

Staff Briefing Papers

Meeting Date January 8, 2026

Agenda Item 3*

Company Otter Tail Power Co.

Docket No. **E-017/M-25-199**

In the Matter of Otter Tail Power Co.'s Petition for Approval of the Annual Update to its Implement Electric Utility Infrastructure Cost Recovery Rider, Rate Schedule 13.11

Issues Should the Commission approve Otter Tail Power Co.'s proposal to decrease rates in the Company's Electric Utility Infrastructure Cost Rider to take effect the 1st day of the month following approval?

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✓ **Relevant Documents**

Date

Otter Tail Power Co. – Initial Filing	April 14, 2025
Department of Commerce Division of Energy Resources – Comments	August 13, 2025
Otter Tail Power Co. – Reply Comments	August 25, 2025
Department of Commerce Division of Energy Resources– Letter	September 24, 2025

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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.

Table of Contents

I.	Background	1
II.	Discussion.....	2
A.	Summary	2
B.	Otter Tail’s Petition	2
C.	Department of Commerce Comments	11
D.	Otter Tail Reply Comments.....	19
E.	Department of Commerce Letter	20
III.	Staff Comments	20
IV.	Decision Options	20

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I. Background

Minnesota Statute § 216B.1636 allows utilities to file for petitions to recover Electric Utility Infrastructure Costs (EUIC) for Electric Utility Infrastructure Projects (EUIP) not included in rate base during the most recent general rate case, which replace or modify existing electric utility infrastructure if the replacement or modification is shown to conserve energy or use energy more efficiently, or projects which conserve energy or use energy more efficiently by using waste heat recovery converted into electricity.

If approved, EUIC recovery may include a rate of return, income taxes on that rate of return, incremental property taxes, and incremental depreciation expense. The legislation provides a list of minimum criteria the utility must meet in its filing before approval may be granted. The Commission's August 4, 2022 Order in Docket No. E-017/M-21-382 (21-382 Order) approved Otter Tail Power Co.'s (Otter Tail or The Company) EUIC petition. In that Order, the Commission approved a \$55.9 million soft cap on the Advanced Metering Infrastructure (AMI) Project and a \$2 million soft cap on the Outage Management System (OMS) Project, representative of the Minnesota jurisdictional share of the OMS Project's total capital costs. That Order stated Otter Tail may request cost recovery for cost overruns during its next rate case.

The Commission's March 13, 2024, Order in Docket No. E-017/M-23-131, approved Otter Tail Power Company's EUIC petition. In that Order, the Commission approved Otter Tail's EUIC cost tracker and related recovery rates. The Commission also required the Company to include all approved metrics when it files its annual reports in electric utility infrastructure cost petitions. Additionally, Otter Tail was required to include all prior calendar years in these reporting metrics, beginning with 2021. The Company's March 20, 2024 compliance filing provided its rates and tariff to be implemented on April 1, 2024 with Otter Tail stating that the rates had been updated to reflect the Commission's approved changes.

The Commission's January 8, 2025, Order in Docket No. E-017/M-24-186, approved Otter Tail's EUIC petition with the Demand Response (DR) system expense soft cap that reflects the Company's ability to use AMI meters for water heating and load control customers and the use of 26,000 load switches.¹ If Otter Tail demonstrates the need for 14,000 more load switches, it may request additional recovery of DR project costs in a future EUIC rider filing. The Company's January 15, 2025 compliance filing provided its rates and tariff to be implemented on February 1, 2025 with Otter Tail stating that the rates had been updated to reflect the Commission's approved changes.

¹ Commission January 8, 2025 Order, Docket No. E-017/M-21-382.



II. Discussion

A. Summary

This filing for Otter Tail's EIUC Rider recovery includes updated actual and forecasted costs and collections associated with AMI, OMS, DR system projects, annual operating and maintenance (O&M) net savings related to AMI implementation, and new remodel projects for the Company's Bemidji and Milbank Customer Service Centers (CSC). The proposed rate is a \$1.18 decrease from the current monthly approved rate for a residential customer with one meter, and a \$65.08 decrease for a Large General Service commercial customer.

B. Otter Tail's Petition

Otter Tail's Petition requested the continuation recovery of costs associated with AMI, OMS and DR through Otter Tail's EUIC Recovery Rider and proposed updated EUIC rider rates become effective on the first day of the month following Commission approval. The Company also proposed recovery for new remodeling of the CSCs in Bemidji and Milbank.

The net revenue requirement for January 2026 through December 2026, upon which rates are developed, is \$2,127,268. For residential customers, the requested change would result in a decrease of \$1.18 per month.² For Large General Service (LGS) customers the requested change would result in a decrease of \$65.08 per month.

As directed in the 21-382 Order, Otter Tail provided project updates for proposed metrics for approved AMI and OMS projects.³ Additionally, Otter Tail included updates on the approved projects and proposed recovery associated with the new Demand Response project.

1. Advance Metering Infrastructure

Otter Tail started deployment of AMI in late 2021 with 88 percent of meters installed by the end of 2024.⁴ Completion of the remaining installations, with more complex rates and metering configurations and heightened impacts to customer processes, is expected in 2025. Otter Tail Power staff, rather than the contractor Allegiant Utility Services, will install the remaining meters for its commercial and industrial customers, which will allow for a more coordinated meter exchange process. Actual AMI project cost from start through end of 2024 is \$45.7 million. Projected total AMI project cost is \$55.6 million, which remains under the soft cap of \$55.9 million approved amount.

Table 1 compares updated 2025 project savings for AMI to earlier filings. With delayed deployment, O&M savings have also been delayed. The Company estimates that 75 percent of annual savings will be realized in 2025 and nearly 100 percent O&M savings will be realized in 2026. Applying the C7 Meter Reading Factor of 48.60 percent, the Minnesota jurisdictional

² Otter Tail Petition at 32.

³ Commission August 4, 2022 Order, Docket No. E-017/M-21-382, ordering point 10.

⁴ Otter Tail Petition at 5-6.



share of meter reading savings for 2026 is \$2,819,023. Minnesota customers will receive a credit for O&M savings of meter reading expense up to the amount included in base rates.

Table 1 – AMI Project Savings: Initial Filing vs 2025 Updated AMI Project Timeline⁵

	2023	2024	2025	2026
2021 Filing	\$1,744,456	\$5,390,360	\$7,402,761	n/a
2023 Update	\$150,102	\$4,540,372	\$7,402,761	n/a
2024 Update	\$0	\$1,087,647	\$4,350,588	n/a
2025 Update	\$0	\$0	\$4,077,542	\$5,800,784

2. Outage Management System

The OMS allows Otter Tail to identify outages more rapidly, deploy crews more efficiently and lower the number and length of outages.⁶ Also, the August 2023 Customer Experience Portal (CEP) implementation has enhanced customer communication before, during and after outages.

The Geographic Information System (GIS) update of OMS project was completed in May 2024. The Company also completed final go-live improvements, including modeling enhancements to the GIS portion of the OMS system, resulting in better available outage and restoration information and communications.

Together, OMS, AMI, and CEP will enhance the customer experience with two-way communication based on customer-selected preferences. Also, customer can now sign up for outage and estimated restoration notifications customized to their service.

An updated Outage Map is on Otter Tail's website and a new Interactive Voice Response (IVR) system went live in December 2022.

Through 2024, Otter Tail's total cost of the OMS is \$3.9 million, or \$1.9 million for the Minnesota jurisdiction share. The \$1.9 million Minnesota share is under the \$2.0 million Minnesota- soft cap.

3. Demand Response

One-third of Otter Tail's customers participate in DR programs.⁷ For 2022, these customers accounted for \$43.5 million, \$16.8 million Minnesota-Jurisdiction, in energy revenue. High customer participation places Otter Tail's DR portfolio among the largest in the country. Through DR programs, the Company can control 10-15 percent of its total winter peak load, thereby reducing system capacity needs and lowering customer costs.

⁵ Otter Tail Power Petition, Attachment 8.

⁶ Otter Tail Petition at 6-7.

⁷ *Id.* at 7-8.



Otter Tail's current DR infrastructure was implemented in 2003 and relies on outdated software and hardware components that are no longer supported by vendors. Due to the system's obsolescence, a full system replacement is necessary to ensure continued DR reliability and effectiveness.

In an Order in last year's EUIC filing, docket E-017/M-24-186, the Commission approved the Company's request to recover costs for implementation of a DR project. The DR upgrade involves new software and hardware and the potential to use the new AMI meters as load control switches for water heating, a functionality idea which is new for Otter Tail and its vendor. Testing of the proposed DR – AMI functionality is proposed for the second half of 2026.

The Commission's approval calls for a soft cap that reflects the cost decrease Otter Tail will realize if the proposed DR – AMI functionality is feasible. Through February 2025, the Company's actual cost for the DR project is \$1.1 million. The DR project cost is projected to be under the soft cap. DR project implementation is expected to start in the third quarter of 2026 and finish in mid-2028.

On May 23, 2024, Otter Tail applied for DR project funding, named the Innovative Distributed Energy Automation (IDEA), with the US Department of Energy (DOE), and to the Minnesota State Competitiveness Fund. The IDEA project aim is to fund support mainly for the DR project, but to a lesser extent, for electric buses in Minnesota and fast charging for electric vehicles in Minnesota, North Dakota, and South Dakota.

The Minnesota State Competitiveness Fund awarded the IDEA project with a \$1.0 million grant contingent on the DOE granting funding for the project. On October 10, 2024, the DOE selected Otter Tail to commence negotiations with the DOE for DR project funding.

However, due to a change in U.S. government administration after the November 2024 elections, the DOE paused the negotiations on February 3, 2025, awaiting further implementation guidance. As of the time of this filing, the DOE has not authorized funding for the DR project. The Company's January draft budget has requested a 20 percent reimbursement for the DR project. If the DOE funds the DR project, the reimbursement would be credited against total project costs, thus reducing the revenue requirement.

4. Bemidji Customer Service Center Remodel

Otter Tail provides space for line and service operations, vehicle garage space, office space, and conference rooms at its Minnesota customer service centers (CSCs) in Bemidji, Crookston, Fergus Falls, and Morris. In 2024 the Company purchased a warehouse near its CSC in Bemidji to provide space for line and service operations, vehicle garaging, and office space. The line and service vehicles were moved from the CSC to the new warehouse, thus opening more space in the CSC for an expansion of the office area.

In this Petition, Otter Tail proposed to remodel the Bemidji CSC office area and garage space to relieve over-crowding in the office area and to provide a more energy and operationally



efficient space for office personnel.⁸ With the institution of remote work policies in the regional CSCs, more workers can work in Bemidji rather than officing in Fergus Falls. Thus, the number of Bemidji CSC employees has increased from 10-12 to 17.

The Company seeks to follow fairness in its employee policies by providing similar working environments for employees doing the same kind of work. Due to the lack of CSC space for all 17 employees, only 15 employees can work at the office in unequal, cramped conditions. This arrangement has led to dissatisfaction among employees in similar job roles. This remodeling project would provide better working conditions for all Bemidji CSC employees and have room for future growth. Conversion of about 75 percent of garage space into office space would accommodate about 25 onsite employees.

The Bemidji CSC, built in 1965, requires several renovations pertaining to bathrooms, ventilation, peeling wallpaper, dated tiles, a new fire sprinkler system, and a new mother's room. Related to these renovations, several systems need upgrades such as asbestos abatement, electrical, HVAC, sound-proofing, efficient lighting, and larger windows. Alternatively, the cost of constructing a new building of similar size would be \$5.5 million, significantly more expensive than remodeling.

The Company listed 11 compliance items, as required by Minn. Stat. ss 216B.1636, subd. 2(b) (2), to accompany its recovery mechanism in the EUIC Recovery Rider.

(i) Location, description, and costs of the project.

Location: 320 4th St NW, Bemidji, MN 56619

Description: Conversion of Bemidji CSC from 4,500 square feet of garage space and 2,860 square feet of office space into 1,020 square feet of garage space and 6,340 square feet of office space.

Costs: Otter Tail total cost is \$2.7 million.

(ii) evidence that the electric utility infrastructure project will conserve energy or use energy more efficiently than similar facilities currently used by the electric utility.

As outlined above, the Bemidji CSC remodel project incorporates several energy efficient features including skylights, insulated tempered glazing glass, heat pumps, and LED lighting.

(iii) Proposed schedule: start in February 2025 and complete by October 2025.

(iv) a description of the costs, and salvage value, if any, associated with the existing infrastructure replaced or modified as a result of the project.

⁸ Otter Tail Power Petition at 9-20.

The project has zero salvage value. Current property tax assessed value of the buildings is \$641,200.

(v) Proposed rate design and why the proposed rate design is in the public interest.

Otter Tail proposed to include the Bemidji CSC Remodel in the EUIC per meter charge, which is allocated to all customers, except for controlled service customers, based on the weighted average cost of the meters per class. Otter Tail proposes no allocation of the Bemidji CSC Remodel costs to controlled service meters because customers on controlled services are paying their share of the remodel costs through the meter charge applied to their base rate electric service meters. Charges for the EUIC recovery mechanism are included in the Resource Adjustment line of customer bills.

(vi) the magnitude and timing of any known future electric utility projects that the utility may seek to recover under this section.

The response is trade secret.

(vii) the magnitude of EUIC in relation to the electric utility's base revenue as approved by the commission in the electric utility's most recent general rate case, exclusive of fuel cost adjustments.

Total base annual revenue approved in the Company's last rate case is \$209.0 million. The total annual EUIC tracker revenue requirement for all EUIC projects is estimated to be \$2.1 million, with \$157 thousand attributable to the Bemidji CSC remodel project.

(viii) the magnitude of EUIC in relation to the electric utility's capital expenditures since the most recent general rate case.

Otter Tail's total net capital additions from 2021 to 2024 are \$694.4 million. The Bemidji and Millbank CSC remodel projects' estimated total capital additions is \$2.7 million (OTP total).

(ix) the amount of time since the utility last filed a general rate case and the utility's reason for seeking recovery outside of a general rate case.

The Company last filed a rate case November 2, 2020.⁹ These EUIC projects were not included in the 2021 test year because they were neither contemplated, completed, nor in service prior to the end of the rate case, in 2021.

⁹ On October 31, 2025 Otter Tail filed a general rate case in docket E017/GR-25-359 subsequent to this filing. The Company has proposed to transition the EUIC tracker balance into base rates at the conclusion of the rate case. This transition increases the total 2026 Test Year revenue deficiency while reducing the EUIC rider balance by the same amount, meaning this transition will not result in an increase in overall bills paid by customers.

(x) documentation supporting the calculation of the EUIC.

A tracker calculating the updated EUIC rate is listed in Attachments 1-12 of the Company's Petition.

(xi) a cost and benefit analysis showing that the electric utility infrastructure project is in the public interest.

Otter Tail presented its business case for the Bemidji CSC remodel project by describing the Minnesota Cost Test (MCT) that the Department of Commerce Division of Energy Resources (Department) approved on March 31, 2023, which is part of the Energy and Conservation Optimization (ECO) program. The question of cost and benefit is more than the quantifiable question of just dollars and cents. The MCT employs a series of 5 standard cost tests coming from different perspectives. The lifetime net benefit of the project is trade secret. A series of four types of benefits follows.

First, energy benefits are composed of avoided energy consumption, capacity and congestion expressed in kWh and kW savings over the life of the energy efficiency measures. Lifetime savings for the Bemidji project are 883,303 kWh and 320 kW.

Second, environmental benefits, as shown in reductions in the four main air pollutants, are summarized in a reduction of \$0.0306 per kWh.

Third, economic impact measures the project's impact on Minnesota's economic growth. Energy efficiency projects have been proven to provide economic benefits to the surrounding local communities. The Company estimated the economic value-added at \$1.30 per dollar spent on the project, with benefits accruing to the labor market and construction-related firms. Dispersed benefits would also flow to the Bemidji area.

Fourth, non-energy benefits are qualities enjoyed by participants such as workers. Office enhancements can improve worker morale and outlooks.

Project costs are budgeted costs as listed above.

5. Milbank Customer Service Building Remodel

Otter Tail provides space for line and service operations, vehicle garage space, office space, and a conference room at its single South Dakota CSC in Millbank, within 10 miles of the Minnesota border. In March 2024 the Company constructed a new line and service center to provide space for its growing line and service operations. This allowed the Company to move line and service vehicles from the CSC garage space to the new building, thus opening more space in the CSC for an expansion of the office area.

In this Petition, Otter Tail proposed to remodel the Millbank CSC office area and garage space



to relieve over-crowding in the office area and to provide a more energy and operationally efficient space for office personnel.¹⁰ Similar to the Bemidji CSC, with the institution of remote work policies in the regional CSCs, more workers can work in Millbank rather than officing in Fergus Falls. Thus, the number of Millbank CSC employees has increased from 10-12 to 21.

The Company seeks to follow fairness in its employee policies by providing similar working environments for employees doing the same kind of work. Due to the lack of CSC space for all 21 employees, only 16 employees can work at the office in unequal, cramped conditions. The remaining employees work either in the conference room or remotely.

The Millbank CSC, built in 1986, requires several renovations pertaining to bathrooms, ventilation, peeling wallpaper, dated tiles, a new fire sprinkler system, and a new mother's room. Related to these renovations, several systems need upgrades such as asbestos abatement, electrical, HVAC, sound-proofing, efficient lighting, and larger windows. Alternatively, the cost of constructing a new building of similar size would be \$5.5 million, significantly more expensive than remodeling.

The Company listed 11 compliance items, as required by Minn. Stat. ss 216B.1636, subd. 2(b) (2), to accompany its recovery mechanism in the EUIC Recovery Rider.

(i) Location, description, and costs of the project.

Location: 404 2nd Street, Millbank, SD 57252

Description: Conversion of Millbank CSC from 2,880 square feet of garage space and 5,420 square feet of office space into 1,000 square feet of garage space and 7,300 square feet of office space.

Costs: Otter Tail total cost is \$3.3 million.

(ii) evidence that the electric utility infrastructure project will conserve energy or use energy more efficiently than similar facilities currently used by the electric utility.

As outlined above, the Millbank CSC remodel project incorporates several energy efficient features including skylights, insulated tempered glazing glass, heat pumps, and LED lighting, in accordance with the 2021 International Energy Conservation Code.

(iii) Proposed schedule: start in October 2025 and complete by April 2026.

(iv) a description of the costs, and salvage value, if any, associated with the existing infrastructure replaced or modified as a result of the project.

¹⁰ Otter Tail Power Petition at 21-28.



The project has zero salvage value. Current property tax assessed value of the buildings is \$302,403.

(v) Proposed rate design and why the proposed rate design is in the public interest.

Otter Tail proposes to include the Milbank CSC Remodel in the EUIC per meter charge, except for controlled service customers, based on the weighted average cost of the meters per class. Otter Tail proposes no allocation of the Milbank CSC Remodel costs to controlled service meters because customers on controlled services are paying their share of the remodel costs through the meter charge applied to their base rate electric service meters. Charges for the EUIC recovery mechanism are included in the Resource Adjustment line of customer bills.

(vi) the magnitude and timing of any known future electric utility projects that the utility may seek to recover under this section.

The response is trade secret.

(vii) the magnitude of EUIC in relation to the electric utility's base revenue as approved by the commission in the electric utility's most recent general rate case, exclusive of fuel cost adjustments.

Total base annual revenue approved in the Company's last rate case is \$209.0 million. The total annual EUIC tracker revenue requirement for all EUIC projects is estimated to be \$2.1 million, with \$156 thousand attributable to the Bemidji CSC remodel project.

(viii) the magnitude of EUIC in relation to the electric utility's capital expenditures since the most recent general rate case.

Otter Tail's total net capital additions from 2021 to 2024 are \$694.4 million. The Bemidji and Millbank CSC remodel projects' estimated total capital additions is \$2.7 million (OTP total).

(ix) the amount of time since the utility last filed a general rate case and the utility's reason for seeking recovery outside of a general rate case.

The Company last filed a rate November 2, 2020.¹¹ These EUIC projects were not included in the 2021 test year because they were neither contemplated, completed, nor in service prior to the end of the rate case, in 2021.

¹¹ On October 31, 2025 Otter Tail filed a general rate case in docket E017/GR-25-359 subsequent to this filing. The Company has proposed to transition the EUIC tracker balance into base rates at the conclusion of the rate case. This transition increases the total 2026 Test Year revenue deficiency while reducing the EUIC rider balance by the same amount, meaning this transition will not result in an increase in overall bills paid by customers.

(x) documentation supporting the calculation of the EUIC.

A tracker calculating the updated EUIC rate is listed in Attachments 1-12 of the Company's Petition.

(xi) a cost and benefit analysis showing that the electric utility infrastructure project is in the public interest.

Otter Tail conducted the same analysis as it did for Bemidji, using the same inputs and assumptions. A detailed description of the study methodology is in the Bemidji CSC section above. The lifetime net benefit for the Millbank project is trade secret.

First, energy benefits are composed of avoided energy consumption, capacity and congestion expressed in kWh and kW savings over the life of the energy efficiency measures. Lifetime savings for the Millbank project are 632,280 kWh and 245 kW.

Second, environmental benefits, as shown in reductions in the four main air pollutants, are summarized in a reduction of \$0.0306 per kWh.

Third, economic impact measures the project's impact on Minnesota's economic growth. Energy efficiency projects have been proven to provide economic benefits to the surrounding local communities. The Company estimated the economic value-added at \$1.30 per dollar spent on the project, with benefits accruing to the labor market and construction-related firms. Dispersed benefits would also flow to the Millbank area, most likely spilling over in the greater region, including Minnesota. In consideration of the Millbank project benefiting both Minnesota and South Dakota, the Company estimated that the project would no longer yield a net benefit to Minnesota if the economic value per dollar spent was less than \$1.15, which is \$0.15 lower than the \$1.30 net benefit.

Fourth, non-energy benefits are qualities enjoyed by participants such as workers. Office enhancements can improve worker morale and outlooks.

Project costs are budgeted costs as listed above.

6. EUIC Recovery Methodology – AMI, OMS, and DR

To recover AMI, OMS, and DR related costs between rate cases, Otter Tail continued to propose using a per meter charge allocated to all customers based on the weighted average cost of AMI meters per class.¹² The EUIC recovery charge is shown on the Resource Adjustment line of customer bills.

¹² Otter Tail Petition at 28-30.

7. Grid Modernization and Otter Tail's Integrated Distribution Plan

Otter Tail envisions the AMI project as contributing to the Commission's planning objectives for Integrated Distribution Plan (IDP).¹³ AMI will allow for growth of future technologies such as Distribution automation, Outage detection and management, Conservation voltage reduction, and Load management replacement, and Distribution Supervisory Control and Data Acquisition (SCADA).

New opportunities and choices will become available for customers in such areas as new rate options and near real-time data access. For Otter Tail, AMI will reduce meter related costs (including meter reading), and the risk of safety incidents related to meter reading.

Together, AMI and OMS will increase efficiencies for field personnel, and outage assessment and restoration. Customers will have more timely access to system conditions.

The OMS project will provide better outage tracking and response times. The connectivity model will be available for future system engineering applications.

8. Performance Metrics

Otter Tail published a series of 48 performance metrics for the AMI, OMS, and DR projects.¹⁴ The detailed list may be found in Attachment 15 of the Company's Petition.

9. Recommendation

Otter Tail requested that the Commission approve recovery of the new Bemidji and Milbank CSC Remodel projects, the updated costs associated with all projects in the rider, and the EUIC annual rate adjustments as set forth in this Annual Update filing, to be in effect for usage on and after January 1, 2026.

C. Department of Commerce Comments

The Department reviewed the ongoing AMI, OMS with GIS, and DR projects, the new CSC remodel projects, and finally Otter Tail's overall proposed cost recovery and rates.

1. AMI

The Department reviewed Otter Tail's AMI update and found its calculations to be reasonable.¹⁵ As of May 31, 2025 total AMI cost was \$49.8 million, and according to information request (IR) #1 dated June 13, 2025, the cost forecast was \$56.0 million compared to the soft cap of \$55.9 million. The Company will remove and hold the \$86,288 of projected costs exceeding the soft cap for future recovery in its next general rate case.

¹³ Otter Tail Petition at 30-31.

¹⁴ *Id.* at 31.

¹⁵ Department Comments at 6-8.

The updated AMI project timeline shows a projected cost savings of \$5.8 million for 2026. 75 percent of expected savings will be realized in 2025 and nearly 100 percent annual savings will begin in 2026. The Department agreed with the Company that cost savings credits for manual meter-readings should only cover the cost paid in base rates, which is based on 2021 test-year meter-reading costs.

2. OMS

The Department noted that the total cost of the OMS project is \$3.9 million for total OTP and \$1.9 million for the Company's Minnesota jurisdictional share.¹⁶ With the \$2.0 million soft cap for the Minnesota share, the Department concluded that Otter Tail's OMS project timeline is expected to finish under the soft cap.

3. Demand Response (DR) System

After noting that U.S. DOE DR project funding was paused, the Department requested the Company to provide an update.¹⁷ On June 16, 2025 Otter Tail replied that no new update was available, although it was hopeful to receive an update on potential U.S. Department of Energy Innovative Distributed Energy Automation (IDEA) funding in the next four to six weeks from then. In conclusion, the Department requested that Otter Tail provide another update on U.S. DOE funding in Reply Comments

4. Customer Service Center Remodels

The Department reviewed each of the eleven statutory requirements regarding the Bemidji CSC remodel project.¹⁸ After examining the historical, legal, technical, and budgetary details for these statutory requirements, the Department concluded that Otter Tail satisfied all eleven requirements.

The Department reviewed the Company's proposed rate design to ascertain whether it has shown that the project was in the public interest. Since the Bemidji CSC project and the Millbank CSC project are small (\$312,971 combined) compared to the other EUIC projects, the Department felt comfortable with leaving the rate design unchanged. Thus, the Department concluded that Otter Tail's proposed rate design of a fixed per meter charge assigned to appropriate customer classes is reasonable.

The Department also concluded that the Company's rate application and customer billing to be listed on the Resource Adjustment line to be reasonable and consistent with past approved EUIC rider petitions.

¹⁶ Department Comments at 9-10.

¹⁷ *Id.* at 10-14.

¹⁸ *Id.* at 14-23.



The Department also examined Otter Tail's new cost-benefit analysis method for EUIC projects. The MCT approach, supported with cost and benefit figures, showed that the project was an overall benefit to the public interest. Therefore, the Department concluded the cost-benefit analysis is reasonable.

The Department reviewed Otter Tail's Bemidji and Millbank CSC Business Case and Cost Recovery Caps. Specifically, it reviewed the rationales for energy benefits, environmental benefits, economic impact, non-energy benefits, and project costs in its business case and CBA analysis. The Department noted that energy benefits and economic impact were supported by citations to professional studies. The Department observed that the Company assumed a five percent adder for non-energy benefits.

Regarding project costs, the Department requested, based on the statutory definition of EUIC projects, only estimated energy upgrade project costs be included in the EUIC recovery rider. The Company also provided information on potential additional energy efficient upgrade costs to be completed by the general contractor. Since, however, this information lacked sufficient specificity, the Department requested Otter Tail to provide a specific breakdown of these energy efficiency upgrade costs in Reply Comments.

In summary, the Department recommended that the Commission approve soft caps of \$359,270 for the Bemidji CSC Remodel project and \$288,888 for the Millbank Remodel project. These soft caps represent the total estimated energy upgrades in the project cost. The Department will review any additional information that Otter Tail provides in reply comments and may adjust the soft cap as a result.

The Department also recommended the Commission require Otter Tail to identify and track all savings or resulting revenues associated with the Bemidji CSC Remodel project and the Millbank CSC Remodel project, to ensure they are included in the EUIC Rider, and explain any discrepancy between forecasted savings and actual savings.

5. Capital Spend Recovery and Cost Caps

a. AMI Capital Spend

Since, as shown in Table 2, \$55,986,288 million in capital additions exceeds the \$55,900,000 million cap by \$86,288. The Department recommended the Commission require Otter Tail to adjust the AMI amount to the \$55.9 million.

The \$55.9 million cost cap includes legal and consulting fees. However, Otter Tail may recover these expenses only if it demonstrates that they are specific to the AMI project and qualify to be capitalized under GAAP. AMI external and legal consulting fees were \$1,540,422 from May 2023 to June 2024.

The Department requested that Otter Tail, in reply comments, (1) provide the amount of the fees from June 2024 to present, (2) demonstrate that the fees are specific to the AMI project

and qualify to be capitalized under GAAP, and (3) provide receipts for all proposed legal and consulting fees from June 2024 to present.

Table 2: Otter Tail Proposed AMI Capital Spend Recovery (OTP Total)¹⁹

Year	Meters	FAN	Software	Total
2020	\$103,983	\$-	\$-	\$103,983
2021	\$934,829	\$-	\$-	\$934,829
2022	\$1,777,245	\$174,827	\$2,596,279	\$4,548,351
2023	\$7,959,679	\$2,595,819	\$3,744,616	\$14,300,114
2024	\$22,773,719	(\$68,001)	\$3,091,826	\$25,797,544
2025	\$7,224,114	\$98,627	\$2,978,727	\$10,301,468
2026	\$-	\$-	\$-	\$-
Total	\$40,773,569	\$2,801,272	\$12,411,448	\$55,986,289

b. OMS Capital Spend

Otter Tail's Petition requested recovery for Minnesota capital spend of \$1,915,247 tied to OMS project which is below the cap of \$2,002,185; therefore, the Department concluded Otter Tail has complied with the cap. Table 3 shows OMS capital spend by year and difference between OTP Total and Minnesota jurisdiction.

Table 3: Otter Tail Proposed EUIC OMS Capital Spend Recovery²⁰

Year	OTP Total	Minnesota
2020	\$-	\$-
2021	\$381,439	\$187,485
2022	\$2,544,513	\$1,250,679
2023	\$190,944	\$93,853
2024	\$779,684	\$383,230
2025	\$-	\$-
2026	\$-	\$-
2020-2026	\$3,896,580	\$1,915,247

c. DR Capital Spend

As with the AMI and OMS cost caps, the Department reviewed Otter Tail's compliance with the DR cost cap by adding up plant additions which provided Otter Tail's tracker amount. Summing these together in Table 4, total capital additions equaled \$14,651,858, which is under the soft cap.

¹⁹ Department Comments at 31. Small differences due to rounding.

²⁰ *Id.* at 33.

**Table 4: Otter Tail Proposed DR Capital Spend Recovery (OTP Total)²¹**

Year	Hardware	Software Phase 1	Software Phase 2	Software Phase 3	Total
2022	\$-	\$67,652	\$-	\$-	\$67,652
2023	\$-	\$312,668	\$-	\$-	\$312,668
2024	\$-	\$359,571	\$-	\$-	\$359,571
2025	\$152,339	\$1,6925,592	\$566,501	\$85,600	\$2,430,032
2025	\$8,047,256	\$-	\$2,734,655	\$700,024	\$11,481,935
Total	\$8,199,595	\$2,365,483	\$3,301,156	\$785,624	\$14,651,858

6. Proposed Rates

Otter Tail's proposed rates are summarized in Table 5. The Company's rate proposal results in a zero expected tracker balance at the end of 2026. The Department agreed with Otter Tail that intending to zero-out the tracker balance 12 months following implementation of rates is a reasonable approach.

In terms of rate design and cost allocation, the Department noted that Otter Tail proposed to continue using the same jurisdictional and class allocators approved in prior rate case and EUIC filings, Docket Nos. E-017/M-21-382, E-017/GR-20-719, E-017/M-23-131, and E-017/M-24-186, a decision which the Department found reasonable.

Table 5: Otter Tail's Proposed EUIC Rates²²

Service Category	Monthly \$ per Meter Charge	
	Existing	Requested
Residential	2.47	1.29
Residential RDC	5.77	3.01
Farm	7.56	3.94
Small General Service (Under 20 kW)	3.98	2.07
General Service (20 Kw or Greater)	15.68	8.17
General Service – TOU	25.40	13.23
Large General Service – Primary/Transmission	135.88	70.80
Large General Service – Secondary	24.60	12.82
Irrigation Service	13.33	6.94
Outdoor Lighting (Metered)	2.66	1.39
OPA (Metered)	6.61	3.44
Controlled Service Deferred Load	5.77	2.41
Controlled Service Interruptible – Self-Contained	5.88	2.45
Controlled Service--CT Metering	26.67	11.13
Controlled Service Off Peak	7.47	3.12

²¹ Department Comments at 33.

²² *Id.* at 34.

7. Overall Revenue Requirements

Otter Tail's proposed revenue requirements are shown in Table 6 below. Otter Tail's proposed gross revenue requirement increases by approximately \$1.1 million from 2025 to 2026, which is due to (1) increase in AMI expenses, (2) addition of the DR System implementation ramping up in 2026, and (3) addition of the Bemidji and Milbank CSC Remodel projects.

Table 6: Otter Tail's Proposed EUIC Minnesota Revenue Requirements—Current Petition²³

Item	2025	2026
	Actuals (Jan-Feb + Forecast (Mar-Dec))	Forecast
AMI Rev. Req.	\$4,318,387	\$4,569,370
OMS Rev. Req.	\$571,574	\$575,266
DR Rev. Req.	\$106,845	\$645,596
Bemidji CSC Remodel Rev. Req.	\$0	\$157,171
Millbank CSC Remodel Rev. Req.	\$0	\$155,800
ADIT Preservation of Proration	\$0	\$0
Total Rev. Req. (Gross)	\$4,996,806	\$6,103,203
O&M Savings due to AMI	\$(1,981,574)	\$(2,819,023)
Net Rev. Requirements	\$3,015,232	\$3,284,180
EUIC Rider Recoveries	\$4,165,312	\$2,127,268
Tracker Balance	\$(1,150,080)	\$1,156,911
Cumulative Tracker Balance	\$(1,156,911)	\$0

Otter Tail also confirmed with the Department that EUIC operating costs include annual maintenance fees for new assets and labor to run the new software systems. Proposed EUIC operating costs are shown in Table 7.

Table 7: Otter Tail Proposed EUIC Operating Costs²⁴

Year	Meters	FAN	Software	Total
2023	\$22,688	\$7,441	\$3,400	\$33,529
2024	\$540,097	\$118,476	\$105,987	\$764,560
2025	\$1,131,667	\$106,814	\$470,609	\$1,709,090
2026	\$1,246,519	\$130,605	\$538,166	\$1,915,290
Total	\$2,940,971	\$363,336	\$1,118,162	\$4,422,469

²³ Department Comments at 35.

²⁴ *Id.*

8. Reporting Requirements

The Commission's August 4, 2022, Order in Docket No. E-017/M-21-382 required Otter Tail, in its next EUIC rider petition, to propose and establish performance metrics to track the performance of the AMI Project and OMS Project and any other projects proposed.²⁵

The Commission's January 8, 2025, Order in Docket No. E-017/M-24-186 required Otter Tail to report annually in EUIC petitions on all DR metrics included in Otter Tail's August 23, 2024 reply comments or explain why reporting for a given metric is not possible. The current petition published the required metrics reporting in Attachment 15 for the AMI, OMS, and DR projects. The Department therefore recommended the Commission approve Otter Tail's proposed performance metrics.

9. Annual Report on Grid Modernization Investments

The Commission's August 4, 2022, Order in Docket No. E-017/M-21-382 required that Otter Tail file an annual report (in future EUIC rider petitions) on its grid modernization investments.²⁶ According to the Order, the annual report should include the following information:

- an update on the scope of the grid modernization projects proposed in the EUIC rider and intended functionalities and plan for upcoming year;
- an update on the actual capital and operations and maintenance costs incurred and savings accrued compared to the forecasted amounts included in the initial filing of the EUIC rider petition;
- an update on the implementation progress of the grid modernization projects proposed compared to the planned timeline;
- an update on the products and services that the grid modernization projects proposed may enable, including any modifications to those offerings, and a summary of implementation progress;
- a discussion of how the proposed grid modernization projects relate to Otter Tail's integrated distribution plan, specifically the Commission's Planning Objectives for integrated distribution plans and Otter Tail's integrated distribution plan Filing Requirement 3.D (Otter Tail's Long-term Distribution System Modernization and Infrastructure Investment Plan); and
- an update on any performance metrics that are established in a future EUIC rider proceeding.

The Department concluded Otter Tail has provided this required information on pages 30 and 31 of the Petition.

10. Jurisdictional Allocator

On page 30 of the current petition, Otter Tail stated the Minnesota jurisdictional allocations are

²⁵ Department Comments at 36.

²⁶ *Id.*



utilized based on the Commission approved rate case in Docket No. E-017/GR-20-719.²⁷ The Department requested Otter Tail to comment on the total company and Minnesota jurisdictional impact on revenue requirements if the Company were to use its most recent updated allocators. Otter Tail responded stating the total company revenue requirement of \$7,205,914 is not impacted by updating allocation factors, with a minimal increase of \$30,822 if the 2021 test year allocation factors were updated to 2024 actual allocation factors.

The Department therefore supported the continued use of the approved Minnesota jurisdictional allocator from Otter Tail's most recent rate case in Docket No. E-017/GR-20-719.

11. Department Recommendations

The Department recommended the recovery of updated costs associated with the AMI, OMS, and DR be approved, and recommended the recovery for the Bemidji CSC be limited to the estimated energy upgrade costs of \$359,270, and the recovery of the Milbank CSC to be limited to \$288,888, subject to additional information from Otter Tail in reply comments.

The Department supported the continued use of the approved Minnesota jurisdictional allocator from Otter Tail's most recent rate case in Docket No. E-017/GR-20-719. The Department agreed that Otter Tail has accurately calculated its ADIT proration. The Department recommended the Company be allowed to recover \$1,850,711 projected revenue requirement for 2026 and EUIC recovery to begin on January 1, 2026.

The Department made the following preliminary recommendations to the Commission:

- Require Otter Tail to adjust its proposed rate recovery to cap OTP total AMI capital spending at the \$55.9 million required figure.
- Require Otter Tail provide an update of the DR System project in its next EUIC Rider petition.
- The Department recommended the Commission approve a soft cost cap of the Bemidji CSC Remodel project of \$359,270 (energy efficiency upgrades only) in the EUIC Rider.
- The Department recommended the Commission approve a soft cost cap of the Milbank CSC Remodel project of \$288,888 (energy efficiency upgrades only) in the EUIC Rider.
- Require Otter Tail in its next EUIC Rider petition, and annually thereafter as the projects continue to develop and be implemented, to establish performance metrics to track the performance of the Bemidji and Milbank CSC Remodel projects in Attachment 15, along with the AMI, OMS, and DR projects. Consistent with the Commission's January 8, 2025 Order regarding approval of the DR System project, Otter Tail should also report annually on the Bemidji and Milbank CSC Remodel projects' metrics or explain why reporting for a given metrics is not possible.

²⁷ Department Comments at 37.

The Department requested that Otter Tail provide the following in reply comments:

- Quantify the dollar amount of external and legal consulting costs from June 2024 to present.
- Demonstrate that the proposed external legal and consulting costs are specific to the AMI project and qualify to be capitalized under GAAP.
- Receipts corresponding to all proposed external legal and consulting costs from June 2024 to present.
- Provide an update on the DOE IDEA funding for the DR project.
- Provide additional information and documentation on the breakdown of general contractor energy efficiency upgrade costs for both the Bemidji CSC and Milbank CSC Remodel projects.

The Department provided final recommendations after reviewing Otter Tail's reply comments .

D. Otter Tail Reply Comments

Otter Tail removed all AMI costs above the \$55.9 million soft cap from the EUIC tracker and will recover them in the next general rate case.²⁸

Regarding AMI external and legal consulting costs, the Company replied that TRC Environmental Corporation provided consulting services in support of the initiation and implementation of the AMI project. TRC continues to provide system integration (SI) support for the AMI project. The Company paid external legal fees of \$750 to Spencer Fane in 2024 for the AMI project.

Otter Tail provided an update on the DOE IDEA funding application, stating that the DOE was still reviewing its portfolio of projects and had no further news on its review timeline.

Regarding the Bemidji and Millbank remodel projects, the Company has concluded, after further investigation, that anticipated benefits of proceeding with only the recommended components were limited. Therefore, Otter Tail has, as of this time, decided to cancel its request to include the CSC remodel projects in the EUIC Rider.

The revised revenue requirement is \$1,808,934. When compared to current rates, Residential customers will see a monthly decrease of \$1.44 per meter, (\$1.18 decrease per meter in the initial petition), while Large General Service customers will see a decrease of \$79.33 per meter on their monthly bills (\$65.08 per meter decrease in the initial petition).

²⁸ Otter Tail Reply Comments at 1-3.

E. Department of Commerce Letter

The Department agreed with Otter Tail's proposed requested recovery limited to the soft cap for the AMI project.²⁹

The Department reviewed the AMI legal expenses and confirmed the costs are eligible for recovery.

The Department also noted that Otter Tail provided an update with no action to take on the DOE IDEA funding application.

The Department recommended the Commission accept the withdrawal of the Bemidji and Millbank CSC remodel projects.

III. Staff Comments

Staff notes that the conclusions and recommendations are reasonable, maintaining affordability, and enhancing reliability and safety. There are no disputed items between the Department and Otter Tail in this docket. Staff concurs with the Department's recommendation that the Commission approve Otter Tail's petition.

IV. Decision Options

1. Require Otter Tail to adjust its proposed rate recovery to cap OTP total AMI capital spending at the \$55.9 million required figure. (DOC, OTP)
2. Require Otter Tail to provide an update of the DR System project in its next EUIC Rider petition. (DOC, OTP)
3. Require Otter Tail in its next EUIC Rider petition, and annually thereafter, to continue to develop and publish performance metrics for the AMI, OMS, and DR projects. (DOC, OTP)
4. Accept the withdrawal from EUIC of the Bemidji and Millbank CSC remodel projects. (DOC, OTP)

²⁹ Department Letter at 1-2.