

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

**In the Matter of Otter Tail Power
Company’s Petition for Approval
of Rate Schedule, Section 13.09,
Phase-In Rider**

**Docket No. EL26-

PETITION**

I. PETITION SUMMARY

A. This filing for Otter Tail Power Company’s (Otter Tail Power or Company) Phase-In Rate Plan Rider (Rider) includes annual updated actual and forecasted costs and collections associated with the following:

1. Production Tax Credits related to the Wind Energy Facilities:
 - a. Merricourt,
 - b. Langdon Repower,
 - c. Ashtabula I Repower,
 - d. Luverne Repower, and
 - e. Ashtabula III Repower.
2. Solway Solar
3. Abercrombie Solar
4. Demand Response (DR) system replacement.

Included in this filing is a request for approval to recover costs for the following projects:

1. Hoot Lake Battery Energy Storage System (Hoot Lake BESS),
2. Big Stone Area Substation,
3. Milbank Customer Service Center (CSC) Remodel Project,
4. Airplane Engine Overhaul,

The following adjustments are also discussed in this filing:

1. Big Stone Area Load Growth Credit
2. Insurance Net Credit Calculation

B. Otter Tail Power continues to propose a per meter rate structure for the Advanced Grid Infrastructure (AGI) projects and a percent of bill rate structure for all other projects and adjustments in this rider. The petition is broken into two sections, which describe how different types of rates are established.

C. The rate of return (ROR) included in this filing is based on Otter Tail Power’s actual capital structure as of December 31 of the preceding year using the return

on equity (ROE) approved in its most recent general rate case in Docket No. EL25-022 (Rate Case).

- D. The proposed revenue requirement for the recovery period of September 1, 2026, through August 31, 2027, is \$1,348,699.
 - 1. Attachment 1 provides the proposed revenue of \$1,326,655 to be collected by the percent of bill portion of the Rider.
 - 2. Attachment 14 provides the proposed revenue of \$22,044 to be collected by the per meter charge portion of the Rider.
- E. A residential customer with one meter and using 1,000 kWh per month will experience a bill increase of \$19.16 per month. A Large General Service (LGS) customer with one meter and using 486 kW and 222,350 kWh per month will see a bill increase of \$12,514.26 per month. The Phase-In Percent of Bill rate increases from (12.953) percent to 4.255 percent, or an increase of 17.208 percent. The Phase-In Per Meter rates increase from \$0.07 to \$0.08 per meter for residential customers and decrease by \$0.23 per meter for LGS customers.

II. INTRODUCTION

Otter Tail Power hereby petitions the South Dakota Public Utilities Commission (Commission) for approval of its seventh annual update to its Phase-In Rider. This filing is made in compliance with the Commission’s Order in Otter Tail Power’s 2019 Rider Filing (2019 Filing)¹ and under the Commission’s authority granted in South Dakota Codified Laws 49-34A-73 through 49-34A-78 under Otter Tail Power’s Phase-In Rider, Electric Rate Schedule Section 13.09.

This Rider is described in the Settlement Stipulation (Settlement) approved by the Commission’s Order (Order) in Otter Tail Power’s most recent Rate Case.² This filing includes the components described in the Settlement.

¹ Commission’s August 26, 2019, Order in the Matter of Otter Tail Power Company’s Petition for Approval of Rate Schedule, Section 13.09, Phase-In Rider in Docket No. EL19-025.

² Commission’s March 6, 2019, Order Granting Joint Motion for Approval of Settlement Stipulation; Order Approving Settlement Stipulation in the Matter of the Application of Otter Tail Power Company for Authority to increase its Electric Rates in Docket No. EL18-021.

III. GENERAL FILING INFORMATION

A. Name, address, and telephone number of the utility making the filing

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C. Title of utility employee responsible for filing

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D. Otter Tail Power also requests that the following contact(s) be placed on the Commission's official service list for this matter:

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E. The date of filing and the date changes will take effect

The date of this filing is May 21, 2026. Otter Tail Power proposes the update to the Rider factor to go into effect for usage on and after September 1, 2026.

F. Statutes controlling schedule for processing the filing

Otter Tail Power files this Rider for Commission approval under the authority of South Dakota Codified Laws 49-34A-73 through 49-34A-78. The Administrative Rules of South Dakota (ARSD) Part 20:10:13:15 require a 30-day notice to the Commission of a proposed change in a utility's tariff schedule. Attachment 21 of this Petition is the proposed customer notice required by ARSD 20:10:13:19, which will be sent to customers with the first bill rendered once we implement the new rate. Otter Tail Power includes Attachment 22 to comply with ARSD 20:10:13:26, which requires a utility to report all rate schedule changes and customer impacts. We will provide notice of this proceeding to our customers pursuant to SDCL Chapter 49-34A-12 in our June 2026 billing statements.

IV. PHASE-IN COST RECOVERY BACKGROUND

On June 4, 2025, Otter Tail Power filed a Rate Case Application with the Commission requesting approval to increase electric service rates for customers in its South Dakota service territory.³ Commission Staff and Otter Tail Power (together the Parties) filed a Joint Settlement Stipulation, which was approved in an Order dated March 12, 2026 (the Settlement).⁴

The purpose of the Phase-In Rider, as established under SDCL 49-34A-73 through 78, is to recover costs associated with approved construction work in progress and plant in service, until the time the Company files its next rate case. This approach provides the opportunity to avoid frequent rate cases, while still recovering the costs associated with our capital projects that are not yet included in base rates.

Section 4, Parts b - e of the Settlement, provides that the Company will include the following miscellaneous items in our next Phase-In Rider request: Insurance Credit, Rider Roll-In, Big Stone Energy Storage Project, and the Meter Reading Adjustment.⁵ These items are discussed in detail in Section V of this petition.

In compliance with the above referenced statutes, the approved Settlement, and other previous Phase-In Commission Orders, this Petition provides updates on the Production Tax Credits (PTCs) associated with the Merricourt Wind Energy Facility and the Upgrade Projects, Abercrombie Solar, and Solway Solar. Also included in this update is information associated with the Big Stone area load growth, the Demand Response system, new projects as contemplated in the Settlement, and Otter Tail Power 's calculations for its Phase-In Rider rate.

Otter Tail Power provides an updated tariff rate schedule, Section 13.09, as Attachment 20 to this filing. The updated tariff contains adjusted rates used for Phase-In cost recovery. The percent of bill rate is calculated in Attachments 1 through 13, and the per meter rates are calculated in Attachments 14 through 19. The projects being recovered in the Phase-In Rider under each of these charges are discussed in separate sections of this filing.

⁴ In the Matter of the Application of Otter Tail Power Company for Authority to increase its Electric Rates in Docket No. EL25-022, Order Approving Settlement Stipulation; Interim Refund Plan; Order Approving Tariff Revisions, Order dated March 12, 2026.

⁵ In the Matter of the Application of Otter Tail Power Company for Authority to increase its Electric Rates in Docket No. EL25-022, March 2, 2026 Joint Motion for Approval of Settlement Stipulation, Settlement Stipulation, pp. 3-4.

V. PERCENT OF BILL PROJECTS

A. Wind Energy Facility Production Tax Credits – Attachment 4

Otter Tail Power currently receives PTCs for the Company’s Merricourt Wind Energy Facility and the four Upgrade Projects at Langdon, Ashtabula I, Luverne, and Ashtabula III. These PTCs remain in the Phase-In Rider as part of Otter Tail Power’s most recent general Rate Case.⁶

B. Solway Solar Project – Attachment 5

The Solway Solar Project located in Lammers Township, Beltrami County, Minnesota has an operational capacity of 50 MW, and a nameplate capacity of up to 66 MW. The project is currently under construction and is anticipated to be commercially operational by December 31, 2026. The following table shows the anticipated timeline for the various phases of development.

**Table 1
Solway Solar Project Anticipated Project Schedule**

Activity	Description	Timeline
Land Acquisition	Secure land rights necessary for development of the Project.	Completed
Interconnection Application	Approval from MISO to connect the Project to the grid and signed Grid Interconnection Agreement (GIA).	Signed GIA expected in May/June 2026
Site Permit	Site Permit issuance for the Project.	Completed October 2025
Other Permits	Obtain all federal, state, local, and tribal government permits and approvals necessary for construction and operation of the Project.	Completed
Construction	Construction of the Project.	October 2025 through September 2026
Testing and Commissioning	Testing and commissioning of project related equipment.	October 2026
Operation	Commercial operation of the Project following construction and testing/commissioning activities.	December 31, 2026

The Solway Solar project is expected to be completed on time and within its budget of \$77.2 million. The Commission approved recovery of the

⁶ In the Matter of the Application of Otter Tail Power Company for Authority to increase its Electric Rates in Docket No. EL25-022, Direct Testimony of Paula Foster, p. 15.

Solway Solar project through the Phase-In Rider in its May 14, 2025 Order in Docket No. EL24-038.

C. Abercrombie Solar Project – Attachment 6

The Abercrombie Solar project is a 295.1 MW nameplate solar energy conversion facility and associated facilities located on approximately 3,464 acres of privately-owned land under agreement with Otter Tail Power in Abercrombie Township, Richland County, North Dakota, approximately thirty miles from the Company’s general office in Fergus Falls, Minnesota.⁷

On January 9, 2026, Otter Tail Power and Flickertail Solar Project, LLC closed on an Asset Purchase Agreement (APA), which calls for payments to Flickertail LLC upon closing of approximately **[PROTECTED DATA BEGINS...**

...PROTECTED DATA ENDS]. The Abercrombie Solar project is anticipated to achieve commercial operation by August 31, 2028.

The following schedule is the anticipated timeline for the various phases of development.

**Table 2
Abercrombie Solar Project Anticipated Project Schedule**

Activity	Description	Timeline
Land Acquisition	Secured voluntary lease agreements, easement agreements, or purchase options for the Project with landowners.	Completed
Abercrombie Township CUP	Application for Conditional Use Permit.	Received November 20, 2023
Obtaining the Certificate of Site Compatibility	Site Permit issuance for the Project.	Approved on June 18, 2025. ⁸
Other Permits	Obtain all permits and approvals necessary for construction and operation of the Project.	Prior to Construction
Construction	Construction of the Project.	Second Quarter of 2026 – Third Quarter of 2028
Testing & Commissioning	Will be completed prior to the commercial operation date (COD) and typically takes three to six months.	Between First and Fourth Quarter of 2028.
Commencing Commercial Operation	Commercial operation of the Project following construction and testing/commissioning activities.	August 31, 2028

⁷ In the Matter of Otter Tail Power Company’s Petition for Approval of the Solway and Abercrombie Solar Projects, Docket No. E017/M-24-404.

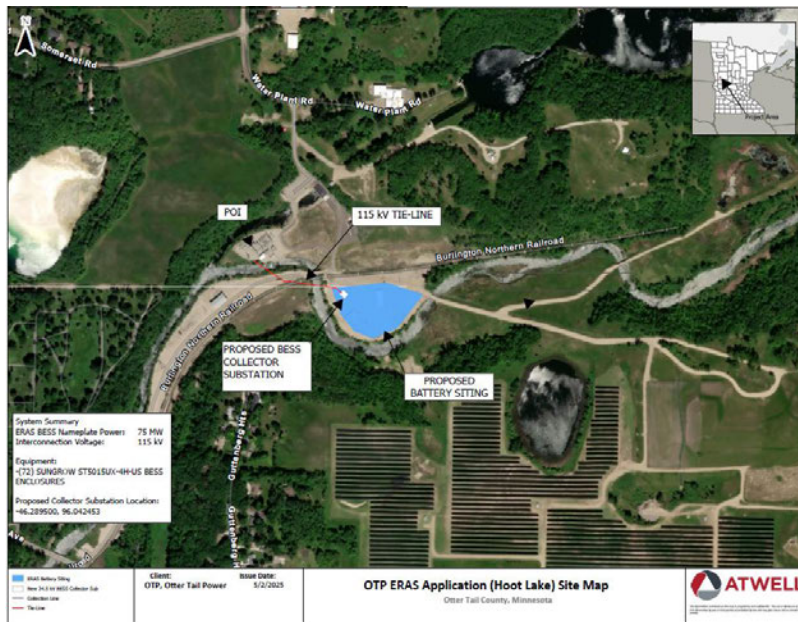
⁸ ND PSC Case No. PU-24-351.

Otter Tail Power estimates the total capital cost of the Abercrombie Solar project will be approximately \$450.3 million. The Commission approved recovery of the Abercrombie Solar project through the Phase-In Rider in its May 14, 2025 Order in Docket No. EL24-038.

D. Hoot Lake Battery Energy Storage System – Attachment 7

Otter Tail Power proposes to construct and operate the Hoot Lake Battery Energy Storage System (BESS), a four-hour battery facility with a nameplate capacity of 75 MW, in Fergus Falls in Otter Tail County, Minnesota. Figure 1 shows the location of the Hoot Lake BESS.

Figure 1 – Hoot Lake BESS Map



Otter Tail Power has executed the Generator Interconnection Agreement (GIA) with MISO via the MISO Expedited Resource Addition Study (ERAS). The GIA was filed with FERC on January 23, 2026.⁹ The Hoot Lake BESS will utilize the Lithium-Iron Phosphate technology most common in utility-scale battery energy storage systems today. Lithium-Iron Phosphate batteries are known for their safety because they have a lower risk of thermal runaway compared to other lithium-ion batteries; they endure more charge and discharge cycles and are less toxic and more environmentally friendly than other lithium-ion battery alternatives. The Hoot Lake BESS’s daily energy output is expected to be

⁹ FERC Docket No. ER26-1110-000.

approximately 300 MWh, as the most efficient way to operate this technology is at a rate of one full cycle per day.

1. Estimated Project Schedule

To be compliant with the terms of the GIA and the ERAS process, the Hoot Lake BESS must be commercially operational by December 31, 2028.¹⁰ The Company’s proposed project can meet this deadline. Moreover, the Company continues to evaluate options to pursue an early completion in December 2027, if that option becomes more economical due to various market influences. Otter Tail Power anticipates filing a Site Permit Application for the Hoot Lake BESS before the Minnesota Commission in the near future. The following schedule (Table 3) is the anticipated timeline for the various phases of development. This schedule is based on information known at the time of this Petition filing.

Table 3 – Hoot Lake BESS Schedule

Activity	Description	Timeline
Land Acquisition	Secure land rights necessary for development of the Bess.	Complete
Interconnection Application	Approval from MISO to connect the BESS to the grid and signed Interconnection Agreement.	Filed with FERC on January 23, 2026
Site Permit	Site Permit Application filed for the BESS.	Q3 2026
Other Permits	Obtain all federal, state, local, and tribal government permits and approvals necessary for construction and operation of the BESS.	Prior to Construction
Equipment Procurement and Contractor Selection	Procurement of BESS equipment. Final contractor selections will be made contingent on the Site Permit Application being approved by the Commission.	July through September 2026 – although vendors conversations are occurring monthly
Construction	Physical Construction of the BESS on site.	After Site Permit issuance
Testing and Commissioning	Testing and commissioning of project-related equipment.	Q3-Q4 2027 or Q2-Q3 2028
Operation	Commercial operation of the BESS following construction and testing/commissioning activities.	December 2027 or by August 4, 2028

¹⁰ The ERAS process allows for limited extension of this date for a maximum of three years for certain delays to the in-service date that are outside of Company control.

2. Projected Hoot Lake BESS Project Cost

Otter Tail Power estimates the total capital cost of the Hoot Lake BESS will be approximately [PROTECTED DATA BEGINS...
...PROTECTED DATA ENDS] based on the cost projections in Table 4. Once the Investment Tax Credit (ITC) is realized, amortized over twenty years, the total cost of the BESS is [PROTECTED DATA BEGINS...
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Table 4 – Hoot Lake BESS Estimated Project Costs
[PROTECTED DATA BEGINS...

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As discussed more fully below, the projected levelized cost of capacity (LCOC) for the Hoot Lake BESS is [PROTECTED DATA BEGINS...
...PROTECTED DATA ENDS].

3. Jurisdictional Allocations

Otter Tail Power intends to construct, own, and operate the Hoot Lake BESS to support system reliability and provide operational benefits for customers in South Dakota and Minnesota. If the Commission authorizes recovery of this project, its costs, associated capacity, and operational value would be allocated between the two jurisdictions as a shared resource. Current allocations would result in approximately 16.25 percent of the Hoot Lake BESS costs and benefits being allocated to South Dakota customers and 83.75 percent to Minnesota customers. Should the Commission decline to include the project in the Phase-In Rider, Otter Tail Power will allocate 100 percent of the Hoot Lake BESS's costs and output to Minnesota.

4. Hoot Lake BESS Project Benefits

MISO has implemented, or plans to implement in the near term, several significant changes to its capacity framework. These changes include:

1. Implementation of the Reliability-Based Demand Curve (RBDC) beginning with the 2025/2026 planning year;
2. Adoption of the Direct Loss of Load (DLOL) resource accreditation methodology starting in the 2028/2029 planning year;
3. Revisions to the accreditation of Load Modifying Resources (LMRs) effective in the 2028/2029 planning year; and
4. Changes to the Planning Reserve Margin (PRM) calculation commencing in the 2028/2029 planning year.

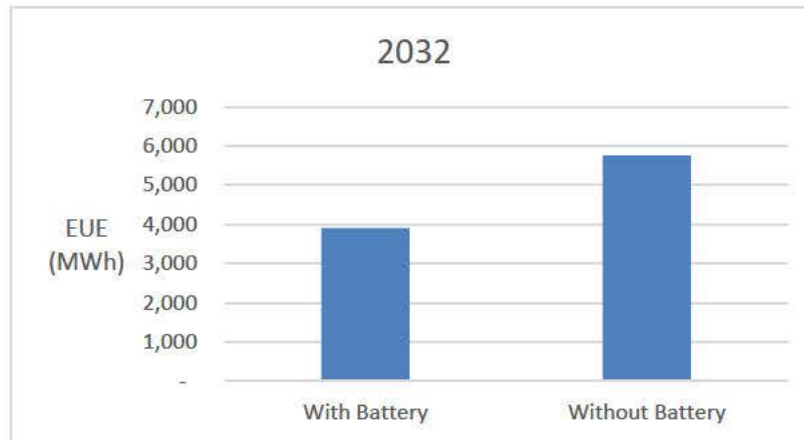
Collectively, these initiatives have introduced substantial uncertainty into the capacity market. When combined with the accelerated retirement of baseload generation resources and the planned addition of unprecedented levels of new large load, these changes point to increased volatility in both future capacity and energy prices within the MISO market.

Battery storage provides firm, fast-responding capacity that enhances system reliability during peak demand and contingency events, supporting Otter Tail Power's obligation to reliably serve South Dakota load. As a dispatchable resource with rapid response capability, the Hoot Lake BESS mitigates growing peak load and contingency risks within the MISO footprint as demand increases and traditional generation resources retire. The Hoot Lake BESS enables Otter Tail Power to transition from existing generation assets to a future resource portfolio with greater reliance on variable energy resources while maintaining reliability and avoiding undue risk or cost shifts to customers.

The Hoot Lake BESS, as proposed, would provide South Dakota and Minnesota customers with additional reliability benefits. To quantify this benefit, Otter Tail Power compared expected unserved energy (EUE)¹¹ results in a production cost model with the 75 MW Battery, to results without the battery in calendar year 2032. Figure 2 presents the results of this comparison. Market purchases are excluded to isolate the impact of the battery being on the system from an EUE perspective, all other inputs being the same. The results show that having the battery on the Company's South Dakota system decreases EUE by 32 percent.

¹¹ EUE measures the total amount of energy expected to be shed due to insufficient generation capacity, assuming no market purchases.

Figure 2 – Expected Unserved Energy



The EUE is an indicator of the amount of exposure customers face to market variability. Without the Hoot Lake BESS, customers will be more vulnerable to higher market prices during reliability events.

Table 5 below provides a Net Present Value (NPV) comparison of the revenue requirement with and without the Hoot Lake BESS project. Without the project, South Dakota would need to purchase replacement capacity. The estimated NPV revenue requirement savings over the life of the project is shown as \$5.7 million.

**Table 5 – Hoot Lake BESS
Estimated NPV Revenue Requirement Savings**

Revenue Requirement NPV in \$000's	
With Hoot Lake BESS	\$344,860
Without Hoot Lake BESS	\$350,574
NPV RR Savings With Hoot Lake BESS	(\$5,715)

5. Risk of Stranded Costs

Due to the non-refundable nature of the network upgrade commitments required when a utility acquires interconnection via the ERAS process, the potential for stranded costs carries greater than typical risk. Specifically, should the project not come to fruition due to changes in the market, tariffs, vendor failure, or other reasons, the Company will remain responsible for making (or funding) the MISO-identified upgrades. This means that if the Company cannot, for example, reach an agreement with its battery vendor, the network upgrade costs will remain. The Company has received final interconnection

costs from MISO that are within the original amount budgeted for interconnection costs. The GIA includes two types of costs, traditional network upgrades, which are approximately \$0.7 million, and Joint Targeted Interconnection Queue (JTIQ) costs, which are approximately \$2.9 million.

The most significant monetary risk the Hoot Lake BESS faces is the fluctuating federal tariffs. The Company will navigate this market by remaining flexible with COD commitments, consistent vendor conversations, as well as many other unique and/or creative solutions that we may discover along the way.

Otter Tail Power also anticipates that the project will be eligible for investment tax credits (ITC) as authorized by the Inflation Reduction Act (IRA) of 2022. The ITCs are a significant part of the overall economics for the Hoot Lake BESS. Battery projects remain eligible for ITCs through 2033, though there is always the risk that future legislation could impact continued eligibility. In order to mitigate the risk of future legislative changes and avoid implications of the Foreign Entities of Concern provisions applicable to projects beginning in 2026, the Company began construction in 2025.

6. Risk of Loss

The risk of loss at a battery facility primarily arises from two key sources: weather and fire. Batteries are not directly exposed to the elements but could be damaged by extreme weather like tornadoes or floods. Batteries contain volatile electrolytes that can release flammable gases when damaged. Batteries also have the potential to overcharge or overheat, leading to high temperatures that can cause the release and ignition of flammable gases. The Company has not yet finalized its battery vendor but will work with that vendor to ensure that its facilities are appropriately equipped with monitoring and fire suppression equipment to mitigate these risks. Insurance coverage for these types of losses is another item that the Company will continue to monitor as the market evolves. The Company will ensure that potential insurance brokers have input into the engineering and construction phases to ensure the best possible outcome for our customers with regards to premiums and deductibles.

7. Other Risks

There are capacity accreditation risks to all storage projects as future accreditation will be dependent on resource class performance during highest system need. The depth and duration of these reliability events will be subject

to future MISO load profiles and resource mix. The Project will be positioned to augment the battery capacity to extend the duration and improve accreditation levels if the Company determines a future need.

Contract and counterparty risks associated with suppliers, vendors, and on-site contractors will be addressed through the use of prudent contracting terms Otter Tail Power has applied in other large projects.

E. Big Stone Area Substation – Attachment 8

Otter Tail Power constructed a new substation in the Big Stone area to support new load growth in 2025. This load growth requires 155 MW of thermal storage load, which could not be reliably served by the existing electrical infrastructure without significant expansion to interconnect it to the system. In addition to serving this new load, the project allows an existing 10 MW ethanol plant to be transferred to new facilities, improving overall service reliability and operational flexibility in the area.

To enable this, the existing Big Stone South substation has been expanded to include new 34.5 kV distribution circuit breakers and a 230/34.5 kV transformer. These additions provide the necessary voltage transformation and switching capability to support both the new load and the relocated existing load.

As part of the project, Otter Tail Power constructed a new 34.5/13.8 kV distribution substation located approximately two miles north of the existing Big Stone South 345 kV substation. An approximately two mile long 34.5 kV underground distribution circuit was added to connect this new substation. This new site includes additional 34.5 kV and 13.8 kV breakers as well as a 34.5/13.8 kV transformer, enabling reliable delivery of electricity at the appropriate distribution voltages for both the new load and the existing load that was relocated.

The capital cost of this project is projected to be **[PROCTED DATA BEGINS... ...PROTECTED DATA ENDS]**. Overall, these upgrades are required to meet the interconnection request, maintain system reliability, and ensure the area’s electrical infrastructure can accommodate growing demand.

F. Milbank CSC Remodel – Attachment 9

The Company operates with staff located in Customer Service Centers (CSCs) throughout Minnesota, North Dakota, and South Dakota. The Company’s single South Dakota Customer Service facility is located in Milbank. The facility provides space for line and customer service operations that support Otter Tail Power’s

South Dakota and southern Minnesota customers. The Milbank facility contains vehicle garage space, general office space, and a conference room.

In March 2024, the Company constructed a new line and service center in Milbank, South Dakota to accommodate growing needs for line and service operations. This purchase provided the necessary space to relocate the line and service vehicles from the CSC garage to the new facility.

The Company has started construction on the remodel of the office area and garage space in the existing Milbank CSC to alleviate office space constraints and provide a more operational and energy-efficient facility. Construction started on this project in September 2025 and is expected to be completed in May 2026, with a budget of \$3.2 million. In years past, 10-12 office employees were typically located in the Milbank CSC at any given time. The introduction of remote work capabilities now allows office roles that were previously mandated to specific locations to be done remotely from other Company locations. There are currently 21 Otter Tail employees assigned to the Milbank CSC; however, space limitations allowed for only 16 employees at this location. This resulted in some employees setting up offices in the conference room and other employees working remotely from home.

The Milbank CSC was built in 1986 and required several updates. Existing bathrooms had insufficient ventilation, peeling wallpaper, and dated tile. There were no sprinklers in the building at this time, the installation of which would limit potential loss in the case of a fire. The remodel project at this location ensures all bathrooms, office spaces, and the breakroom are compliant with the Americans with Disabilities Act (ADA). Other items of note in the remodel project include asbestos abatement, Heating, Ventilation, and Air Conditioning (HVAC) system improvements to enhance air quality, and the addition of a mothers' room, which the Company is required by law to provide.

The following is a list of items included in the remodel project:

- Conversion of approximately 60 percent of garage space into office space to allow for 27 employees onsite
- Asbestos abatement
- Electrical system improvements
- HVAC system improvements
- Installation of sprinkler system
- Area for private phone calls
- Installation of a sound masking system
- Customer Service Representative group will be together in one area of the office

- Large windows for natural light
- Addition of a dedicated mother’s room
- ADA compliance throughout the building

The Milbank CSC Remodel was necessary to improve energy efficiency, allow workable space for all employees, and to comply with current laws. The cost to build a new office building of similar size is significantly more expensive, at approximately \$5.5 million.

Otter Tail Power first submitted the Milbank CSC Remodel for recovery in base rates in its most recent rate case.¹² Ultimately, the Milbank CSC Remodel was not included in the new plant balance in the rate case because the remodel would not be complete, and the assets in service, prior to the completion of the rate case. The parties agreed that Otter Tail Power would instead seek recovery of the Milbank CSC Remodel costs via the PIR:

***Rider Roll-In.** The Parties agree to roll in capital projects currently included in the TCRR and the PIR as requested by OTP, updated for December 2025 actuals. The following projects will not be recovered in base rates at this time, but OTP will include them in its next PIR filing and request to recover these capital projects through the PIR until the next rate case: Milbank Customer Service Center; Plane Engine Overhaul; and Backup Security.¹³*

The Milbank CSC Remodel project is an investment in the Company’s infrastructure used to serve customers. SDCL § 49-34A-73 provides for recovery of plant additions that are expected to have a material impact on rates. SDCL §49-34A-73.1 defines plant additions as “investments in fixed generation, transmission, and distribution assets, whether purchased or constructed, including operations and maintenance expenses directly related to those fixed assets, real property, and new power purchases.” In the case of the Milbank CSC Remodel, the fixed assets are part of the real property and affect its value. We use these fixed assets to serve our customers. The Commission has approved inclusion of other general plant items in the past. For instance, the Commission

¹² In the Matter of the Application of Otter Tail Power Company for Authority to increase its Electric Rates in Docket No. EL25-022.

¹³ In the Matter of the Application of Otter Tail Power Company for Authority to increase its Electric Rates in Docket No. EL25-022, March 2, 2026 Joint Motion for Approval of Settlement Stipulation, Settlement Stipulation, pp. 4.

approved inclusion of Northern States Power’s PI FLEX Storage Building in its infrastructure rider.¹⁴

G. Airplane Engine Overhaul – Attachment 10

Otter Tail Corporation’s aircraft N300TP required an overhaul of both PT6A-52 engines ahead of reaching 3,600 hours to remain airworthy and in compliance with manufacturer and regulatory operating requirements. The overhauls were mandatory rather than discretionary. Planning and vendor coordination began in 2024 and continued into 2025 with deposits and prepayments made to secure overhaul slots in January 2026. To minimize downtime, required Phase I & II regulatory inspections and repairs of the aircraft are separately occurring.

Completion of the overhaul is required to continue operating the aircraft. The overhaul will restore the full engine life, extend the useful life by eight years, and increase the value of the aircraft by at least \$1 million.

During the teardown, the overhaul facility identified significant corrosion and foreign object damage in both engines, expanding the scope of work beyond initial estimates.

Otter Tail Corporation expects aircraft N300TP to return to service by June 2026. It is estimated that the project cost will be approximately \$1,527,000.

Additionally, the eight-year useful life extension of the plane results in a lower annual depreciation expense on the original plant in service amount than what is included in the Test Year. Otter Tail Power credits this difference back to customers through the Phase-In Rider, as shown in Attachment 10.

Otter Tail Power first submitted the engine overhaul for recovery in base rates in its most recent rate case.¹⁵ Ultimately, the engine overhaul was not included in the new plant balance in the rate case because the engine overhaul would not be complete, and the asset in service, prior to the completion of the rate case. The parties agreed that Otter Tail Power would instead seek recovery of the engine overhaul costs via the PIR.¹⁶

Otter Tail Power serves about 130,000 customers and has a large service territory that spans approximately 70,000 square miles. Much of the service territory is rural and has no commercial air space. The Company operates in three

¹⁴ In re NSP 2016 Infrastructure Rider, Docket No. EL15-038, October 1, 2015 Initial Filing at p 6 and December 11, 2015 Order.

¹⁵ In the Matter of the Application of Otter Tail Power Company for Authority to increase its Electric Rates in Docket No. EL25-022.

¹⁶ In the Matter of the Application of Otter Tail Power Company for Authority to increase its Electric Rates in Docket No. EL25-022, March 2, 2026 Joint Motion for Approval of Settlement Stipulation, Settlement Stipulation, pp. 4.

states and needs to attend business meetings and regulatory hearings in a time-efficient manner. Driving to St. Paul, MN is at least six hours round trip for Otter Tail Power employees from Fergus Falls; Bismark, ND is approximately an eight hour round trip; and Pierre, SD is approximately a ten hour round trip. Use of the plane provides Commissioners and other regulators access to subject matter experts needed for regulatory hearings/meetings and avoids overnight stays or multiple days of driving for employees. The plane may also be used by a large group of employees to travel to one of Otter Tail Power's customer service centers to conduct ongoing business needs of the Company. For these reasons, the engine overhaul is an investment in a physical asset used to serve customers. The Commission has approved inclusion of other general plant items in the past. For instance, the Commission approved inclusion of Northern States Power's PI FLEX Storage Building in its infrastructure rider.¹⁷

H. Insurance Net Credits

Otter Tail Power included \$0.6 million of insurance premium costs allocated to the South Dakota jurisdiction in base rates in its most recent rate case. Under the approved settlement, beginning in 2026 and continuing each year until new base rates take effect, the Company will include any Net Credits, if the net credits are greater than zero, in its annual Phase-In filing through the percent of bill portion:

***Insurance Credit.** The Test Year includes \$0.6 million of insurance premium costs allocated to OTP's South Dakota jurisdiction. For the year 2026 and each year thereafter until new base rates go into effect, OTP will include any Net Credits (provided Net Credits are greater than \$0) in its annual PIR filing. Net Credits will be determined by subtracting insurance premiums OTP paid during the policy period that exceed the Test Year insurance premium costs from any credit(s) received from OTP's insurers for the same policy period.*¹⁸

Net Credits will be calculated by subtracting the Test Year insurance premium amount from the actual insurance premiums Otter Tail Power pays during the policy period and then offset that difference with any credit the Company receives from its insurers for the same policy period.

¹⁷ In re NSP 2016 Infrastructure Rider, Docket No. EL15-038, October 1, 2015 Initial Filing at p 6 and December 11, 2015 Order.

¹⁸ Settlement Stipulation, Docket No. EL25-022, February 27, 2026.

Otter Tail Power provides the insurance net credit calculation in Attachment 11. The credit received in 2026 for 2025 is less than the increase in insurance costs; therefore, there is no net credit adjustment in this filing.

I. Big Stone Area Load Growth Credit

Otter Tail Power noted in its most recent South Dakota Rate Case¹⁹ that the Company expects additional revenues related to load growth in the Big Stone City area of its South Dakota service territory. At the close of that proceeding, the Company had certainty regarding the costs and the fixed-charge portion of revenues required to serve this load growth, but total revenues remained uncertain. In collaboration with South Dakota Staff and with the Commission's agreement, the Company determined that it is appropriate to include all costs and revenues associated with serving the load growth in this area in the Phase-In Rider. The Settlement Stipulation in the SD Rate Case provided that:

***Big Stone Energy Storage Project.** The Parties agree that both the capital costs and associated revenues from the project will be requested for recovery in the PIR until interim rates are implemented in the next rate case. OTP shall include these costs and revenues in its next PIR filing.*

This approach avoids splitting the impacts of load growth between base rates and the Phase-In Rider and provides consistent regulatory treatment.

Attachment 12 adjusts the 2024 Test Year to reflect estimated load growth from the Big Stone Energy Storage Project. The project is currently in the commissioning phase and is expected to achieve normal operations by September 2026. Otter Tail Power has increased the 2024 Test Year demand, energy, and customer allocation factors for the project's firm load and included the estimated base revenues for both the firm and non-firm portion of the load. These adjustments result in greater allocations to the South Dakota jurisdiction, which are offset by the additional revenues associated with the Big Stone Energy Storage Project.

J. Percent of Bill Revenue Requirement Components and Tracker

Attachments 1 - 3 are, respectively, the Revenue Requirements Summary, Rate Design, and Tracker Summary calculations used for Otter Tail Power's Percent of Bill Phase-In Plan rate submittal. Attachments 4 through 10 provide the revenue requirement calculations for the projects for which Otter Tail Power

¹⁹ Staff's Memo, Docket No. EL25-022, February 27, 2026.

requests percent of bill Rider recovery. Further information on these components is included earlier in this section.

Specifically, the calculations of the revenue requirement in this Petition include the following:

- *Rate base section.* This section provides details on the amount of plant in service, accumulated depreciation (if applicable), construction work in progress (CWIP),²⁰ accumulated deferred taxes including the effect of proration on Federal amounts, and a 13-month average rate base calculation.
- *Expense section.* The expenses applicable to a project are listed here and include operating costs, property taxes, depreciation, and income taxes.
- *Revenue requirements section.* This section shows the components of the revenue requirements, including expenses and return on rate base.
- *Return on investment (cost of capital).* The return on investment utilizes the return on equity approved in Otter Tail Power's most recent Rate Case. As described in the prior rate case on page 15 of the Settlement Agreement dated February 27, 2026:²¹

While the projects are under construction, the rate of return will include the weighted average cost of debt calculated at year-end levels, including short-term debt costs, and the equity ratio calculated at year-end levels. Once the projects are in-service the weighted average cost of long-term debt calculated at year-end levels will be used.

- *Depreciation expense.* Depreciation expense is calculated using the Company's current depreciation rates.
- *Property taxes.* The property tax calculation is based on Otter Tail Power's composite tax rate for the jurisdiction in which the facilities are located and the procedures specified by that state. The Solway Solar project will be subject to the Minnesota solar energy production tax of \$1.20 per megawatt hour produced when it is placed into service. The Abercrombie Solar project is subject to production taxes consisting of the following two components:
 1. A state tax of \$2.50 per kilowatt times the rate capacity of the solar generator.

²⁰ SDCL 49-34A-25.2 allows a current return on CWIP.

²¹ Settlement Stipulation, Docket No. EL25-022.

2. A state tax of one-half of one mill per kilowatt-hour of electricity generated by the solar generator during the taxable period.
- *Operation and Maintenance Expense.* When the Solway Solar, Abercrombie Solar, and Hoot Lake BESS projects are in service, operation and maintenance costs specifically related to these projects will be tracked in Attachments 5 through 7. Annual O&M expenses for these generation facilities include operating costs, ground lease payments, insurance payments, property taxes and depreciation.
 - *Proration of Federal Accumulated Deferred Income Taxes (ADIT).* Otter Tail Power provides Attachment 13 calculating the Accumulated Deferred Income Tax (ADIT) balances to preserve the effect of the application of the proration methodology for the true-up period. This calculation methodology is necessary to comply with Section 1.167(l)-1(h)(6)(ii) of the IRS regulations and to avoid a tax normalization violation.²²
 - *Federal Production Tax Credit (PTC).* Merricourt became eligible for PTCs when it was placed in service. Effective January 1, 2025, the rate per MWh increased from \$29.00 to \$30.00 per MWh.

Beginning October 1, 2022, Otter Tail Power included the PTCs as a credit to tax expense (Attachment 4) based on Merricourt's capacity factor of 50.7 percent,²³ which continued until Interim Rates went into effect December 1, 2025, in the Company's most recent South Dakota Rate Case. The calculation used in the Phase-In rate that went into effect December 1, 2025, is based on actual output used for Merricourt PTCs.²⁴ The Company will continue this treatment of Merricourt PTCs in the Phase-In Rider.

The PTC rates by project are summarized in Table 6 below. Rates for 2026 and 2027 are estimated. The impact of the PTCs is incorporated into the revenue requirements in Attachment 4.

²² See Treas. Reg. SS 1.167(l)-1(h)(6)(ii).

²³ In the Matter of the Application of Otter Tail Power Company for Docket No. EL18-021 Authority to Increase Its Electric Rates, Settlement Stipulation, page 5, 3. Merricourt Wind Project Capacity Factor. The Parties agree that the Phase-In Plan for the Merricourt Wind Project will reflect production tax credits (PTCs) based on Merricourt's actual production. If recovery for the Merricourt Wind Project under 6 the Phase-In Plan remains in effect after October 1, 2022, because the Company has not filed an application for an increase in base rates (Rate Case) to be effective by that date, the Phase-In Plan will reflect PTCs based on a Merricourt capacity factor of 50.7% until updated in OTP's next Rate Case.

²⁴ Interim Rate filing, Docket No. EL25-022, Exhibit____(PMF-1), Schedule 4, page 3.

Table 6
Production Tax Credit (PTC) Rates by Project (\$/MWh)

Project	2025 PTC Rate (\$/MWh)	2026 PTC Rate (\$/MWh)	2027 PTC Rate (\$/MWh)
Merricourt	\$ 30.00	\$ 30.00	\$ 30.00
Langdon Repower	\$ 36.00	\$ 37.00	\$ 37.50
Ashtabula Repower	\$ 33.00	\$ 34.00	\$ 34.50
Luverne Repower	\$ 33.00	\$ 34.00	\$ 34.50
Ashtabula III Repower	\$ 33.00	\$ 34.00	\$ 34.50
Solway Solar	\$	\$ 30.50	\$ 31.00

- *Baseline Year.* The Rate Case included a 2024 Test Year, upon which base rates were set. Otter Tail Power utilizes the Commission approved 2024 Test Year as the baseline year.
- *Jurisdictional Allocation Factors.* Jurisdictional allocators are used to allocate system costs among jurisdictions. The Commission approved Otter Tail Power’s South Dakota jurisdictional allocations for the 2024 Test Year in the Rate Case.

K. Percent of Bill Rate Design

The Commission approved the percent-of-bill method for the Rider in Docket No. EL19-025. Under this method, the rate is calculated by dividing the total Percent of Bill revenue requirement for the recovery period by the total base rate revenue. The rate design is shown on Attachment 2.

VI. PER METER CHARGE PROJECTS

In 2022 Otter Tail Power made its initial request for the establishment of the AGI per meter portion of the Phase-In rider for recovery of AMI, the OMS Project, and the DR system replacement. All three projects were approved for recovery and the new per meter rate went into effect September 1, 2022.

The AMI and OMS projects are no longer accounted for in the rider because they were moved into base rates as a result of the most recent rate case. Otter Tail Power requests the continuation of this part of the Phase-In recovery mechanism as costs are incurred for the DR project outside of a general rate case.

A. Demand Response System – Attachment 18

The Commission approved the Company’s DR Replacement project with Landis+Gyr (L+G) and Open Access Technology International (OATI) at an estimated cost of \$24.7 million.²⁵ Otter Tail Power has identified potential opportunities to leverage AMI meters deployed under the Company’s AMI project to support load control functionality for certain rates, such as water heater control. This capability may reduce or eliminate the need to replace existing load control devices (LCDs) for those applicable rates, improving asset utilization, and lowering overall project costs. If the vendor and Otter Tail Power are able to leverage the AMI meters for load control, the total cost of the DR project could be under \$20.1 million.

Otter Tail Power’s actual cost through February 2026 for the DR project is approximately \$2.8 million. The Company expects to begin installing new load control devices by the end of Q2 2026 and anticipates completing the project by mid-2028.

B. Demand Response Adjustment

Otter Tail Power has implemented Advanced Metering Infrastructure (AMI), which has substantially reduced the need for traditional meter-reading activities. As a result, Service Representatives who previously performed meter reading functions have been reassigned to other operational roles within the Company.

In Otter Tail Power’s most recent South Dakota Rate Case,²⁶ the parties agreed that capital labor costs associated with these reassigned employees – now supporting the DR capital project – would be credited. This adjustment ensures that the Company does not earn a return on capital labor costs that are already included in base rates, thereby preventing duplicate recovery of costs.

C. Per Meter Revenue Requirements Calculations

Attachments 14 through 17 are, respectively, the Projected Revenue, Revenue Requirement Summary, Rate Design, and Tracker Summary calculations used for Otter Tail Power’s proposed Phase-In update. Attachment 18 provides the revenue requirement calculation for the DR project.

Specifically, the calculations of the revenue requirement in this Petition include the following:

²⁵ Docket No. EL22-013.

²⁶ Settlement Stipulation, Docket No. EL25-022, February 27, 2026.

- *Rate base section.* This section provides details on the amount of plant in service, accumulated depreciation (if applicable), construction work in progress (CWIP), accumulated deferred taxes including the effect of proration on Federal amounts, and a 13-month average rate base calculation.
- *Expense section.* The expenses applicable to a project are listed here and include operating costs, property taxes, depreciation, and income taxes.
- *Revenue requirements section.* This section shows the components of the revenue requirements, including expenses and return on rate base.
- *Return on investment (cost of capital).* The return on investment utilizes the return on equity approved in Otter Tail Power’s Rate Case.
- *Depreciation expense.* Depreciation expense is calculated using the Company’s current estimated depreciation rates.
- *Property taxes.* The property tax calculation is based on Otter Tail Power’s composite tax rate for the jurisdictions in which the facilities are located and is calculated in accordance with the procedures specified by the states.
- *Operation and Maintenance Expense.* Otter Tail Power will track operation and maintenance costs specifically related to the Demand Response project. Annual O&M expenses include operating costs, property taxes, and depreciation.
- *Proration of Federal Accumulated Deferred Income Taxes (ADIT).* Otter Tail Power provides Attachment 19 calculating the Accumulated Deferred Income Tax (ADIT) balances to preserve the effect of the application of the proration methodology for the true-up period. The methodology used for proration of Federal ADIT is in adherence to United States Internal Revenue Service (IRS) rules related to proration, including recently issued IRS private letter rulings. Otter Tail Power interprets this to include proration of Federal ADIT for the (forward-looking) recovery period and, in future filings, preserving the effect of the application of the proration methodology for the true-up period. This calculation methodology is necessary to comply with Section 1.167(l)-1(h)(6)(ii) of the IRS regulations and to avoid a tax normalization violation.²⁷ In annual Updates, Otter Tail Power will include a workpaper with the details of the

²⁷ See Treas. Reg. SS 1.167(l)-1(h)(6)(ii).

calculation of the proration of Federal ADIT for the recovery period and whether it results in an increase or decrease to the revenue requirement.

- *Jurisdictional Allocation Factors.* Jurisdictional allocators are used to allocate system cost among jurisdictions. The Commission approved Otter Tail Power’s South Dakota jurisdictional allocation factors in the Company’s most recent Rate Case.

D. Per Meter Rate Design

Otter Tail Power proposes to continue to use a monthly per meter charge rate design for the AGI portion of the Phase-In Rider. The proposed calculation determines the average cost per meter for materials and labor for each customer class. The weighted average cost per customer class is then used to determine the percentage of project costs to be charged to each class. The weighted average cost per class, divided by the average annual number of meters per class, equals the monthly per meter charge.

VII. RATE APPLICATION AND IMPACT

As indicated earlier, the total annual revenue requirement to be collected for the next recovery period of September 2026 through August 2027 is estimated at \$1,348,699, which includes \$1,326,655 recovered under the percent of bill rate and \$22,044 recovered under the per meter rates. The proposed percent of bill rate, which is 4.255 percent of base rates, is calculated on Attachment 2, and the proposed monthly per meter rates are listed on Attachment 16.

The proposed Phase-In Percent of Bill rate increases from (12.953) percent to 4.255 percent, or 17.208 percent. The proposed Phase-In Per Meter residential rate increases from \$0.07 to \$0.08. The proposed Phase-In Per Meter Large General Service (LGS) rate decreases from \$3.59 to \$3.36. See the table below for bill impact.

**Table 7
Phase-In Rider Rate Impact**

	Average Usage per month	Percent of Bill Sept 2025-Aug 2026	Per Meter Rate Sept 2025-Aug 2026	Percent of Bill Sept 2026-Aug 2027	Per Meter Rate Sept 2026-Aug 2027	Percent of Bill Monthly Impact	Per Meter Rate Monthly Impact	Monthly Impact (increase or decrease from prior rate)
Residential	1,000 kWh	-12.953%	\$ 0.07	4.255%	\$ 0.08	\$ 19.15	\$ 0.01	\$ 19.16
Large General Service	222,350 kWh and 486 kW	-12.953%	\$ 3.59	4.255%	\$ 3.36	12,514.49	\$ (0.23)	\$ 12,514.26

The Customer Notice and Rate Impact, which represents the incremental decrease between the prior rate and updated rate, is provided as Attachment 21. Otter Tail Power provides the report of tariff schedule changes as Attachment 22 to this filing.

VIII. PHASE-IN RIDER TARIFF SHEET

Otter Tail Power 's Phase-In Rider Rate Schedule (Section 13.09) is provided as Attachment 20 to this Petition. The rates listed in the RATE sections of the tariff sheets are updated to reflect the proposed changes described in this annual update.

South Dakota Tariff Schedules Volume II – Electric Service

Section 13.09

Eighth Revised Sheet No. 2

Cancelling Seventh Revised Sheet No. 2

Sixth Revised Sheet No. 3

Cancelling Fifth Sheet No. 3

IX. FILING FEE

Under SDCL 49-1A-8, the Commission may require a deposit of up to fifty thousand dollars for the filing of a tariff for approval under the provisions of 49-34A-4 and 49-34A-25.1 to 49-34A-25.4, inclusive, or makes a filing pursuant to 49-34A-97 to 49-34A-100. Otter Tail Power will pay such deposit amount as the Commission determines appropriate, upon the Commission's Order assessing such fee.

X. CONCLUSION

For the foregoing reasons, Otter Tail Power respectfully requests the Commission approve the Company's proposals to:

1. Include updated costs and collections associated with current projects being recovered in the Phase-In Rider,
2. Approve recovery of the new projects described in this petition, and
3. Implement the proposed rates and changes in Otter Tail Power 's Phase-In Rider, Section 13.09, effective as of September 1, 2026.

Date: May 21, 2026

Respectfully submitted:

OTTER TAIL POWER COMPANY

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