
STAFF MEMORANDUM

TO: COMMISSIONERS AND ADVISORS
FROM: JOSEPH REZAC AND AMANDA REISS
RE: EL25-040 - In the Matter of the Petition of Otter Tail Power Company for Approval of the Transmission Cost Recovery Rider Rate
DATE: February 19, 2026

BACKGROUND

On November 3, 2025, the South Dakota Public Utilities Commission (Commission) received a Petition for Approval of the Annual Update to its Transmission Cost Recovery Rider Rate (Petition) from Otter Tail Power Company (Otter Tail or Company) requesting approval of its annual update to its Transmission Cost Recovery Rider (TCR) rates. The proposed revised TCR rates reflect the updated TCR revenue requirements for March 1, 2025 through February 28, 2026, including the tracker balance estimated for the end of the current period.

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

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

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

Most recently, in Docket EL24-034, the Commission approved TCR recovery of the 2024 revenue requirement associated with six previously approved transmission projects (Lake Norden Area Transmission Improvements, Big Stone South to Ellendale, Erie-Frazee, Grant Country-Norcross, Oslo to Lake Ardoch, and Milbank Area Reliability), regional transmission expenses and revenues, and an updated allocation factor. The 2025 TCR implemented the following rates for each customer class effective March 1, 2025:

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

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

As the six previously approved transmission projects are now in-service, OTP has rolled-in recovery of these projects into base rates in rate case docket EL24-024. These previously approved projects are currently included in interim rates in that docket; however, revenues and expenses associated with MISO and SPP as well as a portion of the Millbank project have remained as a part of the TCR. These new TCR rates reflecting these changes went into effect on the date of interim rates on December 1, 2025 and are as follows:

Class	¢/kWh	\$/kW
Large General Service	0.17	0.598
Controlled Service	0.04	N/A
Lighting	0.15	N/A
All Other Service	0.18	N/A

In this filing, Otter Tail requests to recover a projected March 1, 2026 through February 28, 2027 revenue requirement of \$1,379,077 associated with the six previously approved projects that were moved into base rates as of December 1, 2025, regional transmission expenses and revenues, and an updated D2 allocation factor. The request includes the Company's proposal to return to customers an estimated \$199,443 in over-collection of the prior period's remaining balance. The Company's proposed March 1, 2025 through February 28, 2026 revenue requirement results in the following rates for the respective customer classes, based on a March 1, 2025, effective date:

Class	¢/kWh	\$/kW
Large General Service	0.12	0.943
Controlled Service	0.05	N/A
Lighting	0.11	N/A
All Other Service	0.35	N/A

STAFF'S ANALYSIS

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

REVENUE REQUIREMENT

Staff reviewed the forecasted March 1, 2026 through February 28, 2027 revenue requirement associated with six previously approved transmission projects, the transmission adjustment from rate case EL18-021, MISO Schedule 26 and 26A expenses and revenues, Southwest Power Pool (SPP) Schedule 7,8,and 9 and Schedule 11 expenses, MISO Schedule 9 and Multi-Value Project (MVP) Auction Revenue Rights (ARR) revenues, filing fee expense, and the true-up balance associated with the prior collection period. All items are subject to later “true-up” to reflect the actual costs, actual revenues, and actual recoveries.

Otter Tail continues to apply the refined split methodology² approved in Docket EL12-054 for projects cost-shared in MISO. Staff reviewed the calculations of this methodology for accuracy.

Background and Updates

Staff will first provide some background and updates on each of the revenue requirement items, including previously approved items and projects. As of December 1, 2025, all individual projects, except for Phase II of the Milbank Area Reliability Project, have been moved into base rates and being recovered through interim rates in EL25-022 effect December 1, 2025. MISO and SPP expenses and revenues continue to flow through the TCR as was the case prior to interim rates.

Supplemental Filing

On February 2, 2026, Otter Tail submitted a supplemental filing into the docket to update the projected costs and collections given the proposed revisions would have a material effect on the proposed revenue requirement and associated rates. Table 1 on page 2 of OTP’s Supplemental Filing provides a comparison of the Company’s originally filed revenue requirement to the revised revenue requirement. The description of the changes made from the initial filing are described on Page 1. The largest driver in the change in the update relates to an incorrect cell reference that inflated the revenue requirements for October through December. Those changes create a larger true-up balance to be incorporated in the proposed rates which results in a decrease to rates when compared to the initial filing.

The supplemental filing requests a revenue requirement of \$656,817 including an estimated \$831,234 in over-collection of the prior period’s remaining balance. The Company’s proposed March 1, 2026 through February 28, 2027 revenue requirement results in the following rates for the respective customer classes, based on a March 1, 2026, effective date:

Class	¢/kWh	\$/kW
Large General Service	0.017	0.711
Controlled Service	0.057	N/A
Lighting	0.055	N/A
All Other Service	0.086	N/A

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

Milbank Area Reliability Project

In Docket EL23-033, the Commission approved recovery of the Milbank Area Reliability Project. Otter Tail is constructing a new 115 kV transmission loop from the Big Stone Plant 230/115 kV substation to a new 115/12.5 kV substation in Milbank, SD, and a new 115 kV breaker station to be located on the 115 kV line between the Big Stone 230 kV substation and the Marietta 115/4.6 kV substation. The project consists of several components and alleviates reliability concerns of the existing 41.6 kV system to serve additional load.

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

Regional Transmission Expenses and Revenues

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

Pursuant to Docket EL13-029, if the annual updates for MISO Schedule 26 and 26A anticipated to be released in January 2025 are materially different from the forecasts included in Otter Tail's petition, Otter Tail will make a supplemental filing by February 1st to update the TCR rates for the upcoming recovery period. Otter Tail did submit a supplemental filing in this docket and updates are shown in OTP's supplemental filing.

On page 14 & 15 of its petition, Otter Tail provided a discussion regarding SPP expenses. Otter Tail renewed part of its existing SPP transmission service during 2021 to ensure service was not interrupted at the end of the existing term (2022). However, Otter Tail elected to only extend its existing SPP transmission service for five years to allow for additional time to complete its evaluation and the possibility of potentially building new facilities to bypass the SPP system in the future.

Proration of Federal Accumulated Deferred Income Taxes

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

Jurisdictional Allocations

The transmission demand D2 allocation factor is used to allocate total revenue requirements to the South Dakota jurisdiction. This allocator is updated based on actuals from the prior year to capture the

impact of shifting loads between jurisdictions. In Docket EL24-034, Otter Tail forecasted South Dakota D2 allocation factors of 10.23% for 2024 and 10.58% for 2025. In this docket, Otter Tail updated the 2024 allocator based on actuals to 10.23% and a forecast allocator of 10.58% is applied through November 2025 with the D2 allocation factor calculated for the current rate case of 10.69% is used beginning December 1, 2025. The allocators will be updated based on actuals in future TCR filings.

Prior Collection Period Tracker

The TCR approved in Docket EL24-040 was based on the estimated South Dakota revenue requirements for the collection period of March 2025 through February 2026 of \$2,788,406³. The Company's tracker⁴ filed in this docket reflects actual costs through December 2025 and forecasted costs through February 2026. This results in an updated South Dakota revenue requirement for March 2026 through February 2027 of \$656,817 for items remaining in the rider.

The rates implemented in Docket EL24-034 were based on the above estimated revenue requirement plus estimated carrying charges/credits and the true-up balance from the prior collection period. Rates were based on a total estimated revenue requirement of \$2,788,406 and forecasted base rate retail sales for March 2025 through February 2026.

Since most projects were moved into base with the implementation of interim rates, effective December 1, 2025, the effective rates for the TCR were lowered alongside interim rates to prevent double recovery. In this docket we bring forward the remaining net revenue requirements of \$375,159 for the remaining collection period of December 1, 2025, through February 28, 2026, and apply the carrying charges of \$(32,475) and a cumulative true-up balance of \$(831,234) over into the next collection period tracker. Since Otter Tail allocates the revenue requirement to customer classes and designs rates for each class, the true-up balance is calculated by rate class to minimize cross-class subsidization. Refer to Otter Tail's Attachment 4A for the class-specific true-up calculations.

March 2026 – February 2027 Revenue Requirement

The March 1, 2026, through February 28, 2027, revenue requirement is based on estimated revenue requirements of the Milbank Area Phase II, estimated filing fee, MISO and SPP expenses, MISO revenues, and the true-up balance associated with the prior collection period.

Otter Tail's Attachments 5 through 20 provide details regarding the revenue requirement calculations. Attachment 4 provides the Tracker Summary for the current and proposed collection periods, and Attachment 2 summarizes the revenue requirements for the upcoming recovery period.

A summary of the forecasted South Dakota revenue requirements for the March 2026 through February 2027 collection period is below.

³ Excluding estimated carrying charge and true-up. Total estimated revenue requirements were \$3,079,715.

⁴ Refer to Attachment 4 to Otter Tail's petition.

March 2026 – February 2027 Revenue Requirements	
Big Stone South to Ellendale	-
Lake Norden Area Transmission	-
Erie Project	-
Norcross Project	-
EL18-021 Transmission Adjustment	-
Oslo Lake Ardoch 115 kV	-
Milbank Area Reliability	\$184,123
SD Filing Fee	\$4,000
MISO Expenses	\$2,370,773
SPP Expenses	\$275,796
MISO Revenues	\$(1,314,165)
Carrying Cost / (Credit)	\$(32,475)
True-Up	\$(831,234)
Total	\$656,817

The forecasted March 2026 – February 2027 revenue requirement represents a decrease of \$2,131,589 compared to the prior period forecasted revenue requirement approved in Docket EL24-034. The large decrease is due to projects moving from the TCR into base rates where recovery will continue moving forward.

CLASS ALLOCATION AND RATE DESIGN

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

Otter Tail proposes the following rates be effective March 1, 2026:

Class	¢/kWh	\$/kW
Large General Service	0.017	0.711
Controlled Service	0.057	N/A
Lighting	0.055	N/A
All Other Service	0.086	N/A

Compared to the rates currently in effect, the proposed rates reflect a decrease for all classes. Otter Tail states the impact of the proposed change in rates for a residential customer using 1,000 kWh per month is a decrease of approximately \$0.94 per month, or a decrease of approximately 0.92%.

REASONABLENESS OF OVERALL EARNINGS FROM REGULATED RATES

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

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

RECOMMENDATION

Staff recommends the Commission approve Otter Tail's proposed revenue requirement and rates for the March 1, 2026, through February 28, 2027, recovery period, and the associated tariff revisions, as proposed in the supplemental filing effective March 1, 2026.