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## STAFF MEMORANDUM

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**TO:** COMMISSIONERS AND ADVISORS  
**FROM:** JOSEPH REZAC, LOGAN SCHAEFBAUER, AND JENNIE FUERST  
**RE:** EL24-034 - In the Matter of the Petition of Otter Tail Power Company for Approval of the Transmission Cost Recovery Rider Rate  
**DATE:** February 7, 2025

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### **BACKGROUND**

On November 1, 2024, the South Dakota Public Utilities Commission (Commission) received a Petition for Approval of the Annual Update to its Transmission Cost Recovery Rider Rate (Petition) from Otter Tail Power Company (Otter Tail or Company) requesting approval of its annual update to its Transmission Cost Recovery Rider (TCR) rates. The proposed revised TCR rates reflect the updated TCR revenue requirements for March 1, 2024 through February 28, 2025, including the tracker balance estimated for the end of the current period.

SDCL §§ 49-34A-25.1 through 25.4 authorizes the Commission to approve a tariff mechanism for the automatic annual adjustment of charges for the jurisdictional costs of new or modified transmission facilities with a design capacity of 34.5 kV or more and which are more than five miles in length.

In Docket EL10-015, the Commission approved the establishment of TCR rates to recover the costs associated with three transmission projects and Midcontinent Independent System Operator (MISO) Schedule 26 expenses. The Commission approved a Settlement Stipulation supporting the “hybrid” or “split method” approach for allocating MISO approved cost-shared projects with company investment. This method was refined in Docket EL12-054 and Otter Tail continues to apply the refined split method for MISO Schedule 26 and 26A expenses today.<sup>1</sup>

In subsequent years, the Commission approved recovery of additional projects, which were ultimately rolled into base rates in rate case docket EL18-021.

Most recently, in Docket EL23-031, the Commission approved TCR recovery of the 2023 revenue requirement associated with five previously approved transmission projects (Lake Norden Area Transmission Improvements, Big Stone South to Ellendale, Erie-Frazee, Grant Country-Norcross, and Oslo to Lake Ardoch), one new transmission project (Milbank Area Reliability), regional transmission expenses and revenues, and an updated allocation factor. The 2024 TCR implemented the following rates for each customer class effective March 1, 2024:

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<sup>1</sup> See Docket EL16-035 Staff Memorandum, pages 5 and 6 for a synopsis of the refined split methodology.

Class	¢/kWh	\$/kW
Large General Service	0.273	0.851
Controlled Service	0.075	N/A
Lighting	(0.098)	N/A
All Other Service	0.696	N/A

In this filing, Otter Tail requests to recover a projected March 1, 2025 through February 28, 2026 revenue requirement of \$2,788,406 associated with the six previously approved projects, regional transmission expenses and revenues, and an updated D2 allocation factor. The request includes the Company's proposal to return to customers an estimated \$286,687 in over-collection of the prior period's remaining balance. The Company's proposed March 1, 2025 through February 28, 2026 revenue requirement results in the following rates for the respective customer classes, based on a March 1, 2025, effective date:

Class	¢/kWh	\$/kW
Large General Service	0.274	0.943
Controlled Service	0.105	N/A
Lighting	0.281	N/A
All Other Service	0.738	N/A

## **STAFF'S ANALYSIS**

Staff's recommendation is based on its analysis of Otter Tail's filing, discovery information, relevant statutes, and previous Commission orders. Staff's analysis consisted of review of the revenue requirement calculation, class allocation, and rate design. Each of these items are discussed below.

## **REVENUE REQUIREMENT**

Staff reviewed the forecasted March 1, 2025 through February 28, 2026 revenue requirement associated with six previously approved transmission projects, the transmission adjustment from rate case EL18-021, MISO Schedule 26 and 26A expenses and revenues, Southwest Power Pool (SPP) Schedule 9 and Schedule 11 expenses, MISO Schedule 9 and Multi-Value Project (MVP) Auction Revenue Rights (ARR) revenues, filing fee expense, and the true-up balance associated with the prior collection period. All items are subject to later "true-up" to reflect the actual costs, actual revenues, and actual recoveries.

Otter Tail continues to apply the refined split methodology<sup>2</sup> approved in Docket EL12-054 for projects cost-shared in MISO. Staff reviewed the calculations of this methodology for accuracy.

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<sup>2</sup> See Docket EL16-035 Staff Memorandum, pages 5 and 6 for a synopsis of the refined split methodology.

## **Background and Updates**

Staff first provides some background and updates on each of the revenue requirement items, including previously approved items and projects. Otter Tail filed a map of the 6 transmission line projects as Attachment 23.

### *Big Stone South to Ellendale*

Otter Tail owns 50 percent of the Big Stone South to Ellendale project, a 345 kV transmission project that extends 163 miles from an expanded Big Stone South 345 kV substation in South Dakota to a new 345 kV substation near Ellendale, North Dakota. This project was developed through the MISO MVP portfolio. Big Stone South to Ellendale was approved for TCR recovery in Docket EL18-048. The project was in-service as of March 2019, as planned.

### *Lake Norden Area Project*

The Lake Norden Area project was approved for TCR recovery in Docket EL18-048. The project includes construction of approximately 47 miles of 115 kV line, along with upgrades to the existing Hetland, Lake Norden, and Toronto substations, to provide an additional 115 kV transmission path to the area. The project increased reliability, decreased line exposure, and added operational flexibility to perform routine maintenance on facilities in the local area without as much risk for service interruption. The project was initially planned to be in-service as of December 2020. The final phase of the project was in-service in August 2021.

### *Erie-Frazee Project*

Otter Tail received approval to include the Erie-Frazee 115 kV project in the TCR in Docket EL20-032. This project was the result of a collaboration between Otter Tail, Missouri River Energy Services (MRES), Great River Energy (GRE), and Minnkota Power Cooperative (MPC). These companies worked together on a planning study for the transmission system in west central Minnesota and identified reliability concerns. The Erie-Frazee project is a joint project with certain portions built and owned by GRE and Otter Tail. The culmination of each component of this project addresses the voltage and loading concerns in the area. The parties agreed Otter Tail would build the new Erie 230/115 kV substation and GRE would expand the existing Frazee 115/41.6 kV substation, adding capacitor banks at Frazee and building 9 miles of new 115 kV line.

Otter Tail's original budget was \$6.0 million (total company amount). In last year's docket EL23-033, Otter Tail reported that the budget has increased to approximately \$7.9 million for a variety of different reasons that Staff outlined in its memo in the previous docket. With this docket, Otter Tail has provided an update and indicated that the current costs have come in lower at about \$7.0 million. This project was placed in service in April 2024.

### *Grant County-Norcross Project*

The Grant County-Norcross 115 kV project, approved for TCR recovery in Docket EL20-032, also addresses reliability concerns. This is a joint project between Otter Tail and MRES. Otter Tail constructed 7 miles of new 115 kV line from the Grant County Switching Station to a new Norcross 115/41.6 kV substation. MRES expanded the existing Grant County Switching Station to accommodate the interconnection of Otter Tail's new 115 kV line. The initial planned in-service date for this project was May 2021. However, the actual in-service date was September 2022.

#### *EL18-021 Transmission Adjustment*

In Docket EL18-048, the Commission approved an adjustment to correct an error regarding transmission rate base in the rate case, Docket EL18-021. In the rate case, Otter Tail inadvertently understated Otter Tail's transmission plant in service. Otter Tail and Staff determined the most appropriate way to correct this error was to include an adjustment in the TCR. This adjustment in the TCR will be ongoing until the Company files its next rate case.

#### *Oslo-Lake Ardoch 115 kV Project*

In Otter Tail's TCR filing, Docket EL22-031, the Commission approved recovery of the Oslo-Lake Ardoch 115 kV project. Otter Tail and MPC analyzed the reliability of the transmission system in Northwest Minnesota and determined the need to move forward with several projects in this area. The next steps in the companies' transmission plan includes MPC's construction of the new Lake Ardoch 230/115 kV substation, Otter Tail's construction of the Oslo 115 kV Switching Station, and the Lake Ardoch to Oslo 115 kV line. Otter Tail expects this project to be completed in February 2025.

In this docket, Otter Tail provided an update regarding the forecasted project costs. In last year's filing, Otter Tail estimated the costs for the project to be around \$11.2 million (total company amount) which was an increase from the initial estimated cost for this project of \$6.6 million. Last year's Staff memo outlined a few reasons Otter Tail indicated the project cost had increased. Otter Tail now anticipates the total costs to be about \$9.9 million, a \$1.3 million total decrease from last year's filing.

#### *Milbank Area Reliability Project*

In Otter Tail's most recent TCR Filing, Docket EL23-033, the Commission approved recovery of the Milbank Area Reliability Project. Otter Tail is constructing 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 kV substation and the Marietta 115/4.6 kV substation. The project consists of several components and alleviates reliability concerns of the existing 41.6 kV system to serve additional load.

The 115 kV transmission loop will directly serve the town of Milbank, along with an additional production facility. Absent the expansion of the production facility, the existing 41.6 kV system would still require re-enforcements and upgrades to continue to serve customers reliably and safely. The total cost of the project is estimated to be \$36.2 million (total Company amount). Otter Tail states construction is underway and forecasts the project to be completed in December 2026.

### *Regional Transmission Expenses and Revenues*

Otter Tail continues to incorporate regional transmission expenses and revenues including MISO Schedule 26 and 26A expenses, MISO Schedule 9, 26, 26A, 37, 38, and MVP ARR revenues, and SPP Schedule 7, 8, 9, and 11 expenses in the TCR revenue requirements.

Pursuant to Docket EL13-029, if the annual updates for MISO Schedule 26 and 26A anticipated to be released in January 2025 are materially different from the forecasts included in Otter Tail's petition, Otter Tail will make a supplemental filing by February 1<sup>st</sup> to update the TCR rates for the upcoming recovery period. Otter Tail contacted Staff in January 2025 and indicated that the most recent data would result in minimal changes and therefore, the Company would not be submitting a supplemental filing in this docket.

The calculations of the applicable MISO Schedule 26, 26A, 37, and 38 revenues include a revenue credit to account for reimbursements through MISO's tariff for administrative and general operating and maintenance (O&M) expenses. The credit provides reimbursement to customers for any such costs that may already be recovered from customers. Since 2012, Otter Tail has been applying the Annual Allocation Factor for Other O&M costs from MISO Attachment MM as the overhead credit for non-retail share to Schedule 26 and 26A revenues.

Otter Tail in its petition, proposes a change to remove the wholesale revenue credit for projects not recovered through Attachments GG or MM and to instead provide a true-up calculation for MISO Schedules 7, 8, and 9 revenues. The intention of this proposed change is to provide more transparency and accuracy related to the revenues associated with these schedules. The methodology of the wholesale revenue credit percentage was established to represent the revenue Otter Tail received for the wholesale use of its transmission system from MISO and other non-MISO users. However, with the current methodology, Otter Tail does not necessarily receive additional revenues for the wholesale use of its transmission system from each transmission investment, as the revenue credit suggests. The removal of the wholesale revenue credit causes an increase to the revenue requirement of \$121,000, while the new inclusion of the MISO schedules 7, 8, and 9 true-up causes a decrease of \$32,000, resulting in a net increase to the revenue requirement of approximately \$89,000.

Additionally, Otter Tail is also proposing a correction to the source document used for the Schedule 26A allocation factors. Previously, Otter Tail used Schedule 7 rates and determinants, which uses the January Zonal Rates and Determinants workbook from the MISO website. In this filing, Otter Tail proposes to update the calculation method to instead use the Schedule 26A Indicative Charges workbook, also found on the MISO website. Updating the source document will provide a more accurate reflection of Otter Tail's Schedule 26A allocation. This update results in a decrease to the revenue requirement of \$25,000.

On page 16 of its petition, Otter Tail provided a discussion regarding SPP expenses. Otter Tail renewed part of its existing SPP transmission service during 2021 to ensure service was not interrupted at the end of the existing term (2022). However, Otter Tail elected to only extend its existing SPP transmission service for five years 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.

### *Proration of Federal Accumulated Deferred Income Taxes*

In accordance with Internal Revenue Service (IRS) regulations, Otter Tail must preserve the effect of accumulated deferred income tax (ADIT) proration for the true-up period. Since this rider uses a forward-looking test year, Otter Tail must calculate the ADIT proration to avoid a normalization violation from the IRS.

### *Jurisdictional Allocations*

The transmission demand D2 allocation factor is used to allocate total revenue requirements to the South Dakota jurisdiction. This allocator is updated based on actuals from the prior year to capture the impact of shifting loads between jurisdictions. In Docket EL23-033, Otter Tail forecasted South Dakota D2 allocation factors of 10.36% for 2023 and 10.40% for 2024. In this docket, Otter Tail updated the 2023 allocator based on actuals to 10.10% and forecasts allocators of 10.23%, 10.58%, and 10.40% for 2024, 2025, and 2026, respectively. The forecasted allocators will be updated based on actuals in future TCR filings.

### **Prior Collection Period Tracker**

The TCR approved in Docket EL23-033 was based on the estimated South Dakota revenue requirements for the collection period of March 2024 through February 2025 of \$2,858,841<sup>3</sup>. The Company's tracker<sup>4</sup> filed in this docket reflects actual costs through August 2024 and forecasted costs through February 2025. This results in an updated South Dakota revenue requirement for March 2024 through February 2025 of \$2,644,475.

The difference between the forecasted revenue requirements in Docket EL23-033 and the updated revenue requirements in this docket are summarized below:

<b>March 2024 – February 2025 Revenue Requirements</b>		
	<b>EL23-033 Approved</b>	<b>EL24-034 Update</b>
Big Stone South to Ellendale	\$6,362	\$8,230
Lake Norden Area Transmission	\$270,596	\$269,799
Erie Project	\$71,251	\$60,189
Norcross Project	\$45,280	\$43,795
EL18-021 Transmission Adjustment	\$341,323	\$341,323
Oslo Lake Ardoch 115 kV	\$80,983	\$62,562
Milbank Area Reliability	\$118,718	\$91,514
SD Filing Fee	\$4,000	\$4,000
MISO Expenses	\$2,301,974	\$2,218,130
SPP Expenses	\$250,894	\$241,301
MISO Revenues	\$(632,539)	\$(697,071)
Preservation ADIT Proration	\$0	\$702

<sup>3</sup> Excluding estimated carrying charge and true-up. Total estimated revenue requirements were \$2,549,017.

<sup>4</sup> Refer to Attachment 4 to Otter Tail's petition.

<b>Total</b>	<b>\$2,858,368</b>	<b>\$2,644,475</b>
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The rates implemented in Docket EL23-033 were based on the above estimated revenue requirement plus estimated carrying charges/credits and the true-up balance from the prior collection period. Rates were based on a total estimated revenue requirement of \$2,549,017 and forecasted base rate retail sales for March 2024 through February 2025.

Comparing the updated revenue requirements of \$2,644,475 to the revenues received for the same time period results in a difference of \$35,431. Applying the carrying cost rate results in carrying charges of \$(21,987) and a cumulative true-up balance of \$(286,687) to be carried over into the next collection period tracker. Since Otter Tail allocates the revenue requirement to customer classes and designs rates for each class, the true-up balance is calculated by rate class to minimize cross-class subsidization. Refer to Otter Tail's Attachment 4A for the class-specific true-up calculations.

#### **March 2025 – February 2026 Revenue Requirement**

The March 1, 2025, through February 28, 2026, revenue requirement is based on estimated revenue requirements of the Big Stone South to Ellendale, Lake Norden, Erie, Norcross, Oslo Lake Ardoch, and Milbank Area Reliability projects, the EL18-021 transmission adjustment, estimated filing fee, MISO and SPP expenses, MISO revenues, and the true-up balance associated with the prior collection period.

Otter Tail's Attachments 5 through 22 provide the details regarding the revenue requirement calculations. Attachment 4 provides the Tracker Summary for the current and proposed collection periods, and Attachment 2 summarizes the revenue requirements for the upcoming recovery period.

A summary of the forecasted South Dakota revenue requirements for the March 2025 through February 2026 collection period is below.

<b>March 2025 – February 2026 Revenue Requirements</b>	
Big Stone South to Ellendale	\$17,651
Lake Norden Area Transmission	\$303,223
Erie Project	\$81,650
Norcross Project	\$49,311
EL18-021 Transmission Adjustment	\$341,323
Oslo Lake Ardoch 115 kV	\$106,178
Milbank Area Reliability	\$248,540
SD Filing Fee	\$4,000
MISO Expenses	\$2,353,485
SPP Expenses	\$279,398
MISO Revenues	\$(705,046)
Carrying Cost / (Credit)	\$(4,521)
True-Up	\$(286,687)
<b>Total</b>	<b>\$2,788,406</b>

The forecasted March 2025 – February 2026 revenue requirement represents an increase of \$239,389 compared to the prior period forecasted revenue requirement approved in Docket EL23-033. The increase is largely due to the ongoing construction and recent addition of the Milbank Area Reliability Project.

## **CLASS ALLOCATION AND RATE DESIGN**

The TCR incorporates the class allocation and rate design methodology approved in rate case EL18-021. The revenue requirement is allocated to four customer classes based on the transmission demand allocation factor, D2. Rates for each customer class are then designed based on forecasted sales for the time period rates will be in effect. Projected sales for each class are created by econometric models using various inputs such as weather data, economic data, customer counts, and historical usage. The large general service class rate design incorporates both a demand charge and an energy charge while the remaining retail rate classes have an energy rate only.

Otter Tail proposes the following rates be effective March 1, 2025:

Class	¢/kWh	\$/kW
Large General Service	0.274	0.943
Controlled Service	0.105	N/A
Lighting	0.281	N/A
All Other Service	0.738	N/A

Compared to the rates currently in effect, the proposed rates reflect an increase for all classes. Otter Tail states the impact of the proposed change in rates for a residential customer using 1,000 kWh per month is an increase of approximately \$0.42 per month, or a bill increase of approximately 0.42%.

## **REASONABLENESS OF OVERALL EARNINGS FROM REGULATED RATES**

As established per settlement stipulations in prior TCR dockets, the Company agrees to continue to file, by June 1 of each year, an annual report with the Commission detailing its South Dakota jurisdictional earnings for the preceding calendar year. Staff believes the report is necessary to monitor the Company's earnings and the potential effect of adding the TCR to its South Dakota tariff.

In addition, per the Stipulation on Correcting Electric Plant in Service – Transmission Rate Base Total filed in Dockets EL18-021 and EL18-048, an earning sharing mechanism was established. In the event the Company's weather normalized earnings exceed the Commission authorized ROE, the Company will refund to customers 50 percent of any weather-normalized revenue that corresponds to the earnings in excess of its authorized ROE, up to a maximum of 9.50% earnings for a particular year. The Company will refund 100% of any earnings above 9.50% each year.

## **RECOMMENDATION**



Staff recommends the Commission approve Otter Tail's proposed revenue requirement and rates for the March 1, 2025, through February 28, 2026, recovery period, and the associated tariff revisions, effective March 1, 2025.