Before the South Dakota Public Utilities Commission
State of South Dakota

In the Matter of the Application of Otter Tail Power Company
For Authority to Increase Rates for Electric Utility
Service in South Dakota

Docket No. EL25-

Exhibit___

RATE DESIGN AND TARIFF CHANGES

Direct Testimony and Schedules of

ERIC P. SCHIFFER

PUBLIC – TRADE SECRET DATA HAS BEEN EXCISED

June 4, 2025

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ATTACHED SCHEDULES

I. INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME AND CURRENT EMPLOYER.

A. My name is Eric P. Schiffer. I am employed by Otter Tail Power Company (OTP or the Company).

Q. PLEASE SUMMARIZE YOUR CURRENT RESPONSIBILITIES.

A. I am the Supervisor, Pricing and Large Loads. I am responsible for supervising the design and implementation of retail pricing strategies for rate schedule and contract pricing, including rates and rate design.

Q. HAVE YOU INCLUDED AN ATTACHMENT OF YOUR QUALIFICATIONS AND EXPERIENCE?

A. Yes. A summary of my qualifications and experience is included as Exhibit___(EPS-1), Schedule 1.

II. PURPOSE AND OVERVIEW OF DIRECT TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. My Direct Testimony: (1) describes the rate structure objectives that were used in developing OTP's proposed rates; (2) explains the role of embedded and marginal costs in OTP's rate design; (3) describes the proposed rate design for OTP's rate schedules; (4) introduces new rate structure designs, and (5) supports the proposed language changes of OTP's rate schedule provisions.

Q. PLEASE PROVIDE A BRIEF OVERVIEW OF YOUR DIRECT TESTIMONY.

A. OTP's rate design provides a reasonable opportunity to achieve OTP's revenue requirement. The rate design is based on marginal costs, and, as such, promotes efficient use of resources.

Q. HOW IS YOUR DIRECT TESTIMONY ORGANIZED?

A. In Section III, I describe OTP's rate design process, including the objectives that guide our rate design and the role of both embedded and marginal costs in rate design. In Section IV, I discuss rate restructuring done since our last rate case. Section V identifies rate design components including the updated rate

components. Section VI lays out the individual rate class proposals. Finally, Section VII identifies tariff changes that OTP proposes (other than rates).

III. RATE DESIGN PROCESS

A. Overall Rate Structure Objectives

Q. WHAT ARE THE RATE STRUCTURE OBJECTIVES THAT GUIDE OTP'S PROPOSAL IN THIS CASE?

A. The following are the Company's rate structure objectives:

- The rate design should give OTP a reasonable opportunity to achieve its revenue requirement. As described in OTP witness Ms. Amber M. Grenier's Direct Testimony, the revenue requirement for each customer class is based on embedded cost. OTP then utilizes a marginal cost structure as a guide to design rates.
- The rate design should promote efficient use of resources. By designing rates using marginal costs, OTP provides customers with information that signals the underlying avoided costs associated with reducing loads and the incremental costs of meeting new load. When time of day (TOD) rates are utilized, these rates provide customers with more granular information to assist them in making load adjustment decisions.
- Rate design changes should be gradual where necessary and possible to avoid abrupt bill impacts.
- The rate design should be based on structures that are reasonable and nondiscriminatory. This includes minimizing interclass subsidies and cross-subsidies within rate classes to the extent that is reasonably possible.
- The rate design should result in rates that are administratively feasible. This includes taking metering and billing system constraints into account and avoiding unnecessary complexity that might confuse customers.
- The rate design should provide sufficient incentives to attract customers to voluntarily select load control/interruptible riders, as those riders provide substantial benefits to all OTP customers.

B. Role of Embedded and Marginal Costs in Rate Design

Q. PLEASE SUMMARIZE THE MAIN POINTS OF THIS PORTION OF YOUR DIRECT TESTIMONY.

A. This portion of my Direct Testimony makes two main points:

- Consistent with OTP's rate design objectives, I use OTP's marginal costs as a guide for determining rate structures, tempering the results by the need to control bill impacts and maintain a suitable inter- and intra-class relationship between regular rates and the riders available to OTP's customers.
- We determined the proposed intra-class revenue requirement using a mix of marginal and embedded costs, depending on the customer class.

Q. WHAT IS THE STARTING POINT FOR THE RATE DESIGN?

A. We begin designing rates from the customer class base revenue responsibilities shown in Exhibit___(AMG-1), Schedule 3 to the Direct Testimony of Ms. Grenier. We then take those class base revenue responsibilities and allocate them to rate classes. Finally, we develop the individual rate components (energy charges, demand charges, facilities charges, reservation charges, and fixed charges) for each rate class which we designed to recover the overall revenue requirement.

Q. WHAT IS THE DIFFERENCE BETWEEN A CUSTOMER CLASS AND A RATE CLASS?

A. A customer class is a group of customers with similar usage patterns and electrical facilities while a rate class is a rate option. Customers within the customer class may have more than one rate class option. For example, the Residential customer class has two rates: a general service rate and a demand-controlled rate, each with its own applicability requirements.

Q. ARE THE CLASS REVENUE RESPONSIBILITIES DEVELOPED BY MS. GRENIER BASED ON EMBEDDED COSTS?

A. Yes. In Section VI of Ms. Grenier's Direct Testimony, she introduces a one-page summary (Exhibit___(AMG-1), Schedule 2) of the Class Cost of Service Study (CCOSS), and her Schedule 3, which includes the revenues that I use to design rates. Ms. Grenier discusses in more detail in her Direct Testimony the embedded cost basis of the CCOSS and OTP's class revenue allocation.

Q. HOW DO YOU USE MARGINAL COSTS IN THE RATE DESIGN PROCESS?

A. I primarily use marginal costs in the process of developing individual rate components, though marginal costs also are used to develop certain intra-class revenue allocations. I describe the allocation of class revenue responsibilities to

rate classes in this section of my Direct Testimony and focus on defining the individual rate components in Section V, below.

Q. ARE THERE BENEFITS OF USING BOTH EMBEDDED AND MARGINAL COSTS IN RATE DESIGN?

A. Yes. Rates must give the utility the opportunity to recover all of its embedded costs. By using marginal costs to design those rates, OTP's rate design provides customers with price signals that reflect the incremental cost of service while still recovering OTP's actual costs. TOD is a good example of the benefits of marginal cost principals, as TOD rates encourage customers to shift their use to off-peak using price signals. As generally sourcing off-peak power is cheaper than sourcing on-peak power, the utility can pass resulting savings on to the customer.

1. Marginal Cost Study

Q. WHAT IS THE DIFFERENCE BETWEEN MARGINAL COSTS AND EMBEDDED COSTS?

A. The most important difference between these two types of costs are historical costs (embedded) versus future costs (marginal). Marginal cost, as defined in OTP's marginal cost studies, is the change in the total cost of service with respect to a small change in demand for a product or service. These marginal costs take into consideration changes in forecasted investments at various service levels and their impact on utility system operations. In this case, OTP calculated its revenue requirements using embedded costs to quantify how much OTP should recover and by which customer classes. In turn, the Company determines how it will recover its embedded costs by using marginal costs as a reference. We distribute the embedded costs into rates based on the Company's forecast of customer usage.

Q. IS OTP EVALUATING ITS FUTURE USE OF MARGINAL COSTS IN ITS RATE DESIGN?

A. Yes. Currently we see a lot of interest in connecting large new loads across our service territory and generally across the country. OTP's marginal cost studies historically have assessed the marginal costs caused by small changes in energy or demand. As the market appears to be changing and load growth seems to be moving away from small changes and moving toward large changes that may have more widespread system impacts, we will continue to assess all of the tools

available to us in the rate design process, including both embedded and marginal cost approaches.

Q. HOW DID OTP DEVELOP ITS MARGINAL COSTS?

A. OTP engaged Ms. Amparo Nieto of Charles River Associates (CRA) to develop a marginal cost study covering the period 2025-2029 applicable to service in our three retail jurisdictions (the 2025 Marginal Cost Study). CRA developed the 2025 Marginal Cost Study with input from OTP staff regarding OTP's planning and operating practices, regional market price data, and system characteristics. OTP staff has also closely reviewed the 2025 Marginal Cost Study to make sure it does in fact reflect OTP's marginal costs. A copy of the 2025 Marginal Cost Study is included as Exhibit___(EPS-1), Schedule 2.

Q. HOW DID YOU APPLY THE RESULTS OF THE 2025 MARGINAL COST STUDY TO THE RATE DESIGN PROPOSAL?

A. The 2025 Marginal Cost Study provides an accurate calculation of current marginal costs, and I used it to guide the rate design proposals. Notably, the 2025 marginal costs are very different from those calculated in the marginal cost study filed in our last rate case (the 2018 Marginal Cost Study), reflecting changes in the industry's marketplace.

Q. WHAT ARE THE MAIN DIFFERENCES IN THE RESULTS OF THE 2025 AND 2018 MARGINAL COST STUDIES?

A. All marginal energy costs have increased by about 75 percent, and annual capacity costs are over three times the costs in the 2018 Marginal Cost Study.

Q. WHAT IS DRIVING THESE CHANGES?

A. There are two general drivers. First, marginal costs should reflect the wholesale marketplace. Any number of factors influence the wholesale marketplace, including federal and state energy policies, various generation mixes, improvements in transmission capability, other infrastructure investment, and energy consumers themselves. These factors are combining in the Midcontinent Independent System Operator (MISO) market in a way that results in a general trend of higher energy prices and higher capacity costs for the near-term, primarily as a result of higher natural gas prices.

The second driver is the allocation of marginal capacity costs both seasonally and in the time-of-day periods. Both summer and winter energy costs in the time-of-day periods increased similarly, with winter off-peak more than doubling. Another marginal capacity cost, distribution substation and truckline feeder costs, has increased by 267 percent. This is not overly surprising, as supply chains for the utility sector were impacted during the COVID-19 pandemic and continue to be challenged. Additionally, historically MISO distribution substation probability of peak was during the summer, and the 2018 Marginal Cost Study utilized regional forecasted annual market prices for capacity to estimate expected prices for capacity. However, MISO has recently changed to a four-season construct, which allows for more granularity to develop the generation costs in the 2025 Marginal Cost Study.

Q. IS THE COMPANY UPDATING HOW IT USES THE MARGINAL COST STUDY?

A. Yes. For rate design purposes I am utilizing the annual rates from the Marginal Cost Study instead of the seasonal rates that we have historically used. One of the goals for appropriate rate design is simplification and having rates that are consistent throughout the year is much simpler for customers to understand.

Q. ARE THERE ANY OTHER BENEFITS TO USING AN ANNUAL RATE VERSUS SEASONAL RATES?

A. Yes. Taking the annual embedded costs and then allocating them into seasonal rates provides a false sense of precision. The marginal costs are an allocation method that distributes the costs within the customer and rate classes to similarly situated customers. There will be variations due to utilization of energy from one customer to another, and even by each customer on a day-to-day basis due to circumstances such as weather conditions or operational needs. However, fundamentally the rates we are designing in a rate case are used to recover the annual embedded cost revenue requirement, which is not calculated based on a seasonal basis.

Q. WILL CUSTOMERS STILL EXPERIENCE SEASONAL VARIABILITY IN THEIR BILLS?

A. Yes. The Energy Adjustment Rider has different charges by month that vary based on market conditions throughout the year that drive the costs of energy and fuel recovered therein.

Q. DO ANNUAL RATES CONFLICT WITH THE GRANULARITY THAT MISO HAS IMPLEMENTED THROUGH ITS FOUR-SEASON PLANNING CONSTRUCT?

A. No. The granularity of MISO's new seasonal construct allows for better cost analysis to determine the timing of cost causation. The added level of detail creates better forecasts. In contrast, when OTP is designing rates based on an annual revenue requirement, we are marrying the MISO seasonal construct with annual costs.

Q. IS THERE ANYTHING ELSE YOU WOULD LIKE TO MENTION REGARDING THE ELIMINATION OF THE SEASONAL RATES?

A. Yes. A component of the rate design should be to provide price signals to customers to alter their behavior, to utilize energy at times when the costs to the Company are lower. The Company can then pass the savings on to customers. This shift can occur during the day (for example TOD rates provide intra-day price signals), however customers cannot as easily shift energy utilization from one season to another.

2. Proposed Intra-Class Revenue Allocation

Q. PLEASE DESCRIBE THE PROCESS OF DEVELOPING INTRA-CLASS REVENUE ALLOCATIONS.

A. When the customer class has two or more rate classes, the class revenue responsibilities developed by Ms. Grenier must be further disaggregated to the rate class level before designing rates. We use a variety of methods to develop these intra-class revenue allocations, including the Equal Percentage of Marginal Cost (EPMC) methodology, the Modified EPMC, and Class-Level Increase.

Q. WHAT IS THE EPMC METHODOLOGY?

A. The EPMC method allocates the class revenue responsibilities to rate classes based on each rate class's marginal cost revenues. We determine marginal cost revenues for a rate class by multiplying the marginal cost times the rate class billing determinants.

Q. CAN YOU PROVIDE AN EXAMPLE OF THE EPMC METHODOLOGY?

A. Yes. Table 1 below provides a simplified example of the "pure" version of the EPMC method, meaning it allocates class revenues to rate classes based entirely on the marginal cost revenues calculated using the results of the marginal cost

study. The example is based on a customer class with two rate classes, where one rate class provides 80 percent of the overall marginal cost revenues for that customer class and the other rate class provides 20 percent of the overall marginal cost revenues for that customer class.

Table 1
Simplified EPMC Methodology Example

	Marginal Cost Revenue Percentage		Revenue Responsibility	
Rate Class A	80%	(a)		
Rate Class B	20%	(b)		
Class Revenue Responsibility			$100,000	(c)
Rate Class A			$80,000	[(a)*(c)]
Rate Class B			$20,000	[(b)*(c)]

Q. WHAT ARE THE BENEFITS OF THE EPMC METHODOLOGY?

A. The EPMC method aligns with our rate structure objective to have efficient rates that reflect marginal costs. Using marginal cost-based revenues to allocate revenue from customer classes to rate classes generally sets efficient revenue targets for rates within a class.

Q. IS OTP RECOMMENDING USING THE PURE, OR UN-MODIFIED VERSION OF THE EPMC METHODOLOGY TO DEVELOP INTRA-CLASS REVENUE ALLOCATIONS IN THIS CASE?

A. Yes, but only for one class. As shown in Table 2, below, I recommend developing Controlled Service – Interruptible intra-class revenue allocations based on an un-modified application of the EPMC method. The EMPC method is appropriate here because the composition of the rate class supports this simple approach without any concerns.

Q. IS OTP PROPOSING TO USE A MODIFIED VERSION OF THE EPMC METHODOLOGY TO DEVELOP INTRA-CLASS REVENUE ALLOCATIONS FOR OTHER CUSTOMER CLASSES?

A. Yes. I recommend using a modified version of the EPMC methodology to develop intra-class revenue allocation for the General Service class. However, I used the

class-level method for Other Public Authority, which is a subclass of General Service, and which I explain in more detail below.

Q. WHY IS OTP PROPOSING TO USE A MODIFIED VERSION OF THE EPMC METHODOLOGY FOR THESE CLASSES?

A. The pure EPMC method can sometimes result in dramatic changes in rate class revenue responsibilities, which, in some cases, is necessary to minimize cross subsidization. However, using the modified version of the EPMC method allows us to balance the efficiency benefits of marginal cost-based rates with other important rate structure goals, like avoiding abrupt changes in intra-class revenue responsibilities. The modified EPMC method allows us to move a class more gradually towards cost, and away from cross-subsidization, without making too large a change to any one class or sub-class at any one time.

Q. PLEASE DESCRIBE THE MODIFIED VERSION OF THE EMPC METHODOLOGY YOU USED TO DEVELOP GENERAL SERVICE INTRA-CLASS REVENUE RESPONSIBILITIES.

A. We developed General Service intra-class revenue responsibilities using a modified version of the EPMC method (referred to herein as EPMC Method 1). This method changes the results from strict application of EPMC within a class. Under this method, the target revenue for a rate class is 50 percent of the difference between: (1) the overall percentage revenue increase proposed by Ms. Grenier for the customer class; and (2) the percentage revenue increase that would result from applying EPMC to each rate class within the customer class. This approach also recognizes the goal of gradualism and takes into consideration the fact that the customer class as a whole is receiving a revenue increase.

Q. PLEASE IDENTIFY THE DIFFERENT APPROACHES USED TO DEVELOP INTRA-CLASS REVENUE ALLOCATIONS.

A. The Table 2 below identifies the different approaches for developing intra-class revenue allocations.

Table 2
Summary of Approaches to Developing Intra-Class Revenue Responsibilities for All 8 Customer Classes with Multiple Rate Classes

Customer Class	Method
Residential	Class Level Increase
Farm	Class Level Increase
General Service	EPMC Method 1*
Large General Service	Class Level Increase
Outdoor Lighting	Class Level Increase
Controlled Service - Interruptible	EPMC
Controlled Service - Deferred	Class Level Increase
Controlled Service – Off Peak	Class Level Increase
*OTP used the EMPC Method 1 approach to General Service with the exception that we used a Class Level Increase approach for the Other Public Authority sub-class within General Service.	

IV. RATE RESTRUCTURING

Q. PLEASE DESCRIBE OTP'S RATE RESTRUCTURING INITIATIVE.

A. The rate restructuring initiative involved examination of rate offerings in the context of changes in the energy industry, customers, and business administration. OTP assembled input from various departments in the Company to discuss the basics of what is, and what is not, needed – now and in the future.

Q. WHAT WAS OTP ACHIEVING THROUGH THE INITIATIVE?

A. OTP met to determine the goals of the initiative. Three goals emerged from our discussions:

- Achieve less complexity yet maintain flexibility;
- Recognize the balance of needs between costs/revenue requirements and customers; and
- Meet changing customer expectations.

Q. PLEASE DESCRIBE THE RESTRUCTURING FRAMEWORK DEVELOPED FROM THE GOALS.

A. The goals led us to develop five categories (5 Cs) to examine and consider during the restructuring efforts for our rate offerings.

1. *Class Structures*: examine and consider the number of customer classes utilized in our class cost of service study.
2. *Continuity/Uniformity*: examine and consider offering the same type of rate offerings in all our jurisdictions.
3. *Customer-Centric/Flexibility*: examine and consider rate offerings that address customer wants/needs and are easy to understand, yet consistent with jurisdictional statutes.
4. *Consistency/Compatibility*: examine general rules and regulations as well as rate schedules to develop consistent language across jurisdictions to the extent possible under jurisdictional statutes and other requirements.
5. *Close Loopholes*: examine and consider rate offerings that reduce ambiguity and increase the intent of rate design and/or other compliance obligations.

Q. WHAT OTHER STEPS OCCURRED DURING OTP'S RATE RESTRUCTURING EFFORTS?

A. The rate restructuring team utilized the 5 Cs and assembled a list of measures to consider. The measures went through another screening step to aid in the selection of measures. The screening steps included identifying the appropriate regulatory proceeding for different measures, research, resources and other timing constraints, and items that would rely on outcomes of pending dockets. Sub-teams were assigned to examine and consider the best restructuring efforts to be included in this rate case consistent with the goals and 5 Cs framework.

Q. PLEASE DESCRIBE THE OUTCOMES OF THE RATE RESTRUCTURING EFFORTS INCLUDED IN OTP'S RATE CASE PROPOSAL.

A. The measures identified for inclusion in this rate case are as follows:

- Eliminate seasonal billing (except for non-metered lights);
- Adjust time of use rates (with a declared peak rate) to a consistent time-of-day rate with peak, mid-peak, and off-peak rates;
- Restructure the Residential Demand Control Rate;
- Combine two separate but related rate schedules into one (for example Small and Large Dual Fuel);
- Expand air conditioning control to additional months and increase compensation;

- Ensure consistent language among rates with billing demand/facilities charges;
- Propose customer rate schedule placement qualifications for General and Large General Service Customer rates;
- Create alignment of rate classes within the appropriate customer class;
- Review & revise allocation methodology for controlled service rates;
- Utilized a facility charge more consistently in rate design; and
- Examine and modify General Rules and Regulations for changing industry conditions

Q. WHERE IN YOUR TESTIMONY DO YOU ADDRESS THE SPECIFICS OF THESE RESTRUCTURING MEASURES?

A. Changes to existing base rates due to the rate restructuring initiative are discussed in various parts of Sections IV-VI. Changes to other tariffs due to the rate restructuring initiative are discussed in Section VII.

V. RATE DESIGN COMPONENTS

Q. WHAT ARE THE COMPONENTS IN YOUR RATE DESIGN?

A. Depending on the type of customer, the components I utilize in designing rates are as follows:

- Billing Demand Charge
- Customer Charge
- Energy Charge
- Facilities Charge
- Reservation Charge

Q. WHAT DOES THE BILLING DEMAND CHARGE REPRESENT?

A. The Billing Demand Charge is applied to an Energy Customer for Capacity reserved or made available explicitly for that Customer.[1] It is based on the Customer's Demand.

[1] Unless otherwise defined herein, capitalized terms in this section are defined in Section 8.01 of OTP's South Dakota Tariff.

Q. WHAT DOES THE CUSTOMER CHARGE REPRESENT?

A. The Customer Charge is the part of the monthly basic Distribution charge to partially cover costs for billing, Meter Reading, equipment, and service line maintenance and equipment. This charge is the same no matter how much electricity is used.

Q. WHAT DOES THE ENERGY CHARGE REPRESENT?

A. The Energy Charge is the amount on Customer billings reflecting the actual Energy used over the billing period.

Q. WHAT DOES THE FACILITIES CHARGE REPRESENT?

A. The Facilities Charge is an amount to be paid by the Customer monthly for Distribution Facilities and/or Transmission Facilities sized on the basis of the Customer's design (rather than metered) Demand. The charge may include operation and maintenance as well as capital costs.

Q. WHAT DOES THE RESERVATION CHARGE REPRESENT?

A. The Reservation Charge is the charge that recovers the planned generation reserve margin of the utility multiplied by the applicable Capacity charge and covers both Supplemental and Backup Service requirements.

Q. ARE ALL THESE COMPONENTS USED FOR EVERY CUSTOMER CLASS AND RATE CLASS?

A. No. Table 3 below is showing which charges are applicable to each customer class and rate class.

Table 3

Class		Charge Type				
		Customer	**Demand**	**Energy**	**Facility**	**Reservation**
Residential - 9.01		x		x	x	
RDC – 9.02		x	x	x	x	
Farm - 9.03		x		x	x	
Irrigation – 11.02		x		x	x	
Small General Service – 10.01		x		x	x	
General Service – 10.02		x	x	x	x	
Municipal Pumping- 11.05		x		x	x	
Large General Service – 10.04	Secondary	x	x	x	x	
	Primary	x	x	x	x	
	Transmission	x	x	x	x	
Large General Service- Time of Day – 10.05	Secondary	x	x	x	x	
	Primary	x	x	x	x	
	Transmission	x	x	x	x	
Water Heating Credit – 14.01		x		x		
Area Lighting – 11.03, 11.06, & 11.07		x		x	x	
Controlled Service Deferred Load – 14.06		x		x	x	
Controlled Service Interruptible – 14.04 & 14.05		x		x	x	
Controlled Service Off-Peak – 14.07		x		x	x	
Standby Service – 11.01	Secondary	x	x	x	x	x
	Primary	x	x	x	x	x
	Transmission	x	x	x		x

Q. WHAT ARE THE INDIVIDUAL RATE COMPONENTS BY CUSTOMER CLASS AND RATE CLASS?

A. Exhibit___(EPS-1), Schedule 3 provides the updated rate components by customer class and rate class.

Q. DO THE RATE COMPONENTS RESULT IN EXACTLY THE PROPOSED 2024 TEST YEAR BASE RATE REVENUE RESPONSIBILITY?

A. No. As discussed above, we begin designing rates from the customer class base rate revenue responsibilities shown in Schedule 3 to the Direct Testimony of Ms. Grenier. However, due to limits in our billing system and the need to round rates to a specified number of digits, the application of proposed rates to test year billing determinants will never exactly match the base rate revenue responsibilities. The difference is very minor – approximately $4,679 in this case.

Q. HAVE YOU DEVELOPED A SCHEDULE OF PRESENT AND PROPOSED BASE RATE REVENUES?

A. Yes. Exhibit___(EPS-1), Schedule 4 provides present and proposed base rate revenues resulting from application of 2024 Test Year billing determinants to present and proposed base rates.

VI. INDIVIDUAL RATE CLASS PROPOSALS

Q. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR TESTIMONY?

A. In this section I discuss the various customer classes as well as the rate classes included within each class.

- Residential Service (9.01, and 9.02)
- Farm Service (9.03, and 11.02)
- General Service (10.01, 10.02, 10.03, and 11.05)
- Large General Service (10.04, 10.05, 10.06, and 11.01)
- Outdoor Lighting (11.03, 11.04, and 11.06)
- Controlled Services (14.04, 14.05, and 14.06)

Q. HAVE YOU PREPARED A SCHEDULE SHOWING THE PRESENT AND PROPOSED RATE COMPONENTS FOR EACH RATE SCHEDULE?

A. Yes. Schedule 3 shows our rate schedules by customer class and rate class, including the various components of each rate schedule. This schedule provides present and proposed rates, along with marginal costs.

Q. IN DESIGNING PROPOSED RATES, DID YOU FOLLOW THE RATE DESIGN PRINCIPLES YOU DISCUSSED EARLIER IN THIS DIRECT TESTIMONY?

A. Yes. Each of the proposed rates in Schedule 3 represents a reasonable and fair design of rates that will allow the Company an opportunity to meet its revenue requirements and demonstrates application of proper rate design principles.

Q. DOES THAT INCLUDE ELIMINATION OF SEASONALLY-DIFFERENTIATED ENERGY AND DEMAND CHARGES?

A. Yes. We have eliminated seasonally-differentiated energy and demand charges from all rate schedules in favor of annual charges, as discussed above. However, for comparative purposes, I show the proposed rates as summer and winter equaling each other.

Q. HOW WILL OTP HANDLE PENDING FILINGS THAT ARE BEFORE THE SOUTH DAKOTA PUBLIC UTILITIES COMMISSION?

A. When OTP files its compliance filing prior to the implementation of rates, it will include changes based on the status of any pending filings that the Commission has issued an order on during this rate case.

A. Residential

Q. WHAT RATE SCHEDULES ARE INCLUDED IN THE RESIDENTIAL CLASS?

A. There are two rate schedules in the Residential Class:

- Residential Service (Section 9.01)
- Residential – Controlled Demand (Section 9.02).

Q. WHAT IS THE DIFFERENCE BETWEEN THE TWO RESIDENTIAL CLASSES?

A. The Section 9.01 rate is the traditional residential full requirement rate where the Company provides all the electricity a residential customer requires at any time. The Section 9.02 rate provides a discount to the overall bill in exchange for the Company being allowed to send a Demand signal to the customer's residence to

shut off certain services for a maximum of 14 hours during any 24-hour period, as measured from midnight to midnight.

Q. IS OTP PROPOSING ANY CHANGES TO THE OPERATION OF THE SECTION 9.01 RATE?

A. Yes. I propose eliminating the seasonal billing option from this rate.

Q. WHY ARE YOU PROPOSING TO CLOSE THE SEASONAL BILLING OPTION?

A. The Company historically provided this option to avoid the challenges of sending crews out for meter reading or to shut off service if customers did not want energy in the off-season. With the implementation of AMI technology, this can now be done without a truck roll, which ends the rationale. The customer and facilities charges reflect the costs that OTP incurs to provide service to the location. These costs do not change whether the customer is in the residence or not and therefore we should collect them year-round.

Q. ARE OTHER CUSTOMERS CURRENTLY SUBSIDIZING SEASONAL CUSTOMERS?

A. Yes. Because these costs are fundamental to providing service before an electron moves to the site, the discount that we have provided historically increases revenue requirements to the rest of the customer class.

Q. DOES ELIMINATING SEASONAL RATES FOR THE RESIDENTIAL CLASS ELIMINATE THE SUBSIDY?

A. Yes.

Q. IS OTP PROPOSING CHANGES TO THE OPERATION OF THE SECTION 9.02 RATE?

A. Yes. We are making two important changes to the Section 9.02 rate:

- Adding a minimum Billing Demand of 1 kilowatt (kW) per month
- Changing the peak one-hour Winter Demand reading recorded from the most recent 12-month period to the most recent three-month period.

Q. WHY DOES OTP PROPOSE THESE CHANGES?

A. I propose these changes to increase the accuracy and fairness of our billing practices for this rate. The two changes work in conjunction with each other. There were two challenges associated with this rate. First, the 12-month look back period was too long a penalty period for customers if they missed the control signal or had "one bad month." Second, in reviewing this rate, we found a number of customers were showing no historical billing demand, which could indicate missing signal information. Shortening the look back period reduces class revenue, and creating a 1 kW minimum usage to capture missing signal information which will increase class revenue, providing an appropriate balance.

B. Farm Class

Q. WHAT RATE SCHEDULES ARE INCLUDED IN THE FARM CLASS?

A. There are three rate schedules in the Farm Class:

- Farm Service (Section 9.03)
  - Single-phase
  - Three-phase
- Irrigation Service (Section 11.02)
- Irrigation Service TOD (Section 11.02).

Q. ARE YOU PROPOSING ANY STRUCTURAL CHANGES FOR THE SECTION 9.03 RATE?

A. Yes. I am proposing to add a rate code for three-phase meters.

Q. DOES THE THREE-PHASE METER CHANGE HAVE ANY IMPACT TO CUSTOMERS?

A. No. This change is an administrative change that will allow us to more easily perform analytics. There was already a different facilities charge between the two types of meters and this change merely identifies the different meters in our system.

Q. ARE THERE ANY CHANGES TO THE IRRIGATION RATES?

A. Yes, I am changing the time of use (TOU) rate to a TOD rate.

Q. WHAT IS THE DIFFERENCE BETWEEN TOU AND TOD RATES?

A. TOU and TOD differ in that TOU peak times are not predetermined and stated in the tariff. Historically, the Company's TOU rate tariff only had Mid-Peak and Off-Peak rate periods set out in the tariff. Periodically, when OTP was anticipating high costs, the Company would communicate a "Declared-Peak" period, during which a significantly higher rate would be in effect.

Q. DID CUSTOMERS RESPOND TO THE "DECLARED PEAK"?

A. No, they did not respond. Typical TOU customers have been irrigation-related businesses like farmers and golf courses. Irrigation customers do not alter their behavior during a declaration, as they need to run irrigation equipment to maintain adequate watering of their land. Golf courses are also typically more concerned with operational needs and would not be the type to respond to the price signals.

Q. HOW ARE YOU DEVELOPING THE TOD RATES?

A. The point of TOD rates is to be revenue neutral to non-TOD rates unless the customer changes behavior. To do this, we included all of the Irrigation revenue required (Non-TOD and TOD) and developed the rate design based on that total requirement. Then, we designed the TOD rate as a subset where the sum product of the Peak, Mid-Peak, and Off-Peak rates and energy usage would equal the non-TOD requirement of the total Irrigation rate classes. The goal is that if the customer changes its usage from a higher-priced time to a lower-priced time, it will be saving money. The Company's costs to provide the energy also would be lower as the energy purchases would be in a lower cost to serve time frame. Designed this way, with a consistent schedule of rates, customers can plan to schedule irrigation activities at times of day that are more advantageous to them in response to known pricing.

Q. WHAT ARE THE TIME PERIODS BEING USED FOR TOD?

A. The time periods are as follows:

- **Summer**
  - **On-Peak:** For all kW and kWh used Monday through Friday between hours 2:00 p.m. to 8:00 p.m.

- **Mid-Peak:** For all kW and kWh used Monday through Friday between hours 12:00 p.m. to 2:00 p.m., 8:00 p.m. to 10:00 p.m., and weekend hours between 2:00 p.m. to 8:00 p.m.
- **Off-Peak:** For all kW and kWh used Monday through Friday between hours 10:00 p.m. to 12:00 p.m. and weekend hours between 8:00 p.m. to 2:00 p.m.

- **Winter**
  - **On-Peak:** For all kW and kWh used Monday through Friday between hours 7:00 a.m. to 10:00 a.m.
  - **Mid-Peak:** For all kW and kWh used Monday through Friday between hours 5:00 a.m. to 7:00 a.m. and, 10:00 a.m. to 9:00 p.m.
  - **Off-Peak:** For all kW and kWh used Monday through Friday between hours 9:00 p.m. to 5:00 a.m. and all weekend hours.

  These periods are illustrated in the figure below.

Figure 1 – Time of Day Price Period Designation

Summer Season June, July, Aug, Sept

		Sun	Mon	Tue	Wed	Thu	Fri	Sat
Hour Staring	Hour Ending							
12:00 AM	1:00 AM							
1:00 AM	2:00 AM							
2:00 AM	3:00 AM							
3:00 AM	4:00 AM							
4:00 AM	5:00 AM							
5:00 AM	6:00 AM							
6:00 AM	7:00 AM							
7:00 AM	8:00 AM							
8:00 AM	9:00 AM							
9:00 AM	10:00 AM							
10:00 AM	11:00 AM							
11:00 AM	12:00 PM							
12:00 PM	1:00 PM							
1:00 PM	2:00 PM							
2:00 PM	3:00 PM							
3:00 PM	4:00 PM							
4:00 PM	5:00 PM							
5:00 PM	6:00 PM							
6:00 PM	7:00 PM							
7:00 PM	8:00 PM							
8:00 PM	9:00 PM							
9:00 PM	10:00 PM							
10:00 PM	11:00 PM							
11:00 PM	12:00 AM							

Winter Season Oct through May

		Sun	Mon	Tue	Wed	Thu	Fri	Sat
Hour Staring	Hour Ending							
12:00 AM	1:00 AM							
1:00 AM	2:00 AM							
2:00 AM	3:00 AM							
3:00 AM	4:00 AM							
4:00 AM	5:00 AM							
5:00 AM	6:00 AM							
6:00 AM	7:00 AM							
7:00 AM	8:00 AM							
8:00 AM	9:00 AM							
9:00 AM	10:00 AM							
10:00 AM	11:00 AM							
11:00 AM	12:00 PM							
12:00 PM	1:00 PM							
1:00 PM	2:00 PM							
2:00 PM	3:00 PM							
3:00 PM	4:00 PM							
4:00 PM	5:00 PM							
5:00 PM	6:00 PM							
6:00 PM	7:00 PM							
7:00 PM	8:00 PM							
8:00 PM	9:00 PM							
9:00 PM	10:00 PM							
10:00 PM	11:00 PM							
11:00 PM	12:00 AM							

C. General Service Class

Q. WHAT RATE SCHEDULES ARE INCLUDED IN THE GENERAL SERVICE CLASS?

A. There are five rates within the General Service Class:

- Small General Service (Under 20 kW) (Section 10.01)
- General Service (20 kW or Greater and less than 200 kW) (Section 10.02)
- General Service – Time of Day (20 kW or Greater and less than 200 kW) (Section 10.03)
- Municipal Pumping (Section 11.05).

Q. PLEASE DESCRIBE YOUR RATE DESIGN PROPOSAL FOR SECTION 10.01.

A. I am clarifying that the application of Section 10.01 is restricted to customers with under 20 kW of metered demand.

Q. ARE THERE ANY OTHER UPDATES TO THE SECTION 10.01 RATE?

A. Yes. I am proposing to eliminate the seasonal billing option from this rate.

Q. WHY ARE YOU PROPOSING ELIMINATE THE SEASONAL BILLING OPTION FOR SECTION 10.01?

A. I am making this proposal for the same reasons discussed above regarding elimination of the seasonal billing option from Section 9.01.

Q. ARE YOU PROPOSING TO RESTRUCTURE SOME RATES IN THE GENERAL SERVICE CLASS?

A. Yes, I propose structural changes to Sections 10.02 and 10.03, which I will discuss in more detail below. In summary, for both of these rates, I am proposing to close potential loopholes by limiting the ability of certain larger customers with lower load factors to move from the Large General Service rates to General Service rates, which by design has lower demand and higher energy costs. In addition, we will change Section 10.03 from a TOU to a TOD rate.

Q. PLEASE DESCRIBE YOUR STRUCTURAL RATE DESIGN PROPOSAL FOR SECTIONS 10.02 AND 10.03.

A. Currently, Sections 10.02 and 10.03 have a 20kW demand threshold, whereby, to qualify for the rate, the customer must have a measured demand of at least 20 kW

three times within the most recent 12-month period. Customers that do not achieve this demand threshold must take service under Schedule 10.01 (Small General Service). Currently there is no maximum demand for Sections 10.02 and 10.03. The Company proposes to provide clarity to the rate classes by setting concrete eligibility boundaries as follows:

- Clarify that the minimum demand threshold to qualify for Sections 10.02 and 10.03 is based on demand of greater than or equal to 20 kW during more than two months within the most recent 12 months; and
- Introduce a maximum demand threshold to Sections 10.02 and 10.03 of 200 kW during more than two months within the most recent 12 months.

The addition of the maximum demand threshold will prevent larger, low-load factor customers from moving from Large General Service rates (which include relatively higher demand charges) to General Service rates.

Q. WHY IS OTP PROPOSING TO INTRODUCE A MAXIMUM DEMAND THRESHOLD TO ITS GENERAL SERVICE RATES?

A. The threshold will close a potential loophole, whereby larger, low-load factors customers could migrate to General Service rates and achieve bill savings without any changes in electricity usage. It is important that we design rates in a way that customer bill savings are coupled with behavioral changes that reduce system costs. Without that connection, customers can engage in rate arbitrage, eroding revenues while not producing commensurate cost savings. Such rate arbitrage results in revenue shortfalls ultimately borne by other customers.

Q. IS OTP PROPOSING TO ADD LANGUAGE TO SECTION 10.02 OF ITS TARIFFS TO ADDRESS THE MINIMIMUM ANDMAXIMUM DEMAND THRESHOLDS?

A. Yes. OTP proposes to add the following language in Section 10.02:

- A Customer with a Billing Demand equal to or greater than 20 kW for more than two of the most recent 12 months will be required to take service under the General Service (Section 10.02) or General Service – Time of Day (Section 10.03). The Customer must remain on this schedule if its maximum monthly Billing Demand meets or exceeds 20 kW for more than two of the most recent 12 months. If the Customer does not achieve an actual Billing Demand of more than or equal to 20 kW for more than two of the most recent 12 months, the Customer will be placed on the Small General Service (Section 10.01) in the next billing month.

- The Customer may remain on this schedule as long as the Customer's maximum monthly Billing Demand does not exceed 200 kW for more than two of the most recent 12 months. If the Customer achieves an actual Billing Demand of more than 200 kW for the third time in the most recent 12 months, the Customer will be placed on the Large General Service schedule (Section 10.04) in the next billing month (unless the Customer requests to be on Large General Service - Time of Day (Section 10.05)).

Q. WILL OTP INCLUDE SIMILAR LANGUAGE IN THE 10.03 RATE SCHEDULE?

A. Yes. The only difference will be in the second bullet (above) where the customer will be moved to the Section 10.05 General Service TOD rate unless they request to go to the Section 10.04 General Service Non-TOD rate.

Q. WILL THIS CHANGE IMPACT EXISTING CUSTOMERS?

A. Yes. OTP proposes implementing this change during the first billing month following the effective date of the Commission's final order in this proceeding.

Q. WHY IS IT REASONABLE TO IMPLEMENT THIS CHANGE FOR EXISTING CUSTOMERS?

A. As I discussed earlier, a key rate design objective is minimizing interclass subsidies and cross-subsidies within rate classes to the extent that is reasonably possible. If customers remain on rates that they are ineligible for there could be subsidization.

The change is for existing customers who have exceeded the maximum demand threshold. The change prevents larger, low-load factor customers from taking advantage of General Service rates, which have lower demand charges. The point of this initiative is to close the loophole and allowing existing customers to stay on an inappropriate rate defeats the purpose of the change.

Q. WHAT WILL HAPPEN TO A CUSTOMER WHO HAS MORE THAN 200 KW FOR THREE MONTHS OUT OF THE MOST RECENT 12 MONTHS?

A. In the next billing month following the Customer exceeding 200 kW, OTP will move the Customer to the corresponding Large General Service (LGS) rate:

- Section 10.02 customers will go to Section 10.04 unless the Customer requests to be on Section 10.05; and
- Section 10.03 customers will go to Section 10.05, unless the Customer requests to be on Section 10.04.

Q. ARE YOU PROPOSING ANY OTHER CHANGES TO THE SECTION 10.03 RATE?
A. Yes. I am proposing to change the TOU to a TOD rate.

Q. ARE ANY CUSTOMERS CURRENTLY ON THE SECTION 10.03 TOU RATE?
A. No. General Service customers are more concerned with operational needs versus a surprise adjustment for a "declared peak." By implementing a TOD rate, we hope to incentivize customers to evaluate this new rate. A customer that can move utilization from one predictable time period to another will experience savings on the new rate.

Q. HOW ARE YOU DEVELOPING THE TOD RATES?
A. As discussed above, the point of TOD rates is to be revenue neutral to non-TOD rates unless the customer changes behavior. To do this, I reviewed hourly load data for a sample of customers to develop the rate design based on the total rate class revenue requirement. Then, I designed the TOD rate as a subset where the sum product of the Peak, Mid-Peak, and Off-Peak rates and energy usage would equal the non-TOD requirement. The goal is that only if the customer changes its usage from a higher priced time to a lower priced time will the Customer save money. The Company's costs to provide the energy will also be lower as its energy purchases will occur in a lower cost to serve time frame.

Q. ARE THERE ANY CHANGES TO THE MUNICIPAL PUMPING (SECTION 11.05) RATE?
A. No, not to the rate itself. The only change to Section 11.05 is moving it under General Service and updating the rate.

D. Large General Service Class

Q. WHAT RATE SCHEDULES ARE INCLUDED IN THE LARGE GENERAL SERVICE CLASS?
A. There are seven rates within the Large General Service Class:

- Large General Service (Section 10.04)
- Large General Service Time of Day (Section 10.05)
- Super Large General Service (Section 10.06)
- Standby Service (Section 11.01)
- Real-Time Pricing Rider (Section 14.02)

- Large General Service Rider (Section 14.03)
- Economic Development Rate Rider – Large General Service (Section 14.13)
- Thermal Market Energy Pricing Rider (Proposed Section 14.16).

Q. ARE ANY PROPOSED RATES IN THIS CLASS A PART OF YOUR RATE RESTRUCTURING INITIATIVE?

A. Yes. Those rates include the Large General Service (10.04), Large General Service Time of Day (Section 10.05) and the Standby Rate (Section 11.01). I will address the specific restructuring items below.

Q. IS OTP ADDING ANY ADDITIONAL REQUIREMENTS TO THE LARGE GENERAL SERVICE RATES?

A. Yes; we are adding conditions that we intend to work in conjunction with the new 200 kW demand threshold proposed for Sections 10.02 and 10.03. As described earlier, these revisions will prevent inappropriate rate arbitrage by larger, low-load-factor customers.

Q. WHAT LANGUAGE IS OTP ADDING TO SECTION 10.04?

A. OTP proposes adding the following language to Section 10.04 Terms and Conditions:

1. A Customer with a Billing Demand equal to or greater than 200 kW for more than two of the most recent 12 months will be required to take service under the Large General Service (Section 10.04) or Large General Service – Time of Day (Section 10.05). The Customer must remain on this schedule if its maximum monthly Billing Demand meets or exceeds 200 kW for more than two of the most recent 12 months.

2. If the Customer does not achieve an actual Billing Demand of more than or equal to 200 kW for more than two of the most recent 12 months, the Customer will be placed on the General Service (Section 10.02) in the next billing month (unless the Customer requests to be on General Service – Time of Day (Section 10.03)).

Q. WHAT LANGUAGE IS OTP ADDING TO SECTION 10.05?

A. OTP proposes adding the following language to Section 10.05 Terms and Conditions:

1. A Customer with a Billing Demand equal to or greater than 200 kW for more than two of the most recent 12 months will be required to take service under

the Large General Service Time of Day (Section 10.05) or Large General Service (Section 10.04). The Customer must remain on this schedule if its maximum monthly Billing Demand meets or exceeds 200 kW for more than two of the most recent 12 months.

2. If the Customer does not achieve an actual Billing Demand of more than or equal to 200 kW for more than two of the most recent 12 months, the Customer will be placed on the General Service – Time of Day (Section 10.03) in the next billing month (unless the Customer requests to be on General Service (Section 10.02)).

Q. WILL THIS CHANGE IMPACT EXISTING CUSTOMERS?

A. Yes. OTP proposes implementing this change during the first billing month following the effective date of the Commission's final order in this proceeding. As discussed above, implementing this change for existing customers is reasonable because the goal is to close a loophole that existed in our rate structure. The change is for existing customers who have exceeded the maximum demand threshold prevents larger, low-load factor customers from take taking advantage of General Service rates, which have lower demand charges. The point of this initiative is to close the loophole and allowing existing customers to stay on an inappropriate rate defeats the purpose of the change.

Q. WHAT WILL HAPPEN TO A CUSTOMER WHO HAS LESS THAN 200 KW DURING 10 OR MORE OF THE MOST RECENT 12 MONTHS?

A. In the next billing month following the Commission's order in this rate case, OTP will move the customer to the corresponding General Service rate:

- Section 10.04 customers will go to Section 10.02 (unless Customer requests to go to the proposed Section 10.03)
- Section 10.05 customers will go to the proposed Section 10.03 (unless Customer requests to go to Section 10.02)

Q. ARE YOU PROPOSING TO CHANGE THE TOD PERIODS FOR THIS RATE?

A. Yes. I based the changes to the time of use periods on the results of the 2025 Marginal Cost Study. The new periods include decreased on-peak hours and increased off-peak and mid-peak (previously referred to as shoulder) hours. Specific period definitions are included in the proposed rate schedule, which is part of Volume 3. The new periods are depicted in Figure 1 above.

Q. PLEASE DESCRIBE YOUR RATE DESIGN PROPOSAL FOR THE SECTION 11.01 RATE.

A. OTP proposes to continue with the current design, based on marginal costs, with updated rate components. The proposed Standby Service rate provides three services under one rate schedule. These services are Backup, Scheduled Maintenance, and Supplemental Service:

- Backup Service is the energy and demand supplied by the utility during unscheduled outages of a Customer's generator.
- Scheduled Maintenance Service is the energy and demand supplied by the utility during scheduled outages of a Customer's generator.
- Supplemental Service is the energy and demand supplied by the utility in addition to the capability of the on-site generator.

Q. IS OTP PROPOSING ANY OTHER REVISIONS TO THE SECTION 11.01 RATE?

A. Yes. OTP proposes minor language restructuring improvements to the Standby rate schedule, including:

- Included Supplemental Demand charges in the rate versus referencing the Large General Service Time of Day (Section 10.05) rate schedule for the applicable charges;
- Added language to ensure contracted backup demands are kept current and both Company and Customer are engaged in changes occurring with the services provided; and
- Added additional definitions.

Q. DOES OTP'S RATE RESTRUCTURING INITIATIVE INCLUDE CHANGES TO ANY OTHER LARGE GENERAL SERVICE RATE SCHEDULES?

A. No. The restructuring initiative has not to-date included changes to the Super Large General Service (SLGS) (Section 10.06), Real-Time Pricing Rider (Section 14.02), Large General Service Rider (Section 14.03), or the Economic Development Rate Rider – Large General Service (Section 14.13).

Q. DOES THE COMPANY HAVE ANY PROPOSED RATE SCHEDULES PENDING AT THE COMMISSION?

A. Yes. OTP recently proposed the Thermal Market Energy Pricing Rider (Proposed Section 14.16), pending in Docket No. EL25-17, which, if approved by the Commission, will fall under the Large General Service class.

E. Outdoor Lighting Class

Q. WHAT RATE SCHEDULES ARE IN THE LIGHTING SERVICE CLASS?

A. There are three rates in the Outdoor Lighting Class: Outdoor Lighting – Energy Only (Section 11.03), Outdoor Lighting (Section 11.04), Civil Defense-Fire Sirens (Section 11.06) and LED Street and Area Lighting – Dusk to Dawn (Section 11.07).

Q. ARE THERE ANY STRUCTURAL CHANGES PROPOSED TO THESE RATES?

A. No. The only changes are to rate components, as identified in Schedule 3.

F. Controlled Service Deferred Load Class

Q. WHAT RATE SCHEDULES ARE INCLUDED IN THE DEFERRED LOAD SERVICE CLASS?

A. There are two rates in the Controlled Service Deferred Load Class: Water Heating – Controlled Service Rider (Section 14.01) and Controlled Service – Deferred Load Rider (Section 14.06).

Q. ARE ANY PROPOSED RATES IN THIS CLASS A PART OF YOUR RATE RESTRUCTURING INITIATIVE?

A. Yes. We placed both rates into one customer class to create alignment of rate classes within the appropriate customer class, as further explained by Ms. Grenier.

Q. ARE THERE ANY STRUCTURAL CHANGES PROPOSED TO THESE RATES?

A. No. The only changes are to rate components, as identified in Schedule 3.

G. Controlled Service – Interruptible Class

Q. WHAT RATE SCHEDULES ARE INCLUDED IN THE CONTROLLED SERVICE - INTERRUPTIBLE CLASS?

A. There are two current rates in the Interruptible Service Class: Controlled Service – Interruptible Load CT Metering (Section 14.04) Rider and Controlled Service – Interruptible Load Self-Contained Metering (Section 14.05) Rider.

Q. ARE ANY PROPOSED RATES IN THIS CLASS A PART OF YOUR RATE RESTRUCTURING INITIATIVE?

A. Yes. We propose combining Schedules 14.04 and 14.05 into a single rate schedule for customer convenience and simplicity. Therefore, I propose removing Section 14.05 and reserving it for future use as described, in the Matrix of Tariff Changes included as Exhibit___(EPS-1), Schedule 5.

H. Controlled Service Off-Peak Class

Q. WHAT RATE SCHEDULES ARE INCLUDED IN THE CONTROLLED SERVICE – OFF-PEAK CLASS?

A. The only rate schedule included in this class is Fixed Time of Service Rider (14.07) Rider.

Q. ARE THERE ANY STRUCTURAL CHANGES PROPOSED TO THESE RATES?

A. No. The only changes are to rate components, as identified in Schedule 3.

I. Air Conditioning Control Rider

Q. ARE THERE RESTRUCTURING EFFORTS IN SECTION THE 14.08 - AIR CONDITIONING CONTROL RIDER?

A. Yes. In addition to updating the credit payment, OTP proposes creating an extended cooling season for energy and demand control in order for the Company to control costs further and provide those benefits to participating customers.

Q. PLEASE FURTHER DESCRIBE YOUR PROPOSAL.

A. Section 14.08, the Air Conditioning Control Rider (commonly identified as Cool*Savings*) is available on a voluntary basis to certain customers with central cooling equipment, including heat pumps. In exchange for a bill credit, the customer agrees that OTP may control service to the cooling equipment. With the changing environment, it is becoming harder to predict when the Company will need to call on the Cool*Savings* resources. OTP therefore proposes changing the curtailment period from four months (June through September) to year-round so cycling interruption can occur anytime based on the Company's system needs. Due to the expansion of control months, the Company proposes increasing the compensation credit frequency from four months to six months with payments to customers during the May through October. Total compensation will increase from

$33 for four months to $40.50 for six months for residential customers and $24 per ton for four months to $30 per ton for six months for commercial customers.

VII. OTHER CHANGES TO OTP'S TARIFF SCHEDULES

Q. IS OTP PROPOSING ANY CHANGES TO ITS TARIFF SCHEDULES OTHER THAN THOSE RELATING TO RATES?

A. Yes. In its last rate case, OTP made several improvements and updates to its rate book. In this case, OTP is expanding on those improvements and is making additional changes, mainly to provide clarity of service conditions and requirements for customers and OTP. These include updates to General Rules and Regulations to add glossary definitions, clarify that certain tariffs are only available to qualifying customers, identifying with increased specificity rate qualifications, and other enhancements, in addition to the changes discussed above. Many of the changes are common to all rate schedules, while others are specific to individual rate schedules. All of the changes are reflected in the Matrix of Tariff Changes included as Schedule 5.

Q. ARE THERE ANY OTHER PROPOSED TARIFF CHANGES IN YOUR RATE RESTRUCTURING INITIATIVE?

A. Yes. OTP proposes certain revisions to Section 5.03 of the General Rules and Regulations[2].

Q. PLEASE DESCRIBE SECTION 5.03 – SPECIAL FACILITIES.

A. Section 5.03 – Special Facilities addresses charges to customers for unique extensions and certain non-standard equipment design and installation to provide service to our customers.

The Section 5.03 tariff currently states that when a customer wants to arrange for installation of Special Facilities, they must execute an agreement or service form to establish the payments. Once the costs under the agreement are calculated, customers pay a percentage of the equipment costs, much like a rental agreement as the equipment is OTP-owned and maintained, for as long as the customer requires the equipment for service.

[2] Unless otherwise defined herein, capitalized terms in this section are defined in Section 8.01 or Section 5.03 of OTP's South Dakota Tariffs.

Q. CAN YOU PROVIDE AN EXAMPLE OF HOW THE SECTION 5.03 TARIFF MIGHT BE USED?

A. Yes. One example of the Section 5.03 tariff is an irrigation customer who requires metering or other infrastructure to be installed on an irrigator. This type of equipment is unique for each customer as the service extension is customized to meet the sizing of the irrigator pump and its location (distance) from the Company's distribution lines. The extensions can be relatively expensive and could cost up to tens of thousands of dollars. The customer's electricity billing will be handled under the irrigation rate. Because irrigation customers only operate for less than 7 months a year, and have unique electrical equipment needs, their payment schedules also are different from our typical customers (e.g. residential). For these reasons, the special equipment, and those costs for unique equipment requests are recovered through the Section 5.03 of the General Rules and Regulations.

Q. IS SECTION 5.03 ONLY APPLICABLE TO IRRIGATION CUSTOMERS?

A. No. Section 5.03 of the General Rules and Regulations applies to all connections for customers taking service under any rate schedule, unless specifically excepted. For example, if a municipality wants special streetlights that are different from what is standard for OTP, it will be responsible for the difference. Or if a commercial customer wants redundant connections for increased reliability, that customer would pay for the additional redundant connection.

Q. WHAT CHANGES IS OTP PROPOSING TO SECTION 5.03?

A. We are making definition changes to clarify the difference between Special Facilities (non-standard) and Extra Facilities (standard equipment design but incremental in scope due to size of load). We are also clarifying the difference between Excess Expenditures (costs of Special Facilities) and Extra Facilities Expenditures (costs of Extra Facilities).

Q. HOW IS OTP PLANNING ON CALCULATING THE RATE FOR EXTRA FACILITIES EXPENDITURES?

A. Extra Facilities Expenditure will be addressed in the same manner as Special Facilities, unless the Company and customer have expressly agreed to different charges in an ESA approved by the Commission.

Q. HOW IS THE COMPANY PLANNING ON CALCULATING THE RATE FOR EXCESS EXPENDITURES?

A. OTP proposes implementing a rate methodology to recover costs associated with equipment installations. The rate methodology includes the following cost components:

1. Operations and Maintenance expense for distribution function assets, including allocated administrative and general expenses to support distribution function assets.
2. General and Common Depreciation Expenses allocated to support distribution function assets.
3. Taxes other than income taxes for distribution function assets.
4. Depreciation expense for distribution assets.
5. Income taxes
6. Return on rate base calculated with the approved capital structure.

The inputs for the methodology come from FERC Form 1, while the income tax inputs come from MISO Attachment O using actual results for the prior year, which aligns with the FERC Form 1 reporting.

Q. WHY IS OTP PROPOSING THESE CHANGES?

A. The changes more accurately recover the specific costs at issue. Individual customers cause these costs, so it is important to ensure that we design the rate to recover all the costs from the customer causing them, and to do so in a fair and predictable way. The updated calculation will accomplish this goal.

Q. WHAT IMPACT DOES OTP ANTICIPATE THE PROPOSED CHANGES TO THE SPECIAL FACILITIES CHARGE RATES WILL HAVE ON CUSTOMERS?

A. The change we propose to the rate will have minimal impact on customers overall but will be an improvement for customers who make use of the rate. Both current ratepayers and new customers who use the rate will be assured that the special facilities will be charged accordingly with annually updated rate information in the year of the special facilities investment. This means that each year OTP will file its updated rate information, which will be applicable for new ESAs with Special Facilities installations entered into during that year.

Q. IF APPROVED, HOW OFTEN WILL THE RATES BE UPDATED?

A. The updated rate components will be calculated and filed by each July 1. The calculated rates will apply to any ESAs with Special Facilities/Excess Expenditure entered into between July 1st and June 30th of the following year. The initial rate applied to the customer's ESA will remain the same for the life of the ESA. In accordance with Section 5.03, the customer has the option to prepay the Excess Expenditure amount and then in lieu of the calculated charge for Special Facilities, pay an annual fixed charge for the recovery of operations and maintenance expenses related to the Excess Expenditure amount, billed in 12 equal monthly installments. The operations and maintenance expense rate is a subcomponent of the Special Facilities charge described herein.

Q. IS OTP MAKING ANY OTHER SUBSTANTIVE CHANGES TO ITS TARIFFS THAT GO BEYOND CLARIFICATION?

A. Yes. The most major changes relate to new challenges OTP has experienced since the last rate case. There were several changes made to address the effect partial requirements customers have on OTP's system and the effect of adding new high-connection cost customers to the system. Changes to address these new challenges include changes to Contracts and Agreements, Special Facilities, Standby Service, and other more minor changes.

Q. WHY IS OTP MAKING CHANGES TO ITS TARIFFS TO ADDRESS PARTIAL REQUIREMENTS CUSTOMERS?

A. Since OTP's last rate case, we have seen an increasing interest in our service territory from customers interested in behind-the-meter generation, largely due to recently enacted federal incentives. When OTP commissioned its Standby Tariff in the early 1990s, it was designed to accommodate new customers being added to the system who might need standby services – such as back-up power, maintenance and supplemental power. It was not designed to deal with existing customers who move from full to partial requirements service. We designed our proposed revisions to reflect current market conditions where customers are moving from full to partial requirements service. When full-requirements customers move from their current tariff to a standby tariff, different requirements are necessary to protect OTP's other customers from absorbing extra costs. The proposed changes also ensure that certain benefits that primary meter customers have, like combining multiple points of interconnection on one account with one

meter charge, are not available to partial-requirements customers. Each change is summarized in the Matrix of Tariff Changes included as Schedule 5, and the full redlined text is available in Volume 3.

Q. IS OTP MAKING OTHER CHANGES TO ADDRESS HIGH-CONNECTION-COST CUSTOMERS?

A. Yes. Another change that we have seen since the last rate case is potential new customers interested in connecting to OTP's system that have unusually high connection costs requiring significant and costly facilities installations. To protect other customers from having to subsidize these unusually high facility installation costs, OTP has updated its standard contracts and special facilities tariffs to provide more security for cost outlays OTP makes to connect customers.

Q. ARE THERE OTHER THINGS OTP IS DOING TO PROTECT CUSTOMERS FROM COSTS ASSOCIATED WITH LARGE LOAD CONNECTION REQUESTS?

A. Yes. One of the changes we propose to Section 5.03 is an advance payment provision for investigating the Company's ability to serve new proposed loads.

Q. DOES THIS CHANGE TO 5.03 APPLY TO ALL NEW CUSTOMERS?

A. No. It only applies to proposed Customers whose anticipated load exceeds 200 kW.

Q. WHY WOULD THESE CUSTOMERS NEED TO PAY IN ADVANCE TO DETERMINE WHETHER OR HOW OTP CAN SERVE THEM?

A. Proposed large loads require a lot of work for OTP to determine how best to serve the load. [**PROTECTED DATA BEGINS…**

…PROTECTED DATA ENDS]

Q. WHAT HAPPENS AFTER THE EVALUATION IF THE CUSTOMER DOES WANT TO CONNECT TO OTP'S SYSTEM?

A. Once OTP has completed the evaluation outlined in Section 5.03, the Company will return any unspent advance payment and typically the Company enters into an ESA with the customer. Any Excess Expenditure or Extra Facilities Expenditure associated with Special Facilities or Extra Facilities identified in the evaluation will be stated in the customer's ESA. Payment for the identified Special or Extra Facilities will be calculated using the methodology set out in Section 5.03, unless the Customer and Company choose a different method, which would need to be approved by the Commission as part of its review of an ESA with deviations.

Q. DOES OTP EVER NEED TO BEGIN WORK ON CONNECTING THESE LARGE LOADS BEFORE THE COMMISSION HAS APPROVED THE ESA?

A. Yes. This is most often due to the need to order long-lead-time equipment associated with either Special Facilities or Extra Facilities, often a year or more prior to the proposed in-service date for the new customer.

Q. HOW DOES OTP PROTECT EXISTING CUSTOMERS FROM THE RISKS ASSOCIATED WITH BEGINNING INSTALLATION OF SPECIAL FACILITIES AND EXTRA FACILITIES PRIOR TO COMMISSION APPROVAL OF AN ASSOCIATED ESA?

A. OTP typically requires the proposed Customer to enter into an agreement with the Company that provides financial assurances that cover the costs of Extra Facilities Expenditure or Excess Expenditure, and places the risk of loss, failure of any condition precedent to service, and risk of non-approval of the ESA on the proposed Customer. So, for example, if OTP needs to order a piece of equipment two years ahead of construction, it would enter into an agreement with the Customer where OTP would order the equipment, but, if the Commission does not approve the ESA or the Customer's project does not come to fruition, the Customer will pay OTP for all of its incurred costs. This protects the Company and existing customers from costs associated with the failed project.

Q. ARE THESE FINANCIAL ASSURANCES ASSOCIATED WITH PRE-ESA-APPROVAL EXCESS AND EXTRA FACILITIES EXPENDITURE COVERED IN THE DEPOSITS, GUARANTEES AND CREDIT POLICY PROVISIONS IN TARIFF SECTION 1.03?

A. No. The provisions of Section 1.03 are intended to deal with typical connections of residential and commercial load. Section 1.03 addresses risks associated with a typical customer and accounts receivable risk, i.e., the risk that a customer might be unable to pay their monthly electric bill.

Q. HOW ARE THE FINANCIAL ASSURANCES ASSOCIATED WITH PRE-ESA-APPROVAL EXCESS AND EXTRA FACILITIES EXPENDITURE COSTS DIFFERENT THAN THOSE ADDRESSED IN SECTION 1.03?

A. These financial assurances are different in two important ways. First, they involve costs that the Company is incurring to connect a customer before the Company's plan to recover costs to serve the customer has been approved by the Commission. Second, the expenditure underlying the financial assurances is not for a typical service drop. These financial assurances protect the Company and its customers from risk associated with Excess Expenditures and Extra Facilities Expenditures set out in Section 5.03, which can cost many millions of dollars for very large loads. Section 1.03 was not intended to cover risks to the Company and its customers from Excess and Extra Expenditures, and Section 1.03 is not applicable to customer arrangements to pay for those expenditures.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.