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

Case No. PU-23-

Exhibit___

REVENUE REQUIREMENT AND BUDGET PROCESS

Direct Testimony and Schedules of

CHRISTY L. PETERSEN

PUBLIC DOCUMENT –

NOT PUBLIC (OR PRIVILEGED) DATA HAS BEEN EXCISED

November 2, 2023

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I. INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME AND CURRENT EMPLOYER.

A. My name is Christy L. Petersen. I am employed by Otter Tail Power Company (OTP).

Q. PLEASE SUMMARIZE YOUR CURRENT RESPONSIBILITIES.

A. I am the Manager, Regulatory Accounting. I lead the work group that prepares the jurisdictional cost of service study for all three states in which we provide service (North Dakota, Minnesota and South Dakota). I also oversee the budgeting and forecasting process for our companies' operations and maintenance expenses.

Q. HAVE YOU INCLUDED AN ATTACHMENT OF YOUR QUALIFICATIONS AND EXPERIENCE?

A. Yes. A summary of my qualifications and experience is included as Exhibit___(CLP-1), Schedule 1.

II. PURPOSE AND OVERVIEW OF DIRECT TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. I am OTP's overall revenue requirements witness, sponsoring the jurisdictional cost of service study (JCOSS) and the calculation of OTP's 2024 Test Year revenue requirement and base rate revenue deficiency. As such, I support and sponsor much of the financial data provided as part of this case. I also describe OTP's capital and operations and maintenance (O&M) budgets, which provide the basis for the 2024 Test Year. Finally, I discuss the development of the rate base and income statement that are being proposed for use in setting rates in this proceeding, including explaining the financial impact of all Test Year adjustments and providing support for some of the Test Year adjustments. Other Test Year adjustments are supported by other OTP witnesses.

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

A. OTP uses the JCOSS to determine the portion of OTP's total company costs and revenues that should be recognized in the North Dakota jurisdiction for the 2024 Test Year. The overall revenue deficiency for the 2024 Test Year, after incorporating adjustments discussed in Sections VII.C and VIII.B below, is

$40,660,558. OTP uses a thorough budgeting process that results in a reliable and accurate forecast that serves as the basis for the 2024 Test Year revenue requirement.

Q. WILL OTP BE MAKING ADDITIONAL ADJUSTMENTS AS THE CASE DEVELOPS?

A. Yes. While finalizing this case for submission, OTP determined that the 2024 Test Year revenue requirement calculation did not include an intended adjustment to normalize plant outage costs. This adjustment occurs in all rate cases to reflect the fact that plant outages occur on a multi-year cycle, so that base rates are neither over-stated (by reflecting the full cost of an outage if the test year coincides with an outage) nor under-stated (if the test year is not an outage year).[1]

Our Big Stone Plant underwent a major outage in 2022 and Coyote Station is scheduled for an outage in 2025. There are no outages scheduled for 2024. As a result, OTP intends that the 2024 Test Year reflect a normalized expense amount based on an annual outage schedule, rather than every three years. Once incorporated, this adjustment will: (1) increase O&M expenses by $1,091,341; (2) decrease total income taxes by $266,341; and (3) decrease net operating income by $825,000. OTP will incorporate this adjustment to the 2024 Test Year revenue requirement calculation at the appropriate time in the procedural schedule (either as an errata or in Rebuttal Testimony). The adjustment has been incorporated into the proposed interim rate revenue increase. The 2024 Test Year revenue requirement and base rate revenue deficiency amounts discussed in my Direct Testimony do not reflect the impact of the plant outage normalization adjustment.

Q. HOW IS YOUR DIRECT TESTIMONY ORGANIZED?

A. In Section III, I discuss the JCOSS, followed in Section IV with a discussion of the 2024 Test Year revenue deficiency, including selection of the 2024 Test Year. Section V describes the financial data provided as part of OTP's requests. Section VI explains OTP's budget process. In Sections VII and VIII, I discuss the 2024 Test Year rate base and income statement.

[1] For example, *see* Case No. PU-17-398, Akerman Direct at 40.

Q. HOW HAVE YOU LABELED DOLLAR VALUES IN YOUR DIRECT TESTIMONY AND SUPPORTING SCHEDULES?

A. Throughout my testimony and schedules, I label dollar values as "(OTP ND)" when the values are jurisdictionalized to North Dakota. I label total company costs as "(OTP Total)." Some costs fall into numerous functions each with its own jurisdictional allocation, and therefore a straightforward calculation of a jurisdictional amount based on a single allocator is not possible (e.g., labor cost categories, which may include costs functionalized as generation, transmission, distribution, administration, and general, with each function having its own unique jurisdictional allocation). For costs like this, I have estimated the North Dakota jurisdictional dollar values by multiplying the total company costs by a single blended allocator. I have labeled these values as "(OTP ND EST.)."

Finally, for power plant and transmission projects where OTP is only a part owner, and for which I included total project costs, I labeled the values as "(Total Plant)" or "(Total Project)."

III. JURISDICTIONAL COST OF SERVICE STUDY

Q WHAT IS THE PURPOSE OF THIS SECTION OF YOUR DIRECT TESTIMONY?

A. The purpose of this section of my Direct Testimony is to explain OTP's JCOSS.

Q. WHAT IS THE PURPOSE OF A JCOSS?

A. Multijurisdictional utilities use a JCOSS to determine the portion of a total company costs and revenues that should be recognized in a specific jurisdiction. In this case, OTP used the JCOSS to determine the portion of OTP's total company costs and revenues that should be recognized in the North Dakota jurisdiction for the 2024 Test Year revenue requirement.

Q. WHY IS A JCOSS NECESSARY FOR OTP?

A. OTP serves retail customers in North Dakota, Minnesota and South Dakota. In addition, OTP provides wholesale service to some municipal utilities, and those services, as well as transmission services, are regulated by the Federal Energy Regulatory Commission (FERC). Costs that OTP incurs to meet the requirements of a particular jurisdiction are directly assigned to that jurisdiction. Costs that cannot be directly assigned to a specific jurisdiction are allocated to jurisdictions based upon allocation factors included in the JCOSS. In this way, OTP uses the

JCOSS to determine what portion of the total costs it incurs should be recovered from our North Dakota customers.

Q. IS IT IMPORTANT THAT ALL OF A UTILITY'S STATE JURISDICTIONS USE THE SAME JURISDICTIONAL ALLOCATION PROCEDURES FOR THE JCOSS?

A. Yes. Having uniform jurisdictional allocation procedures in all its state jurisdictions is what allows OTP to accurately recover its cost of providing retail service across its entire service territory, no more and no less. In this case, OTP used allocation procedures the Commission approved in OTP's last North Dakota rate case (Case No. PU-17-398).

Q. DO ALL OF OTP'S JURISDICTIONS USE THE SAME JURISDICTIONAL ALLOCATION PROCEDURES FOR OTP'S JCOSS?

A. Yes. The Minnesota Public Utilities Commission (MN PUC) and South Dakota Public Utilities Commission (SD PUC) have approved the same jurisdictional allocation procedures for OTP's JCOSS that the Commission has approved for OTP's JCOSS.

Q. HOW WAS OTP'S JCOSS DEVELOPED?

A. OTP developed the JCOSS using procedures contained in the OTP Jurisdictional and Class Cost of Service Study and Rate Design Process Overview Manual, a copy of which is attached as Exhibit___(CLP-1), Schedule 2. This is the same process that was used and approved by the Commission in OTP's last North Dakota rate case.

Q. WHAT ARE THE GENERAL STEPS FOR PREPARING OTP'S JCOSS?

A. Preparing the JCOSS involves the following steps: functionalization, classification, and allocation. *Functionalization* is the process by which costs are arranged according to the utility function they serve, such as production, transmission, distribution, etc. *Classification* is the arrangement of costs within a function by the service characteristic to which they most closely apply or relate, in order to facilitate their allocation based on these service characteristics. *Allocation*, in the JCOSS, is the process of distributing costs to each jurisdiction. I discuss the functionalization and classification steps in more detail below. OTP witness Ms. Amber M. Stalboerger discusses jurisdictional allocations and OTP's Cost Allocation Procedures Manual (CAPM) in her Direct Testimony.

Q. IS FUNCTIONALIZATION OF COSTS REQUIRED?

A. Yes. The assignment of costs to each function (production, transmission, distribution, customer service, administrative and general) generally follows the accounting categories defined in the FERC Uniform System of Accounts (USOA). At times, however, there are exceptions. When there are exceptions, the purpose of functionalization, not the accounting treatment, determines the distribution of the functional costs for the cost of service study. For example, lines and substations can fulfill production, transmission, or distribution functions. Additional details regarding OTP's functionalization procedures are included in the CAPM.

Q. HOW WERE COSTS CLASSIFIED IN THE JCOSS?

A. Classification approaches differ across different functional categories. For example, fixed production plant is classified into energy-related and demand-related subcategories using the equivalent peaker method. OTP has used the equivalent peaker method to classify fixed production plant costs since 1980. Additional details regarding classification procedures are available in the CAPM.

Q. WHAT IS YOUR CONCLUSION RELATED TO OTP'S JCOSS?

A. After review, I have determined that the results of the JCOSS are appropriate for determining the 2024 Test Year revenue requirement.

IV. TEST YEAR REVENUE REQUIREMENT AND REVENUE DEFICIENCY

Q. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR DIRECT TESTIMONY?

A. This section of my testimony identifies OTP's proposed test year and summarizes the overall revenue requirement and revenue deficiency for that test year.

Q. WHAT TEST YEAR IS OTP PROPOSING IN THIS CASE?

A. OTP is proposing a forecast 2024 Test Year that is a based primarily on OTP's 2024 O&M and capital expenditure budgets, with adjustments. I discuss the development of the 2024 O&M and capital budgets in Section VI, below. The 2024 Test Year is a "future test year" as defined in N.D.C.C. § 49-05-04.1.1C.[2]

[2] N.D.C.C. § 49-05-04.1.1C provides a "future test year" is "any consecutive twelve-month period ending no later than twenty-four months after the date new schedules are filed."

Q. PLEASE PROVIDE THE 2024 TEST YEAR JURISDICTIONAL REVENUE REQUIREMENT AND REVENUE DEFICIENCY?

A. OTP's overall jurisdictional revenue requirement for the 2024 Test Year is $223,347,446 (including $1,594,045 of revenue requirements that will remain in riders), and the 2024 Test Year base rate revenue deficiency is $40,660,558.[3] The 2024 Test Year base rate revenue deficiency represents a an approximately 36.00 percent overall increase in base rate retail revenues compared to projected 2024 retail base rate revenues at current rates.[4] The overall increase in base rate retail revenue reflects $23,302,320 of rider revenue that is moving into base revenues. The overall net increase in base rate revenue (excluding amounts moving from riders to base rates) is 8.43 percent.

Q. HAVE YOU PREPARED A SUMMARY OF THE 2024 REVENUE DEFICIENCY?

A. Yes. Exhibit____(CLP-1), Schedule 3 and Volume 3, Schedule A-1 is a summary of the 2024 Test Year base rate revenue deficiency. Line 1 shows average total rate base of $662 million. Line 2 shows the total amount available for return of $21.2 million, determined at present rate levels. Line 3 shows the 3.21 percent overall rate of return (ROR) earned before any rate increase. Line 4 shows the 7.85 percent required ROR. OTP witness Mr. Todd R. Wahlund supports OTP's requested ROR in this proceeding. Line 5 shows the required operating income of $51.9 million, determined by multiplying the 7.85 percent required ROR by the $662 million rate base. Line 6 shows the $30.7 million income deficiency, which is the difference between the required operating income of $51.9 million (on Line 5) less the $21.2 million of available return (on Line 2). The $40.7 million revenue deficiency on Line 8 is determined by multiplying the $30.7 million income deficiency (on Line 6) by the 1.32284 gross-revenue conversion factor (based on the applicable income tax rates and uncollectible factor that derives the increased expense). The calculation of the gross revenue conversion factor appears in Volume 3, Schedule F-2.

[3] This amount excludes the effect of POET Steam Sales moving into the Energy Adjustment Rider and change in rider revenue due to changes in allocation factors.
[4] See Volume 3, Schedule E-1.

Q. HAVE YOU COMPARED OTP'S EARNED OVERALL ROR TO ITS REQUIRED OVERALL ROR SINCE 2022?

A. Yes. OTP's earned ROR was lower than OTP's required ROR in 2022 and will be lower than OTP's required ROR in both 2023 and 2024 at current rates. Exhibit___(CLP-1), Schedule 4 and Volume 3, Schedule A-2 is a Jurisdictional Financial Summary for the 2022 Actual Year, 2023 Current Period (projected), 2024 Regulatory Year (projected), and the 2024 Test Year. Schedule 4 and Volume 3, Schedule A-2 shows: (1) the overall ROR for the 2022 Actual Year was 6.31 percent and the required ROR was 7.26 percent; (2) the projected overall ROR for the 2023 Current Period is 6.60 percent and the projected required ROR is 7.33 percent; (3) the projected overall ROR for the 2024 Regulatory Year is 6.54 percent and the projected required ROR is 7.41 percent; and (4) the projected overall ROR for the 2024 Test Year is 3.21 percent and the required ROR is 7.85 percent.

V. FINANCIAL DATA PROVIDED

Q. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR DIRECT TESTIMONY?

A. The purpose of this section of my testimony is to describe the financial data OTP has provided to support its requests in this proceeding.

Q. HAS OTP PROVIDED REQUIRED FINANCIAL DATA AS PART OF THIS APPLICATION?

A. Yes. Additional supporting financial data is included in Volume 3, Supporting Information. The Volume 3, Supporting Information provides the information required under N.D.C.C. §§ 49-05-04 and 49-05-04.1(2).

Q. PLEASE PROVIDE AN OVERVIEW OF THAT FINANCIAL DATA.

A. OTP is providing additional financial data with this filing for the 2022 Actual Year, 2023 Current Period, 2024 Regulatory Year, and 2024 Test Year. Volume 3, Supporting Information contains separate rate base and income statement bridge schedules that identify traditional and rate case adjustments for the 2024 Test Year.[5] Additional rate base and income statement information is found in Volume 3, Supporting Information.

[5] The concepts of traditional and rate case adjustments are discussed below.

Q. PLEASE DESCRIBE THE INFORMATION AVAILABLE FOR 2022 AND 2023.

A. 2022 is the most recent year for which 12 months of actual information is available. Information for 2023 reflects a combination of actual information (January through July) and projected information (August through December).

Q. PLEASE IDENTIFY THE FINANCIAL SCHEDULES PROVIDED AS PART OF THE FILING.

A. There are six financial schedules, which have alphabetical headings, A through F. These are in Volume 3, Supporting Information, under the tab: Supporting Financial Information. I am sponsoring the information contained in all sections except Section D, Cost of Capital and Section E, Test Year Revenue. I will briefly describe the sections I am sponsoring.

Q. PLEASE DESCRIBE FINANCIAL SCHEDULE A-2.

A. Schedule A-2 is the Jurisdictional Financial Summary of OTP, as allocated to North Dakota, for the 2022 Actual Year, the 2023 Current Period, the 2024 Regulatory Year, and the 2024 Test Year, as adjusted.

Q. PLEASE EXPLAIN FINANCIAL SCHEDULE B-1.

A. Schedule B-1 is the rate base summary of OTP, as allocated to North Dakota, for the 2022 Actual Year, the 2023 Current Period, the 2024 Regulatory Year, and the 2024 Test Year, as adjusted.

Q. WHAT IS SHOWN ON FINANCIAL SCHEDULE C-1?

A. Schedule C-1 is the operating income summary of OTP, as allocated to North Dakota, for the 2024 Regulatory Year and the 2024 Test Year, as adjusted. The electric revenues are the revenues from sales of electricity to OTP's North Dakota customers under rate schedules presently on file with the Commission. To those electric revenues, I added the North Dakota allocated share of OTP's other operating revenues from other services provided by OTP. Next, I deducted operating expenses to arrive at net operating income before income taxes. Finally, I deducted total income tax expense from net operating income before income taxes to arrive at net operating income after income taxes.

Q. WHAT IS SHOWN ON FINANCIAL SCHEDULE D-1?

A. Schedule D-1 is a cost of capital summary showing the required RORs for 2022, 2023, and 2024. The 2024 Test Year required ROR is 7.85 percent, along with the amounts of common equity and the amounts and costs of long-term debt and short-term debt. OTP witness Ms. Ann E. Bulkley supports the 10.60 percent return on equity (ROE) reflected in the 2024 Test Year cost of capital. Mr. Wahlund supports the 7.85 percent overall ROR.

Q. WHAT IS SHOWN ON FINANCIAL SCHEDULE E-1?

A. Schedule E-1 shows the operating revenue under the present and proposed rates by rate schedule. Schedule E-1 indicates that on an annual basis the proposed rates will produce additional base rate revenues of $40,660,558 for the North Dakota jurisdiction. OTP witness Mr. David G. Prazak sponsors this Schedule in his Direct Testimony.

Q. WHAT DOES FINANCIAL SCHEDULE F-2 SHOW?

A. Schedule F-2 shows the development of the gross revenue conversion factor. This factor is used on Schedule A-1 to convert the 2024 Test Year income deficiency to the 2024 Test Year revenue deficiency.

VI. CAPITAL AND O&M BUDGET

Q. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR DIRECT TESTIMONY?

A. In this section of my Direct Testimony, I will provide an overview of the process used to develop OTP's capital and O&M budgets. I begin by discussing the capital budget, including the process used to develop the capital budget. I then discuss the O&M budget, including the process to develop that budget.

Q. PLEASE DESCRIBE THE RELATIONSHIP BETWEEN OTP'S BUDGETS AND THE 2024 TEST YEAR.

A. OTP's 2024 Test Year jurisdictional revenue requirement and revenue deficiency in this case is based on OTP's 2024 capital and O&M budgets, with adjustments.

Q. DO THOSE BUDGETS PRESENT A REASONABLE AND RELIABLE BASIS FOR THE TEST YEAR?

A. Yes. As discussed below, and in more detail in Volume 5, Budget Documentation, OTP uses a thorough budgeting process that results in a reliable and accurate

forecast. The 2024 Test Year, which builds upon OTP's budgets and reflects adjustments discussed below, is reasonable, reliable and was made in good faith; and all basic assumptions used in making or supporting the 2024 Test Year are reasonable, evaluated, identified, and justified so the Commission can test the appropriateness of the 2024 Test Year. Further, the accounting treatment applied to anticipated events and transactions in the 2024 Test Year is the same as the accounting treatment to be applied in recording the events once they have occurred.

Q. HAVE YOU PREPARED A SUMMARY SCHEDULE COMPARING HISTORICAL BUDGETED TO ACTUAL AMOUNTS?

A. Yes. Exhibit___(CLP-1), Schedule 5 compares budged capital and O&M to actual costs for the years 2020 through 2022. This Schedule demonstrates that OTP's budgets are reliable, accurate and form an appropriate basis for calculating the 2024 Test Year revenue requirement.

Q. DO THE 2022 VARIANCES IDENTIFIED IN SCHEDULE 5 REFLECT CERTAIN ANOMALOUS OR NON-RECURRING EVENTS?

A. The 2022 actual costs reflect some unexpected challenges. For example, there was an unexpected equipment failure at our Big Stone plant. As a result, OTP needed to rent a piece of equipment for the plant to continue operating running while the original equipment was being fixed. The additional rental expense was not in the original forecast.

Some of the 2022 variance also relates to additional tree trimming following some large storms in our service territory. Some of the expense was capitalized, but not all of it. We used the opportunity to proactively perform additional tree trimming so as mitigate effects of future storms.

A. Capital Budget

Q. WHAT SYSTEMS DOES OTP USE FOR CAPITAL BUDGETING?

A. The capital budget is developed using a software package called Power Plan. OTP has used Power Plan since 2012. OTP also uses a software package called Utilities International (UI). UI is used by many utilities for budgeting, forecasting, financial reporting, and cost of service studies. After the capital budget is developed in Power Plan, the information is loaded into UI to develop cost of service studies.

Q. PLEASE IDENTIFY THE PRIMARY PARTICIPANTS IN THE CAPITAL BUDGETING PROCESS.

A. The OTP capital budget is developed, maintained, and updated by the Fixed Assets Department. Several other groups within OTP also have significant roles in the OTP capital budgeting process, including the business areas within OTP. Sponsors of individual projects and the Vice Presidents of the business areas and the Department Managers within the business areas have significant roles.

OTP also has a Capital Budget Committee that is comprised of managers from various business areas. The Capital Budget Committee plays a significant role in prioritizing capital projects and determines if projects can be deferred, removed, or need to be kept in the year for which they are forecasted.

The OTP Chief Financial Officer (CFO) and OTP President also have significant roles. Annual targets for OTP's routine capital projects (which I discuss further below) are determined by the OTP CFO and President. Approval of a specific project by the OTP Board of Directors or the Otter Tail Corporation Board of Directors also may be required, depending on the level of spending involved in a project. Final approval of the overall capital budget requires approval of the OTP Board of Directors and the Otter Tail Corporation Board of Directors.

Q. WHAT ARE THE CATEGORIES OF PROJECTS IN OTP'S CAPITAL BUDGETS?

A. OTP's capital budgets are made up of routine and non-routine projects.

Q. PLEASE PROVIDE A BRIEF DESCRIPTION OF ROUTINE PROJECTS.

A. Routine projects typically are lower cost projects with construction timelines that generally do not span more than one year. Routine projects are projects done in the normal course of business that help maintain the functionality of an asset, support typical customer growth, address minor compliance requirements, and/or maintain system reliability. Routine projects also include projects related to serving new customers by building new facilities or upgrading existing facilities.

Q. PLEASE PROVIDE A BRIEF DESCRIPTION OF NON-ROUTINE PROJECTS.

A. Non-routine capital projects are typically higher cost projects that are not done on a yearly basis and for which the construction duration normally spans more than one year. Non-routine projects are typically done to address major compliance requirements and/or add significant transmission or generation assets. An

example of a non-routine project is the Upgrade Project discussed by OTP witness Ms. Paula M. Foster in her Direct Testimony.

Q. WHAT IS THE PLANNING HORIZON FOR OTP CAPITAL BUDGETS?

A. The OTP capital budget normally covers a horizon from the current year to five years into the future. OTP annual capital budgets are developed in the context of a five-year capital budget. Each year, the five-year capital budget is revisited and extended for an additional year.

Q. PLEASE SUMMARIZE THE INITIAL STEPS IN DEVELOPING OTP'S CAPITAL BUDGET.

A. OTP's capital budget process begins the first quarter of the year before the budget year (i.e., 2023 for the OTP 2024 capital budget). The capital budget process begins with identification of new projects for consideration or updating of projects previously submitted through a prior capital budget to be reconsidered for the upcoming five-year capital budget.

Project sponsors (the managers responsible for projects) propose new projects. The project sponsors are required to identify: (1) the need for the project; (2) the work to be completed; (3) the benefits of the project; and (4) any alternatives that were considered. After new projects are proposed by the project sponsors, the proposed projects are reviewed by the Vice Presidents for the business areas responsible for the projects. At this stage, the Vice President determines whether the project is to be considered further or be denied for consideration in the five-year capital budget.

After all projects for further consideration have been identified, the Capital Budget Committee categorizes each project as either routine or non-routine. The Capital Budget Committee representative for each functional area will assess priority of their projects. The objective of the Capital Budget Committee is to develop the best list of projects to include in the preliminary five-year capital budget in accordance with the capital budget targets set for OTP.

Q. PLEASE DESCRIBE FURTHER HOW POTENTIAL PROJECTS ARE PRIORITIZED.

A. After the Capital Budget Committee finalizes the list of projects to include in the preliminary five-year capital budget, the list is presented to the OTP executive

team[6] for approval. The presentation and approval by the OTP executive team generally occurs in the first half of March.

Q. WHAT HAPPENS AFTER THE CAPITAL BUDGET COMMITTEE HAS DEVELOPED THE LIST OF CAPITAL PROJECTS?

A. After being returned to the Capital Budget Committee, the list is shared with the respective functional area. Smaller projects (generally less than $500,000) are presented and approved through the business area Vice President. Routine (and non-routine) capital projects over $500,000 generally require project review and approval from the OTP executive team.

The OTP President can approve routine (and non-routine) capital projects up to $5,000,000. If the capital project is greater than $5,000,000, it requires approval by the OTP Board of Directors. The OTP Board of Directors can approve capital projects up to $15,000,000. Any capital project over $15,000,000 requires approval by the Otter Tail Corporation Board of Directors.

Q. HOW IS THE FIVE-YEAR CAPITAL SPENDING FORECAST FINALIZED?

A. During the third quarter of the year before the budget year (i.e. the fourth quarter of 2023 for the 2024 budget year), the Plant & Capital Budget Accountant closely works with each functional area to make updates to non-routine projects and routine projects if known in the five-year capital budget forecast. A further review is then conducted by the OTP executive team in conjunction with overall Company review of the upcoming forecast. Thereafter, the OTP Board of Directors and the Otter Tail Corporation Board of Directors approve the total spending levels within the five-year capital budget.

Q. ARE NON-ROUTINE PROJECTS SUBJECT TO ADDITIONAL SCRUTINY IN THE CAPITAL BUDGET PROCESS?

A. Yes. Non-routine projects (and a few routine projects) are also subject to the Phase Review Process. There are three phases in the Phase Review Process. The first phase in the Phase Review Process is the Development Phase. The Development Phase of the project secures funding to do the necessary research to determine the feasibility of the project. At this stage, there is no commitment to the project.

[6] The OTP executive team consists of the OTP President, CFO, Vice Presidents of Asset Management, Customer Service, Energy Supply, HR/Safety, IT, Communications, and Regulation and Retail Energy Solutions.

After the Development Phase, the project sponsor seeks approval and final commitment to proceed with construction. During the Construction Phase (following the Development Phase), detailed project scopes and objectives are developed, agreements are negotiated, and vendors are selected. Completion of these steps leads to construction of the project.

After the project is completed, there is a Post Project Review Phase. During the Post Project Review Phase, the project is reviewed, including an assessment of: (1) the performance of the project against the scope and objectives that had been developed at the beginning of the project; (2) expenses of the project; and (3) lessons learned.

Q. AFTER PROJECT DEVELOPMENT BEGINS, WHAT STEPS DOES OTP TAKE TO MONITOR AND MANAGE COMPLETION OF THE PROJECT?

A. Capital spending is monitored and reported monthly by comparing actual cash-flows to budgeted cash-flows to ensure accuracy and accountability, and to quickly identify any issues that may arise throughout the construction process. The monitoring and reporting process includes preparation and circulation of reports that outline the actual versus budgeted capital spend for projects on a monthly and year-to-date basis for purposes of receiving answers for any outstanding questions that may arise.

Project updates are provided to business area Vice Presidents by project sponsors. Project updates include milestone schedules, budget summaries, major accomplishments, upcoming milestones/activities, deviations from project scope, and updated risk summaries.

Q. DOES OTP PERFORM REFORECASTING OF PROJECTS UNDER CONSTRUCTION?

A. Yes. Plan sponsors perform monthly reforecasting for all routine and non-routine projects on a monthly basis. the Fixed Asset Department also conducts monthly re-forecasting.

More extensive quarterly reforecasting of routine projects occurs in the second and third quarters. This process allows forecasts to be refreshed as the construction process is occurring and as progress removes levels of uncertainty.

The level of monthly reforecasting of non-routine projects makes additional quarterly reforecasting unnecessary.

Q. DOES THE OTP EXECUTIVE TEAM PROVIDE ADDED SUPERVISION OF SOME NON-ROUTINE PROJECTS?

A. Yes. Certain non-routine projects that span multiple years and have intensified risk or capital spending have also been incorporated into a review process at regularly scheduled staff meetings of the OTP executive team. For example, the Upgrade Project has been reviewed at regular intervals by the OTP executive team.

Q. HAS OTP PROVIDED FURTHER INFORMATION ON THE DEVELOPMENT OF ITS CAPITAL BUDGET IN CONNECTION WITH THIS APPLICATION?

A. Yes, further information about the development of OTP's capital budget is contained in Volume 5, Budget Documentation.

B. O&M Budget

Q. PLEASE IDENTIFY THE PRIMARY PARTICIPANTS IN OTP'S O&M BUDGETING PROCESS.

A. The Business Planning Department (which is part of the Finance Area) has a central role in establishing the O&M budgets. The Business Planning Department's responsibilities include establishing, forecasts, preliminary estimates, and criteria, and providing coordination, evaluation, and oversight of O&M budgets.

The functional areas within OTP, including functional area Vice Presidents and Department Managers also have significant roles in the O&M budgeting process. These functional areas include Regulation and Retail Energy Solutions, Asset Management, Customer Service, Energy Supply, Finance, Human Resources/Safety, Communications, and Information Technology Departments. In addition, OTP's CFO and President have significant roles, which include conferring with functional area Vice Presidents as budgets are being refined and reviewing the O&M budget as it is being developed by Business Planning. Finally, the OTP Board of Directors reviews and approves the OTP O&M budget, and the Otter Tail Corporation Board of Directors provides final review and approval.

Q. PLEASE PROVIDE AN OVERVIEW OF THE TIMELINE FOR DEVELOPMENT OF THE OTP O&M BUDGET.

A. The OTP O&M Budget is developed and refined in the first and second quarters of the year before the budget year (i.e., the first and second quarters of 2023 for the 2024 budget year).

The process begins in the first quarter with the development by the Business Planning Department of past years history, normalizing for plant outages. The functional areas review and propose modifications to the preliminary total of O&Ms in the second quarter.

For 2024, an updated O&M budget was prepared by Business Planning in June 2023. This updated O&M budget was then further reviewed by the functional areas.

The OTP CFO and President confer with the functional area Vice Presidents, and necessary modifications are made in the third quarter. After further review by the functional areas, the 2024 O&M budget is presented in the fourth quarter to the OTP Board of Directors and Otter Tail Corporation Board of Directors.

Q. WHAT ARE THE PRIMARY COMPONENTS OF THE O&M BUDGET?

A. The O&M budget includes two primary components: (1) labor and (2) non-labor costs.

Q. HOW WERE LABOR COSTS DEVELOPED FOR THE 2024 O&M BUDGET?

A. Labor costs were developed based on the number of individual employees within each department within each functional area and are then cumulated at the functional area level. The process begins with estimated full-time equivalent (FTE) employee projections provided in total to the functional areas by the Business Planning Department in the first quarter. For the 2024 O&M budget, these projections were based primarily on the recent historical employee levels.

A composite basic labor rate was determined for union and non-union employees within each functional area based on total job description salaries for each department within the functional area. A rate of increase was determined based on existing contracts and estimated cost increases, and was applied to the basic, unloaded labor costs. Overtime projections were also made and included. A labor loading rate was then applied to all basic labor costs. The labor loading rate reflects benefit costs, payroll taxes, and paid time off, which includes holidays, vacations, sick leave, and other compensated time off.

Q. PLEASE FURTHER EXPLAIN HOW THE BASIC UNLOADED LABOR RATES WERE DETERMINED.

A. The Human Resources Area works with the Vice Presidents of the other functional areas, as well as with the OTP President and CFO, to develop the estimate of the

overall annual increase to non-union employee rates for the budget year. The labor rate for union employees is based on contracts between OTP and the respective unions, including any increases that will become effective in the budget year. Overall labor costs were finalized by the Human Resources Area.

Q. HOW WERE BUDGETED NON-LABOR COSTS DEVELOPED?

A. The non-labor component of the O&M budget was primarily developed by the Business Planning Department. For the 2024 O&M budget, the Business Planning Department began with averages from recent years and requested adjustments from Department Managers within the functional areas. These adjustments reflected changes that were known for the 2024 O&M budget, either increasing or reducing costs for known changes and expected major events, such as generating plant outages.

Q. IS OTP PROVIDING FURTHER INFORMATION ON THE DEVELOPMENT OF O&M COSTS?

A. Yes. Further information about the O&M budget is contained in Volume 5, Budget Documentation.

VII. RATE BASE

Q. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR DIRECT TESTIMONY?

A. In this section of my Direct Testimony, I will discuss the components of rate base for the 2024 Regulatory Year and the 2024 Test Year. I will also address the rate base effects of transferring recovery of certain projects from riders into base rates, as further discussed by Ms. Foster in her Direct Testimony. Finally, I identify and explain the traditional and rate case adjustments that are made to the 2024 Unadjusted Year rate base to arrive at the 2024 Test Year rate base.

Q. WHAT RATE BASE FINANCIAL SCHEDULES HAS OTP PROVIDED?

A. OTP has provided Schedules B-1 through B-5 in Volume 3, Supporting Information, under Tab II, B.

Q. WHAT TIME PERIODS ARE SHOWN ON THOSE FINANCIAL SCHEDULES?

A. The rate base schedules show information for: (1) 2022 Actual Year; (2) 2023 Current Period; and (3) 2024, including the 2024 Regulatory Year and 2024 Test Year.

Q. PLEASE BRIEFLY DESCRIBE THE RATE BASE FINANCIAL SCHEDULES INCLUDED IN VOLUME 3.

A. Schedule B-1, Rate Base Summary, summarizes the North Dakota electric utility rate base for each of the four time periods under discussion (2022 Actual Year, 2023 Current Period, the 2024 Regulatory Year, and the 2024 Test Year). Schedule B-2 shows average utility plant in service, average accumulated depreciation, and net average utility plant in service in detail by function and all remaining rate base components in total for the entire system and the North Dakota jurisdiction. Schedule B-2 provides the detail underlying the information in the summary Schedule B-1. Schedule B-3 shows the adjustments made to the 2024 Regulatory Year data to develop the 2024 Test Year. This information is shown for the 2024 Regulatory Year and 2024 Test Year. Schedule B-4 is a summary of approaches used and assumptions made in determining the average rate base for the 2024 Test Year. Schedule B-5 summarizes jurisdictional allocation factors by rate base component.

Q. WHAT IS THE SOURCE OF THE 2022 ACTUAL YEAR RATE BASE INFORMATION?

A. The 2022 Actual Year information is taken from OTP's North Dakota normalized for weather JCOSS, which is the basis for reporting the earned regulated returns included in the 2022 North Dakota Annual Report filed with the Commission.

Q. WHAT IS THE SOURCE OF THE 2023 CURRENT PERIOD RATE BASE INFORMATION?

A. The 2023 Current Period is based on actual results through July 2023 and a forecast for August through December 2023. We can make full 2023 actual results available to stakeholders upon request, once complete (typically April or May).

Q. WHAT IS THE SOURCE OF THE 2024 REGULATORY YEAR RATE BASE INFORMATION CONTAINED IN THE FINANCIAL SCHEDULES?

A. The 2024 Regulatory Year is based on prior years' data along with OTP's 2024 capital budget, and reflects traditional adjustments described in Section VII.C.1, below.

Q. WHAT IS THE AMOUNT OF THE 2024 REGULATORY YEAR RATE BASE AND 2024 TEST YEAR RATE BASE?

A. As shown in Exhibit___(CLP-1), Schedule 6 and Volume 3, Schedule B-1, the 2024 Regulatory Year North Dakota jurisdictional rate base is $651.6 million, and the 2024 Test Year rate base is $661.7 million. I will explain the differences between the 2024 Regulatory Year North Dakota jurisdictional rate base and the 2024 Test Year Rate Base in Section VII.C.2, below.

Q. PLEASE BRIEFLY DESCRIBE THE COMPONENTS OF THE RATE BASE.

A. Rate base consists primarily of the capital expenditures made by a utility to obtain or construct plant, equipment, materials, supplies, and other assets necessary for the provision of utility service, reduced by amounts recovered from depreciation expense and non-investor sources of capital (such as accumulated deferred income tax).

Q. HOW WERE THE 2024 REGULATORY YEAR AND 2024 TEST YEAR RATE BASE AMOUNTS DEVELOPED?

A. OTP developed its 2024 capital budget, the 2024 Regulatory Year, and the 2024 Test Year based on simple averages. OTP adjusted for known and measurable changes along with "traditional" regulatory adjustments described in Section VII.C.1 below to arrive at the 2024 Regulatory Year. These adjustments were made to reflect recognized regulatory requirements and to "normalize" the budgeted financial information for one-time events that will not be recurring on an on-going basis. Other rate case adjustments were made to develop the 2024 Test Year. I will discuss those adjustments in Section VII.C.2 of my Direct Testimony.

A. Rate Base Summary

Q. WHAT ARE THE MAJOR COMPONENTS OF THE 2024 TEST YEAR RATE BASE?

A. The 2024 Test Year rate base is generally comprised of the following major items:

- Net utility plant in service (which reflects accumulated depreciation);
- Construction work in progress (CWIP);
- Cash working capital items; and
- Accumulated deferred income taxes (ADIT).

These different components are all identified in Schedule 6 for the 2024 Regulatory Year and the 2024 Test Year.

1. Net Utility Plant in Service

Q. WHAT DOES SCHEDULE 6 INCLUDE REGARDING UTILITY PLANT IN SERVICE?

A. Schedule 6 shows utility plant in service (by total and component), which is before depreciation, accumulated depreciation (by total and component), and net utility plant in service (by total and component). These are shown for the 2024 Regulatory Year and the 2024 Test Year. Schedule 6 shows OTP's North Dakota jurisdictional net utility plant in service is $788.1 million for the 2024 Regulatory Year and $798.1 million for the 2024 Test Year.

Q. WHAT DOES "UTILITY PLANT IN SERVICE" REPRESENT?

A. Utility plant in service is based upon the original cost of property from the books and records of OTP, adjusted to account for the projected additions and/or retirements identified in the above described capital budgeting process.

Q. WHAT DOES "NET UTILITY PLANT" REPRESENT?

A. Net utility plant represents OTP's investment in plant and equipment that is used and useful in providing retail electric service to its customers, net of accumulated depreciation.

Q. PLEASE EXPLAIN THE METHOD USED TO CALCULATE NET UTILITY PLANT INVESTMENT IN THIS CASE.

A. The net utility plant is included in rate base at depreciated original cost, reflecting a simple average based on monthly balances from December 2023 through December 2024.

Q. DOES SCHEDULE 6 INCLUDE ALL COMPONENTS OF NET UTILITY PLANT?

A. Yes. Schedule 6 includes all components of utility plant in service (production, transmission, distribution, general, and intangible) and the accumulated depreciation related to each of these components. The net of utility plant in service and accumulated depreciation is the net utility plant in service. Schedule 6 shows these amounts and adjustments, and the amounts and adjustments that are allocated to the North Dakota jurisdiction.

Q. DOES SCHEDULE 6 INCLUDE THE RATE BASE COMPONENTS DISCUSSED BY OTP WITNESSES?

A. Yes. Schedule 6 includes all the rate base components discussed by the other OTP witnesses, including the investments currently recovered in riders that are being rolled into base rates discussed in the Direct Testimony of Ms. Foster. I discuss the process of including the investments currently recovered in riders in Section VII.B., below.

Q. PLEASE BRIEFLY DESCRIBE ACCUMULATED DEPRECIATION SHOWN IN SCHEDULE 6.

A. Schedule 6 includes accumulated depreciation for all the utility plant in service components. The sum of the 2024 Regulatory Year North Dakota jurisdiction accumulated depreciation for these components is negative ($461.1 million) and negative ($461.2 million) for the 2024 Test Year.

2. CWIP

Q. WHAT IS THE AMOUNT OF CWIP INCLUDED IN SCHEDULE 6?

A. Schedule 6 shows that OTP's North Dakota jurisdictional CWIP is $780,990 for the 2024 Regulatory Year and for the 2024 Test Year.

Q. PLEASE EXPLAIN CWIP SHOWN IN SCHEDULE 6.

A. CWIP consists of two parts: (1) short-term and (2) long-term. Short-term CWIP applies to small rebuilds, increasing capacity of lines, upgrading lines, and similar types of activity which benefit existing customers. These are construction projects which cost less than $10,000 and require less than 30 days to complete. The Commission has ruled in our previous rate cases that short-term CWIP could be included in rate base. Long-term CWIP is all CWIP that is not defined as short-term CWIP. Long-term CWIP has not been included in rate base.

Q. HAS OTP REMOVED ANY REIMBURSABLE AMOUNTS FROM ITS CWIP BALANCE?

A. Yes, the CWIP balance (and thus rate base) does not include amounts that are reimbursable by government entities, as occurs in limited cases where lines must be moved because of highway work, or by customers (contribution in aid of construction).

3. Working Capital

Q. PLEASE EXPLAIN THE WORKING CAPITAL INCLUDED IN SCHEDULE 6.

A. Schedule 6 shows the North Dakota 2024 Regulatory Year and 2024 Test Year jurisdictional amounts for all working capital elements, including materials and supplies, fuel stocks, prepayments and customer advances/deposits and cash working capital.

Q. PLEASE EXPLAIN MATERIALS AND SUPPLIES INCLUDED IN SCHEDULE 6.

A. Schedule 6 shows OTP's North Dakota jurisdictional materials and supplies for the 2024 Regulatory Year and 2024 Test Year is $14.7 million. OTP's accounting records provide the materials and supplies inventory at the generating plants, central stores, and at various locations throughout OTP's service territory. The dollar amount used to calculate revenue requirements is based on a simple average.

Q. PLEASE EXPLAIN FUEL STOCKS INCLUDED IN SCHEDULE 6.

A. Schedule 6 shows OTP's North Dakota jurisdictional fuel stocks for the 2024 Regulatory Year and 2024 Test Year is $4.5 million. Fuel stocks is based on the simple average of inventory balances for fuel stocks. Fuel stocks include coal stockpiles and fuel oil for OTP's generating plants.

Q. PLEASE DESCRIBE THE PREPAYMENTS INCLUDED IN SCHEDULE 6.

A. Schedule 6 shows OTP's North Dakota jurisdictional prepayments for the 2024 Regulatory Year and 2024 Test Year are $18.6 million. Four separate items are grouped together under the line item of prepayments. The four items are: (1) pre-paid insurance; (2) pre-paid pension; (3) post-retirement benefits liability; and (4) post-employment benefits liability. The amounts for each item are developed using simple averages.

Q. PLEASE DESCRIBE CASH WORKING CAPITAL INCLUDED IN SCHEDULE 6.

A. Schedule 6 shows OTP's North Dakota jurisdictional cash working capital for the 2024 Regulatory Year is $1.3 million and 2024 Test Year is $1.5 million. Cash working capital represents a determination of cash working capital requirements for operation, maintenance, and other expenses.

Q. HOW WERE CASH WORKING CAPITAL REQUIREMENTS DETERMINED?

A. The cash working capital requirements included in rate base is based on a Lead Lag Study prepared by OTP using calendar year 2020 financial data. This study analyzes the lapse of time between the average day on which OTP incurs expenses to serve its customers and the average day on which cash is received from customers in payment of that service. OTP witness Mr. Christopher E. Byrnes explains the Lead Lag Study in his Direct Testimony.

4. ADIT

Q. WHAT IS THE AMOUNT OF ADIT INCLUDED IN SCHEDULE 6?

A. Schedule 6 shows OTP's North Dakota jurisdictional ADIT for the 2024 Regulatory Year is ($175.7 million) and ($175.8 million) for the 2024 Test Year. These amounts reflect a simple average of the beginning and end of year balances, without proration, as discussed by Ms. Stalboerger in her Direct Testimony.

B. Rider Roll-In

Q. IS OTP PROPOSING TO MOVE ANY PROJECTS FROM RIDER RECOVERY TO BASE RATE RECOVERY IN THIS FILING?

A. Yes. Ms. Foster explains that OTP proposes to transfer recovery of certain costs presently recovered in the Renewable Resource Adjustment Rider (RRAR), Transmission Cost Recovery Rider (TCRR), Metering & Distribution Technology Cost Recovery Rider (MDT), and Generation Cost Recovery Rider (GCR) to base rates.

Q. WHAT IS THE AMOUNT OF THE 2024 TEST YEAR RATE BASE ATTRIBUTABLE TO THE PROJECTS MOVING FROM THE RRAR INTO BASE RATES?

A. The 2024 Test Year rate base for the projects currently recovered in the RRAR that are moving to base rate recovery (collectively, the RRAR Projects) is $229.7 million (OTP Total), and $86.3 million (OTP ND).

Q. WHAT IS THE 2024 TEST YEAR RATE BASE ATTRIBUTABLE TO PROJECTS MOVING FROM THE TCRR INTO BASE RATES?

A. The 2024 Test Year rate base for the projects currently recovered in the TCRR that are moving to base rate recovery (collectively, the TCRR Projects) is $172.2 million (OTP Total) and $68.2 million (OTP ND).

Q. WHAT IS THE 2024 TEST YEAR RATE BASE ATTRIBUTABLE TO PROJECTS MOVING FROM THE MDT RIDER INTO BASE RATES?

A. The 2024 Test Year rate base for the projects currently recovered in the MDT rider that are moving to base rate recovery (collectively, the MDT Projects) is $3.55 million (OTP Total) and $1.46 million (OTP ND).

Q. WHAT IS THE 2024 TEST YEAR RATE BASE ATTRIBUTABLE TO PROJECTS MOVING FROM THE GCR RIDER INTO BASE RATES?

A. The 2024 Test Year rate base for the projects currently recovered in the GCR rider that are moving to base rate recovery (collectively, the GCR Projects) is $1,132.9 million (OTP Total) and $529.2 million (OTP ND).

C. Rate Base Adjustments

Q. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR DIRECT TESTIMONY?

A. In this section of my Direct Testimony, I will identify and explain the traditional and rate case adjustments that are made to the 2024 Unadjusted Year rate base to arrive at the 2024 Test Year rate base.

Q. PLEASE EXPLAIN THE DIFFERENCE BETWEEN REQUIRED ADJUSTMENTS AND RATE CASE ADJUSTMENTS.

A. As discussed above, OTP's capital and O&M budgets provide the basis for the 2024 Test Year. Those budgets, however, do not necessarily reflect certain ratemaking conventions used when establishing retail rates. As a result, OTP prepares "traditional" adjustments that reflect recognized regulatory requirements and to "normalize" the budgeted financial information for one-time events that will not be recurring on an on-going basis in order to arrive at the Regulatory Year data. "Rate case adjustments" reflect specific ratemaking proposals being made in this case.

Q. HAVE YOU PREPARED BRIDGE SCHEDULES SHOWING ALL ADJUSTMENTS YOU MADE TO ARRIVE AT THE 2024 TEST YEAR RATE BASE?

A. Yes. Exhibit___(CLP-1), Schedule 7 is a bridge schedule that identifies the traditional adjustments made to the 2024 Unadjusted Year to arrive at the 2024 Regulatory Year. Exhibit___(CLP-1), Schedule 8 identifies rate case adjustments made to the 2024 Regulatory Year in developing the 2024 Test Year.

Q. HOW IS THE INFORMATION IN SCHEDULEs 7 and 8 AND IN THIS SECTION OF YOUR DIRECT TESTIMONY PRESENTED?

A. All the information in Schedules 7 and 8 and in this section of my Direct Testimony is presented in terms of North Dakota jurisdictional amounts.

Q. WHAT ARE THE ADJUSTMENTS TO RATE BASE MADE FOR THE 2024 TEST YEAR?

A. The following is a list of the traditional adjustments (necessary to arrive at the 2024 Regulatory Year) and rate case adjustments (necessary to arrive at the 2024 Test Year):

Traditional Adjustments to Rate Base

- Generator Interconnection Procedures (GIPs) Projects
- Hoot Lake Solar
- Transmission Recovery
- Electric Vehicles

Test Year Adjustments to Rate Base

- Normalize Langdon Upgrade Project

1. Traditional Rate Base Adjustments

a) GIPs Projects

Q. HAVE YOU MADE AN ADJUSTMENT REGARDING GIPS PROJECTS?

A. Yes. Ms. Stalboerger explains there are too many uncertainties regarding the ultimate ratemaking treatment for these projects before FERC to include the projects in the 2024 Test Year. As a result, OTP has removed the GIPs investments from the 2024 Test Year. This adjustment: (1) decreases total plant in service by $19,287,409; (2) decreases accumulated depreciation by $1,221,465; (3) decreases accumulated deferred income taxes by $1,425,013; and (4) decreases total average rate base by $16,649,931, all as shown on Schedule 7.

b) Hoot Lake Solar

Q. HAVE YOU MADE AN ADJUSTMENT TO REMOVE THE HOOT LAKE SOLAR PROJECT FROM THE 2024 TEST YEAR?

A. Yes. Mr. Byrnes explains the basis for this adjustment in his Direct Testimony. This adjustment: (1) decreases total plant in service by $26,462,276; (2) decreases

accumulated depreciation by $568,838; (3) decreases accumulated deferred income taxes by $2,633,993; and (4) decreases total average rate base by $23,259,445, all as shown on Schedule 7.

c) Transmission Recovery

Q. PLEASE SUMMARIZE THE ADJUSTMENT FOR TRANSMISSION RECOVERY.

A. The non-retail portion of OTP's investments in the multi-value project (MVP) transmission are removed from the 2024 Test Year. This adjustment: (1) decreases total plant in service by $88,138,714; (2) decreases accumulated depreciation by $8,657,099; (3) decreases accumulated deferred income taxes by $7,549,696; and (4) decreases total average rate base by $71,931,919, all as shown on Schedule 7.

d) Electric Vehicles

Q. HAVE YOU MADE AN ADJUSTMENT REGARDING ELECTRIC VEHICLE COSTS?

A. Yes. On October 27, 2020, the Minnesota Public Utilities Commission approved OTP's plan to construct 11 electric vehicle (EV) fast-charging stations in its Minnesota service territory.[7] OTP expects to complete construction at six of these charging sites, with full operation, in the fall of 2023. The remaining five sites are scheduled for completion in 2024. OTP has directly assigned the costs of the Minnesota electric vehicle charging infrastructure to the Minnesota retail jurisdiction, therefore excluding those costs from the 2024 Test Year revenue requirement. This adjustment: (1) decreases total plant in service by $846,512; (2) decreases accumulated depreciation by $42,659; and (3) decreases total average rate base by $803,853, all as shown on Schedule 7.

2. Test Year Rate Base Adjustments

a) Normalize Langdon Upgrade Project

Q. DID YOU NORMALIZE 2024 TEST YEAR PLANT IN SERVICE FOR THE LANGDON UPGRADE PROJECT?

A. Yes. Schedule 8 shows the adjustment to plant in service for the Langdon Upgrade Project that will go into service during the 2024 Test Year. The adjustment: (1) removes the project and any 2024 AFUDC from CWIP; (2) annualizes the project in plant in service; and (3) includes any accumulated depreciation and the

[7] *Order Approving Pilot Program, Granting Deferred Accounting, and Setting Additional Requirements*, MN PUC Docket No. E017/M-20-181 (Oct. 27, 2020).

associated depreciation expense for this project. Ms. Foster explains the basis for this adjustment in her Direct Testimony.

Q. PLEASE SUMMARIZE THE EFFECT OF THE LANGDON UPGRADE PROJECT NORMALIZATION ADJUSTMENT ON 2024 TEST YEAR RATE BASE.

A. The adjustment: (1) increases plant in service by $10,079,520; (2) increases accumulated depreciation by $155,713; and (3) increases total average rate base by $9,923,807. The corresponding impacts on the 2024 Test Year income statement are explained in Section VIII.B.2, below.

3. Effect of Adjustments on Allocations

Q. DO THE 2024 TRADITIONAL AND TEST YEAR RATE BASE ADJUSTMENTS CAUSE IMPACTS TO ALLOCATIONS?

A. Yes. The impacts are due to changes in the allocators that result from the other financial adjustments made to the 2024 Test Year. They are the result of calculations within the cost of service model itself. For example, any adjustment to net plant in service will have a direct impact on the net electric plant in service (NEPIS) allocation factor calculated as a percentage of total system net plant. The allocation percentage is simultaneously recalculated each time an adjustment to net plant in service occurs, thereby providing the most up-to-date factor possible. As a result, anything that is allocated on NEPIS is simultaneously re-calculated on a jurisdictional basis as well. The overall effect of traditional adjustments on allocators is identified on page 1, of Schedule 7, in Column G, while the overall effect of rate case adjustments on allocators is identified on page 1 of Schedule 8, in Column D.

VIII. INCOME STATEMENT

Q. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR DIRECT TESTIMONY?

A. In this section of my Direct Testimony, I will discuss the income statement and explain the income statement schedules for the 2024 Regulatory Year and the 2024 Test Year.

Q. WHAT INCOME STATEMENT FINANCIAL SCHEDULES HAS OTP PROVIDED?

A. OTP has provided Income Statement Schedules C-1 through C-9 in Volume 3, Supporting Information.

Q. WHAT TIME PERIODS ARE SHOWN ON THESE SCHEDULES?

A. Those Income Statement schedules show information for: (1) 2022 Actual Year; (2) 2023 Current Period; and (3) 2024, including the 2024 Regulatory Year and the 2024 Test Year.

Q. WHAT IS THE SOURCE OF THE 2022 ACTUAL YEAR INCOME STATEMENT INFORMATION?

A. The source of the 2022 Actual Year Income Statement information is OTP's North Dakota JCOSS, which is the basis for reporting the earned ROR and ROE included in the 2022 North Dakota Jurisdictional Report filed with the Commission. The sources of the 2022 Actual Year information for the income statement are the same as for the rate base.

Q. WHAT IS THE SOURCE OF THE 2023 CURRENT PERIOD INCOME STATEMENT INFORMATION?

A. The 2023 Current Period is based on actual results through July 2023 and a forecast for August through December 2023. We can make full 2023 actual results available to stakeholders upon request.[8] The sources of the 2023 Current Period information for the income statement is the also the same as for the rate base.

Q. WHAT IS THE SOURCE OF THE 2024 REGULATORY YEAR INCOME STATEMENT INFORMATION?

A. The sources of the 2024 Regulatory Year information for the income statement are the same as for the rate base. The 2024 Regulatory Year is based on OTP's 2024 budget and reflects traditional adjustments described in Section VIII.B.1, below.

A. Income Statement Summary

Q. WHAT ARE THE 2024 REGULATORY YEAR AND 2024 TEST YEAR TOTALS AVAILABLE FOR RETURN?

A. As shown in Exhibit___(CLP-1), Schedule 9, the 2024 Regulatory Year total available for return (which is net income) is $42.6 million and the 2024 Test Year total available for return is $21.2 million.

[8] Actual results are typically available in April or May.

Q. PLEASE BRIEFLY DESCRIBE WHAT IS INCLUDED IN THE INCOME STATEMENT.

A. The income statement is composed primarily of: (1) operating revenues (which includes both retail revenues and other operating revenues); (2) operating expenses (which includes O&M expenses for the various operating segments, administrative and general expenses, depreciation expense, and general taxes, including property taxes); (3) income tax expense; and (4) total available for return (which is net income).

Q. HOW WAS THE 2024 REGULATORY YEAR INCOME STATEMENT DEVELOPED?

A. The 2024 Regulatory Year income statement was developed using the 2024 budget for revenues and operation and maintenance expense, adjusted to remove the revenues and expenses that are part of traditional regulatory adjustments. As discussed above, these adjustments were made to reflect recognized regulatory requirements and to normalize the budgeted financial information for one-time events that will not be recurring on an on-going basis. Other rate case adjustments were made to develop the 2024 Test Year. Both traditional and rate case adjustments to the income statement are discussed in Section VIII.B, below.

Q. WHAT ARE THE MAJOR COMPONENTS OF THE INCOME STATEMENT THAT YOU WILL DISCUSS?

A. The major components of the income statement I will discuss are:

- Revenues;
- O&M Expense;
- Depreciation Expense;
- Taxes; and
- Net Income.

1. Test Year Revenues

Q. WHAT ARE THE COMPONENTS OF TEST YEAR REVENUES?

A. There are two components of test year revenues: (1) retail revenues and (2) other revenues. Below, I describe the determination of both for purposes of calculating the 2024 Test Year base rate revenue deficiency.

a) Retail Revenues

Q. WHAT IS THE AMOUNT OF RETAIL REVENUE INCLUDED IN SCHEDULE 9?

A. Schedule 9 shows that OTP's North Dakota jurisdictional retail revenue is $206.0 million for the 2024 Regulatory Year and $182.7 for the 2024 Test Year.

Q. HOW WAS RETAIL REVENUE DETERMINED?

A. Retail revenue in the 2024 budget and Test Year was determined on a calendar month basis using the projected sales forecast (as described in the Direct Testimony of OTP witness Ms. Tammy K. Mortenson) applied to current tariffs. Ms. Mortenson explains how sales (in kilowatt hours) in this forecast were developed.

b) Other Electric Operating Revenue

Q. WHAT IS THE AMOUNT OF OTHER ELECTRIC OPERATING REVENUE INCLUDED IN SCHEDULE 9?

A. Schedule 9 shows that OTP's North Dakota jurisdictional other electric operating revenue is $13.0 million for the 2024 Regulatory Year and the 2024 Test Year.

Q. WHAT ARE THE COMPONENTS OF OTHER ELECTRIC OPERATING REVENUE?

A. Other electric operating revenue includes items such as: (1) Midcontinent Independent System Operator (MISO) transmission-related revenues not included in the TCRR; (2) revenue from Integrated Transmission Agreements (ITAs); (3) revenues from plant operations and steam sales; and (4) other miscellaneous revenues.

Q. ARE MISO REVENUES INCLUDED IN THE 2024 TEST YEAR?

A. Yes. Pursuant to MISO's Transmission and Energy Market Tariff and the MISO Transmission Owners Agreement, OTP receives revenues from several sources for use of its transmission system and related services that it provides. These sources of revenue include, but are not limited to, the following: Schedule 1 - Scheduling, System Control & Dispatch; Schedule 2 - Reactive Supply & Voltage Control; Schedule 7 - Firm Transmission Service; Schedule 8 - Non-Firm Transmission Service; Schedule 9 - Network Integrated Transmission Service; and Schedule 24 – Market Settlements. Net revenues included in the 2024 Test Year for the MISO schedules noted above are $4.7 million.

Q. DOES OTP RECEIVE REVENUES FOR SCHEDULING AND DISPATCH SERVICES?

A. Yes. OTP has agreements with transmission-owning, load-serving entities in its control area for which OTP provides scheduling and dispatch services. These agreements are distinct from the MISO tariff schedule revenue. These scheduling and dispatch services include: (1) transmission line switching; (2) emergency line operations; (3) scheduling or outages; and (4) various related transmission scheduling and transmission dispatch services. There are $978,910 of revenue for these services in the 2024 Test Year.

Q. WHAT IS AN ITA?

A. An ITA is an agreement to jointly plan and construct a common transmission system with discrete ownership of individual facilities with reciprocal usage rights granted to each party. OTP has one remaining ITA with Minnkota Power Cooperative (Minnkota). The Minnkota ITA has been approved by FERC.

Q. HOW IS OTP COMPENSATED FOR SERVICES PROVIDED UNDER THE MINNKOTA ITA?

A. OTP charges for scheduling and dispatch services based on OTP's costs associated with system control and dispatching, including operating, maintenance, and fixed costs. Minnkota pays its pro rata share of the system control and dispatching, operating, and maintenance expenses based on the respective joint use facilities owned by Minnkota and OTP.

Q. IS REVENUE FROM THE MINNKOTA ITA INCLUDED IN THE 2024 TEST YEAR?

A. Yes. Minnkota ITA revenue of $848,757 is included in the 2024 Test Year.

Q. DOES OTP RECEIVE COMPENSATION AS THE PLANT OPERATOR FOR THE TWO JOINTLY OWNED GENERATING UNITS, BIG STONE AND COYOTE?

A. Yes. OTP operates the Big Stone Plant and Coyote Station on behalf of itself and its ownership partners (Minnkota, Northwestern, and Montana-Dakota Utilities for Big Stone and Minnkota, Northwestern, Montana-Dakota Utilities, and Northwestern Municipal Power Agency for Coyote Station). As the plant operator, OTP provides services for which it is compensated by its partners. The services include: scheduling and operations of the plants for both the day-ahead and real-

time market; acting as the meter data management agent for all partners of the plants; settlement reconciliation of unit dispatches and actual generation; providing accounting reports and records to the partners; scheduling generator outages; communicating directly with the MISO generator dispatch desk; and providing and maintaining reliable communications between MISO, the plants, and the OTP control center.

Q. IS PLANT OPERATION REVENUE INCLUDED IN THE 2024 TEST YEAR?

A. Yes. Plant operation revenue in the amount of $134,853 is included in the 2024 Test Year.

Q. DOES OTP RECEIVE REVENUE FROM THE SALE OF STEAM?

A. Yes. OTP supplies steam to the POET ethanol plant that is located near the Big Stone Plant.

Q. IS REVENUE FROM STEAM SALES INCLUDED IN THE 2024 TEST YEAR?

A. Yes. POET steam sales revenue is included in the 2024 Test Year. Mr. Byrnes discusses OTP's proposal for treatment of POET steam sales revenue going forward.

Q. ARE ALL OTHER SOURCES OF OTHER ELECTRIC OPERATING REVENUES ALSO INCLUDED IN THE 2024 TEST YEAR?

A. Yes. While I will not address all the other sources of other electric operating revenues, they are included in the 2024 Test Year.

2. O&M Expenses

a) Schedule of O&M Expenses

Q. HAVE YOU PREPARED A SCHEDULE OF 2024 TEST YEAR O&M EXPENSES?

A. Yes. Exhibit___(CLP-1), Schedule 10, the schedule of O&M expenses, includes all O&M expenses included in the 2024 Test Year, whether they are specifically discussed by me or by other OTP witnesses.

Q. DO THE 2024 TEST YEAR O&M EXPENSES INCLUDE ALLOCATIONS OF COSTS FROM OTTER TAIL CORPORATION?

A. Yes. Like compensation and employee benefits expenses (discussed below), Otter Tail Corporation costs allocated to OTP are reflected in several categories of O&M

expenses. Mr. Byrnes describes how Otter Tail Corporation costs allocated to OTP have been reflected in the 2024 Test Year in his Direct Testimony.

Q. WHAT IS THE AMOUNT OF PRODUCTION EXPENSE INCLUDED IN SCHEDULE 10?

A. Schedule 10 shows that OTP's 2024 North Dakota jurisdictional production expense is $86.7 million for the 2024 Regulatory Year and $87.1 million for the 2024 Test Year.

Q. WHAT IS INCLUDED IN PRODUCTION EXPENSE?

A. The most significant production expenses are fuel and purchased power. Production expense also includes maintenance costs of OTP's generation plants.

Q. WHAT IS THE AMOUNT OF TRANSMISSION EXPENSE INCLUDED IN SCHEDULE 10?

A. Schedule 10 shows that OTP's 2024 North Dakota jurisdictional transmission expense is $13.8 million for the 2024 Regulatory Year and $14.1 million for the 2024 Test Year.

Q. WHAT IS INCLUDED IN TRANSMISSION EXPENSE?

A. Transmission Expense includes such things as load dispatching, substation expense, transmission line and substation maintenance, the transmission of electricity by others, rents for transmission property, engineering, computer hardware and software for the operation of the transmission system, and transmission market costs.

Q. WHAT IS THE AMOUNT OF DISTRIBUTION EXPENSE INCLUDED IN SCHEDULE 10?

A. Schedule 10 shows that OTP's 2024 North Dakota jurisdictional distribution expense is $8.0 million for the 2024 Regulatory Year and $8.4 million for the 2024 Test Year.

Q. WHAT IS INCLUDED IN DISTRIBUTION EXPENSE?

A. Distribution expense includes expenses for operation and maintenance of the distribution system, including substations, wires, transformers, meters, and lighting.

Q. WHAT IS THE AMOUNT OF CUSTOMER ACCOUNTING EXPENSE INCLUDED IN SCHEDULE 10?

A. Schedule 10 shows that OTP's 2024 North Dakota jurisdictional customer accounting expense is $7.0 million for the 2024 Regulatory Year and $7.3 million for the 2024 Test Year.

Q. WHAT IS INCLUDED IN CUSTOMER ACCOUNTING EXPENSE?

A. Customer accounting expense includes meter reading, billing, and maintenance of customer records (customer information systems).

Q. WHAT IS THE AMOUNT OF CUSTOMER SERVICE AND INFORMATION EXPENSE INCLUDED IN SCHEDULE 10?

A. Schedule 10 shows that OTP's 2024 North Dakota jurisdictional customer service and information expense is $1.3 million for the 2024 Regulatory Year and $1.3 million for the 2024 Test Year.

Q. WHAT IS INCLUDED IN CUSTOMER SERVICE AND INFORMATION EXPENSE?

A. Customer service and information expense includes customer assistance expenses.

Q. WHAT IS THE AMOUNT OF SALES EXPENSE INCLUDED IN SCHEDULE 10?

A. Schedule 10 shows that OTP's 2024 North Dakota jurisdictional sales expense is $0.1 million for the 2024 Regulatory Year and $0.1 million for the 2024 Test Year.

Q. WHAT IS INCLUDED IN SALES EXPENSE?

A. Sales expense includes selling and advertising expenses as well as economic development costs.

Q. WHAT IS THE AMOUNT OF ADMINISTRATIVE AND GENERAL EXPENSE INCLUDED IN SCHEDULE 10?

A. Schedule 10 shows that OTP's 2024 North Dakota jurisdictional administrative and general expense is $17.5 million for the 2024 Regulatory Year and $20.8 million for the 2024 Test Year.

Q. WHAT IS INCLUDED IN ADMINISTRATIVE AND GENERAL EXPENSE?

A. Administrative and general expense includes certain salaries and benefits related to administration; office supplies & expenses; various admin & general expenses; outside services employed; property insurance, injuries & damage; employee benefits; regulatory commission expenses; miscellaneous general expenses; informational advertising; rents; and building maintenance expenses.

b) Employee Compensation and Benefits Costs

Q. ARE EMPLOYEE COMPENSATION EXPENSES REFLECTED IN THE VARIOUS CATEGORIES IDENTIFIED IN SCHEDULE 10?

A. Yes. Salaries, wages, annual incentive compensation, and benefits costs (including employee medical/dental benefits, retirement benefits, including a defined benefit pension plan, defined contribution 401(k) plans, and other post-retirement employee benefits expenses) are reflected throughout the O&M expense categories such as production expense, transmission expense, distribution expense, and others, based on the employees providing services in those expense categories.

Q. WHAT IS THE 2024 BUDGETED AMOUNT FOR EMPLOYEE SALARIES, WAGES AND ANNUAL INCENTIVE COMPENSATION?

A. The 2024 budgeted, non-capitalized portion of employee salaries and wages, including annual incentive compensation, is $55.0 million (OTP Total) / $24.0 million (OTP ND EST.). OTP witness Mr. Peter E. Wasberg discusses the purposes, design, and reasonableness of OTP's employee compensation programs in his Direct Testimony.

Q. DOES THE 2024 TEST YEAR INCLUDE THE FULL COST OF EMPLOYEE SALARIES, WAGES AND ANNUAL INCENTIVE COMPENSATION?

A. No. Mr. Wasberg explains in his Direct Testimony that OTP is proposing to limit annual incentive compensation for each individual covered by the Management Incentive Plan and the Executive Plan to 25 percent of that individual's wages. The impact of this adjustment is discussed below in Section VIII.B. The 2024 Test Year, non-capitalized portion of employee salaries and wages, including annual incentive compensation and after all adjustments, is $54.2.0 million (OTP Total) / $23.6 million (OTP ND EST.).

Q. WHAT IS THE 2024 BUDGETED PENSION EXPENSE?

A. The 2024 budgeted, non-capitalized pension expense is ($3.4) million (OTP Total) / ($1.5) million (OTP ND EST).[9]

Q. WHAT IS THE BASIS FOR OTP'S 2024 BUDGETED PENSION EXPENSE?

A. The costs for OTP's pension plan are determined in accordance with ASC 715 (formerly FAS 87). Mercer, which provides actuarial services to OTP and Otter Tail Corporation, has provided an estimate of Otter Tail Corporation's pension plan costs for the 2024-2028 period, a copy of which is provided as Exhibit___(CLP-1), Schedule 13 (Mercer Five Year Pension Estimate). Mercer's estimated 2024 pension expense is the basis for the 2024 budgeted pension expense.[10]

Q. PLEASE PROVIDE AN OVERVIEW OF ASC 715.

A. ASC 715 is an accounting standard that governs employers' accounting for pensions and postretirement medical and life insurance (PRM) plans.[11] Under ASC 715, annual pension cost is made up of several components, including:

(1) The present value of pension benefits that employees will earn during the current year (Annual Service Cost), with the present value being established using the discount rate;

(2) Increases in the present value of the pension obligation that plan participants have earned in previous years (Interest Cost), which is based on the discount rate;

(3) Expected earnings on the pension plan assets during the year (Expected Return on Assets or EROA);

(4) Costs (or income) that differ from assumptions (Amortization of Unrecognized Gains and Losses); and

(5) Cost of changes in benefits (Amortization of Unrecognized Prior Service Cost).[12]

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[9] All of the references to pension expenses included in this subsection of my Direct Testimony are for O&M expenses only and do not include capitalized pension expense.

[10] Mercer will prepare a report based on December 31, 2023 data that will establish the actual 2024 ASC 715 and ASC 712 expense. OTP will receive Mercer's final 2024 ASC 715 and 712 expense report in the first quarter of 2024. OTP can provide the final 2024 ASC 715 and 712 expense report to stakeholders upon request once available.

[11] Pension plan costs formerly were accounted for under FAS 87, while PRM costs were subject to FAS 106. A third category of costs, Postemployment (LTD) Medical Benefit Plan costs, are now subject to ASC 712 and formerly were subject to FAS 112.

[12] The EROA component is not used for calculation of PRM plan expense.

Q. HOW IS ANNUAL SERVICE COST CALCULATED?

A. The annual service cost is the actuarial present value of the projected retirement benefits earned by plan participants in the current period. Actuarial factors are used to reflect the time value of money (the discount rate) and the probability of payment (mortality, turnover, early retirement). The discount rate reflects interest rates on fixed income debt securities that have a rating of AA published by recognized rating agencies, as well as Mercer's proprietary bond model, which determines a set of high-quality bonds that produce cash flows similar to the expected benefit payments and then solves for the average yield of those bonds.

Q. HOW IS INTEREST COST CALCULATED?

A. The interest cost is determined as the increase in the plan's total pension benefit obligation resulting from the fact that anticipated pension benefit payments are one year closer to being paid from the pension plan.

Q. HOW IS EROA DETERMINED?

A. The EROA is determined based on the expected long-term rate of return on the market value of pension plan assets. The product of the EROA multiplied by the amount of assets in the pension trust provides an offset to the service costs and interest costs, and therefore it reduces the pension expense.

Q. HOW IS AMORTIZATION OF UNRECOGNIZED GAINS AND LOSSES CALCULATED?

A. The Amortization of Unrecognized Gains and Losses calculation considers all gains and losses, with gains and losses calculated as the difference between actual results and assumptions. Asset gains and losses are the differences between the actual return on assets during the period and the expected return on assets for that period. Liability gains and losses are the differences between the actual liability at the end of a measurement period and the expected liability at the end of a measurement period. Gains and losses are not included in the period in which the gain or loss occurs, but rather in subsequent periods. Further, the Amortization of Unrecognized Gains and Losses must be included in the calculation of annual cost in a year if, as of the beginning of the year, the unrecognized net gain or loss exceeds a corridor of 10 percent of the greater of the projected benefit obligation or the market-related value of plan assets.

Q. PLEASE EXPLAIN AMORTIZATION OF UNRECOGNIZED PRIOR SERVICE COST CREDITS.

A. The Amortization of Unrecognized Prior Service Cost captures the effect of plan changes on services rendered in prior periods. The effects of those changes are amortized over a period of years.

Q. HAVE THE PENSION DISCOUNT RATE AND EROA ASSUMPTIONS CHANGED SINCE OTP'S LAST NORTH DAKOTA RATE CASE?

A. Yes. The table below compares the discount rate used in OTP's last North Dakota rate case to those incorporated in the Mercer Five Year Pension Estimate. The discount rate is significantly higher than the amount supporting pension expense in OTP's last North Dakota rate case.

Table 1
OTP Pension Expense Factors Assumptions

Pension Expense Factor	PU-17-398	Mercer 2024 Estimate Values
Discount Rate	3.90%	5.30%
EROA	7.50%	7.00%

Q. WHAT IS THE EFFECT OF THE HIGHER DISCOUNT RATE?

A. All else equal, an increase in the discount rate reduces pension expense.

Q. WHAT IS THE EFFECT OF THE LOWER EROA?

A. All else equal, a decrease in EROA increases pension expense.

Q. IS OTP RECOMMENDING THAT THE 2024 TEST YEAR REVENUE REQUIREMENT REFLECT THE ACTUARIAL ESTIMATE OF 2024 PENSION EXPENSE?

A. No. OTP witness Mr. Bruce G. Gerhardson explains in his Direct Testimony that OTP is requesting that the 2024 Test Year revenue requirement reflect a normalized pension expense based on an average of Mercer's actuarial estimated expense for 2024-2028. The financial impact of this recommendation is addressed in Section VIII.B.2, below. Ultimately, the 2024 Test Year, non-capitalized pension expense (reflecting the adjustment discussed below) is $873,842 (OTP Total)/ $344,674 (OTP ND EST.).

Q. WHAT IS THE 2024 TEST YEAR EXPENSE FOR EMPLOYEE GROUP INSURANCE BENEFITS?

A. The 2024 Test Year O&M cost for employee group insurance benefits, which includes active medical, dental, life insurance, and long-term disability (LTD), is $8.8 million (OTP Total)/ $3.8 million (OTP ND EST).

Q. HOW WERE 2024 TEST YEAR EMPLOYEE GROUP INSURANCE BENEFITS DETERMINED?

A. Mr. Wasberg's Direct Testimony explains the basis of the 2024 Test Year employee group insurance benefits expense.

Q. WHAT IS THE 2024 BUDGETED PRM AND POSTEMPLOYMENT (LTD) MEDICAL BENEFIT PLAN EXPENSES?

A. The 2024 budgeted non-capitalized cost for PRM benefits is $(3.2) million (OTP Total)/ $(1.3) million (OTP ND EST.). The 2024 non-capitalized budgeted cost for postemployment (LTD) medical benefit plan benefits is $442,219 (OTP Total)/ $193,632 (OTP ND EST.).

Q. WHAT IS THE BASIS FOR OTP'S 2024 BUDGETED PRM AND POSTEMPLOYMENT (LTD) MEDICAL BENEFIT PLAN EXPENSES?

A. Similar to OTP's pension plan, PRM and postemployment (LTD) medical benefit expenses are calculated based on demographics and standard actuarial assumptions. The 2024 budgeted PRM and postemployment (LTD) medical benefit expenses are based on the 2024 expense included in Mercer's Five Year Pension Estimate. Due to plan changes that occurred in 2023, Mercer subsequently revised its PRM estimate. The revised five-year PRM estimate is provided as Exhibit____(CLP-1), Schedule 14 (Mercer Five Year PRM Estimate).

Q. IS OTP RECOMMENDING THAT THE 2024 TEST YEAR REVENUE REQUIREMENT REFLECT THE ACTUARIAL ESTIMATE OF 2024 PRM EXPENSE?

A. No. Similar to pension expense, Mr. Gerhardson explains that OTP requests that the 2024 Test Year revenue requirement reflect a normalized level of PRM expense based on an average of Mercer's actuarial estimated expense for 2024-2028. The financial impact of this recommendation is addressed in Section VIII.B.2, below. Ultimately, the 2024 Test Year, non-capitalized PRM expense (reflecting the

adjustment discussed below) is $(1.6) million (OTP Total)/ $(684,699) (OTP ND EST.).

Q. WHAT IS THE 2024 TEST YEAR EXPENSE FOR THE OTP DEFINED CONTRIBUTION AND 401(k) MATCH?

A. The 2024 Test Year non-capitalized cost for the OTP defined contribution plan is $1.3 million (OTP Total)/ $555,767 (OTP ND EST.). The 2024 Test Year non-capitalized cost for the OTP 401(k) match is $2.8 million (OTP Total)/ $1.2 million (OTP ND EST.). Mr. Wasberg discusses the basis for these expenses in his Direct Testimony.

3. Depreciation Expense

Q. WHAT IS THE AMOUNT OF DEPRECIATION EXPENSE INCLUDED IN SCHEDULE 9?

A. Schedule 9 shows OTP's North Dakota jurisdictional depreciation expense is $32.6 million for the 2024 Regulatory Year and $33.1 million for the 2024 Test Year.

Q. HOW WERE TEST YEAR DEPRECIATION EXPENSES DETERMINED?

A. The depreciation expense in the 2024 Test Year reflects the remaining lives and salvage percentage parameters as determined in our 2023 depreciation study. These parameters are applied against the forecasted 2023 ending plant in service and accumulated depreciation balances to determine forecasted depreciation rates for the 2024 Test Year. These forecasted depreciation rates are applied against the 2024 Test Year plant in service balances to yield our 2024 Test Year depreciation expense.

4. Income Taxes

Q. WHAT IS THE AMOUNT OF INCOME TAX EXPENSE INCLUDED IN SCHEDULE 9?

A. Schedule 9 shows OTP's North Dakota jurisdictional income tax expense is $0 million for the 2024 Regulatory Year and $0 million for the 2024 Test Year due to net operating losses in the current year.

Q. HOW WERE OTP'S INCOME TAX EXPENSES CALCULATED?

A. OTP's Federal and North Dakota income tax expenses are based solely on the regulated income and expense items included in the revenue requirement calculation using the "stand-alone" method. The stand-alone method determines

the jurisdictional regulated income tax expense based solely on allowable regulated income and expense items. The current income tax expense calculation utilizes straight-line depreciation rates to determine depreciation expense as part of the current income tax expense calculation, while modified accelerated income tax depreciation (MACRS) rates and a special bonus depreciation provision were used to determine deferred income taxes (which are treated as a reduction to Rate Base).

B. Income Statement Adjustments

Q. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR TESTIMONY?

A. In this section of my Direct Testimony, I will identify and explain the traditional and rate case adjustments that are made to the 2024 Unadjusted Year income statement to arrive at the 2024 Test Year income statement.

Q. HAVE YOU PREPARED BRIDGE SCHEDULES SHOWING ALL ADJUSTMENTS YOU MADE TO ARRIVE AT THE 2024 TEST YEAR INCOME STATEMENT?

A. Yes. Exhibit___(CLP-1), Schedule 11 (which is also included in Volume 3, as Schedule C-7), is a bridge schedule that identifies the traditional adjustments made to the 2024 Unadjusted Year to arrive at the 2024 Regulatory Year, and Exhibit___(CLP-1), Schedule 12 (which is also included in Volume 3, as Schedule C-7) identifies rate case adjustments made to the 2024 Regulatory Year in developing the 2024 Test Year. Schedules 11 and 12 also identify the impact each adjustment has on the income statement.

Q. HOW IS THE INFORMATION IN SCHEDULES 11 AND 12 AND IN THIS SECTION OF YOUR DIRECT TESTIMONY PRESENTED?

A. All the information in Schedules 11 and 12 and in this section of my Direct Testimony is presented in terms of North Dakota jurisdictional amounts.

Q. WHAT ARE THE ADJUSTMENTS TO THE INCOME STATEMENT MADE FOR THE 2024 TEST YEAR?

A. The following is a list of the traditional adjustments (necessary to arrive at the 2024 Regulatory Year) and rate case adjustments (necessary to arrive at the 2024 Test Year):

<u>Traditional Adjustments to Income Statement</u>

- Advertising Expense

- Fuel Expense – Hoot Lake Solar
- Non-Employee Director Restricted Stock Grants
- Economic Development Costs
- Employee Recognition and Gifts
- ESSRP
- Electric Vehicles
- GIPs
- Hoot Lake Solar
- Incentive Compensation
- Investor Relations
- Long-Term Incentive
- Production Tax Credit GAAP Provision
- Rider CWIP Projects
- Transmission Recovery

Test Year Adjustments to Income Statement

- Rate Case Expense
- Normalize Langdon Upgrade Project
- Normalize Pension and PRM
- Non-Employee Director Restricted Stock
- Rider Roll-In
- ESSRP
- Employee Recognition and Gifts
- Investor Relations
- Long-Term Incentive

1. Traditional Income Statement Adjustments

a) Advertising Expense

Q. HAVE YOU MADE AN INCOME STATEMENT ADJUSTMENT FOR ADVERTISING EXPENSES?

A. Yes. The purpose of this adjustment is discussed by Mr. Byrnes. The adjustment: (1) decreases O&M expenses by $378,406; (2) increases total income taxes by

$92,350; and (3) increases net operating income by $286,056, all as shown on Schedule 11.

b) Fuel Expense - Hoot Lake Solar

Q. HAVE YOU MADE AN INCOME STATEMENT ADJUSTMENT FOR ADDITIONAL FUEL EXPENSE ASSOCIATED WITH HOOT LAKE SOLAR?

A. Yes. Ms. Foster explains the purpose of this adjustment in her Direct Testimony. The adjustment: (1) increases retail revenues by $1,313,314; (2) increases O&M expenses by $1,267,955 (3) increases total income taxes by $11,070; and (4) increases net operating income by $34,289, all as shown on Schedule 11.

c) Non-Employee Director Restricted Stock

Q. PLEASE SUMMARIZE THE INCOME STATEMENT ADJUSTMENT FOR NON-EMPLOYEE DIRECTOR RESTRICTED STOCK GRANTS.

A. The revenue requirement approved in OTP's last North Dakota rate case expressly excluded the cost of non-employee director restricted stock grants.[13] OTP therefore made an adjustment to remove these costs from the 2024 Regulatory Year. The adjustment: (1) decreases O&M expenses by $262,850; (2) increases total income taxes by $64,148; and (3) increases net operating income by $198,702, all as shown on Schedule 11. As discussed in Section VIII.B.2.d), below, OTP has made a rate case adjustment to reverse the financial effects of this adjustment. Mr. Byrnes explains the rationale for seeking recovery of non-employee director restricted stock grants in his Direct Testimony.

d) Economic Development Costs

Q. PLEASE SUMMARIZE THE INCOME STATEMENT ADJUSTMENT FOR ECONOMIC DEVELOPMENT EXPENSES.

A. Yes. In OTP's 2008 North Dakota rate case (Case No. PU-08-826), the Commission decided to discontinue funding of OTP's then-existing economic development program. While OTP continues to be actively involved in its communities, OTP does not have the dedicated resources and coordinated activities it once had to help support local North Dakota communities and their efforts to sustain or grow their economies. Consistent with the Commission's decision in the 2008 rate case, we have excluded the costs of the limited, ongoing North Dakota economic development activities from the 2024 Test Year. The adjustment: (1) decreases

[13] *See* Case No. PU-17-398, Settlement Agreement at 3, Table 1 (July 6, 2018).

O&M expenses by $5,943; (2) increases total income taxes by $1,450; and (3) increases net operating income by $4,493, all as shown on Schedule 11.

e) Employee Recognition and Gifts

Q. PLEASE SUMMARIZE THE TRADITIONAL INCOME STATEMENT ADJUSTMENT FOR EMPLOYEE RECOGNITION AND GIFTS.

A. As discussed by Mr. Wasberg, a certain amount of Achievement Award expenses was excluded from the 2018 Test Year revenue requirement established by settlement in OTP's last North Dakota rate case. Mr. Wasberg also explains that OTP is seeking to recover these costs in the 2024 Test Year. The traditional adjustment for employee recognition and gifts: (1) decreases O&M expenses by $96,967 (2) increases total income taxes by $23,665; and (3) increases net operating income by $73,302, all as shown on Schedule 11. OTP has made a rate case adjustment to reverse the financial effects of this adjustment, as discussed below.

f) ESSRP

Q. PLEASE EXPLAIN THE TRADITIONAL INCOME STATEMENT ADJUSTMENT FOR ESSRP.

A. Again, Mr. Wasberg explains that the settlement in the last North Dakota rate case excluded a portion of ESSRP costs from the 2018 Test Year revenue requirement, but that OTP continues to believe that recovery of these costs is a necessary component to its compensation package. This traditional adjustment: (1) decreases O&M expenses by $61,296 (2) increases total income taxes by $14,959; and (3) increases net operating income by $46,337, all as shown on Schedule 11. OTP has made a rate case adjustment to reverse the financial effects of this adjustment, as discussed below.

g) Electric Vehicles

Q. HAVE YOU MADE AN INCOME STATEMENT ADJUSTMENT THAT CORRESPONDS WITH THE TRADITIONAL RATE BASE ADJUSTMENT FOR ELECTRIC VEHICLES?

A. Yes. The purpose of this adjustment is discussed in in Section VII.C.1 above. The adjustment: (1) decreases depreciation expense by $78,037; (2) increases total income taxes by $19,045; and (3) increases net operating income by $58,992, all as shown on Schedule 11.

h) GIPs

Q. HAVE YOU MADE AN INCOME STATEMENT ADJUSTMENT THAT CORRESPONDS WITH THE TRADITIONAL RATE BASE ADJUSTMENT FOR GIPS?

A. Yes. The purpose of this adjustment is discussed in in Section VII.C.1 above. The adjustment: (1) decreases other operating revenues by $1,688,273 (2) decreases depreciation expense by $311,858; (3) decreases total income taxes by $335,913; and (4) decreases s net operating income by $1,040,502, all as shown on Schedule 11.

i) Hoot Lake Solar

Q. HAVE YOU MADE AN INCOME STATEMENT ADJUSTMENT THAT CORRESPONDS WITH THE TRADITIONAL RATE BASE ADJUSTMENT FOR HOOT LAKE SOLAR?

A. Yes. The purpose of this adjustment is discussed in Section VII.C.1 above. The adjustment: (1) decreases depreciation expenses by $685,026; (2) decreases investment tax credits by $279,699; (3) increases total income taxes by $167,181; and (3) increases net operating income by $238,149, all as shown on Schedule 11.

j) Incentive Compensation

Q. HAVE YOU MADE AN INCOME STATEMENT ADJUSTMENT FOR INCENTIVE COMPENSATION?

A. Yes. The incentive compensation adjustment reflects OTP's request that incentive compensation costs be capped at 25 percent of salary for each employee, as described by Mr. Wasberg in his Direct Testimony. The adjustment: (1) decreases O&M expenses by $365,447; (2) increases total income taxes by $89,187; and (3) increases net operating income by $276,260, all as shown on Schedule 11.

k) Investor Relations

Q. PLEASE EXPLAIN THE TRADITIONAL INCOME STATEMENT ADJUSTMENT FOR INVESTOR RELATIONS EXPENSE?

A. Mr. Byrnes explains that the settlement in the last North Dakota rate case excluded certain investor relations costs from the 2018 Test Year revenue requirement, but that OTP continues to believe that recovery of these costs is reasonable and prudent. This traditional adjustment: (1) decreases O&M expenses by $102,431 (2) increases total income taxes by $24,998; and (3) increases net operating

income by $77,433 all as shown on Schedule 11. OTP has made a rate case adjustment to reverse the financial effects of this adjustment, as discussed below.

l) Long-Term Incentive

Q. PLEASE EXPLAIN THE TRADITIONAL INCOME STATEMENT ADJUSTMENT LONG-TERM INCENTIVES.

A. Mr. Wasberg explains that the settlement in the last North Dakota rate case excluded long-term incentive costs from the 2018 Test Year revenue requirement, but that OTP continues to believe that recovery of these costs is a necessary component to its compensation package. This traditional adjustment: (1) decreases O&M expenses by $1,221,363 (2) increases total income taxes by $298,072; and (3) increases net operating income by $923,291 all as shown on Schedule 11. OTP has made a rate case adjustment to reverse the financial effects of this adjustment, as discussed below.

m) Production Tax Credit GAPP Provision

Q. HAVE YOU MADE AN INCOME STATEMENT ADJUSTMENT FOR PRODUCTION TAX CREDIT GAAP PROVISION?

A. Yes. Ms. Foster explains the purpose of this adjustment in her Direct Testimony. The adjustment: (1) increases retail revenues by $4,186,187; (2) decrease total production tax credits by $5,010,974; (3) increases total income taxes by $1,021,635; and (4) decreases net operating income by $1,846,422, all as shown on Schedule 11.

n) Rider CWIP Projects

Q. PLEASE SUMMARIZE THE INCOME STATEMENT ADJUSTMENT FOR RIDER CWIP PROJECTS?

A. Under long-standing North Dakota ratemaking, OTP excludes long-term CWIP from base rate base, though such projects are included in rider revenue requirement calculations. This adjustment ensures present revenues are consistent with this long-standing treatment. The adjustment: (1) decreases retail revenues by $2,720,332; (2) decreases total income taxes by $663,894; and (3) decreases net operating income by $2,056,438, all as shown on Schedule 11.

o) Transmission Recovery

Q. HAVE YOU MADE AN INCOME STATEMENT ADJUSTMENT THAT CORRESPONDS WITH THE TRADITIONAL RATE BASE ADJUSTMENT FOR TRANSMISSION RECOVERY?

A. Yes. The purpose of this adjustment is discussed in in Section VII.C.1 above. The adjustment: (1) decreases other electric revenues by $12,044,474 (2) decreases depreciation expense by $1,325,266; (3) decreases general taxes by $916,394 (4) decreases total income taxes by $2,392,367; and (3) decreases net operating income by $7,410,447, all as shown on Schedule 11.

2. Test Year Income Statement Adjustments

a) Rate Case Expense

Q. HAVE YOU MADE AN INCOME STATEMENT ADJUSTMENT FOR RATE CASE EXPENSES?

A. Yes. Mr. Byrnes explains the purpose of this adjustment in his Direct Testimony. The adjustment: (1) increases O&M expenses by $359,404; (2) decreases total income taxes by $87,712; and (3) decreases net operating income by $271,692, all as shown on Schedule 12.

b) Normalize Langdon Upgrade Project

Q. HAVE YOU MADE AN INCOME STATEMENT ADJUSTMENT THAT CORRESPONDS WITH THE RATE CASE RATE BASE ADJUSTMENT FOR THE LANGDON UPGRADE PROJECT?

A. Yes. The purpose of this adjustment is discussed in Section VII.C.2 above. The adjustment: (1) increases depreciation expense by $489,384; (2) decreases total income taxes by $136,495; and (3) decreases net operating income by $422,799, all as shown on Schedule 12.

c) Normalize Pension and PRM

Q. HAVE YOU MADE AN INCOME STATEMENT ADJUSTMENT TO NORMALIZE PENSION AND PRM PLAN COSTS IN THE 2024 TEST YEAR?

A. Yes. Mr. Gerhardson explains the purpose of this adjustment in his Direct Testimony. The adjustment: (1) increases O&M expenses by $2,481,411; (2) decreases total income taxes by $605,586; and (3) decreases net operating income by $1,875,825, all as shown on Schedule 12.

d) Non-Employee Director Restricted Stock

Q. HAVE YOU MADE AN INCOME STATEMENT RATE CASE ADJUSTMENT FOR DIRECTOR RESTRICTED STOCK GRANTS?

A. Yes. This adjustment reverses the effects of the traditional adjustment discussed above. Mr. Byrnes explains the reasonableness of these expenses in his Direct Testimony. The adjustment: (1) increases O&M expenses by $262,850; (2) decreases total income taxes by $64,148; and (3) decreases net operating income by $198,702, all as shown on Schedule 12.

e) Rider Roll-In

Q. HAVE YOU MADE AN INCOME STATEMENT ADJUSTMENT REGARDING RIDER PROJECTS?

A. Yes. This adjustment pertains to the movement of rider projects into base rates, as discussed by Ms. Foster. The adjustment: (1) decreases retail revenues by $23,302,321; (2) decreases total income taxes by $5,686,908; and (3) decreases net operating income by $17,615,413, all as shown on Schedule 12.

f) ESSRP

Q. HAVE YOU MADE AN INCOME STATEMENT RATE CASE ADJUSTMENT FOR ESSRP?

A. Yes. This adjustment reverses the effects of the traditional adjustment discussed above. Mr. Wasberg explains the reasonableness of these expenses in his Direct Testimony. The adjustment: (1) increases O&M expenses by $61,296; (2) decreases total income taxes by $14,959; and (3) decreases net operating income by $46,337, all as shown on Schedule 12.

g) Employee Recognition and Gifts

Q. HAVE YOU MADE AN INCOME STATEMENT RATE CASE ADJUSTMENT FOR EMPLOYEE RECOGNITION AND GIFTS?

A. Yes. This adjustment reverses the effects of the traditional adjustment discussed above. Mr. Wasberg explains the reasonableness of these expenses in his Direct Testimony. The adjustment: (1) increases O&M expenses by $96,967; (2) decreases total income taxes by $23,665; and (3) decreases net operating income by $73,302, all as shown on Schedule 12.

h) Investor Relations

Q. HAVE YOU MADE AN INCOME STATEMENT RATE CASE ADJUSTMENT FOR INVESTOR RELATIONS?

A. Yes. This adjustment reverses the effects of the traditional adjustment discussed above. Mr. Byrnes explains the reasonableness of these expenses in his Direct Testimony. The adjustment: (1) increases O&M expenses by $102,431; (2) decreases total income taxes by $24,998; and (3) decreases net operating income by $77,433, all as shown on Schedule 12.

i) Long-Term Incentives

Q. HAVE YOU MADE AN INCOME STATEMENT RATE CASE ADJUSTMENT FOR LONG-TERM INCENTIVES?

A. Yes. This adjustment reverses the effects of the traditional adjustment discussed above. Mr. Wasberg explains the reasonableness of these expenses in his Direct Testimony. The adjustment: (1) increases O&M expenses by $1,221,363; (2) decreases total income taxes by $298,072; and (3) decreases net operating income by $923,291, all as shown on Schedule 12.

3. Effect of Adjustments on Allocations

Q. DO THE 2024 TRADITIONAL AND TEST YEAR INCOME STATEMENT ADJUSTMENTS CAUSE IMPACTS TO ALLOCATIONS?

A. Yes. Similar to rate base adjustments, the traditional and rate case income statement adjustments impact costs that are used in certain allocation factors. The overall effect of traditional adjustments on allocators is identified on page 1 of Schedule 11, in Column Q, while the overall effect of rate case adjustments on allocators is identified on page 1 of Schedule 12, Column K.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

Mrs. Christy L. Petersen, CPA
Manager, Regulatory Accounting
Otter Tail Power Company
215 South Cascade Street
Fergus Falls, Minnesota 56537
218-739-8541

CURRENT RESPONSIBILITIES: (Feb 2021 to Present)

Provide leadership in budgeting, cost recovery, and forecasting as required by OTP and Otter Tail Corporation for use in strategic planning and decision making. In addition, this position is responsible for managing the production of official company Operations and Maintenance budgets and monthly forecasts, and leading the work group which prepares the jurisdictional cost of service studies for the three jurisdictions in which OTP provides service (Minnesota, North Dakota, and South Dakota) and providing any other regulatory and financial analysis on an as needed basis.

PREVIOUS POSITIONS:

Otter Tail Power Company

2010 – 2021	Senior Financial/Rates Analyst, Business Planning/Regulatory Accounting

Carlson Highland

2008 – 2010	Governmental Auditor

EDUCATIONAL / CERTIFICATIONS

Moorhead State University-Moorhead, B.S.
Major in Accounting

Certified Public Accountant (CPA)

Otter Tail Power Company

Jurisdictional and Class Cost of Service Study

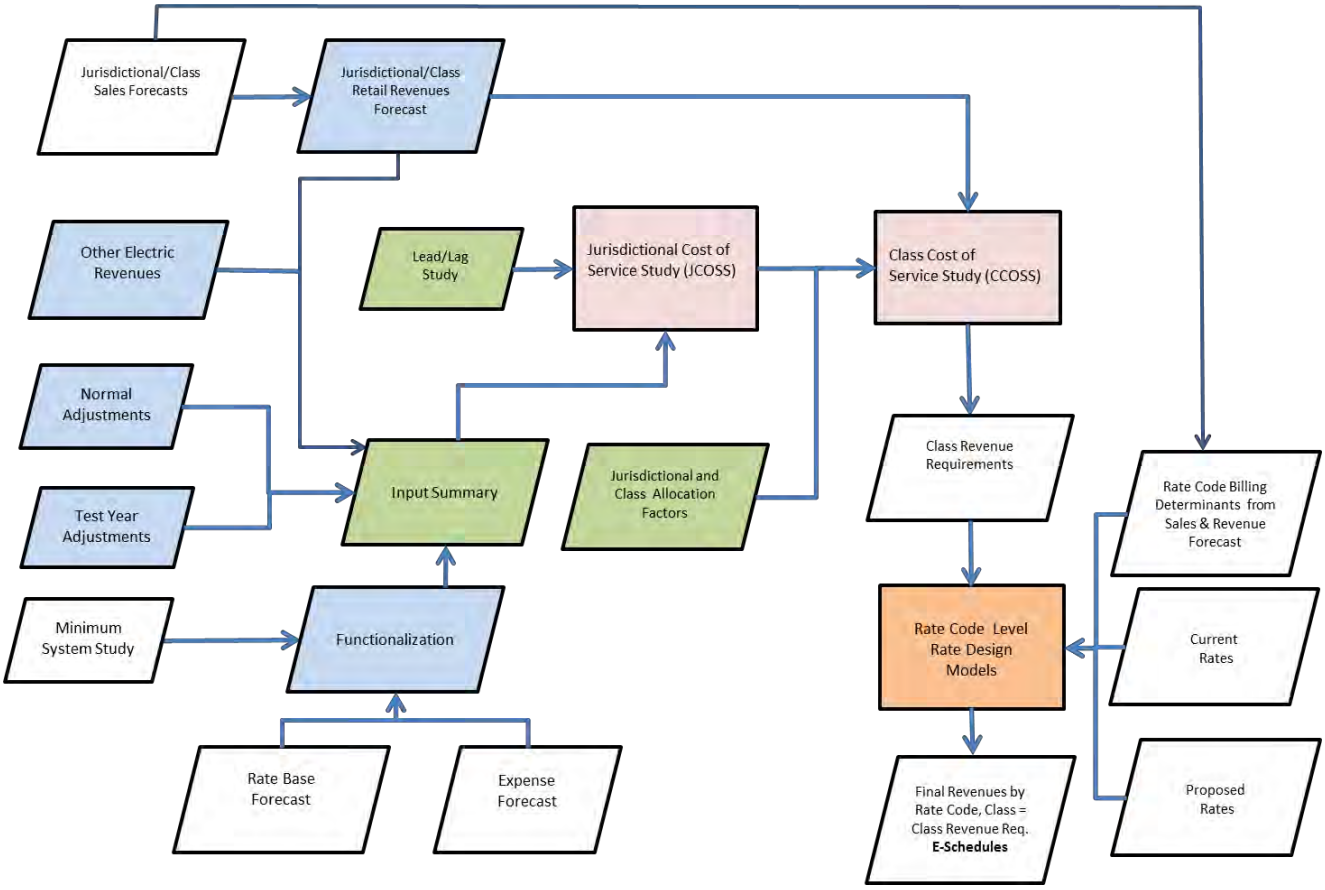
And

Rate Design

Process Overview Manual

1. Introduction:

The purpose of this document is to provide an overview of the various inputs of data which feed into Otter Tail Power's (OTP) Jurisdictional Cost of Service Study (JCOSS) and Class Cost of Service Study (CCOSS) models to determine OTP's revenue requirement upon which subsequent customer class revenue requirements and related rate designs are completed. Flow charts are provided along with descriptive narratives and tables to provide further clarity in how information included in OTP's rate case filing flows from one step in the process to the next. Below is a high-level overview of key components within the overall process that leads to the determination of revenue requirements and corresponding rates necessary to collect the required revenues from the respective customer classes.

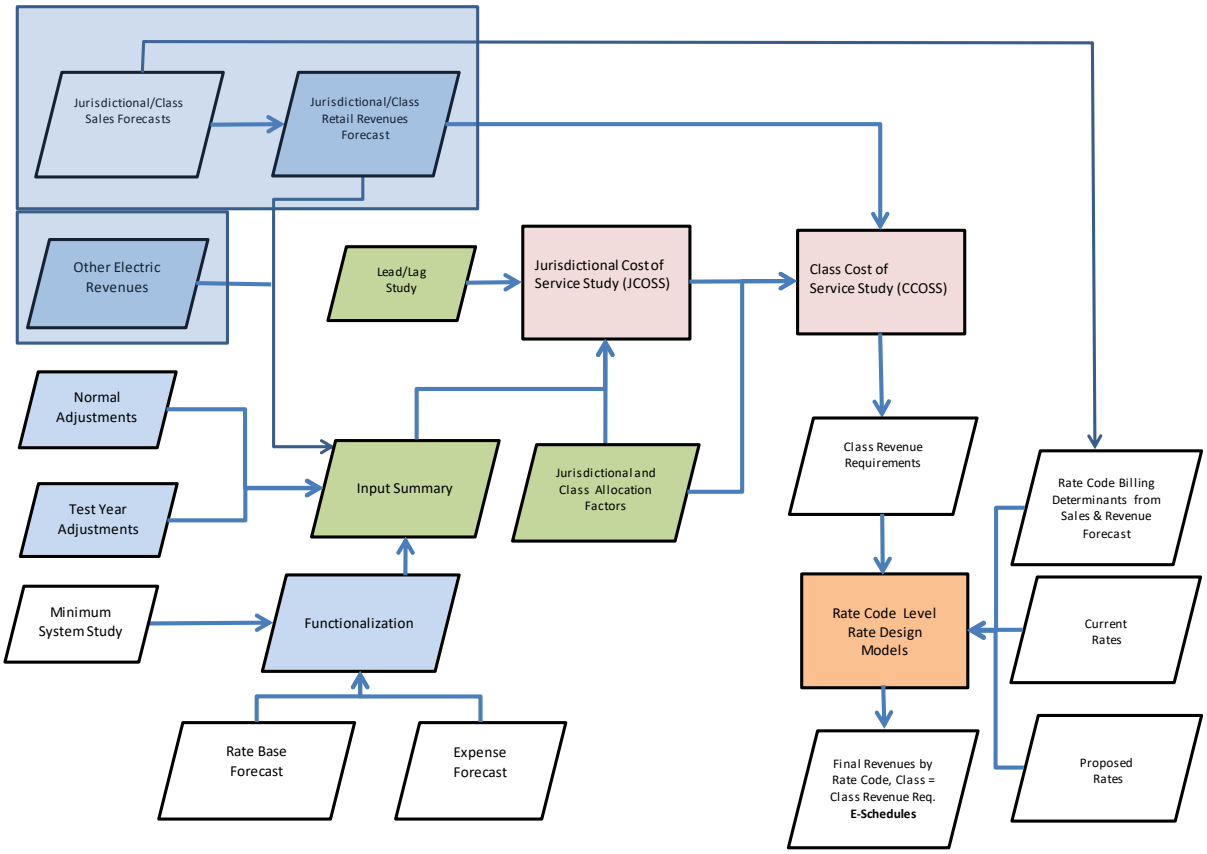


The balance of this document will review in general terms, the various components identified above, describing the flow of data between those components. The descriptions provided are assumed in the context of a forecast test year.

Retail Sales & Revenue Forecast

In summary, the development of the kWh sales forecast at a class and jurisdictional level is the initial step in determining the retail base rate revenue forecast. The kWh sales forecasts and associated billing determinants then serve as inputs into the process which derives forecasted class and jurisdictional revenues based on existing base rate design. Additional revenues from various rate riders make up the balance of revenues associated with kWh sales, as itemized in Work Paper B-1. Total Jurisdictional revenues flow into the Input Summary, which subsequently feeds into the JCOSS. Class Revenues serve as an input in the CCOSS. Billing determinants developed in the process of creating the sales and revenue forecasts, ultimately serve as inputs into the final rate design models used to develop rates to collect the required revenues. These steps will be explained in more detail later in this document.

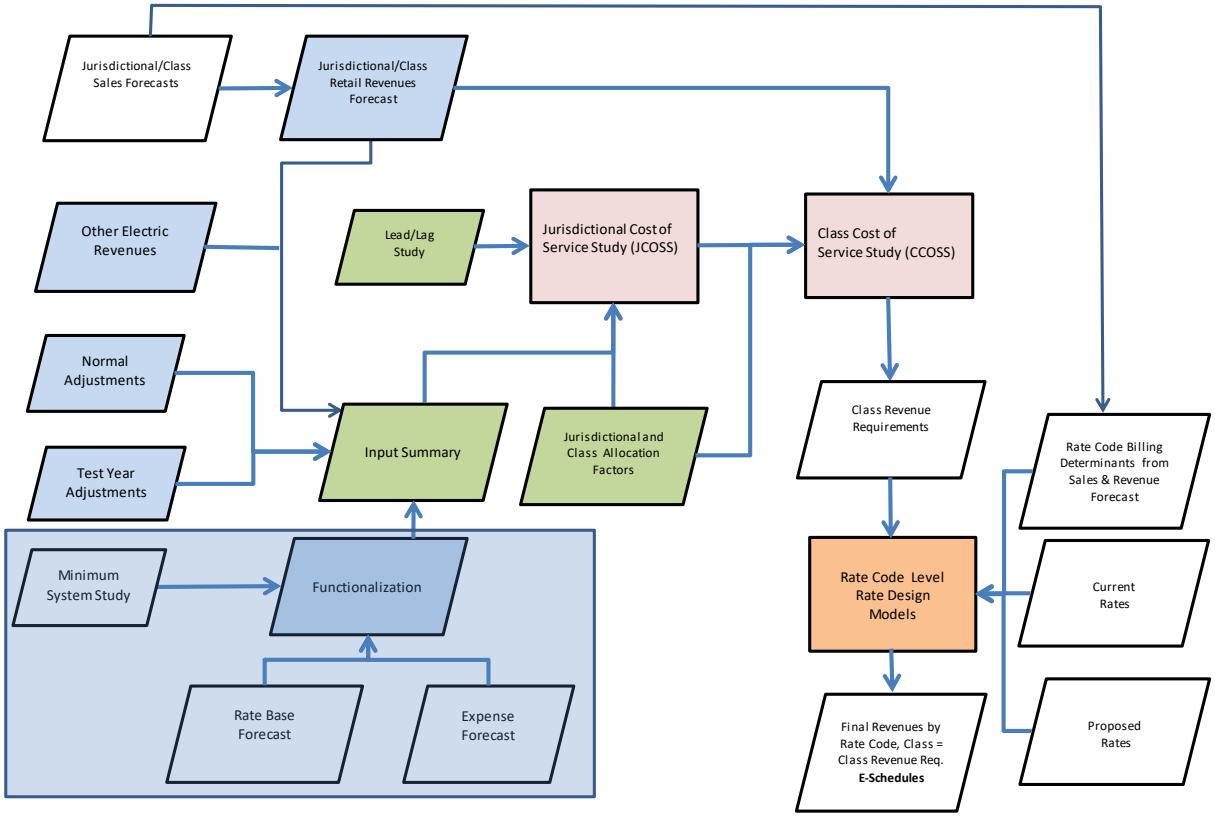
Other Electric Revenues and Sales for Resale are listed in Work Papers B-2 and B-3 and also flow into the Input Summary. These revenues, combined with the forecasted retail revenues, yield total jurisdictional and company revenues.



Functionalization (Volume 4A)

The **Functionalization Schedule, found in Volume 4A** of the rate case filing, is the schedule which takes total company rate base and expense information as accounted for under Federal Energy Regulatory Commission (FERC) accounting rules, and aggregates those amounts into functional cost categories:

production; transmission; distribution; customer accounting and collecting, and customer service and information. In addition, this schedule further "classifies" the information within each function, based on key service characteristics: demand, energy, customers and meters. These classifications have further sub-characteristics such as type of demand or energy, voltage level, or type of customer or meter. These service characteristics or sub-characteristics provide the basis for further cost allocations within the JCOSS and CCOSS. OTP's Cost Allocation Procedures Manual (CAPM) provides further detail on how each class of costs gets allocated jurisdictionally and subsequently to the various classes within each jurisdiction.



Functionalization Pages:

Pages 1-3 is the input section of the Functionalization schedule, where the FERC account balances are entered and amounts are aggregated based on functional area.

Page 4 of the Functionalization schedule takes the distribution rate base and distribution expense balances from pages 1-3 of the Functionalization schedule and allocates those costs to the following classifications for distribution rate base and expenses:

- Primary Demand
- Secondary Demand
- Primary Customer
- Secondary Customer
- Street Lights
- Area Lights
- Meters
- Load Management

The classifications of these costs are based on allocation factors developed from the Minimum System Study. Details of the process to develop the Minimum System Study are found in Appendix A-1 of OTP's CAPM.

Page 4 of the Functionalization schedule also includes an input section on lines 2 and 3 for the Base/Peak split allocation factors which allocate Production Plant rate base and expense amounts between Base Demand and Peak Demand, Base Demand and Base Energy Categories. The calculation of the Base/Peak split factors is found in Cost of Service Workpapers C-1 and C-1a, following the methodology described in pages 3 and 4 of OTP's CAPM.

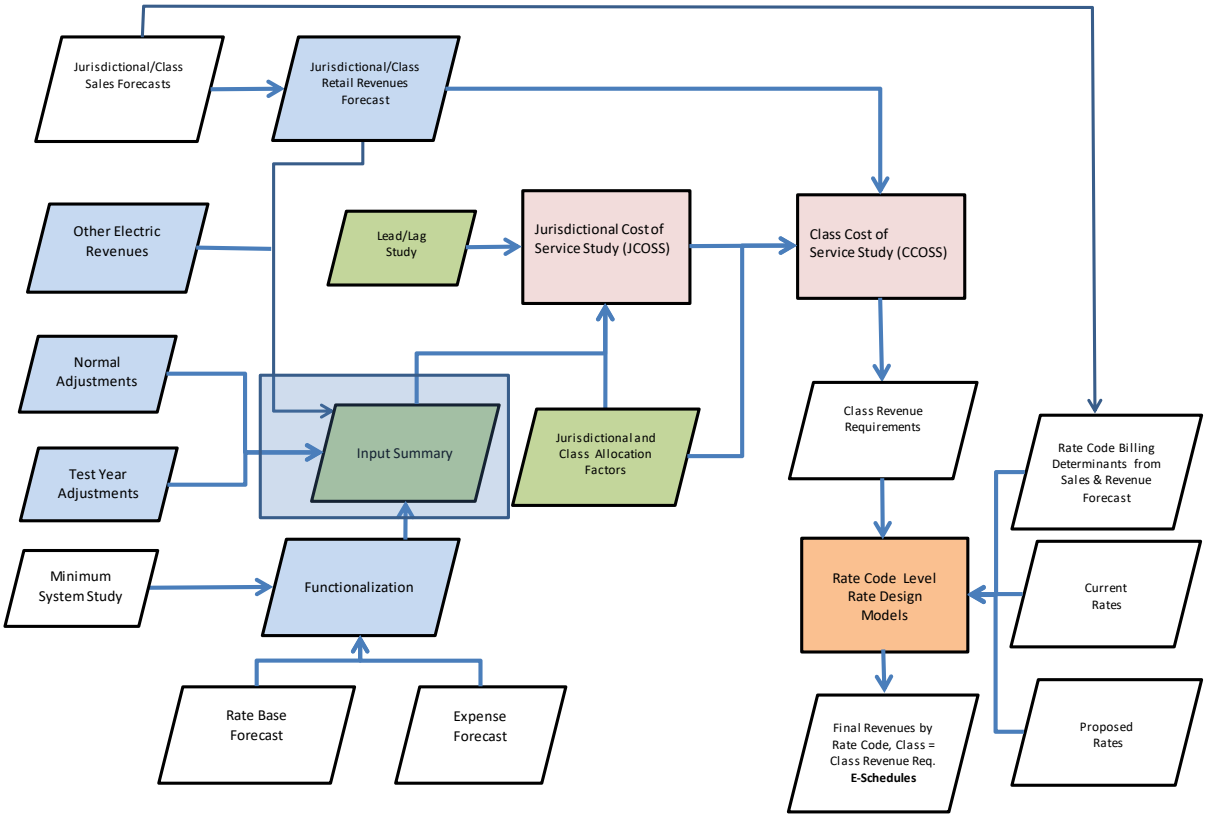
Pages 5 and 6 of the Functionalization schedule summarize the allocations of costs from pages 1-4, into the respective cost categories that align with the categorical breakdowns ultimately included in OTP's JCOSS and CCOSS. The Rate Base and Expense amounts are first entered into the JCOSS Input Summary, which is described in the next section below.

Input Summary (Volume 4A)

The purpose of the Input Summary, found in Volume 4A is to aggregate Total Company cost information (operating statement as well as rate base items) that has been categorized in the Functionalization schedule, as well as incorporate Total Company Revenue amounts and other Company data quantified in other Workpapers, into a single schedule. This schedule serves as the staging schedule from which much of the company financial information is entered into the JCOSS model.

The amounts which have been functionalized and classified by service characteristics are included in Column A of the Input Summary, as well as revenues and certain other rate base items computed in their respective source document workpapers. All data in the Input Summary is footnoted to the source document / work paper of origin. The Input Summary then incorporates into the adjacent columns to the right, adjustments which are necessary for computation of the JCOSS.

A more detailed description of the various sections of the Input Summary is included following the graphic below.



Input Summary Schedules

The **Input Summary** is divided into two primary sections; Rate Base components and Operating Statement components. Further breakdowns of the Input Summary schedules are identified below:

1. **A – Summary** Schedules - These pages include all the **rate base** related accounts and associated adjustments. The A-Summary schedules are broken down further into two sections:
    a. **A-Summary 1 -** This is a bridge schedule which starts with Total Company Simple Average rate base amounts in Column A. These amounts originate from the Functionalization schedule as well as amounts from work paper schedules, as footnoted in the Input summary schedule. Subsequent columns in the schedule incorporate the Normal Adjustments necessary to determine OTP's Total Company Unadjusted amounts in the last column of the schedule. These amounts reflect the values that would be input into the JCOSS Model to compute OTP's Unadjusted JCOSS based on currently approved methodologies and normal adjustments.

    b. **A-Summary 2 -** This is a bridge schedule which starts with Total Company Unadjusted amounts in Column A as computed in the A-Summary 1. Subsequent columns in the A-Summary 2 schedule incorporate the Test Year Adjustments necessary to determine OTP's Total Company Adjusted amounts in the last column of the schedule. These amounts reflect the values that would be input into the JCOSS Model to compute OTP's Test Year JCOSS.

2. **B - Summary** – These pages include all **operating statement** amounts and associated adjustments. The B-Summary schedules are broken down further into two sections:

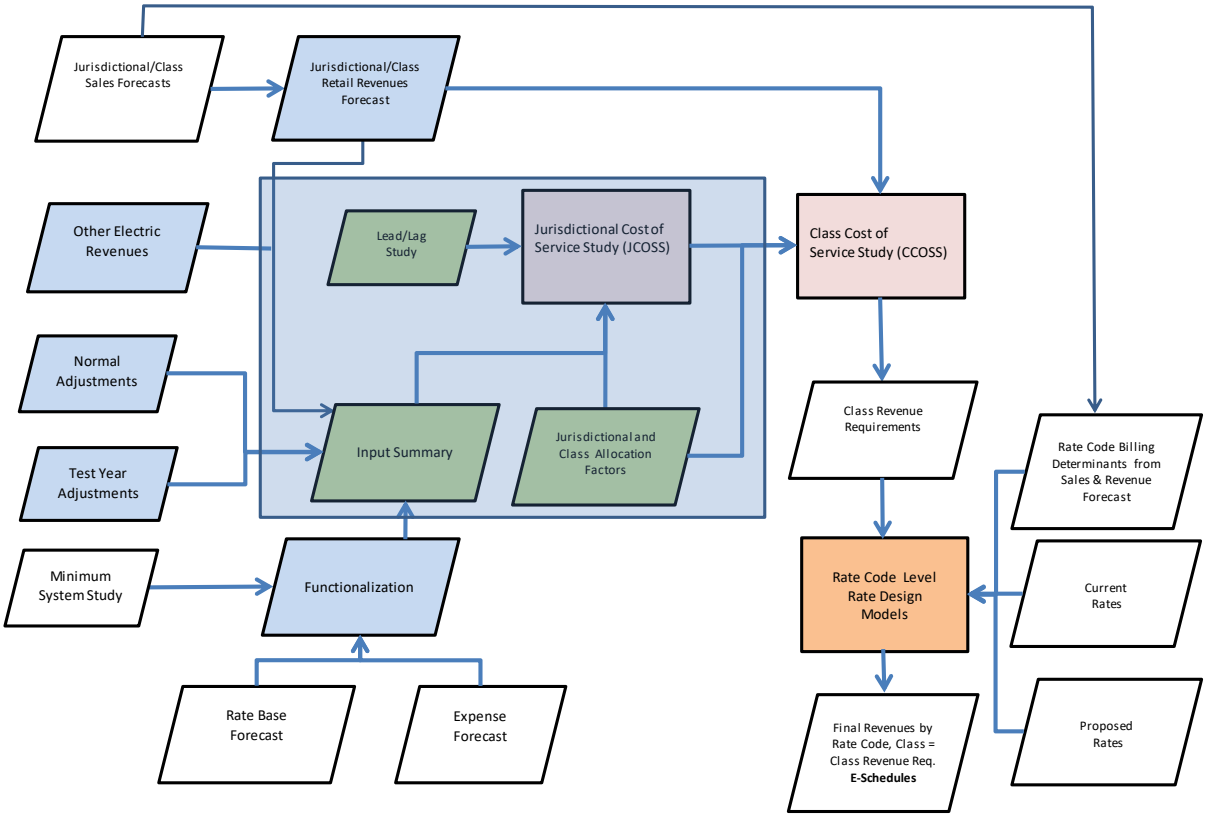
    a. **B-Summary 1** - This is a bridge schedule which starts with Total Company annual Operating Statement amounts in Column A. These amounts originate from the Functionalization schedule as well as amounts from work paper schedules, as footnoted in the Input summary schedule. Subsequent columns in the B-Summary-1 schedule incorporate the Normal Adjustments necessary to determine OTP's Total Company Unadjusted amounts in the last column of the schedule. These operating statement amounts reflect the values that would be input into the JCOSS Model to compute OTP's Unadjusted JCOSS based on currently approved methodologies and normal adjustments.

    b. **B-Summary 2** - This is a bridge schedule which starts with Total Company Unadjusted Operating Statement amounts in Column A as computed in the A-Summary-1. Subsequent columns in the B-Summary 2 schedule incorporate the Test Year Adjustments necessary to determine OTP's Total Company Adjusted amounts in the last column of the schedule. These amounts reflect the values that would be input into the JCOSS Model to compute OTP's Test Year JCOSS.

Jurisdictional Cost of Service Study Model (JCOSS)

The purpose of JCOSS model is to compute OTP's total Available for Return and compare that amount to the current authorized/proposed return and computes incremental amount of revenue surplus or deficiency necessary to meet that authorized return. The key Inputs into the JCOSS are:

1. Input Summary Amounts
2. Lead-Lag Study Amounts
3. Jurisdictional Allocation Factors



The **JCOSS is found in Volume 4A for the Test Year**. The following table aligns the JCOSS Pages to the respective Input Summary, Lead-Lag, and Allocation Factor Schedules. All Summary pages in the JCOSS model have references to the respective detailed sections of the JCOSS.

JCOSS Page	Description	Source	Source Pages
1-1	**JCOSS Summary of Deficiency**	JCOSS Detail Pages	Pages 2, 7, 17
2-1	**Rate Base Summary**	JCOSS Detail Pages	Pages 3, 4, 5, 6
3-1	Total Plant in Service	Input Summary A-2	Page 1
4-1	Accumulated Depreciation Plant Held for Future Use	Input Summary A-2	Page 2 Page 2
5-1	CWIP Materials & Supplies, Fuel Stocks Prepayments Customer Advances Cash Working Capital	Input Summary A-2	Page 3 Page 4 Page 4 Page 4 Page 4 Page 4
6-1	Accumulated Deferred Income Taxes	Input Summary A-2	Page 4
7-1	**Operating Statement Summary**	JCOSS Detail Pages	Pages 8,9,10,11,12
8-1	Operating Revenues	Input Summary B-2	Page 1
9-1	Production Expenses Transmission Expenses Distribution Expenses Customer Accounting Expenses	Input Summary B-2	Page 2 Page 2 Page 2 Page 2
10-1	Customer Service & Information Expenses Sales Expenses Admin & General Expenses	Input Summary B-2	Page 2 Page 3 Page 3
11-1	Depreciation Expense	Input Summary B-2	Page 4
12-1	General Taxes Investment Tax Credits Deferred Income Taxes Current Income Taxes- Federal Current Income Taxes –MN Current Income Taxes – ND AFDC	Input Summary B-2 Input Summary B-2 Input Summary B-2 JCOSS Detail JCOSS Detail JCOSS Detail Input Summary	Page 4 Page 4 Page 4 Page 13-1 Page 14-1 Page 14-1 Page 5
13-1	Federal Income Taxes	JCOSS Calculation	Page 13-a
14-1	Minnesota State Income Tax Expense North Dakota State Income Tax Expense	JCOSS Calculation	Page 14-a
15-1	Jurisdictional Allocation Factors	Required Schedules C-9	Page 4
16-1	Secondary Allocation Factors	JCOSS Calculation Required Schedules – C-9	Page 16-a Page 5
17-1	Capital Structure – Requested	Required Schedules – D-1-a	Page 17-1 Page 17-a
18-1	Cash Working Capital Revenue Lead Days	Lead Lag Study Required Schedules – B-2-e	Summary – Page 1 Page 1
19-1	Cash Working Capital - MN Calculation Expense Lag Days	Lead Lag Study Required Schedules – B-2-e	See Reference tables on next page Page 3
20-1	Cash Working Capital - ND Calculation Expense Lag Days	Lead Lag Study Required Schedules – B-2-e	See Reference tables on next page Page 3
21-1	Cash Working Capital - SD Calculation Expense Lag Days	Lead Lag Study Required Schedules – B-2-e	See Reference tables on next page Page 3
22-1	Cash Working Capital - FERC Calculation Expense Lag Days	Lead Lag Study Required Schedules – B-2-e	See Reference tables on next page Page 3
23-1	Cash Working Capital- Total Company	JCOSS Calculation	Sum of Jurisdictional totals 19-1 to 22-1

Lead-Lag Study Reference Table

The following table provides a cross reference of the various Lead-Lag study values found in the JCOSS to the respective page in the Lead-Lag Study.

JCOSS Page 18-1

Line No.	Revenue Lead Days from Service to Collection	Revenue Lead Days	Lead Lag Study Page	Notes:
23	Computer Maintained Billings	43.4	1	
24	Manually Maintained Billings	41.3	1	
25	Cost of Energy Adjustment Revenues	127.7	37	
26	Sales for Resale	23.1	40	
27	Rent from Electric Property	-92.4	42	
28	Miscellaneous	34.9	51	
29	ITA Deficiency Payments	48.4	56	
30	Wheeling	35.8	60	
31	Load Control and Dispatch	27.9	1	Line 21
32	Rent from Electric Property - Big Stone	39.9		Calculated in COSS
33	Rent from Electric Property - Coyote	39.9		Calculated in COSS
34	Profit on Materials and Supplies	39.9		Calculated in COSS
35	Miscellaneous Services	39.9		Calculated in COSS
36	Loan Pool Interest	39.9		Calculated in COSS

JCOSS Page 20-1

Line No.	Item	Expense Lag Days	Lead Lag Study Page	Notes:
3	Fuel - Coal	15.5	69	
5	Fuel - Oil	11.2	69	
7	Purchased Power	31.6	69	
9	Labor and Associated Payroll Expense	15.1	69	
11	All Other O&M Expense	13.1	69	Line 19
13	Property Taxes (Excl Coal Conversion Taxes)	299.5	157	Calculated in COSS
15	Coal Conversion Taxes	33.3	171	
17	Federal Income Taxes	0.0	172	
19	State Income Taxes	0.0	172	
21	Incremental Federal Income Taxes	0.0	172	
23	Incremental State Income Taxes	0.0	172	
25	Bank Balances	n/a		
27	Special Deposits	n/a		
29	Working Funds	n/a		
31	Tax Collections Avail - FICA Withholding	0.0	175	
33	Tax Collections Avail - Federal Withholding	0.0	175	
35	Tax Collections Avail - State Withholding- MN	1.9	175	
37	Tax Collections Avail - State Withholding- ND	69.1	175	
39	Tax Collections Available - State Sales Tax	23.8	175	
41	Tax Collections Available - Franchise Taxes	0	175	

JCOSS pages 1-a to 18-a contain the jurisdictional breakdowns of the JCOSS information as listed on pages 1-1 to 18-1 on the table above.

Allocation Factors

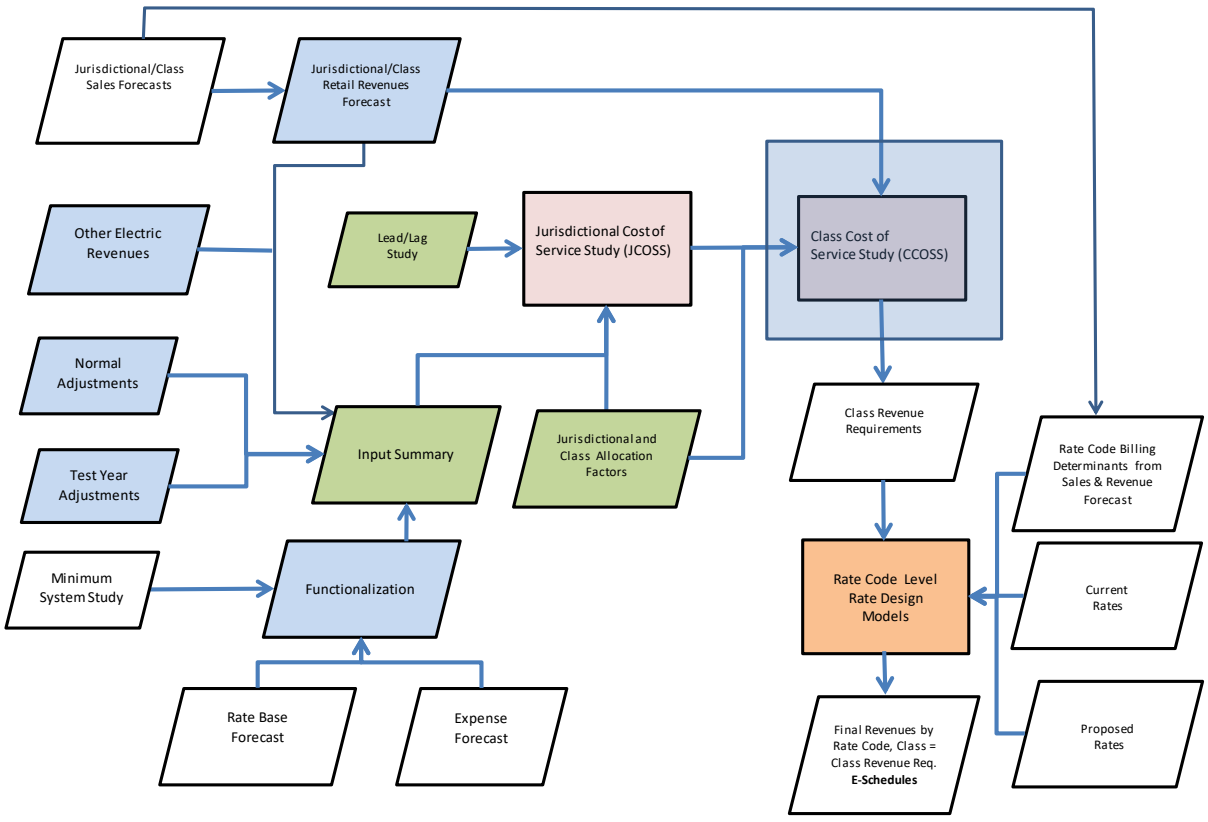
As reflected in the flow chart and listed on page 15-1 of the CCOSS, jurisdictional allocation factors are applied to various costs (rate base and expense) to allocate total company costs to the jurisdiction. Details on both jurisdictional and class allocation factors are outlined in OTP's Cost Allocation Procedures Manual and in OTP's Forecast Cost Allocation Procedures Manual Supplement. Required schedules C-9 and Work Papers Volume 4, C-3 provide additional detail as well.

JCOSS Summary

The results of the JCOSS, as summarized on page 1-1, is the determination of a (surplus) or deficiency in revenue needed to achieve the rate of return authorized or requested within the jurisdiction. The respective **jurisdictional amounts** within the study **serve as the primary inputs** into the **CCOSS model**, with allocations of those costs and associated class revenue requirements distributed to each customer class.

Class Cost of Service (Volume 4A)

OTP's CCOSS model establishes the revenue requirements for each of OTP's 10 customer classes based on the allocation of jurisdictional costs using the **class allocation factors detailed on page 15-2** and the **secondary class allocation factors detailed on page 16-2**.



The **key inputs** into the CCOSS model are:

1. Current North Dakota Class Revenues
2. JCOSS North Dakota results – Pages 1-1 to 16-1
3. Class Allocation Factors
    a. Primary Allocators by class (D Factors, E8760 Factors, C Factors) Page 15-2
    b. Secondary – Page 16-2

The CCOSS pages 1-2 to 16-2 align with the pages 1-1 to 1-16 of the JCOSS.

The **key output** of the CCOSS is the determination of **class revenue requirements** based on the embedded costs and revenues attributable to each class. The CCOSS serves as a guide in the determination of proposed class rate increases necessary to collect the jurisdictional revenue increase required. The Summary of each class's deficiency is provided on page 1-2 of the CCOSS.

Class	CCOSS Output	Source
Residential	Class Revenue Deficiency	CCOSS Page 1-2
Farms	Class Revenue Deficiency	CCOSS Page 1-2
General Service	Class Revenue Deficiency	CCOSS Page 1-2
Large General Service	Class Revenue Deficiency	CCOSS Page 1-2
Irrigation	Class Revenue Deficiency	CCOSS Page 1-2
Outdoor Lighting	Class Revenue Deficiency	CCOSS Page 1-2
OPA	Class Revenue Deficiency	CCOSS Page 1-2
Controlled Service Water Heating	Class Revenue Deficiency	CCOSS Page 1-2
Controlled Service Interruptible	Class Revenue Deficiency	CCOSS Page 1-2
Controlled Service Deferred	Class Revenue Deficiency	CCOSS Page 1-2
Total Jurisdiction	**Sum of Class Revenue Deficiencies**	**Ties to JCOSS Deficiency Page 1-1**

Rate Design (Volume 3 Section E)

The JCOSS determines the jurisdictional revenue requirement and related deficiency in revenue. The CCOSS determines each class's responsibility for that deficiency based on the embedded costs included in the studies. Ultimately, the company develops a proposal for each class's share of the overall jurisdictional revenue requirement to eliminate the deficiency and develops proposed rates within each class to collect that deficiency. **Total Test Year Current and Proposed Revenues by Class are provided in Volume 3 Schedule E-1.**

Class	Current Revenues	Source	Proposed Revenues	Source	Class Revenue Increase
Residential	Class Revenue	CCOSS	Class Proposed Revenue	Company Proposal	Difference between Current and Proposed Revenues
Farms	Class Revenue	CCOSS	Class Proposed Revenue	Company Proposal	Difference between Current and Proposed Revenues
General Service	Class Revenue	CCOSS	Class Proposed Revenue	Company Proposal	Difference between Current and Proposed Revenues
Large General Service	Class Revenue	CCOSS	Class Proposed Revenue	Company Proposal	Difference between Current and Proposed Revenues
Irrigation	Class Revenue	CCOSS	Class Proposed Revenue	Company Proposal	Difference between Current and Proposed Revenues

Outdoor Lighting	Class Revenue	CCOSS	Class Proposed Revenue	Company Proposal	Difference between Current and Proposed Revenues
OPA	Class Revenue	CCOSS	Class Proposed Revenue	Company Proposal	Difference between Current and Proposed Revenues
Controlled Service Water Heating	Class Revenue	CCOSS	Class Proposed Revenue	Company Proposal	Difference between Current and Proposed Revenues
Controlled Service Interruptible	Class Revenue	CCOSS	Class Proposed Revenue	Company Proposal	Difference between Current and Proposed Revenues
Controlled Service Deferred	Class Revenue	CCOSS	Class Proposed Revenue	Company Proposal	Difference between Current and Proposed Revenues
Total Jurisdictional	**Total Current Revenue**	JCOSS	**Total Revenue Required**	JCOSS	**Total Increase in Revenue**

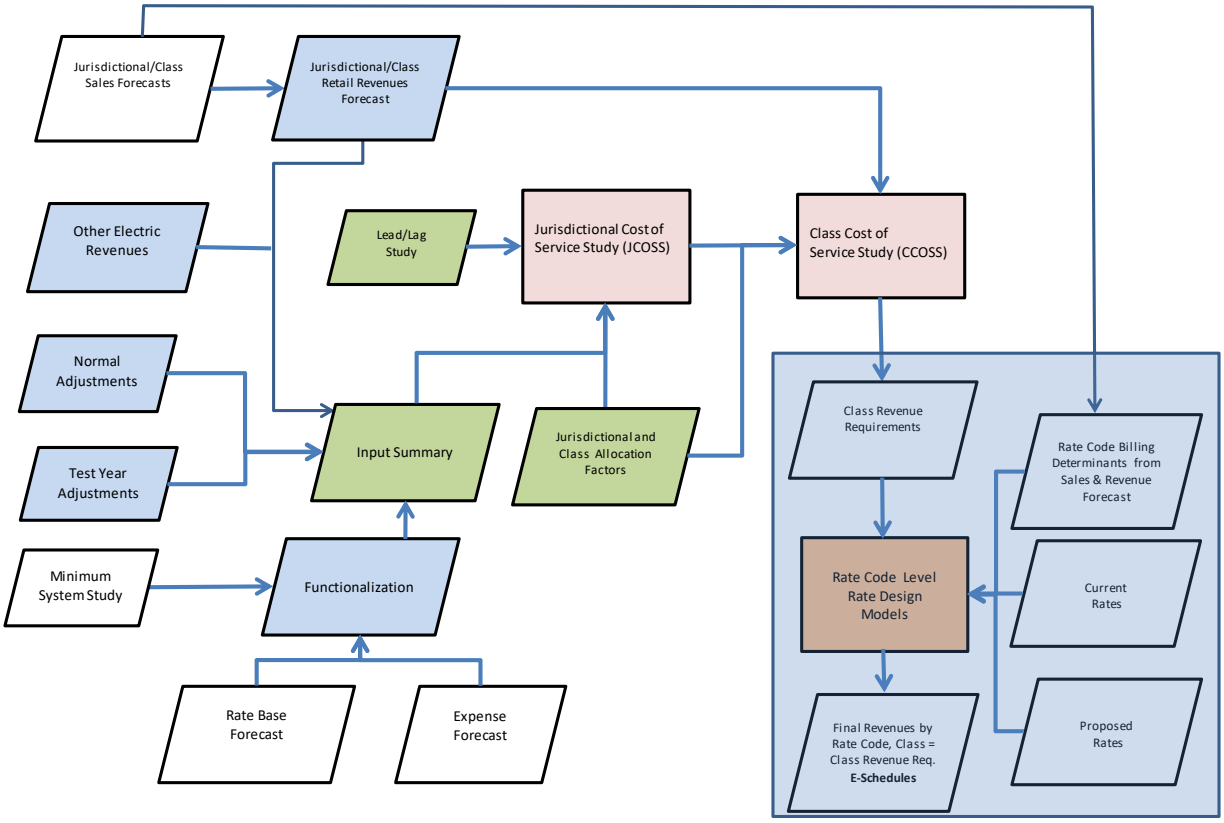
Following the development of proposed class revenue responsibilities, the next step in the process is rate design.

Key Components / Inputs in the Rate Design Process

The purpose of the rate design process is to develop new rates and associated rate structures that result in the collection of the proposed class revenue requirement based on the billing determinants included in the forecast. Rate design is completed at a rate code level. Class revenue requirements are distributed to the rate code level. The allocation of class revenue to rate code level is completed using an Equivalent Percent of Marginal Cost (EPMC) allocation.

The following inputs are key to completing rate design in the rate design models at a rate code level:

1. **Billing Determinants** – These are the various billing determinants which were developed and included in the Sales and Revenue forecast process. Billing determinants include such things as forecasted kWhs, kW, number of customers, and number of meters. The sales and revenue forecast process develops billing determinates at a rate group level and then further allocates those determinants to a rate code level.
2. **Current Rates**- Current rates applied to the billing determinants yield the current level of revenues for the particular rate code. The result of this is the calculation of current revenues from existing rates.
3. **Proposed Rates-** Based on forecasted billing determinants described above, proposed rates are adjusted to yield the total revenue required from that rate to meet its contribution to the class revenue requirement.



Key Outputs of Rate Design Process:

The **key output of the Rate Design process** is a **new set of proposed rates** that within their respective customer class, collects the amount of revenue equal to the proposed class revenue requirement. The sum of revenues derived by all rates across all classes equals the total jurisdictional revenue requirement. As noted earlier, the **results of the rate design** process are **summarized in Volume 3 Schedule E-1**. **Details of the changes from current rates to proposed rates are found in Volume 3 Schedule E-2.**

OTTER TAIL POWER COMPANY **Case No. PU-23-**

Electric Utility - State of North Dakota **Exhibit ___(CLP1), Schedule 3**

SUMMARY OF REVENUE REQUIREMENTS **Page 1 of 1**

Proposed Test Year 2024

Line No.	Description	North Dakota Jurisdiction Test Year 2024
1	Average Rate Base	$661,733,555
2	Total Available for Return (Line 2 + Line 3 + Rounding)	$21,208,695
3	Overall Rate of Return (Line 4 / Line 1)	3.21%
4	Required Rate of Return	7.85%
5	Operating Income Requirement (Line 1 x Line 6)	$51,946,084
6	Income Deficiency (Line 7 - Line 4)	$30,737,389
7	Gross Revenue Conversion Factor	1.322837
8	Revenue Deficiency (Line 8 x Line 9)	$40,660,558

OTTER TAIL POWER COMPANY
Electric Utility - State of North Dakota
JURISDICTIONAL FINANCIAL SUMMARY SCHEDULE

Case No. PU-23-
Exhibit ___ (CLP-1), Schedule 4

Line No.	Description	(A) Most Recent Actual Year 2022	(B) Current Period 2023	(C) Unadjusted Year 2024	(D) Regulatory Year 2024	(E) Test Year 2024
1	Average Rate Base	$557,200,061	$687,918,709	$764,291,404	$651,646,255	$661,733,555
2	Total Available for Return (Line 2 + Line 3 + Rounding)	$35,187,011	$38,783,318	$54,305,184	$42,604,666	$21,208,695
3	Overall Rate of Return (Line 4 / Line 1)	6.31%	6.60%	7.11%	6.54%	3.21%
4	Required Rate of Return	7.26%	7.33%	7.85%	7.41%	7.85%
5	Operating Income Requirement (Line 1 x Line 6)	$40,452,724	$43,094,441	$59,996,875	$48,286,988	$51,946,084
6	Income Deficiency (Line 7 - Line 4)	$5,265,714	$4,311,124	$5,691,691	$5,682,322	$30,737,389
7	Gross Revenue Conversion Factor	1.322837	1.322837	1.322837	1.322837	1.32284
8	Revenue Deficiency (Line 8 x Line 9)	$6,965,681	$5,702,914	$7,529,180	$7,516,785	$40,660,558

Otter Tail Power Company Actual versus Budget O&M ($millions)

Total O&Ms minus Schedule 26, 26A and CIP expenses

Year	Budget Amount	Actual Amount	$ Variance	% Variance
2022	$128.97	$142.70	$13.74	10.65%
2021	$131.14	$127.45	-$3.69	-2.81%
2020	$121.69	$120.16	-$1.53	-1.25%
Three - Year Total	**$381.80**	**$390.32**	**$8.52**	**2.23%**

2022: Higher spend due to unplanned outage in Big Stone along with some additional tree trimming and higher employee expenses.

2021: Lower labor loadings offset somewhat by Big Stone Plant outage costs.

2020: Tracking close to budget.

Otter Tail Power Company Actual versus Budget Capital ($millions)

Year	Budget Amount	Actual Amount	$ Variance	% Variance
2022	$148.71	$146.76	-$1.95	-1.31%
2021	$112.88	$116.02	$3.14	2.78%
2020	$368.76	$347.96	-$20.80	-5.64%
Three - Year Total	**$630.35**	**$610.73**	**-$19.62**	**-3.11%**

2022: Delays versus budgeted progress on the AMI project (-13.4M) was offset by capital investments supporting new load, asset replacement programs, and large spring storm restoration efforts.

2021: Reductions in estimated costs of the Astoria Station and Mericourt Wind projects (-5.6M and -5.1M respectivly) were largly offset by increased capital investment supporting new load and asset replacement and reliability programs.

2020: Variance is driven by reductions in the total estimated cost on Astoria Station (remaining estimates were lower for 2020 and 2021 than budgeted in the 2020 approved budget). Rider recovery limited to actual costs incurred.

OTTER TAIL POWER COMPANY
Electric Utility - State of North Dakota
RATE BASE SCHEDULES
RATE BASE SUMMARY

Case No. PU-23-
Exhibit ___ (CLP-1), Schedule 6

Line No.	Description	(A) Most Recent Actual Year 2022	(B) Current Period 2023	(C) Unadjusted Year 2024	(D) Regulatory Year 2024	(E) Test Year 2024
1	Electric Plant in Service	$1,041,850,025	$1,129,321,851	$1,383,996,534	$1,249,259,535	$1,259,341,147
2	Less: Accumulated Depreciation	(391,231,179)	(419,687,343)	(471,567,693)	(461,085,772)	(461,242,346)
3	Net Electric Plant in Service	$650,618,846	$709,634,508	$912,428,841	$788,173,763	$798,098,801
	Other Rate Base Components:					
4	Plant Held for Future Use	$12,897	$13,352	$4,921	$4,921	$4,921
5	Construction Work in Progress	7,674,957	140,127,964	780,995	780,990	780,995
6	Materials and Supplies	12,184,922	11,101,870	14,737,569	14,737,248	14,737,569
7	Fuel Stocks	4,092,023	5,660,200	4,495,117	4,495,117	4,495,117
8	Prepayments	9,181,902	1,364,417	18,630,686	18,601,559	18,630,686
9	Customer Advances	(572,270)	(1,131,222)	(710,769)	(709,657)	(710,769)
10	Cash Working Capital	2,530,836	1,070,605	1,464,907	1,304,936	1,464,908
11	Accumulated Deferred Income Taxes	(128,524,052)	(157,975,556)	(187,378,675)	(175,742,621)	(175,768,672)
12	TOTAL	$557,200,061	$709,866,137	$764,453,592	$651,646,256	$661,733,556

OTTER TAIL POWER COMPANY
Electric Utility - State of North Dakota
RATE BASE SCHEDULES
RATE BASE ADJUSTMENTS
Unadjusted Year 2024 to Regulatory Year 2024

Case No. PU-23-
Exhibit ___ (CLP-1), Schedule 7
Page 1 of 1

Line No.	Description	(A) Unadjusted Year 2024	Adjustments (B) GIPs Projects	(C) Hoot Lake Solar	(D) Transmission Recovery	(E) Electric Vehicles	(F) Changes in Allocations Due to Effect of Test Year Adjustments	(G) Regulatory Year 2024
	Utility Plant in Service:							
1	Production	$658,582,109		($26,462,276)				$632,119,833
2	Transmission	$323,246,976	($19,287,409)		($88,138,714)			215,820,853
3	Distribution	$330,597,673				(846,512)	$1	329,751,162
4	General	$53,300,696						53,300,696
5	Intangible	$18,266,991						18,266,991
6	**TOTAL Utility Plant in Service**	$1,383,994,445	($19,287,409)	($26,462,276)	($88,138,714)	($846,512)	$1	$1,249,259,535
	Accumulated Depreciation							
7	Production	($246,215,224)		$568,838				($245,646,386)
8	Transmission	($72,478,191)	$1,212,465		$8,657,099			(62,608,627)
9	Distribution	($123,426,235)				42,659		(123,383,576)
10	General	($21,909,007)						(21,909,007)
11	Intangible	($7,538,176)						(7,538,176)
12	**TOTAL Accumulated Depreciation**	($471,566,833)	$1,212,465	$568,838	$8,657,099	$42,659		($461,085,772)
13	**NET Utility Plant in Service**							
14	Production	$412,366,885		($25,893,438)				$386,473,447
15	Transmission	250,768,785	(18,074,944)		(79,481,615)			153,212,226
16	Distribution	207,171,438				(803,853)	$1	206,367,586
17	General	31,391,689						31,391,689
18	Intangible	10,728,815						10,728,815
19	**NET Utility Plant in Service**	$912,427,612	($18,074,944)	($25,893,438)	($79,481,615)	($803,853)	$1	$788,173,763
20	Utility Plant Held for Future Use	4,921						4,921
21	Construction Work in Progress	780,990						780,990
22	Materials and Supplies	14,737,248						14,737,248
23	Fuel Stocks	4,495,117						4,495,117
24	Prepayments	18,601,559						18,601,559
25	Customer Advances & Deposits	(709,657)						(709,657)
26	Cash Working Capital	1,304,936						1,304,936
27	Accumulated Deferred Income Taxes	(187,351,325)	1,425,013	2,633,993	7,549,696		$2	(175,742,621)
28	**Total Average Rate Base**	$764,291,401	($16,649,931)	($23,259,445)	($71,931,919)	($803,853)	$3	$651,646,256

OTTER TAIL POWER COMPANY
Electric Utility - State of North Dakota
RATE BASE SCHEDULES
RATE BASE ADJUSTMENTS
Regulatory Year 2024 to Test Year 2024

Line No.	Description	(A) Regulatory Year 2024	Adjustments (B) Normalize Langdon Upgrade Project	(C) Changes in Allocations Due to Effect of Test Year Adjustments	(D) Test Year 2024
	Utility Plant in Service:				
1	Production	$632,119,833	$10,079,520		$642,199,353
2	Transmission	215,820,853			215,820,853
3	Distribution	329,751,162			329,751,162
4	General	53,300,696		$1,555	53,302,251
5	Intangible	18,266,991		$533	18,267,524
6	**TOTAL Utility Plant in Service**	$1,249,259,535	$10,079,520	$2,088	$1,259,341,143
	Accumulated Depreciation				
7	Production	($245,646,386)	($155,713)		($245,802,099)
8	Transmission	(62,608,627)			(62,608,627)
9	Distribution	(123,383,576)			(123,383,576)
10	General	(21,909,007)		($640)	(21,909,647)
11	Intangible	(7,538,176)		($220)	(7,538,396)
12	**TOTAL Accumulated Depreciation**	($461,085,772)	($155,713)	($859)	($461,242,344)
13	**NET Utility Plant in Service**				
14	Production	$386,473,447	$9,923,807		$396,397,254
15	Transmission	153,212,226			153,212,226
16	Distribution	206,367,586			206,367,586
17	General	31,391,689		916	31,392,605
18	Intangible	10,728,815		314	10,729,129
19	**NET Utility Plant in Service**	$788,173,763	$9,923,807	$1,229	$798,098,799
20	Utility Plant Held for Future Use	$4,921			$4,921
21	Construction Work in Progress	780,990		$5	780,995
22	Materials and Supplies	14,737,248		$321	14,737,569
23	Fuel Stocks	4,495,117			4,495,117
24	Prepayments	18,601,559		$29,127	18,630,686
25	Customer Advances & Deposits	(709,657)		($1,112)	(710,769)
26	Cash Working Capital	1,304,936		$159,971	1,464,907
27	Accumulated Deferred Income Taxes	(175,742,621)		($26,051)	(175,768,672)
28	**Total Average Rate Base**	$651,646,256	$9,923,807	$163,490	$661,733,553

OTTER TAIL POWER COMPANY
Electric Utility - State of North Dakota
OPERATING INCOME SCHEDULES
JURISDICTIONAL STATEMENT OF OPERATING INCOME

Line No.	Description	(A) Most Recent Actual Year 2022	(B) Current Period 2023	(C) Unadjusted Year 2024	(D) Regulatory Year 2024	(E) Test Year 2024
	OPERATING REVENUES					
1	Retail Revenue	$186,549,483	$194,336,780	$203,210,040	$205,989,209	$182,686,888
2	Other Electric Operating Revenue	18,158,019	13,185,392	26,709,463	12,976,906	12,979,433
3	**TOTAL OPERATING REVENUE**	$204,707,501	$207,522,172	$229,919,503	$218,966,115	$195,666,321
	OPERATING EXPENSES					
4	Production Expenses	$80,952,165	$78,192,135	$85,426,089	$86,694,044	$87,108,465
5	Transmission Expenses	14,387,811	14,184,319	13,847,298	13,847,298	14,086,555
6	Distribution Expenses	7,838,847	7,648,887	7,972,703	7,972,703	8,393,231
7	Customer Accounting Expenses	6,186,536	6,709,753	7,035,433	7,035,433	7,295,595
8	Customer Service and Information Expenses	1,168,276	1,235,785	1,315,049	1,315,049	1,331,017
9	Sales Expenses	41,797	50,689	142,408	135,872	135,872
10	Administration and General Expenses	20,082,182	20,152,628	20,022,371	17,534,200	20,775,268
11	Charitable Contributions	0	0	0	0	0
12	Depreciation Expense	26,709,167	29,426,229	35,004,108	32,603,918	33,093,414
13	General Taxes	6,464,014	6,437,388	8,019,087	7,102,692	7,103,488
14	**TOTAL OPERATING EXPENSES**	$163,830,794	$164,037,814	$178,784,546	$174,241,209	$179,322,905
15	**NET OPERATING INCOME BEFORE INCOME TAXES**	$40,876,707	$43,484,358	$51,134,957	$44,724,906	$16,343,416
16	**INCOME TAX EXPENSE**					
17	Investment Tax Credit	($2,295,960)	($2,405,524)	($8,230,037)	($2,939,568)	($2,939,781)
18	Deferred Income Taxes	7,985,656	7,106,564	5,059,809	5,059,809	(1,925,497)
19	Income Taxes	0	0	0	0	0
20	**TOTAL INCOME TAX EXPENSE**	$5,689,696	$4,701,040	($3,170,228)	$2,120,241	($4,865,278)
21	**NET OPERATING INCOME**	$35,187,011	$38,783,318	$54,305,184	$42,604,666	$21,208,696
22	Allowance for Funds Used During Construction	0	0	0	0	0
23	**TOTAL AVAILABLE FOR RETURN**	$35,187,011	$38,783,318	$54,305,184	$42,604,666	$21,208,695

OTTER TAIL POWER COMPANY
Electric Utility - State of North Dakota
SCHEDULE OF OPERATIONS AND MAINTENANCE EXPENSE

Case No. PU-23-
Exhibit___(CLP-1), Schedule 10

Line No.	Description	(A) Regulatory Total Utility	(B) Regulatory ND Jurisdiction	(C) Adjustments	(D) Test Year ND Jurisdiction
			Test Year 2024		
	OPERATING EXPENSES				
1	Production Expenses	$195,857,531	$86,694,044	$414,421	$87,108,465
2	Transmission Expenses	35,329,066	13,847,298	239,257	14,086,555
3	Distribution Expenses	17,553,489	7,972,703	420,528	8,393,231
4	Customer Accounting Expenses	16,028,499	7,035,433	260,162	7,295,595
5	Customer Service and Information Expenses	12,470,633	1,315,049	15,968	1,331,017
6	Sales Expenses	583,457	135,872	0	135,872
7	Administration and General Expenses	43,893,859	17,534,200	3,241,068	20,775,268
8	Depreciation Expense	79,405,970	32,603,918	489,496	33,093,414
9	General Taxes	18,693,896	7,102,692	796	7,103,488
10	**TOTAL OPERATING EXPENSES**	$419,816,401	$174,241,209	$5,081,696	$179,322,905

OTTER TAIL POWER COMPANY
Electric Utility - State of North Dakota
OPERATING INCOME STATEMENT SCHEDULES
OPERATING INCOME STATEMENT ADJUSTMENTS SCHEDULE
Unadjusted Year 2024 to Regulatory Year 2024

Case No. PU-23-
Exhibit__(CLP-1), Schedule 11

Line No.	Description	(A) Unadjusted Year 2024	Adjustments (B) Advertising Expenses	(C) Fuel Expense - Hoot Lake Solar	(D) Non-Employee Director Restricted Stock	(E) Economic Development Costs	(F) Employe Recognition and Gifts	(G) ESSRP	(H) Electric Vehicles	(I) GIPs	(J) Hoot Lake Solar	(K) Incentive Compensation	(L) Investor Relations	(M) Long-Term Incentive	(N) PTC GAAP Provision	(O) Rider CWIP Projects	(P) Transmission Recovery	(Q) Changes in Allocations due to Effect of Normal Adjustments	(R) Regulatory Year 2024
1	**OPERATING REVENUES**																		
2	Retail Revenue	$203,210,040		$1,313,314											4,186,187	($2,720,332)		$0	$205,989,209
3	Other Electric Operating Revenue	$26,713,530								(1,688,273)							(12,044,474)	($3,877)	$12,976,906
4	**TOTAL OPERATING REVENUE**	$229,923,570	$0	$1,313,314	$0	$0	$0	$0	$0	($1,688,273)	$0	$0	$0	$0	$4,186,187	($2,720,332)	($12,044,474)	($3,877)	$218,966,115
5	**OPERATING EXPENSES**																		
6	Production Expenses	$85,426,089		$1,267,955														$0	$86,694,044
7	Transmission Expenses	$13,847,298																$0	$13,847,298
8	Distribution Expenses	$7,972,710																($7)	$7,972,703
9	Customer Accounting Expenses	$7,035,433																$0	$7,035,433
10	Customer Service and Information Expenses	$1,315,049																$0	$1,315,049
11	Sales Expenses	$142,408	(594)			(5,943)												$1	$135,872
12	Administration and General Expenses	$20,028,034	($377,812)		(262,850)		(96,967)	(61,296)				(365,447)	(102,431)	(1,221,363)				($5,668)	$17,534,200
13	Charitable Contributions	$0																$0	$0
14	Depreciation Expense	$35,004,220							(78,037)	(311,858)	(685,029)						(1,325,266)	($112)	$32,603,918
15	General Taxes	$8,019,985															(916,394)	($899)	$7,102,692
16	**TOTAL OPERATING EXPENSES**	$178,791,226	($378,406)	$1,267,955	($262,850)	($5,943)	($96,967)	($61,296)	($78,037)	($311,858)	($685,029)	($365,447)	($102,431)	($1,221,363)	$0	$0	($2,241,660)	($6,685)	$174,241,209
17	**NET OPERATING INCOME BEFORE INCOME TAXES**	$51,132,344	$378,406	$45,359	$262,850	$5,943	$96,967	$61,296	$78,037	($1,376,415)	$685,029	$365,447	$102,431	$1,221,363	$4,186,187	($2,720,332)	($9,802,814)	$2,808	$44,724,906
18	**INCOME TAX EXPENSE**																		
19	Investment Tax Credit	($8,230,453)									$279,699				$5,010,974			$212	($2,939,568)
20	Deferred Income Taxes	($1,925,497)																$6,985,306	$5,059,809
21	Income Taxes	$0	$92,350	$11,070	$64,148	$1,450	$23,665	$14,959	$19,045	($335,913)	$167,181	$89,187	$24,998	$298,072	$1,021,635	($663,894)	($2,392,367)	$1,564,414	$0
22	**TOTAL INCOME TAX EXPENSE**	($10,155,950)	$92,350	$11,070	$64,148	$1,450	$23,665	$14,959	$19,045	($335,913)	$446,880	$89,187	$24,998	$298,072	$6,032,609	($663,894)	($2,392,367)	$8,549,932	$2,120,241
23	**NET OPERATING INCOME**	$61,288,294	$286,056	$34,289	$198,702	$4,493	$73,302	$46,337	$58,992	($1,040,502)	$238,149	$276,260	$77,433	$923,291	($1,846,422)	($2,056,438)	($7,410,447)	($8,547,124)	$42,604,665
24	Allowance for Funds Used During Construction	$0																$0	$0
25	**TOTAL AVAILABLE FOR RETURN**	$61,288,294	$286,056	$34,289	$198,702	$4,493	$73,302	$46,337	$58,992	($1,040,502)	$238,149	$276,260	$77,433	$923,291	($1,846,422)	($2,056,438)	($7,410,447)	($8,547,124)	$42,604,665

OTTER TAIL POWER COMPANY
Electric Utility - State of North Dakota
OPERATING INCOME STATEMENT SCHEDULES
OPERATING INCOME STATEMENT ADJUSTMENTS SCHEDULE
Regulatory Year 2024 to Test Year 2024

Line No.	Description	(A) Regulatory Year 2024	Adjustments (B) Rate Case Expenses	(C) Normalize Langdon Upgrade Project	(D) Normalize Pension and PRM	(E) Non-Employee Director Restirced Stock	(F) Rider Roll-In	(G) ESSRP	(H) Employe Recognition and Gifts	(I) Investor Relations	(J) Long-Term Inventive	(k) Changes in Allocations due to Effect of Test Year Adjustments	(L) Test Year 2024
1	**OPERATING REVENUES**												
2	Retail Revenue	$205,989,209					($23,302,321)					$0	$182,686,888
3	Other Electric Operating Revenue	$12,976,906										$2,527	$12,979,433
4	**TOTAL OPERATING REVENUE**	$218,966,115	$0	$0	$0	$0	($23,302,321)	$0	$0	$0	$0	$2,527	$195,666,321
5	**OPERATING EXPENSES**												
6	Production Expenses	$86,694,044			414,420							$1	$87,108,465
7	Transmission Expenses	$13,847,298			239,257							$0	$14,086,555
8	Distribution Expenses	$7,972,703			420,521							$7	$8,393,231
9	Customer Accounting Expenses	$7,035,433			260,162							($0)	$7,295,595
10	Customer Service and Information Expenses	$1,315,049			15,968							$0	$1,331,017
11	Sales Expenses	$135,872										($0)	$135,872
12	Administration and General Expenses	$17,534,200	$359,404		1,131,083	262,850		61,296	96,967	102,431	1,221,363	$5,674	$20,775,268
13	Charitable Contributions	$0										$0	$0
14	Depreciation Expense	$32,603,918		489,384								$112	$33,093,414
15	General Taxes	$7,102,692										$796	$7,103,488
16	**TOTAL OPERATING EXPENSES**	$174,241,209	$359,404	$489,384	$2,481,411	$262,850	$0	$61,296	$96,967	$102,431	$1,221,363	$6,590	$179,322,905
17	**NET OPERATING INCOME BEFORE INCOME TAXES**	$44,724,906	($359,404)	($489,384)	($2,481,411)	($262,850)	($23,302,321)	($61,296)	($96,967)	($102,431)	($1,221,363)	($4,063)	$16,343,416
18	**INCOME TAX EXPENSE**												
19	Investment Tax Credit	($2,939,568)										($213)	($2,939,781)
20	Deferred Income Taxes	$5,059,809										($6,985,306)	($1,925,497)
21	Income Taxes	$0	($87,712)	($136,495)	($605,586)	($64,148)	($5,686,908)	($14,959)	($23,665)	($24,998)	($298,072)	$6,942,544	($0)
22	**TOTAL INCOME TAX EXPENSE**	$2,120,241	($87,712)	($136,495)	($605,586)	($64,148)	($5,686,908)	($14,959)	($23,665)	($24,998)	($298,072)	($42,975)	($4,865,278)
23	**NET OPERATING INCOME**	$42,604,665	($271,692)	($352,889)	($1,875,825)	($198,702)	($17,615,413)	($46,337)	($73,302)	($77,433)	($923,291)	$38,912	$21,208,694
24	Allowance for Funds Used During Construction	$0										$0	$0
25	**TOTAL AVAILABLE FOR RETURN**	$42,604,665	($271,692)	($352,889)	($1,875,825)	($198,702)	($17,615,413)	($46,337)	($73,302)	($77,433)	($923,291)	$38,912	$21,208,694

[PROTECTED DATA BEGINS...

Schedule 13 – Mercer March 2023 Five Year Expense Estimate

to

Direct Testimony of Christy L. Petersen

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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Schedule 14 – Mercer September 2023 Five Year PRM Expense Estimate

to

Direct Testimony of Christy L. Petersen

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

THIS DOCUMENT IS NOT PUBLIC IN ITS ENTIRETY

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