



Volume 2B

Testimony of Witnesses:

Peter Wasberg

Employee Compensation

Before the North Dakota Public Service Commission
State of North Dakota

In the Matter of the Application of Otter Tail Corporation
d/b/a Otter Tail Power Company
For Authority to Increase Rates for Electric Utility
Service in North Dakota

Case No. PU-08-_____

Exhibit____

EMPLOYEE COMPENSATION

DIRECT TESTIMONY AND SCHEDULES OF

PETER E. WASBERG

November 3, 2008

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1 **I. INTRODUCTION AND QUALIFICATIONS**

2
3 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

4 A. My name is Peter E. Wasberg. My business address is 215 South Cascade Street, Fergus
5 Falls, MN, 56537.

6
7 Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT POSITION?

8 A. I am employed by Otter Tail Power Company (“Otter Tail Power” or “OTP”), a division
9 of Otter Tail Corporation as the Director, Human Resources and Safety.

10
11 Q. PLEASE SUMMARIZE YOUR QUALIFICATIONS AND EXPERIENCE.

12 A. A description of my qualifications and experience is attached as Exhibit ____, (PEW-1)
13 Schedule 1.

14
15 Q. FOR WHOM ARE YOU TESTIFYING?

16 A. I am providing testimony on behalf of OTP.

17
18 Q. WERE THE ATTACHED SCHEDULES PREPARED EITHER BY YOU OR UNDER
19 YOUR SUPERVISION?

20 A. Yes.

21
22
23 **II. PURPOSE AND SCOPE OF TESTIMONY**

24
25 Q. WHAT IS THE PURPOSE AND SCOPE OF YOUR TESTIMONY IN THIS
26 PROCEEDING?

27 A. The purpose of my testimony is to discuss matters related to employee compensation and
28 benefits, focusing primarily on OTP. First, I will discuss how the compensation levels
29 provided by OTP compare to the general market. Second, I will briefly describe OTP’s
30 current compensation plan, including its two annual incentive plans (collectively the
31 “OTP Annual Incentive Plan”). Third, I will generally describe the compensation and

1 benefit costs that are included in the revenue requirement. Finally, I will provide a
2 summary of OTP's post retirement medical and pension plans and their reasonableness.
3

4 Q. PLEASE SUMMARIZE OTP'S PROPOSAL.

5 A. As generally described in my testimony and further discussed by Mr. Peter Beithon, OTP
6 requests recovery of: (i) costs of wages and salaries and current employee benefits,
7 including an adjustment to OTP executive salaries made effective April, 2007; (ii) costs
8 of the OTP Annual Incentive Plan based on a five-year average payout level, subject to a
9 cap of 25 percent of individual employees' base salary; and (iii) costs relating to post
10 retirement benefits.
11
12

13 **III. COMPENSATION LEVELS AND THE COMPETITIVE MARKET**

14

15 Q. DOES OTP USE INFORMATION REGARDING COMPENSATION AT OTHER
16 FIRMS IN CONNECTION WITH ITS COMPENSATION DECISIONS?

17 A. Yes. OTP routinely compares its compensation levels to those of other utilities and some
18 non-utilities, using a number of surveys and information sources including Towers
19 Perrin, Watson Wyatt, Mercer, and Hewitt. Every three years, OTP participates in a
20 benchmark study conducted by Towers Perrin for non-executive employees. The two
21 most recent Benchmark Studies were conducted in 2005 and 2008.
22

23 Q. PLEASE EXPLAIN HOW OTP USES THIS INFORMATION.

24 A. OTP uses this information as the framework for formulating its compensation programs.
25 Salary surveys are reviewed and analyzed to find positions that correspond with the
26 essential job duties, skills, and functions of OTP's positions. The appropriate benchmark
27 market and salary range for OTP positions are then derived from the median of the
28 applicable survey data. While the market based compensation for a position is based on
29 the median, it is not limited to the single data point of the median. Rather, the relevant
30 market for a position includes a range above and below the median. The compensation

1 for OTP non-union employees is ultimately determined by a combination of market data
2 and the employee's responsibilities, performance, and experience.

3
4 Q. PLEASE FURTHER EXPLAIN THE MOST RECENT TOWERS PERRIN
5 BENCHMARK STUDIES.

6 A. In 2005 and 2008, Benchmark Studies were conducted by Towers Perrin for non-
7 executive employees that included compensation for a broad sample of positions. OTP
8 compensation levels were compared using a combination of general industry,
9 energy/utility industry, and north central regional data to reflect the labor markets in
10 which OTP competes.

11
12 Q. WHAT WERE THE RESULTS OF THE BENCHMARK STUDY?

13 A. The 2005 and 2008 Towers Perrin Benchmark Studies showed the following:

- 14 1. In the 2005 Study, OTP base salaries overall were 5 percent below the
15 competitive median; and, in the 2008 Benchmark Study, base salaries were 1.9
16 percent below the competitive median; and
- 17 2. Total cash compensation (base salary plus annual incentive) overall were 4
18 percent below the competitive median in the 2005 Benchmark Study and 5.8
19 percent below the competitive median in the 2008 Benchmark Study.

20
21 Q. WHAT DID YOU CONCLUDE FROM THESE RESULTS?

22 A. We are using a 2007 test year with known and measurable changes. The 2005 and 2008
23 Benchmark Studies indicate that our salary structure included in our rate request for non-
24 executive employees is competitive, although slightly below the market median.

25
26 Q. DID TOWERS PERRIN ALSO CONDUCT A STUDY OF OTP EXECUTIVE
27 COMPENSATION?

28 A. Yes. In 2007, Towers Perrin conducted a study of executive compensation for OTP,
29 which included consideration of a number of topics, including the following:

- 30 1. Base salary levels were compared to competitive market base salaries;
- 31 2. Annual incentive targets were compared to market annual incentives;

1 3. Total cash compensation levels (including base salaries plus annual incentive
2 targets) were compared to competitive market total cash compensation
3 levels; and

4 4. Total compensation levels (including base salaries, annual incentive
5 compensation, and long-term incentives) were compared to competitive
6 market total compensation levels.
7

8 Q. WHAT DID THE STUDY SHOW?

9 A. The study showed the following:

- 10 1) OTP base salaries were 21 percent below the competitive median;
11 2) OTP's target incentive compensation was below the market median;
12 3) OTP's actual total cash compensation was 41 percent below the competitive
13 median; and
14 4) Total compensation was 50 percent below the market median.

15 As a result, adjustments to compensation for OTP executives were made effective as of
16 April, 2007.
17

18 Q. DOES OTP EXECUTIVE COMPENSATION REMAIN BELOW THE COMPETITIVE
19 MARKET MEDIANS AFTER THESE ADJUSTMENTS?

20 A. Yes. Even with the adjustments made in April, 2007, OTP's overall total cash
21 compensation (including base salary plus *target* annual incentives) for OTP executives is
22 still 21 percent below the competitive market median and total compensation is still 41
23 percent below the market median. With the 25 percent cap on individual incentive
24 compensation levels that OTP has proposed as a limit for inclusion in the revenue
25 requirement, the portion of OTP's overall total cash compensation (including base salary
26 plus *capped* annual incentive) proposed for recovery in rates is 27 percent below the
27 competitive median.
28
29

1 **IV. DESCRIPTION OF OTP COMPENSATION PLAN**

2
3 Q. PLEASE DESCRIBE OTP'S WORK FORCE.

4 A. As of December 31, 2007, OTP had 774¹ full-time employees, including approximately
5 416 union employees and 358 non-union employees (not adjusted for employees of
6 jointly owned plants). These employees provide a wide range of services required to
7 provide electric utility services to our approximately 129,000 customers located in North
8 Dakota, Minnesota, and South Dakota.

9
10 Q. WHAT ARE OTP'S COMPENSATION GOALS?

11 A. OTP's compensation goals are to attract, and thereafter retain and motivate, valuable
12 employees. Such employees are essential to achieve OTP's mission, which is to produce
13 and deliver electricity as reliably, economically and environmentally responsibly as
14 possible to the balanced benefit of customers, shareholders, and employees and to
15 improve the quality of life in the areas in which we do business. OTP continues to focus
16 on maintaining a compensation program that provides a competitive, performance-based
17 pay system that helps us attract and retain a quality workforce that provides our
18 customers with safe, reliable, and economical service.

19
20 Q. PLEASE IDENTIFY THE MAIN COMPONENTS OF OTP'S COMPENSATION.

21 A. Many OTP employees receive compensation consisting of base salaries and annual
22 incentive compensation, along with standard employee benefit plans providing current
23 benefits such as a retirement savings plan, an employee stock ownership plan, and health
24 and dental plans. OTP also provides post retirement pensions and health benefits. Some
25 executive employees are also eligible for long-term incentives.

26
27 Q. PLEASE SUMMARIZE THE OTP ANNUAL INCENTIVE PLAN.

28 A. The OTP Annual Incentive Plan includes all regular employees who are not represented
29 by a union and who work at the rate of at least 1,000 hours per year. The OTP Annual

¹ The employee count of 714 used in Tom Brause's testimony represents the number of full time equivalent employees, which has been adjusted for jointly owned plants.

1 Incentive Plan includes separate plans for: (i) employees other than management (the
2 “OTP Key Performance Award Plan” or “OTP KPA Plan”); and (ii) management
3 employees.
4

5 Q. PLEASE BRIEFLY DESCRIBE THE OTP KPA PLAN.

6 A. The OTP KPA Plan includes approximately 358 OTP employees. The target maximum
7 payout level is 6 percent of the respective individual employee’s base salary. The OTP
8 KPA Plan includes four operating criteria (safety, customer satisfaction, plant
9 availability, and service reliability) and two financial criteria relating to OTP. Each of
10 these six criteria has an equal target weighting. If the OTP financial criteria are not met,
11 the payouts under the remaining four operating criteria are also reduced.
12

13 Q. PLEASE BRIEFLY DESCRIBE THE OTP ANNUAL INCENTIVE PLAN FOR
14 MANAGEMENT EMPLOYEES.

15 A. The OTP Annual Incentive Plan for management employees (the “OTP Management
16 Plan”) includes approximately 18 OTP employees. Four OTP management employees
17 have target maximum payout levels that exceed 25 percent, but OTP is proposing to limit
18 the level of incentive compensation recovered in rates to 25 percent of their individual
19 salaries. The OTP Management Plan includes a number of individual criteria that vary
20 by the employee’s job and responsibilities and two overall financial criteria relating to
21 OTP. The target weighting is 40 percent for individual criteria and 60 percent for the
22 overall financial criteria.
23

24 Q. HOW DOES THE ANNUAL INCENTIVE PLAN COMPLEMENT OTP’S TOTAL
25 COMPENSATION PLAN?

26 A. The OTP Annual Incentive Plan is an important part of our total compensation plan. A
27 compensation plan that includes annual cash incentive compensation encourages
28 increased productivity, and enables OTP to first attract, and then retain and motivate,
29 quality employees who are rewarded for providing quality service to our customers.
30 Without annual incentive compensation, the only way to maintain a competitive cash
31 compensation package would be to increase base salaries, which would increase other

1 costs and substantially reduce both flexibility and incentives for performance.
2 Reliability of our electrical plants and electrical systems is maximized when we have
3 continuity in our workforce. The technical knowledge needed, and the years that it
4 actually takes to acquire the specialized skills for our system, are paramount to our ability
5 to reliably and efficiently provide energy to our customers. Our low turnover rate, helped
6 by a competitive compensation and incentive package, has increased our ability to
7 maintain a strong system without higher employee counts. Our customers also see the
8 advantages of reduced costs associated with the lower recruitment and training
9 requirements associated with a stable workforce. The component of the OTP Annual
10 Incentive Plan tied to financial performance also benefits customers because financial
11 performance depends on the prudent management of costs, which allows electric utility
12 service to be provided at reasonable costs.
13

14 Q. WHAT ARE THE PURPOSES OF OTP'S LONG-TERM INCENTIVES?

15 A. The purposes of OTP's long-term incentives are to: (i) link the long-term success of OTP
16 to qualifying employee compensation; (ii) encourage the retention of management over
17 the long-term; and (iii) provide the opportunity to earn competitive total compensation.
18

19 Q. WHAT ARE THE MAIN COMPONENTS OF OTP'S LONG-TERM INCENTIVES?

20 A. The main components of OTP's long-term incentives are grants of restricted stock and
21 stock options. Qualifying employees are awarded grants and options based on salary, job
22 level, and the price of the stock at the date of grant.
23

24 Q. ARE OTP'S LONG-TERM INCENTIVES COMPARED TO THE MARKET?

25 A. Yes. As described above, the OTP long-term incentives are considered along with other
26 components of compensation when we review compensation levels, including the 2007
27 Towers Perrin study.
28

29 Q. WHAT BENEFITS DO THE OTP LONG-TERM INCENTIVES PROVIDE TO
30 RATEPAYERS?

1 A. As I previously discussed, long-term incentives are part of OTP's total compensation
2 package, which allow OTP to attract, and thereafter retain, its executive employees and
3 senior-level management. As a further result of OTP's long-term incentives, these
4 employees have an added incentive to innovate and control costs, improve effectiveness,
5 and improve customer satisfaction. As a result, ratepayers receive benefits through better
6 service at a reasonable cost.

7
8

9 **V. TEST YEAR REVENUE REQUIREMENT**

10

11 Q. PLEASE IDENTIFY THE COMPONENTS OF OTP'S COMPENSATION PLAN
12 THAT ARE INCLUDED IN THE REVENUE REQUIREMENT.

13 A. As further described by Mr. Beithon, OTP is seeking recovery of: (i) costs of base
14 salaries, including the adjustments to salaries for OTP executives made effective April,
15 2007; (ii) costs of current employee benefit plans; (iii) costs of the Otter Tail Annual
16 Incentive Plans based on five-year average payout levels, subject to a cap based on 25
17 percent of employees' salaries; (iv) long-term incentives for certain OTP employees; and
18 (v) certain costs relating to post retirement benefits. The 25 percent cap on the levels of
19 annual incentive compensation applies to both OTP employees and Otter Tail
20 Corporation employees, and no long-term incentive compensation costs for Otter Tail
21 Corporation employees have been included.

22

23 Q. PLEASE FURTHER DESCRIBE HOW THE PAYOUT LEVELS FOR THE OTP
24 ANNUAL INCENTIVE PLAN WAS DETERMINED.

25 A. The OTP test year revenue requirement includes an annual incentive compensation
26 amount based on a five-year average payout level for the OTP KPA Plan and the OTP
27 Management Plan for the years 2003 through 2007. The 5-year average is adjusted to
28 remove any amounts over the 25 percent cap on individual employee incentives. These
29 average payout levels are representative of OTP's typical payout levels over time.

30

31 Q. WHY DID OTP NOT USE THE ACTUAL PAYOUT LEVELS FOR 2007?

1 A. We did not use the actual 2007 payout levels for the OTP KPA Plan and the OTP
2 Management Plan because those levels were not typical. We did however give the 2007
3 payout levels appropriate consideration by including them in the 5-year averages from
4 which we derived our proposed test year adjustment. For the OTP KPA Plan, the average
5 annual payout was less than one-half of the maximum allowed for the 5-year period,
6 2003 through 2007. By contrast, if the payout levels were based solely on 2007, the
7 incentive payment included in rates would be approximately one-fourth of the maximum
8 paid during that 5-year period. For the OTP Management Plan, the average annual
9 incentive payout was slightly under the target for the 5-year period, 2003 through 2007.
10 And, again by contrast, if 2007 were considered in isolation, the annual incentive
11 payment would be less than two-third of the 2007 target. Clearly, 2007 was not
12 representative of typical annual incentive compensation payouts by OTP.
13

14 Q WHY WAS 2007 SO ABNORMALLY LOW?

15 A. Our earnings in 2007 were below appropriate rates and limited our ability to pay
16 incentive compensation that was otherwise appropriate. Our lower than adequate
17 revenues in 2007 is demonstrated by our filing for an increase in rates in Minnesota, with
18 interim rates taking effect at the end of November 2007, and our filing for an increase in
19 2008 in North Dakota and South Dakota. Had our revenues been adequate to support the
20 incentive compensation that was otherwise justified, the incentive compensation paid in
21 2007 would have been equal to or higher than the five year average.
22

23 Q. WHY SHOULD THE COSTS OF THE OTP ANNUAL INCENTIVE PLAN BE
24 INCLUDED IN THE REVENUE REQUIREMENT?

25 A. The costs of the OTP Annual Incentive Plan should be included in the revenue
26 requirement for several reasons. The inclusion of incentive plans in total compensation
27 packages is an established market practice and a necessary cost of doing business. OTP's
28 annual cash compensation levels, including the OTP Annual Incentive Plan, are below
29 competitive market levels. External studies confirm this fact. In addition, the OTP
30 Annual Incentive Plan includes an appropriate range and balance of factors that provide
31 benefits to customers.

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VI. POST RETIREMENT MEDICAL AND PENSION PLANS

Q. DOES OTP PROVIDE OTHER POST RETIREMENT EMPLOYEE BENEFITS (“OPEB”) AND PENSION PLANS?

A. Yes. OTP provides both.

Q. PLEASE DESCRIBE OTP’S PENSION PLANS

A. We have three separate defined benefit pension plans: one for union employees, other than those at the Coyote Station; a separate plan for union employees at Coyote Station; and one plan for nonunion employees. A summary description of OTP’s pension plans is provided in Exhibit __ (PEW-1), Schedule 2. The OTP pension plans are funded through an external trustee. Mr. Beithon will also address in more detail the financial aspects of funding arrangements for OTP’s pension plans.

Q. PLEASE DESCRIBE THE OPEB.

A. OTP also provides a medical benefits program for retirees (other post employment benefits or OPEB). Participation for non-union employees is limited to persons hired before September 1, 2006. Participation for one of our collective bargaining agreements is limited to persons hired before January 1, 2009. Participation is also limited to persons who are age 55 or older at retirement, have 10 or more years of service (after age 45), and are eligible for or enrolled in the Otter Tail Power medical program as of retirement. The related accounting prescribed by Financial Accounting Standards Board (“FAS”) Statement No. 106 will be addressed by Mr. Beithon.

Q. WHAT HAS OTP DONE TO MANAGE THE ESCALATING COST OF ITS OPEB?

A. OTP has taken several steps to control costs of OPEB. As I indicated in the prior answer, we limited the post-retirement medical benefits program for non-union personnel to persons hired before September 1, 2006; and post-retirement medical benefits were limited, within one collective bargaining agreement, to employees starting employment

1 before January 1, 2009. We have switched from a defined benefit pension plan to a
2 defined contribution pension plan for non-union employees starting employment after
3 August 31, 2006 and for employees within one of our collective bargaining units starting
4 employment after December 31, 2008. We have made substantial efforts to control
5 employee counts, which also reduces post-retirement obligations. We have also
6 negotiated caps and reductions in OTP's obligations in our union contracts. In addition,
7 we have increased the amount of retiree contributions to the costs of the medical benefits
8 program.

9
10 Q. YOU HAVE EXPLAINED WHY CURRENT OPEBS ARE REASONABLE, WERE
11 THE OPEBS THAT ARE BEING RECOVERED THROUGH THE FAS 106
12 TRANSITION AMORTIZATION ALSO REASONABLE?

13 A. Yes. At the time FAS 106 accrual accounting was put into place in 1993, we were
14 required to convert our future OPEB obligations into a current expense and we were
15 allowed to amortize that expense over a period of years, as discussed by Mr. Beithon.
16 Thus, the current revenue requirement includes the cost of OPEBs that were provided to
17 our employees as part of their employment compensation plan that existed prior to 1993.
18 OTP then, as now, offered a total compensation package, including OPEBs, set at an
19 overall level needed to compete for and retain qualified employees. The OPEBs were
20 limited to medical and life insurance benefits. A review of the OPEBs then available
21 shows them to be very basic, e.g. eligibility was set at age 55 with 10 years of service, a
22 reasonable deductible of \$300 per individual was included and payment was limited to 80
23 percent for the next \$7,500 of expenses, and the amount of lifetime payments was
24 capped.

25
26
27 **VII. CONCLUSION**

28
29 Q. PLEASE SUMMARIZE YOUR TESTIMONY.

30 A. In order to attract and thereafter retain and motivate talented employees necessary to
31 achieve our mission, OTP has structured a competitive total cash compensation and

1 benefits package. As I have explained, this combination includes base salaries, active
2 and post-retirement benefits, and incentive compensation. OTP's proposed compensation
3 and benefit costs are reasonable, and should be included in rates.
4

5 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

6 | A. Yes.

STATE OF NORTH DAKOTA
BEFORE THE
PUBLIC SERVICE COMMISSION


In the Matter of the Application by Otter)
Tail Corporation d/b/a Otter Tail Power)
Company, for Authority to Increase Rates)
for Electric Utility Service in North Dakota)

Case No. PU-08-_____

AFFIDAVIT OF PETER E. WASBERG

I, the undersigned, being duly sworn, depose and say that the foregoing is the Direct Testimony of the undersigned, and that such Direct Testimony and the exhibits or schedules sponsored by me to the best of my knowledge, information and belief, are true, correct, accurate and complete, and I hereby adopt said testimony as if given by me in formal hearing, under oath.




Peter E. Wasberg

Subscribed and sworn to before me,
this 23rd day of October, 2008.


NOTARY PUBLIC

PETER E. WASBERG

EMPLOYMENT

2008 – PRESENT	Otter Tail Power Company <i>Director, Human Resources & Safety</i>	Fergus Falls, MN
2004 – 2008	Otter Tail Power Company <i>Manager, Human Resources</i>	Fergus Falls, MN
2002 – 2004	Otter Tail Power Company <i>Area Manager, Crookston & Bemidji</i>	Crookston, MN
1997 – 2002	Otter Tail Power Company <i>Division Manager, Hallock & Crookston Divisions</i>	Hallock, MN Crookston, MN
1995 – 1997	Otter Tail Power Company <i>Office Manager, Bemidji Division</i>	Bemidji, MN
1991 – 1995	Otter Tail Power Company <i>Division Accountant, Milbank Division</i>	Milbank, SD

EDUCATION

- | | |
|--|-----------------------------------|
| • Executive and Organizational Development | The Levinson Institute |
| • Management Institute | University of Wisconsin – Madison |
| Coaching & Counseling | |
| Full-Range Leadership | |
| • Bachelor of Arts | Concordia College, Moorhead |
| Business Administration | |
| Psychology | |

PROFESSIONAL AFFILIATIONS

- | | |
|--|--|
| • Society of Human Resources Management (SHRM) | Member |
| • Corporate Leadership Council | Member |
| • University of Minnesota, Crookston | All-College Advisory Committee (Chair) |
| • Lake Region Halfway House | Director |
| • Crookston National Bank | Director |

Summary Description of Otter Tail Power Pension Plans

Pension plan – Union Employees (does not apply to Coyote Union Employees)	
Type	Defined Benefit
Eligibility	Age 18 and date of hire
Benefit Accrual Service	1,000 hours service in a year
Formula	$(.38(\text{Final Average earnings}) + .18(\text{Final Average Earnings} - \text{Covered Compensation})) * (\text{Years of service up to } 30/30) + 1\% \text{ for each year of service from } 31 - 40 \text{ years}$
Final Average Earnings	Highest 2.5 year average of past 10 years
Covered Compensation	35 year average of SS taxable wage base ending in year prior to Normal Social Security Retirement Age
Vesting	Cliff: 100% after five years of Benefit Accrual Service
Normal retirement age	65
Early retirement age	Age 55 with at least 10 years of service
Early retirement reductions	Age 62 – 64: None Age 57 - 61: 5% per year prior to age 62 Age 55 - 56: 7% per year prior to age 57
Funding	Employer
Form of payment	50% J&S Annuity, 50%/75%/100% Survivor Annuity, 10-year Certain, Reversion Option
Pension Purchase Option	Roll-over portion of Retirement Savings Plan balance – buys additional annuity
Pre-retirement death benefits	Greater of Qualified Pre-retirement Death Benefit on date of death or 25% of pay

Summary Description of Otter Tail Power Pension Plans

Pension plan – Coyote Station Employees (hired before January 1, 2009)	
Type	Defined Benefit
Eligibility	Age 21 and date of hire
Benefit Accrual Service	1,000 hours service in a year
Formula	$(.38(\text{Final Average earnings}) + .18(\text{Final Average Earnings} - \text{Covered Compensation})) * (\text{Years of service up to } 30/30) + 1\%$ for each year of service from 31 – 40 years
Final Average Earnings	Highest 3 year average of past 10 years
Covered Compensation	35 year average of SS taxable wage base ending in year prior to Normal Social Security Retirement Age
Vesting	Cliff: 100% after five years of Benefit Accrual Service
Normal retirement age	65
Early retirement age	Age 55 with at least 10 years of service
Early retirement reductions	Age 62 – 64: None Age 57 - 61: 5% per year prior to age 62 Age 55 - 56: 7% per year prior to age 57
Funding	Employer
Form of payment	50% J&S Annuity, 50%/75%/100% Survivor Annuity, 10-year Certain, Reversion Option
Pension Purchase Option	Roll-over portion of Retirement Savings Plan balance – buys additional annuity
Pre-retirement death benefits	Greater of Qualified Pre-retirement Death Benefit on date of death or 25% of pay

Summary Description of Otter Tail Power Pension Plans

Pension plan – Nonunion Employees (hired before September 1, 2006)	
Type	Defined Benefit
Eligibility	Age 18 and date of hire
Benefit Accrual Service	1,000 hours service in a year
Formula	$(.38(\text{Final Average earnings}) + .18(\text{Final Average Earnings} - \text{Covered Compensation})) * (\text{Years of service up to } 30/30) + 1\%$ for each year of service from 31 – 40 years
Final Average Earnings	Highest 2.5 year average of past 10 years
Covered Compensation	35 year average of SS taxable wage base ending in year prior to Normal Social Security Retirement Age
Vesting	Cliff: 100% after five years of Benefit Accrual Service
Normal retirement age	65
Early retirement age	Age 55 with at least 10 years of service
Early retirement reductions	Age 62 – 64: None Age 57 - 61: 5% per year prior to age 62 Age 55 - 56: 7% per year prior to age 57
Funding	Employer
Form of payment	50% J&S Annuity, 50%/75%/100% Survivor Annuity, 10-year Certain, Reversion Option
Pension Purchase Option	Roll-over portion of Retirement Savings Plan balance – buys additional annuity
Pre-retirement death benefits	Greater of Qualified Pre-retirement Death Benefit on date of death or 25% of pay