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___

TRANSITION OF CAPITAL PROJECTS FROM RIDERS TO BASE RATES

Direct Testimony and Schedules of

PAULA M. FOSTER

PUBLIC – TRADE SECRET DATA HAS BEEN EXCISED

June 4, 2025

TABLE OF CONTENTS

ATTACHED SCHEDULES

I. INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME AND CURRENT EMPLOYER.

A. My name is Paula M. Foster. I am employed by Otter Tail Power Company (OTP).

Q. PLEASE SUMMARIZE YOUR CURRENT RESPONSIBILITIES.

A. I am the Supervisor of Regulatory Analysis. My primary responsibilities in this position are to lead the work team responsible for the preparation and financial analysis used to determine revenue requirements associated with various state and federal cost recovery mechanisms and to lead development of regulatory filings associated with these cost recovery mechanisms.

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

A. Yes. A summary of my qualifications and experience is included as Exhibit ____ (PMF-1), Schedule 1.

II. PURPOSE AND OVERVIEW OF DIRECT TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. My Direct Testimony describes OTP's proposal regarding the treatment of certain riders and associated costs in the 2024 Test Year and adjustments to those riders as the result of moving cost recovery from riders and into base rates.

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

A. OTP proposes to move certain investments currently being recovered in the Transmission Cost Recovery Rider (TCR Rider) and the Phase-In Rider into base rates as part of this case. This proposal does not increase customers' overall bills, though it does change the particular mechanism through which costs are recovered. In connection with the movement of costs into base rates, OTP is proposing to reset TCR Rider and Phase-In Rider rates at the time new base rates go into effect. The attached schedules were created assuming a December 1, 2025 effective date. In this testimony, OTP also discusses proposed treatment of certain items in the Energy Adjustment Rider (EAR).

Q. HOW IS YOUR DIRECT TESTIMONY ORGANIZED?

A. In Section III, I discuss the movement of certain capital projects from the TCR Rider and the Phase-In Rider into base rates. In Section IV, I discuss proposed treatment for the EAR rate calculation.

III. MOVING CAPITAL PROJECTS FROM RIDERS INTO BASE RATES

Q. PLEASE DESCRIBE THE PURPOSE OF THIS SECTION OF YOUR DIRECT TESTIMONY.

A. This section of my Direct Testimony explains the mechanics of OTP's proposal to move projects currently included in riders into base rates. OTP witness Ms. Christy L. Petersen quantifies the impact of this proposal on the 2024 Test Year revenue requirement.

Q. DOES THE MOVEMENT OF PROJECTS FROM RIDERS TO BASE RATES IMPACT CUSTOMERS' OVERALL BILLS?

A. No. The Company's proposal to move projects out of riders and into base rates changes the mechanism through which the project costs are recovered, but it does not impact customers' overall bills.

Q. WHY IS IT REASONABLE, OVERALL, TO MOVE COSTS FROM RIDERS TO BASE RATES DURING A RATE CASE?

A. In general, it is reasonable to move costs from riders into base rates during a rate case because riders are intended to capture changes in rates that support recovery of certain new incremental costs between rate cases. The Company will remove costs from the relevant riders at the time they are moved into base rates.

Q. WILL THESE RIDERS REMAIN IN EFFECT FOLLOWING THE CONCLUSION OF THIS CASE?

A. Yes. The Company proposes that the TCR Rider and Phase-In Rider remain in effect going forward.

A. TCR Rider

Q. WHAT IS THE TCR RIDER?

A. South Dakota Codified Laws §§ 49-34A-25.1 through 49-34A-25.4 authorize the Commission to approve a rider to recover capital costs related to certain transmission investments, and for the recovery of Regional Transmission Organization (RTO) Projects that are subject to cost sharing. OTP's TCR Rider is such a rider. OTP's TCR Rider was established in Docket No. EL10- 015.

Q. PLEASE IDENTIFY OTP'S PAST TCR RIDER FILINGS.

A. OTP's prior filings are shown in Table 1 below.

Table 1
TCR Rider Filing History

Filing History	Docket Number	Commission Approved	Effective Date
Initital TCR Charge	EL10-015	November 30, 2011	December 1, 2011
First Revision*	EL12-017	April 24, 2013	March 27, 2012
Second Update	EL12-054	April 24, 2013	May 1, 2013
Third Update	EL13-029	February 21, 2014	March 1, 2014
Fourth Update	EL14-090	February 24, 2015	March 1, 2015
Fifth Update	EL15-045	February 22, 2016	March 1, 2016
Sixth Update	EL16-035	February 17, 2017	March 1, 2017
Seventh Update	EL17-048	February 28, 2018	March 1, 2018
Eighth Update	EL18-021	May 16, 2018	October 18, 2018
Ninth Update	EL18-048	February 15, 2019	October 1, 2019
Tenth Update	EL19-039	February 18, 2020	March 1, 2020
Eleventh Update	EL20-032	February 19, 2021	March 1, 2022
Twelfth Update	EL21-031	February 23, 2022	March 1, 2022
Thirteenth Update	EL22-031	February 10, 2023	March 1, 2023
Fourteenth Update	EL23-033	February 22, 2024	March 1, 2024
Fifteenth Update	EL24-034	February 12, 2025	March 1, 2025

*Administrative change for consistency in header and footers with other tariff sheets.

Q. WHAT IS OTP'S PROPOSAL REGARDING THE TCR RIDER IN THIS CASE?

A. OTP proposes to move all projects included in the TCR Rider that were placed in service prior to December 31, 2024, into base rates at the time new base rates go into effect. OTP also proposes to include in base rates the Oslo to Lake Ardoch transmission project, which was completed on February 27, 2025. Phase II of the

Milbank Area Reliability Project, which is expected to be in-service in 2027, will remain in the TCR Rider.

The Company proposes to continue to include the MISO Schedules 26, 26A, 37, 38, and MVP ARR, as well as the SPP revenues and expenses for Schedules 9 and 11, in the TCR Rider. Further, as discussed in OTP's most recently approved South Dakota TCR filing (Docket No. EL24-034), OTP proposes to move MISO Schedules 7, 8, and 9 revenues from base rates and into the TCR Rider.

Q. WHAT PROJECTS ARE CURRENTLY BEING RECOVERED IN THE TCR RIDER?

A. Costs associated with the projects listed in Table 2 below are currently being recovered in OTP's TCR Rider.

Table 2

TCR Rider Projects

Project	Approved for Rider Recovery	In Service Date	Proposed Recovery
Big Stone South to Ellendale Projects	EL18-048	March 2019	Base Rates
Lake Norden Area Transmission Project	EL18-048	August 2021	Base Rates
Norcross 115kV Line-115/41.6kV Sub	EL20-032	September 2022	Base Rates
Erie 230/115kV Substation	EL20-032	April 2024	Base Rates
Oslo 115kV 5-Breaker Bus and Lake Ardoch	EL22-031	February 2025	Base Rates
Milbank Area Reliability Project Phase I	EL23-033	December 2024	Base Rates
Milbank Area Reliability Project Phase II	EL23-033	Estimated 2027	TCR Rider

Each project included in the TCR Rider is currently in-service except for Phase II of the Milbank Area Reliability Project, which is anticipated to have an in-service date in 2027.

Q. PLEASE DISCUSS THE PROJECTS THAT WILL BE MOVED OUT OF THE TCR RIDER AND INTO BASE RATES.

A. OTP proposes to move all projects, except for Phase II of the Milbank Project, from the TCR Rider and into base rates at the time new base rates go into effect. Collectively, the projects OTP proposes to move into base rates are referred to as the TCR Rider Projects.

Q. WHAT DOES THE COMPANY PROPOSE RELATED TO THE OSLO TO LAKE ARDOCH PROJECT?

A. The Oslo to Lake Ardoch Project was completed after the 2024 Test Year and was placed in-service in February 2025. Because the project is complete and final costs are known, it represents a known and measurable change and should be included in the 2024 Test Year.

Q. WHAT DOES THE COMPANY PROPOSE RELATED TO PHASE I OF THE MILBANK AREA RELIABILITY PROJECT?

A. Phase I of the Milbank Area Reliability Project was placed in-service in December 2024, during the 2024 Test Year. While the project was placed in-service during the 2024 Test Year, some costs were incurred after the project was in-service through March 2025. OTP proposes to move all costs related to Phase I of the Milbank Area Reliability Project to base rates.

Q. HOW ARE COSTS ALLOCATED IN THE TCR RIDER?

A. OTP allocates all TCR Rider costs to the South Dakota jurisdiction using the D2 allocation factor.

Q. DOES OTP PROPOSE A CHANGE TO THE METHOD OF ALLOCATION CURRENTLY USED IN THE TCR RIDER?

A. Yes. OTP proposes changing part of the current allocation methodology to include a new allocation factor for the MISO Schedule 26 expenses and an energy allocation factor for the MISO Schedule 26A expenses. All other transmission costs will continue to be allocated using the D2 allocation factor. Details regarding the calculation of these allocation factors can be found in OTP witness Ms. Annalise Smith's Direct Testimony.

Q. WHY IS OTP PROPOSING TO CHANGE THE ALLOCATION OF MISO SCHEDULE 26 AND 26A EXPENSES IN THE TCR RIDER?

A. Load serving entities (LSEs) like OTP pay their share of MISO 26A expenses based on their customers' relative energy use compared to all MISO LSEs. Therefore, we are proposing to use an energy-related allocator for these costs in retail rates.

Similarly, LSEs pay their share of MISO 26 expenses based on their customers' transmission peak kW demand. OTP is proposing to use the new D5 allocation factor to allocate these costs.

Q. DOES THIS CHANGE IMPACT BOTH JURISDICTIONAL AND CLASS ALLOCATION OF MISO SCHEDULE 26 AND 26A EXPENSES IN THE TCR RIDER?

A. Yes. The D5 and E2 allocation factors will be used for the jurisdictional and the class allocation of MISO 26 and 26A expenses. The use of these allocation factors align with the methodology used in the jurisdictional and class cost of service studies. Further discussion regarding this topic can be found in OTP witness Ms. Amber Grenier's Direct Testimony.

Q. WILL THE TCR RIDER REMAIN IN EFFECT FOLLOWING THE CONCLUSION OF THIS CASE?

A. Yes. The TCR Rider will be maintained following the conclusion of this case to account for the MISO and SPP charges and revenues after implementation of new base rates. Further, the Milbank Area Reliability Project Phase II will continue to be included in the TCR Rider. As future projects are proposed and approved for inclusion in the TCR Rider, the rate will be adjusted accordingly.

1. Test Year Revenue Requirement

Q. HOW HAVE THE TCR RIDER PROJECTS BEEN HANDLED IN THE 2024 TEST YEAR FOR THIS RATE CASE?

A. The TCR Rider Projects that are proposed to be moved from the TCR Rider to base rates are part of the rate base used to determine the 2024 Test Year revenue requirement.

Q. WHAT ARE THE PRIMARY TEST YEAR COST COMPONENTS THAT ARE AFFECTED BY INCLUDING THE TCR RIDER PROJECTS IN BASE RATES?

A. The primary rate base components are: (i) gross plant in service; (ii) accumulated depreciation; and (iii) accumulated deferred income taxes. The primary operating expense components that are impacted include: (i) depreciation and (ii) general tax expenses.

Q. DOES THIS PROPOSAL INCREASE COSTS TO CUSTOMERS?

A. No. Moving these projects from the TCR Rider to base rates is merely a change to how the costs of the projects are recovered. If approved, OTP's South Dakota customers will no longer pay for the TCR Rider Projects through the TCR Rider. Instead, customers will pay for the TCR Projects through base rates.

Q. WHAT LEVEL OF TCR RIDER PROJECT INVESTMENT IS REFLECTED IN THE 2024 TEST YEAR?

A. The 2024 Test Year reflects the December 31, 2024, 13-month average gross plant in service for the TCR Projects being moved into base rates of $168.9 million (OTP Total) / $6.8 million (OTP SD). Details of all the 13-month average gross plant in service amounts moving into base rates are included as Exhibit___(PMF-1), Schedule 2.

Q. HOW DID OTP DEVELOP THE 2024 TEST YEAR INVESTMENT LEVELS FOR THE TCR RIDER PROJECTS MOVING INTO BASE RATES?

A. As part of OTP's analysis, we made adjustments to the Erie Substation, Oslo – Lake Ardoch, and Phase I of the Milbank Area Reliability Projects to annualize their impact. The adjustment was necessary to ensure that the 2024 Test Year reflected a full year of data for these projects, since they were not in service at the beginning of the 2024 Test Year. The annualization adjustment ensures that the 2024 Test Year reflects a full calendar year of data for these projects.[1]

Q. ARE THERE ANY TEST YEAR REVENUE ADJUSTMENTS RELATED TO OTP'S PROPOSAL TO MOVE THE TCRR PROJECTS INTO BASE RATES?

A. Yes. The Rider Revenue Removal adjustment removes $852,108 of 2024 actual revenues (as collected through the TCR) associated with the TCR Rider Projects from the 2024 Actual Year in arriving at the 2024 Test Year, resulting in a corresponding decrease to the 2024 Test Year net operating income.[2] This adjustment reflects the fact that revenues will not be recovered from the TCR Rider going forward for these projects, and results in a decrease in the total available for return and an increase in deficiency in the 2024 Test Year.

[1] *See* Volume 4A (Workpapers and Supporting Information), Workpaper SD TY-01 Plant Annualization.
[2] *See* Volume 4A (Workpapers and Supporting Information), Workpaper SD TY-10 Rider Roll-In.

2. TCR Rider Rate Adjustment

Q. PLEASE DESCRIBE OTP'S PROPOSED ADJUSTMENT TO THE TCR RIDER RATES.

A. OTP's current TCR Rider rates were approved in Docket No. EL24-034. The TCR Rider rate updates in that case took effect March 1, 2025. These rates are based on the rate of return and South Dakota allocation factors approved in OTP's last general rate case and in the absence of an update, would remain in effect through February 2026.

The Company proposes to implement the updated TCR Rider rate at the time new base rates become effective, which OTP estimates to be December 1, 2025. OTP proposes to adjust the TCR Rider rates by: (1) removing the projects from the TCR Rider that are moving to base rates, (2) recalculating the TCR Rider rates based on the true-up amount forecasted in the rider at the time new base rates go into effect, (3) updating the projected RTO revenues and expenses for December 2025 through February 2026 and (4) updating the approved ROE and allocation factors. The Company will continue to update the allocators in the TCR Rider in annual filings in the future. OTP forecasts the TCR Rider balance to be $0.5 million for the December 1, 2025 through February 28, 2026 recovery period. The forecasted adjusted TCR Rider residential rate is equal to $0.0030 per kilowatt hour (kWh). Exhibit_(PMF-1), Schedule 3 provides the adjusted TCR Rider rate calculation. A residential customer using 1,000 kWh is forecasted to see a bill decrease from $7.38 to $3.00, or ($4.38) per month and a large general service customer using 486 kW and 222,350 kWh is forecasted to see a bill decrease from $1,067.29 to $943.34, or ($124.20) per month. OTP provides Tariff Schedule 13.05 in Volume 3, of this filing detailing the TCR Rider rates to be implemented on December 1, 2025.

Q. WHY IS IT APPROPRIATE TO ADJUST THE TCR RIDER RATES AT THE TIME NEW BASE RATES BECOME EFFECTIVE?

A. OTP's new base rates include the TCR Rider Project investments. It is necessary to adjust the existing TCR Rider rate at the same time to avoid double recovery.

B. Phase-In Rider

Q. WHAT IS THE PHASE-IN RIDER?

A. South Dakota Codified Laws 49-34A-73 through 49-34A-78 authorize the commission to approve a rider to recover capital costs related to plant additions and adjustments. OTP's Phase-In Rider was established in our last South Dakota rate case (Docket No. EL18-021) to provide a mechanism to recover costs related to projects for purposes other than transmission, and to allow for load adjustments.

Q. PLEASE IDENTIFY OTP'S PAST PHASE-IN RIDER FILINGS.

A. OTP's prior filings are shown in Table 3 below.

Table 3

Phase-In Rider Filing History

Filing History	Docket Number	Commission Approved	Effective Date
Original	EL19-025	August 21, 2019	September 1, 2019
1st Update	EL20-019	August 4, 2020	September 1, 2020
2nd Update	EL21-017	August 27, 2021	September 1, 2021
3rd Update*	EL22-013	August 31, 2022	September 1, 2022
4th Update	EL23-015	August 17, 2023	September 1, 2023
5th Update	EL24-020	August 29, 2024	September 1, 2024
6th Update	EL24-038	May 14, 2025	September 1, 2025

*Per Meter Rate Approved by Commission

Q. HAS THE PHASE-IN RIDER BEEN USED TO RECOVER COSTS FOR OTHER PROJECTS SINCE ITS INITIAL APPROVAL?

A. Yes, the Phase-In Rider is a beneficial tool for recovery between rate cases. Along with the Astoria Station and Merricourt Wind Energy Facility (Merricourt) Projects approved in the last rate case, OTP has been able to recover costs associated with renewable energy resources and advanced grid infrastructure projects using the Phase-In Rider recovery mechanism.

Q. WHAT PROJECTS CURRENTLY ARE BEING RECOVERED IN THE PHASE-IN RIDER?

A. Table 4 below lists the projects currently included in the Phase-In Rider.

Table 4

Phase-In Rider Projects/Adjustments

Project	Approved for Rider Recovery	In Service Date	Proposed Recovery
Astoria Station	EL19-025	July 2020	Base Rates
Merricourt Wind Energy Facility	EL19-025	October 2020	Base Rates
Ashtabula III Wind Energy Facility*	EL22-013	January 2023	Base Rates
Advanced Metering Infrastructure**	EL22-013	December 2025	Base Rates
Outage Management System	EL22-013	May 2024	Base Rates
Demand Response	EL22-013	June 2028	Phase-In Rider
Langdon Upgrade Project	EL24-020	December 2024	Base Rates
Ashtabula I Upgrade Project	EL24-020	November 2025	Base Rates
Luverne Upgrade Project	EL24-020	August 2025	Base Rates
Ashtabula III Upgrade Project	EL24-020	December 2025	Base Rates
Solway Solar	EL24-038	December 2026	Phase-In Rider
Abercrombie Solar	EL24-038	July 2028	Phase-In Rider

*OTP Purchased the Ashtabula III Wind Energy Facility from NextEra Inc. on January 3, 2023.

** AMI is approximately 97 percent complete at the time of this filing.

Q. PLEASE DESCRIBE THE RATE DESIGN USED IN THE PHASE-IN RIDER.

A. OTP's South Dakota Phase-In Rider employs two separate rate design methods. The renewable energy projects, the Hoot Lake Plant adjustment, and the Lake Norden adjustment are included in the percent of bill rate design method, which applies the calculated rate percentage to the base amount of a customer's bill.

The second method used in the Phase-In Rider is a per meter rate design. This method allocates the distribution costs on a per-meter basis to more closely align with the cost causation of the Advanced Grid Infrastructure (AGI) Projects, which include Advanced Metering Infrastructure, Outage Management System, and Demand Response.

Q. WHAT IS OTP'S PROPOSAL REGARDING PHASE-IN RIDER PROJECTS MOVING TO BASE RATES IN THIS CASE?

A. OTP proposes moving all projects included in the Phase-In Rider that are in service as of December 31, 2024 into base rates. This includes costs related to Astoria Station, Merricourt, Ashtabula III purchase, the Outage Management System, and the Langdon Upgrade Project.

OTP also proposes to include costs that are known and measurable related to projects that will be completed before the end of this rate case, and to move such projects out of the Phase-In Rider and into base rates. This includes the Ashtabula I Upgrade Project, the Luverne Upgrade Project, the Ashtabula III Upgrade Project,[3] and the Advanced Metering Infrastructure Project. OTP proposes these changes occur at the time new base rates go into effect. Collectively, the projects moving into base rates, identified in Table 4 above with a "Base Rates" designation in the Proposed Recovery column, are referred to herein as the "Phase-In Rider Projects".

Q. DOES OTP PROPOSE TO KEEP THE PHASE-IN RIDER IN EFFECT FOLLOWING THE CONCLUSION OF THIS RATE CASE?

A. Yes. OTP proposes that the Phase-In Rider remain in effect after this rate case because production tax credits (PTCs) associated with Merricourt and the Upgrade Projects will continue to be credited to customers through the Phase-In Rider on a going forward basis, as discussed below. OTP also proposes to continue to recover costs related to the Demand Response Project and the Abercrombie and Solway Solar Projects in the Phase-In Rider, as they are not projected to be placed in service until after this case is finalized. Keeping the Phase-In Rider in effect also will permit additional projects to be added in the future, if they receive appropriate approvals, and provides for a mechanism to reflect the net benefit of load growth that occurs between rate cases.

Q. IS OTP TRACKING ANYTHING OTHER THAN PROJECTS IN THE PHASE-IN RIDER?

A. Yes, the Lake Norden Area load growth adjustment and the Hoot Lake Plant Closure benefit are included in the Phase-In Rider. These adjustments were approved in our last South Dakota rate case (Docket No. EL18-021). The Lake Norden Area load growth adjustment was first included in the Phase-In Rider as part of Docket No. EL19-025, and the Hoot Lake Plant closure adjustment was first included in the calculation of the revenue requirement in the 2021 Phase-In Rider filing, Docket No. EL21-017.

[3] The Langdon Upgrade Project, Ashtabula I Upgrade Project, Luverne Upgrade Project and the Ashtabula III Upgrade Project are sometimes collectively referred to as the "Upgrade Projects".

OTP also reduces the Phase-In Rider revenue requirement to account for the removal of meter reading expenses that are currently in base rates but are no longer incurred due to the AMI Project implementation.

Q. WILL THESE ADJUSTMENTS CONTINUE TO BE INCLUDED IN THE RIDER AT THE CONCLUSION OF THIS CASE?

A. No. These specific adjustments are reflected in the 2024 Test Year and will cease to be part of the Phase-In Rider revenue requirement when final rates are implemented. OTP does, however, propose that the Phase-In rider continue to capture the effects of significant between rate case load changes in the same manner that was used for the Lake Norden Area load growth adjustment.

Q. WHY IS OTP PROPOSING TO MAINTAIN A LOAD GROWTH ADJUSTMENT MECHANISM IN THE PHASE-IN RIDER?

A. The Lake Norden Area load growth adjustment has worked well, as it captures both the additional revenue associated with new load and the impact on costs associated with changes in jurisdictional allocation factors. Having such a mechanism in place is increasingly important because conditions are such that OTP may experience abrupt and material changes to sales going forward.[4] Maintaining the load growth adjustment mechanism is an efficient regulatory tool that provides customers with benefits more quickly and does not allow material sales changes to accelerate otherwise unnecessary rate case filings.

1. Test Year Revenue Requirement

Q. HOW HAVE THE PHASE-IN RIDER PROJECTS BEEN HANDLED IN THE 2024 TEST YEAR FOR THIS RATE CASE?

A. The project costs currently being recovered in the Phase-In Rider that will be moved into base rates are included in the rate base calculation to determine the 2024 Test Year revenue requirement.

[4] Ms. Grenier discusses one such change that is anticipated to occur in 2025 and has been incorporated into the 2024 Test Year.

Q. WHAT ARE THE PRIMARY TEST YEAR COST COMPONENTS THAT ARE AFFECTED BY MOVING THE PHASE-IN RIDER PROJECTS TO BASE RATES?

A. The primary rate base components are: (i) gross plant in service; (ii) accumulated depreciation; and (ii) accumulated deferred income taxes. The primary operating expense components that are impacted include: (i) depreciation and (ii) general tax expenses.

Q. DOES THIS PROPOSAL INCREASE COSTS TO CUSTOMERS?

A. No. Moving these projects from the Phase-In Rider into base rates is merely a change in how the costs of the projects are recovered. If approved, OTP's South Dakota customers will no longer pay for the Phase-In Rider Projects through the Phase-In Rider. Instead, customers will pay for these projects through base rates.

Q. WHAT LEVEL OF PHASE-IN RIDER PROJECT INVESTMENT IS REFLECTED IN THE 2024 TEST YEAR?

A. The 2024 Test Year reflects the December 31, 2024, 13-month average gross plant in service for the nine Phase-In Rider Projects being moved into base rates of $780.8 million (OTP Total) / $76.6 million (OTP SD). Details of all the 13-month average gross plant in service amounts moving into base rates is included as Exhibit___(PMF-1), Schedule 2.

Q. WHEN WILL OTP TRANSFER THE PHASE-IN RIDER PROJECTS OUT OF THE PHASE-IN RIDER AND INTO BASE RATES?

A. OTP proposes to move the Phase-In Rider Projects into base rates at the time new base rates go into effect. These projects are identified in Table 4 above with a "Base Rates" designation in the Proposed Recovery column.

A corresponding adjustment to the Phase-In Rider rate is included with this filing to reflect the movement of these projects out of the Phase-In Rider and into base rates. Additional discussion regarding the adjustments to the Phase-In Rider rate being made as part of this case is below.

Q. ARE THERE ANY TEST YEAR ADJUSTMENTS RELATED TO OTP'S PROPOSAL TO MOVE THE PHASE-IN RIDER PROJECTS INTO BASE RATES?

A. Yes, there are several adjustments. The Rider Revenue Removal adjustment removes $5.1 million of 2024 actual revenues associated with the Phase-In Rider

Percent of Bill rate and $0.5 million of 2024 actual revenues associated with the Phase-In Rider Per Meter rate, for a total adjustment of $5.6 million.[5] This results in a decrease to the rider revenue and an increase to the deficiency in the 2024 Test Year.

Q. WHY IS THIS ADJUSTMENT NECESSARY?

A. This adjustment is necessary to calculate the total available for return from base rates in the 2024 Test Year.

Q. ARE THERE ANY ADDITIONAL ADJUSTMENTS?

A. Yes. For those Phase-In Rider Projects that were not completed before the beginning of the 2024 Test Year, including the Langdon, Ashtabula I, Luverne, and Ashtabula III repowers and the Advanced Metering Infrastructure Project, it is necessary to make an adjustment to annualize their impacts. [6]

2. Phase-In Rider Rate Adjustment

Q. PLEASE DESCRIBE THE CURRENT STATUS OF THE PHASE-IN RIDER RATES AND FILINGS.

A. OTP's current Phase-In Rider rates were approved in Docket No. EL24-020,[7] and became effective on September 1, 2024. The current approved Phase-In Rider rates are based on the rate of return and South Dakota allocation factors, adjusted with actuals, as approved in OTP's last general rate case, and in the absence of an update, will remain in effect through August 2025.

On December 20, 2024, OTP submitted a Phase-In Rider annual filing that includes the proposed addition of two new solar projects, Abercrombie and Solway Solar. The Commission approved the recovery of the two new solar projects, with new Phase-In Rider rates to be effective September 1, 2025 through August 31, 2026.[8] The two new solar projects will remain in the Phase-In Rider until the next general rate case.

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[5] *See* Volume 4A (Workpapers and Supporting Information), Workpaper SD TY-10 Rider Roll-In.
[6] See Volume 4A (Workpapers and Supporting Information), Workpaper SD TY-01 Plant Annualization.
[7] *In the Matter of the Petition of Otter Tail Power Company for Approval of the Phase-In Cost Recovery Rider Rate,* Docket No. EL24-020, Order (Aug. 29, 2024).
[8] *In the Matter of the Petition of Otter Tail Power Company for Approval of the Phase-In Cost Recovery Rider Rate,* Docket No. EL24-038, Order (May 14, 2025).

Q. PLEASE DESCRIBE OTP'S PROPOSED ADJUSTMENTS TO THE PHASE-IN RIDER RATES AS A RESULT OF THIS RATE CASE.

A. As part of this rate case, OTP proposes to: (1) remove the Phase-In Rider Project investments mentioned above from the Phase-In Rider; (2) remove the AMI adjustment related to savings of meter reading expenses, Hoot Lake Plant closure credit, and the Lake Norden Area adjustment; (3) recalculate the Phase-In Rider rates based on the true-up amount forecasted in the rider at the time new base rates go into effect, (4) update the actual and projected Demand Response costs as well as the PTCs related to renewable resources and (5) update the approved ROE and allocation factors. The Company will continue to update the allocators in the TCR Rider in annual filings in the future. The Company proposes to implement the updated Phase-In Rider rate at the time new base rates become effective, which OTP estimates to be December 1, 2025. OTP forecasts the Phase-In Rider revenue requirement to be ($2,580,230) for the December 1, 2025 through August 31, 2026 recovery period. The adjusted Phase-In Rider residential rate results in a projected decrease of (22.44 percent) for the percent of bill portion, from 9.86 percent to (12.576 percent) and a projected decrease of ($1.52) for the per meter portion, from $1.55 to $0.03 per residential meter. Exhibit_(PMF-1), Schedules 4 and 5 provide the adjusted Phase-In Rider rate calculations. Updated tariff sheets will be provided in the compliance filing upon completion of this case.

Q. WHY IS IT APPROPRIATE TO ADJUST THE PHASE-IN RIDER RATES AS OF DECEMBER 1, 2025?

A. It is reasonable to update the Phase-In Rider rates at the same time the projects are moved from the Phase-In Rider to base rates. It is necessary to make this adjustment to avoid double recovery.

3. Production Tax Credits

Q. WHAT ARE PRODUCTION TAX CREDITS?

A. PTCs are tax credits authorized by the Internal Revenue Code 29 § 45. Owners of PTC-eligible renewable resources can claim a tax credit, a reduction to tax expense, based on the amount of energy produced by the renewable resources. PTCs are available for ten years after production begins.

Q. DOES OTP CURRENTLY RECEIVE PTCS FOR THE ENERGY PRODUCTION FROM ITS WIND PROJECTS?

A. Yes. OTP currently receives PTCs for Merricourt and the Langdon Upgrade Project, and will receive PTCs for the other Upgrade Projects when they are placed into service. These PTCs are all (or will be) credited to customers through the Phase-In Rider. If, at some point in the future, OTP begins earning PTCs for any other renewable resource, the PTCs will be included in the Phase-In Rider.

Q. WHY DOES OTP RECOMMEND THAT PTCS REMAIN IN THE PHASE-IN RIDER?

A. Actual PTCs (and therefore customer benefits) are dependent on actual operations (megawatt hour (MWh) output) of the PTC-eligible facilities. Given the Phase-In Rider will be used to address differences between projected and actual PTCs on a going forward basis, it is administratively more efficient to keep all PTCs in the Phase-In Rider. OTP proposes to continue tracking PTC activity and crediting customers through the Phase-In Rider.

Q. HOW DOES OTP RECOMMEND THAT PTCS BE HANDLED IN THE PHASE-IN RIDER?

A. OTP recommends that Merricourt PTCs, which are currently being calculated at the level of estimated output agreed upon in OTP's last South Dakota Rate Case,[9] be calculated using actual output from the wind farm. For the Upgrade Projects, OTP recommends that PTCs be included in the Phase-In Rider rate calculation as OTP earns the credits. As a result, OTP has included approximately $29.4 million (OTP Total) / $3.1 million (OTP SD) credit annually in its Phase-In Rider revenue requirement calculations. The estimated PTC amount provided above is forecasted for 2026, which is the first full calendar year of PTCs for all Upgrade Projects in service. These credits are subject to true-up based on actual production.

[9] *In the Matter of the Application of Otter Tail Power Company for Authority to Increase its Electric Rates*, Docket No. EL18-021, Settlement Stipulation (Feb. 15, 2019).

IV. ENERGY ADJUSTMENT RIDER

A. Steam and Water Sales

Q. WHAT DOES OTP PROPOSE WITH REGARDS TO STEAM AND WATER SALES?

A. OTP proposes to include the fuel costs related to steam and water sales in the EAR and to credit steam and water sales revenues to customers through the EAR. OTP proposes that this change become effective with the implementation of final rates in this rate case.

Q. PLEASE SUMMARIZE OTP'S STEAM AND WATER SALES.

A. OTP sells steam and water from its Big Stone plant to its steam customer. Currently, fuel and reagent costs associated with those steam and water sales are allocated to other electric expenses and excluded from the EAR calculation. Revenues recovered from steam sales are recorded as other electric revenue.

Q. HOW MUCH REVENUE AND NET MARGIN ASSOCIATED WITH STEAM AND WATER SALES HAS OTP REALIZED IN RECENT YEARS?

A. As reflected in Exhibit___(PMF-1), Schedule 6 to my Direct Testimony, OTP's share of steam and water sales averaged approximately **[PROTECTED DATA BEGINS … … PROTECTED DATA ENDS]** a year from 2020-2024 and yielded average net margins of approximately **[PROTECTED DATA BEGINS … … PROTECTED DATA ENDS]** per year.

Q. WHY IS THE EAR APPROPRIATE FOR RECOVERY OF FUEL COSTS AND REVENUES FROM STEAM SALES?

A. Revenues from steam and water sales have historically been relatively stable. Since 2020, the Company has seen significant volatility in the amount of steam sales, which makes it more difficult to forecast steam revenue. To address this increased volatility, OTP is proposing to incorporate those fuel costs and associated steam revenues through the EAR where they can be forecast and aligned with actual steam sales. This treatment is similar to how asset-based sales of energy into the MISO market are treated, returning the economic benefit of those sales and corresponding revenues back to customers through the EAR.

Q. PLEASE FURTHER EXPLAIN WHY INCLUDING STEAM SALES IN THE EAR IS APPROPRIATE AND BENEFICIAL TO CUSTOMERS.

A. The steam and water sales are variable in nature, directly related to the business needs of those purchasing the steam and water and the operation of Big Stone plant. OTP believes going forward that the level of sales and revenues will continue to vary, much like OTP has seen with its asset-based sales. This variability will be driven by market economics and the plant's relative cost position within the market. In addition, the Big Stone Energy Storage Project, LLC proposed in Docket No. EL25-016, if approved, will change the need for the steam provided by Big Stone. After the Big Stone Energy Storage Project, LLC is completed, steam will be provided by Big Stone only on a standby basis as a backup, which will impact the steam revenues going forward.

For these reasons, the EAR is the appropriate mechanism to recover the fuel costs associated with these variable steam and water sale expenses, and, moving forward, it is appropriate to treat these the same way asset-based sales and associated margins are treated. The revenue from steam and water sales that will be credited to the EAR more than offsets the corresponding fuel costs, reducing overall EAR costs to customers.

Q. IS OTP PROPOSING ANY RELATED MODIFICATIONS TO SECTION 13.01 OF ITS SOUTH DAKOTA ELECTRIC RATE SCHEDULE?

A. Yes. Section 13.01 provided in Volume 3 reflects proposed language to be added to the tariff to accommodate the recovery of steam sale costs and revenues through the EAR, to be effective with the implementation of new base rates.

B. Planning Resource Auction Revenues and Costs

Q. WHAT ARE PLANNING RESOURCE AUCTION REVENUES AND COSTS?

A. The Planning Resource Auction (PRA) is a voluntary annual capacity auction that provides a way for MISO LSEs to meet resource adequacy requirements. The location-specific approach of the PRA encourages resources to be available when needed in the right locations in an economic and efficient manner. Market Participants with excess capacity can offer that capacity to be sold into the market over the next planning year. LSEs who need additional capacity are afforded the opportunity to procure that capacity from the market. MISO administers the

auction and determines the value of the capacity sellers will receive and buyers will pay.

Q. HOW LONG HAS MISO ADMINISTERED A CAPACITY AUCTION, AND HAS MISO MADE ANY MODIFICATIONS TO ITS PRA PROCESS SINCE INCEPTION?

A. MISO conducted its first capacity auction in the spring of 2013 for its June 2013 to May 2014 planning year. OTP has participated in the capacity auction since its inception, but the revenues and costs were relatively small for the years leading up to 2022. The spring 2022 auction provided a significant increase in the annual capacity value results, as shown in Table 5 below.

Beginning with the 2024/2025 capacity auction, MISO implemented its seasonal construct determining separate capacity values for the summer, fall, winter, and spring seasons in the PRA.

Q. HOW HAS OTP ACCOUNTED FOR PRA REVENUES TO DATE?

A. PRA revenues have been accounted for as Other Electric Revenue since the inception of the PRA process. OTP has included the impacts of those revenues in its annual report of actual year cost of service results in the determination of the overall actual return for the year. Had revenues contributed to an over-earning result, OTP would have credited customer accounts per the earnings sharing mechanism approved in our last South Dakota rate case. No over-earning has occurred since the inception of the PRA.

Q. WHAT WILL OTP RECEIVE IN PRA REVENUES FOR THE 2025/2026 PLANNING YEAR?

A. In 2025, OTP participated in MISO's annual PRA and offered excess capacity for the 2025/2026 planning year. MISO published the results of the PRA in the spring of 2025, which resulted in a significant increase in the value of capacity. As a result, OTP's excess capacity yielded approximately $8.6 million (OTP Total) of revenue for the 2025/2026 planning year.

Q. WHAT HAS OTP RECEIVED IN PAST YEARS IN PRA REVENUES?

A. PRA revenues vary significantly from year to year. Table 5 provides the total PRA revenues received by OTP by planning period since 2013.

Table 5
Planning Resource Auction Revenues - OTP Total

PRA Period June-May	Summer	Fall	Winter	Spring	Total
2013/2014					$ (575)
2014/2015					$ -
2015/2016					$ -
2016/2017					$ -
2017/2018					$ -
2018-2019					$ -
2019-2020					$ 6,548
2020-2021					$ 50,735
2021-2022					$ -
2022-2023	$ 2,149,649	$ 2,328,237	$ 2,298,095	$ 2,350,784	$ 9,126,764
2023-2024	$ 227,690	$ 165,399	$ 26,763	$ 125,020	$ 544,872
2024-2025	$ 85,806	$ 223,618	$ 33,565	$ 64,266	$ 407,254
2025-2026	$ 6,272,831	$ 2,033,886	$ (70,218)	$ 321,448	$ 8,557,947

Q. HOW DOES OTP PROPOSE TO CREDIT PRA REVENUES OR CHARGE PRA COSTS TO CUSTOMERS?

A. OTP recommends that PRA revenues and costs be included in the EAR. This change would take effect beginning the first month after the implementation of final rates.

Q. WHY IS IT REASONABLE TO INCLUDE PRA REVENUES AND COSTS IN THE EAR?

A. Ultimately, PRA revenues and expenses are variable in nature and are driven by broader conditions in the MISO market than OTP's system specifically. This is demonstrated by the wide variations in PRA revenues shown in Table 5 above. The EAR provides a flexible, efficient mechanism to capture these costs and revenues, as opposed to trying to incorporate a representative amount in base rates. Ultimately, incorporating these revenues and costs in the ERA allows for crediting of actual revenue and recovery of actual costs – no more and no less.

C. Hoot Lake Solar

Q. HOW DOES OTP ACCOUNT FOR HOOT LAKE SOLAR IN SOUTH DAKOTA?

A. On April 29, 2021, the Minnesota Public Utilities Commission authorized OTP's investment in the 49.9-megawatt (MW) Hoot Lake Solar Project (HLS), which is located at the site of OTP's former Hoot Lake power plant in Fergus Falls,

Minnesota.[10] In doing so, the Minnesota Public Utilities Commission also authorized 100 percent allocation of all HLS Project costs to Minnesota retail customers. Ms. Petersen explains in her Direct Testimony that as a result, OTP has directly assigned the HLS Project costs to the Minnesota retail jurisdiction for purposes of calculating the 2024 Test Year revenue requirement.

Q. HAS THIS TREATMENT OF HLS IMPACTED THE EAR?

A. Yes. On September 30, 2022, OTP made a filing in Docket No. EL22-025 to demonstrate to the Commission how OTP will properly account for the energy produced by HLS. In this application, OTP requested approval to modify the calculation of system costs included in OTP's South Dakota EAR rate calculations, Rate Schedule 13.01, and received approval in the Order dated November 23, 2022, to account for HLS generation.

Q. PLEASE DESCRIBE THE EAR MODIFICATION APPROVED IN DOCKET NO. EL22-025.

A. Under the approach approved in Docket No. EL22-025, OTP quantifies the day ahead and real-time revenue received from the MISO for HLS's sale of energy into the MISO energy market. The quantified revenue is removed from the calculation of the South Dakota EAR by adding an equal amount of proxy cost into the calculation. This approach removes the impact of HLS from the South Dakota EAR, and for South Dakota EAR purposes, treats the facility as if it does not exist. This accounting does not result in an increase in EAR rates for South Dakota customers; rather it avoids an unintended EAR rate decrease and maintains consistency in the EAR rate calculation as if HLS was not included in OTP's generation fleet.

Q. WHAT WAS THE HLS GENERATION PROXY COST IN THE 2024 TEST YEAR?

A. The HLS generation cost for the 2024 Test Year is $2.3 million (OTP Total) / $0.22 million (OTP SD).

[10] *In the Matter of Otter Tail Power Company's Petition for Approval of the Hoot Lake Solar Project*, Docket No. M-20-844, Order Approving Petition, Authorizing Allocation of Output and Costs, Authorizing Cost Recovery, and Requiring Compliance Filings (Ap. 29, 2021).

D. Minnesota Small-Scale Solar

Q. WHAT ARE THE SMALL-SCALE SOLAR PROJECTS IN MINNESOTA?

A. On January 26, 2024, cost recovery was approved through OTP's Minnesota Renewable Resource Cost Recovery rider, which included investment in up to fifteen OTP-owned small solar projects with a nameplate capacity of 40 kilowatts or less. OTP has moved quickly in identifying small-scale solar sites, completing solar site design, procuring equipment, hiring an installation contractor, completing interconnection requests, and beginning construction. All fifteen small-solar projects were completed in October and November 2024 at a total cost of approximately $2 million.

Q. WHAT PROMPTED OTP TO CONSTRUCT THE SMALL SOLAR PROJECTS?

A. These projects support the Company in meeting the State of Minnesota's renewable energy objectives as described in Minn. Stat. §216B.1691, Subd. 2f.

Q. HOW DOES OTP PLAN TO ALLOCATE THE SMALL-SCALE SOLAR PROJECT COSTS AND REVENUES?

A. The small-scale solar projects will be allocated 100 percent to Minnesota using the same methodology as the HLS adjustment, which removes the impact of these projects from the South Dakota EAR, and for South Dakota EAR purposes, treats the projects as if they do not exist.

E. Proposed Change to EAR Rate Calculation

Q. DESCRIBE THE CURRENT METHODOLOGY USED IN THE EAR RATE CALCULATION.

A. OTP first calculates the net energy costs for the prior three months, which is adjusted by the asset-based margin and the prior period true up to find the total adjusted net energy costs.

The associated energy is calculated using the total generation plus net retail MISO Day 2 costs less intersystem sales. This net energy kWh is reduced by eight percent to calculate the total three-month energy adjusted to retail sales and then divided by three to find the monthly energy adjusted to retail sales amount.

OTP then divides the adjusted net energy costs by the energy adjusted to retail sales to find the system delivered cost per kWh. This calculated system delivered cost per kWh is multiplied by the E8760 allocation ratio for each class to

determine the Energy Adjustment Factor (EAF) for each class, which is used to bill customers.

Q. HOW DOES OTP PROPOSE TO CHANGE THE CALCULATION?

A. Rather than using the generation and purchase costs less intersystem sales as the denominator for the cost per kWh, OTP proposes using the actual retail sales to calculate the system delivered costs used to calculate the customer EAR rates.

Q. WHY DOES OTP PROPOSE TO IMPLEMENT THIS CHANGE IN METHODOLOGY?

A. The proposed methodology simplifies the calculation while also increasing accuracy by using the actual retail sales rather than a calculation using generation kWh to estimate retail sales.

Q. WHAT IMPACT DOES OTP EXPECT THIS CHANGE WILL HAVE ON CUSTOMER BILLS?

A. Exhibit ____ (PMF-1), Schedules 7 and 8 provide a comparison of the proposed methodology using retail sales to the current methodology using generation as the denominator for the cost per kWh calculation. For December 2024, the calculated difference in rates between the current and proposed methodologies is $0.00116 per kWh.

OTP calculated the annual rate impact for reference. The current calculation uses the 5,857,520,421 kWh annual generation, which calculates an EAR rate of $0.01961. The proposed methodology uses annual retail sales of 5,658,134,535 kWh, which calculates an EAR rate of $0.01960, and provides an overall annual rate reduction of $0.00001 per kWh for the 2024 calendar year. The proposed method will not always generate a reduction in rates when compared to the current calculation; however, the proposed method will provide increased accuracy for the EAR rates and reduce the complexity of calculation.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.