

Before the North Dakota Public Service Commission
State of North Dakota

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

PU-17-

Exhibit _____

EMPLOYEE COMPENSATION

Direct Testimony and Schedules of

PETER E. WASBERG

**PUBLIC DOCUMENT – NOT PUBLIC (OR PRIVILEGED)
DATA HAS BEEN EXCISED**

November 2, 2017

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1 **I. INTRODUCTION AND QUALIFICATIONS**

2 Q. PLEASE STATE YOUR NAME AND OCCUPATION.

3 A. My name is Peter E. Wasberg. I am employed by Otter Tail Power Company (OTP) as
4 Director, Human Resources and Safety.

5
6 Q. PLEASE SUMMARIZE YOUR QUALIFICATIONS AND EXPERIENCE.

7 A. I graduated from Concordia College, Moorhead, MN with degrees in business
8 administration and psychology and have worked at OTP since 1991. Prior to moving into
9 the Human Resources Department in 2004, I primarily worked within the customer
10 service/operations area of OTP. I have been in my current role since January 2008. A copy
11 of my resume is included as Exhibit ___(PEW-1), Schedule 1.

12 **II. PURPOSE AND OVERVIEW OF DIRECT TESTIMONY**

13 Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

14 A. My Direct Testimony describes matters related to employee compensation and benefits for
15 OTP.

16
17 Q. PLEASE PROVIDE A BRIEF OVERVIEW OF YOUR DIRECT TESTIMONY.

18 A. First, I will briefly describe OTP's current compensation plan, including its two annual
19 incentive plans (collectively the "OTP Annual Incentive Plan"). Second, I will discuss
20 how the compensation levels provided by OTP compare to the general market. Third, I
21 will generally describe the benefits provided by OTP. Fourth, I will summarize OTP's
22 2018 compensation and benefits costs.

23
24 Q. HOW IS YOUR DIRECT TESTIMONY ORGANIZED?

25 A. In Section III, I describe OTP's workforce and compensation plan. In Section IV, I discuss
26 OTP compensation levels and the competitive market. In Section V, I provide a description
27 of OTP's employee benefits. In Section VI, I describe OTP's 2018 employee
28 compensation costs, and in Section VII, I provide my conclusion.

1 **III. OVERVIEW OF OTP'S WORKFORCE AND COMPENSATION**
2 **PLAN**

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

4 A. In 2018, OTP expects to have an average of 777 full-time equivalent employees, including
5 approximately 392 union employees and 385 non-union employees (these numbers are not
6 adjusted for employees of jointly owned plants). The non-union full-time equivalent
7 employees include: (1) the OTP President and 10 other executives; (2) 250 exempt
8 employees; and (3) 124 non-exempt employees. OTP employees provide a wide range of
9 services required to provide electric utility services to our approximately 131,200
10 customers located in North Dakota, Minnesota, and South Dakota. OTP's workforce
11 supports a substantially larger net plant in service than it did in 2007. OTP witness Mr.
12 Bruce G. Gerhardson discusses the magnitude of infrastructure additions.

13
14 Q. WHAT ARE OTP'S COMPENSATION GOALS FOR ITS WORKFORCE?

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

22
23 Q. IS OTP FACING CHANGES THAT INCREASE THE IMPORTANCE OF THESE
24 GOALS?

25 A. Yes. We expect to have over 35 percent (over 275) of our employees retire during the next
26 ten years. We also have the potential for another 150 - 200 employees to leave employment
27 during this same ten-year time period based on historic non-retirement attrition. Based on
28 exit interviews conducted with approximately 50 percent of the employees who have left
29 OTP for reasons other than retirement since 2011, we find that some of these non-
30 retirement attritions go to other utilities. The reasons cited vary and include increased

1 compensation and/or benefits, a desire for a different geographic setting, and in some cases
2 career advancement. As a relatively small utility serving the rural areas of North Dakota,
3 Minnesota and South Dakota, OTP faces challenges in attracting and retaining skilled
4 workers, especially mobile workers who are in the earlier stages of their careers.
5

6 Q. WHAT ARE THE MAIN COMPONENTS OF OTP'S COMPENSATION PLAN?

7 A. The OTP compensation plan consists of: (1) a combination of base salaries or base wages,
8 plus annual incentive compensation for non-union employees; (2) standard employee
9 benefit plans, including health and dental plans, a 401(k) retirement savings plan with an
10 employer match, and an employee stock ownership plan; (3) defined benefit pensions and
11 post-retirement health benefits for employees whose employment began before OTP closed
12 participation in these plans in 2006 (as I describe later in my Direct Testimony); and (4)
13 defined contributions to a 401(k) plan for other employees. Some key OTP management
14 employees are also eligible for long-term incentives. I discuss the cash compensation for
15 OTP employees in this Section III of my Direct Testimony and I will discuss benefits for
16 OTP employees in Section V of my Direct Testimony.
17

18 Q. PLEASE BRIEFLY DESCRIBE THE BASE SALARY AND WAGE COMPONENT OF
19 OTP'S COMPENSATION PLAN.

20 A. OTP has a combination of hourly and salaried employees. Approximately 50 percent of
21 OTP's employees are represented by unions and 16 percent are non-union employees who
22 receive hourly compensation. OTP has approximately 32 percent salaried (or exempt)
23 employees who are not part of management. All employees receive either a base wage or
24 base salary as part of the employee's cash compensation.
25

26 Q. PLEASE BRIEFLY DESCRIBE THE OTP ANNUAL INCENTIVE PLAN.

27 A. The OTP Annual Incentive Plan is provided to all regular employees who are not
28 represented by a union and who work at the rate of at least 1,000 hours per year. The OTP
29 Annual Incentive Plan consists of two separate plans for: (1) non-union employees (the

1 “OTP Key Performance Award Plan” or “OTP KPA Plan”); and (2) key management
2 employees (the “OTP Management Plan”).

3

4 Q. PLEASE BRIEFLY DESCRIBE THE OTP KPA PLAN.

5 A. The OTP KPA Plan covers approximately 380 OTP non-union employees. The maximum
6 payout level under the OTP KPA Plan is six percent an individual’s employee’s base salary.
7 The OTP KPA Plan is based on: (1) three operating criteria (safety, customer satisfaction,
8 and equivalent plant availability); and (2) one financial criterion relating to the control of
9 operation and maintenance (O&M) costs. Each of these four criteria has a weighting that
10 together comprise the six percent maximum payout.

11

12 Q. PLEASE EXPLAIN THE WEIGHTING OF THE FOUR INDIVIDUAL CRITERIA.

13 A. Of the six percent maximum payout: (1), customer satisfaction has a weighting of 2
14 percent; (2) equivalent plant availability has a weighting of 1 percent; (3) safety has two
15 targets, each worth 0.5 percent; and (4) the O&M cost control criteria has a weighting of 2
16 percent. Payouts under the three operating criteria are not financially tied to the O&M cost
17 control criterion.

18

19 Q. IS OTP PROPOSING A LIMIT ON THE LEVEL OF COST RECOVERY FOR THE KPA
20 PLAN?

21 A. Yes. OTP is proposing to limit the recovery of incentive compensation under the KPA
22 Plan to the average payout level over the past three years, which is approximately 3.5
23 percent, as I will explain in more detail later in my Direct Testimony.

24

25 Q. PLEASE BRIEFLY DESCRIBE THE OTP MANAGEMENT PLAN.

26 A. The OTP Management Plan covers 19 OTP management employees (not including the
27 OTP President who has a separate plan). The OTP Management Plan includes: (1) safety;
28 (2) a number of individual criteria that vary by the employee’s job and responsibilities; and
29 (3) two overall financial criteria relating to OTP. The safety and individual criteria have a
30 cumulative weighting of 50 percent. The financial criteria have a weighting of 50 percent.

1 Q. IS OTP PROPOSING A LIMIT ON THE LEVEL OF COST RECOVERY FOR THE OTP
2 MANAGEMENT PLAN?

3 A. Yes. The settlement in OTP's last general rate case (PU-08-862) included a limitation on
4 recovery of costs of the OTP Management Plan based on 25 percent of base salary.
5 Consistent with that approach, OTP is proposing to limit the recovery of costs of the
6 Management Plan in this case capped at 25 percent of an individual's base salary.

7

8 Q. PLEASE DESCRIBE THE INCENTIVE PLAN FOR THE OTP PRESIDENT.

9 A. The OTP President is under the Otter Tail Corporation Executive Annual Incentive Plan.
10 Under that plan, the criteria and target incentives are determined by the Compensation
11 Committee of the Otter Tail Corporation Board of Directors. Criteria under the current
12 plan include: (1) OTP net income; (2) OTP return on equity; (3) Otter Tail Corporation
13 earnings per share; (4) individual performance; and (5) OTP OSHA safety case rate.

14

15 Q. IS OTP PROPOSING A LIMIT ON THE LEVEL OF COST RECOVERY FOR THE OTP
16 PRESIDENT'S INCENTIVE PLAN?

17 A. Yes. The OTP President's target incentive is 50 percent of base pay, but OTP is also
18 proposing to limit the level of incentive compensation recovered in rates to 25 percent of
19 the OTP President's individual base salary. Again, this is consistent with the treatment in
20 OTP's last North Dakota general rate case.

21

22 Q. DO THE FINANCIAL CRITERIA OF OTP'S ANNUAL INCENTIVE PLANS
23 PROVIDE BENEFITS TO CUSTOMERS?

24 A. Yes. The financial performance components of the OTP Annual Incentive Plan benefit
25 customers because financial performance depends on the prudent management of costs,
26 which allows electric utility service to be provided at reasonable prices. Combining
27 financial criteria, along with performance measures, ensures that we maintain the balance
28 between reliable service and reasonable prices. We believe in this balance and that the
29 financial criteria provide a benefit to our customers.

30

1 Q. HOW DOES THE OTP ANNUAL INCENTIVE PLAN FIT INTO OTP'S TOTAL
2 COMPENSATION PLAN AND COMPENSATION GOALS?

3 A. The OTP Annual Incentive Plan is an important part of our total compensation plan.
4 Without our annual incentive plan, OTP's total cash compensation would be significantly
5 below the market median of total cash compensation, and OTP would be impeded in its
6 ability to attract and retain essential employees. The annual cash incentive compensation
7 that is part of the OTP Annual Incentive Plan also encourages increased productivity, and
8 enables OTP to reward employees for providing quality service to our customers. Both
9 customers and employees benefit from setting incentives that tie directly to our customers'
10 needs.

11 The OTP Annual Incentive Plan also helps us to maintain workforce continuity.
12 Reliability of our electrical plants and electrical systems is enhanced when we have
13 continuity in our workforce. The technical knowledge needed, and the years that it actually
14 takes to acquire the specialized skills for our system, are paramount to our ability to reliably
15 and efficiently provide energy to our customers. Our customers also see the advantages of
16 reduced costs associated with the lower recruitment and training requirements associated
17 with a stable workforce. With an expected retirement rate of approximately 35 percent in
18 the next ten years, we see maintaining a competitive compensation package as a critical
19 requirement for our customers and company.

20
21 Q. WHAT IS THE ALTERNATIVE TO THE USE OF ANNUAL INCENTIVE
22 COMPENSATION IN OTP'S COMPENSATION PACKAGE?

23 A. Without annual incentive compensation, the only way to maintain a competitive cash
24 compensation package would be to increase base salaries, which would increase other costs
25 and substantially reduce both flexibility and incentives for performance.

26
27 Q. DOES OTP PROVIDE LONG TERM INCENTIVES.

28 A. Yes. Qualifying management employees may receive long-term incentives in the form of
29 grants of restricted stock units. In 2017, 20 OTP employees (including the OTP President)
30 received grants of restricted stock. Qualifying employees are awarded restricted stock units

1 based on salary, job level, and the price of the stock at the date of grant. These long-term
2 incentives are considered along with other components of compensation when we review
3 compensation levels. The purposes of OTP's long-term incentives are to: (1) link the long-
4 term success of OTP to qualifying employee compensation; (2) encourage the retention of
5 management over the long-term; and (3) provide the opportunity to earn competitive total
6 compensation. OTP has included the costs of long-term incentives for OTP employees in
7 the 2018 Test Year, also subject to a 25 percent cap as described above for the Management
8 Incentive Plan.

9 **IV. OTP COMPENSATION LEVELS AND THE COMPETITIVE**
10 **MARKET**

11 Q. DOES OTP USE INFORMATION REGARDING COMPENSATION AT OTHER
12 UTILITIES AND BUSINESSES IN CONNECTION WITH ITS COMPENSATION
13 DECISIONS?

14 A. Yes. OTP routinely compares its compensation levels to those of other utilities and some
15 non-utilities, using a number of surveys and information sources, including Towers Watson
16 (Towers), Mercer, and Aon Hewitt (Hewitt). Every three to four years, OTP participates
17 in a benchmark study for non-executive employees, the most recent of which was
18 conducted by Mercer and completed in 2015. We periodically participate in studies of
19 executive compensation, which I discuss in Section VI of my Direct Testimony. We also
20 routinely review collective bargaining agreements from other utilities throughout the
21 region.

22
23 Q. PLEASE EXPLAIN HOW OTP USES BENCHMARK STUDIES.

24 A. OTP uses benchmark studies 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. OTP strives to set
27 compensation at or near the median of the survey data. While the market-based
28 compensation for a position is based on the median, it is not limited to the single data point
29 of the median. Rather, the relevant market for a position includes a range above and below

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

4
5 Q. PLEASE FURTHER EXPLAIN THE 2015 MERCER BENCHMARK STUDY.

6 A. The 2015 Mercer Benchmark Study covered non-executive employees and included
7 compensation information for a broad sample of positions. The 2015 Mercer Benchmark
8 Study examined base salaries and annual incentives. OTP compensation levels were
9 compared using a combination of general industry, energy/utility industry, and North
10 Central regional data to reflect the labor markets in which OTP competes for employees.
11 A copy of a portion of the 2015 Mercer Compensation Benchmark Study is provided as
12 NOT PUBLIC Exhibit ___(PEW-1), Schedule 2.

13
14 Q. WHAT DID THE 2015 MERCER BENCHMARK STUDY INDICATE?

15 A. The 2015 Mercer Benchmark Study showed that:

- 16 1. OTP base salaries overall were six percent above the base salary medians;
- 17 2. OTP incentive compensation structure was seven percent below the market median;
- 18 and
- 19 3. OTP total cash compensation levels (base salary plus annual incentive) overall were
20 one percent above the market medians.

21 Of the 100 non-union positions that were reviewed, some fell below the market median
22 and some were above the market median.

23
24 Q. WHAT DID YOU CONCLUDE FROM THESE RESULTS?

25 A. Taken together, the 2015 Mercer Benchmark Study confirms that OTP is neither a market
26 leader nor significantly below market in its non-executive compensation levels. The 2015
27 Mercer Benchmark Study showed that, overall, the OTP compensation plan is competitive
28 with the market and reasonable, especially considering the average tenure of our employee
29 group. It also indicated that our compensation structure included in our rate request for
30 non-executive employees is fair and reasonable.

1 Q. HAS A RECENT STUDY OF EXECUTIVE COMPENSATION BEEN CONDUCTED?

2 A. Yes. In 2015 Mercer conducted an Executive Compensation Review for OTP which
3 evaluated a number of compensation components, including: (1) Base Salary; (2) Total
4 Cash Compensation; and (3) Total Direct Compensation (including Base Salary, Annual
5 Incentive Compensation, and Long-Term Incentive). The 2015 Mercer Executive
6 Compensation Review utilized multiple data points including: (1) Mercer 2015 US
7 Executive Remuneration Suite; (2) the Towers Watson 2015 CDB Energy Services
8 Executive Compensation Survey; (3) the Mercer 2015 Total Compensation for the Energy
9 Sector Survey; (4) the Mercer 2015 US Short Term Incentive Survey; and (5) the Mercer
10 2015 US Long Term Incentive Survey. Mercer utilized survey data from the Energy and
11 Utility industry sectors where possible and applied discounts and premiums when the
12 survey data reflected companies that were significantly larger or smaller than OTP. A copy
13 of the 2015 Mercer Executive Compensation Review is provided as NOT PUBLIC
14 Exhibit__(PEW-1), Schedule 3.

15

16 Q. WHAT DID THE 2015 MERCER EXECUTIVE COMPENSATION REVIEW SHOW?

17 A. The Study showed the following:

- 18 1. OTP executive Base Salaries were four percent below the market median.
- 19 2. OTP's actual executive Total Cash Compensation was five percent below the
20 market median.
- 21 3. OTP executive Total Direct Compensation was 12 percent below the market
22 median.

23

24 Q. WHAT DID YOU CONCLUDE FROM THESE RESULTS?

25 A. I concluded that OTP's executive Total Cash Compensation and executive Total Direct
26 Compensation are generally below the market median and that all the components of OTP's
27 executive Total Direct Compensation are reasonable and necessary.

1 **V. EMPLOYEE BENEFITS**

2 Q. PLEASE SUMMARIZE THE BENEFITS PROVIDED BY OTP.

3 A. As I will explain in more detail, OTP provides: (1) employee medical/dental benefits; (2)
4 retirement benefits, including a defined benefit pension plan and a defined contribution
5 401(k) plan; and (3) other post retirement employee benefits.

6
7 Q. ARE THE BENEFITS PROVIDED BY OTP A REASONABLE PART OF EMPLOYEE
8 COMPENSATION?

9 A. Yes. OTP's benefits contribute to attracting and retaining its skilled workforce. As
10 discussed above, OTP and its customers are directly benefited by having a stable, long-
11 term workforce. In an industry where multiple years of training can be required for
12 employees to work independently, it is more fiscally prudent to have a workforce with a
13 low turnover rate. As we retire over 35 percent of our workforce within the next ten years,
14 it will be increasingly important for OTP to attract and retain a workforce that will continue
15 to provide electricity to our customers in a safe, reliable, and efficient manner.

16 **A. Medical and Dental Plans**

17 Q. PLEASE DESCRIBE OTP'S MEDICAL AND DENTAL BENEFITS.

18 A. OTP provides employees with the option to elect group medical and dental insurance
19 benefits. At present, we have three high deductible health plans (HDHP) for our non-union
20 employees and a separate single HDHP option for our union employees. A comparison of
21 the health care plans is provided in Table 1 below. Premiums for the medical and dental
22 plans vary based on the plan(s) chosen, whether dependents are covered, and differences
23 between current non-union and union plans that will be further described. We are currently
24 in negotiations with our union employees and will continue to work with them to help
25 maintain reasonable costs for OTP while providing quality health care plan options for our
26 employees.

27

1

Table 1

2017 Medical Plans				
	Nonunion Employees			Union Employees
	Premier 80	Advantage 70	Basic 100	Blue Saver 100
Annual Deductible	\$1,500 – Employee \$3,000 – Other Tiers	\$3,000 – Employee \$6,000 – Other Tiers	\$6,550 – Employee \$13,100 – Other Tiers	\$2,600 – Employee \$5,000 – Other Tiers
Co-Insurance	80% after deductible	70% after deductible	100% after deductible	NA
Annual Out of Pocket Max	\$3,000 – Employee \$6,000 – Other Tiers	\$6,000 – Employee \$9,000 – Other Tiers*	\$6,550 – Employee \$13,100 – Other Tiers	\$2,600 – Employee \$5,000 – Other Tiers
* While the OOPM is not embedded, ACA rules limit the individual annual liability to \$7,150. This amount is subject to change annually.				

2

3 Q. HAS OTP TAKEN STEPS TO CONTROL THE COST OF MEDICAL AND DENTAL
4 BENEFITS?

5 A. Yes. In 2012, OTP moved to a HDHP for all employees. The move to the HDHP,
6 sometimes called a consumer-driven health plan, has enabled our employees to be better
7 health care consumers. Exhibit __ (PEW-1), Schedule 4, details multiple scenarios,
8 comparing our previous health care plan to the HDHP. Moving to the new HDHP resulted
9 in estimated savings of \$4 million to over \$12 million over the 2012-2016 period. In 2017,
10 we took a further step with our non-union employees and replaced the existing HDHP with
11 three new HDHP options that included different deductibles, premiums, and these plan
12 options also introduced coinsurance. Coinsurance keeps employees in the decision-making
13 process longer and that generally provides for increased consumerism. Although health
14 care costs continue to be a challenge for companies, we believe our actions to this point
15 have enabled us to be better consumers, and we expect that our emphasis on preventive
16 health care and wellness will provide long-term benefits for our employees and for
17 Company health care costs.

18

19 Q. HAS OTP TAKEN OTHER STEPS TO CONTROL THE COST OF MEDICAL AND
20 DENTAL BENEFITS?

21 A. Yes. In 2017, OTP also increased the cost-sharing ratio of employee to employer share of
22 the health care premium. This ratio is now at 15 percent employee/85 percent employer of

1 the total premium cost in the Advantage 80 Plan. Prior to this, the ratio was 4 percent
2 employee/96 percent employer of the total premium cost. The employer share/employee
3 share for gross health costs, which includes total spend for both OTP and employees,
4 moved from approximately 80 percent employer/20 percent employee to 70 percent
5 employer/30 percent employee on all three of the new HDHPs. Our union employees
6 remain at a 4.45 percent employee/95.55 percent employer of the total premium cost with
7 a gross health cost ratio of approximately 80 percent employer/20 percent employee. With
8 our changes for non-union employees in 2017, the Company also added a monthly tobacco
9 surcharge of \$40 and we eliminated health care eligibility for spouses who were able to
10 obtain health care insurance from their own employer. As previously noted, we are
11 currently in negotiations with our unions and will continue to look for options that will
12 help to keep our health care spend on a reasonable trajectory. Some of these changes are
13 difficult on our employees and we will continue working on providing quality health care
14 options for our employees while being responsible with the overall costs associated with
15 the benefit.

16 **B. Retirement and Pension Benefits**

17 Q. PLEASE SUMMARIZE OTP'S RETIREMENT SAVINGS AND PENSION BENEFITS

18 A. OTP provides 401(k) defined contribution retirement plans (collectively the "401(k) Plan")
19 for all employees and defined benefit pension plans (collectively the "Pension Plan") for
20 certain employees depending on the date they were hired. OTP also provides a 401(k)-
21 matching plan.

22

23 Q. PLEASE DESCRIBE OTP'S 401K PLAN.

24 A. For employees who are not eligible to participate in OTP's Pension Plan, OTP has 401(k)
25 Plans that include three different defined contribution amounts made by OTP: (1) a 4
26 percent contribution for non-union employees; (2) a 7 percent contribution for our Coyote
27 Station union employees; and (3) a 5 percent contribution for our other union employees.
28 A summary description of OTP's 401(k) Plan is included in in Exhibit__(PEW-1),
29 Schedule 5a.

30

1 Q. DOES OTP PROVIDE MATCHING FOR EMPLOYEE CONTRIBUTIONS TO THE
2 401(k) PLAN?

3 A. Yes. For the majority of OTP employees, OTP will match 50 percent of the first five
4 percent contributed by an employee (2.5 percent maximum). For our Coyote Station union
5 employees, and for our other union employees not eligible to participate in the Pension
6 Plan, OTP will match 50 percent of the first six percent contributed by an employee (three
7 percent maximum).

8
9 Q. ARE EMPLOYEES ELIGIBLE TO PARTICIPATE IN OTP'S PENSION PLAN ALSO
10 ELIGIBLE TO PARTICIPATE IN THE MATCHING PORTION OF OTP'S 401(K)
11 PLAN?

12 A. Yes. Pension-eligible employees may make contributions to OTP's 401(k) Plan, and we
13 strongly encourage them to do so, but they do not receive OTP defined contributions.
14 Rather, they are eligible to receive the OTP employer match, subject to the maximum
15 matching provisions I described above and as noted in Exhibit ___(PEW-1), Schedule 5a.

16
17 Q. PLEASE DESCRIBE OTP'S PENSION PLAN.

18 A. OTP has a defined benefit pension plan that has two benefit formulas: (1) a benefit formula
19 for non-union and union employees, other than Coyote Station union employees; and (2) a
20 separate benefit formula for union employees at Coyote Station (collectively the "Pension
21 Plan"). A summary description of OTP's Pension Plan is provided in Exhibit ___(PEW-
22 1), Schedule 5b. An overall retirement benefits eligibility summary is provided in
23 Exhibit ___(PEW-1), Schedule 5c.

24
25 Q. DOES OTP PROVIDE OTHER POST-RETIREMENT EMPLOYEE BENEFITS
26 (OPEBS)?

27 A. Yes. OTP also provides a medical benefits program and life insurance for a limited
28 number of eligible retirees and a long-term disability medical plan for a limited number of
29 disabled employees. The life insurance benefit is no longer available to new employees as
30 a company-paid expense. Eligibility is restricted to those employees who had 25 years of

1 service with OTP as of January 1, 2003, and to Coyote Union employees who were
2 employees at the time OTP took over the operations of Coyote Station in 1998.
3

4 Q. HAS OTP TAKEN STEPS TO MANAGE THE COST OF ITS PENSIONS AND OPEBS?

5 A. Yes. Since 2006, OTP has made significant changes to retirement benefits to control costs.
6 The first significant change eliminated eligibility to participate in the OTP Pension Plan
7 for employees hired after certain dates. This change is sometimes referred to as a “soft
8 freeze.” The effective dates of the soft freeze differ depending on bargaining-unit status.
9 For non-union employees, the soft freeze eliminated participation in the OTP Pension Plan
10 for employees hired after August 31, 2006. For the Coyote Plant bargaining-unit
11 employees, the soft freeze eliminated participation in the OTP Pension Plan for employees
12 hired after December 31, 2008. For our other bargaining-units, the soft freeze eliminated
13 participation in the OTP Pension plan for employees hired after October 31, 2010.
14 Employees who are not eligible for the OTP Pension Plan are eligible to receive the OTP
15 contributions to their 401k plan I described earlier in my Direct Testimony.

16 The second significant change was the elimination post-retirement medical benefits
17 for new employees. Like the soft freeze on the OTP Pension Plan, this change means that
18 employees hired after certain dates are not eligible for post-retirement medical benefits.
19 Also like the soft freeze on the OTP Pension Plan, the effective dates differed based on
20 bargaining unit status. For our non-union employees, this soft freeze was effective for
21 employees hired after August 31, 2006. For the Coyote Plant bargaining unit, this soft
22 freeze was effective for employees hired after December 31, 2008. For our other
23 bargaining-units, this soft freeze was effective for employees hired after October 31, 2013.
24 For all of these groups, participation is also limited to persons who are age 55 or older at
25 retirement with 10 or more years of service and eligible for or enrolled in the OTP medical
26 program as of retirement.
27

1 Q. WHAT HAS BEEN THE EFFECT OF THE SOFT FREEZE ON THE OTP PENSION
2 PLAN?

3 A. The soft freeze, in combination with retirements, is significantly reducing the number of
4 OTP employees participating in the OTP Pension Plan. As a result of the soft freeze on
5 the OTP Pension Plan, we now have 30 percent of our active employees who are not
6 participating in the OTP Pension Plan. We also have another 30 percent of our employees
7 who are age 55 or older. Our average retirement age is slightly below 62 years of age, so
8 we would expect to have another 30 percent of our employee population retire within the
9 next seven years. As a result, we expect to move from 30 percent of OTP employees
10 outside the OTP Pension Plan to over 60 percent of our employees not participating in the
11 OTP Pension Plan within the next seven years.

12
13 Q. HAVE COSTS CONTINUED TO INCREASE FOR THE OTP PENSION PLAN AND
14 OPEB DESPITE THESE EFFORTS?

15 A. Yes. Cost increases related to the Pension Plan (FAS 87), Retiree Medical (FAS 106), and
16 Long-Term Disability Medical (FAS 112) have continued to increase and reflect the effects
17 of: (1) our employee population, with over 45 percent of our employees at 50 years of age
18 and older; (2) lower-than-average discount rates; (3) changing mortality tables; and (4) cost
19 increases within the medical industry. The OTP Pension Plan is designed to provide more
20 significant benefits to longer-term employees, and the post-retiree medical benefits do not
21 start accruing until an employee reaches age 45. As a result, we will not see short-term
22 cost savings as a result of the changes to the Pension Plan and OPEBs, but we will see
23 mitigated cost increases for our customers in the long-term along with reduced volatility.
24 We have also seen, in prior years, increases in Long Term Disability Medical due to our
25 aging workforce.

26
27 Q. HAS OTP BEEN PRUDENT IN ESTABLISHING AND THEREAFTER
28 CONTROLLING THE COSTS OF ITS DEFINED BENEFIT PENSION PLAN?

29 A. Yes. Defined benefit pension plans were very common when OTP established its defined
30 benefit pension plans in 1975, and OTP's decision to establish such a plan was prudent and

1 consistent with industry compensation and benefit practices. Since then, OTP has
2 continued to be prudent in managing its pension plans and other retirement benefits, as I
3 explained earlier. Most importantly, it has frozen participation in the Pension Plan.
4

5 Q. ARE OTP'S BENEFIT PLANS REASONABLE COMPARED TO THE MARKET?

6 A. Yes. Although there are no overall studies that compare total cash compensation plus
7 benefits between companies, the compensation and benefit studies that are available
8 demonstrate that the OTP compensation and benefit programs are reasonable. In addition
9 to the studies of cash compensation that I discussed earlier in my Direct Testimony, OTP
10 also routinely participates in the Willis Towers Watson Energy Industry BenVal Study. A
11 copy of the 2017 Willis Towers Watson Energy Industry BenVal Study (2017 BenVal
12 Study) is provided as NOT PUBLIC Exhibit___(PEW-1), Schedule 6.
13

14 Q. PLEASE DESCRIBE THE 2017 BENVAL STUDY.

15 A. The 2017 BenVal Study focused on new hires and included 41 participating energy services
16 companies. The companies were further defined by revenue size. The 2017 BenVal Study
17 showed that OTP's relative benefit value for non-bargaining unit employees was 89
18 percent, or 11 percent below the average of the participating companies. For bargaining
19 unit employees, it was 99 percent, or one percent below the average of the participating
20 companies.
21

22 Q. WHAT ARE THE IMPLICATIONS OF HAVING A BENEFIT PACKAGE WITH A
23 LOWER BENEFIT VALUE?

24 A. It is possible that having a lower benefit value could inhibit OTP's ability to attract, retain
25 and engage the talented workforce needed to deliver safe and reliable electric service to
26 our customers. It is imperative that we continue to offer a compensation and benefit
27 package that is competitive for our employees and a good value to our customers. We will
28 continue to monitor our benefit package going forward to ensure it doesn't become a
29 detriment to our ability to attract, retain and engage quality employees.

1 **VI. 2018 EMPLOYEE COMPENSATION COSTS**

2 Q. PLEASE IDENTIFY THE COSTS OF OTP'S COMPENSATION PLAN THAT ARE
3 INCLUDED IN THE 2018 TEST YEAR.

4 A. The 2018 Test Year costs include: (1) OTP wages and salaries; (2) the OTP Annual
5 Incentive Plan, with the KPA Plan limited by average payout levels from 2014-2016, and
6 the Management Plan subject to a cap based on 25 percent of employees' salaries; (3) OTP
7 employee health and dental benefit plans; and (4) OTP costs relating to the Pension Plan,
8 the 401(k) Plan and OPEBs.

9 **A. Wages and Salaries**

10 Q. HOW WERE 2018 WAGE AND SALARY LEVELS DETERMINED?

11 A. The 2018 base wages and salaries are based on a three percent increase over the base wage
12 and salary level for 2017 for both union and non-union employees. The wage and the
13 salary components for 2018 have also been adjusted for the projected employee census.
14 The three percent increase reflects what OTP believes is necessary to remain competitive
15 in the labor market in which it competes. Accordingly, its primary purpose is to maintain
16 competitive compensation levels. It also addresses changes in the cost of living.

17
18 Q. PLEASE FURTHER EXPLAIN THE 2018 INCREASE FOR NON-UNION
19 EMPLOYEES OTHER THAN MANAGEMENT.

20 A. OTP budgeted for a three percent increase for non-union employees effective
21 April 1, 2018. The three percent increase is cumulative and individual employee increases
22 will vary depending on performance, market data, and where the employee's wage falls
23 within the respective wage range.

24
25 Q. PLEASE FURTHER EXPLAIN THE 2018 INCREASE FOR UNION EMPLOYEES.

26 A. OTP has two collective bargaining agreements (CBAs) representing approximately 392
27 union employees: (1) a CBA with four International Brotherhood of Electrical Workers
28 (IBEW) Local Unions representing approximately 331 employees; and (2) a CBA with one
29 IBEW Local Union representing approximately 61 Coyote Station employees. The Coyote

1 Station CBA, effective September 1 for each year, is currently undergoing contract
2 negotiations. The CBA for the other four IBEW Local Unions, effective November 1 for
3 each year is currently undergoing contract negotiations.
4

5 Q. PLEASE FURTHER EXPLAIN THE 2018 INCREASE FOR MANAGEMENT AND
6 EXECUTIVE EMPLOYEES.

7 A. The three percent non-union wage increases effective April 1, 2018 include management
8 and executive employees. The three percent increase is cumulative and individual
9 employee increases will vary depending on performance, market data, and where the
10 employee's salary falls within the respective wage range.

11 **B. Incentive Compensation**

12 Q. HOW WAS THE OTP ANNUAL INCENTIVE PLAN COMPONENT OF THE 2018
13 TEST YEAR REVENUE REQUIREMENT DETERMINED?

14 A. The OTP 2018 Test Year revenue requirement includes amounts for the OTP KPA Plan
15 that was based on a 3.5 percent payout level, which is the three-year average payout level
16 for the OTP KPA Plan for 2014 through 2016, as shown on attached as Exhibit___ (PEW-
17 1), Schedule 7a. The OTP 2018 Test Year revenue requirement also includes an amount
18 for the OTP Management Plan, based on our 2018 budget forecast, less any amounts in
19 excess of 25 percent of wages for each individual within that plan. NOT PUBLIC
20 Exhibit___(PEW-1), Schedule 7b, illustrates application of the 25 percent cap for the years
21 2012-2016. The 25 percent cap reduced the 2018 Test Year expense by \$143,261 (OTP
22 Total) \$58,034 (OTP ND) from our 2018 budget for the OTP Management Plan and from
23 the plan for the OTP President.
24

25 Q. WHY IS IT APPROPRIATE TO INCLUDE THE COSTS OF THE OTP ANNUAL
26 INCENTIVE PLAN IN THE 2018 TEST YEAR REVENUE REQUIREMENT?

27 A. The costs of the OTP Annual Incentive Plan should be included in the 2018 Test Year
28 revenue requirement for several reasons. First, OTP's Annual Incentive Plan is an
29 important part of OTP's total compensation plan; without it, OTP's total cash

1 compensation would be significantly below market, making it harder for OTP to attract
2 and retain essential employees. Second, as I have explained earlier in my Direct
3 Testimony, the OTP Annual Incentive Plan includes an appropriate range and balance of
4 factors that provide benefits to customers. Third, including annual incentive plans in total
5 compensation packages is an established utility market practice. Fourth, OTP has applied
6 appropriate controls to the costs to be recovered in the revenue requirement.

7 When the 25 percent cap is applied, OTP's annual Total Cash Compensation and
8 Total Direct Compensation levels for executives are even further below competitive market
9 levels. The 2018 forecasted level for the Management Plan, adjusted to remove any
10 amounts over a 25 percent cap on individual employee incentives, is appropriate for
11 determining OTP's 2018 Test Year revenue requirement. Using a three-year average
12 payout level for the OTP KPA Plan fairly represents OTP's typical payout levels over time.

13 **C. Medical and Dental**

14 Q. WHAT IS THE BASIS FOR OTP'S 2018 EMPLOYEE MEDICAL/DENTAL, PENSION,
15 DEFINED CONTRIBUTION AND OPEB COSTS?

16 A. OTP's employee medical/dental, pension, 401(k), and OPEB costs (sometimes collectively
17 "Benefit Costs") are based on projected 2018 cost levels. OTP's 2018 pension (ASC 715)
18 costs and OPEB (ASC 715 and ASC 712) costs are based on estimates by Mercer. OTP's
19 pension costs are based on our demographics and standard actuarial assumptions, using
20 and applying ASC 715 and ASC 712 accounting standards. Actuarial projections are
21 provided formally each January and we will make that information available on request.
22 Copies of 2018 Mercer estimates are attached as Exhibit ___(PEW-1), Schedule 8.

23
24 Q. HOW DO OTP'S ACTIVE MEDICAL COSTS COMPARE BETWEEN 2016,
25 PROJECTED 2017, AND 2018?

26 A. Active medical costs decreased between 2016 and projected 2017 by (\$37,367) (OTP
27 Total) / (\$15,137) (OTP ND), but overall Group Insurance increased by \$419,999 (OTP
28 Total) / \$170,139 (OTP ND). Active medical costs increased between projected 2017 and
29 2018 by \$548,200 (OTP Total) / \$222,073 (OTP ND), and they account for the majority of

1 increases within overall Group Insurance \$587,169 (OTP Total) / \$237,859 (OTP ND).
2 Medical costs continue to rise and remain a common challenge across the United States.

3 Q. DOES OTP USE PROJECTIONS TO DETERMINE ITS ACTIVE MEDICAL COSTS?

4 A. Yes. OTP has utilized third parties to determine active medical costs for many years and
5 has determined it to be an effective manner in which to project future active employee
6 medical costs. The 2018 Renewal Results, prepared by Mercer, are provided as
7 Exhibit ___(PEW-1), Schedule 9.

8

9 Q. HOW DOES THE PROJECTED INCREASE FOR ACTIVE MEDICAL COSTS FOR
10 2018 COMPARE TO RECENT EXPERIENCE?

11 A. The move to high deductible health plans along with an increase to the employees' cost
12 share of the premiums has helped to keep the increase in overall medical costs below
13 current medical cost trends. The projected active medical costs increase between 2016 and
14 2018 is 5.6 percent (OTP Total), with costs actually falling by 0.4 percent between 2016
15 and 2017. The size of our health care plans does create some volatility, year over year, but
16 we know our move to the HDHP in 2012 means we have spent less than we would have
17 had we stayed on our previous health care plan. Nationally, health care costs continue to
18 trend upward and OTP will continue to look at plan design changes, premium structures
19 and other alternatives to mitigate future health care spending. Other alternatives include
20 the continued promotion of preventive health care and wellness which help to reduce health
21 care costs over the long-term. OTP does, however, intend to provide a quality health care
22 benefit at a reasonable price for our employees, in our effort to attract, engage and retain
23 quality employees in the coming years.

24 **D. Pension and Benefits**

25 Q. HAVE PENSION COSTS INCREASED BETWEEN 2016 AND 2018?

26 A. Yes. The projected pension costs have increased by approximately \$3.2 million (OTP
27 Total) / \$1.3 million (OTP ND) between 2016 and 2018.

28

1 Q. DOES MERCER REGULARLY PERFORM ACTUARIAL ANALYSES FOR OTP?

2 A. Yes. Mercer performs annual analyses of OTP's pension and OPEB costs. Annual
3 actuarial analyses of pension and OPEB obligations are performed to satisfy several legal
4 requirements including: (1) ERISA, which requires annual actuarial reports regarding
5 pensions be filed with the Department of Labor; (2) the pension Benefits Guarantee
6 Corporation, which also requires annual actuarial reports regarding Pension funding status;
7 (3) the Internal Revenue Service, which requires filing of an annual actuarial report as part
8 of Form 5500; and (4) the Securities Exchange Commission, which requires disclosure of
9 actuarial analyses of pensions and OPEBs in annual Form 10-K filings. These legal
10 requirements underscore the fact that the Mercer actuarial analyses are reliable and
11 independent assessments of anticipated pension and OPEB expenses. The data relied on
12 in this proceeding to estimate 2018 pension and OPEB expenses conforms to these
13 standards.

14

15 Q. WHAT ARE THE PRIMARY SOURCES OF THE INCREASE IN ASC 715 PENSION
16 COSTS (FORMERLY KNOWN AS FAS 87) BETWEEN 2016 AND 2018?

17 A. The most significant factor is the decrease in the discount rate, or the interest rate, used to
18 determine present value of future benefit obligations. The lower discount rate means a
19 lower interest rate and results in both an increased service cost and projected benefit
20 obligation. The lower discount rate requires more cash today to meet future benefit
21 obligations within the pension plan.

22 Another factor contributing to the increase is a decreased mortality rate, reflecting
23 increased life expectancies. A decreased mortality rate results in an expectation that
24 pension benefit payments will occur over a longer period, increasing expense.

25 The decrease in the Estimated Return on Assets (EROA) decreased the offset to
26 pension expenses while the increase in the pension asset (resulting from both growth and
27 the increase in the prepayments by OTP) limited the increase in the expense.

28

- 1 Q. HOW DO OTP'S COSTS FOR ASC 715 POST-RETIREMENT MEDICAL/LIFE
2 (FORMALLY KNOWN AS FAS 106 RETIREE MEDICAL) AND ASC 712 POST-
3 EMPLOYMENT (LTD) MEDICAL (FORMALLY KNOWN AS FAS 112 LONG TERM
4 DISABILITY) COMPARE BETWEEN 2016, 2017, AND 2018?
- 5 A. Post-Retirement Medical/Life costs increased between 2016 and projected 2018 by
6 approximately \$1.0 million (OTP Total) / (\$421,177 (OTP ND), with much of the increase
7 occurring between 2016 and 2017. Long-Term Disability costs decreased by
8 approximately \$242,447 (OTP Total) / (\$98,214 (OTP ND), with much of the decrease
9 occurring between 2016 and 2017
10
- 11 Q. WHAT WAS THE BASIS OF OTP'S PROJECTED ASC 715 POST-RETIREMENT
12 MEDICAL INCREASES FROM 2016 TO 2018?
- 13 A. OTP experienced the majority of the increase in Post-Retirement Medical/Life expense in
14 2017, primarily related to aging demographics within our employee group, along with
15 medical cost expectations. The 2018 budget for Post-Retirement Medical/Life is slightly
16 higher than 2017, but is still an increase over 2016 actuals.
17
- 18 Q. ARE ASC 712 POST-EMPLOYMENT MEDICAL (LTD)EXPENSES SENSITIVE TO
19 PARTICIPANT COUNTS?
- 20 A. Yes. Long Term Disability medical liability is very sensitive to participant counts. Just
21 one or two participants can have a significant impact on plan liability. Moreover, OTP is
22 required to recognize actuarial gains and losses immediately; changes in liability based on
23 participant count changes and claims experience are fully recognized in the year they occur.
24 These factors are considered as part of Mercer's actuarial projections for ASC 712.
25
- 26 Q. HAVE YOU INCLUDED THE MERCER REPORTS ON WHICH YOU HAVE BASED
27 2018 COSTS FOR PENSION, POST RETIREMENT MEDICAL, AND LONG-TERM
28 DISABILITY BENEFITS?
- 29 A. Yes. I have attached Exhibit__(PEW-1), Schedule 10a – 2017 Pension Accounting
30 Expense Report – Mercer; Exhibit__(PEW-1), Schedule 10b – 2017 Pension DAMP –

1 Mercer; and Exhibit ___(PEW-1), Schedule 10c – 2017 Post-retirement Medical and LTD
2 Medical DAMP – Mercer which provide the basis for those 2018 costs.

3 **VII. CONCLUSION**

4 Q. PLEASE SUMMARIZE YOUR DIRECT TESTIMONY.

5 A. OTP has structured a reasonable total cash compensation and benefits package that is
6 needed in order to attract and thereafter retain and engage talented employees necessary to
7 provide high quality electric service to our customers. This includes base salaries, active
8 and post-retirement benefits, and incentive compensation. OTP's proposed compensation
9 and benefit costs are fair and reasonable, and should be included in rates.

10

11 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

12 A. Yes.

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

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

PROFESSIONAL AFFILIATIONS

- Crookston National Bank
Director, since 2001
- University of Minnesota, Crookston
All-College Advisory & Advancement
Board, since 2002
- Society of Human Resources Management (SHRM)
Member

OTTER TAIL POWER COMPANY

COMPENSATION BENCHMARKING

December 8th, 2015

Kanak Rajan, Partner
Damien McGuigan, Associate
Andrew Neidinger, Analyst

Chicago

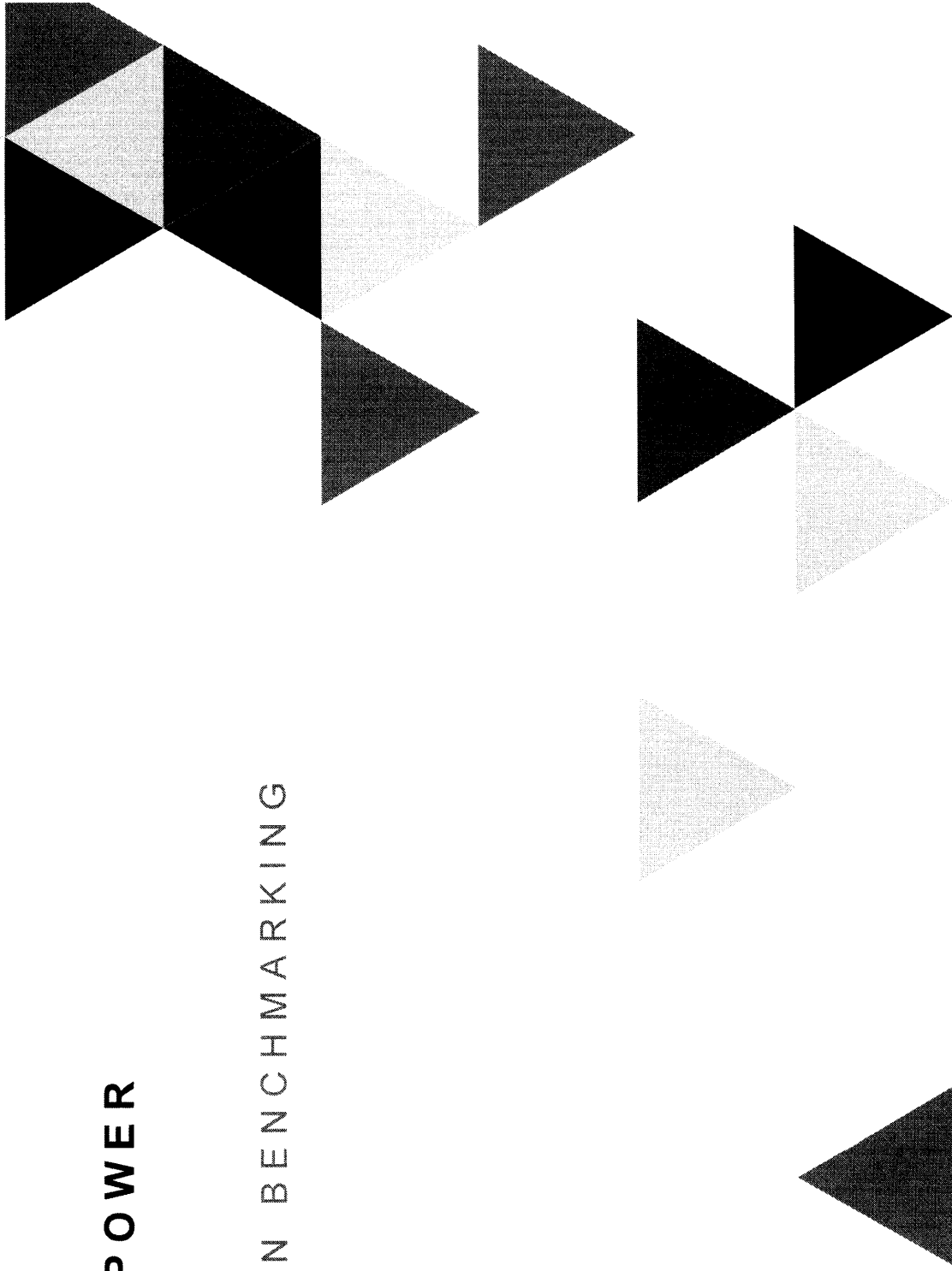


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[PROTECTED DATA BEGINS...

Schedule 2 – 2015 Mercer Compensation Benchmark Study

to

Direct Testimony of Peter E. Wasberg

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

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HEALTH WEALTH CAREER

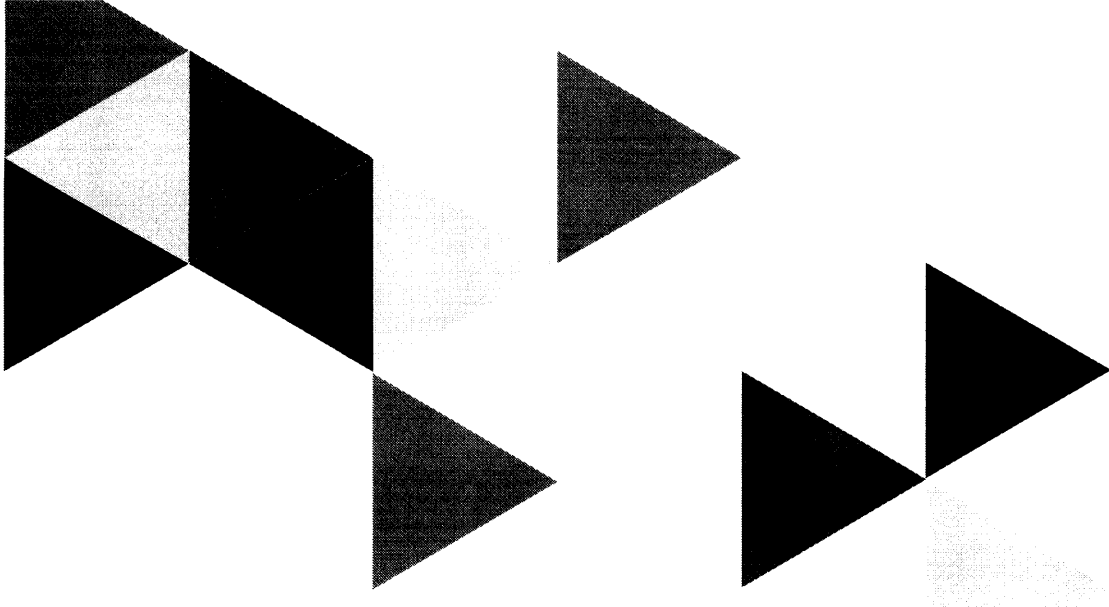
OTTER TAIL POWER COMPANY

EXECUTIVE COMPENSATION REVIEW

December 8th, 2015

Kanak Rajan, Partner
Damien McGuigan, Associate
Nicole Leginski, Analyst

Chicago



MAKE TOMORROW, TODAY  MERCER

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[PROTECTED DATA BEGINS...

Schedule 3 - 2015 Mercer Executive Compensation Review

to

Direct Testimony of Peter E. Wasberg

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

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annual trend guidelines table

Had we made no changes to our health care plan that existed prior to 2012, and assumed a conservative medical trend of 6%, we will save our customers \$10,506,600, in the years 2012 - 2016 with our move to the HDHP in 2012.

Even with a very conservative estimate, assuming a 6% increase in medical trend over the period 2012-2016, and getting our Unions to agree to a 75/25 company/employee split, we will save our customers \$4,012,226, in the years 2012 - 2016 with our move to the HDHP in 2012.

Assuming a more realistic estimate, with a 7% increase in medical trend over the period 2012-2016, and no changes to the our health care plan that existed prior to 2012, we will save our customers \$12,150,773, in the years 2012 - 2016 with our move to the HDHP in 2012.

Assuming a more realistic estimate, with a 7% increase in medical trend over the period 2012-2016, and an assumption that we could have negotiated a 75/25 company/employee premium split, we will save our customers \$5,462,966, in the years 2012 - 2016 with our move to the HDHP in 2012.

Summary Plan Description – Retirement Savings Plan

Retirement savings plan - Coyote Station union employees (hired on or after January 1, 2009)	
Read the full <u>retirement savings plan SPD</u> .	
Type	Defined Contribution (401(k))
Eligibility	You must be scheduled to work at least 1,000 Hours of Service per year and you must attain age 18.
Participation	First of the month following eligibility Automatic enrollment at a 3% deferral rate
Vesting	100%
Contribution amount	1% - 50% of pay
Matching company contribution	50% of the first 6% contributed by employee
Enhanced Employer Contribution	7% of annual salary
Investment options	17 fund options with Wells Fargo
Payment options	Lump sum distribution at termination, death, disability, or age 59½. Must be paid in full by age 70½.
In-service withdrawals	Age 59 ½ withdrawals - Rollovers
Loans	Available (2)

Retirement savings plan - Coyote Station union employees (hired before January 1, 2009)	
Read the full <u>retirement savings plan SPD</u> .	
Type	Defined Contribution (401(k))
Eligibility	You must be scheduled to work at least 1,000 Hours of Service per year and you must attain age 18.
Participation	First of the month following eligibility Automatic enrollment at a 3% deferral rate
Vesting	100%
Contribution amount	1% - 50% of pay
Matching company contribution	50% of the first 6% contributed by employee
Investment options	17 fund options with Wells Fargo
Payment options	Lump sum distribution at termination, death, disability, or age 59½. Must be paid in full by age 70½.
In-service withdrawals	Age 59 ½ withdrawals - Rollovers
Loans	Available (2)

Summary Plan Description – Retirement Savings Plan

Retirement savings plan - nonunion employees (hired before September 1, 2006)	
Read the full retirement savings plan SPD.	
Type	Defined Contribution (401(k))
Eligibility	You must be scheduled to work at least 1,000 Hours of Service per year and you must attain age 18.
Participation	First of the month following eligibility Automatic enrollment at a 3% deferral rate
Vesting	5 year vesting schedule (20% each year)
Contribution amount	1% - 50% of pay
Matching company contribution	50% of the first 5% contributed by employee
Investment options	17 fund options with Wells Fargo
Payment options	Lump sum distribution at termination, death, disability, or age 59½. Must be paid in full by age 70½.
In-service withdrawals	Age 59 ½ withdrawals - Rollovers
Loans	Available (2)

Retirement savings plan - nonunion employees (hired on or after September 1, 2006)	
Read the full retirement savings plan SPD.	
Type	Defined Contribution (401(k))
Eligibility	You must be scheduled to work at least 1,000 Hours of Service per year and you must attain age 18.
Participation	First of the month following eligibility Automatic enrollment at a 3% deferral rate
Vesting	5 year vesting schedule (20% each year)
Contribution amount	1% - 50% of pay
Matching company contribution	50% of the first 5% contributed by employee
Enhanced Employer Contribution	4% of annual salary
Investment options	17 fund options with Wells Fargo
Payment options	Lump sum distribution at termination, death, disability, or age 59½. Must be paid in full by age 70½.
In-service withdrawals	Age 59 ½ withdrawals - Rollovers
Loans	Available (2)

Summary Plan Description – Retirement Savings Plan

Retirement savings plan - union employees	
hired prior to 11/1/2013 (does not apply to Coyote union employees)	
Read the full <u>retirement savings plan SPD.</u>	
Type	Defined Contribution (401(k))
Eligibility	You must be scheduled to work at least 1,000 Hours of Service per year, and you must attain age 18.
Participation	First of the month following eligibility Automatic enrollment at a 3% deferral rate
Vesting	100%
Contribution amount	1% - 50% of pay
Matching company contribution	50% of the first 5% contributed by employee
Investment options	17 fund options with Wells Fargo
Payment options	Lump sum distribution at termination, death, disability, or age 59½. Must be paid in full by age 70½.
In-service withdrawals	Age 59 ½ withdrawals - Rollovers
Loans	Available (2)

Retirement savings plan - union employees	
(hired on or after November 1, 2013 - does not apply to Coyote union employees)	
Read the full <u>retirement savings plan SPD.</u>	
Type	Defined Contribution (401(k))
Eligibility	You must be scheduled to work at least 1,000 Hours of Service per year, and you must attain age 18.
Participation	First of the month following eligibility Automatic enrollment at a 3% deferral rate
Vesting	100%
Contribution amount	1% - 50% of pay
Enhanced Employer Contribution	5% of annual salary
Matching company contribution	50% of the first 6% contributed by employee
Investment options	17 fund options with Wells Fargo
Payment options	Lump sum distribution at termination, death, disability, or age 59½. Must be paid in full by age 70½.
In-service withdrawals	Age 59 ½ withdrawals - Rollovers
Loans	Available (2)

Summary Description of Otter Tail Power Pension Plans

Pension plan –Coyote Station Union Employees (hired before January 1, 2009)	
Type	Defined Benefit
Eligibility	Age 18 and date of hire
Benefit Accrual Service	1,000 hours service in a year
Formula	$(.38(\text{Final Average earnings (36 months)}) + .18(\text{Final Average Earnings} - \text{Covered Compensation})) * (\text{Years of service up to } 30/30) + 1\% \text{ for each year of service from } 31 - 40 \text{ years}$
Final Average Earnings	Highest 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) & Union Employees (hired before 11/1/2013 – 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	$(.38(\text{Final Average earnings (30 months)}) + .18(\text{Final Average Earnings} - \text{Covered Compensation})) * (\text{Years of service up to } 30/30) + 1\% \text{ for each year of service from } 31 - 40 \text{ years}$
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

Otter Tail Power Company – Retirement Benefits Eligibility

Employee Group	Eligible for Pension	Eligible for 401(k) Contribution – 4%	Eligible for 401(k) Contribution – 5%	Eligible for 401(k) Contribution – 7%	Eligible for 401(k) Match; 50% of the First 5% (max – 2.5%)	Eligible for 401(k) Match; 50% of the First 6% (max – 3.0%)	Eligible for Retiree Medical
Non-union hired prior to 9/1/2006	X				X		X
Non-union hired 9/1/2006 or after		X			X		
Coyote Union hired prior to 1/1/2009	X					X	X
Coyote Union hired 1/1/2009 or after				X		X	
Other Union hired prior to 11/1/2013*	X				X		X
Other Union hired 11/1/2013 or after			X			X	

*Employees in this group, hired after 10/31/2010, are not eligible for Retiree Medical

BenVal Data Source - United States (BDS US)

2015 Energy Services BenVal

TOWERS WATSON 

[PROTECTED DATA BEGINS...

Schedule 6 – Report of the 2017 Willis Towers Watson Energy Industry Benefits (BenVal)
Study

to

Direct Testimony of Peter E. Wasberg

In the Matter of the Application of Otter Tail Power Company
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**THE REMAINDER OF THIS DOCUMENT IS NOT PUBLIC
IN ITS ENTIRETY**

...PROTECTED DATA ENDS]

Key Performance Plan - History										
Year	Eligible Earnings	# of Participants ⁽¹⁾	Target	Target %	Maximum	Max %	Budget	Actual	Actual %	
2014	\$ 25,222,574.51	374	--	--	\$1,513,354.47	6%	\$0	\$ 756,677.19	3.00%	
2015	\$ 25,134,936.00	367	--	--	\$1,508,096.16	6%	\$0	\$ 754,048.00	3.00%	
2016	\$ 26,423,107.00	386	--	--	\$1,585,386.42	6%	\$0	\$ 1,189,040.00	4.50%	
3YR Average ⁽²⁾	\$ 25,593,539.17	376			\$1,535,612.35	6%	\$0	\$ 899,921.73	3.50%	

Note:

⁽¹⁾ Eligible participants include nonunion group only - union are excluded from plan.

⁽²⁾ Actual does not include FICA. Ms. Petersen's testimony includes FICA and is reporting \$927,000.

Management Incentive Plan - Payout History (Including President)				
Year	# participants (including President)	Budget/Target	Actual ⁽¹⁾	Incentive > 25% of base pay
[PROTECTED DATA BEGINS...]				
2012				
2013				
2014				
2015				
2016				
5-Year Average				
5-Year Average reduced by 25% cap				

(1) Actuals do not include FICA. Ms. Petersen's testimony includes FICA and is reporting \$706,575

OTP Management Incentive	2018	2018 COSS Adjustment Bonus cap at 25%	Total

...PROTECTED DATA ENDS]

333 South 7th Street, Suite 1400
Minneapolis, MN 55402-2427
612 642 8600

www.mercer.com



Mr. Jeff Legge
Controller - Utility
Otter Tail Power Company
215 South Cascade
P.O. Box 496
Fergus Falls, MN 56538-0496

August 11, 2017

Subject: Accounting Expense Estimates for 2018

Dear Jeff:

The table below shows 2018 accounting expense estimates for the pension, retiree medical / life insurance and LTD medical plans. These are estimates and actual results could be significantly different. Except as noted below, these estimates are based on our reports titled *Otter Tail Corporation Pension Plan Data, Assumptions, Methods and Provisions* as of January 1, 2017 (Pension DAMP) and *Otter Tail Corporation Postretirement Medical and Life Insurance Plan, and Postemployment (LTD) Medical Benefit Plan Data, Assumptions, Methods and Provisions* as of January 1, 2017 (Medical DAMP). These reports were provided in August 2017.

	Pension Plan	Retiree Medical/Life Insurance Plan	LTD Medical Plan
2018 Pension Expense Estimate	\$9,000,000	\$5,400,000	\$725,000

Pension Plan

- The discount rate is 4.10%, based on current interest rate environment.
- The expected asset return assumption for 2018 is 7.00%, based on Mercer Portfolio Calculator Return model from July 2017. Estimated return for 2017 is 9.0% (i.e., currently earned return, and assuming flat return for the rest of the year).
- We assume you make no contributions while a credit balance still remains.
- We assumed there will be no plan changes during 2017.
- The estimates are based on census data as of January 1, 2017 and we assume there will be no actuarial gains or losses during the forecast period.





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Mr. Jeff Legge
Otter Tail Power Company

Postretirement Medical / Life Insurance Plan

- The discount rate is 4.00%, based on current interest rate environment.
- The Medicare Part D trend starts at 6% for 2017 grading down to 4.5% for 2038 and later.
- We assumed there will be no plan changes during 2017.
- The estimates are based on census data as of January 1, 2017 census, and medical claims and retiree premium data from 2016, assuming there will be no actuarial gains or losses during 2017.

Long-term Disability Medical Plan

- The discount rate is 4.0% based on current interest rate environment.
- We applied Society of Actuaries disability incidence rates to your entire population and determined that approximately three employees would be expected to become disabled each year. We assumed each of these participants will have a \$200,000 liability based on recent experience for new participants. This approach is intended to reduce the likelihood of negative surprises when final expense amounts are determined.
- We assumed there will be no plan changes during 2017.
- The estimates are based on census data as of October 1, 2016 and 2016 medical claims data. We assume the addition of three participants during 2017, and assume there will be no other actuarial gains or losses during 2017.

As you know, LTD medical expense is very volatile. In the past five years, expense has ranged from (\$9,000) to \$873,000 with an average expense of \$606,000. Since 1998, expense has ranged from (\$894,000) to \$2,089,000 with an average expense of \$352,000. **There is no reason to believe expense will not continue to be volatile in the future.**

Important Notices

Mercer has prepared this letter exclusively for Otter Tail Corporation. Subject to this limitation, Otter Tail Corporation may direct that this letter be provided to its auditors in connection with the audit of its financial statements. Mercer is not responsible for use of this letter by any other party.

The only purpose of this report is to provide ASC 715 and ASC 712 accounting expense estimates for the Otter Tail Corporation Pension Plan, Postretirement Medical and Life Insurance Plan, and Postemployment (LTD) Medical Plan, for Otter Tail Corporation to use, as Otter Tail Corporation



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August 11, 2017
Mr. Jeff Legge
Otter Tail Power Company

deems appropriate, in its budgeting process. **These are estimates of future accounting results and actual results could be significantly different.**

This letter may not be used for any other purpose. Mercer is not responsible for the consequences of any unauthorized use. Its content may not be modified, incorporated into or used in other material, sold or otherwise provided, in whole or in part, to any other person or entity, without Mercer's permission.

All parts of this letter, including any documents incorporated by reference, are integral to understanding and explaining its contents, no part may be taken out of context, used or relied upon without reference to the report as a whole.

Decisions about benefit changes, granting new benefits, investment policy, funding policy, benefit security and/or benefit-related issues should not be made on the basis of this valuation, but only after careful consideration of alternative economic, financial, demographic and societal factors, including financial scenarios that assume future sustained investment losses.

The plan sponsor is ultimately responsible for selecting the plans' accounting policies, methods and assumptions. The policies, methods, and assumptions used in this valuation are described above and in the Pension and Medical DAMPs. The plan sponsor is solely responsible for communicating to Mercer any changes required to those policies, methods and assumptions.

This letter was prepared in accordance with generally accepted actuarial principles and procedures. The actuarial assumptions were selected by the company. Based on the information provided to us, we believe that the actuarial assumptions are reasonable for the purposes described in this letter.

This letter is based on our understanding of applicable law and regulations as of the valuation date. Mercer is not an accountant or auditor and is not responsible for the interpretation of, or compliance with, accounting standards; citations to, and descriptions of accounting standards provided in this letter are for reference purposes only. Mercer is not engaged in the practice of law. This letter does not constitute and is not a substitute for legal advice.

The plan sponsor is solely responsible for selecting the plans' investment policies, asset allocations and individual investments. Mercer's actuaries have not provided any investment advice to the plan sponsor.

To prepare this letter Mercer has used and relied on the medical claims and participant data supplied by Otter Tail Corporation, as summarized herein and in the Pension and Medical DAMP reports mentioned above. Otter Tail Corporation is responsible for ensuring that such participant



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Mr. Jeff Legge
Otter Tail Power Company

data provides an accurate description of all persons who are participants under the terms of the plan or otherwise entitled to benefits as of January 1, 2016 that is sufficiently comprehensive and accurate for the purposes of this report. If the data supplied are not sufficiently comprehensive and accurate for the purposes of this letter, the valuation results may differ significantly from the results that would be obtained with such data; this may require a later revision of this letter. Although Mercer has reviewed the participant data in accordance with Actuarial Standards of Practice No. 23, Mercer has not verified or audited any of the data or information provided.

Mercer has used and relied on the plan documents, including amendments, and interpretations of plan provisions, supplied by the plan sponsor as summarized in the Pension and Medical DAMP reports mentioned above. Otter Tail Corporation is solely responsible for the validity, accuracy and comprehensiveness of this information. If any data or plan provisions supplied are not accurate and complete, the valuation results may differ significantly from the results that would be obtained with accurate and complete information; this may require a later revision of this letter. Moreover, plan documents may be susceptible to different interpretations, each of which could be reasonable, and that the different interpretations could lead to different valuation results.

Otter Tail Corporation should notify Mercer promptly after receipt of this letter if Otter Tail Corporation disagrees with anything contained in this report or is aware of any information that would affect the results of this letter that has not been communicated to Mercer or incorporated herein. This letter will be deemed final and acceptable to Otter Tail Corporation unless Otter Tail Corporation promptly provides such notice to Mercer.



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August 11, 2017
Mr. Jeff Legge
Otter Tail Power Company

Professional qualifications

We are available to answer any questions on the material in this letter or to provide explanations or further details as appropriate. The undersigned credentialed actuaries meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained in this letter. We are available to answer any questions on the material contained in the letter, or to provide explanations or further details as may be appropriate. We are not aware of any direct or material indirect financial interest or relationship, including investments or other services that could create a conflict of interest that would impair the objectivity of our work.

If you have any questions, please give Greg a call.

Sincerely,

Gregory T. Trapp, ASA, MAAA
Principal
Long-term aspect

Theodore J. Hoffman, FSA, MAAA
Principal
Retiree Health Care Aspect

Mason Shea, FSA, MAAA
Principal
LTD Health Care Aspect

Copy:
Teri Viger – Otter Tail Power Company
Parker Cramer, Jergen Oase, Wayne Wride – Mercer

Enclosures

\\mercerc.com\us_eworking\retconst\mnp\otlmspl2018\09\penacct\5-liability\uprated 2018 expense projections as of 082017.docx

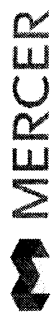
OTTER TAIL POWER (UNION AND NON-UNION) 2018 COST PROJECTION

	Premier 80 (Non-Union)	Advantage 70 (Non-Union)	Basic 100 (Non-Union)	BlueSaver 100 (Union)	Total
Projected Enrollment					
EE	42	22	27	72	163
EE+Sp (2-Party for OIP-Union)	36	18	1	89	143
EE+Ch	46	38	9	0	93
Family	48	43	12	225	328
Current Rates					
EE	\$474.79	\$420.27	\$393.75	\$429.15	\$848,606
EE+Sp	\$1,044.55	\$924.61	\$866.27	\$866.30	\$1,565,486
EE+Ch	\$997.07	\$882.58	\$826.89	N/A	\$1,042,143
Family	\$1,566.82	\$1,386.91	\$1,289.40	\$1,526.81	\$5,197,634
	\$2,130,876	\$1,428,769	\$414,388	\$5,679,837	\$9,653,870
Total Gross Cost for Rate Setting					\$10,792,803
Needed Adjustment to Current Rates					11.8%
Renewal Rates					
EE	\$530.80	\$469.85	\$440.20	\$479.78	\$948,718
EE+Sp (2-Party for OIP-Union)	\$1,167.78	\$1,033.69	\$968.47	\$968.56	\$1,750,176
EE+Ch	\$1,114.70	\$986.70	\$924.44	\$0.00	\$1,165,089
Family	\$1,767.87	\$1,559.53	\$1,462.70	\$1,818.74	\$5,938,892
	\$2,382,267	\$1,597,326	\$463,275	\$6,349,938	\$10,792,806
Renewal Accruals					\$10,792,806
Total Gross Cost All Plans					\$10,792,806

COSTS DO NOT INCLUDE EMPLOYER HSA CONTRIBUTIONS

2018 POWER DENTAL PROJECTION

	Dental	All Plans
Projected Enrollment	155	155
EE		
Family	361	361
Total	716	716
Current Rates	\$41.85	\$77,841
EE		
Family	\$109,46	\$736,885
Current Accruals	\$814,726	\$814,726
Total Gross Cost for Rate Setting		\$833,829
<i>Needed Adjustment to Current Rates</i>		
Recommended 2018 Dental	\$42.84	\$79,682
EE		
Family	\$112.04	\$757,253
Renewal Accruals		\$833,936



TALENT • HEALTH • RETIREMENT • INVESTMENTS

**ASC 715 AND ASC 712 (US GAAP)
ACCOUNTING EXPENSE FOR FISCAL YEAR ENDING
DECEMBER 31, 2016
OTTER TAIL CORPORATION**
January 2017



ASC 715 AND ASC 712 (US GAAP)
ACTUARIAL VALUATION REPORT AS OF DECEMBER 31, 2016

OTTER TAIL CORPORATION

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[PROTECTED DATA BEGINS...

Schedule 10a – 2016 Pension Accounting Expense Report – Mercer

to

Direct Testimony of Peter E. Wasberg

In the Matter of the Application of Otter Tail Power Company
For Authority to Increase Rates for Electric Utility Service in Minnesota

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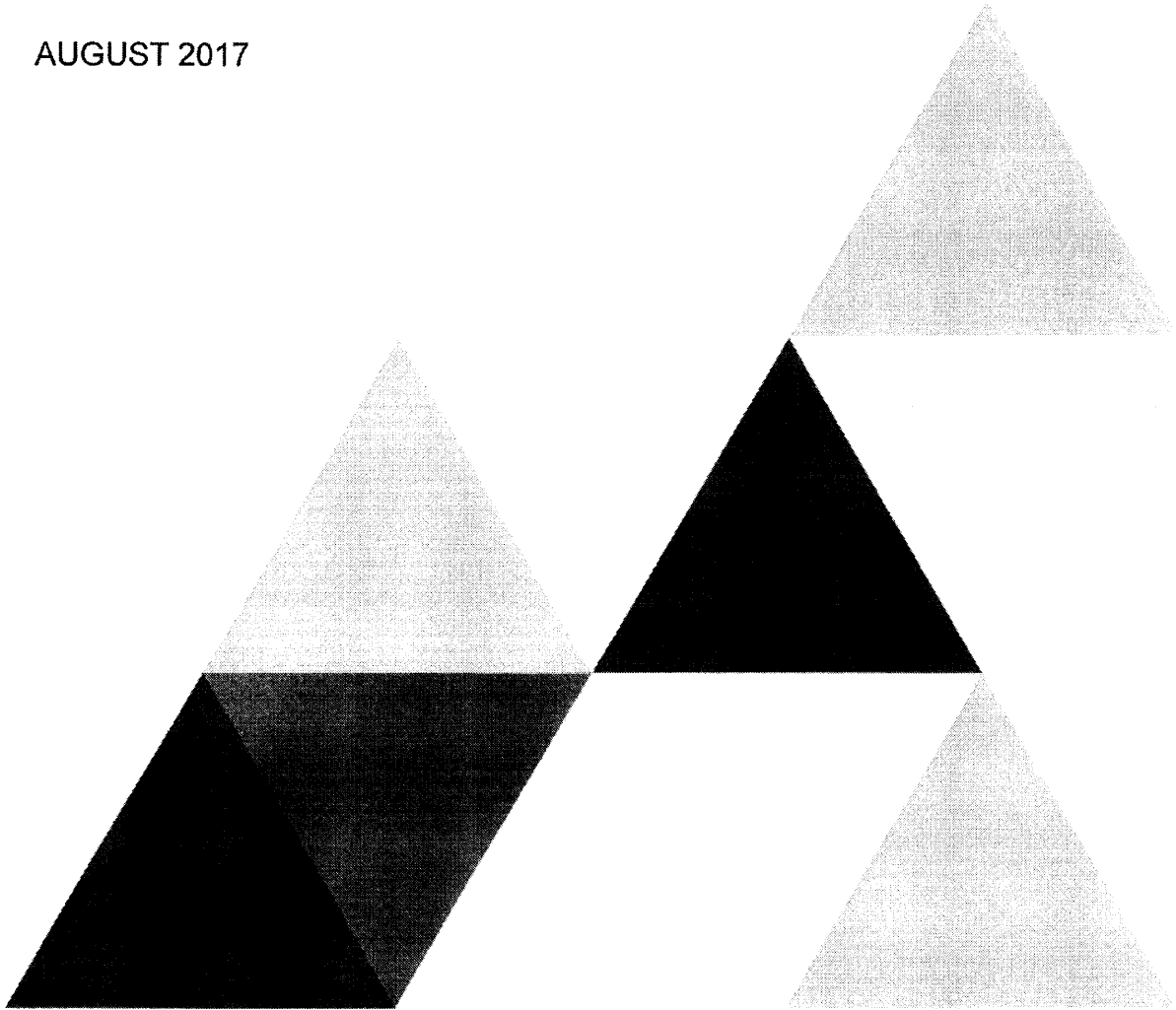
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MAKE TOMORROW, TODAY

DATA, ASSUMPTIONS, METHODS AND PROVISIONS AS OF JANUARY 1, 2017

OTTER TAIL CORPORATION PENSION PLAN

AUGUST 2017



**MARSH & McLENNAN
COMPANIES**

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[PROTECTED DATA BEGINS...

Schedule 10b – 2016 Pension DAMP – Mercer

to

Direct Testimony of Peter E. Wasberg

In the Matter of the Application of Otter Tail Power Company
For Authority to Increase Rates for Electric Utility Service in Minnesota

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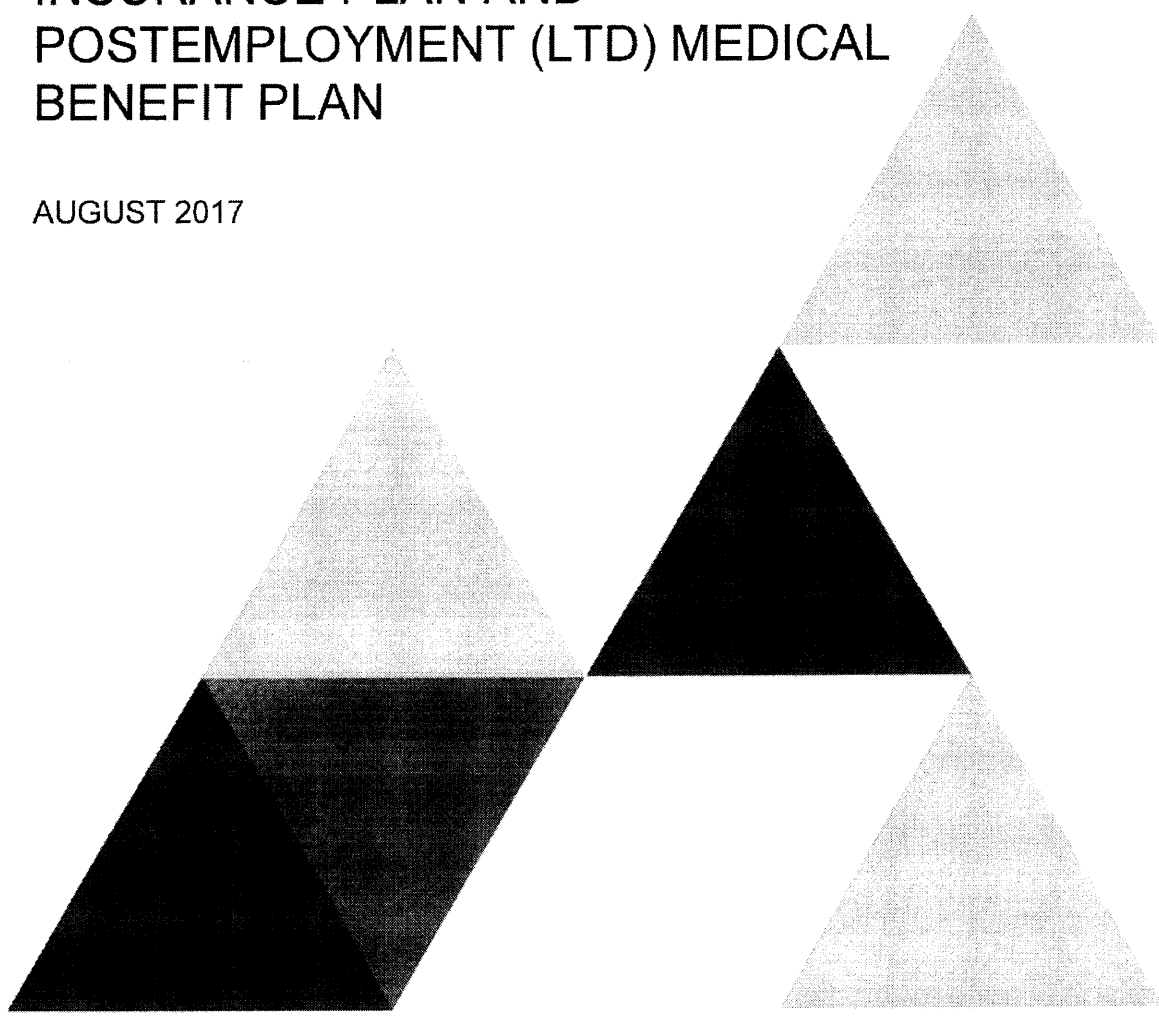
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DATA, ASSUMPTIONS, METHODS AND PROVISIONS AS OF JANUARY 1, 2017

OTTER TAIL CORPORATION POSTRETIREMENT MEDICAL AND LIFE INSURANCE PLAN AND POSTEMPLOYMENT (LTD) MEDICAL BENEFIT PLAN

AUGUST 2017



DATA, ASSUMPTIONS, METHODS AND PROVISIONS
AS OF JANUARY 1, 2017

OTTER TAIL CORPORATION POSTRETIREMENT
MEDICAL AND LIFE INSURANCE PLAN AND
POSTEMPLOYMENT (LTD) MEDICAL BENEFIT PLAN

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[PROTECTED DATA BEGINS...

Schedule 10c – 2016 Post-retirement Medical and LTD Medical DAMP – Mercer

to

Direct Testimony of Peter E. Wasberg

In the Matter of the Application of Otter Tail Power Company
For Authority to Increase Rates for Electric Utility Service in Minnesota

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