MINNESOTA
PUBLIC UTILITIES COMMISSION

Staff Briefing Papers

Meeting Date	**May 15, 2025**	**Agenda Item 3****
Company	Otter Tail Power Company	
Docket No.	**E-017/M-24- 204**	
	In the Matter of Otter Tail Power Company's Petition for Approval of the Annual Rate Update to its Transmission Cost Recovery Rider Annual Adjustment	
Issues	1. Should the Commission approve Otter Tail Power Company's 9th annual rate update to its Transmission Cost Recovery Rider (TCRR)?	
	2. Should the Commission find that Otter Tail's Milbank Area Reliability project is eligible for recovery through the TCRR under Minn. Stat. § 216B.16, subd. 7b?	
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✓ **Relevant Documents**	**Date**
Otter Tail Power Company – Initial Filing (Public and Trade Secret)	May 24, 2024
Department of Commerce – Comments	September 19, 2024
Otter Tail Power Company – Reply Comments (Public and Trade Secret)	October 10, 2024
Department of Commerce – Response to Reply Comments	February 20, 2025

I. STATEMENT OF THE ISSUES

1. Should the Commission approve Otter Tail Power Company's (Otter Tail, Company) Petition (Petition) of the 9th annual rate update to its Transmission Cost Recovery Rider (TCRR) Annual Adjustment?

2. Should the Commission find that Otter Tail's Milbank's Area Reliability project is eligible for recovery through TCRR under Minn. Stat. § 216B.16, subd. 7b?

II. INTRODUCTION

Otter Tail's Petition seeks approval of its Transmission Cost Recovery Rider (TCCR) Annual Update under its electric rate schedule in section 13.05, which was originally approved in Docket No. E-017/M-09-881.[1] The Petition also requested that the new Milbank Area Reliability transmission project be found to be eligible for TCRR recovery under Minn. Stat. § 216B.16, subd. 7b.

Otter Tail proposed a net revenue requirement of $3,109,519 for the January 1, 2025, to December 31, 2025 recovery period. If approved, this will result in a monthly bill increase of approximately $1.41 for an average residential customer using 1000 kWh per month and $239.44 per month bill increase for a Large General Service (LGS) customer using 485 kW per month.

This current filing is Otter Tail's ninth (9th) annual TCRR update, and it seeks to implement new rates based on updated investment, expense, and revenue collections. Table 1 summarizes the history of prior TCRR filings.

Table 1: Otter Tail Prior TCRR Dockets[2]

Prior TCRR	Docket No.	Date Commission Approved	Effective Date
Initial TCRR Rate & Mechanism	M-09-881	January 28, 2010	February 1, 2010
1st TCRR Update	M-10-1061	March 26, 2012	April 1, 2012
2nd TCRR Update	M-13-103	June 24, 2014	No rate change
3rd TCRR Update	M-14-375	February 18,2015	March 1, 2015

[1] Commission's January 28, 2010 Order.

[2] Petition, p. 5.

Prior TCRR	Docket No.	Date Commission Approved	Effective Date
4th TCRR Update	M-15-874	March 9, 2016	April 1, 2016
5th TCRR Update	M-16-374	November 10,2020	January 1, 2021
6th TCRR Update	M-18-748	November 10, 2020	January 1,2021
7th TCRR Update	M-21-811	July 12, 2021	January 1,2022
8th TCRR Update	M-23-152	March 22, 2024	April 12024
9th TCRR Update	M-24-204	Work in progress in the current docket	TBD

The Department of Commerce (Department) in its Comments recommended approval of Otter Tail' Petition with modifications, including denial to recover the additional $2.2 million related to the Oslo – Lake Ardoch's updated budget.

III. BACKGROUND

1. Brief History

On April 7, 2023, Otter Tail Power's eight (8th) annual update requested that two new transmission – the Oslo 115 kV Breaker Station-Oslo-Lake Ardoch 115 kV Line and the Winger 230/115 kV Transformer be found to be eligible for TCRR recovery. The Commission approved both projects in its March 22, 2024 Order.

On May 24, 2024, Otter Tail Power Company filed the current Petition requesting, effective January 1, 2025, cost recovery of previously approved projects and the new Milbank Area Reliability project.

On September 19, 2024, the Department of Commerce (Department) submitted comments and recommended approval with modifications. The Department also requested the Company, in reply comments, provide additional information, including a description of its efforts to ensure the lowest costs to ratepayers for the Milbank Area Reliability Project.[3]

Otter Tail's October 10, 2024 reply comments provided information requested by the Department and included two additional proposals: 1) to increase the Oslo Breaker Station and Oslo – Lake Ardoch Line Project's cap by $2.2 million and 2) to true-up all MISO Schedules 7, 8, 9 for projects in the TCRR and base rates.

[3] Department's Comments, p.13.

The Department's February 20, 2025 response to reply comments recommended Petition approval with modifications, as discussed further below in these briefing papers.

2. Relevant Statues

The Transmission cost adjustment statute, Minn. Stat. § 216B.16, subd. 7b, is the relevant statute for Otter Tail's TCRR.

Minn. Stat. §216B.16, Subd. 7b, states that the Commission may approve a tariff mechanism, for the automatic annual adjustment of charges that recover the Minnesota jurisdictional costs net of associated revenues of new transmission facilities not included in base rates.
The statute also states the Commission shall approve annual rate adjustments to the TCR Rider provided that, after notice and comment, the costs included for recovery through the tariff were or are expected to be prudently incurred and achieve transmission system improvements at the lowest feasible and prudent cost to ratepayers.

In summary, the cost recovery through rate riders is an exception to the traditional ratemaking process because riders allow a utility to recover cost changes that arise outside of the test year used to establish the utility's authorized rates. The process for rider recovery involves two components: the utility must obtain approval, and it must establish that the costs incurred were reasonable and prudent.

IV. DISCUSSION

1. Parties' Comments

A. Otter Tail Power – Petition

Otter Tail's Petition included actual and forecasted costs and collections related to three previously approved projects, Midcontinent Independent System Operator (MISO) Schedules 26 and 26A Revenue and Expenses, as well as the Milbank Area Reliability project, including regional transmission expenses and revenues. The Milbank Area Reliability project increases transmission system capacity, enhances regional reliability and facilitates the interconnection of generating facilities that satisfy the Minnesota Renewable Energy Objectives or some combination thereof.[4] Therefore, Otter Tail requested the Milbank Area Reliability project be found eligible for TCRR cost recovery.
As summarized Table 2, Otter Tail's Petition requested cost recovery, net of MISO expenses, of $3.109,519 for the January 1, 2025, to December 31, 2025 period. The Petition also requested removal of wholesale revenue credit from the TCRR. Otter Tail based its TCCR rate on

[4] Petition, p. 13.

demand/kwh billing rate for Large General Service (LGS) customers and energy service/kwh billing rate for all other customers.

Table 2: Otter Tail Proposed Revenue Requirement[5]- January 1, 2025 to December 31, 2025

Line No.	Revenue Requirement	January - December 2025
1	Erie Substation	$351,980
2	Hoot Lake Transformer	63,798
3	Oslo Lake Ardoch	510,055
4	Milbank Area Reliability	890,358
5	Schedule 26 Expense	5,532,506
6	Schedule 26A Expense	4,462,994
7	Schedule 26 Revenue	(6,509,035)
8	Schedule 37 & 38 Revenue	(141,171)
9	Schedule 26A Revenue	(1,525,526)
10	MVP ARR Revenue	(6,825)
11	True-Up	(519,615)
12	**Net Revenue Requirement**	**$3,109,519**

The Petition included approval of the following revised Rider Customer Notice:

> **Customer notice:** The Minnesota Public Utilities Commission approved an adjustment to our Transmission Cost Recovery Rider, which is part of the Resource Adjustment line on your monthly electric service bill. This rider recovers costs related to transmission projects that help ensure we can continue to provide you with low-cost, reliable service. This table shows the prior and new rates, beginning January 1, 2024, for all classes of customers. A residential customer who uses 1,000 kWh per month will see a bill increase of $1.41.[6]

[5] Petition, Attachment 2, p.1 of 1.

[6] Petition, Attachment 17, p. 1 of 1.

Class	Prior Rate	Proposed Rate January 1, 2025
Large General Service	$0.103 per kW	$0.597 per kW
Controlled Service	$0.00005 per kWh	$0.000030 per kWh
Lighting	$0.00032 per kWh	$0.00137 per kWh
All Other Service	$0.00030 per kWh	$0.00171 per kWh

1. Description of the one new project proposed as eligible for TCRR

a. Milbank Area Reliability Project

Otter Tail's Petition stated that, due to an expanding production facility in the Milbank, SD area, its 41.6 kV transmission system between the high voltage sources at Highway 12 (south of Big Stone City, SD), and Ortonville, MN has been experiencing load growth. Otter Tail disclosed that planning studies performed in this area show that the increased load and projected future load increases will cause the existing 41.6 kV system to no longer be capable of maintaining voltage and thermal loading criteria.[7]

Otter Tail stated that, because of this reliability, it will construct 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 230/115 kV substation and the Marietta 115/41.6 kV substation. The total estimated cost of the whole transmission project would be $36.4 million (OTP Total)/$18.1 million (OTP MN).[8]

In this filing, Otter Tail is requesting the South Dakota portion of the project ($27 million) and will request recovery of the Minnesota portion ($10.9 million) in its next annual filing.[9] The Company disclosed that construction is in the offing and hopes to fully complete the project and energize it in late 2026.

The Petition shows that MISO's Planning Advisory Committee approved the new transmission project and recommended it be included in Appendix A in the 2023 MISO Transmission Expansion Plan (MTEP). Also, on February 20, 2024, the project received approval from the South Dakota Public Service Commission in Docket No. EL23-033 and equally expects to receive

[7] Petition, p. 13.

[8] Petition, p.15.

[9] *Id*.

Minnesota PUC State Route Permit and Certificate of Need (CN) approval in 2025.[10]

b. Department of Commerce – Comments

The Department observed that Otter Tail's Petition did not include, as required by Minnesota Statutes §216B.16, subdivision 7b(c)(4), a description of its efforts to ensure the lowest costs to ratepayers for Milbank Area Reliability Project. The Department requested Otter Tail, in reply comments, address this issue.

Following its review and analysis, the Department recommended:

1. Approval of Otter Tail's request as presented in its Initial Filing with certain modifications as below:
    a. establish a TCRR cap of $36.4 million (OTP Total)/$18.1 million (OTP MN) for Milbank Area Reliability Project.
    b. limit OTP's proposed recovery for the Oslo 115 kV Breaker Station and Oslo – Lake Ardoch 115kV in this proceeding to the initial amount escalated for inflation or $8.69 million (OTP Total) in 2024 dollars, with the opportunity for the Company to seek recovery of excluded costs on a prospective basis in a subsequent rate case; and
    c. require OTP to include the additional Attachment O revenues, which decreases the revenue requirement by $225,870.

2. Otter Tail, in reply comments, provide a description of the utility's efforts to ensure the lowest costs to ratepayers for the Milbank Area Reliability Project.
3. Otter Tail be required to make a compliance filing within 30 days of the Commission's Order in this Docket demonstrating the Company's recalculation of the TCRR to reflect changes approved by the Commission.

c. Otter Tail Power – Reply Comments

Otter Tail explained its efforts to ensure lowest costs to ratepayers by stating:

> Otter Tail keeps prices low through alliance agreements and by competitively bidding large components of its transmission projects. Large components, including, but not limited to, transformers, site grading, and physical construction of new substations are generally procured through bidding processes. Alliance agreements provide more stable and predictable price options for common equipment and materials (breakers, switches, etc.). Alliance agreements, generally have terms of one to three years, depending on the price of materials subject to the contract.[11]

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[10] *Id*.

[11] Otter Tail's Reply Comments, p. 1.

d. Department of Commerce – Response to Reply Comments

The Department held that Otter Tail has reasonably satisfied this filing requirement.

2. Issues

A. Should the Commission find that Otter Tail's Milbank transmission project is eligible for recovery through TCRR under Minn. Stat. § 216B.16, subd. 7b?

1. Criteria for TCRR Eligibility

Minn. Stat. § 216B.16, subd. 7b paragraphs (a)(1) and (a)(2) set the eligibility criteria for projects for cost recovery:

> Per paragraph (a)(1): new transmission facilities that have been separately filed and reviewed and approved by the commission under section 216B.243 or new transmission or distribution facilities that are certified as a priority project or deemed to be a priority transmission project under section 216B.2425 (in a Biennial Transmission Plan).
>
> Per paragraph (a)(2) new transmission facilities approved by the regulatory commission of the state in which the new transmission facilities are to be constructed, to the extent approval is required by the laws of that state and determined by the Midcontinent Independent System Operator to benefit the utility or integrated transmission system

Otter Tail's Petition claimed that the Milbank Area Reliability Project is eligible for cost recovery through its TCRR because the project was approved by MISO's Planning Advisory Committee[12] and the South Dakota Public Service Commission.[13]

The Department agreed that the new transmission project meets the eligibility requirements of paragraph (a)(2) of the TCRR Statute and recommended approval to include Milbank Area Reliability Project in the TCRR.[14]

B. Should the Commission approve Otter Tail Power Company's (Otter Tail) Petition of the 9th annual rate update to its Transmission Cost Recovery Rider (TCRR) Annual Adjustment?

1. Project Revenue Requirements and Project Initial Cost Caps

Staff notes that Ottertail objected to the Department's positions regarding capping project

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[12] Petition, p. 14

[13] *Id.*, at p. 15.

[14] Department's Comments, p. 4.

costs to initial amounts requested in the petition and wholesale revenue credit. These and related items are discussed below in this briefing papers.

a. Revenue Requirements

Otter Tail's Petition proposed $3,109,519 revenue requirement[15] for the January 1, 2025 to December 31, 2025 recovery period.

The Department's comments stated that it reviewed Otter Tail's revenue requirements for the four projects included in the request for TCRR and the treatment of the following components of the revenue requirements:

- prorated accumulated deferred income taxes;
- applicable rate of return;
- operating expenses;
- property tax;
- depreciation; and
- MISO-related revenues and expenses.

Based on its review, the Department concluded that the revenue requirements calculations were not unreasonable.

B. Initial Cost Caps

Otter Tail's Petition requested cost recovery through TCRR statue for three previously approved projects and a new transmission project. The Erie Substation, Hoot Lake 115/43/13.8 kV Transformer, and Oslo 115 kV Breaker Station and Oslo – Lake Ardoch 115 kV Line were the previously approved in the Company's 2021 and 2023 TCRR Dockets, while the new project is the Milbank Areal Reliability Project.

The Department's comments regarding project cost caps pointed to the Commission standard that was set in Xcel Energy's TCRR filing in Docket No. E-002/M-09-1048:

> …the Commission finds that TCR project cost recovery through the rider should be limited to the amount of the initial cost estimates at the time the projects are approved as eligible projects, with the opportunity for the Company to seek recovery of excluded costs on a prospective basis in a subsequent rate case. A request to allow cost recovery for project costs above the amount of the initial estimate may be brought for Commission review only if unforeseen or extraordinary circumstances arise on a project.

Thus, the Commission has established that TCRR recovery for individual projects shall be limited to the initial estimates of the project's costs. Below is a cost cap discussion of the four projects

[15] Petition, Attachment 2.

Otter Tail seeks approval for.

1. Oslo/Lake Ardoch Project

Otter Tail's Petition includes the Oslo Breaker Station, and the Lake Ardoch 115 kV line approved in Docket No. E-017/M-23-152 at an estimated cost of $6.6 million (OTP Total)/$3.3 million (OTP MN). To take into account effect of inflation on project cost Otter Tail applied the Handy-Whitman Construction Cost Index analysis that resulted in an increase of original project cost of $6.6 million to $8.9 million in January 2024.[16] Also, Otter Tail disclosed that the original amount did not include $2.5 million for the 115 kV Line.[17]

Further, Otter Tail in this filing requested to update the original estimated project cost of $6.6 million to $11.4 million (OTP Total)/$5.7 million (OTP MN).[18] Otter Tail stated that, due to unforeseen series of events, the original estimate is no longer feasible. The Company offered the following reasons for the additional increase in the estimated completion costs:

Site grading expenses were much higher than previously estimated due to Geotechnical exploration that found the topsoil needed to be removed and Walsh County requiring the substation final finish grade to be greater than the known floodplain elevation.
The original estimate assumed 11 acres were to be purchased with lower land value increased in price due to commercial use. Also, because of the poor soil conditions that were discovered, 11 concrete foundations and self-supporting steel structures are now required, as opposed to the wood poles in the original estimate. And including two reroutes of existing lines due to construction of the new substation and line.

The Department's comments noted that cost estimates are used extensively throughout Certificate of Need (CN) and Route Permit proceedings, as such, they are relied upon by the Commission, particularly in considering alternatives to the proposed project. Further, approval of projects in such proceedings should not be viewed a blank check for cost recovery in riders.[19]

The Department opined that:

> Absent cost recovery caps tied to the record in which the project was selected and approved, utilities have little incentive to expend the effort needed to accurately report project costs, nor to ensure that the actual costs are as reasonable as possible. Moreover, disregarding initial cost estimates and allowing utilities to recover all costs jeopardizes the integrity of the process and the figures relied upon by the Commission in those decisions.[20]

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16 Petition, p. 11.
17 *Id*.
18 *Id*.
19 Department's Comments, p. 6.
20 *Id*.

The Department further stated it is important to note that TCR riders give utilities the extraordinary ability to charge their ratepayers for costs of facilities prior to the ordinary timing. In fact, it opined that, requiring utilities to wait until the first rate case after a project is in service to justify recovery of cost overruns, should be the least that can be done to assure ratepayers that utilities are being held accountable.[21]

Therefore, the Department recommended that Otter Tail's proposed recovery for the Oslo 115 kV Breaker Station and Oslo – Lake Ardoch 115kV be, in this case, limited to the initial amount adjusted for inflation to $8.69 million (OTP Total) in 2024 dollars. Also, the Department recommended OTP be allowed the opportunity to seek recovery of excluded costs on a prospective basis in a subsequent rate case.

Otter Tail, in reply, expressed appreciation for the Department's support of the escalated Oslo Breaker Station and Oslo –Lake Ardoch Line Project cost. However, Otter Tail disagreed with the Department's recommendation to cap recovery in the instant case to initial amount escalated to $8.9 million (OTP Total). The Company maintained it had experienced cost increases to both the transmission line and substation due to unforeseen circumstances beyond its control. In fact, that these scope changes occurring during periods of inflation increased the overall cost of the project.

Thus, Otter Tail reaffirmed its request for full recovery, including the additional $2.2 million as provided in the Oslo – Lake Ardoch Updated Budget.

The Department, in response to Otter Tail's reply, continued to recommend the $8.9 million cap (OTP Total) and allow the Company to seek recovery of the additional $2.2 million in a subsequent rate case.

2. Milbank Area Reliability Project

Otter Tail's Petition estimated cost of the Milbank Transmission project at $36.4 million (OTP Total)/$18.1 million (OTP MN).

The Department, in its Comments, stated that Otter Tail's total estimate agreed with the estimate the Company furnished the South Dakota Utilities Commission and relied upon by that Commission in Docket No. EI-23-033 for the project approval.

Accordingly, the Department recommended the Commission establish a TCRR cap of $36.4 million (OTP Total)/$18.1 million (OTP MN) in capital costs for the Milbank Area Reliability Project.[22]

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[21] *Id*.

[22] Department's Comments, p. 5.

Otter Tail In its Reply Comments, did not oppose the Department's recommendation.

3. Erie Substation

Otter Tail's Petition seeks recovery of Erie Station's total $6.2 million capital expenditures.[23]

The Department's comments stated that, previously, a $7.5 million (OTP Total) cost cap for the Erie Substation had been approved; however, in this filing, Otter Tail showed total capital expenditures of $6.2 million.[24] Based on this information, the Department held that OTP's proposed cost recovery for the Erie Substation is below the established $7.5 million cap and therefore eligible for recovery.

Otter Tail, in reply, did not oppose the Department's recommendation.

4. Hoot Lake 115/43/13.8 kV Transformer Project

Otter Tail's Petition seeks recovery of $1.16 million for Hoot Lake Transformer Project.[25]

The Department's comments noted that, previously, a $1.2 million cost cap for Hoot Lake had been approved.[26] Based on this, the Department held that Otter Tail's proposed cost recovery for the Hoot Lake Transformer project is below the established $1.2 million cap and therefore eligible for recovery.

Otter Tail, in reply, did not oppose the Department's recommendation.

5. MISO Related Revenues and Expenses

Otter Tail's Petition proposed to flow MISO Schedule 26 and 26A revenues and expenses, MISO Schedules 37 and 38 revenues, Auction Revenue Rights and MISO Attachment O revenues through its TCRR.

The Department reviewed these MISO related revenues and expenses and found them reasonable.[27]

C. Should the Commission allow Otter Tail to remove Wholesale Revenue Credit for Projects not recovered through MISO Attachment GG or Attachment MM from its TCRR?

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[23] Petition, Attachment 11, p. 2 of 2.

[24] Commission's March 22, 2024 Order, Docket No. E-017/23-151, Ordering paragraph 1(d).

[25] Petition, Attachment 12.

[26] Commission's March 22, 2024 Order, Docket No. E-017/23-152.

[27] Petition, Attachments 6, 7 and 8, and Department's Comments, p. 7.

Otter Tail's Petition proposed to discontinue the application of the wholesale revenue credit for projects not recovered through MISO Attachments GG or MM. According to OTP:

> The wholesale revenue credit is a percentage of the revenue requirement based on the prior year's actual revenue credits, divided by the forecasted non-levelized revenue requirements from the MISO formula rate shown in MISO Attachment O. The wholesale revenue credit percentage is applied to the in-service revenue requirement of each transmission project not included in MISO Attachment GG and MISO Attachment MM. This methodology was established to represent the revenue Otter Tail receives for the wholesale use of its transmission system from MISO and other non-MISO users. However, Otter Tail does not receive additional revenues for the wholesale use of its transmission system from each transmission investment, as the revenue credit suggests. Attachment O is a formulaic rate used to calculate transmission rates for firm and non-firm point-to-point transmission services under MISO Schedule 7 and MISO Schedule 8, respectively. Transmission services under firm point-to-point are reserved between specified points of receipt and delivery to the Transmission Customer, and non-firm point-to-point transmission services are reserved on an available basis by the Transmission Customer. Otter Tail is not recovering its transmission projects under Attachment O and requests the credit be removed from the revenue requirement calculation on a going-forward basis. This results in a $225,870 increase to the revenue requirement.

The Department, in comments, disclosed that it had discussions with OTP personnel on the above (Attachment 0) proposal and realized from the discussions that OTP's concern for making the proposal was because there was lack of growth in Attachment O revenues even with the inclusion of new transmission projects to its revenue requirements.

The Department noted:

> The Department notes that total Attachment O revenues are a function of many factors. All else equal, however, the inclusion of projects that are not recovered through Attachments GG or MM necessarily results in higher Attachment O revenue requirements and rates. All four of the projects for which OTP is seeking rider recovery will be included in its Attachment O revenue requirements, and are not recovered through Attachments GG or MM. Therefore, OTP's Attachment O revenue requirements and rates will be higher than they would be absent the projects.[28]

Accordingly, the Department disagreed with OTP's proposal to exclude Attachment O revenues and recommended the Commission require OTP to include the additional Attachment O revenues (under MISO Schedules 7, 8, and 9), which would decrease the revenue requirement by $225,870.

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[28] The Department's response to Reply Comments, p. 4.

Otter Tail, in reply comments, insisted on upholding its initial proposal to discontinue the application of the wholesale revenue credit for projects not recovered through GG or MM; and instead, proposed a true-up for all MISO Schedule 7, 8, and 9 revenues. Also, Otter Tail opined that the true-up allows for greater transparency and improves accuracy in the TCRR for the revenues associated with these schedules that are tied to the Attachment O formulaic rate.

Further, Otter Tail stated:

> The revenue requirement in the Initial Filing reflects the removal of the wholesale revenue credit, which causes an increase to the revenue requirement of $225,870. The inclusion of the MISO Schedules 7, 8, and 9 true-up in these Reply Comments causes a decrease of $279,568, resulting in a net decrease to the revenue requirement of approximately $53,698. These updates are included in Revised Attachments 1-4, with the true-up for MISO Schedules 7, 8, and 9 provided in Attachment 5 to these Reply Comments.

The Department's response to Otter Tail's reply comments stated:

> The Department understands OTP's proposed true-up of MISO Schedules 7, 8, and 9 revenues would apply to all transmission assets that are subject to these schedules whether they are included in the Company's TCRR or base rates in a rate case. As a result, OTP is asking for a true-up of all its MISO 7, 8, and 9 revenues since its last rate case.

The Department held it was unaware of any utility that has been allowed to true-up MISO Schedule 7, 8, and 9 revenues that were included in base rates via a rate case. Therefore, the Department's continued to oppose OTP's proposal to exclude Attachment O revenues, and recommended the Commission require OTP to include the additional Attachment O revenues related to the four transmission project included in the TCRR, which decreases the revenue requirements by $225,870.

Additionally, the Department recommended the Commission deny Otter Tail's alternative proposal to true-up all MISO Schedules 7, 8, and 9 revenues, that decreased the revenue requirement by $279,568, but increased the revenue requirements by $225,870, resulting in a net decrease of $53,698 to the revenue requirements.[29]

D. Explanation of Otter Tail efforts to ensure the lowest costs to ratepayers for the Milbank Area Reliability Project.

The Department's initial comments requested Otter Tail provide, in reply, a description of its efforts to ensure the lowest costs to ratepayers for the Milbank Reliability Project.

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[29] Department's Response to Reply Comments, p. 4.

Otter Tail's reply comments explained its efforts:

> Otter Tail keeps prices low through alliance agreements and by competitively bidding large components of its transmission projects. Large components, including, but not limited to, transformers, site grading, and physical construction of new substations are generally procured through bidding processes. Alliance agreements, which are negotiated individually between Otter Tail and the suppliers and contractors, provide more stable and predictable price options for common equipment and materials (breakers, switches, etc...), and, generally, have terms of one to three years, depending on the price of materials subject to the contract.[30]

Otter Tail also disclosed the project work was divided into three general categories, namely transmission, substation and construction and utilizes procurement strategy for each category that makes best use of alliance agreements, competitive bidding, and internal labor.

Additionally, Otter Tail expressed its commitment to finding ways to control costs and keep rates low for its customers and to always seek the most cost-effective solutions.

The Department, in its response to Otter Tail's reply comment, accepted Otter Tail's summary as adequate.

3. Staff Comments

Staff also notes that, except for the Oslo 115 kV Breaker Station and Oslo – Lake Ardoch 115kV cost cap, the Department and Otter Tail were in agreement regarding limiting TCRR recovery to initial cost of the transmission projects. For the disputed project, the Department and Otter Tail agreed on a cost cap of project's initial cost of $6.6 million escalated to $8.69 million inflation. However, they disagree that OTP should be allowed to recover an additional $2.2 million.

Staff thinks this section below of Department's reasoning for its position persuasive:

> Absent cost recovery caps tied to the record in which the project was selected and approved, utilities have little incentive to expend the effort needed to accurately report project costs, nor to ensure that the actual costs are as reasonable as possible. Moreover, disregarding initial cost estimates and allowing utilities to recover all costs jeopardizes the integrity of the process and the figures relied upon by the Commission in those decisions.

However, since Otter Tail claims the cost increases were due to unforeseen circumstances outside its control that make initial cost unfeasible, the Commission, at the agenda meeting, may want to ask parties elaborate more on the disagreement.

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[30] Otter Tail Reply Comments, pp. 1-2.

V. DECISION OPTIONS

1. Approve Otter Tail's request as presented in its May 24, 2024 Initial Filing, with the following modifications:

    a. Limit Otter Tail's recovery of Milbank Area Reliability Project costs to the $36.4 million total estimated costs in Otter Tail's petition, (DOC, Otter Tail)

    b. Deny Otter Tail's request for an additional $2.2 million and limit OTP's proposed recovery for the Oslo 115 kV Breaker Station and Oslo – Lake Ardoch 115kV in this proceeding to the initial amount escalated for inflation or $8.69 million (OTP Total) in 2024 dollars, with the opportunity for the Company to seek recovery of the additional $2.2 million of costs on a prospective basis in a future rate case. (DOC)

    c. Deny Otter Tail's proposal to exclude Attachment O revenues and require the Company to include the additional Attachment O revenue of $225,870. (DOC)

    d. Approve Otter Tail's alternative proposal to true-up all MISO Schedules 7, 8, and 9 revenues. (Otter Tail)

    e. Deny Otter Tail's alternative proposal to true-up all MISO Schedules 7, 8, and 9 revenues. (DOC)

2. Require Otter Tail to file a compliance filing within 30 days of the Commission's Order in this Docket demonstrating the Company's recalculation of the TCRR to reflect the changes required by the Commission. (DOC)