

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

Docket No. EL20-

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

**PETITION FOR ANNUAL UPDATE TO
TRANSMISSION COST RECOVERY RIDER RATE**

I. INTRODUCTION

In compliance with the South Dakota Public Utilities Commission's (Commission) Orders,¹ Otter Tail Power Company (Otter Tail or Company) hereby Petitions for approval of its annual update to its Transmission Cost Recovery Rider (TCRR) rate.

This Petition updates the rates to collect the 12 months of revenue requirements over the 12-month recovery period of March 2021 through February 2022. The TCRR is updated to include actual investment costs, expenses and revenues associated with existing projects and approved recovery items through September 2020, updated forecast information for the remainder of the current recovery period which ends February 28, 2021 and forecasted information for the proposed recovery period ending February 28, 2022. Otter Tail is also requesting TCRR recovery of two new transmission projects in this annual update, the Erie – Frazee 115 kV Project and the Grant County-Norcross 115 kV Project as of January 2021.

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

This update includes the projected tracker balance for the end of the current recovery period to help prevent over-or under-recovery of TCRR costs.

The calculation of the proposed revenue requirements within this Petition are 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, 2019, 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, 2021 through February 28, 2022 recovery period, as shown in Attachment 2, is \$2,174,742 compared to the total revenue requirement of \$2,327,178² for the March 1, 2020 through February 28, 2021 timeframe, a decrease of \$152,436 in the revenue requirement.

Per the EL13-029 TCRR Order, if the annual updates for MISO 26 and 26A Schedules anticipated to be released in January 2021 are materially different from current forecasts included in this Petition, Otter Tail will make a supplemental filing by February 1, 2021 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 2020.

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 \$0.82 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 \$14.78 per month. These class impacts include class specific true-ups as described in more detail below.

² Approved in Commission’s February 12, 2020 Order in Docket No. EL19-039.

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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C. Title of utility employee responsible for filing

Lynn A. Wolters
Rates Analyst, Regulatory Administration
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D. The date of filing and the date changes will take effect

The date of this filing is October 30, 2020. Otter Tail proposes the update to the rates be applied to usage on and after March 1, 2021.

E. Statutes controlling schedule for processing the filing

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 21 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 22 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 SDCL Chapter 49-34A-12 in November 2020 billing statements.

III. TCRR

A. Background

In this Petition Otter Tail provides an update of its tariff electric rate schedule, Section 13.05, in compliance with Paragraph 10 of the Settlement Stipulation approved by the Commission's EL10-015 TCRR Order, referenced above. This Petition also incorporates the filing date approved by the Commission's 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 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 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 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 -8 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 and 6)³ and the new projects for which Otter Tail is requesting TCRR recovery (Attachments 7 and 8). Attachment 9 provides the revenue requirement for the Transmission Adjustment approved as part of Otter Tail's last Rate Case, Docket No. EL18-021⁴, and previously approved by the Commission's September 19, 2019 Order in Docket No. EL18-048.

These 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 (if applicable), accumulated deferred taxes including the effect of proration on Federal amounts, 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 investment and any credits to the revenue requirement for monies received for use of the transmission lines 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

³ The Commission's February 20, 2019 Order in Docket No. 18-048 approved recovery of Otter Tail's Lake Norden Area Transmission and Big Stone South to Ellendale projects.

⁴ Commission's July 11, 2019 Order Granting Joint Motion For Approval Of Settlement Stipulation; Order Approving Settlement Stipulation in Docket No. EL18-048.

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 in the right-of-way as possible. 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 18 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 IRS regulations and to avoid a tax normalization violation. Otter Tail includes Attachment 19 in this filing, which shows the preservation of the proration of ADIT results in an increase of \$156 plus any applicable carrying charge to the revenue requirement. This item is included on Line 11 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 14 and 15 of the Tracker Account (Attachment 4) and are shown separately in Attachment 11. 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 12) and MISO Related Revenues (Attachment 13).* 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 Schedule 7, 8, and 9 as a result of securing transmission service in SPP appear on Line 16 of the Tracker Account (Attachment 4) and are also shown separately in Attachment 12.

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 17 of the Tracker Account (Attachment 4) and is also shown separately in Attachment 12.

Otter Tail receives MISO Schedule 9 revenues related to Central Power Electric Cooperative (CPEC) paying MISO charges for transmission service they secure 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 revenues associated with MISO Schedule 9 results in a reduction to the TCRR revenue requirement. MISO Schedule 9 revenue from CPEC appears on Line 21 of the Tracker Account (Attachment 4) and is shown in detail in Attachment 13.

- *MISO Schedule 26 and 26A revenues.* Schedule 26 and 26A revenues, for the recovery period, appear on lines 22 and 25, respectively, of the Tracker Account Summary (Attachment 4) and are shown separately on Attachment 14 (Schedule 26) and Attachment 15 (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 OTP, may collect under the MISO Tariff. The two groups of complainants sought to reduce the, then current, ROE of 12.38 percent to 9.15 percent and 8.67 percent, respectively.

FERC issued its decision on the first complaint on September 28, 2016, granting approval of a 10.32 percent base ROE plus any applicable adder effective prospectively from that date. OTP and other MISO TOs were granted a 50-basis point adder for participation in a Regional Transmission Organization (RTO) to be applied to the base ROE. On November 21, 2019, FERC issued Opinion No. 569⁵, a ruling on the two MISO cases. The opinion adopted in part and rejected in part a new approach for evaluating base ROEs, which FERC had proposed in response to the D.C. Circuit Court’s action to vacate and remand FERC’s standing ROE methodology that was used to set the MISO ROE at 10.32 percent in the first complaint. The November 21, 2019 Order grants rehearing on the first complaint and reaffirmed its prior finding that the

⁵ 169 FERC ¶ 61,129 (2019).

existing 12.38 percent ROE is unjust and unreasonable. FERC set the MISO base ROE at 9.88 percent plus any applicable adders effective September 28, 2016, and requires refunds be made within 30 days of the Order for the period where the 10.32 percent base ROE was in effect (the fifteen-month refund period of November 12, 2013 to February 11, 2015 and the period from September 28, 2016 to December 31, 2019). As of January 1, 2020, MISO implemented the new base ROE of 9.88 percent in its rates. The November 21, 2019 Order also dismissed the second complaint and found the record in that proceeding did not support a finding that the 9.88 percent ROE established in the first case is unjust and unreasonable. On December 23, 2019, parties taking a position opposed to the MISO TOs filed requests for rehearing claiming FERC erred by dismissing the second case, thereby denying refunds for the time period of February 12, 2015 through May 11, 2016. On May 21, 2020 FERC issued Opinion 569-A, granting rehearing in part of Opinion 569. Opinion 569-A refines the methodology used for determining ROE. Under Opinion 569-A the base ROE was determined to increase from 9.88 percent to 10.02 percent. In addition to the increase in ROE, Opinion 569-A affirms the dismissal of the second ROE complaint. On September 10, 2020, the Filing Parties filed a motion for an extension of time to make refunds in the proceeding until March 23, 2022. Upon consideration notice was given to all parties that an extension of time to complete refunds and refund reports was granted to and including September 23, 2021.

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. MISO began processing the refund for the first complaint period of November 2013 to January 2015 in April through August 2020. Otter Tail includes the impacts of the refund within this filing in Attachments 11, 13, 14, 15 and 16, collectively resulting in approximately a \$48,000 decrease to the South Dakota share of the revenue requirement.

- *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 16, 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 \$547 as shown in Attachment 4, line 23. The Schedule 38 revenue credit reflected in this TCRR update is \$652, shown in Attachment 4, line 24. These are actual amounts through September 2020 and are included as part of the 2020 true-up amount.

- *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 TOs similar to how Schedule 26A expenses are allocated to MISO TOs for all MVP projects. The revenue is identified in Attachment 17 and is reflected as a credit in the rider shown in Attachment 4, line 26.

Otter Tail used the past twelve months of actual revenues to project future distributions from MISO. The estimates are subject to change based on seasonal values for transmission capacity, projects in service, and available additional transmission capacity. As with all other revenues and expenses, Otter Tail includes actuals as available in TCRR filings.

C. 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 14, 15, and 16 on the lines titled "Overhead Credit for Non-Retail Share" for each project. For the 2021 calendar year, the percentage is 0.993 percent of the total investment in the projects. This percentage was established as part of the FERC-approved MISO tariff.

D. Change in SPP related expenses – Attachment 12

Otter Tail and Central Power Electric Cooperative (CPEC) executed a purchase agreement during July of 2019 whereby Otter Tail will purchase CPEC equipment at three separate substations and one 4-mile section of 69 kV line.⁶ Otter Tail now expects to finalize the purchase of the CPEC facilities in the fourth quarter of 2020. Equipment being acquired from CPEC at the Rugby Substation is expected to qualify for additional 30.9 facility credits from SPP.⁷ However, this equipment does not meet the eligibility requirements of SDCL 49-34A-25.1 for recovery through the TCRR. Therefore, Otter Tail will remove the 30.9 facility credits contributed by the Rugby equipment from the SPP Schedule 9 expenses in the TCRR for the upcoming rate year at the point when they are passed through.

The 30.9 facility credits for the Blair 230 kV Substation upgrade is projected to be \$85,000 per year (OTP Total), \$8,500 (OTP SD) and the 30.9 facility credit for the Rugby 115 kV equipment is projected to be \$139,000 (OTP Total), \$13,900 (OTP SD) per year. The facility credits for the Blair 230 kV Substation upgrade which Otter Tail is currently receiving are removed from the SPP Schedule 9 expenses in Attachment 12.

As seen in Attachment 12 of this filing, 2021 SPP Schedule 7, 8 and 9 expenses are

⁶ The purchase agreement encompasses: (1) CPEC equipment within the Otter Tail Bottineau 115-43.8 kV Substation; (2) CPEC equipment within the Otter Tail Wahpeton 230-115-43.8 kV Substation; (3) CPEC equipment within the Otter Tail Rugby 230-115-43.8 kV Substation; and (4) CPEC's Rolette line segment – OTP Rolette four-mile 69 kV line.

⁷ CPEC's equipment at the Rugby Substation currently qualifies as eligible transmission facilities under SPP's Tariff and is currently included as part of CPEC's annual transmission revenue requirement in SPP. Since the acquisition will not change the configuration of the equipment, Otter Tail expects it will be able to obtain SPP facility credits for this equipment within the Rugby 230/115/41.6 kV Substation.

forecasted to be approximately \$2.2 million (OTP Total) \$0.21 million (OTP SD), and SPP Schedule 11 expenses are forecasted to be approximately \$0.26 million (OTP Total), \$0.02 million (OTP SD) in 2021. MISO Schedule 9 revenues as seen on Attachment 13 of this filing are forecasted to be approximately \$1.4 million (OTP Total), \$0.13 million (OTP SD) in 2021. Should the amounts associated with the SPP expenses or MISO revenues materially change during the time this Docket is open, Otter Tail will provide updated information and revised rate calculations in a supplemental filing by February 1, 2021.

E. Projects previously approved for recovery

The following two projects were previously approved for inclusion in Otter Tail's TCRR in Docket No. EL18-048.

1. Lake Norden Area Transmission Improvements Project
2. Big Stone South - Ellendale Project

F. New transmission projects included in this TCRR rate update

In this Petition, Otter Tail seeks approval for TCRR recovery of two new projects as of January 2021; the Erie – Frazee 115 kV Project and the Grant County-Norcross 115 kV Project. The costs and revenue requirements for these projects are included in Attachments 7 and 8. A detailed description of the projects is provided below:

Erie – Frazee 115 kV Project – Attachment 7

Otter Tail, Missouri River Energy Services (MRES), Great River Energy (GRE) and Minnkota Power Cooperative (MPC) have collaborated on a planning study for the transmission system in west central Minnesota between the high voltage transmission sources at Fergus Falls, Audubon and Inman. The study was targeted at identifying the necessary system reinforcements to the high voltage transmission system as a result of load growth in this area, coupled with consideration of Otter Tail's pending retirement of the Hoot Lake generation plant in Fergus Falls, Minnesota.

The study identified that the transmission system is unable to meet voltage and loading criteria for an outage that involves loss of the 230 kV source at Audubon. This Audubon 230 kV contingency results in low voltages appearing in the Frazee area with 115 kV transmission lines in the Fergus Falls area exceeding their limits. The voltage

concerns were most prevalent during winter peak conditions, while loading concerns also appeared during both summer peak and winter peak conditions.

To address the reliability concerns identified during this study, the parties identified a transmission project that includes the following components:

1. Build a new Erie 230/115 kV substation along the Audubon – Hubbard 230 kV Line;
2. Expand the existing Frazee 115/41.6 kV Substation;
3. Build approximately 9 miles of new 115 kV line between the new Erie 230/115 kV Substation and the expanded Frazee 115/41.6 kV Substation; and
4. Add capacitor banks at the existing Frazee 115/41.6 kV Substation

The parties coordinated this project with MISO, which was approved as part of MTEP19.⁸

The new Erie – Frazee transmission project will be a joint project with certain portions built and owned by GRE and Otter Tail. Through negotiations between the parties, the overall project will involve GRE expanding the existing Frazee 115/41.6 kV Substation, adding capacitor banks at Frazee and building 9 miles of new 115 kV line while Otter Tail will build the new Erie 230/115 kV substation. Although these discrete components of the overall project will be built and owned by either GRE or Otter Tail, each of these various components must be completed before the Erie – Frazee 115 kV Project will adequately address the voltage and loading concerns in this area. Therefore, Otter Tail has been closely coordinating with GRE throughout the project development phase, with plans to continue this coordination into the construction phase and ultimately the operational phase of this new project.

The total project cost is estimated to be \$16.5 million, with Otter Tail's estimated cost of the project being \$6.0 million (OTP Total) / \$0.55 million (OTP SD). Permitting efforts are underway within Minnesota with a plan to energize this project in late 2023.

⁸ See Project Number 15344 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>.

Grant County-Norcross 115 kV Project – Attachment 8

Otter Tail's 41.6 kV transmission system between the high voltage sources at Elbow Lake, Fergus Falls and Morris has experienced load growth over the last few years. Most recently the growth has come from agricultural-related developments in the Tintah, Herman and Wendell area. Based on planning studies performed for this area with these increased loads, the existing system can marginally meet Otter Tail's voltage criteria during system intact (N-0) conditions, but an outage of the Elbow Lake 115 kV source (N-1) results in low voltage concerns below criteria.

In order to address these reliability concerns, Otter Tail identified construction of a Grant County – Norcross 115 kV Project that includes the following components:

1. An expansion of the existing Grant County Switching Station;
2. A new Norcross 115/41.6 kV Substation; and
3. new approximately 7-mile 115 kV line from the Grant County Switching Station to Norcross;

Otter Tail coordinated this project with MISO and obtained approval of this project as part of MTEP19.⁹

The Grant County – Norcross 115 kV Project will be a joint project between Otter Tail and Missouri River Energy Services (MRES). Otter Tail will construct the 7 miles of new 115 kV line with the new Norcross 115/41.6 kV substation while MRES will expand the existing Grant County Switching Station in order to accommodate the interconnection of Otter Tail's new 115 kV line. Otter Tail and MRES are coordinating their efforts for this project with Otter Tail taking the lead on the project development efforts. As with any joint project, this coordination will continue into construction and through the operation of this new project.

The total project cost for the entire Grant County – Norcross 115 kV Project is estimated to be \$11.8 million, with Otter Tail's estimated cost for its portion of the project being approximately \$7.5 million (OTP Total) / \$ 0.69 million (OTP

⁹ See Project Number 17225 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>.

SD). Permitting efforts are underway within Grant County, Minnesota, with a plan to energize this project in May 2021.

IV. RATE DESIGN

The TCRR allocation factors and rate design follow the terms of the Approved EL10-015 Settlement Stipulation Order, paragraph 6. Specifically, the TCRR uses a rate design based on the transmission demand allocation factor, D2 from Otter Tail's Rate Case EL-18-021 to allocate total revenue requirements to jurisdictions (South Dakota, 9.187 percent) and rate classes. The LGS class's portion of retail revenue requirements based on this D2 factor is 42.54 percent. The remaining portion (55.25 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 the 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 2020. 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 AB] is (\$220,443) and is included on Attachment 3 [Column D, Line 6] in the rate design.

V. RATE APPLICATION AND IMPACT

As indicated earlier, the annual revenue requirement to be collected for the next recovery period of March 2021 through February 2022 decreased from \$2,327,178 for the March 2020 through February 2021 period to \$2,174,742 for the proposed recovery period. The positive tracker balance is due primarily to a net reduction in the MISO Schedule 26 Expense and MISO Schedule 26 Revenue in 2020.

Table 2 below compares the summaries of revenue requirements approved in Docket No. EL-19-039 (2019 TCRR Update) to this filing and helps illustrate the factors which contributed to the difference between the current revenue requirement (in the 2019 TCRR Update) and the proposed revenue requirement. As noted above, the proposed effective date of the change in rates is March 1, 2021.

Table 2
Attachment 2 Summaries

A		B	C	D
Line No.	Revenue Requirements	February 1, 2020 Supplemental Filing EL19-039	Proposed	Difference
		March 1, 2020 - February 28, 2021	March 1, 2021 - February 28,	
1	Big Stone South to Ellendale	7,003	6,379	(625)
2	Lake Norden Area Transmission	171,795	220,164	48,369
3	Erie Project	-	5,207	5,207
4	Norcross Project	-	51,914	51,914
5	Transmission Adjustment-EL18-021	341,323	341,323	-
6				
7				
8				
9	SD Filing Fee	4,000	4,000	-
10				
11	MISO Schedule 26 Expense	1,161,686	1,135,470	(26,216)
12	MISO Schedule 26A Expense	771,775	762,497	(9,278)
13				
14	SPP Schedule 9 Expense	207,699	215,140	7,441
15	SPP Schedule 11 Expense	20,917	24,058	3,141
16				
17	MISO Schedule 9 Revenue	(128,347)	(125,628)	2,719
18	MISO Schedule 26 Revenue	(187,860)	(197,668)	(9,808)
19	MISO Schedule 26A Revenue	(37,823)	(35,819)	2,004
20	MISO Schedule 37 Revenue	(0)	(0)	0
21	MISO Schedule 38 Revenue	(0)	(0)	0
22	MISO MVP ARR Revenue	(3,399)	(3,399)	-
23				
24	Carrying Cost	(1,440)	(8,453)	(7,013)
25	True-Up	(152)	(220,443)	(220,291)
26				
27	Total	2,327,178	2,174,742	(152,436)

Column A in Table 2 above reflects the components that make up the revenue requirements for the proposed recovery period. Column B reflects the revenue requirement for each component from the 2019 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, except the Erie and Norcross projects described in Section F above, were previously approved for inclusion in the TCRR.

Table 3

			A	B	C
			Rates Eff. Mar '20 - Feb '21	Rates Eff. Mar '21 - Feb '22	Difference
1	Large General Service Class	\$ / kW	0.679	0.668	-0.0111
2	Large General Service Class	Cents / kWh	0.214	0.223	0.0091
3					
4	Controlled Service	Cents / kWh	0.117	0.120	0.0021
5	Lighting	Cents / kWh	0.367	0.414	0.0466
6	All Other Service	Cents / kWh	0.704	0.622	-0.0819

Column C in Table 3 above reflects the change in rates from those approved in the 2019 TCRR Update (Column A) to those proposed in this updated (Column B).

The impact of the change in rates for a residential customer using 1,000 kWh per month is a decrease of \$0.82 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 \$14.78 per month.

The total March 2021 through February 2022 revenue requirements, as shown on line 1 in Attachment 3, is \$2,174,742. 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, 2021 are as follows:

TCRR Rate Class	Rate	
Large General Service	0.668	\$ / kW
	0.223	cents / kWh
Controlled Service	0.120	cents / kWh
Lighting	0.414	cents / kWh
All Other Service	0.622	cents / kWh

The proposed customer notice and rate impact is contained in Attachment 21.

The proposed rates assume they will be in effect beginning March 1, 2021 through February 28, 2022.

VI. TCRR TARIFF SHEET

Otter Tail's redline and clean TCRR tariff sheet (Section 13.05) is Attachment 20 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 49-1A-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.

VIII. 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 as of March 1, 2021.

Date: October 30, 2020

Respectfully submitted:

OTTER TAIL POWER COMPANY

/s/ LYNN A. WOLTERS

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