate Case approved revenues of \$35,489,214 = 0.973 percent.

¹⁴ 2020 System costs of energy were approximately \$97 million for 5 million MWhs. Merricourt annual generation of 666,000 MWhs at \$19.40 average cost of MWh avoided is approximately \$13 million of avoided costs resulting in a reduction to overall cost of energy from \$19.40 per MWh down to \$16.82 per MWh or a \$2.58 per MWh reduction [$\$0.00258 \text{ per kWh} * 1,000 \text{ kWh usage} = \2.58 per month].

such deposit amount as the Commission determines appropriate upon the Commission's Order assessing such fee.

VIII. CONCLUSION

For the foregoing reasons, Otter Tail respectfully requests approval to implement the rate for Otter Tail's Phase-In Rider, Section 13.09, effective as of September 1, 2021.

Date: June 1, 2021

Respectfully submitted:

OTTER TAIL POWER COMPANY

/s/ LYNN A. WOLTERS

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