

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. EL23-
PETITION**

I. FILING SUMMARY

This filing for Otter Tail Power Company’s (Otter Tail or Company) Transmission Cost Recovery Rider (TCRR) includes the following:

- A. Annual updated actual and forecasted costs and collections associated with five previously approved projects;
- B. Regional transmission expenses and revenues recovered in the TCRR;
- C. The modification of the MISO Schedule 26 and 26A Revenue Overhead Credit for Non-Retail Share percentage;
- D. Budget updates to two previously approved projects;
 - 1) Oslo 115 kV Breaker Station and Oslo – Lake Ardoch 115 kV Line
 - 2) Erie 230/115kV Substation
- E. The addition of the new Milbank Area Reliability Project.
- F. 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 the new large load in North Dakota and the increased load in South Dakota. This update is discussed in Section VIII, Part B below.
- G. Otter Tail proposes a rate implementation date of March 1, 2024.
- H. The South Dakota projected revenue requirement for the recovery period of March 1, 2024, to February 28, 2025, is \$2,549,017. Residential customers using 1,000 kWh monthly will see a bill decrease of approximately \$1.56.

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.

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, EL21-031, EL22-031.

This Petition updates the rates to collect the revenue requirements over the 12-month recovery period of March 2024 through February 2025. The TCRR is updated to include actual investment costs, expenses, and revenues associated with existing projects and approved recovery items through September 2023, updated forecast information for the remainder of the current recovery period which ends February 29, 2024, and forecasted information for the proposed recovery period ending February 28, 2025. Otter Tail is requesting the inclusion of one new project and updates to two existing projects in this annual update.

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 Midcontinent Independent System Operator (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, 2022, 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, 2024, through February 28, 2025, recovery period, as shown in Attachment 2, is \$2,549,017 compared to the total revenue requirement of \$2,968,043² for the March 1, 2023, through February 29, 2024, timeframe, is a decrease of \$419,026 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 2024 are materially different from current forecasts included in this Petition, Otter Tail will make a supplemental filing by February 1, 2024, 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 2023.

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 a decrease of \$1.56 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 \$67.21 per month. These class impacts include class-specific true-ups as described in more detail below.

² Approved in Commission’s February 10, 2023, Order in Docket No. EL22-031.

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

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

Cary R. Stephenson
Associate General Counsel
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Phone (218) 739-8956

C. Title of utility employee responsible for filing

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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
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215 South Cascade Street
P.O. Box 496
Fergus Falls, MN 56538-0496
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E. The date of filing and the date changes will take effect

The date of this filing is November 1, 2023. Otter Tail proposes the updated rates be applied to usage on and after March 1, 2024.

F. Statutes controlling schedule for processing the filing

Otter Tail files this Rider for Commission approval consistent with the 30-day notice requirement set forth in South Dakota Codified Laws 49-34A-12. Otter Tail will provide notice of this proceeding to its customers in the month of November as a bill message as shown in Attachment 23 to this Petition.

In accordance with ARSD 20:10:16:01 (2), which requires the Utility to provide notice of all rate schedule changes and customer impacts, Otter Tail plans to provide notice to customers in the form of a bill insert. Attachment 24 to this Petition is the language proposed for this customer notice. This notice will be included with customer bills in the month the rate becomes effective.

Otter Tail includes Attachment 25 to comply with ARSD 20:10:13:26, which requires the Utility to report all rate schedules 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 16-21 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 16-20) and the new project for which Otter Tail is requesting TCRR recovery (Attachment 21).

Attachment 15 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.

³ Commission's July 11, 2019, Order Granting Joint Motion for Approval of Settlement Stipulation; Order Approving Settlement Stipulation 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.
- **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

⁴ SDCL 49-34A-25.2 allows a current return on CWIP.

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 13 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)-l(h)(6)(ii) of the Internal Revenue Service (IRS) regulations and to avoid a tax normalization violation. Otter Tail includes Attachment 14 in this filing, which shows the preservation of the proration of ADIT resulting in an increase to the revenue requirement of \$2,800, plus any applicable carrying charge. This item is included on Line 13 of Attachment 4 to this filing.
- **MISO Schedule 26 and 26A expenses.** Schedule 26 and Schedule 26A costs for the upcoming recovery period appear on lines 16 and 17 of the Tracker Summary (Attachment 4) and are shown separately in Attachment 6. 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 7) and MISO Related Revenues (Attachment 8).** 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 Lines 18 of the Tracker Account (Attachment 4) and are also shown separately in Attachment 7.

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 19 of the Tracker Account (Attachment 4) and is also shown separately in Attachment 7.

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 23 of the Tracker Account (Attachment 4) and is shown in detail in Attachment 8.

- **MISO Schedule 26 and 26A revenues.** Schedule 26 and 26A revenues, for the recovery period, appear on lines 24 and 25, respectively, of the Tracker Account Summary (Attachment 4) and are shown separately on Attachment 9 (Schedule 26) and Attachment 10 (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 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 11, there are no forecast amounts 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 \$864 as shown in Attachment 4, line 26. The Schedule 38 revenue credit reflected in this TCRR update is \$1,035, shown in Attachment 4, line 27. These are actual amounts through September 2023 and are included as part of the 2023 true-up amount.

- **Wholesale Revenue Credit:** Attachment 5, 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 5.
- **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 12 and is reflected as a credit in the rider shown in Attachment 4, line 28.
- **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 9, 10, and 11 on the lines titled “Overhead Credit for Non-Retail Share” for each project. For the 2024 calendar year, the percentage is between seven and eight 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 2024 and 2025 and are reflected in Attachments 16-20.

Table 1

Project	Docket No.	Attachment
Lake Norden Area Transmission Project	EL 18-048	16
Big Stone South to Ellendale Projects	EL 18-048	17
Erie-Frazee 115 kV Project	EL 19-032	18
Grant County Norcross 115 kV Project	EL 19-032	19
Oslo Lake Ardoch 115 kV	EL 22-031	20

D. Overhead Credit for Non-Retail Share

Since 2012, Otter Tail has been applying the Annual Allocation Factor for Other Operating and maintenance (O&M) costs from MISO Attachment MM as the overhead credit for non-retail share to Schedule 26 and Schedule 26A revenues. Upon further review of the calculation Otter Tail believes the overhead credit for non-retail share should reflect the percentage of Schedule 26 and Schedule 26A revenues associated with the Annual Allocation Factor for Other O&M. This change results in an increase of the overhead credit from 0.91 percent to 7.91 percent for Schedule 26 revenues and from 0.91 percent to 7.28 percent for Schedule 26A revenues effective January 1, 2024, which decreases the revenue requirement for South Dakota rate payers by approximately \$300,000.

E. Updated project Budgets

**1. Oslo 115 kV Breaker Station and Oslo – Lake Ardoch
115 kV Line**

This project was approved last year in Case No. PU 22-335 at an estimated cost of \$6.6 million (OTP Total) / \$0.6 million (OTP SD). To calculate this estimate, Otter Tail compared similar projects that have been completed in the past and used a cost per mile estimate for the line portion of this project, with an escalator to attempt to account for inflation. Due to an unforeseen series of events, this estimate is no longer feasible. The updated estimate is now \$11.2

million (OTP Total) / \$1.1 million (OTP SD). This increase in the estimated completion costs can be attributed to the factors listed below:

- a) Site grading expenses were much higher than previously estimated;
 - i. The topsoil that needed to be removed was found to be twice the depth than originally estimated after geotechnical exploration was performed.
 - ii. Walsh County requires the substation final finish grade to be greater than the known floodplain elevation. As a result, seven feet of fill needed to be brought in to raise it above the existing elevation: the initial estimate only included two feet of fill.
- b) The original estimate assumed 11 acres were to be purchased with a land value estimated to be close to **[PROTECTED DATA BEGINS...
...PROTECTED
DATA ENDS]** per acre due to commercial use.
- c) Original cost estimates were from June 2021. Materials and contractor pricing has escalated by at least 20 percent each year due to supply and demand issues and factory production availability.
- d) Easement costs for pole/line placement have increased.
- e) Due to the poor soil conditions that were discovered, 11 concrete foundations and self-supporting steel structures are now required, as opposed to the wood poles included in the original estimate.

2. Erie 230/115kV Substation

This project was approved in case number EL20-032 with an estimated budget of \$6.0 million (OTP Total) / \$0.55 million (OTP SD) and has since then increased to \$7.9 million / \$0.84 million (OTP SD). This was due mainly to material cost increases listed below:

- a) Original cost estimates were from June 2020. As stated in 115 kV Oslo Breaker Station and Oslo – Lake Ardoch Line above (3), materials and contractor pricing has escalated by at least 20 percent each year due to supply and demand issues and factory production availability.
- b) The original estimate considered line terminations to be owned and paid for by Xcel. Subsequently, ownership changed to Otter Tail on the first span of the transmission lines leaving the substation, which led to increased project costs.
- c) Great River Energy (GRE) required transmission line relocations at the GRE Frazee substation. This was an unforeseen circumstance that was not identified in the original scope of work.
- d) Due to water table and other soil issues that were not identified in the

Geotechnical soil exploration report, additional services by contractors were required to properly install foundations.

F. New transmission project included in this TCRR rate update

Otter Tail seeks approval for TCRR recovery of one new project, Milbank Area Reliability Project. The costs and revenue requirements for this project are included in Attachment 21. 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.

Otter Tail's 41.6 kV transmission system between the high voltage sources at Highway 12 (south of Big Stone City, SD), and Ortonville, MN has been experiencing load growth. A production facility in the Milbank, SD area is expanding and adding a significant amount of load to the 41.6 kV transmission system. Planning studies performed in this area show that the increased load and projected future load increases will cause the existing 41.6 kV system to no longer be capable of maintaining voltage criteria. A loss of the Highway 12 115 kV source causes voltages on the 41.6 kV transmission system in the Milbank, SD area to drop below voltage criteria.

To address these reliability concerns, Otter Tail will construct a new 115 kV transmission loop from the Big Stone Plant 230/115 kV substation to a new 115/12.5 kV substation in Milbank, SD, and a new 115 kV breaker station to be located on the 115 kV line between the Big Stone 230/115 kV substation and the Marietta 115/4.6 kV substation. This project will consist of the following components:

1. Expansion of the Big Stone Plant 230/115 kV substation;
2. Construction of a new approximately 14-mile 115 kV line from Big Stone Plant 230/115 kV substation to a new 115/12.5 kV substation in Milbank, SD;
3. Construction of a new 115/12.5 kV substation in Milbank, SD to serve load and offload the existing 41.6 kV transmission system in the area;
4. Construction of a new approximately 18-mile 115 kV line from the new 115/12.5 kV substation in Milbank, SD to a new 115 kV breaker station on the 115 kV line between the Big Stone Plant 230/115 kV substation and the Marietta 115/41.6 kV substation;
5. A new 115 kV breaker station that will be located on the 115 kV line between the Big Stone Plant 230/115 kV substation and the Marietta 115/41.6 kV substation;
6. The removal of the existing 41.6 kV transmission line from the Highway 12 substation to Milbank to allow for the routing of a portion of the new 115 kV line; and

7. Conversion of the line feeding the town of Milbank to the new 115 kV system, which is explained further below.

After obtaining project approval at the MISO Planning Advisory Committee meeting, Otter Tail encountered challenges with routing the new 115 kV line. Due to these challenges, Otter Tail determined it was necessary to leverage the existing 41.6 kV right of way to route the new 115 kV line. This plan will entail removing the existing 41.6 kV system around Milbank, SD and converting the line feeding the town of Milbank to the new 115 kV system with the routing of the new 115 kV line. This will further offload the remaining 41.6 kV system and avoid routing challenges encountered in the area. Due to these recent modifications Otter Tail coordinated this project with MISO through the Expedited Project Review process. MISO gave approval of the project and recommended its inclusion in Appendix A in the 2023 MISO Transmission Expansion Plan (MTEP) at the October 11, 2023, MISO Planning Advisory Committee meeting. The total transmission cost of the project is estimated to be \$36.2 million (OTP Total)/\$3.82 million (OTP SD). Construction is underway with a plan to have the full project energized in late 2026.

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 is 45.86 percent. The remaining portion (54.14 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, incorporates 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 2023. Otter Tail reviewed actual sales and the net revenue requirement for this time period for each class to develop the actual true-up balance, inclusive of the carrying charge for each of these classes. The Total Class prior period true-up [Attachment 4A, Line 10] is a credit of (\$300,008) and is included on Attachment 3 [Column D] 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 2024 through February 2025 decreased from \$2,968,043 for the March 2023 through February 2024 period to \$2,549,017, which includes a projected true-up balance credit of (\$300,008) for the current collection period.

Table 3 below compares the summaries of revenue requirements approved in Docket No. EL22-031 (2022 TCRR Update) to this filing and helps illustrate the factors which contributed to the difference between the current revenue requirement (in the 2022 TCRR Update) and the proposed revenue requirement. As noted above, the proposed effective date of the change in rates is March 1, 2024.

Table 3
Attachment 2 Summaries

	A	B	C	D
		November 1, 2022 Approved Filing EL22-031	Proposed	
Line No.	Description	March 1, 2023- February 29, 2024	March 1, 2024 - February 28, 2025	Difference
1	Transmission Adjustment-EL18-021	341,323	341,323	-
2	Big Stone South to Ellendale	6,048	6,362	314
3	Lake Norden Area Transmission	281,871	270,596	(11,274)
4	Erie Project	53,606	71,251	17,645
5	Norcross Project	46,769	45,280	(1,489)
6	Oslo Lake Ardoch 115 kV	4,459	80,983	76,523
7	Milbank Area Reliability	-	118,718	118,718
8				
9	SD Filing Fee	4,000	4,000	-
10				
11	MISO Schedule 26 Expense	1,204,338	1,267,658	63,320
12	MISO Schedule 26A Expense	931,825	1,034,316	102,490
13				
14	SPP Schedule 7, 8 and 9 Expense	209,141	220,555	11,413
15	SPP Schedule 11 Expense	31,839	30,339	(1,500)
16				
17	MISO Schedule 9 Revenue	(91,471)	(78,183)	13,288
18	MISO Schedule 26 Revenue	(240,857)	(337,123)	(96,266)
19	MISO Schedule 26A Revenue	(39,235)	(214,329)	(175,094)
20	MISO Schedule 37 Revenue	(0)	(0)	0
21	MISO Schedule 38 Revenue	(0)	(0)	(0)
22	MISO MVP ARR Revenue	(3,288)	(2,904)	384
23				
24				
25	Carrying Cost	7,611	(9,816)	(17,427)
26	True-Up	220,063	(300,008)	(520,071)
27				
28	Total	2,968,043	2,549,017	(419,026)

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 2022 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.

Table 4

	A	B	C	D	E
Line No.	Class	Rate Type	Rates Effective Mar '23 - Feb '24	Rates Effective Mar '24 - Feb '25	Difference
1	Large General Service Class	\$ / kW	0.906	0.851	-0.0550
2	Large General Service Class	Cents / kWh	0.291	0.273	-0.0182
3					
4	Controlled Service	Cents / kWh	0.143	0.075	-0.0677
5	Lighting	Cents / kWh	0.850	-0.098	-0.9474
6	All Other Service	Cents / kWh	0.852	0.696	-0.1558

Column E in Table 4 above reflects the change in rates from those approved in the 2022 TCRR Update (Column C) to those proposed in this update (Column D).

The impact of the change in rates for a residential customer using 1,000 kWh per month is a decrease of \$1.56 per month. For an LGS customer using 486 kW and 222,350 kWh a month, the bill impact of this update is a decrease of \$67.21 per month.

The total March 2024 through February 2025 revenue requirements, as shown on line 3, column E, in Attachment 3, is \$2,549,017. 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, 2024, and ending February 28, 2025, are as follows:

**Table 5
TCRR Rates**

Class	¢ / kWh	\$ / kW
Large General Service	0.273	0.851
Controlled Service	0.075	
Lighting	-0.098	
All Other Service	0.696	

The proposed customer notice and rate impact is contained in Attachment 23.

VII. TCRR TARIFF SHEET

Otter Tail’s redline and clean TCRR tariff sheet, Section 13.05, is Attachment 22 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.

Updated Jurisdictional Factors

The D2 allocation factor that is utilized throughout the TCRR tracker has been updated pursuant to the Commission Order. Historically, the TCRR rates have been calculated using the D2 factor approved in the most recent South Dakota General Rate Case. The 2022 and 2023 TCRR filings have incorporated D2 factors based on actuals from the prior year 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 9.19 percent D2 factor approved in the most recent rate case was used for calculations in time periods prior to January 2022. Actuals were used to calculate the D2 allocation factor 9.73 percent for 2022. Forecasted D2 factors of 10.36, 10.40, and 10.54 percent, are used for 2023, 2024, and 2025, respectively. These factors are reflective of Otter Tail's most recent forecast amounts, which include expected load changes across all jurisdictions, including the impacts of the new North Dakota load that came on-line during 2022, as well as load changes in both Minnesota and South Dakota. The forecasted D2 factors used for the 2023-2025 calendar year calculations include anticipated loads across all jurisdictions.

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.

Depending on the nature, size, and operating characteristics of a new load, Otter Tail recognizes that large load changes across jurisdictions can materially impact how system costs get allocated. While adjustments to base rates typically do not 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, 2024.

Date: November 1, 2023

Respectfully submitted:

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