

STATE OF SOUTH DAKOTA
BEFORE THE
SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

**In the Matter of Otter Tail Power
Company’s Petition for Approval
of the Annual Rate Update to Rate
Schedule, Section 13.05,
Transmission Cost Recovery Rider**

**Docket No. EL22-
PETITION**

I. EXECUTIVE SUMMARY

This filing for Otter Tail Power Company’s (Otter Tail or Company) Transmission Cost Recovery Rider (TCRR) includes: annual updated actual and forecasted costs and collections associated with four previously approved projects; regional transmission expenses and revenues recovered in the TCRR; and the addition of one new transmission project. The new project is summarized below.

New Transmission Project

Oslo 115 kV Breaker Station and Oslo – Lake Ardoch 115 kV Line

- A. In compliance with the 2021 Order, Docket No. EL21-031, dated February 23, 2022, Otter Tail updated the D2 allocation factor to include all load changes, which include related to the new large load in North Dakota and the increased load in South Dakota. This update is discussed in Section VIII, Part B below.
- B. Otter Tail proposes a rate implementation date of March 1, 2023.
- C. The South Dakota projected revenue requirement for the recovery period of March 1, 2023, to February 29, 2024, is \$2,968,042. Residential customers using 1,000 kWh monthly will see a bill increase of approximately \$2.25.

II. INTRODUCTION

In compliance with the South Dakota Public Utilities Commission’s (Commission) Orders,¹ Otter Tail hereby Petitions for approval of its annual update to its TCRR rate.

This Petition updates the rates to collect the revenue requirements over the 12-month recovery period of March 2023 through February 2024. The TCRR is updated to include actual investment costs, expenses, and revenues associated with existing projects and

¹ Previous TCRR Docket Nos. EL10-015, EL12-054, EL13-029, EL14-090, EL15-045, EL16-035, EL17-048, EL18-048, EL19-039, EL20-032, and EL21-031.

approved recovery items through September 2022, updated forecast information for the remainder of the current recovery period which ends February 28, 2023, and forecasted information for the proposed recovery period ending February 29, 2024. Otter Tail is requesting the inclusion of one new project in this year’s annual update.

The projected tracker balance for the end of the current recovery period has been updated to help prevent over-or under-recovery of TCRR costs.

The calculation of the proposed revenue requirements within this Petition is determined in accordance with the Settlement Stipulation approved by the Commission in Docket No. EL12-054, in which projects that qualify for regional cost allocation through the MISO tariff are accounted for using the “refined split” method. The rate of return (ROR) included in this update is based on Otter Tail’s actual capital structure as of December 31, 2021, using the return on equity (ROE) and capital structure methodology approved by the Commission in Docket No. EL12-054.

The proposed revenue to be collected for the March 1, 2023, through February 29, 2024, recovery period, as shown in Attachment 2, is \$2,968,043 compared to the total revenue requirement of \$2,197,832² for the March 1, 2022, through February 28, 2023, timeframe, an increase of \$770,211 in the revenue requirement.

Docket No. EL13-029 TCRR Order dated August 30, 2013 states, if the annual updates for MISO 26 and 26A Schedules anticipated to be released in January 2023 are materially different from current forecasts included in this Petition, Otter Tail will make a supplemental filing by February 1, 2023, to update the TCRR rates for the upcoming recovery period. If a supplemental filing is made, Otter Tail will update the tracker with actuals through December 2022.

The impact of the change from current rates to those proposed in this annual update for a residential customer using 1,000 kWh per month is an increase of \$2.25 per month. For a Large General Service (LGS) customer using 486 kW and 222,350 kWh, the bill impact of this update is an increase of \$239.13 per month. These class impacts include class-specific true-ups as described in more detail below.

III. GENERAL FILING INFORMATION

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

Otter Tail Power Company
215 South Cascade Street
P.O. Box 496
Fergus Falls, MN 56538-0496
Phone (218) 739-8200

² Approved in Commission’s February 23, 2022, Order in Docket No. EL21-031.

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

Cary R. Stephenson
Associate General Counsel
Otter Tail Power Company
215 South Cascade Street
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Fergus Falls, MN 56538-0496
Phone (218) 739-8956

C. Title of utility employee responsible for filing

Christopher E. Byrnes
Rates Analyst, Regulatory Administration
Otter Tail Power Company
215 South Cascade Street
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Supervisor, Regulatory Analysis, Regulatory Administration
Otter Tail Power Company
215 South Cascade Street
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D. The Company also requests that the following contact(s) be placed on the Commission's official service list for this matter:

Regulatory Filing Coordinator
Otter Tail Power Company
215 South Cascade Street
P.O. Box 496
Fergus Falls, MN 56538-0496
regulatory_filing_coordinators@otpc.com

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

The date of this filing is November 1, 2022. Otter Tail proposes the update to the rates be applied to usage on and after March 1, 2023.

F. Statutes controlling schedule for processing the filing

Otter Tail will provide notice of this proceeding to its customers pursuant to SDCL Chapter 49-34A-12 in November 2022 billing statements. Attachment 22 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 effective.

Otter Tail includes Attachment 23 to comply with ARSD 20:10:13:26, which requires the Utility to report all rate schedule changes and customer impacts.

IV. TCRR

A. Background

In this Petition, Otter Tail provides an update to its rate schedule, Section 13.05, in compliance with Paragraph 10 of the Settlement Stipulation approved by the Commission's Docket No. EL10-015 TCRR Order, referenced above. This Petition also incorporates the filing date approved by the Commission's Docket No. EL13-029 TCRR Order, referenced above, which requires the following:

Annual Reporting: The Parties agree OTP will submit an annual TCR filing on a going forward basis to be received by the PUC by November 1 of each year. Based on this annual report, OTP will adjust the TCR rate each year based on actual costs and collections.

The Commission's Docket No. EL10-015 TCRR Order was made pursuant to SDCL 49-34A-25.1 and 49-34A-25.2. Annual updates to the approved tariff rate schedule are governed by SDCL 49-34A-25.3 and 49-34A-25.4, which read as follows:

49-34A-25.3. Filing for annual rate adjustments—Contents. A public utility may file annual rate adjustments to be applied to customer bills paid under the tariff approved pursuant to §49-34A-25.2. In the utility's filing, the public utility shall provide:

- 1) A description of and context for the facilities included for recovery;*
- 2) A schedule for implementation of applicable projects;*
- 3) The public utility's costs for these projects;*
- 4) A description of the public utility's efforts to ensure the lowest reasonable costs to ratepayers for the project; and*
- 5) Calculations to establish that the rate adjustment is consistent with the terms of the tariff established in §49-34A-25.2.*

49-34A-25.4. Standards for approval of annual rate adjustments. Upon receiving a filing under §49-34A-25.3 for a rate adjustment pursuant to the tariff established in §49-34A-25.2, the commission shall approve the annual rate adjustments if, after notice, hearing, and comment, the costs included for recovery through the tariff were or are expected to be prudently incurred and achieve transmission system improvements at the lowest reasonable cost to ratepayers.

Consistent with these statutory requirements, the Commission Approved Settlement Stipulation in Docket No. EL10-015 required as follows:

In the future, OTP's investment in new transmission projects will require Commission approval in a future TCR annual update filing through which Commission Staff shall be provided an opportunity to review such projects for statutory compliance. Such projects may be regional, like those described in this Settlement or they may be local (projects that do not qualify for regional cost allocation through MISO's FERC authorized rates). (EL10-015 TCR Order Settlement Stipulation, page 4, paragraph 3).

In compliance with the above referenced statutes and Settlement Stipulations, this Petition provides information on Otter Tail's calculations updating its TCRR rate so Commission Staff may review the calculations and projects for statutory compliance.

B. TCRR annual update revenue requirements calculations

Attachments 1 – 4A are, respectively, the Projected Revenue, Revenue Requirements Summary, Rate Design, Tracker Summary and True-Up by Class calculations used for Otter Tail's proposed TCRR rate update.

Attachments 5-9 provide the revenue requirement calculations for each of the transmission projects identified in this filing- both those previously approved in Otter Tail's prior TCRR (Attachments 5-8) and the new project for which Otter Tail is requesting TCRR recovery (Attachment 9).

Attachment 10 provides the revenue requirement for the Transmission Adjustment approved as part of Otter Tail's last Rate Case, Docket No. EL18-021,³ and previously approved by the Commission's September 19, 2019, Order in Docket No. EL18-048.

The calculations within the above referenced attachments are made in compliance with prior TCRR Settlement Stipulations approved by the Commission and are consistent with how Otter Tail calculates its current TCRR rate. Specifically, the calculations of the revenue requirement in this year's Petition include the following:

Rate base section. This section provides details on the amount of plant in service, accumulated depreciation, construction work in progress (CWIP)⁴ (if applicable), accumulated deferred taxes including the effect of proration on Federal amounts, and a 13-month average rate base calculation.

³ Commission's July 11, 2019, Order Granting Joint Motion For Approval Of Settlement Stipulation; Order Approving Settlement Stipulation in Docket No. EL18-048.

⁴ 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 investment and any credits to the revenue requirement for monies received for use of Otter Tail facilities by wholesale customers.

Return on investment (cost of capital). Pursuant to Section III, 3. Rate of Return, in the Commission-approved Settlement Stipulation in Docket No. EL 12-054 Otter Tail's revenue requirement for the retail load obligations of the transmission investment are to be based on the rate of return methodology agreed to in the EL 12-054 Settlement Stipulation. This method uses Otter Tail's actual capital structure as of December 31 of the prior year for the following year's calculation and the return on equity ordered by the Commission in Otter Tail's most recent rate case, Docket No. EL18-021.

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 transmission facilities are located and is calculated in accordance with the procedures specified by that state.

Operation and Maintenance (O&M) expense. Annual O&M expense of the transmission lines includes costs related to line patrol and inspections, vegetation management, small repair items, storm restoration, and supervision of this work. Scheduled transmission line patrols are typically done annually on all high voltage transmission lines operated at 100 kV and above. Unscheduled patrols are completed for line sections with unexplained interruptions. Vegetation management of new lines is typically limited during the first five years, since Otter Tail's construction standard for new transmission lines is to remove as many trees as possible within a specified easement area prior to construction. After five years, vegetation management is completed based on information gathered during line patrols.

Proration of Federal Accumulated Deferred Income Taxes (ADIT). Otter Tail provides Attachment 19 to this filing to show the ADIT proration calculation impact on the revenue requirement for the recovery period. Otter Tail preserved the effect of the proration for the true-up period in order to maintain

compliance with Section 1.167(l)-1(h)(6)(ii) of the IRS regulations and to avoid a tax normalization violation. Otter Tail includes Attachment 20 in this filing, which shows the preservation of the proration of ADIT resulting in a decrease of \$1,772 plus any applicable carrying charge to the revenue requirement. This item is included on Line 12 of Attachment 4 to this filing.

Midcontinent Independent System Operator (MISO) Schedule 26 and 26A expenses. Schedule 26 and Schedule 26A costs for the upcoming recovery period appear on lines 15 and 16 of the Tracker Account (Attachment 4) and are shown separately in Attachment 12. As stated in the EL12-054 Settlement Stipulation, Section III, 4.b., *“the TCR will flow through the jurisdictional share of Schedule 26 and Schedule 26A expenses incurred by OTP as an active member of MISO, adjusted for the amount of such expenses associated with OTP’s investment in projects that are not included in the rider.”*

Southwest Power Pool (SPP) Related Expenses (Attachment 13) and MISO Related Revenues (Attachment 14). SPP Schedules 7, 8, and 9 refer to different types of transmission service that Otter Tail may secure for serving Otter Tail load in SPP, which represent firm point-to-point, non-firm point-to-point, and network integration transmission service, respectively. Expenses that Otter Tail has incurred and estimates to incur through SPP Schedules 7, 8, and 9 as a result of securing transmission service in SPP appear on Line 17 of the Tracker Account (Attachment 4) and are also shown separately in Attachment 13.

SPP Schedule 11 expenses are for projects approved through SPP’s Integrated Transmission Planning process. The expenses included in this TCRR update are Otter Tail’s forecasted share of the costs for these new transmission projects approved by SPP, whose costs are shared on a regional and zonal basis. SPP Schedule 11 expense appears on Line 18 of the Tracker Account (Attachment 4) and is also shown separately in Attachment 13.

Otter Tail receives MISO Schedule 9 revenues related to Central Power Electric Cooperative (CPEC) paying MISO charges for transmission service they receive through MISO. These revenues are offset by facility credits CPEC began collecting in MISO for CPEC-owned transmission facilities that were eligible for inclusion in MISO in May 2017. The MISO Schedule 9 revenue from CPEC results in a reduction to Otter Tail’s TCRR revenue requirement. MISO Schedule 9 revenue from CPEC appears on Line 22 of the Tracker Account (Attachment 4) and is shown in detail in Attachment 14.

MISO Schedule 26 and 26A revenues. Schedule 26 and 26A revenues, for the recovery period, appear on lines 23 and 26, respectively, of the Tracker Account Summary (Attachment 4) and are shown separately on Attachment 15 (Schedule 26) and Attachment 16 (Schedule 26A). As stated in the EL12-054 Settlement Stipulation, Section III, 2.c, *“Retail customers will be credited a pro-rata share of FERC-authorized MISO Schedule 26 revenues associated with the Company’s MISO-determined responsibility for OTP’s investment in the regional transmission projects, offsetting corresponding Schedule 26 expenses. The Company will retain the portion of its Schedule 26 revenues associated with other MISO members’ responsibility for OTP’s investment in the projects in order to cover the remaining revenue requirements for such projects.”*

MISO Return on Equity (ROE) Complaint. On November 12, 2013, and February 12, 2015, two groups of industrial customers and other stakeholders filed complaints at FERC seeking to reduce the ROE component of the transmission rates that MISO Transmission Owners (TO), including Otter Tail, may collect under the MISO Tariff. The two groups of complainants sought to reduce the, then current, ROE of 12.38 percent. FERC rulings on the matter include, September 28, 2016, and November 21, 2019 ([Opinion No. 569⁵](#)), May 21, 2020 (Opinion 569-A), and November 19, 2020 (Opinion 569-B.) Both ROE complaint cases remain pending at the D.C. Circuit Court of Appeals. In February of 2022, MISO completed the ROE resettlement process for Opinions 569, 569-A, and 569-B.

Because Otter Tail uses a forward-looking rate formula in MISO, it makes an annual true-up filing with MISO. The true-up is generally calculated by determining the difference between the projected revenue requirement used in developing the rates for billing and the actual revenue requirements and billings based on actual operating results. Otter Tail includes the impacts of the 2021 refunds/surcharges within this filing in Attachments 11, 13, 14, 15, and 16.

MISO Tariff Schedule 37 and Schedule 38 Revenue Credits. The TCRR rate update calculation includes revenue credits to reflect revenues received from MISO pursuant to Schedules 37 and 38 of the MISO Tariff. The Schedule 37 revenues represent Otter Tail’s share of the Schedule 26 cost allocation assigned to former MISO transmission owners that have withdrawn from MISO. These owners have an ongoing obligation to pay for MISO Schedule 26 transmission projects due to their prior MISO membership. In Attachment 17, there are no forecast amounts

⁵169 FERC ¶ 61,129 (2019).

for Schedule 37 and 38 revenues. MISO does not provide a separate forecast for those revenues but includes any Schedule 37 and 38 revenues within the Schedule 26 revenue forecasts that MISO develops. MISO does delineate Schedule 37 and 38 revenues when reporting actuals. The Schedule 37 revenue credit reflected in this TCRR update is \$730 as shown in Attachment 4, line 24. The Schedule 38 revenue credit reflected in this TCRR update is \$907, shown in Attachment 4, line 25. These are actual amounts through September 2022 and are included as part of the 2022 true-up amount.

Wholesale Revenue Credit: Attachment 11, page 1 of 1 shows the calculation of the wholesale revenue credit percentages from MISO Attachment O data for the respective calendar years. Most of these revenue credits are attributable to the wholesale use of existing transmission system assets included in base rates. A credit (calculated at the applicable annual wholesale percentage times the project's revenue requirement) is included as a reduction in the revenue requirement calculation. The wholesale revenue credit is shown on Attachment 11 line 10.

MISO Multi-Value Project Auction Revenue Rights (MVP ARR) Revenue. The MVP ARR revenues are derived from increased transmission capacity attributable to MVP projects placed in service within the MISO footprint. The value of the MVP ARR is determined during MISO's annual Financial Transmission Rights auction process. The revenues are distributed monthly to all MISO market participants similar to how Schedule 26A expenses are allocated to MISO market participants for all MVP projects. The revenue is identified in Attachment 18 and is reflected as a credit in the rider shown in Attachment 4, line 27.

Revenue credit for administrative and general expenses recovered through MISO tariff for non-retail portion of projects qualifying for regional cost allocation. These TCRR rate update calculations include a revenue credit (reduction to TCRR revenue requirements) to account for reimbursements through MISO's tariff for administrative and general operating and maintenance expenses. The revenue credit is for the entire amount of such revenues received through the MISO tariff, whether related to the retail or non-retail portion of projects that qualify for regional cost allocations. This application provides reimbursement to retail customers for any such costs through the TCRR that may already be recovered through Otter Tail's current retail rates. The revenue credit is reflected in Attachments 15, 16, and 17 on the lines titled "Overhead Credit for Non-Retail Share" for each project. For the

2023 calendar year, the percentage is about one percent of the total investment in the projects. This percentage was established as part of the FERC-approved MISO tariff.

C. Projects previously approved for recovery

The following four projects, in Table 1 below, were previously approved for inclusion in Otter Tail’s TCRR. Table 1 reflects the prior approved projects and the case number in which they were approved for TCRR recovery. The retail allocation of costs and revenues for these projects are updated through 2023 and 2024 and are reflected in Attachments 5-8.

Table 1

	Project	Docket No.	Attachment
1	Lake Norden Area Transmission Project	EL18-048	5
2	Big Stone South to Ellendale Projects	EL18-048	6
3	Erie-Frazee 115 kV Project	EL19-032	7
4	Grant County Norcross 115 kV Project	EL19-032	8

D. New transmission projects included in this TCRR rate update

Otter Tail seeks approval for TCRR recovery of one new project, a new Oslo-Lake Ardoch 115 kV Line and a new Olso 115 kV breaker station. The costs and revenue requirements for this project are included in Attachment 9. A detailed description of the project is provided below. Otter Tail verified that the costs requested for recovery in the TCRR for this new project were not included in its last general rate review Docket No. EL18-021, and that no portion of this project is currently being recovered as a result of that proceeding.

Oslo 115 kV Breaker Station and Oslo – Lake Ardoch 115 kV Line – Attachment 9

Otter Tail and Minnkota Power Cooperative (MPC) both serve load in Northwest Minnesota that has shown to be increasing over the past decade. As a result, Otter Tail and MPC have been closely monitoring the load growth in Northwest Minnesota in order to ensure that the system continues to reliably serve customers, especially during winter peak conditions when the transmission system in this area experiences its highest loads and lowest voltages. Through the course of coordinated transmission planning studies, Otter Tail and MPC reviewed past load patterns as a basis for

forecasting future loads within this area and developed a coordinated plan for the transmission system in northwest Minnesota that has been underway over the past few years as load has continued to grow in this area. The current plan summarized in Table 2 below includes the following projects with their corresponding in-service dates (and projected in-service dates for future projects):

Table 2

#	Description	Responsible Party	Year Completed (or Forecasted)
1A	115 kV Capacitor Bank at Donaldson, MN	Otter Tail	2019
1B	115 kV Capacitor Bank at Thief River Falls, MN	MPC	2019
2A	Undervoltage Load Shedding (UVLS) at Donaldson, Plummer, and Crookston	Otter Tail	2020
2B	Undervoltage Load Shedding (UVLS) at Thief River Falls	MPC	2020
3A	Replace 115 kV switches at Plummer Substation	Otter Tail	2022
3B	Replace 115 kV switches at Olso Town Substation	Otter Tail	2022
4	Add second 230/115 kV Transformer at Winger	Otter Tail	2023
5A	New Lake Ardoch 230/115 kV Substation	MPC	2024
5B	New Lake Ardoch – Oslo 115 kV Line (7-miles)	Otter Tail	2024
5C	New Oslo 115 kV Switching Station	Otter Tail	2024
6	New Winger – Plummer 115 kV Line #2	Otter Tail / MPC	2028+

Transmission planning studies have indicated that it is necessary for Otter Tail and MPC to move forward with the next steps in the phased transmission plan, which includes the new Lake Ardoch 230/115 kV Substation, Lake Ardoch to Oslo 115 kV line, and the new Oslo 115 kV switching station, in order to maintain reliability of the transmission system in Northwest Minnesota.

The Northwest Minnesota transmission system is an extensive network of 115 kV transmission lines with 230 kV sources at Drayton, North Dakota, Grand Forks, North Dakota and Winger, Minnesota. Transmission planning studies have identified that existing 115 kV lines can overload in the future if there is an outage of the Winger 230 kV source. Likewise, studies have also shown that depressed voltages can occur throughout Northwest Minnesota in the future if there is a prior outage of an existing transmission facility followed by the unplanned outage of another facility.

In order to address the reliability concerns expected to begin in the winter of 2024-2025, Otter Tail and MPC have agreed to work collaboratively to build a new 230 kV source into the existing 115 kV system. This new source will consist of a new Lake Ardoch 230/115 kV Substation just east of Ardoch, North Dakota, which will tap the existing Drayton to Prairie 230 kV line and extend a new 115 kV line east a distance of approximately seven miles to a new Oslo 115 kV switching station just west of Oslo, Minnesota.

Transmission planning studies have shown that the new Lake Ardoch 230/115 kV Substation, Oslo 115 kV Switching Station, and the associated 115 kV line between these new substations will maintain the reliability of the transmission system for an outage of the Winger source and offer a more resilient system capable of meeting voltage criteria following an unplanned outage during a prior outage condition. Otter Tail and MPC have coordinated this project with MISO and received approval for the Lake Ardoch 230/115 kV Substation, Oslo 115 kV Switching Station and Lake Ardoch to Oslo 115 kV line during MISO's 2019 Transmission Expansion Plan (MTEP19).⁶

Otter Tail and MPC have agreed that MPC will construct the Lake Ardoch 230/115 kV Substation and Otter Tail will construct the Oslo 115 kV Switching Station and the Lake Ardoch to Oslo 115 kV line. Otter Tail expects to start local permitting and design of the project in first quarter of 2023 with procurement occurring in the second quarter of 2023 in order for the project to be completed in late 2024.

Otter Tail's estimate of the Lake Ardoch to Oslo 115 kV Project and Oslo 115 kV Switching Station is approximately \$6.6 million (OTP Total) / \$0.6 million (OTP SD).

⁶ See Project Number 4232 in Appendix A of MISO's 2019 Transmission Expansion Plan, available at: <https://www.misoenergy.org/planning/planning/previous-mtep-reports/#t=10&p=0&s=FileName&sd=desc>.

V. RATE DESIGN

The TCRR allocation factors and rate design follow the terms of the approved Docket No. EL10-015 Settlement Stipulation Order, paragraph 6. Specifically, the TCRR uses a rate design based on the transmission demand D2 allocation factor, which is discussed in section VIII below to allocate total revenue requirements to jurisdictions and the D2 class allocation factors approved in Otter Tail’s Rate Case Docket No. EL18-021 to allocate the South Dakota revenue requirement to the rate classes. The LGS class’s portion of retail revenue requirements are 42.54 percent. The remaining portion (57.46 percent) of the retail revenue requirements will be collected from the non-LGS rate classes.

Otter Tail’s current LGS rate design, as identified in Docket No. EL10-015 Settlement Stipulation Order, incorporated the 2011 forecast demand (\$/kW-month) and energy (¢/kWh) revenue components to recover the transmission project costs in a manner that follows existing LGS base rate design. For this update, Otter Tail has similarly based the LGS rate design on the proposed recovery period forecast demand and energy revenue components, specifically, 35 percent demand and 65 percent energy.

For the remaining retail rate classes (non-LGS), Otter Tail proposes to continue an energy only rate, consistent with the current Commission-approved rate structure. A rate for each class is a separate energy based (kWh) charge calculated by dividing the total class revenue requirements by the corresponding kilowatt-hour sales for the projected period.

Staff’s February 12, 2019, Memorandum, Docket No. EL18-048, outlines the incorporation of class allocations for the prior period true-up amounts. Otter Tail includes revenue requirements, billings, and the resulting over-or-under recovery by rate class in Attachment 4A. Attachment 4A also details the calculation of the true-up by class. Otter Tail based the projected true-up on the seven-month period of actuals, March through September 2022. Otter Tail reviewed actual sales and the net revenue requirement for this time period for each class which develops the actual true-up balance, inclusive of the carrying charge for each of these classes. The Total Class prior period true-up [Attachment 4A, Column BD] is \$220,063 and is included on Attachment 3 [Column D, Line 6] in the rate design.

VI. RATE APPLICATION AND IMPACT

As indicated earlier, the annual revenue requirement to be collected for the proposed recovery period of March 2023 through February 2024 increased from \$2,197,832 for the March 2022 through February 2023 period to \$2,968,043, which includes a projected true-up balance of \$220,063 for the current collection period.

Table 3 below compares the summaries of revenue requirements approved in Docket No. EL21-031 (2021 TCRR Update) to this filing and helps illustrate the factors which contributed to the difference between the current revenue requirement (in the

2021 TCRR Update) and the proposed revenue requirement. As noted above, the proposed effective date of the change in rates is March 1, 2023.

Table 3
Attachment 2 Summaries

A		B	C	D
Line No.	Revenue Requirements	January 28, 2022 Supplemental Filing EL21-031	Proposed	Difference
		March 1, 2022- February 28, 2023	March 1, 2023 - February 29, 2024	
1	Big Stone South to Ellendale	5,462	6,048	586
2	Lake Norden Area Transmission	225,218	281,871	56,652
3	Erie Project	8,357	53,606	45,248
4	Norcross Project	35,170	46,769	11,598
5	Transmission Adjustment-EL18-021	341,323	341,323	-
6	Oslo Lake Ardoch 115 kV		4,459	
7				
8				
9	SD Filing Fee	4,000	4,000	-
10				
11	MISO Schedule 26 Expense	1,111,476	1,204,338	92,862
12	MISO Schedule 26A Expense	880,776	931,825	51,050
13				
14	SPP Schedule 9 Expense	215,681	209,141	(6,539)
15	SPP Schedule 11 Expense	28,599	31,839	3,240
16				
17	MISO Schedule 9 Revenue	(76,922)	(91,471)	(14,550)
18	MISO Schedule 26 Revenue	(216,265)	(240,857)	(24,592)
19	MISO Schedule 26A Revenue	(35,943)	(39,235)	(3,292)
20	MISO Schedule 37 Revenue	(0)	(0)	(0)
21	MISO Schedule 38 Revenue	(0)	(0)	(0)
22	MISO MVP ARR Revenue	(2,866)	(3,288)	(421)
23				
24	Carrying Cost	(12,138)	7,611	19,749
25	True-Up	(314,096)	220,063	534,159
26				
27	Total	2,197,832	2,968,043	765,752

Column A in Table 3 above describes the components that make up the revenue requirements for the proposed recovery period. Column B reflects the revenue requirement for each component from the 2021 TCRR Update. Column C reflects the proposed revenue requirement for each component for this TCRR Update. Column D is the difference between Column B and Column C. All components described above in Section IV, Part D, were previously approved for inclusion in the TCRR.

Table 4

			A	B	C
			Rates Eff. Mar '22 - Feb '23	Rates Eff. Mar '23 - Feb '24	Difference
1	Large General Service Class	\$ / kW	0.712	0.906	0.1944
2	Large General Service Class	Cents / kWh	0.226	0.291	0.0651
3					
4	Controlled Service	Cents / kWh	0.124	0.143	0.0189
5	Lighting	Cents / kWh	0.843	0.850	0.0071
6	All Other Service	Cents / kWh	0.626	0.852	0.2250

Column C in Table 4 above reflects the change in rates from those approved in the 2021 TCRR Update (Column A) to those proposed in this update (Column B).

The impact of the change in rates for a residential customer using 1,000 kWh per month is an increase of \$2.25 per month. For a LGS customer using 486 kW and 222,350 kWh a month, the bill impact of this update is an increase of \$239.13 per month.

The total March 2023 through February 2024 revenue requirements, as shown on line 1 in Attachment 3, is \$2,968,043. The TCRR is applicable to electric service under all of Otter Tail’s retail rate schedules. The charge is included, for administrative purposes, as part of the Transmission Cost Recovery line on customers’ bills. The proposed rates beginning March 1, 2023 and ending February 29, 2024, are as follows:

Table 5

TCRR Rate Class	Rate	
Large General Service	0.906	\$ / kW
	0.291	cents / kWh
Controlled Service	0.143	cents / kWh
Lighting	0.850	cents / kWh
All Other Service	0.852	cents / kWh

The proposed customer notice and rate impact is contained in Attachment 22.

VII. TCRR TARIFF SHEET

Otter Tail’s redline and clean TCRR tariff sheet, Section 13.05, is Attachment 21 to this Petition. The rates listed in the RATE section of the tariff sheet are updated to reflect the proposed changes described in this annual update.

VIII. NEW LARGE LOAD CUSTOMER IN NORTH DAKOTA

In Otter Tail's 2021 TCRR filing, Docket No. EL21-031, the Commission order stated:

That Otter Tail shall file additional information in its next TCR filing regarding all costs and benefits associated with the new 100 MW load customer in North Dakota and specifically address how these costs and benefits impact South Dakota customers. Otter Tail shall include any necessary adjustments to jurisdictional allocation factors.

A. Summary of New Load

Otter Tail provides the following information in compliance with the ordering point, referenced above.

Otter Tail entered into an Electric Service Agreement (ESA) in North Dakota with a new large load customer in 2021 and began serving this customer in early 2022 as its facilities started to come on-line. The customer reached full load by the spring of 2022, but loads were reduced over the summer while repairs to some Otter Tail system equipment were made following a weather event. The load returned to expected levels of roughly 100 MWs following those repairs.

Otter Tail is serving this customer under its North Dakota Super Large General Service tariff. The customer qualifications and parameters mirror Otter Tail's South Dakota version of that tariff, Section 10.06, which was approved in Otter Tail's last South Dakota general rate case.⁷ Per that tariff, each customer's ESA shall be based upon and reflect either the marginal unit costs expected during the effective rate period or the marginal unit costs plus an appropriate margin determined on a case-by-case basis. Any margin recovered on the incremental costs will collect a share of the Company's costs from the new Customer, thus reducing the fixed costs allocated to existing Customers. The results of the approved pricing methodology conducted at the time the customer executed the ESA showed system benefits to all other customers of **[PROTECTED DATA BEGINS... ... PROTECTED DATA ENDS]**. How those benefits accrue to other customers across Otter Tail's system can vary from jurisdiction to jurisdiction. The host state for a new customer receives the benefit of additional revenues to cover costs incurred to serve that customer. Consistent with the operation of an integrated system, investments and expenses are allocated across Otter Tail's jurisdictions using a variety of allocation factors. For example, the energy-related portion of generation investments are allocated based on each jurisdiction's relative share of total energy (i.e., kWh sales). The capacity-related portion of

⁷ Docket No. EL18-021

generation investments are allocated by each jurisdiction's relative capacity (i.e., kW demand) at the time of Otter Tail's peak. Transmission investments are also allocated based on a kW demand factor. The addition or loss of customers (or growth or shrinkage of usage of existing customers) ultimately impacts the allocation of system-wide costs, with the addition of a customer in one jurisdiction reducing the portion of energy- and capacity-related system costs borne by other jurisdictions (and vice versa), all else being equal.

Although the new large load customer in North Dakota has a large peak demand, the customer has committed through contractual arrangements with Otter Tail **[PROTECTED DATA BEGINS...**

...PROTECTED

DATA ENDS].

Otter Tail anticipates that it will experience an incremental allocation of costs related to MISO charges when this new load shifts cost responsibility among loads in the Otter Tail pricing zone. In other words, more Otter Tail load means less third-party revenue credits from MISO appearing in the TCRR calculation.

B. Updated Jurisdictional Factors

As noted earlier, the Commission Ordered Otter Tail to update allocation factors to be reflective of the impact of the new load in North Dakota. The D2 allocation factor that is utilized throughout the TCRR tracker has been updated pursuant to the Commission Order. Historically, the TCRR rates are calculated using the D2 factor approved in the most recent South Dakota General Rate Case. The 2022 TCRR filing has been designed to utilize three different D2 factors in order to capture the impact of the new North Dakota load referenced in the 2021 TCRR Order and the shifting of loads between the jurisdictions. The 9.2 percent D2 factor approved in the most recent rate case is used for calculations in time periods prior to January 2022. A forecasted 2022 D2 factor is used for January through December 2022 calculations. This factor is reflective of Otter Tail's most recent 2022 forecast amounts, which includes expected load changes across all jurisdictions, including the impacts of the new North Dakota load coming on-line during 2022, as well as load changes in both Minnesota and South Dakota. The forecasted D2 factor used for the 2023 calendar year calculations includes anticipated loads across all jurisdictions.

Table 6 below summarizes the changes between the different D2 factors under different assumptions, as outlined by the Commission, and the resulting overall TCRR revenue requirement for the March 2023 through February 2024 recovery period. Otter Tail proposes to true-up the forecasted D2 allocation factors in future TCRR filings with actual calendar year D2 factors.

Table 6

Description	D2 Factor	Resulting Revenue Requirement
Rate Case	9.20%	\$2,242,272
2022 Updated Allocation Factor*	10.66%	N/A
2023 Forecasted with Additional ND Load	10.54%	\$2,968,043
2023 Forecasted without Additional ND Load	10.73%	\$3,015,503
* Actual results through September and forecast for the rest of year		

As shown in Table 6 above, Otter Tail calculates a TCRR revenue requirement that is \$47,460 lower due to the new large load in North Dakota for the proposed recovery period.

As mentioned earlier, it is important to note that the updates to the D2 factors being used in this filing are reflective of load changes across all jurisdictions and not strictly limited to the new North Dakota load. However, for illustrative purposes, a 2023 forecast without the new North Dakota load has been included in Table 6 above in order to demonstrate the incremental difference directly attributable to the new North Dakota load.

Depending on the nature, size, and operating characteristics of a new load, Otter Tail recognizes that large load changes across our jurisdictions can materially impact how system costs get allocated. While adjustments to base rates typically don't occur outside a general rate case, adjusting factors within riders can help adjust and balance cost recovery to each jurisdiction's appropriate level. An additional level of protection is available to South Dakota customers in the event cost shifts and revenue collections within South Dakota put Otter Tail in an over-earning situation. Should such a situation occur, Otter Tail has earnings sharing mechanism that was approved by the Commission in Docket Nos. EL18-021 and EL18-048.

IX. SPP BYPASS UPDATE

In response to the Commission’s ongoing interest in Otter Tail’s efforts to reduce expenses incurred from Southwest Power Pool (SPP), Otter Tail would like to inform the Commission that the Company does not have any material update since last year’s TCRR filing. As reported last year, Otter Tail’s efforts to evaluate new facilities to bypass the SPP system has not been completed. Otter Tail did renew part of its existing SPP transmission service during 2021 in order to ensure that it was not interrupted at the end of its existing term (2022). However, Otter Tail elected to only extend its existing SPP transmission service for five years in order to allow for additional time to complete its evaluation and the possibility of potentially building new facilities to bypass the SPP system in the future. The extension of five years allows Otter Tail to maintain rollover rights of its existing transmission service but does not commit Otter Tail to taking SPP transmission service beyond the next five years. Otter Tail is planning to continue evaluating the possibility of building new facilities to bypass the SPP system and will continue to provide updates in future TCRR filings. As also reported in previous TCRR filings, Otter Tail is evaluating additional facility credits in SPP for eligible transmission facilities owned by Otter Tail. These facility credits, if approved, would reduce Schedule 9 expenses incurred by Otter Tail.

X. FILING FEE

Under SDCL 49-1A-8, the Commission may require a deposit of up to fifty thousand dollars for the filing of a tariff for approval under the provisions of 49-34A-4 and 49-34A-25.1 to 49-34A-25.4, inclusive, or makes a filing pursuant to 49-34A-97 to 49-34A-100. Otter Tail will pay such deposit amount as the Commission determines appropriate upon the Commission’s Order assessing such fee.

XI. CONCLUSION

For the foregoing reasons, Otter Tail respectfully requests approval to implement these updates to Otter Tail’s Transmission Cost Recovery Rider, Section 13.05, effective March 1, 2023.

Date: November 1, 2022

Respectfully submitted:

OTTER TAIL POWER COMPANY

/s/ CHRISTOPHER E. BYRNES

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