

## Staff Briefing Papers

Meeting Date	December 4, 2025		Agenda Item 2**
Company	Otter Tail Power Co.		
Docket No.	E-017/GR-25-359		
	<b>In the Matter of the Application of Otter Tail Power Co. for Authority to Increase Rates for Electric Service in Minnesota</b>		
Issues	Should this filing be accepted, the proposed rates suspended, this matter referred to the Court of Administrative Hearings, and interim rates set as requested?		
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✓ Relevant Documents	Date
Otter Tail Power Co. – Initial Filing and Interim Rates Petition <sup>1</sup>	October 31, 2025
Department of Commerce, Division of Energy Resources - Comments	November 10, 2025
Office of Attorney General - Comments	November 10, 2025

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<sup>1</sup> The relevant documents listed for this meeting only includes Volumes 1 & 2 of Otter Tail's initial filing (omitting workpaper volumes). The Interim Rates Petition is found in Volume 1. The pre-filed direct testimony of Otter Tail's witnesses is in Volume 2.

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The attached materials are work papers of the Commission Staff. They are intended for use by the Public Utilities Commission and are based upon information already in the record unless noted otherwise.

✓ **Relevant Documents**

Citizens Utility Board – Comments

Otter Tail Power Co. – Supplemental Filing

Minnesota Office of Attorney General – Reply Comments

Otter Tail Power Co. – Reply Comments

**Date**

November 10, 2025

November 14, 2025

November 17, 2025

November 17, 2025

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## BACKGROUND

On October 31, 2025, Otter Tail Power Company (Otter Tail or the Company) filed a general rate case with the Minnesota Public Utilities Commission (Commission).<sup>2</sup> Otter Tail is asking for an increase in its retail electric rates in Minnesota of approximately \$44.8 million or approximately 17.69 percent, effective January 1, 2026, based on a forecasted 2026 test-year, and a proposed return on equity of 10.65 percent.<sup>3</sup> Otter Tail's request results in a \$50.7 million increase to base rate revenues and a net overall increase of \$44.8 million after Rider Roll-In. Otter Tail estimates its proposal will increase average residential bills by approximately \$18 per month or \$216 per year.<sup>4</sup> Otter Tail serves approximately 134,000 customers with approximately 63,000 customers in Minnesota and has proposed total annual electricity sales of approximately 2,792,291 MWh.<sup>5</sup>

If, under Minnesota (Minn.) Statute (Stat.) Section (§) 216B.16 subdivision (subd.) 2, the Commission suspends the proposed rate increase, then pursuant to Minn. Stat. § 216B.16 subd. 3, Otter Tail requested an interim base rate increase of \$31.8 million, or 12.62 percent, effective for service rendered on or after January 1, 2026. This would be implemented as an across-the-board 21.31 percent increase to base rates exclusive of fuel and purchased energy rates. Otter Tail estimates the impact on residential customer will be approximately \$13 per month.<sup>6</sup>

The issues at this stage of a rate case are whether to accept the filing, suspend the proposed final rates, refer this matter to the Minnesota Court of Administrative Hearings (CAH) for a contested case proceeding, and set interim rates subject to refund.

## DISCUSSION

### I. Parties Comments

On November 4, 2025, the Commission issued its notice requesting comments on whether Otter Tail's petition complies with the filing requirements in Minn. Stat. § 216B.16, Minnesota Rules, Parts 7825.3100 to 7825.4400 and Commission Orders. The Commission also asked for comments on whether this rate application should be referred to the CAH for a contested case proceeding.

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<sup>2</sup> In advance of filing its rate case, on September 30, 2025, Otter Tail submitted its sales forecast data.

<sup>3</sup> Otter Tail's approved Return on Equity in its prior Rate case, Docket No. 20-729, was 9.48 percent.

<sup>4</sup> *In the Matter of the Application of Otter Tail Power Company for Authority to increase Rates for Electric Service in Minnesota*, Docket No. E-017/GR-25-359, Notice of Change in Rates and Interim Rate Petition, Filing Letter at 1 (Oct. 31, 2025).

<sup>5</sup> Ex. OTP \_\_\_ at 2 (Mortenson Direct).

<sup>6</sup> *Id.*, Proposed Notices at 1.

## A. Department of Commerce – Comments

On November 10, 2025, the Minnesota Department of Commerce, Division of Energy Resources (Department), submitted comments. The Department reviewed Otter Tail's filing to verify the Company complied with the following:

- Statutory requirements (Minnesota Statutes §216B.16);
- Commission's rules governing filing requirements for rate changes (Minnesota Rules, parts 7825.3100 through 7825.4400 and 7829.2400);
- Commission policy statements, with the caveat that a full analysis of compliance with certain Policy Statements will require factual analysis in the rate case;
- Relevant Commission orders, including the Commission's Order in Otter Tail's most recent general rate case, in Docket No. E-017/GR-20-719; and

The Department emphasized that its review focused only on the stated issues and not on the merits of Otter Tail's overall request. The Department concluded that Otter Tail's filing is substantially complete but identified two deficiencies, as described below.

### 1. Operating Income Schedules

The Department stated that Otter Tail failed to fully comply with the requirements of Minn. Rule 7825.4100, subpart C by failing to include required information for the most recent fiscal year (2024) and projected fiscal year (2025).

Minn. Rules 7825.4100, subpart C, requires:

...a summary schedule showing the computation of total utility and allocated Minnesota jurisdictional federal and state income tax expense and deferred income taxes *for the test year, the most recent fiscal year, and the projected fiscal year*. This summary schedule shall be supported by a detailed schedule, showing the development of the combined federal and state income tax rates. (emphasis added)

The Department noted that per Otter Tail's compliance matrix, the required information is supposed to be included in Volume 3, Required Information, Section C of the Company's initial filing. Schedules C-4 and C-5 provide the required information for the test year, but do not include the required information for the most recent and projected fiscal years. The Department requested that Otter Tail provide schedules showing the computation of federal and state income tax expense for the most recent fiscal year (2024) and the projected fiscal year (2025) as soon as practicable.<sup>7</sup>

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<sup>7</sup> Staff notes that Otter Tail filed the required information in its November 14th supplemental filing.

## 2. Class Cost of Service Study

The Commission's Order in Otter Tail's last rate case required Otter Tail to develop "a weighted allocator specific to customer records and collection expense so that these costs can be allocated more precisely in the future."<sup>8</sup> The Department noted that Otter Tail stated in its testimony that "current systems do not capture this information at a sufficiently granular level."<sup>9</sup> Rather than requesting that the Commission require Otter Tail to take specific actions with respect to this deficiency at this time, the Department will instead develop this issue throughout the course of the rate case and will address it in testimony if necessary.

## 3. Request for Specialized Technical Services

Based on its review, the Department identified two issues raised in Otter Tail's Application for which it may require assistance from external experts. First is Otter Tail's wildfire mitigation activities, for which the Company's proposed test year reflects \$4.8 million in capital expenditures and \$0.5 million in operating expenses.<sup>10</sup> Second is Otter Tail's proposal to include in rate base its accumulated contribution excess related to its pension plan (also commonly referred to in Commission proceedings as "prepaid pension asset") and its accumulated contribution deficit related to its Post Retirement Medical Postemployment Long-Term Disability Medical Benefit.<sup>11</sup>

Minn. Stat § 216B.62, subd. 8, states:

If the commission ... determines that it is necessary, in order to carry out its duties imposed under this chapter ... to conduct an investigation or audit of any public utility operations, practices, or policies requiring specialized technical professional investigative services for the inquiry, the commission may request the commissioner of commerce to seek authority from the commissioner of management and budget to incur costs reasonably attributable to the specialized services.

As such, the Department requested that the Commission include in its Order for Hearing in this proceeding a determination pursuant to Minn. Stat. § 216B.62, subd. 8, that it is necessary to conduct an investigation of public utility operations, practices, or policies requiring specialized technical professional investigative services for the inquiry, and request that the Commissioner of the Department of Commerce seek authority from the Commissioner of Management and Budget to incur costs for the specialized services.

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<sup>8</sup> *In the Matter of the Application of Otter Tail Power Company for Authority to Increase Rates for Electric Service in the State of Minnesota*, Docket No. E-017/GR-20-719, Findings of Fact, Conclusions, and Order at Ordering Paragraph 81 (Feb. 1, 2022).

<sup>9</sup> Ex. OTP-\_\_\_ at 13 (A. Grenier Direct).

<sup>10</sup> Ex. OTP-\_\_\_ at 5-6 (Riewer Direct).

<sup>11</sup> Ex. OTP-\_\_\_ at 2-25 (Cadenhead Direct).

#### 4. Exigent Circumstances

The Department noted that several factors are creating economic uncertainty and hardship for Otter Tail's residential customers, the combined effects of which amount to exigent circumstances that justify departing from the statutory formula.

Minn. Stat. § 216B.16, subd. 3 requires the Commission to order an interim rate schedule into effect *ex parte* without a public hearing.<sup>12</sup> The statute also states:

Unless the commission finds that exigent circumstances exist, the interim rate schedule shall be calculated using the proposed test year cost of capital, rate base, and expenses, except that it shall include: (1) a rate of return on common equity for the utility equal to that authorized by the commission in the utility's most recent rate proceeding; (2) rate base or expense items the same in nature and kind as those allowed by a currently effective order of the commission in the utility's most recent rate proceeding; and (3) no change in the existing rate design.

At the time of the Department filing, the federal government was in the midst of a shutdown which the Department noted threatened food assistance for millions of Americans, including 440,000 Minnesotans. Even with the current Continuing Resolution the government is only funded through January 30, 2026, at which point the Department argued the government may shut down again. The short-term nature of the agreement does little to alleviate concerns about the status of these assistance programs, particularly given the federal government's indicated unwillingness to continue funding them during the shutdown with contingency reserves or other alternate funding sources.

Similarly, the Department noted that subsidies for health insurance plans purchased through Affordable Care Act (ACA) exchanges, are set to expire at the end of the year, and the federal government has thus far generally been resistant to renewing them. If the subsidies expire, costs to consumers will increase significantly.

In addition, the Department argued that labor market is showing concerning signs of deterioration, as announced layoffs last month were the highest for the month of October in

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<sup>12</sup> The term "ex parte" in the interim rate statute does not require that the Commission adopt the utility's proposal with no examination. *Petition of Otter Tail Power Co.*, 417 N.W.2d 677, 680 (Minn. Ct. App. 1988). The term likewise does not prevent the Commission from considering the comments of other parties in its determination. *In re App'l by Minn. Power for Auth. to Increase Rates for Elec. Serv. in Minn.*, MPUC Docket No. E-015/GR-19-442, Order Setting Interim Rates at 3 (Dec. 23, 2019). Rather, when section 216B.16 is read as a whole, the term "ex parte" merely distinguishes the more limited interim-rate process from the contested case and public hearing provisions for final rates. Compare Minn. Stat. § 216B.16, subd. 3 with *Id.*, subd. 2; see also *In re App'l of Minn. Power for Auth. to Increase Rates for Elec. Serv. in Minn.*, 838 N.W.2d 747, 755 n.4 (Minn. 2013), as modified on denial of rehearing (Oct. 31, 2013) (stating in dicta that the interim rate process is "ex parte" because it occurs "without a public hearing," while the final rate fully comports with notions of due process and may include notice, discovery, and a public hearing).



over 20 years, and layoffs year-to-date are up 65% relative to the first 10 months of 2024. At the same time, hiring has slowed significantly, to its lowest year-to-date total since 2011.

Finally, the Department noted that inflation has started increasing, driven in part by new tariffs on imports implemented at the federal level. The burden of tariffs and inflation disproportionately affect low-income household, which spend a larger percentage of their income on consumption.

Based on the factors discussed above, the Department recommended that the Commission find that exigent circumstances exist for Otter Tail's residential customer, and that these circumstances justify deviating from the interim rate formula set for the in statute. The Department recommended the Commission modify Otter Tail's propose interim rate increase limiting the proposed increase to the residential class to \$4 million which is approximately 50% of the proposed increase.

## 5. Department Recommendations

Based on its review the Department recommends that the Commission:

1. Accept Otter Tail Power Company's rate case filing as complete as of October 31, 2025, pending the submission of schedules showing the income tax expense and deferred income tax information for the most recent fiscal year and the projected fiscal year required by Minn. Rules 7825.4100, subpart C;
2. Refer this matter to the Court of Administrative Hearings for a contested case hearing, with the following issues addressed, along with any other issues the Commission would like developed in this proceeding:
  - a. Are the test year revenue requirement increases sought by the Company reasonable, or will they result in unreasonable and excessive earnings?
  - b. Is the class cost of service and rate design proposed by the Company reasonable?
  - c. Are the Company's proposed capital structure, cost of capital, and return on equity reasonable?
3. Request that the Department seek authorization under Minn. Stat. § 216B.62 from the Commissioner of Management and Budget to incur costs for specialized technical professional investigative services to develop and evaluate the record on the Company's rate case, including but not limited to, claimed prepaid pension asset and the Company's wildfire mitigation costs;
4. Allow Otter Tail Power Company to implement its annual interim rate revenue deficiency increase as proposed for 2026—except that, due to exigent circumstances, the Company must limit the rate increase for residential customers to \$4.0 million (50% of the requested amount) and reduce the interim rate revenue deficiency accordingly.

## B. Office of the Attorney General – Comments

On November 10, 2025, the Office of the Attorney General – Residential utilities Division (OAG), submitted its comments. The OAG argued that Otter Tail’s undepreciated plant balance expense for the Coyote Station, a coal-fired plant in North Dakota that the Company co-owns with three other utilities does not comply with the interim rate statute.

The OAG noted the interim-rate statute, Minn. Stat. § 216B.16, subd. 3, requires that, when the Commission suspends a utility’s proposed final rates, it must “order an interim rate schedule into effect.”<sup>13</sup> Absent exigent circumstances, the interim rate schedule must be calculated using the utility’s proposed test-year cost of capital, rate base, and expenses with the following caveats: the interim rate schedule must reflect (1) the same return on equity approved in the utility’s last rate case; (2) rate base and expense items “the same in nature and kind as those allowed by a currently effective order of the commission” in the utility’s last rate case; and (3) no change to the existing rate design.

The OAG argued that Otter Tail’s interim-rates request complied with the first and third caveat, but not the second. Specifically, the \$3.2 million “undepreciated plan balance” expense violates the interim rate statute.<sup>14</sup> The OAG noted the Commission recently ordered Otter Tail to exit the plant by the end of 2031,<sup>15</sup> and Otter Tail proposed to accelerate recovery of its investment in the plant. The OAG argued that the expense is not “the same in nature and kind” as any other expense item the Commission allowed in Otter Tail’s last rate case, and the Commission should require Otter Tail to adjust the expense out of interim rates.

Coyote Station’s situation is unique because, although the Commission has ordered an early exit for Minnesota customers, the plant will continue to operate and serve customers in North and South Dakota. Coyote Station’s remaining useful life for depreciation purposes runs through mid-2041.<sup>16</sup> In Otter Tail’s most recent integrated-resource-plan (IRP) proceeding, the Commission ordered that Otter Tail to “remove all jurisdictional allocations to its Minnesota ratepayers for Coyote Station, such that it will no longer serve Minnesota customers . . . no later than December 31, 2031.”<sup>17</sup>

In this case, citing the Commission’s IRP order, Otter Tail proposed to charge ratepayers (a) fees for an early exit from Coyote Station’s coal-supply agreement, and (b) incremental depreciation expense at a level that would result in Coyote Station’s Minnesota-associated plant balance

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<sup>13</sup> Minn. Stat. § 216B.16, subd. 3(a).

<sup>14</sup> Vol. 3 at Schedule C-7 Page 4 of 5.

<sup>15</sup> *In the Matter of Otter Tail Power’s 2023-2037 Integrated Resource Plan*, Docket No. E-017/RP-21-339, Order Modifying Otter Tail Power’s 2023-2037 Integrated Resource Plan at Ordering Paragraph 4 (July 22, 2024).

<sup>16</sup> Ex. OTP-\_\_ at 16 (Olsen Direct).

<sup>17</sup> *In the Matter of Otter Tail Power’s 2023-2037 Integrated Resource Plan*, Docket No. E-017/RP-21-339, Order Modifying Otter Tail Power’s 2023-2037 Integrated Resource Plan at 19 (July 22, 2024).

being fully recovered by December 31, 2031.<sup>18</sup> The latter item is the “undepreciated plant balance” expense identified above. Otter Tail stated that this is not technically accelerated depreciation because generally accepted accounting principles require it to record depreciation expense based on the expected useful life of the entire plant, which runs through mid-2041, rather than the 2031 deadline for it to exit the Minnesota share.<sup>19</sup> After 2031, Coyote Station will continue serving Otter Tail’s North and South Dakota customers, as well as customers of the plant’s other co-owners, so its depreciation cannot be “accelerated” in the traditional sense.

The OAG argued that this early-exit depreciation adjustment is not currently reflected in Otter Tail’s rates. The OAG noted that Otter Tail argued in conclusory fashion that “[t]he undepreciated balance is the same in nature and kind as costs allowed by a currently effective order of the Commission in OTP’s most recent rate proceeding.”<sup>20</sup> The OAG observed that Otter Tail’s current rates reflect depreciation expenses for many items of utility plant, including Coyote Station itself. However, the incremental depreciation expense that Otter Tail proposed to recover via interim rates is unique: it results from an IRP order that directs an early exit from the Minnesota share of Coyote Station but does not direct that Otter Tail close the plant, and Otter Tail plans on operating it after 2031. As Otter Tail acknowledged, early exit from a coal-fired power plant implicates important policy considerations similar to those the Commission grappled with in Docket No. 23-375.<sup>21</sup> The OAG concluded that the incremental depreciation expense that Otter Tail seeks to charge Minnesota ratepayers for Coyote Station is a new type of early-exit-related depreciation expense and should not be included in Otter Tail’s interim rates.

The OAG recommended that the Commission find that while Otter Tail has collected Coyote Station depreciation expense for many years, there are no depreciation expenses associated with the early exit in present rates and require Otter Tail to exclude the incremental \$3.2 million in Coyote Station depreciation from interim rates.

### C. Citizens Utility Board – Comments

The Citizens Utility Board of Minnesota (CUB) petitioned for intervention in the contested case under Minn. Rule 7829.2400 subpart 6. CUB also made several recommendations regarding completeness, referral to CAH, and interim rates. CUB recommended that this case be referred to the Court of Administrative Hearings and final rates be suspended.

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<sup>18</sup> Ex. OTP-\_\_ at 13 (Olsen Direct).

<sup>19</sup> *Id.* at 16.

<sup>20</sup> Notice and Petition for Interim Rates at 5–6.

<sup>21</sup> See Olsen Direct at 15 (citing *In the Matter of a Commission Inquiry into the Ratemaking Treatment for Early Retiring Generating Facilities Owned by Regulated Electric Utilities*, Docket No. E-002, E-015, E-017/CI-23-375).

## 1. Completeness

CUB argued that given the complexity and scale of Otter Tail's proposed rate increase, the Commission should suspend rates and refer the matter to the Court of Administrative Hearings to permit adequate development of the record. Additionally, since several rate cases are being considered coincidentally with Otter Tail's CUB recommended the Commission extend the statutory suspension period by an additional 90 days, as allowed in Minn. Stat. § 216B.16 subd. 2(f). CUB also recommend the Commission accept Otter Tail's voluntary agreement to a further extension, such that a final determination in the proceeding will be made on or before February 23, 2027.

## 2. Exigent Circumstances

CUB recommended the Commission find exigent circumstances and set interim rates at a maximum of 50 percent of Otter Tail's request. CUB argued that with a finding of exigent circumstances, the Commission is authorized to depart from the statutory formula for determining interim rates and develop an alternative framework that balances utility and ratepayer interests.<sup>22</sup> Additionally, CUB noted that in recent proceedings, the Commission reduced interim rates after finding the COVID-19 pandemic constituted an exigency that eroded the purchasing power of Minnesota households.<sup>23</sup> CUB argued that the federal government shutdown has produced similar hardships that severely limit residential and business customers' ability to pay for utility service.

Because of the shutdown, food benefits available through the Supplemental Nutrition Assistance Program (SNAP) were delayed for the first time in history at the beginning of November. More than 440,000 Minnesotans rely on SNAP, including 72,000 seniors, 52,000 adults with disabilities, and over 150,000 children. The federal government has challenged legal orders to disburse these funds, raising questions about the continued availability of SNAP. Food assistance benefits under the Minnesota Family Investment Program (MFIP)—specifically designed to help families with children meet their basic needs—were similarly delayed.<sup>24</sup>

Additionally, CUB noted that Congress' failure to enact any appropriations bill or continuing resolution before the 2026 fiscal year has also decimated assistance resources meant to aid income-limited households around the country. CUB noted that the Low-Income Home Energy Assistance Program (LIHEAP) has been unable to provide funding to help more than six million

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<sup>22</sup> Minn. Stat. § 216B.16, subd. 3(b).

<sup>23</sup> See, e.g., *In the Matter of the Application by Minnesota Power for Authority to Increase Rates for Electric Service in Minnesota*, Docket No. E-015/GR-21-335, Order Setting Interim Rates at 4 (Dec. 30, 2021); *In the Matter of the Application of Northern States Power Company d/b/a Xcel Energy for Authority to Increase Rates for Electric Service in the State of Minnesota*, Docket No. E-002/GR-21-630, Order Setting Interim Rates at 7 (Dec. 23, 2021).

<sup>24</sup> CUB Comments at 4-5.

households afford basic utility services.<sup>25</sup> In Minnesota, more than 125,000 households relied on LIHEAP during the 2025 fiscal year, which prevented over 35,000 disconnections and provided heating fuel or furnace repairs to more than 17,000 households. CUB argued that after the end of the shutdown, it is expected to take at least four weeks for state benefit amounts to be calculated, which could be further extended as a result of the federal government's termination of the entire LIHEAP staff earlier this year. The reopening of the federal government will not immediately resolve mounting energy affordability concerns or mitigate future crises related to assistance availability.

Also, CUB argued that Minnesotans will also begin to see elevated insurance premiums during the 2026 fiscal year. Congress has been unable to reach agreement on the extension of federal tax credits available through the Affordable Care Act. Even without accounting for these subsidies, Minnesotans' health insurance premiums are set to rise by 22 percent in 2026. If federal tax credits are eventually eliminated, premiums for lower-income, middle class, and older Minnesotans would likely more than double.<sup>26</sup>

Finally, CUB noted that the government shutdown is hurting the broader economy, with the Congressional Budget Office estimating the United States will face unrecouped GDP losses of between \$7 and \$14 billion. The Small Business Administration has similarly indicated that the loss of federal loan programs has kept local Minnesota businesses from accessing \$18 million each week.<sup>27</sup>

CUB argued that individually, these various factors might not rise to the level of exigency. However, when considered in the aggregate, they have a debilitating impact on the economy and customers' ability to pay for electricity service.

### 3. CUB's Petition of Intervention

CUB requested that the Commission grant its petition to intervene as a party in the instant proceeding CUB noted that until the matter is referred to the Court of Administrative Hearings for a contested case, the Commission retains authority over petitions to intervene submitted by prospective parties.<sup>28</sup>

CUB argued its staff and outside consultants have extensive experience evaluating the economic considerations inherent in rate case proceedings, including utilities' authorized rate of return, the rate recovery of lobbying and dues expenses, and the potential impact of rate

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<sup>25</sup> CUB Comments at 4.

<sup>26</sup> *Id.* at 5.

<sup>27</sup> *Id.*

<sup>28</sup> Staff notes that CUB filed its request for intervention on November 10, 2025. Pursuant to Minn. R. 7829.0800, subp. 5 the request is deemed approved "if there is no objection to intervention and a petition to intervene is not denied or suspended within 15 days of filing." Therefore, no further action is necessary.

increases on members of the residential class.

CUB regularly contributes to proceedings before both the Commission and the Court of Administrative Hearings. It has participated or intervened in dockets involving rate setting, utility programs and offerings, the affordability of electricity service, and a multitude of related issues. CUB's intervention in the current proceeding would enable it to contribute to the development of a robust record for the Commission's consideration and help ensure the rates ultimately charged by Otter Tail are just, reasonable, and consistent with the public interest.

#### **4. Email Notice**

CUB proposed that in addition to this bill insert and required newspaper publications, Otter Tail should provide electronic notice to ratepayers. CUB noted that after filing its most recent electric rate case in Docket No. E-002/GR-24-320, Northern States Power Company sent an email to its customers with live links to webpages containing information on its rate proposal and details about how to submit a public comment to the Commission. CUB observed an elevated level of public engagement in that proceeding, which it believed was at least partially the result of this electronic communication. CUB argued that providing proper notice of the proposed change in rates is essential to ensuring customers are given a fair chance to engage with the proceeding and provide public comments. CUB concluded that delivering such notice via email will help ensure customers are afforded a reasonable opportunity to make their voices heard.

CUB recommended that the Commission order Otter Tail to develop and send a similar email. The communication should minimally include (1) a description of the proposed rate increase and its impacts on utility bills; (2) a description of interim rates and associated bill impacts; (3) the primary drivers of the rate change, including the proposed increase to the utility's return on equity; (4) information about how to file a public comment; and (5) live links to the Commission's webpage on how to submit a public comment, Otter Tail's webpage on the rate request, and the Commission's webpage on general rate cases and/or the Company's specific proposal.

#### **5. CUB Recommendations**

CUB recommendations can be summarized as follows:

- Suspend final rates and refer the rate case to the Court of Administrative Hearings for a contested case proceeding.
- Make finding that exigent circumstances exist and reduce interim rate by at least 50 percent;
- Approve CUB's petition to intervene in the contested case proceeding.
- Require Otter Tail to electronically notify its customers of the rate increase via email.

#### **D. Otter Tail Power Company – Supplemental Filing**

In response to the Department's comments, Otter Tail submitted a Supplemental Filing,

updating Schedules C-4 and C-5 found in Volume 3, Section C to include the income tax expense and deferred income tax information for the most recent fiscal year (2024) and the projected fiscal year (2025).

#### **E. Office of the Attorney General – Reply Comments**

The OAG filed Reply Comments in response to the initial comments of the Department and CUB.

The OAG supported the Department and CUB's arguments that exigent circumstances exist to moderate Otter Tail's interim rate increase. The OAG believed that a case can be made for either the Department's recommended reduction of 50 percent of the residential increase or CUB's recommended reduction of 50 percent of the overall proposed interim increase. The OAG argued that whatever approach the Commission takes to address exigent circumstances, it should first require Otter Tail to make the OAG's recommended \$3.2 million adjustment to the overall increase. This adjustment is required by the interim-rate statute, is not dependent on exigent circumstances, and should be made before any further reduction to address exigent circumstances.

#### **F. Otter Tail Power Company – Reply Comments**

Otter Tail agreed that the application should be referred to the Court of Administrative Hearings and appreciated the Department's efforts to review. Otter Tail also had no objections to CUB's petition to intervene nor to CUB's proposal for Otter Tail to provide the customer notice via email.

##### **1. Exigent Circumstances**

Otter Tail argued that exigent circumstances are not present and therefore the Commission should reject the Department and CUB's proposals.

Otter tail acknowledged that the recent government shutdown impacted its customers but argued that it is now over – before interim rates have gone into effect. Further, Otter Tail noted that the statistics put forward by the Department and CUB are general to Minnesota (or the United States); neither has offered any evidence regarding the conditions of Otter Tail's customers specifically. Otter Tail argued its rural, western Minnesota service area is not the same as the Twin Cities metropolitan area: the conditions of one cannot be assumed to be the same as the other. This lack of evidentiary basis is compounded by the arbitrary nature of the proposed reductions to interim rates. Neither the Department nor CUB identify any basis in cost or economics for their recommendations. The adjustment ultimately is arbitrary and therefore cannot be considered "just and reasonable."

Instead of adjusting interim rates, Otter Tail proposed to increase Uplift credits as shown below:



**Table 1: Proposed Uplift Credits<sup>29</sup>**

		<b>Current Uplift Credit</b>	<b>Uplift Credit January 2026 – April 2026</b>	<b>Uplift Credit May 2026 and Thereafter</b>
Tier 1	=> 12000 kWh	\$40.00	\$60.00	\$40.00
Tier 2	> 7500 and < 12000 kWh	\$25.00	\$37.50	\$25.00
Tier 3	<=7500 kWh	\$15.00	\$22.50	\$15.00

The proposed increased Uplift credit is designed to help offset the interim rate increase for customers at the various usage tiers. Otter Tail requested these tariff revisions be allowed to go into effect on less than 60-days' notice. Otter Tail argued this is a better approach to addressing the challenges faced by low-income customers than the proposals put forward by the Department and CUB.

Otter Tail argued that even if a federal government shutdown could support a finding of exigent circumstances, other actions have been taken to mitigate its impact on the Company's customers. Otter Tail noted that on November 8 (two days before the Department and CUB filed their initial comments), Governor Walz confirmed that Supplemental Nutrition Assistance Program (SNAP) benefits had been restored and are approved through at least September 2026. Also, while there may be uncertainty around the Low-Income Home Energy Assistance Program (LIHEAP), Otter Tail argued that neither that uncertainty nor the federal government shutdown impacts eligibility for the Company's Uplift program, which, as discussed above, will provide increased bill assistance through the remainder of the 2025-2026 heating season. The amount of additional Uplift assistance is generally calibrated to match expected interim rate bill impact for the average customer in each tier.

Finally, Otter Tail expressed concerns with potential complications associated with the Department's proposal to limit the interim rate revenue requirement reduction to only Residential customers. This approach was utilized in Xcel Energy's 2021 electric rate case and posed challenges during the interim rate refund process. Any class-specific change to interim rates would need to be implemented in a manner that does not result in Otter Tail under-collecting the ultimate interim rate revenue deficiency. This is another reason to follow the statutory interim rate framework.

Otter Tail argued that the primary circumstance identified by the Department and CUB – the federal government shutdown – no longer exists and does not constitute exigent circumstances. Even if the now-finished shutdown justified exigent circumstances neither CUB nor the Department provided any evidence to demonstrate how interim rates should be set in response to an exigency. Both recommendations were arbitrary and not supported by

<sup>29</sup> Otter Tail Electric Rate Schedule 13.07.



substantial evidence. The absence of cost or economic basis presents very real financial risks to Otter Tail, particularly when coupled with the voluntary extension of the time to review this case. For all the reasons discussed above, Otter Tail requested the Commission reject the recommendations of the Department and CUB and authorize interim rates as proposed by the Company.

## **2. Coyote Station Costs**

Otter Tail argued that the depreciation associated with Coyote Station has been part of Otter Tail's rates for over 40 years and will continue to be part of the Company's rates following the conclusion of this case. Minnesota Statutes provides that utilities are to recover "depreciation of its utility property used and useful in rendering service to the public, and to earn a fair and reasonable return upon the investment in such property."<sup>30</sup>

Otter Tail noted that the depreciation collected from customers would provide for full return of Coyote Station investment in 2041. The Commission, however, directed that Otter Tail "immediately ... commence activities to remove all jurisdictional allocations to its Minnesota ratepayers for Coyote Station ... that ends all Minnesota ratepayer obligations for the plant, coal contracts and associated facilities as soon as feasible but no later than December 31, 2031." Otter Tail noted its interim and final rate proposals do just that: effective with interim rates, Otter Tail would begin collecting the amount of depreciation that otherwise would be collected after December 31, 2031, so that by December 31, 2031, the Company will have collected the Minnesota jurisdictional share of all depreciation for Coyote Station.

Otter Tail argued that the OAG created a distinction where none exists, characterizing the undepreciated balances as "not just any old depreciation expense...." In fact, the Coyote Station undepreciated balance is just that – depreciation to be collected after December 31, 2031, and therefore clearly "the same in nature and kind as those allowed by a currently effective order of the commission" and appropriately part of the interim rate revenue requirement.

In contrast, Otter Tail noted that it hadn't previously collected Coyote Station fuel supply agreement exit costs, and therefore Otter Tail affirmatively excluded such costs from interim rates. Further, Coyote Station fuel supply agreement exit costs are being collected through final rates as a reserve, not as a return of investment, and will be returned to customers if Coyote Station continues to operate past December 31, 2031. Otter Tail argued that it is entirely reasonable to treat these two categories of Coyote Station costs differently for purposes of interim rates.

## **3. CUB Intervention**

Otter Tail takes no position on CUB's request to intervene in this case but did note that CUB

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<sup>30</sup> Minn. Stat. § 216B.16, subd. 6.

also intervened in Xcel Energy's pending natural gas rate case.<sup>31</sup> Otter Tail noted that CUB has no history of participating in Otter Tail's rate cases and it is not clear that CUB has the familiarity with Otter Tail's service territory and customers to meaningfully participate in the case, or has interests that are sufficiently distinct from public interest intervenors like the Department and the OAG justifying intervention.

#### 4. Email Notice

Otter Tail stated that it is not opposed to providing an emailed copy of the customer notice that is being used for general publication to those customers with email on file.

### II. Prior Rate Cases

As shown in Table 2, since 1986, Otter Tail has filed four rate cases and requested increases ranging from 6.8 percent to 11.0 percent. Approved increases during that time ranged from 26.3 percent to 47.1 percent of the initially requested amounts.

**Table 2: Otter Tail Power 2007, 2010, 2015, & 2020 Rate Case Summaries**

Rate Case Docket #	Amount Req.		Interim Rates		Final Rates Approved Increase				Interim vs. Final	
	\$ millions	% Increase	\$ millions	% Increase	\$ millions	% Increase	Authorized Return on Equity	Authorized Rate of Return	% Int. Rate vs. Total Rate	% Inc. vs. Req. Inc.
20-719	\$14.50	6.80%	\$13.60	6.40%	(\$2.21)	-1.04%	9.48%	7.18%	93.8%	-15%
15-1033	\$19.30	9.80%	\$19.29	10.95%	\$10.47	5.34%	9.41%	7.51%	99.9%	54%
10-239	\$10.63	8.01%	\$5.05	3.80%	\$5.01	3.78%	10.74%	8.61%	47.5%	47%
07-1178	\$14.51	11.02%	\$7.13	5.41%	\$3.81	2.90%	10.43%	8.33%	49.1%	26%

### III. Otter Tail's Application

#### A. Comparison of Authorized and Proposed Revenue Requirement

The following abbreviated schedule compares the revenue requirement approved in Otter Tail's 2020 Rate Case, Docket No. E-017/GR-20-719, and the proposed revenue requirement in this docket.

<sup>31</sup> In the Matter of the Application of Xcel Energy's Petition for Authority to Increase Natural Gas Rates in Minnesota, Docket No. G-002/GR-25-356, Initial Comments of the Citizens Utility Board of Minnesota at 6-7 (Nov. 12, 2025).

**Table 3: Revenue Requirement Comparison of Prior Rate Case to Current Proposal**

<b>Financial Summary</b>	<b>Authorized 2020 Rate Case Docket No. E- 017/GR-20-719<sup>32</sup></b>	<b>Proposed 2025 Rate Case Docket No. E- 017/GR-25-359<sup>33</sup></b>
Rate Base	\$722,946,335	\$999,781,386
Rate of Return	7.18%	7.92% <sup>34</sup>
Return on Equity	9.48%	10.65%
Required Operating Income	\$51,907,547	\$79,170,880
Revenue	\$208,405,008	\$265,327,955
Expenses	\$154,084,552	\$223,970,421
AFUDC	\$780,062	1,699,174
Operating Income	\$51,907,547	43,056,708
Income Deficiency	\$0	\$36,114,172
Conversion Factor	1.403351	1.403351
Revenue Deficiency	\$0	\$50,680,859 <sup>35</sup>

The proposed increase of approximately \$50.7 million can be attributed to the following changes since rates were last increased in the 2020 rate case:

Increase in Rate Base	\$30.8 million
Increase in Net Income	\$12.4 million
Increase in Rate of Return	<u>\$7.5 million</u>
<b>Total</b>	<b>\$50.7 million</b>

The total average rate base increased approximately 38 percent since the last rate case. The primary drivers were the increase in Net Plant in Service and changes in Accumulated Deferred Income Taxes (ADIT), significant increase in Distribution Plant, increase in Transmission Plant, Production Plant. Other contributors include increases in Construction Work in Progress, Cash Working Capital, Materials and Supplies, and Prepayments (pre-paid insurance, the accumulated contribution excess (AC Excess), and accumulated contribution deficit (AC Deficit) associated with the Otter Tail Corporation pension, post-retiree medical (PRM), and Postemployment Long-Term Disability Medical Benefit (OPEB) plans). Together, these components account for the total increase \$276,835,051 in the Total Average Rate Base.

<sup>32</sup> Docket No. E-017/GR-25-359, Otter Tail initial, Vol. 1, Part C, Schedule 3 & 5.

<sup>33</sup> *Id.* at Vol. 3, Ex. OTP \_\_\_ at Schedule A (Petersen Direct).

<sup>34</sup> Rounded ROR rate

<sup>35</sup> Otter Tail reported a Revenue Deficiency amount of \$50,680,859 based on the unrounded ROR. Using the rounded ROR of 7.92% would result in a Revenue Deficiency amount of \$50,697,427.

Table 4 provides the base rate comparison, by major groups, of amounts approved in Otter Tail Power's last rate case and amounts proposed in this rate case. Notable changes include:

- Materials & Supplies – 121% increase.
- Prepayments – 2742% increase.
- Cash Working Capital – 93.3% increase.

The following table illustrates the components of rate base and their change since the Company's last rate case:

**Table 4: Rate Base Comparison of Prior Case to Current Proposals**

Description	Most Recent General Rate Case - TCJA GR-GR-20-719 Otter Tail-MN <sup>36</sup>	Current Case Proposed Test Year GR-25-359 Otter Tail-MN <sup>37</sup>	\$ Change	% Change
<b>Plant</b>				
Total Plant In Service	\$1,253,952,616	\$1,568,299,090	\$314,346,474	25%
Utility Plant Held for Future Use	13,545	288,813	\$275,268	2032%
CWIP	16,222,899	39,388,572	\$23,165,673	143%
<b>Less:</b>				
Reserve For Depreciation	(418,044,465)	(489,395,277)	\$(71,350,812)	17%
<b>Net Plant including CWIP</b>	852,144,595	1,118,581,198	\$266,436,603	31%
<b>Add:</b>				
Materials & Supplies	11,435,710	25,266,846	\$13,831,136	121%
Fuel Stocks	5,408,282	5,147,986	\$(260,296)	-5%
Prepayments	1,402,533	39,854,894	\$38,452,361	2742%
Cash Working Capital	971,048	3,991,446	\$3,020,398	311%
<b>Deduct:</b>				
Customer Advances & Deposits	(1,030,647)	(1,242,514)	\$(211,867)	21%
Accumulated Deferred Income Taxes	(147,385,185)	(191,818,469)	\$(44,433,284)	30%
<b>Total Average Rate Base</b>	<b>\$722,946,336<sup>38</sup></b>	<b>\$999,781,386<sup>39</sup></b>	<b>\$276,835,051</b>	<b>38%</b>

<sup>36</sup> Docket No. E-017/GR-25-359, Otter Tail initial, Vol. 1, Part C, Schedule 1

<sup>37</sup> *Id.*, Vol. 3, Ex. OTP \_\_\_ at Schedule A (Petersen Direct).

<sup>38</sup> There may be a one dollar rounding difference between this number and Otter Tail's number

<sup>39</sup> *Id.*

Table 5 provides an expense comparison, by major groups, of amounts approved in Otter Tail Power's last rate case and amounts proposed in this rate case. Notable changes include:

- Production Expense – 51.8% increase.
- Distribution Expense – 48.3% increase.
- Sales Expense – 93.3% increase.
- Administration and General Expenses – 37.1% increase.
- Charitable Contributions – 126.8% increase.
- Depreciation Expense – 49.9% increase.

**Table 5: Otter Tail Operating Expense Comparison, Prior Rate Case, Approved to Current Proposal**

Operating Expense	Prior Rate Case GR-20-719 Otter Tail-MN <sup>40</sup>	Current Rate Case GR-25- 359 Otter Tail- MN <sup>41</sup>	\$ Change	% Change
Production Expenses	\$77,924,114	\$118,322,638	\$40,398,524	51.80%
Transmission Expenses	\$18,363,452	\$21,301,122	\$2,937,670	16.00%
Distribution Expenses	\$7,767,335	\$11,515,689	\$3,748,354	48.30%
Customer Accounting Expenses	\$7,222,661	\$4,987,646	(\$2,235,015)	-30.90%
Customer Service and Information Expenses	\$9,052,240	\$10,744,922	\$1,692,682	18.70%
Sales Expenses	\$134,725	\$260,375	\$125,650	93.30%
Administration and General Expenses	\$19,928,981	\$27,313,505	\$7,384,524	37.10%
Charitable Contributions	\$112,000	\$254,000	\$142,000	126.80%
Depreciation Expense	\$32,716,362	\$49,054,831	\$16,338,469	49.90%
General Taxes	\$8,022,910	\$8,288,617	\$265,707	3.30%
<b>Total Operation Expense</b>	<b>\$181,244,780</b>	<b>\$252,043,345</b>	<b>\$70,798,565</b>	<b>39.10%</b>

<sup>40</sup> Docket No. E-017/GR-25-359, Otter Tail initial, Vol. 1, Part C, Schedule 3.

<sup>41</sup> Id., Vol. 3, Ex. OTP-8 at Schedule C-1 (Petersen Direct).

## B. Proposed Test-year Cost of Capital

In its most recent electric rate case (E-017/GR-20-719) Otter Tail was authorized a rate of return of 7.18 percent, based on the following:

**Table 6: Otter Tail's Currently Authorized Capital Structure and Costs**

Component	Percent of Total	Cost Rate	Weighted Cost
Long-Term Debt	44.65%	4.81%	2.15%
Short-Term Debt	2.85%	1.77%	0.05%
Common Equity	52.50%	9.48%	4.98%
Total (ROR)			7.18%

The filing requirements regarding rate of return and cost of capital are found in Minnesota (Minn) Rules (R), Part (pt.) 7825.4200. These rules require the Company to provide:

- A rate of return cost of capital summary schedule showing the calculation of the weighted cost of capital using the proposed capital structure and the average capital structures for the most recent fiscal year and the projected fiscal year. This information shall be provided for the unconsolidated parent and subsidiary corporations, or for the consolidated parent corporation.
- Supporting schedules showing the calculation of the embedded cost of long-term debt, if any, and the embedded cost of preferred stock, if any, at the end of the most recent fiscal year and the projected fiscal year.
- Schedule showing average short-term securities for the proposed test year, most recent fiscal year, and the projected fiscal year.

Otter Tail complied with this rule in Volume 3, Schedules D-1 through D-4.

Otter Tail proposed the following cost rates and capital costs for the 2026 test year in this case:

**Table 7: Otter Tail's Proposed 2026 Test Year Capital Structure and Costs**

Component	Percent of Total	Cost Rate	Weighted Cost
Long-Term Debt	44.09%	4.76% <sup>42</sup>	2.10%
Short-Term Debt	2.41%	5.11% <sup>43</sup>	0.12%
Common Equity	53.50%	10.65%	5.70%
Total (ROR)			7.92% <sup>44</sup>

### C. Energy Sales and Customer Forecasting

On September 30, 2025, Otter Tail filed its sales and revenue forecast data in advance of its rate case. On October 31, 2025, the Company filed the entirety of its rate case, including direct testimony from Daniel G. Hansen of Christensen Associates Energy Consulting, on the methods used to develop OTP's 2026 Test Year forecast customer count and energy sales to be used in setting rates. Otter Tail's proposed 2026 Test Year sales forecast is based on statistically appropriate models and provides a sound basis for establishing rates.

Forecasts were separately developed of Otter Tail Minnesota, North Dakota, and South Dakota service territories. Some forecasts were developed using non-statistical methods, including those of the Street and Area Lighting classes, Pipelines and some Large General Service customers.

The forecasting process consisted of three steps: data collection, model estimation and forecast development. In the data collection step, the required historical information is collected for each customer class. This includes sales, the number of meters served, weather conditions and economic and demographic variables. The Company also used weather data from 14 monitoring stations throughout its service territory.

Economic and demographic data were obtained from Woods & Poole Economics, Inc. (W&P) for the years 1969 through 2060. County-level W&P data are obtained for the counties in which Otter Tail serves at least ten percent of the population.<sup>45</sup> The W&P data provide a consistent measure of the included variables for the historical and forecast time periods.

In the second step, statistical models are developed to estimate the relationship between sales, sales per meter, or the number of meters served and the relevant drivers. In the third step, the

<sup>42</sup> Staff notes a discrepancy in Otter Tail's long-term debt cost rate. Nelson Direct, at 2 and written testimony indicate 4.76%. However, Schedule 3 indicates 4.99%.

<sup>43</sup> Staff notes a discrepancy in Otter Tail's short-term debt cost rate. Nelson Direct, at 2 and written testimony indicate 5.11%. However, Schedule 4 indicates 5.35%.

<sup>44</sup> See footnotes 4 and 5. Nelson Direct, at 2 and written testimony indicate 7.92%. However, Schedule 2 indicates 8.03%.

<sup>45</sup> Additional detail can be found in Section A.3.c. of the Company's September 30, 2025 Sales and Revenue Forecast Pre-Filing for the present docket.

estimated coefficients from the second step are combined with forecasts of each driver (weather, economic conditions, demographics) to produce the forecast sales, sales per meter, or the number of meters served. Each model is estimated using 20 years of monthly data beginning in January 2005 and ending in December 2024. The forecast is developed using 20-year normal weather conditions and forecast economic and demographic conditions in 2026.

For sales forecast for each customer class, except the Large Commercial customer class, forecasted sales are created from separate forecasts of use per meter (UPM) and the number of meters served. Specifically, for each forecast month, the sales forecast equals the product of the UPM forecast and the meter forecast. The Company noted that dividing the sales forecast into the UPM and meter components improves the ability to distinguish between the effect of drivers on meter-level usage versus the number of meters served. Forecast for the Large Commercial class was developed using a total sales model (rather than separate UPM and number of meters models), because of the effects of a reclassification of some higher-use Small Commercial customers into the Large Commercial class that occurred during the analysis period. Weather Normalized Sales are summarized in Table 8 below. Large Commercial and Pipeline sales are both held as protected information, so are summarized together by calculating the difference between total sales and the sum of the other classes.

**Table 8: 2021-2026 Weather Normalized Sales**

	<b>2021 Historical</b>	<b>2022 Historical</b>	<b>2023 Historical</b>	<b>2024 Historical</b>	<b>2024 Historical/ Forecast</b>	<b>2026 Forecast</b>
Residential	541,158,248	538,673,409	534,055,204	537,931,976	540,987,939	544,421,667
Farm	48,203,547	47,632,823	51,546,747	48,215,893	48,118,608	51,610,235
Small Commercial	335,695,394	334,997,821	340,306,836	342,400,371	339,923,360	337,607,276
Street Lighting	5,887,278	4,664,230	4,679,997	4,776,762	4,776,618	4,799,136
OPA	20,962,561	20,477,465	20,232,006	21,064,004	20,495,347	20,187,293
Total	2,611,817,699	2,692,607,995	2,781,392,660	2,779,626,741	2,729,162,111	2,792,291,000
Large Comm. & Pipeline	1,659,910,671	1,746,162,247	1,830,571,870	1,825,237,735	1,774,860,239	1,833,665,393

## **D. Proposed Class Cost of Service Study**

### **1. Rules Requirement**

Minnesota Rules, Part 7825.4300 requires a request for a change in rates to include:

A cost-of-service study by customer class of service, by geographic area, or other categorization as deemed appropriate for the change in rates requested, showing revenues, costs, and profitability for each class of service, geographic area, or other appropriate category, identifying the procedures



and underlying rationale for cost and revenue allocations. Such study is appropriate whenever the utility proposes a change in rates which results in a material change in its rate structure.

The relevant information is found in Volume 3, Section E-3 (Rate Structure and Design Information), with additional supporting documentation in Volume 4A Workpapers.

## 2. Rate Case Order Requirement

The Commission's February 1, 2022 Order in Docket No. E-017/GR-20-719 required that:

In its next general rate case filing, Otter Tail must file a CCOSS using the Minimum System method, the Basic Customer method, and the Peak & Average method but is not required to conduct a Zero Intercept study.<sup>46</sup>

Otter Tail submitted a Minimum System, Basic Customer, and Peak and Average cost of service study in compliance with the Commission's order.

The Commission's February 1, 2022 Order also required:

Otter Tail must develop, for its next rate case, a weighted allocator specific to customer records and collection expense so that these costs can be allocated more precisely in the future.<sup>47</sup>

While Otter Tail addressed this requirement in testimony, the Company did not develop the new allocator as required, explaining that its current systems do not capture the information at a sufficiency granular level to produce a reliable allocator that aligns with actual cost drivers.<sup>48</sup> As discussed above, the Department noted the absence of the weighted allocator, and stated that it will further develop this issue throughout the rate case and address it in testimony, if necessary.

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<sup>46</sup> *In the Matter of the Application of Otter Tail Power Company for Authority to Increase Rates for Electric Service in Minnesota*, Docket No. E-017/GR-20-719, Findings of Fact, Conclusions, And Order at Ordering Paragraph (OP) 76 (February 1, 2022).

<sup>47</sup> *Id.*, at OP 81.

<sup>48</sup> Ex. OTP-\_\_ at 13 (A. Grenier Direct).

## E. Rate Design

Otter Tail's filing proposed several changes in rate design. The following is a summary of some of the proposed changes and is not meant to be a complete or comprehensive catalog of the Company's rate design proposal in this docket.

### 1. Class Revenue Apportionment

Table 8 displays Otter Tail's proposed apportionment of each customer class's responsibility for its revenue requirements under current and proposed rates, as well as the proposed dollar amount and percentage increase for each customer class:

**Table 9: Otter Tail Power's Current and Proposed Revenue Apportionment for Final Rates<sup>49</sup>**

Class	Sales (KWh)	Present Revenue (\$000)	Proposed Revenue (\$000)	Increase (\$000s)	%
Residential	463,880,209	\$57,012	\$68,054	\$11,042	19.37%
Farm	40,141,563	\$4,474	\$5,419	\$945	21.12%
General Service	366,175,772	\$44,195	\$54,343	\$10,148	22.96%
Large General Service	1,772,077,474	\$132,886	\$154,141	\$21,255	15.99%
Lighting	8,593,002	\$3,247	\$3,737	\$490	15.09%
Deferred Load	27,997,857	\$2,919	\$3,080	\$161	5.52%
Interruptible	98,093,893	\$7,655	\$8,343	\$688	8.99%
Off-Peak	14,625,837	\$805	\$871	\$66	8.20%
<i>Total</i>	2,791,585,607	\$253,193	\$297,988	\$44,795	17.69%

Compared to Otter Tail's 2020 rate case, the proposed 2025 rate design results in higher revenue adjustments for the Residential, Farm, and General Service classes. The increases of 19.7 percent for Residential, 21.1 percent for Farm, and 23.0 percent for General Service reflect the Company's effort to bring these classes closer to cost of service under the updated 2026 Class Cost of Service Study (CCOSS). The study found that these classes were under-recovering their allocated costs—particularly for distribution, metering, and customer-related facilities—under existing rates.

<sup>49</sup> Initial Filing, Vol. 2C, Grenier direct testimony – Class Revenue Apportionment, Table 5, p. 18

## 2. Basic Monthly Service Charges

Table 10 displays Otter Tail Power's proposed monthly basic service charge increases.

**Table 10: Proposed Fixed Charge Increases (\$/month)<sup>50</sup>**

Class	Current	Proposed	Increase
Residential	\$10.75	\$14.00	\$3.25
Residential Demand Controlled	\$10.75	\$14.00	\$3.25
Farm Service	\$19.00	\$24.00	\$5.00
Small General Service	\$18.50	\$22.00	\$3.50
General Service (Primary)	\$26.00	\$32.00	\$6.00
General Service (Secondary)	\$39.00	\$43.00	\$4.00
General Service (Time of Use)	\$59.00	\$60.25	\$1.25
Large General Service (Primary)	\$253.00	\$266.00	\$13.00
Large General Service (Secondary)	\$93.00	\$93.00	\$0.00
Large General Service (Transmission)	\$253.00	\$266.00	\$13.00
Large General Service (Time of Day - Primary)	\$273.00	\$265.85	-\$7.15
Large General Service (Time of Day – Secondary)	\$102.00	\$102.00	\$0.00
Large General Service (Time of Day – Transmission)	\$273.00	\$265.85	-\$7.15
Standby Service (Primary)	\$437.30	\$280.00	-\$157.30
Standby Service (Secondary)	\$105.33	\$85.00	-\$20.33
Irrigation (Primary)	\$34.00	\$35.00	\$1.00
Irrigation (Secondary)	\$24.00	\$35.00	\$11.00
Lighting (Metered)	\$3.20	\$4.00	\$0.80
Lighting (Non-metered)	\$18.59	\$28.00	\$9.41
Civil Defense Fire Sirens	\$2.50	\$3.00	\$0.50
Water Heating Control	\$5.75	\$7.00	\$1.25
Controlled Service – Deferred Load	\$11.00	\$14.00	\$3.00
Controlled Service – Interruptible	\$24.04	\$30.00	\$5.96
Controlled Service – Off-Peak	\$9.00	\$11.00	\$2.00
Controlled Service – Interruptible Self-contained Metering	\$6.00	\$6.50	\$0.50

Otter Tail Power proposed to increase the basic monthly service charges across most rate

<sup>50</sup> Initial Filing, Vol. 2C, Grenier direct testimony – Rate Design, Schedule 3 p. 69 – 73

classes to better align fixed cost recovery with customer-related expenses. Residential and Farm Service customers would experience the largest proportional increases—approximately 30 to 45 percent—rising from \$10.75 to \$14.00 for Residential and from \$19.00 to \$24.00 for Farm Service. Most General Service classes would see moderate increases ranging from \$3 to \$6 per month, while Large General Service customers experience small adjustments, including minor decreases for certain Time-of-Day schedules. Standby Service charges decrease substantially, reflecting a revised cost allocation methodology. Lighting and controlled service options generally increase modestly, consistent with the Company’s objective to improve cost alignment across all classes.

### **3. Non-Rate Tariff Changes**

Otter Tail is proposed several structural changes within its existing rate framework to improve consistency, transparency, and cost alignment across customer groups. Specifically, Otter Tail proposed to eliminate the Municipal Pumping and Irrigation Service schedules, folding both into the General Service class because their usage patterns and load characteristics no longer differ meaningfully from other general-use customers. The Company also proposed to establish clear demand thresholds to define class eligibility—capping General Service customers at 200 kW and Large General Service customers at 2.5 MW, with any larger customers required to take service under a Time-of-Day rate. These thresholds are intended to close legacy loopholes and better align rates with cost causation. In addition, Otter Tail plans to rename and streamline its Controlled Service schedules to simplify interruptible and deferred-load options and ensure naming consistency with other jurisdictions. Finally, the Residential Demand Control Service will be refined by adding a 1 kW minimum billing demand and reducing the look-back period for billing demand from 12 months to 3 months, improving accuracy and billing transparency without creating a new class.

## **IV. Staff Analysis**

### **A. Should this filing be accepted, and if so, as of what date?**

#### **1. Statutes, Rules, and Orders**

Minnesota Statute §216B.16, Subdivision 1, requires a public utility to give the Commission a sixty-day notice prior to changing rates. The statute requires the notice to include:

... statements of facts, expert opinion, substantiating documents, and exhibits, supporting the change requested, and state the change proposed to be made in the rates then in force, and the time when the modified rates will go into effect.

Minnesota Rules, Parts 7825.3100 through 7825.4400, implement the above statute by setting out specific rate case filing requirements. Various parts of the Commission’s rules of practice and procedure, Minnesota Rules, Chapter 7829, are also relevant.

## 2. Completeness and Date of Acceptance

Staff reviewed this filing for compliance under Minn. Stat. § 216B.16 and Minn. Rules 7825.3100 through 7825.4400. In schedule 2 of Otter Tail witness, Mathew Olsen's direct testimony, there is a Completeness Checklist that lists rate case filing requirements that apply to the Company. The table describes the filing requirements and generally identifies the location in the Petition where each compliance item is addressed.

Staff believes the Company has made a good faith effort to comply and respond to the orders issued in the last rate case as well as other orders that have a bearing on this case. The Department expressed concern about Otter Tail's compliance with Minn. R. 7825.4100, subpart C, regarding the inclusion of computation of federal and state income tax expense for the most recent fiscal year (2024) and the projected fiscal year (2025). Also, the Department expressed concern regarding Otter Tail's failure to develop "a weighted allocator" specific to customer records and collection expense so that these costs could be allocated more precisely in the future in compliance with the Commission's February 1, 2022 Order in Docket No. E-017/GR-20-719.<sup>51</sup>

The Department recommended the Commission accept Otter Tail's rate case as substantially complete as of October 31, 2025, pending the submission of schedules showing the income tax expense and deferred income tax information for the most recent fiscal year and the projected fiscal year as required by Minn. R. 7825.4100, subpart C.<sup>52</sup> Staff concurs with the Department and recommends that the Commission find that the Company's filing was substantially complete as of October 31, 2025.

## 3. Suspension of rates pursuant to Minn. Stat. § 216B.16, subd. 2

If the Commission accepts this filing, staff recommends that the Commission suspend the proposed final rates to allow parties to investigate the reasonableness of the requested increase. Once rates are suspended, and while the Company's filing is investigated and parties are in litigation, statute provides for use of interim rates during the suspension period. These rates are subject to refund if they are higher than approved final rates.

The statutory deadline for the Commission to issue its final order in this matter is ten months from the date this filing was found to be substantially complete, pursuant to Minn. Stat. §216B.16, Subd. 2(a). If this case is accepted as of October 31, 2025, then the Commission's deadline for issuing an order would be August 31, 2026. However, the Commission has the authority to set a deadline up to ninety days later, pursuant to Minn. Stat. §216B.16, Subd. 2(f):

If the commission finds that it has insufficient time during the suspension period to make a final determination of a case involving changes in general

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<sup>51</sup> Ordering paragraph 81.

<sup>52</sup> Staff notes that Otter Tail filed the required information in its November 14<sup>th</sup> supplemental filing.

rates because of the need to make a final determination of any pending case involving changes in general rates under this section or section 237.075, the commission may extend the suspension period to allow up to a total of 90 additional calendar days to make the final determination. An extension of the suspension period under this paragraph does not alter the setting of interim rates under subdivision 3.

At this time, the Commission has a pending electric rate case that was filed by Xcel Energy on November 1, 2024,<sup>53</sup> a pending electric rate case filed by Dakota Electric Association on December 30, 2024,<sup>54</sup> and a pending natural gas rate case that was filed by Xcel Energy on October 31, 2025.<sup>55</sup>

Absent an extension of time, the final order in the instant case would be due August 31, 2026, with much of that time overlapping the time period for other cases. Staff thinks extra time would allow for more flexible scheduling and more time for the Commission to make its decision. Moreover, because Otter Tail and Xcel Energy filed rate cases on the same day, the resources for the Commission to process these filings simultaneously do not exist. Staff believes an additional 90-day extension of the 10-month deadline to process Otter Tail's rate case, as permitted by statute, would be appropriate. The extra time would allow for more flexible scheduling and a more careful evaluation by the Commission of the Company's proposal.

Staff also believes that absent an extension, the Department, the OAG, and other parties who wish to participate in this case could be disadvantaged, and the record in this and other cases may not be developed adequately by the parties.

Staff notes that Otter Tail offered to waive its statutory right to a decision within ten months. In its transmittal letter, Otter Tail stated:

Pursuant to Minn. Stat. § 216B.16, Subd. 1, which authorizes changes in rates upon 60 days' notice to the Commission, the proposed rates would become effective on January 1, 2026 if not suspended by the Commission. OTP acknowledges that due to other rate case activity, the Commission may extend the review period pursuant to Minn. Stat. § 216B.16, Subd. 2(f). Further, OTP has conferred with the Minnesota Department of Commerce (Department) and the Office of the Attorney General – Residential Utilities Division (OAG) regarding a potential extension of the period to review the Application. Based on these conferrals, if the Commission suspends the proposed rate increase and extends the review period, OTP requests the Commission make a final determination no later than February 23, 2027.

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<sup>53</sup> Docket No. E-002/GR-24-320.

<sup>54</sup> Docket No. E-111/GR-24-400.

<sup>55</sup> Docket No. G-002/GR-25-356.

#### **4. Referral to the Court of Administrative Hearings for Contested Case**

The Department, the OAG, and CUB recommended the Commission refer this matter to the CAH for a contested case proceeding. The Commission is required to refer a rate case to the CAH for a contested case proceeding unless the Commission finds that all significant issues can be resolved to its satisfaction, pursuant to Minn. Stat. § 216B.16, subd. 2(b). Staff does not think the Commission can make such a finding absent a fully developed record and recommends setting this matter for a contested case hearing.

The statutory deadline, pursuant to Minn. Stat. § 216B.16, subd. 2(a), for the Commission to issue its final determination (Order) on this matter is ten months from the date the Commission accepts this filing as substantially complete. If the Commission finds the filing substantially complete as of October 31, 2025, and suspends the proposed final rates for ten months, until August 31, 2026, then staff recommends the Commission request the Administrative Law Judge (ALJ) report by May 29, 2026. This is consistent with the Commission's recent practice of asking for the ALJ report at least three months prior to the Commission's statutory deadline for issuing its order. Staff thinks this is reasonable given the size and complexity of this case, and to ensure the Commission has sufficient time to consider this matter and issue its Order within the ten-month statutory deadline.

If the Commission extends the deadline for its Order by 90 days then, consistent with prior practice, the Commission may want to request that the ALJ's report be submitted at least three months (90 days) prior to the Commission's November 30, 2026 deadline for issuing its Order.

If the Commission accepts Otter Tail's agreement to extend the Order deadline for its Order approximately 3 additional months, until February 23, 2027, then the Commission may want to request that the ALJ's report be submitted at least three months (90 days) prior to the February 23, 2027, deadline.

#### **5. Interventions**

Parties requesting to become intervenors after the case is referred to the CAH fall under the CAH rules of practice and procedure, Minn. Rule 1400.6200. Under the CAH rules, parties that have been denied requests for intervention may file motions, under Minn. Rule 1400.6600 to ask the ALJ to send his or her decision to the Commission for review, pursuant to Minn. Rule 1400.7600 (Certification). The ALJ then decides whether the request merits certification and, if so, whether the certification should occur right away or at the end of the case.

The Commission may wish to state its position on the record and note that parties requesting intervenor status should be considered from a view towards inclusivity, transparency, and completeness of the record, rather than limiting participation in the case in the interest of administrative efficiency.

## **6. Identification of issues of special interest or requiring additional, supplemental testimony**

In its October 31, 2025 filing, Otter Tail provided a schedule (Completeness Checklist) of issues addressed in the application. That schedule includes a list of information required under Commission Policies and Orders and identifies where in Otter Tail's pre-filed testimony these issues are addressed. The Commission may want to include a general request that parties thoroughly review issues identified in the Commission's past orders. If the Commission wants to give special emphasis to any of these particular requirements, it could do so at this time.

The Commission may also want to include in its Notice of and Order for Hearing, a request that parties thoroughly address and develop (in addition to the standard rate case issues)<sup>56</sup> a complete record (e.g., in testimony, at hearing and, if applicable, in settlement documents) on the following issues noted and any additional issues the Commission may identify.

### **a. Financial Matters**

The Commission may want to request full record development that includes explanations and supporting reasons for the significant changes in the following costs since the last rate case:

- Net Plant in Service - 31% increase
- Materials & Supplies - 121% increase
- Prepayments - 2742% increase
- Cash Working Capital - 311% increase
- Production Expense - 51.8% increase.
- Distribution Expense - 48.3% increase.
- Sales Expense - 93.3% increase.
- Administration and General Expenses - 37.1% increase.
- Charitable Contributions - 126.8% increase.
- Depreciation Expense - 49.9% increase.

### **b. Top Ten Executive Pay Compensation**

As part of its Petition, Otter Tail seeks to recover compensation for its ten highest paid executives (Top 10). Staff notes that in the Commission's July 17, 2023, Order in Xcel Energy's most recent electric rate case,<sup>57</sup> the Commission took exception to the Company's request:

While the ALJ did not directly address the issue of top-10 executive compensation and no formal party commented on it, the Commission

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<sup>56</sup> The standard rate case issues are: 1) Is the test year revenue increase sought by the Company reasonable or will it result in unreasonable and excessive earnings by the Company? 2) Is the rate design proposed by the Company reasonable? and 3) Are the Company's proposed capital structure and return on equity reasonable?

<sup>57</sup> Docket No. E-002/GR-21-630.



received comments from members of the public stating that it would be unreasonable for ratepayers to pay such levels of compensation for Xcel's executives, particularly as many Minnesotans face continuing economic challenges including widespread inflation in the costs of necessities such as food, fuel, and medical expenses; ongoing surcharges and high market prices for natural gas related to extreme weather and market events; and lasting effects of the COVID-19 pandemic on individual incomes and on the broader economy.<sup>58</sup>

As a result, the Commission concluded that Xcel Energy's Top 10 request was unreasonable and reduced total Top 10 recovery.

Based on the Commission's finding in Xcel Energy's electric rate case and, since the Company has requested Top 10 recovery in this filing, the Commission may want to highlight this issue for additional record development when it refers this filing to CAH.

### c. MISO related costs

Under authority of the FPA and related rules, FERC has authorized the formation of regional transmission organizations.<sup>59</sup> One such organization is Midcontinent Independent System Operator, Inc. (MISO), which administers the high-voltage wholesale electric transmission grid in Minnesota and 14 other states, as well as the Canadian province of Manitoba. MISO evaluates the adequacy of the grid relative to the demand for transmission capacity, determines which generators may connect to the grid and when they may operate, and adopts tariffs establishing how the owners of transmission lines receive compensation from the parties who use them. The Commission authorized Otter Tail to join MISO in 2002, subject to conditions.<sup>60</sup>

To ensure continued alignment with FERC's regulatory framework, Otter Tail's participation in MISO must comply with the terms outlined in the Commission's May 9, 2002 Order. This includes the proper transfer of operational control over designated transmission facilities and adherence to any conditions imposed at the time of approval. Ongoing compliance is essential not only for maintaining grid reliability and market efficiency, but also for justifying the recovery of MISO-related costs, including those under MISO Schedule 10. The Commission may want to evaluate the following for additional record development:

- Is the Company in compliance with the Commission Order dated May 9, 2002, regarding

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<sup>58</sup> Commission Order, at 20.

<sup>59</sup> 18 C.F.R. Pt. 35.

<sup>60</sup> *In the Matter of Otter Tail Power Company's Petition for Approval of Transfer of Operational Control of Transmission Facilities to the Midwest Independent System Operator*, Docket No. E-017/PA-01-1391, Order Authorizing Transfer with Conditions (May 9, 2002); *Otter Tail Power Co.*, 97 FERC ¶ 61,226 (2001); *Otter Tail Power Co.*, 98 FERC ¶ 62,218 (2002).

Otter Tail's petition to transfer operational control of certain transmission facilities to the MISO?

- If the Company is not in compliance, what remedy should be applied? Should the Commission deny recovery of MISO Schedule 10 costs or any other MISO-related costs?

## **B. Setting of Interim Rates**

In its Petition, Otter Tail proposed an interim revenue increase of approximately \$31.8 million or 12.62 percent based on the 9.48 percent ROE approved in Otter Tail's 2020 rate case. Otter Tail requested that interim rates be made effective for service rendered on and after January 1, 2026, subject to refund pending final Commission action on the general rate increase application.

The Department, OAG, and CUB each recommended an adjustment to Otter Tail's interim rates. The Department and CUB recommended finding exigent circumstances citing multiple factors in support of moderating the interim-rate increase in this case. The Department cited: (1) the federal government shutdown, including the possibility that the government may shut down again in late January; (2) the expiration of subsidies for health insurance plans purchased through Affordable Care Act exchanges; (3) deterioration of the labor market; and (4) inflation driven by tariffs on imports.<sup>61</sup> CUB primarily cites the government shutdown and points to specific ways in which impacts on federal services will continue even after the government reopens, including: (1) threats by the administration to withhold backpay from federal employees who worked during the shutdown; (2) backlogs in federal disability claims; (3) delays in heating assistance because of the shutdown and the firing of program-administration staff earlier this year; (4) the administration's stated intent to eliminate heating assistance entirely; (5) elevated health-insurance premiums for 2026; and (6) the shutdown's harm to the broader economy.<sup>62</sup>

Considering these circumstances, the Department recommended that the Commission reduce Otter Tail's proposed residential-class interim increase by half, or \$4.0 million. CUB, meanwhile, recommended that the Commission set the overall interim increase at no more than 50 percent of Otter Tail's request. CUB's recommendation would result in an approximately \$16 million reduction in Otter Tail's proposed increase, with the reduction distributed evenly across all classes.

The OAG recommended the Commission reduce Otter Tail's proposed interim rate increase by \$3.2 million to remove incremental depreciation expense related to Otter Tail's planned early exit from the Coyote Station power plant. The basis for that recommendation was the statutory requirement that the interim-rate schedule can only include "rate base or expense items the same in nature and kind as those allowed by a currently effective order of the commission in

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<sup>61</sup> Department Comments at 5-6.

<sup>62</sup> CUB Comments at 3-5.

the utility's most recent rate proceeding.”

### **1. Interim Rate Statute**

Minn. Stat. § 216B.16, subd. 3, states in part that:

(a) Notwithstanding any order of suspension of a proposed increase in rates, the commission shall order an interim rate schedule into effect not later than 60 days after the initial filing date. The Commission shall order the interim rate schedule ex parte without a public hearing. ... [and]

(b) Unless the Commission finds that exigent circumstances exist, the interim rate schedule shall be calculated using the proposed test year cost of capital, rate base, and expenses, except that it shall include: (1) a rate of return on common equity for the utility equal to that authorized by the commission in the utility's most recent rate proceeding; (2) rate base or expense items the same in nature and kind as those allowed by a currently effective order of the commission in the utility's most recent rate proceeding; and (3) no change in the existing rate design.

### **2. Effective Date for Interim Rate**

If the Commission accepts Otter Tail's filing as substantially complete as of October 31, 2025, and suspends the proposed final rates then, pursuant to Minn. Stat. § 216B.16, subd. 3(a), the Commission must order interim rates into effect within 60 days or no later than December 30, 2025. However, Otter Tail stated that it will not put interim rates until the start of the test year, or January 1, 2026. No party has objected to the proposed January 1 implementation date.

### **3. Financial Matters**

The following table compares Otter Tail's proposed interim rates with its proposed final rates and shows the changes in the components of the revenue deficiency calculation for 2026.

**Table 11: Comparison of Proposed Final Rates and Proposed Interim Rates<sup>63</sup>**

Financial Summary	Proposed 2026 Final Rates	Proposed 2026 Interim Rates	Difference
Average Rate Base	\$999,781,386	\$969,012,601	(\$30,768,785)
Rate of Return	7.92%	7.29%	(0.63%)
Return on Equity	10.65%	9.48%	(1.10%)
Required Operating Income	\$79,170,880	\$70,668,821	(\$8,502,059)
Operating Revenue	\$265,327,955	\$269,928,928	\$4,600,972
Expenses	\$223,972,421	\$249,802,791	\$25,832,370
AFUDC	\$1,699,174	\$2,067,741	\$368,567
Operating Income	\$43,056,708	\$48,013,760	\$4,957,052
Income Deficiency	\$36,114,172	\$22,655,061	(\$13,459,111)
Conversion Factor	1.403351	1.403351	
Revenue Deficiency	\$50,680,859	\$31,793,003	(\$18,887,857)

**a. Rate Base and Operating Income Adjustments**

Staff reviewed the interim rate request to determine whether the request is generally consistent with statutes, prior Commission policy statements, and prior Commission Orders. Staff did not attempt to determine the appropriateness of any issue for final rates. Questions of that nature are best reserved for review within the course of the proceeding for final rates.

Tables 12 and 13 below reconcile the differences between Otter Tail's proposed Interim and Test Year Rate Base and Operating Income.

**Table 12: Rate Base Adjustments from Proposed Test Year to Interim Rates<sup>64</sup>**

Proposed Test Year Rate Base	\$999,781,386
Remove Plant Annualization	(\$3,375,305)
Removal of Prepaid Pension	(\$27,094,034)
Removal of Grid Modernization-Wildfire	(\$540,759)
Prorate ADIT	(\$2,349,751)
Cash Working Capital Impact	\$21,668
Change in NOL – Gross UP	\$2,599,681
Changes in Allocations Impact	(\$30,285)
Interim Rates Rate Base	\$969,012,601

<sup>63</sup> *Id.*, Vol. 1, Part B, Schedule 7.

<sup>64</sup> Docket No. E-017/GR-25-359, OTP initial, Vol. 1, Part B, Schedule 3

**Table 13: Operating Income Adjustments from Proposed Test Year to Interim Rates<sup>65</sup>**

Proposed Test Year Operating Income	\$43,056,708
Remove Plant Annualization	\$1,397,091
Remove Grid Modernization - Wildfire	\$9,039
Remove Coyote – 2031 Exit – Fuel Supply	\$854,487
Remove Rider Roll-In Revenues	\$4,193,897
Insurance Credits	\$215,899
Hoot Lake Amortization – Docket No. 017/GR-20-719	(\$249,107)
Miscellaneous Interim-Only Items	(\$1,284,952)
Changes in Allocators	(\$179,303)
Proposed Interim Rates Operating Income	\$48,013,759

Staff notes that Otter Tail calculated the Interim Deficiency beginning with the proposed 2026 test year, adjusted for: (1) costs to be recovered during the interim rate period but not in final rates; and (2) costs that are included in the 2026 Test Year but are not “the same in nature and kind” as those currently allowed in base rates.

Otter Tail added costs to the proposed 2026 Test Year calculation that were not included in the Interim rate, thus, the proposed rate revenue deficiency is higher than the Interim base rate revenue deficiency.

#### **b. Remove Plant Annualization**

The 2026 Test Year included an adjustment to annualize depreciation and other operating expenses for balance-of-plant projects placed in service during 2026. These projects are removed from the Proposed Interim Test Year 2026 rate base.

#### **c. Remove Grid Modernization – Wildfire**

An adjustment was made to remove excluded the wildfire-related grid modernization investments for purposes of the Proposed Interim Test Year 2026. The installation of electronic reclosers and Supervisory Control and Data Acquisition interface systems is planned to take place over a six-year period, with approximately 16 going into service in 2026.

#### **d. Remove Rider Roll-In**

Otter Tail proposed to roll certain rider projects into base rates when final rates take effect. To reflect this in interim rates, Otter Tail increased present revenues in the Proposed Interim Test Year 2026 by approximately \$5.9 million—the rider revenue expected during

<sup>65</sup> *Id.*, Vol. 1, Part B, Schedule 6

the interim period.

#### **e. Insurance Credits**

Otter Tail received insurance credits in 2025 and anticipates similar credits in 2026. Because the availability of credits beyond 2026 is uncertain, Otter Tail reflected only the expected 2026 credits in the Proposed Interim Test Year 2026, reducing the interim revenue deficiency.

#### **f. Hoot Lake Plant and Hydro Deferred Depreciation**

The Commission previously authorized recovery of incremental depreciation associated with Hoot Lake Plant. As of December 31, 2025, \$0.35 million is the remaining deferred depreciation balance authorized by the Commission. Otter Tail proposed to recover this balance in the Proposed Interim Test Year 2026 but not in the 2026 Test Year.

#### **g. Miscellaneous Interim-Only Items**

Otter Tail included three interim-only items:

- A (\$0.18 million) Southwest Power Pool (SPP) tracker credit, reducing the interim revenue deficiency.
- An adjustment to remove Advanced Metering Infrastructure (AMI) meter-reading savings from Proposed Interim Test Year 2026 to avoid double-counting, since they are already included in the Electric Utility Infrastructure Cost (EUIC) Rider.
- Removal of the annualization of Phase II of the Milbank Area Reliability Project, which is expected in service in December 2026.

#### **h. Changes in Allocations**

Otter Tail used its jurisdictional cost of service study (JCOS) model to calculate all operating statement and rate base schedules for both interim rates and the application for final rates. Certain allocation factors are developed within the JCOS model. Changes in allocation factors modify rate base components, reflecting the interim adjustments.

#### **i. Remove Coyote 2031 Exit – Fuel Supply**

Pursuant to the Commission's Order on Docket No. E-017/RP-21-339,<sup>66</sup> OTP included two categories of Coyote Station exit-related costs in the 2026 Test Year: (1) the undepreciated plant balance as of December 31, 2031, and (2) costs to exit the fuel supply agreement. Since the present rates do not include exit costs, OTP removed the fuel supply exit costs from the Proposed Interim Test Year 2026.

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<sup>66</sup> In the Matter of Otter Tail Power's 2023– 2037 Integrated Resource Plan, Docket No. E017/RP-21-339, Order Modifying Otter Tail Power's 2023-2037 Integrated Resource Plan at Order Point 4 (July 22, 2024) (2021 IRP Order).

## j. Staff Analysis

Staff notes the OAG opposed Otter Tail's \$3.2 million early-exit depreciation expense for Coyote Station in both the proposed test year and the interim rates.

As stated in MN Statute § 216B.16 Subdivision 3, interim-rate items must be "expense items the same in nature and kind as those allowed by a currently effective order of the commission in the utility's most recent rate proceeding."

If the Commission finds that adding such costs to the interim rate calculation is not in keeping with the statute, staff believes the Commission should require Otter Tail to exclude all such costs from the Company's interim rate increase.

In any case, the Commission may wish to request that such costs are thoroughly developed in the rate case proceeding, along with their potential recovery through the interim rate refund process.

The Commission may wish to further address this issue at the December 4, 2025 agenda meeting.

## 4. Interim Cost of Capital

Minn. Stat. § 216B.16, subd. 3(b), provides, in part:

... the commission finds that exigent circumstances exist, the interim rate schedule shall be calculated using the proposed test year cost of capital, rate base, and expenses, except that it shall include: (1) a rate of return on common equity for the utility equal to that authorized by the commission in the utility's most recent rate proceeding. . . .

Otter Tail's proposed test-year cost of capital is:

**Table 14: Otter Tail's Proposed 2026 Test Year Cost of Capital<sup>67</sup>**

Component	Percent of Total	Cost Rate	Weighted Cost
Long-Term Debt	44.09%	4.76%	2.10%
Short-Term Debt	2.41%	5.11%	0.12%
Common Equity	53.50%	10.65%	5.70%
Total (ROR)			7.92%

The Company is proposing an interim cost of capital of 7.29% based on its proposed capital structure and cost of debt rates and the rate of return on common equity that was authorized

<sup>67</sup> Volume 2A (Nelson Direct), at 2.

in its last rate case which results in the following:<sup>68</sup>

**Table 15: Otter Tail's Proposed 2026 Interim Rates Cost of Capital<sup>69</sup>**

Component	Percent of Total	Cost Rate	Weighted Cost
Long-Term Debt	44.09%	4.76%	2.10%
Short-Term Debt	2.41%	5.11%	0.12%
Common Equity	53.50%	9.48%	5.07%
Total (ROR)			7.29%

## 5. Interim Rate Design

Otter Tail requested an interim rate increase of \$31,793,007, or 12.62%, of total present revenues. Table 16 below summarizes Otter Tail's proposed interim rate design. This interim increase would be collected by applying a uniform 21.31 percent adjustment to the base-rate components of all customers' bills.<sup>70</sup>

**Table 16: Otter Tail Power's Current and Proposed Revenue Apportionment for Interim Rates**

Class	Adjusted Present Revenues	Interim Revenues	Increase	Percent Change
Residential	\$ 56,770,334	\$ 64,751,644	\$ 7,981,310	14.06%
Farm	\$ 4,453,905	\$ 5,060,003	\$ 606,098	13.61%
Small General Service	\$ 44,000,458	\$ 50,051,348	\$ 6,050,890	13.75%
Large General Service	\$ 132,140,783	\$ 147,593,678	\$ 15,452,895	11.69%
Area / Street lighting	\$ 3,238,523	\$ 3,791,130	\$ 552,607	17.06%
Ctrl Svc Water Htng/Dfd Load	\$ 2,903,100	\$ 3,245,115	\$ 342,015	11.78%
CS Interruptible	\$ 7,604,646	\$ 8,358,420	\$ 753,774	9.91%
Ctrl Svc Off Peak	\$ 798,320	\$ 851,738	\$ 53,418	6.69%
<b>Total Present Revenues</b>	<b>\$ 251,910,069</b>	<b>\$ 283,703,076</b>	<b>\$ 31,793,007</b>	<b>12.62%</b>

Staff recommends approval of Otter Tail's interim rate design methodology—i.e. applying an across-the-board increase to all customer classes—because it fulfills the “no change in existing rate design” direction contained in Minnesota Statute §216B.16, Subdivision 3, and it is consistent with the Commission's Statement of Policy on Interim Rates, which states that “...interim rates should consist of the existing rate schedules with an interim rate adjustment equal to the overall requested interim increase percentage.”<sup>71</sup>

<sup>68</sup> Volume 1, Schedule 6, Part C.

<sup>69</sup> Volume 4A, at 309.

<sup>70</sup> Initial Filing, Vol. 1 Notice of Change in Rates – Interim Rate Petition, at page 4.

<sup>71</sup> Minnesota Public Utilities Commission, Statement of Policy on Interim Rates, April 14, 1982, at page 1.



## 6. Legal Background on Finding Exigent Circumstances and Departing from the Statutory Formula in Setting Interim Rates in a General Rate Case

On September 18, 2013, the Supreme Court of Minnesota issued a decision upholding the Commission's authority to depart from the statutory formula in setting interim rates under Minn. Stat. § 216B.16, subd. 3(b), if it finds that exigent circumstances exist to justify the departure.<sup>72</sup> When determining whether exigent circumstances exist, the Commission may consider relevant factors outside those listed in subdivision 3—such as the state of the economy and the size and timing of the requested rate increase.<sup>73</sup> The Commission must identify the exigent circumstances that are present, and the finding must be supported by substantial evidence in the record.<sup>74</sup>

Because “exigent circumstances” is not defined in the statute, the term is construed according to its common usage.<sup>75</sup> In *In re Application of Minnesota Power*, the court cited several dictionary definitions defining “exigent circumstances” as a “situation that may allow people to circumvent usual procedures,” and defining “exigent” as “[r]equiring immediate action” or similar.<sup>76</sup>

The court determined that the existence of exigent circumstances is primarily a factual determination for the Commission to make as part of its interim rate making function, requiring application of the Commission's technical knowledge and expertise to the facts presented.<sup>77</sup>

If the Commission finds exigent circumstances based on substantial evidence, then the Commission has discretion to depart from the statutory formula and to set interim rates consistent with the general ratemaking principles of Minn. Stat. § 216B. These principles include:

- “Every rate made, demanded, or received by any public utility . . . shall be just and reasonable.”<sup>78</sup>
- The Commission “shall give due consideration to the public need for adequate efficient, and reasonable service and to the need of the public utility for revenue sufficient to

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<sup>72</sup> *In the Matter of the Application of Minnesota Power for Authority to Increase Rates for Electric Service in Minnesota (In re Application of Minnesota Power)*, 838 N.W.2d 747, 757 (Minn. 2013).

<sup>73</sup> *See id.* at 757–758.

<sup>74</sup> *Id.*

<sup>75</sup> *Id.* at 758 (citing Minn. Stat. § 645.08).

<sup>76</sup> *Id.*

<sup>77</sup> *Id.*

<sup>78</sup> Minn. Stat. § 216B.03.

enable it to meet the cost of furnishing the service . . . and to earn a fair and reasonable return” on eligible investment.<sup>79</sup>

- “Any doubt as to reasonableness should be resolved in favor of the consumer.”<sup>80</sup>

Accordingly, setting interim rates under exigent circumstances requires the Commission to apply its experience and technical knowledge of the utility industry to determine a just and reasonable rate, balancing the utility’s and ratepayers’ interests.<sup>81</sup>

## 7. Methods and Procedures for Refunding

Pursuant to Minn. Stat. §216B.16, subd. 3, Otter Tail’s filing contains the Company’s Agreement and Undertaking of Refund. It states that the Company agrees and undertakes to refund to its customers the amount collected in excess of final authorized rates, if any collected during the interim rate period, plus interest at the current rate determined by the Commission, computed from the effective date of the interim rates through the date of refund.

## V. Public Hearings

The scheduling of the public hearings is typically discussed and decided around the time of the pre-hearing conference by the ALJ in consultation with the Company, Parties, and the Commission. A formal Commission decision on this matter is not needed for the purpose of issuing the Commission’s orders; however, some direction from the Commission on the appropriate number and location of public hearings to recommend to the ALJ would be welcome.

**Table 17: Public Hearings**

	2015	2020
Public Hearing Locations	Bemidji Crookston Fergus Falls Morris	Virtual (4) - due to Covid Restrictions
Estimated Attendance	1	18

In the interest of developing a framework for public hearings in this proceeding, staff’s recommendation would be, to the extent that they are possible, for the ALJ to conduct several in-person public hearings similar in schedule and number as was done in the Company’s 2015 rate cases. Staff notes that the 2020 rate case was held during the COVID-19 pandemic, and the public hearings were significantly burdened by that event. Staff also recommends that, similar

<sup>79</sup> Minn. Stat. § 216B.16, subd. 6.

<sup>80</sup> Minn. Stat. § 216B.03.

<sup>81</sup> *In re Application of Minnesota Power*, 838 N.W.2d at 758.

to what was done in several recent rate cases, the Commission consider asking parties to hold several remote public hearings. Any additional direction from the Commission on the appropriate number and location of public hearings to recommend to the ALJ would be welcome.

Staff also notes that recent rate cases have seen significant success in gleaned comment from the public through the inclusion of comment cards in bills, pre-addressed to the Commission, allowing ratepayers to easily provide comments directly to the Commission by mail.

## **VI. Administrative and Compliance Issues**

The Commission's practice in most rate cases has been to require: a) notice to municipalities and counties of the proposed rate change, b) public hearings at locations within the company's service area, and c) notice of evidentiary and public hearings.

The decision alternatives contain ordering language that is similar to the language used in notice and orders for hearing in previous general rate proceedings. Staff recommends that this language be incorporated into the Commission's decisions in this docket. General rate case notice requirements can be found in Minn. Stat. § 216B.16, subd. 1, and Minn. Rules, Part 7829.2400, subparts 3 and 7.

The Commission's practice has also been to require interim rate compliance filings. These filings typically include tariff sheets with supporting documentation, and a Commission-approved notice to customers of the interim rate increase. Companies are also required to keep records of their sales and collections to support any potential interim rate refund obligation. The decision alternatives contain language typical of the language used in previous Commission Orders authorizing interim rates.

Staff recommends the Commission require the listed Administrative and Compliance decision alternatives in their entirety.

Regarding the Approval of Notices and Customer Bill Inserts decision alternative, customer notices are generally administrative items that are negotiated between Commission Staff and the utility. Staff has been working with the Company to finalize these notices prior to issuance. Authority to approve notices is usually delegated to the Commission's Executive Secretary for the duration of the proceeding. Staff recommends continuing that practice here.

## **VII. Concluding Comment & Recommendation**

If the Commission accepts this filing as substantially complete, the Commission should also suspend the proposed final rates, set this matter for contested case hearing, and request the ALJ's report and recommendation within a sufficient amount of time for the Commission to issue its order before the statutory deadline.

Staff also recommends all of the administrative and compliance items listed under alternatives

19 and 20 and recommends that the Commission delegate authority to the Executive Secretary to approve notices and customer bill inserts for the duration of this proceeding.

Additionally, staff included a decision option requiring the Company to track Energy Conservation and Optimization (ECO) program costs and collection through the interim period so that it can be ascertained that recoveries dedicated to ECO are properly recorded.

In 2021, the Minnesota Legislature passed the Energy Conservation and Optimization Act (ECO Act), updating and modernizing the previous Conservation Improvement Program (CIP). Oversight of the state's ECO program is split between two jurisdictions: that of the Commission and that of the Commissioner of the Department of Commerce. Broadly, the Commerce Commissioner oversees the bulk of ECO activities, approving planned and actual spending and savings on energy conservation while the Commission oversees cost recovery and the ECO financial incentive.

## DECISION OPTIONS

### Acceptance

1. Accept the Petition of Otter Tail for authority to increase rates as being in proper form and substantially complete as of October 31, 2025. [Otter Tail, Department, OAG, CUB]
2. Reject the Petition of Otter Tail for authority to increase rates as not being in proper form and substantially complete.

### Suspension of Proposed Final Rates

3. Suspend the proposed final rates until the Commission makes its final determination in this matter by the 10-month statutory deadline of August 31, 2026.
4. Suspend the proposed final rates until the Commission makes its final determination in this matter. Find the Commission has insufficient time to make a final determination if the rates are suspended for a 10-month period because of the need to make a final determination in other pending cases involving changes in general rates. Find that the rates in this case should be suspended for an additional ninety days, until November 30, 2026.
5. Find the Commission has insufficient time to make a final determination within a 10-month period because of the need to make final determinations in other pending cases involving changes in general rates. Suspend the rates in this case for an additional 90 days plus accept the Company's proposal to suspend rates for an additional 3 months, until February 23, 2027. [Otter Tail, Department, OAG, CUB]
6. Do not suspend the proposed rates.

*If the Commission suspends the proposed final rate, then the Commission should also decide the remaining items:*

### Referral of this Matter to the Office of Administrative Hearings for a Contested Case Proceeding

7. Refer the matter to the Court of Administrative Hearings for a contested case. Request the ALJ's report at least three months before the deadline for the Commission's decision, as determined by Decision Option 3, 4, or 5. If, for any reason, the statutory deadline for the Commission's decision is extended at any point during this proceeding, request the ALJ's report at least three months before the extended deadline for the Commission's decision.
8. Identify the following issues requiring development of a complete record in this case.

- a. The standard rate case issues;<sup>82</sup>
- b. Reasons for the significant changes of the following costs since the last rate case:
  - Net Plant in Service – 31 % increase
  - Materials & Supplies – 121 % increase
  - Prepayments – 2742% increase
  - Cash Working Capital – 311% increase
  - Production Expense – 51.8% increase
  - Distribution Expense – 48.3% increase
  - Sales Expense – 93.3% increase
  - Administration and General Expenses – 37.1% increase.
  - Charitable Contributions – 126.8% increase.
  - Depreciation Expense – 49.9% increase.
- c. Whether the proposed Top Ten executive pay compensation is appropriate.
- d. Is Otter Tail in compliance with the Commission Order dated May 9, 2002, regarding the Company's petition to transfer operational control of certain transmission facilities to the Midcontinent Independent System Operator (MISO)? If no, what remedy should be applied? Should the Commission deny recovery of MISO Schedule 10 costs or any other MISO-related costs?

### Request for Specialized Technical Services

9. Pursuant to Minn. Stat. § 216B.62, subd. 8, determine that it is necessary to conduct an investigation of public utility operations, practices, or policies requiring specialized technical professional investigative services for the inquiry, and request that the Commissioner of the Department of Commerce seek authority from the Commissioner of Management and Budget to incur costs for the specialized services to develop and evaluate the record on the Company's rate case, including but not limited to, claimed prepaid pension asset and the Company's wildfire mitigation costs. [Department]

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<sup>82</sup> The standard rate case issues are: 1) Is the test year revenue increase sought by the Company reasonable or will it result in unreasonable and excessive earnings by the Company? 2) Is the rate design proposed by the Company reasonable? and 3) Are the Company's proposed capital structure and return on equity reasonable? In the Matter of the Application of Minnegasco, a Division of NorAm Energy Company, for Authority to Increase Natural Gas Rates in Minnesota, Docket No. G-008/GR-95-700, Notice and Order for Hearing at 3, (October 4, 1995).

**Effective Date of Interim Rates**

10. Authorize Otter Tail to implement interim rates for service rendered on and after January 1, 2026 (sixty days after Otter Tail's October 31, 2025 filing date). [Otter Tail, Department, OAG, CUB]

and,

11. Authorize Otter Tail to waive its right under the interim rate statute to put interim rates into effect on December 30, 2025 and authorize Otter Tail to actually implement interim rates for service rendered on and after January 1, 2026. [Staff]

**Interim Rate Increase (Financial)**

12. Approve an annual interim rate revenue deficiency of \$31,793,008 and Otter Tail's proposal to increase Uplift credits for January through April 2026. [Otter Tail]
13. Require Otter Tail to exclude \$3,216,579 in incremental Coyote Station depreciation resulting in an annual interim rate revenue deficiency of \$28,576,429. [OAG]
14. Find that exigent circumstances exist, and cap Otter Tail's interim rate increase at \$15,793,008, or 50 percent of its overall request. [CUB]
15. Find that exigent circumstances exist, and cap the rate increase for residential customers to \$4 million, resulting in a total interim rate increase to \$27,811,698. [Department]

and,

16. If the Commission requires Otter Tail to adjust its interim rate revenue deficiency and rates to something different than proposed, then direct Otter Tail to file revised financial schedules and calculations (interim rate base, income statement, cost of capital, and revenue summary) and class revenue schedules reflecting the Commission's modifications within 5 calendar days of this meeting. [Staff]

**Interim Rates (Capital Structure & Cost of Capital)**

17. Approve Otter Tail Power's proposed interim cost of capital for setting interim rates. [Otter Tail]

**Interim Rates (Rate Design)**

18. Approve Otter Tail's request to collect the interim rate increase as a uniform percentage interim rate adjustment to the base rate portion of customer bills. And to display the interim rate increase on customer bills using a single, line-item interim rate adjustment. [Otter Tail]

**Administrative & Compliance Issues**

19. In the Notice and Order for Hearing, require the following:

- a. The Company shall mail copies of the order resulting from this decision to all municipalities, counties, and local governing bodies in its Minnesota service area.
- b. The Administrative Law Judge shall convene public hearings in this matter at locations within the service area of the Company.
- c. The Company shall file draft notices of the evidentiary and public hearings, file them for Commission approval, and, after filing for approval, disseminate them as follows:
  - i. Individual written notice to each customer, which may be in the form of a bill insert, to be served at least 10 days before the first day of hearings.
  - ii. Written notice to the governing bodies of all municipalities, counties, and local governing bodies in the area affected and to all parties in the Company's last two rate cases, to be mailed at least 10 days before the first day of hearings.
  - iii. Advertisements in legal newspapers of affected counties and other newspapers of general circulation within the Company's Minnesota service area, to appear at least 10 days before the first day of hearings. These advertisements shall include the heading RATE INCREASE NOTICE, which shall appear in bold face type no smaller than 30 points. [Staff]

and,

20. In the Order Setting Interim Rate require the following:

- a. Order the Company to file with the Commission and the Department of Commerce-Division of Energy Resources interim rate tariff sheets and supporting documentation reflecting the decisions herein. The Company's filing should also include the notice to customers, approved by the Executive Secretary, regarding the rate change under the interim rate schedule.
- b. Order the Company to keep such records of sales and collections under interim rates as would be necessary to compute a potential refund. Any refund should be made within



120 days of the effective date of the Commission's final order in a manner approved by the Commission.

- d. Order the Company to include with each customer's first bill under the interim rate schedule a notice of the rate change, approved by the Executive Secretary. Upon completion of this task, the Company shall certify this fact to the Commission.
- d. Require Otter Tail to maintain records of Energy Conservation and Optimization (ECO) Program costs and collection through the interim period so that it can be ascertained that recoveries dedicated to the ECO program are properly recorded. [Staff]

### **Approval of Notices and Customer Bill Inserts**

- 21. Delegate authority to the Executive Secretary to approve notices, bill inserts, and bill format, and to extend deadlines and modify timelines for the duration of this proceeding. [Staff]
  - 22. Order Otter Tail to provide electronic notice to ratepayers in addition to the required bill insert and newspaper publications. Order the Company to include the following in the electronic notice: (1) a description of the proposed rate increase and its impacts on utility bills; (2) a description of interim rates and associated bill impacts; (3) the primary drivers of the rate change, including the proposed increase to the utility's return on equity; (4) information about how to file a public comment; and (5) live links to the Commission's webpage on how to submit a public comment, Otter Tail's webpage on the rate request, and the Commission's webpage on general rate cases and/or the Company's specific proposal. [CUB]
  - 23. Order Otter Tail to provide an emailed copy of the customer notice that is being used for general publication to those customers with an email on file. [Otter Tail]
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