

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\_\_\_\_\_

**CORPORATE COST ALLOCATION, LEAD LAG STUDY,  
ENERGY ADJUSTMENT RIDER AND  
OTHER REGULATORY ISSUES**

Direct Testimony and Schedules of  
**CHRISTOPHER E. BYRNES**

November 2, 2023

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## **ATTACHED SCHEDULES**

Schedule 1 – Witness Resume/Bio

Schedule 2 – Corporate Cost Allocation Manual

Schedule 3 – Forecast Corporate Cost Allocation Procedures

Schedule 4 – Modifications to Section 13.01 North Dakota Energy Adjustment Rider

Schedule 5 – Steam and Water Sales to POET

**I. INTRODUCTION AND QUALIFICATIONS**

Q. PLEASE STATE YOUR NAME AND CURRENT EMPLOYER.

A. My name is Christopher Byrnes. I am employed by Otter Tail Power Company (OTP or the Company).

Q. PLEASE SUMMARIZE YOUR CURRENT RESPONSIBILITIES.

A. I am the Supervisor of Regulatory Analysis. My primary responsibilities in this position are to lead OTP's Regulatory Department's role in the preparation and analysis of annual jurisdictional and class cost of service studies that determine overall utility returns and price levels for actual and forecast test years and to lead the development of the forecasted Energy Adjustment Rider (EAR) rates.

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

A. Yes. A summary of my qualifications and experience is included as Exhibit\_\_\_\_(CEB-1), Schedule 1.

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

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. My Direct Testimony describes several revenue requirement and regulatory issues associated with this case, including:

- Corporate Cost Allocation
- The Lead Lag Study
- The Energy Adjustment Rider
- Rate Case Expense
- Advertising Expenses
- Electronic Payment Processing Fees

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

A. My Direct Testimony discusses and supports how Otter Tail Corporation allocates its corporate costs to OTP. I explain the Lead Lag Study that is used to calculate the cash working capital component of rate base for the 2024 Test Year. I also present proposed changes to OTP's EAR that will make fuel costs more

transparent for our customers, and OTP's proposed treatment of rate case, advertising and electronic payment processing expenses.

Q. HOW IS YOUR DIRECT TESTIMONY ORGANIZED?

A. In Section III, I discuss corporate cost allocations. In Section IV, I discuss the Lead Lag Study. In Section V, I discuss changes to the EAR. Finally, in Section VI, I discuss rate case, advertising, and electronic payment processing expenses.

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

A. Dollar values presented in my Direct Testimony and schedules that are jurisdictional to North Dakota values are labeled as (OTP ND). Total company costs are labeled (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, the North Dakota jurisdictional dollar values have been estimated by multiplying the total company costs by a single blended allocator and labeled as (OTP ND EST.).

### **III. CORPORATE COST ALLOCATION**

Q. WHAT WILL YOU DISCUSS IN THIS SECTION OF YOUR DIRECT TESTIMONY?

A. In this section of my Direct Testimony, I will explain how corporate costs that are incurred by Otter Tail Corporation in connection with the services provided by Otter Tail Corporation for the operation of OTP are handled in the 2024 Test Year.

Q. PLEASE DESCRIBE THE RELATIONSHIP BETWEEN OTP AND OTTER TAIL CORPORATION.

A. OTP is a wholly owned subsidiary of Otter Tail Corporation.

Q. WHAT SERVICES DOES OTTER TAIL CORPORATION PROVIDE TO OTP?

A. Otter Tail Corporation provides the following services to OTP: financial reporting, tax planning and reporting, treasury, financial planning, corporate communications, internal audit, benefits plans, safety and risk management,

1 shareholder services and investor relations, aviation, and executive management  
2 services.

3  
4 Q. ARE THESE SERVICES GOVERNED BY ANY AGREEMENTS?

5 A. Yes. OTP has three agreements with Otter Tail Corporation: (1) an Administrative  
6 Services Agreement that describes how services are provided from Otter Tail  
7 Corporation to OTP and how costs for such services are assigned and allocated to  
8 OTP; (2) a Tax Sharing Agreement that describes how tax obligations and benefits  
9 are to be allocated; and (3) a Cash Management Agreement that describes how  
10 cash management services can be provided by Otter Tail Corporation to OTP.  
11 Currently, no cash management services are being provided by Otter Tail  
12 Corporation to OTP.

13  
14 Q. HOW ARE OTP TAXES COMPUTED UNDER THE TAX SHARING  
15 AGREEMENT?

16 A. OTP computes its taxes on a standalone basis, exclusive of Otter Tail Corporation.  
17 All tax calculations included in the 2024 Test Year are based only on OTP financial  
18 performance. The tax calculations included in this Test Year are detailed in  
19 Volume 3 Schedule C-4.

20  
21 Q. HOW DID YOU ARRIVE AT THE APPROPRIATE LEVEL OF OTTER TAIL  
22 CORPORATION EXPENSES TO INCLUDE IN THE TEST YEAR?

23 A. Under the Administrative Services Agreement, the costs of corporate functions are  
24 allocated using the allocation methodology and specific allocation factors  
25 described in the Corporate Cost Allocation Manual (CAM), included as  
26 Exhibit\_\_\_\_(CEB-1), Schedule 2. I have also included a supplement to the CAM,  
27 the Forecast Corporate Cost Allocation Procedures (FCAP) manual, included as  
28 Exhibit\_\_\_\_(CEB-1), Schedule 3,<sup>1</sup> which describes in more detail how forecasted  
29 corporate cost allocation factors are developed. Allocation factors were applied to  
30 forecasted 2024 corporate expenses, adjusted for certain corporate expenses which  
31 have either been capped or disallowed in prior Commission orders.

32  

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<sup>1</sup> Schedule 2 and Schedule 3 are the red-line version of the CAM and FCAP.

1 Q. HOW WERE THE COST ALLOCATION METHODOLOGIES DEVELOPED?

2 A. The corporate cost allocation methodology was developed based on the following  
3 goals:

- 4 (1) The result should fully allocate costs;
- 5 (2) Costs are directly assigned where possible;
- 6 (3) If direct assignment is not possible, an indirect allocation will be made if  
7 there is a cost causative link to another cost category for which direct  
8 assignment is used;
- 9 (4) When neither direct nor indirect cost causation can be found, a  
10 representative general allocator is used;
- 11 (5) The result is equitable for customers and shareholders;
- 12 (6) The method is easy to administer – no additional studies or data gathering  
13 is needed; and
- 14 (7) The allocators have components that are based on verifiable public  
15 information, to the extent possible.

16  
17 Q. PLEASE EXPLAIN THE CORPORATE COST ALLOCATION PROCESS IN MORE  
18 DETAIL.

19 A. Otter Tail Corporation costs can be charged to OTP or to Otter Tail Corporation's  
20 non-utility operations. The allocation process uses three steps. First, all labor and  
21 other costs that are appropriate for direct assignment to OTP or non-utility  
22 operations are identified and directly assigned. Members of the Corporate Group  
23 use timesheets to directly assign labor. Invoices and other costs are directly  
24 assigned as appropriate. In the 2024 Test Year, approximately 57 percent of all  
25 Otter Tail Corporation costs were allocated to OTP or non-utility operations using  
26 direct assignment.

27 Second, indirect allocators are used for certain functions. Indirect  
28 allocators are used where an indirect-cost causative linkage to another cost  
29 category or group of cost categories exists. About 9 percent of corporate costs were  
30 allocated to OTP or non-utility operations using indirect allocators.

31 The remaining 34 percent of corporate costs are not appropriate for either  
32 direct assignment or indirect allocation. These costs are allocated to OTP or non-  
33 utility operations using the general allocator that is composed of revenues, assets  
34 and labor dollars, equally weighted.

Q. HOW MUCH OF THE TOTAL OTTER TAIL CORPORATION COST IS ALLOCATED TO OTP IN THE 2024 TEST YEAR?

A. Table 1, below, shows the allocation of Otter Tail Corporation costs for the 2024 Test Year.

**Table 1**  
Otter Tail Corporation Cost Allocation

	Otter Tail Corporation 2024 Costs		ND Share
Allocated to OTP	\$13,143,692	44.6%	\$5,463,509
Allocated to Non-Utility	\$16,321,685	55.4%	
Total Corporate Costs	\$29,465,377	100.0%	

Q. HOW WERE THESE 2024 CORPORATE COST ESTIMATES DEVELOPED?

A. The 2024 corporate costs were developed following the procedures outlined in the FCAP manual. Those costs were then allocated between utility and non-utility entities based on the methods outlined in the CAM.

Q. DOES THE ALLOCATION IN TABLE 1 REFLECT THE COMPANY'S PROPOSED TREATMENT OF INCENTIVE COMPENSATION?

A. Yes. The Otter Tail Corporation costs allocated to OTP in the 2024 Test Year reflect the Company's proposal to limit executives' bonuses and incentive compensation at 25 percent of base salary. OTP witness Mr. Peter E. Wasberg discusses these limits in his Direct Testimony.

Q. DO THE AMOUNTS IN TABLE 1, ABOVE, INCLUDE INVESTOR RELATIONS EXPENSES?

A. Yes. While 50 percent of North Dakota's allocation of investor relations costs were not included in the 2018 Test Year revenue requirement established in the Settlement Agreement to OTP's last North Dakota rate case (Case No. PU-17-398), OTP has included all its North Dakota allocation of such costs in the 2024 Test Year.

Q. WHY IS OTP PROPOSING TO RECOVER ALL ITS NORTH DAKOTA ALLOCATION OF INVESTOR RELATIONS COSTS IN THIS PROCEEDING?

A. As discussed by OTP witness Mr. Todd R. Wahlund, OTP is in the midst of a significant period of capital spending. Investor relations expenses are directed at

1 making sure OTP obtains the most cost-effective financing to support this  
2 investment.

3  
4 Q. PLEASE DESCRIBE THE INVESTOR RELATIONS SERVICES OTTER TAIL  
5 CORPORATION PROVIDES TO OTP.

6 A. Investor relations involves administrative activities that are required for publicly  
7 traded companies. This includes payment of dividends, coordinating dividend  
8 reinvestments, annual reports, shareholder recordkeeping, required annual  
9 meetings, and Securities and Exchange Commission compliance. It also involves  
10 managing and coordinating relationships with equity and debt investors.

11  
12 Q. DO INVESTOR RELATIONS ACTIVITIES BENEFIT RATEPAYERS?

13 A. Yes. Investor relations helps the Company effectively compete for capital and  
14 educates the investment community about the risks, rewards, and performance  
15 inherent in our equity and debt securities. The work of the investor relations group  
16 involves developing and supporting strong relationships with both the debt and  
17 equity capital markets for purposes of raising the necessary funds to support the  
18 Company's capital funding needs.

19 In addition to raising capital, investor relations efforts are spent on  
20 maintaining solid credit ratings for OTP, which reduces the cost of our debt and is  
21 a direct benefit to ratepayers. OTP's cost to serve its customers relies on both the  
22 debt and equity capital markets to provide adequate funding. Each source of  
23 funding has a cost associated with securing and administering that funding.

24 These informational and relationship functions, coupled with shareholder  
25 relationships, help OTP obtain the most cost-effective financing, thereby helping  
26 to control costs to the benefit of customers.

27  
28 Q. HOW MUCH OF THE INVESTOR RELATIONS EXPENSES IS ALLOCATED TO  
29 OTP IN THE 2024 TEST YEAR?

30 A. Table 2, below, shows the allocation of Otter Tail Corporation costs for Investor  
31 Relations expenses in the 2024 Test Year. These costs were allocated to OTP  
32 consistent with the FCAP manual and the CAM.



**Table 2**  
Otter Tail Corporate Investor Relations Cost Allocation

	<b>2024 Otter Tail Corporation Investor Relations Costs</b>		<b>ND Share</b>
Allocated to OTP	\$472,534	52.6%	\$204,869
Allocated to non-utility	\$426,167	47.4%	
Total Corporate Cost	\$898,107	100.0%	

OTP's share of Otter Tail Corporation investor relations cost is \$472,534 or approximately 52.6 percent. The remaining \$426,167 or 47.4 percent is allocated to non-utility operations. The North Dakota share of OTP's allocated costs is \$204,869 which represents only 22.8 percent of the total corporate investor relations costs. Thus, OTP's North Dakota customers pay a relatively small portion of the total investor relations expense.

Q. DO THE AMOUNTS IN TABLE 1, ABOVE, INCLUDE COSTS ASSOCIATED WITH NON-EMPLOYEE<sup>2</sup> DIRECTOR RESTRICTED STOCK?

A. Yes. These costs were not part of the 2018 Test Year revenue requirement, established pursuant to the Settlement Agreement in Case No. PU-17-398. As discussed below, however, they are appropriate for inclusion in the 2024 Test Year revenue requirement.

Q. WHY IS OTP PROPOSING TO INCLUDE EXPENSE OF DIRECTOR RESTRICTED STOCK IN THE 2024 TEST YEAR REVENUE REQUIREMENT?

A. In order to attract and retain qualified professionals to serve on its Board of the Directors, Otter Tail Corporation must provide compensation commensurate with other boards of directors in the utility industry.

Q. WHY DOES OTTER TAIL CORPORATION HAVE A BOARD OF DIRECTORS?

A. My understanding is that Otter Tail Corporation is required to have a board of directors pursuant to the laws applicable to corporations.

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<sup>2</sup> The President and CEO of Otter Tail Corporation is the only employee member of the Board of Directors and does not receive non-employee director compensation for his service as a member of the Board of Directors as per the 2023 Proxy Statement

1 Q. DOES OTTER TAIL CORPORATION COMPENSATE THE NON-EMPLOYEE  
2 MEMBERS OF ITS BOARD OF DIRECTORS?

3 A. Yes. Providing compensation to the non-employee members of the Otter Tail  
4 Corporation Board of Directors in exchange for the work they perform is  
5 reasonable and consistent with how boards of directors of other corporations are  
6 treated, including in the utility industry. These are necessary costs of Otter Tail  
7 Corporation being the parent company of OTP.  
8

9 Q. WHAT PROCESS IS USED TO DEVELOP THE COMPENSATION THAT THE  
10 NON-EMPLOYEE MEMBERS OF THE BOARD OF DIRECTORS EARN?

11 A. Just as with our non-bargaining employee compensation, we also base our non-  
12 employee director compensation on the market. As described in the 2023 Proxy  
13 Statement for Otter Tail Corporation, the Compensation and Human Capital  
14 Management Committee for the Board of Directors periodically reviews  
15 compensation practices to determine their competitiveness with market practices.  
16 A market analysis of director compensation was conducted in 2022 by the  
17 Compensation and Human Capital Management Committee's consultant, WTW,  
18 using data from the National Association of Corporate Directors and a peer group  
19 (listed on page 29 of the 2023 Proxy Statement).  
20

21 Q. HOW IS THE COMPENSATION PROVIDED TO THE NON-EMPLOYEE  
22 MEMBERS OF THE BOARD OF DIRECTORS?

23 A. The compensation provided to the non-employee members of the Board of  
24 Directors consists of two components: (1) an annual retainer; and (2) an annual,  
25 fixed equity grant of restricted stock, vesting over a period of three years (33.3  
26 percent, per year), granted under the terms of the 2023 Stock Incentive Plan on  
27 the date of the Annual Meeting. Like most other boards of publicly held  
28 companies, the Board Chair and those with committee assignments qualify for  
29 limited additional grants of restricted stock but on the same vesting schedule and  
30 voting rights as the base stock grant. I would also note that OTP customers are not  
31 paying for all these costs because the blended North Dakota jurisdictional allocator  
32 of approximately 43.79 percent is applied to these reasonable and required costs  
33 and only the allocated percentage is included in our North Dakota rates. Thus,  
34 OTP customers receive the benefit of the Board, but only pay for a percentage based  
35 on the blended allocator.  
36

1 Q. IS PROVIDING COMPENSATION TO THE NON-EMPLOYEE DIRECTORS  
2 THROUGH CASH AND EQUITY A REASONABLE APPROACH?

3 A. Yes. This approach is consistent with industry best practices used by other utilities.  
4

5 Q. ARE THE COSTS REFLECTED IN TABLE 1 REASONABLE AND APPROPRIATE  
6 FOR INCLUSION IN THE 2024 TEST YEAR?

7 A. Yes. All costs have been allocated in a manner consistent with prior cases. The  
8 Otter Tail Corporation costs reflected in Table 1 are reasonable and appropriate  
9 for inclusion in the 2024 Test Year.

#### 10 **IV. LEAD LAG STUDY**

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

12 A. In this section of my Direct Testimony, I will explain OTP's Lead Lag Study.  
13

14 Q. WHAT IS THE PURPOSE OF THE LEAD LAG STUDY?

15 A. The Lead Lag Study is a widely used and accepted method for developing the cash  
16 working capital (CWC) component of rate base in connection with the  
17 determination of revenue requirements. This study analyzes the lapse of time  
18 between the average day on which a utility incurs expenses to serve its customers  
19 and the average day on which cash is received from customers in payment of that  
20 service. Lead days refer to the days between incurring an expense and paying for  
21 it. Lag days refer to the days between rendering a service and receiving payment  
22 for that service.  
23

24 Q. HAS OTP'S LEAD LAG STUDY BEEN UPDATED SINCE THE LAST RATE CASE?

25 A. Yes. OTP updated its Lead Lag Study in 2021 using data from 2020. A copy of the  
26 study is provided in Volume 4B.  
27

28 Q. IS THE CASH WORKING CAPITAL DETERMINATION METHODOLOGY  
29 CONSISTENT WITH OTP'S LAST RATE CASE?

30 A. Yes. The study and procedures used to calculate the working capital requirement  
31 are consistent with the approach and methodology used in OTP's last North Dakota  
32 rate case. OTP reviewed the procedures used in the Lead Lag Study filed in that  
33 case and concluded no significant changes in policies or procedures had occurred  
34 and conducted the current study using those same procedures.  
35

1 Q. HAVE THE RESULTS OF THE LEAD LAG STUDY BEEN INCORPORATED INTO  
2 THE CWC CALCULATIONS?

3 A. Yes, the results of the Lead Lag Study are included in the CWC calculations  
4 provided in Volume 3, Schedule B-2e. OTP witness Ms. Christy L. Petersen  
5 discusses the overall calculation of CWC and its inclusion in Rate Base in her Direct  
6 Testimony.

7 **V. ENERGY ADJUSTMENT RIDER ISSUES**

8 **A. Asset-Based Margins**

9 Q. HOW DOES OTP CURRENTLY TREAT ASSET-BASED MARGINS IN THE  
10 ENERGY ADJUSTMENT RIDER?

11 A. In OTP's 2008 Rate Case, Case No. PU-08-862, the parties agreed for OTP to credit  
12 85 percent of all asset-based margins through the EAR. OTP retained 15 percent  
13 of those margins.  
14

15 Q. WHAT IS OTP PROPOSING FOR ASSET-BASED MARGINS?

16 A. OTP is proposing to credit 100 percent of asset-based margins to customers  
17 through the EAR. Effectively, all revenues received from the sales of energy from  
18 OTP resources into the Midcontinent Independent System Operator (MISO)  
19 market and all associated costs of operating those resources will flow through the  
20 EAR to the benefit of customers. OTP proposes that this change to the benefit of  
21 customers becomes effective with the implementation of interim rates in this rate  
22 case.  
23

24 Q. WHY IS OTP PROPOSING TO CREDIT ALL ASSET-BASED MARGINS TO  
25 CUSTOMERS THROUGH THE EAR?

26 A. There was significant complexity in initially developing and subsequently  
27 maintaining the software that allows OTP to track and allocate asset-based sales  
28 and associated margin between the Company and customers. That software is  
29 approaching end of life and would need to be re-developed to continue. Rather  
30 than incurring the cost needed to find a new software solution, OTP believes it is  
31 more prudent to end the sharing and credit all asset-based margins to customers  
32 through the EAR. I also note that asset-based sales and associated margins have  
33 declined in recent years as the MISO market has evolved, and OTP generation  
34 resources and loads have changed. Finally, the proposal would result in consistent  
35 treatment of asset-based sales and margins across OTP's retail jurisdictions.

- 1 Q. HOW HAVE ASSET-BASED MARGINS HISTORICALLY BEEN CALCULATED?
- 2 A. OTP internally developed a program with the implementation of the MISO Day 2
- 3 market back in 2005 that estimated the costs associated with OTP's energy supply
- 4 resource (OTP Resources) stack for each hour of the day relative to OTP retail load
- 5 for those respective hours. Revenue received from MISO for the share of OTP
- 6 Resources that served retail load is accounted for in a Resource Book, which tracks
- 7 all EAR costs and revenues necessary to serve retail load. Fuel and purchased
- 8 power costs are also allocated to the Resource Book based on the level of retail load
- 9 for every given hour. The revenues associated with the sale of energy from OTP
- 10 Resources, in excess of retail load for any given hour, are deemed asset-based sales
- 11 and allocated to a Marketing Book, along with the estimated fuel and purchased
- 12 power costs attributable to those sales. OTP's internal program also calculated an
- 13 estimated share of MISO costs across the various MISO charge types that would be
- 14 attributable to serving retail load and allocated to the Resource Book vs. excess
- 15 asset-based sales that were charged to the Marketing Book. The net of revenues
- 16 and costs allocated to the Marketing Book yielded the asset-based margin.
- 17
- 18 Q. WILL PASSING BACK 100 PERCENT OF ASSET-BASED MARGINS SIMPLIFY
- 19 TRACKING THESE REVENUES AND COSTS?
- 20 A. Yes. As a MISO member, the procurement of energy for OTP's retail customers and
- 21 the offering of OTP's generation and other purchased power into the MISO market
- 22 are separate and distinct transactions from which the associated costs and
- 23 revenues are netted against each other and recovered through the EAR, along with
- 24 the cost of fuel to operate the plants and the cost of any purchased power. OTP
- 25 does not see a need to continue to have a program, as discussed above, to allocate
- 26 revenues and costs between two accounting books (Resource Book and Marketing
- 27 Book), when 100 percent of those revenues and costs would flow back to customers
- 28 in the EAR. All costs and revenues would simply be accounted for in the Resource
- 29 Book.
- 30
- 31 Q. DOES OTP PROPOSE ANY OTHER SIMPLIFICATIONS TO THE EAR DUE TO
- 32 THE PROPOSED TREATMENT OF ASSET-BASED MARGINS?
- 33 A. Yes. Currently in OTP's monthly EAR calculations, based on a four-month
- 34 averaging of costs and kWh sales, OTP includes a forecast of estimated asset-based
- 35 sales and associated margins, along with a true-up of prior monthly forecasted
- 36 amounts. All other EAR costs and revenues simply flow through the monthly EAR

1 calculation as they are incurred. It has been difficult to accurately predict these  
2 amounts and in recent years, and the amounts have become less material. OTP  
3 recommends eliminating this forecast and true-up process since 100 percent of  
4 revenues and costs will flow back through the EAR and simply account for (pass  
5 through) all actual EAR approved revenues and costs each month as they occur.  
6 OTP believes this modification would simplify the calculation while not having a  
7 material impact on any given month's EAR calculation.  
8

9 Q. IS OTP PROPOSING ANY RELATED MODIFICATIONS TO SECTION 13.01 OF  
10 ITS NORTH DAKOTA ELECTRIC RATE SCHEDULE?

11 A. Yes. Exhibit\_\_\_\_(CEB-1), Schedule 4 reflects proposed language to be added to  
12 Section 13.01<sup>3</sup> to reflect 100 percent of the energy related revenues and costs being  
13 included in the EAR. The revised language will be effective with the  
14 implementation of interim rates.

15 **B. POET Steam and Water Sales**

16 Q. WHAT IS OTP PROPOSING WITH REGARDS TO STEAM AND WATER SALES  
17 TO POET BIOREFINING?

18 A. OTP is proposing to include the fuel costs related to steam and water sales to POET  
19 Biorefining (POET) in the EAR and to credit the revenues collected from POET  
20 steam and water sales to customers through the EAR. OTP proposes that this  
21 change become effective with the implementation of final rates in this rate case.  
22

23 Q. PLEASE SUMMARIZE OTP'S ARRANGEMENT WITH POET.

24 A. OTP sells steam and water from its Big Stone plant to POET. Currently, fuel and  
25 reagent costs associated with those steam and water sales are allocated to other  
26 electric expenses and excluded from the EAR calculation. Revenues recovered  
27 from steam sales are recorded as other electric revenue.  
28

29 Q. HOW MUCH REVENUE AND NET MARGIN ASSOCIATED WITH STEAM AND  
30 WATER SALES TO POET HAS OTP REALIZED IN RECENT YEARS?

31 A. As reflected in Exhibit\_\_\_\_(CEB-1), Schedule 5 to my Direct Testimony, OTP's  
32 share of steam and water sales to POET averaged approximately \$1.18 million  
33 (OTP Total)/ \$0.40 million (OTP ND) a year from 2020-2022 and yielded average

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<sup>3</sup> The red-line version of Section 13.01 is provided in Schedule 4 for this testimony.



1 net margins of approximately \$0.83 million (OTP Total)/\$0.37 million (OTP ND)  
2 per year.

3  
4 Q. WHY IS THE EAR APPROPRIATE FOR RECOVERY OF FUEL COSTS AND  
5 REVENUES FROM STEAM SALES?

6 A. Revenues from steam and water sales historically have been relatively stable. In  
7 2020, however, Big Stone plant changed from a consistent “self-schedule” dispatch  
8 to an “economic dispatch,” as an effective cost-control measure. However, this  
9 change also makes it more difficult to forecast Big Stone plant’s availability to  
10 produce and sell steam to POET.<sup>4</sup> To address this increased volatility, OTP is  
11 proposing to incorporate those fuel costs and associated steam revenues through  
12 the EAR where they can be forecast and aligned with the forecasted dispatch of the  
13 Big Stone plant. This treatment is similar to how asset-based sales of energy into  
14 the MISO market is treated, returning the economic benefit of those sales and  
15 corresponding revenues back to customers through the EAR.

16  
17 Q. PLEASE FURTHER EXPLAIN THE CHANGE TO BIG STONE PLANT’S  
18 DISPATCH STATUS.

19 A. In April 2020, the owners of Big Stone plant began offering the plant into the MISO  
20 and Southwest Power Pool (SPP) markets on an economic dispatch basis. All plant  
21 owners must agree when to offer the plant into MISO and SPP on an economic  
22 dispatch basis. If any owner needs the plant to run and wants to self-schedule the  
23 plant, all owners’ shares will be self-scheduled. When the plant is on economic  
24 dispatch, this means that those markets will only dispatch the plant based on its  
25 relative cost position in the supply stack or if either MISO or SPP decides it must  
26 be run for reliability reasons. From an economic perspective, the plant will not run  
27 if cheaper resources are available. Offering the plant on economic dispatch creates  
28 more potential volatility in when the plant is expected to run and correspondingly,  
29 the quantity of steam produced and sold to POET on an annual basis.

30  
31 Q. PLEASE FURTHER EXPLAIN WHY INCLUDING STEAM SALES IN THE EAR IS  
32 APPROPRIATE AND BENEFICIAL TO CUSTOMERS.

33 A. The steam and water sales to POET are variable in nature, directly related to  
34 business needs of POET and the operation of Big Stone plant. OTP believes going

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<sup>4</sup> OTP and the other Big Stone owners made the decision to move to economic dispatch in order to maintain capacity accreditation of the unit.

1 forward that the level of sales and revenues will continue to vary, much like OTP  
2 has seen with its asset-based sales. This variability will be driven by market  
3 economics and the plant's relative cost position within the market. OTP believes  
4 that the EAR is the appropriate mechanism to recover the fuel costs associated with  
5 these variable steam and water sale expenses, and, moving forward, it is  
6 appropriate to treat these the same way as asset-based sales and associated  
7 margins are treated. The revenue from steam and water sales that will be credited  
8 to the EAR more than offsets the corresponding fuel costs, reducing overall EAR  
9 costs to customers.

10  
11 Q. IS OTP PROPOSING ANY RELATED MODIFICATIONS TO SECTION 13.01 OF  
12 ITS NORTH DAKOTA ELECTRIC RATE SCHEDULE?

13 A. Yes. Exhibit\_\_\_\_(CEB-1), Schedule 4 reflects proposed language to be added to  
14 Section 13.01 to accommodate the recovery of steam sale costs and revenues  
15 through the EAR to be effective with the implementation of final rates.

16 **C. Hoot Lake Solar**

17 Q. HOW DOES OTP ALLOCATE HOOT LAKE SOLAR IN NORTH DAKOTA?

18 A. On April 29, 2021, the Minnesota Public Utilities Commission authorized OTP's  
19 investment in the 49.9-megawatt (MW) Hoot Lake Solar Project (HLS), which is  
20 located at the site of OTP's former Hoot Lake power plant in Fergus Falls,  
21 Minnesota.<sup>5</sup> In doing so, the Minnesota Public Utilities Commission also  
22 authorized 100 percent allocation of all HLS Project costs to Minnesota retail  
23 customers. Ms. Petersen explains that as a result, OTP has directly assigned the  
24 HLS Project costs to the Minnesota retail jurisdiction for purposes of calculating  
25 the 2024 Test Year revenue requirement.

26  
27 Q. HAS THIS TREATMENT OF HLS IMPACTED THE EAR?

28 A. Yes. On December 1, 2021, OTP made a filing in Case No. PU-21-443 to  
29 demonstrate to the Commission how OTP will properly account for the energy  
30 produced by HLS. In this application, OTP requested approval to modify the  
31 calculation of costs included in OTP's North Dakota EAR, Rate Schedule 13.01,

---

<sup>5</sup> *In the Matter of Otter Tail Power Company's Petition for Approval of the Hoot Lake Solar Project*, Docket No. M-20-844, ORDER APPROVING PETITION, AUTHORIZING ALLOCATION OF OUTPUT AND COSTS, AUTHORIZING COST RECOVERY, AND REQUIRING COMPLIANCE FILINGS (April 29, 2021).



1 and received approval in the Order dated March 9, 2022 to account for HLS  
2 generation.

3  
4 Q. PLEASE DESCRIBE THE EAR MODIFICATION APPROVED IN CASE NO. PU-  
5 21-443.

6 A. Under the approach approved in Case No. PU-21-443, OTP quantifies the day-  
7 ahead and real-time revenue received from the MISO for HLS's sale of energy into  
8 the MISO energy market. The quantified revenue is removed from the calculation  
9 of the North Dakota EAR by adding an equal amount of proxy cost into the  
10 calculation. This approach removes the impact of HLS from the North Dakota EAR  
11 and for North Dakota EAR purposes, treats the facility as if it does not exist. This  
12 accounting does not result in an increase in EAR rates for North Dakota customers;  
13 rather it avoids an unintended EAR rate decrease and maintains consistency in the  
14 EAR rate calculation as if HLS was not included in OTP's generation fleet.

15  
16 Q. WHAT IS THE ESTIMATED HLS GENERATION PROXY COST IN THE 2024  
17 TEST YEAR?

18 A. The estimated HLS generation proxy cost for the 2024 Test Year is \$2.8 million  
19 (OTP Total) / \$1.3 million (OTP ND).

20  
21 Q. HAS OTP MADE A CORRESPONDING ADJUSTMENT TO PRESENT EAR  
22 REVENUES FOR THE 2024 TEST YEAR?

23 A. Yes. Ms. Petersen explains the mechanics of this adjustment in her Direct  
24 Testimony.

## 25 **VI. OTHER REGULATORY ISSUES**

### 26 **A. Rate Case Expense**

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

28 A. In this section of my Direct Testimony, I will explain the rate case expense included  
29 in the 2024 Test Year.

30  
31 Q. WHAT IS THE ESTIMATED RATE CASE EXPENSE FOR THIS CASE?

32 A. We estimate the rate case expenses associated with this case to be \$1.1 million  
33 (OTP ND). This expense includes administrative costs, expected Commission  
34 charges, and outside consulting and legal fees.

1 Q. HOW DID YOU DEVELOP THIS ESTIMATE?

2 A. Administrative costs and Commission charges are estimated based on fees  
3 assessed in other North Dakota rate cases. Consulting fees and outside legal fees  
4 estimates were based on information from service providers. The details are  
5 reflected in work paper TY-02 2024 Rate Case Expenses Adj in Volume 4A,  
6 Workpapers.

7

8 Q. WHAT IS THE AMOUNT OF RATE CASE EXPENSE INCLUDED IN THE 2024  
9 TEST YEAR REVENUE REQUIREMENT?

10 A. The 2024 Test Year revenue requirement includes \$359,404 (OTP ND) for rate  
11 case expense.

12

13 Q. HOW DID YOU DETERMINE THE AMOUNT OF RATE CASE EXPENSE TO  
14 INCLUDE IN THE 2024 TEST YEAR?

15 A. There were two steps. The first step was to develop the estimate of the amount of  
16 rate case expense attributable to this case, as discussed above. Second, a portion  
17 of that estimated expense was allocated to our unregulated activities. Finally, the  
18 total amount allocated to regulated activity is amortized over a period of time.

19

20 Q. HOW DID YOU ALLOCATE A PORTION OF THE RATE CASE EXPENSES TO  
21 OTP'S UNREGULATED ACTIVITIES?

22 A. We allocated a portion of the estimated rate case expense to our unregulated  
23 activities based on a ratio of OTP's unregulated revenues to regulated revenues.  
24 This is the same methodology used by OTP in its last North Dakota rate case.

25

26 Q. WHAT AMORTIZATION PERIOD DID YOU USE?

27 A. We used a three-year amortization period.

28

29 Q. WHY ARE RATE CASE EXPENSES AMORTIZED OVER A PERIOD OF TIME?

30 A. The rate case expense is a one-time expense. Absent an amortization, the revenue  
31 requirement would inappropriately treat the expense as recurring each year.  
32 Therefore, it is appropriate to amortize those expenses over the period of time  
33 expected before OTP's next rate case. Based on what we know today, we believe  
34 OTP will likely file its next rate case in three years.

1       **B.     Advertising Expense**

2   Q.   PLEASE DESCRIBE OTP'S TREATMENT OF ADVERTISING EXPENSE IN THE  
3       2024 TEST YEAR.

4   A.   According to Commission Rule 69-09-02-38, paragraph 2, any expenditure by a  
5       utility for institutional, promotional, or political advertising shall be excluded from  
6       operating expenses in the cost of service determination for ratemaking purposes.  
7       Paragraph 3 of this same rule allows advertising expenditures which are  
8       reasonable in amount, and which are not excluded under paragraph 2 to be  
9       included as operating expenses in the cost of service determination for ratemaking  
10      purposes.

11           OTP excluded \$859,117 (OTP ND) in advertising expenses allocated to  
12      North Dakota from the 2024 Test Year to comply with paragraph 2 of Commission  
13      Rule 69-09-02-38.

14       **C.     Electronic Payment Processing Fees**

15   Q.   THROUGH WHAT PAYMENT PLATFORMS CAN OTP CUSTOMERS PAY THEIR  
16       ELECTRIC BILLS?

17   A.   OTP customers can pay their electric bills through credit and debit card, automated  
18       clearing house (ACH) payments, home banking through the customer's online  
19       bank, through other third-party electronic payment processors, or by check.  
20

21   Q.   ARE THERE FEES ASSOCIATED WITH THESE VARIOUS PAYMENT  
22       MECHANISMS?

23   A.   Yes. All payment channels come with a cost. For example, processing a check  
24       involves labor, software, banking fees, and equipment costs. OTP recently  
25       calculated the cost to process a check at \$0.56 per check. Further, customers  
26       paying by check overwhelmingly receive paper bills,<sup>6</sup> which adds an additional cost  
27       of \$0.70 to the payment transaction (accounting for printing, envelopes, and  
28       mailing).<sup>7</sup>  
29

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<sup>6</sup> Currently, 96 percent of customers paying by check receive a bill statement in the mail, whereas only 18 percent of customers paying through an electronic channel receive a bill statement in the mail.

<sup>7</sup> In the future, OTP plans to offer additional electronic payment options to customers, including Apple Pay, Google Pay, and Venmo. OTP has also negotiated a \$1.99 convenience fee per transaction for these options, and OTP will likely add more options as customer expectations evolve and electronic payment channels become more affordable.

1 Q. ARE THERE COSTS ASSOCIATED WITH ELECTRONIC PAYMENT METHODS?

2 A. Yes. OTP currently incurs a \$1.99 convenience fee per transaction each time a  
3 customer chooses to pay with a credit card, or through other third-party electronic  
4 processor channels such as PayPal, Walmart Pay, or Amazon Pay. OTP negotiated  
5 this fee with its electronic payment processor and OTP does not keep any proceeds  
6 from this fee.

7  
8 Q. IS THERE CURRENTLY A DIFFERENCE BETWEEN HOW THESE COSTS ARE  
9 RECOVERED?

10 A. Yes. Currently, the costs of processing non-electronic payments are part of the cost  
11 of service and recovered through base rates. Since July 2022, however, OTP has  
12 not been recovering the cost of electronic payments, either through base rates or  
13 directly from customers.

14  
15 Q. WHY IS THERE A DIFFERENCE IN COST RECOVERY BETWEEN ELECTRONIC  
16 AND NON-ELECTRONIC PAYMENT CHANNELS?

17 A. Costs associated with non-electronic payment channels always have been part of  
18 the cost of service and therefore recovered through base rates. Prior to July 2022,  
19 OTP charged customers directly for electronic payment processing fees at the time  
20 of the transaction. OTP changed this policy in July 2022.

21  
22 Q. WHY DID OTP CHANGE ITS POLICY IN 2022?

23 A. Following OTP's 2020 Minnesota Rate Case (Minnesota Public Utilities  
24 Commission Docket No. E017/GR-20-719), OTP began to recover electronic  
25 payment processing fees for Minnesota customers in Minnesota base rates. This  
26 change went into effect in July 2022. OTP's previous electronic payment processor  
27 could not, however, distinguish between OTP customers located in Minnesota,  
28 North Dakota, and South Dakota. Because of this limitation, OTP began absorbing  
29 the electronic payment processing fees for all customers, even though OTP could  
30 only recover electronic payment processing fees for its Minnesota customers  
31 through base rates.

1 Q. HOW MANY NORTH DAKOTA CUSTOMERS CURRENTLY PAY THEIR BILL  
2 THROUGH ELECTRONIC PAYMENT?

3 A. Currently, 41 percent of OTP's North Dakota customers use an electronic channel  
4 or IVR system to pay their electric bill. This represents 390,263 transactions  
5 annually by OTP's North Dakota customers, with an annual expense of \$153,797.  
6

7 Q. ARE THESE COSTS PART OF THE PROVISION OF UTILITY SERVICE?

8 A. Yes. Billing and collection costs are reasonably considered to be part of providing  
9 utility service. It is for this reason that OTP (and other utilities) have included the  
10 labor, software, banking fees, and equipment costs of non-electronic payments in  
11 the cost of service for many years.  
12

13 Q. IS IT REASONABLE TO DIFFERENTIATE COST RECOVERY BY THE TYPE OF  
14 PAYMENT CHANNEL?

15 A. No. As noted above, over 40 percent of North Dakota customers utilize electronic  
16 payment channels, yet they contribute to the payment of the costs of non-electronic  
17 payment processing through their base rates. Again, payment processing costs,  
18 whether they be for electronic or non-electronic payments are part of the cost of  
19 providing utility service and therefore should be recovered from customers. As a  
20 result, OTP proposes that it be permitted to recover electronic payment processing  
21 fees for its North Dakota customers as an O&M expense in the 2024 Test Year  
22 revenue requirement.  
23

24 Q. WHAT IS THE ALTERNATIVE TO RECOVERING ELECTRONIC PAYMENT  
25 PROCESSING FEES THROUGH BASE RATES?

26 A. If OTP is not able to recover electronic payment processing fees for its North  
27 Dakota customers through base rates, OTP could return to its former policy and  
28 require customers to pay electronic payment processing fees directly at the time of  
29 the transaction.<sup>8</sup> As noted above, however, this would essentially mean that these  
30 customers would be paying both for costs of non-electronic payments (because  
31 those costs are included in base rates), and also for the costs of their individual  
32 electronic payments (which would be directly paid by them).

---

<sup>8</sup> OTP is able to re-institute this policy because OTP's new electronic payment processor will be able to distinguish between OTP customers located in Minnesota, North Dakota, and South Dakota, which would allow OTP to re-institute its policy of requiring North Dakota customers to directly reimburse payment processing fees.

1 Q. DO OTHER NORTH DAKOTA ELECTRIC SERVICE PROVIDERS REQUIRE  
2 CUSTOMERS TO PAY ELECTRONIC PAYMENT PROCESSING FEES DIRECTLY  
3 AT THE TIME OF THE TRANSACTION?

4 A. No. OTP confirmed that rural electric cooperatives (1) Cass County Electric  
5 Cooperative, (2) Nodak Electric Cooperative, and (3) Capital Electric Cooperative  
6 do not require customers to pay electronic payment processing fees directly at the  
7 time of the transaction.  
8

9 Q. IS OTP'S PROPOSAL RESPONSIVE TO CUSTOMER EXPECTATIONS?

10 A. Yes. OTP learned through market research surveys of customers, and from other  
11 customer interactions that occurred before July 2022, that eliminating the credit  
12 card processing fee was consistently among the top items requested to improve the  
13 customer experience. Customers expressed significant frustration that they had to  
14 pay this processing fee for credit card payments to OTP when other businesses do  
15 not charge a similar fee. This proposal would provide customers with a similar  
16 paying experience to what they encounter while conducting other commerce in  
17 their daily lives.  
18

19 Q. WHAT IS THE 2024 TEST YEAR O&M EXPENSE FOR ELECTRONIC PAYMENT  
20 PROCESSING FEES?

21 A. OTP has included a test year expense of \$153,797 (OTP ND) for recovery of  
22 electronic payment processing fees (credit or debit card, ACH and home banking)  
23 in this rate case, which is based on customer usage rates from September 2022  
24 through August 2023. We have used this historic amount to forecast an amount  
25 for inclusion in the test year. Of this expense, \$113,698 (OTP ND) is for processing  
26 credit or debit cards.  
27

28 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

29 A. Yes, it does.

Mr. Christopher E. Byrnes  
Supervisor, Regulatory Analysis, Regulatory Economics  
Otter Tail Power Company  
215 South Cascade Street  
Fergus Falls, Minnesota, 56537  
218-739-8282

**CURRENT RESPONSIBILITIES (April 2023 to Present)**

Lead Regulatory’ s role in the preparation and analysis of annual jurisdictional and class cost of service studies that determine overall utility returns and price levels for actual and forecast test years. Lead Regulatory’ s analysis of jurisdictional cost recovery impacts of material load changes across our jurisdictions. Lead the development of the Forecasted Energy Adjustment Rider (EAR) filings in Minnesota and monitor potential changes to the market that may impact the FCA/EAR in each jurisdiction. Prepare the economic analysis related to the FCA/EAR and other miscellaneous tariff filings. Analyze issues, participate in strategy development, and provide oral and written testimony in cost recovery filings and general rate cases as appropriate. Monitor activities of state regulatory commissions and other utilities for issues that may impact Otter Tail Power Company.

**PREVIOUS POSITIONS:**

**Otter Tail Power Company**

2023-Present	Supervisor Regulatory Analysis, Regulatory Economics
2022-2023	Rates Analyst, Regulatory Economics

**Lake Region Electric Cooperative**

2018-2021	Operations Supervisor, Engineering and Operations
2010-2018	System Arborist, Engineering and Operations

**Army National Guard (Part Time)**

2005-2023	Engineer Officer, Various
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**Education/Certifications**

University of Maine- Orono, ME – B.S. in Forestry  
Southern New Hampshire University- Manchester, NH- M.S. in Data Analytics  
University of North Dakota-Grand Forks, ND- Graduate work in Applied Economics



## **Corporate Cost Allocation Manual**

**Last Update: ~~February 2017~~ September 2023**





## Corporate Cost Allocation Manual

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### **I. INTRODUCTION**

The corporate entity (“Corporate”) of Otter Tail Corporation provides services to the operating companies that comprise the Corporation. One of three things can occur with costs from Corporate services: 1) allocated to Otter Tail Power Company; 2) allocated to Varistar ~~Ine~~Corporation., or 3) not allocated and remain at Corporate. The purpose of this manual is to detail how costs are being allocated to Otter Tail Power Company.

Otter Tail Power Company (the largest operating company of Otter Tail Corporation) serves retail electric customers in three jurisdictions including Minnesota, North and South Dakota and is governed by the rules and regulations in each jurisdiction. As a regulated utility, Otter Tail Power is allowed to recover prudent and reasonable costs for services it receives from Corporate, and reflects the cost of these services in its revenue requirements for setting rates. Costs allocated from Corporate are based on allocation factors that are calculated annually. In Minnesota, a different allocation method for the general allocator has been ordered for regulated reporting; however, this change in percentage is adjusted by Otter Tail Power Company so all costs billed from Corporate are at the same rate, regardless of jurisdiction.

The services provided by Corporate include financial reporting, tax planning and reporting, treasury and cash management, financial planning, internal audit, human resource and labor expertise, benefit plans, corporate communications, safety and risk management, shareholder services and investor relations, aviation and executive management services (CEO, COO, CFO and General Counsel). These services are distinct from and do not duplicate similar services in Otter Tail Power Company. See Section V below for additional information of Corporate services. To support these services, there are specific corporate costs associated with administration and information technology (“IT”) that also need to be allocated.

The remainder of this document is devoted to explaining the services being provided and the methodology and allocation factors used to allocate Corporate service costs to Otter Tail Power Company.

### **II. METHODOLOGY**

Corporate identifies costs in three categories: 1) directly assignable costs, 2) indirect costs that are allocated on a department or functional allocation factor, and 3) general costs that are allocated using a general allocation factor.

Directly assignable costs are those costs where the purpose behind the costs can be attributed to a specific operating company. For example, consulting fees to help with a project related to an individual operating company would be directly assigned to that operating company.



## Corporate Cost Allocation Manual

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Indirect costs have an identifiable cost causation related to another activity or factor. For example, costs for an employee in the Risk Management department of Corporate to attend a seminar on safety would be allocated using a functional allocation factor such as number of employees.

General costs are those costs that cannot be directly assigned or where cost-causation cannot be identified. Examples would include postage, local telephone and communication service costs, time spent preparing the annual report and other SEC filings, preparing to meet with rating agencies, working with and tracking shareholder matters. These types of costs will be allocated on a general allocation factor discussed below.

Allocation factors are updated annually in February with the most recent calendar year's data. The updated allocation factors are then implemented and utilized for all Corporate Costs in February and remain unchanged for 12 months.

### **Methodology Changes:**

Should any adjustments be made to the allocation methodology prescribed herein, notice must be provided to the following employees:

Otter Tail Corporation VP of Accounting

Otter Tail Power Company VP, Regulatory Affairs

Otter Tail Power Company, VP, Finance and CFO

All parties must approve of the methodology change prior to its implementation.

“Methodology changes” should be broadly interpreted to ensure appropriate communication and approval of changes by the parties listed above.

## **III. ALLOCATION FACTORS**

### **Indirect Allocation Factors:**

- A. IT Factor: This factor is based on the previous year ending December 31 ratio of corporate labor assigned to Otter Tail Power where the numerator is the total Corporate labor (not including bonuses) assigned to Otter Tail Power and the denominator is the total of all Corporate labor (not including bonuses). See Appendix A.
- B. HR Factor: This factor is based on the average of the previous year ending December 31 ratio of employees, and the previous year ending December 31 ratio of benefit expenses. For the employee ratio the numerator is full-time employees in electric operations and the denominator is the total number of full-time employees for all of Otter Tail Corporation. For the benefit ratio, the numerator is total benefit costs (including benefit costs cleared through the payroll loading rate) from electric operations, and the denominator is consolidated benefit costs for all of Otter Tail Corporation (including



## Corporate Cost Allocation Manual

benefit costs cleared through the payroll loading rate). The specific consolidated corporate accounts that will be used to calculate this ratio (including Otter Tail Power benefit costs cleared through payroll loading) are accounts C5030, C5230, C6030, C6530, C7030. See Appendix A.

- C. RM Factor: This risk-management factor is the average of the previous year ending December 31 ratio of employees, and the current year ratio of insurance premiums paid. For the employee ratio the numerator is full-time employees in electric operations and the denominator is the total number of full-time employees for all of Otter Tail Corporation. For the insurance premium ratio, the numerator is the total premiums paid by Otter Tail Power and the denominator is the sum of insurance premiums paid by all operating companies. See Appendix A.
- D. Internal Audit Factor: This factor is based on the previous year ending December 31 ratio where the numerator is the total hours spent auditing electric operations and the denominator is the sum of hours auditing electric and non-electric operations. Non-electric operations do not include hours spent auditing Corporate-related matters. See Appendix A.

### General Allocation Factor:

This factor is based on a three-factor formula that is comprised of the average ratio of Total Assets, Total Revenues and Total Labor Dollars for the most recent calendar year. The specific consolidated corporate accounts that will be used to calculate the Total Labor Dollars ratio are C5010, C5020, C5030, C5210, C5220, C5230, C6010, C6015, C6020, C6030, C6510, C6520, C6530, C7010, C7020 and C7030. Appendix A shows the computation of this factor based on prior-year audited numbers and shows the source for the information to calculate each ratio.<sup>1</sup>

## IV. CLARIFICATION ON CERTAIN COSTS

There are certain costs that need to be discussed in further detail to gain an understanding of exactly how they are being allocated, or in some instances, not being allocated. This section will list each of these costs individually and provide background and instruction on how each is handled for allocation purposes.

- A. Labor: Employees at Corporate track their time on a daily basis. Percentages are used to track time between Corporate, Otter Tail Power Company, and Varistar activities. The time designated Otter Tail Power is directly assigned to the power company. The

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<sup>1</sup> The Minnesota Public Utilities Commission (PUC) has ordered in Otter Tail Power Company's ~~last~~-rate case (Docket No. E017/GR-07-1178), that the General Allocator calculation method must comply with the PUC's orders in Docket E,G999/CI-90-1008. That docket established a general allocator based on the ratio of regulated to unregulated expenses, excluding fuel, purchased power, and purchased cost of goods sold.



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percentage of time being recorded in the Corporate column is allocated based on the employee's position and will use one of the allocation factors discussed above in Section III.

- B. Bonuses and Benefits: Cash bonuses are allocated based on each employee's labor ratio from the previous year. An employee's labor ratio reflects both directly assigned and allocated labor. Bonuses are accrued and allocated during the current year, and a true-up is made in the following year after the exact bonus amount is determined and the employee's actual labor ratio from the previous year is available. Benefit costs are allocated on each employee's labor ratio from the most recent 30-day pay period.
- C. Contributions: The contributions made by Otter Tail Corporation are not allocated to Otter Tail Power. Each operating company makes its own contributions and those contributions made from a corporation perspective are typically not allocated.
- D. Employee Stock Purchase Plan and Deferred Compensation Expense: The costs associated with the Employee Stock Purchase Plan are allocated based on the ratio of Otter Tail Power employee stock purchases to the total of the most recent stock purchase and Deferred Director Compensation expense is allocated to Otter Tail Power based on the general allocator.
- E. Stock Option Expense: Under Accounting Standard Codification (ASC) Topic 718 companies are required to record the value of stock options over the period in which the options vest. These expenses are allocated to Otter Tail Power based on the number of options granted to employees in this company. No stock options were granted in ~~2016~~ 2022 and none are expected to be granted to employees in ~~2017~~2023.
- F. Restricted Stock and Restricted Stock Units: Under ASC Topic 718 companies are required to record the value of restricted stock and restricted stock units over the period in which the shares vest. Restricted stock and restricted stock unit expense on shares granted to Otter Tail Power employees are directly assigned to Otter Tail Power. The portion of restricted stock or restricted stock units granted to Corporate employees and the Board of Directors is allocated to Otter Tail Power Company based on the general allocator.
- G. Executive Stock Performance Award Plan: Under ASC Topic 718 companies are required to record the value of total shareholder return (TSR) portion of incentive stock award, awarded based on the ~~performance of the company's stock price, over the time period used to evaluate performance~~ grant date fair value of the targeted TSR awards and to record the return on equity (ROE) portion of the award based on the grant date fair value of the ROE portion of the award over the grantee's requisite service period. However, the ROE portion of the award must be adjusted for the actual number of shares earned through the end of performance measurement period. Otter Tail Corporation provides incentive stock to the corporate officers as part of their overall compensation



## Corporate Cost Allocation Manual

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package. The costs associated with this plan are allocated based on the prior year time allocations for each executive. In addition, when performance shares are awarded to Otter Tail Power's president the cost related to his award is directly assigned to Otter Tail Power.

- H. Bank Charges: Corporate serves as the "Bank" for operating companies and therefore incurs the various fees associated with the accounts maintained by the operating companies. Otter Tail Power is directly charged for its respective fees and the fees associated with Corporate's accounts are allocated using the General Allocation Factor.
- I. External Audit Fees: Otter Tail Corporation currently retains an independent registered public accounting firm to audit its financial reports and records. Each year this firm provides to Otter Tail Corporation the number of hours it has assigned to audit electric, non-electric and corporate operations which are used in determining their Client Service Plan and fees for the year. a Client Service Plan that outlines the number of hours it has assigned to audit electric and non-electric operations. Fees from the firm are allocated based on the ratio of assigned hours for electric versus total audit hours on consolidated operations. The hours assigned to corporate are allocated using the general allocator.
- J. Meetings: Costs associated with periodic meetings that involve personnel from across the operating companies such as leadership meetings, quarterly accounting and HR meetings are not allocated.
- K. Training and Development: Costs associated with training and development are direct charged where possible but otherwise allocated using the appropriate indirect allocator or the general allocator.
- L. Travel and meals: With the exception of travel-related expense related to operations of Otter Tail Power's jointly owned generation plants or if corporate ~~employees~~ are employees are working specifically for Otter Tail Power, corporate travel expense is not allocated.
- M. Aviation Services: Corporate provides air service for the operating companies of Otter Tail Corporation. There is one aircraft available for use which is the King Air. The King Air is- owned by Otter Tail Power Company. To help recover the variable costs associated with flying this aircraft, corporate charges hourly rates which are reviewed periodically.<sup>2</sup> (See Appendix B for hourly rates)

Because the King Air is owned by Otter Tail Power, at the end of each quarter the costs associated with the King Air that have not been recovered through the hourly rate are charged to Otter Tail Power. For example, the costs not cleared for the quarter total

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<sup>2</sup> The aviation charge rates may be changed during the year to reflect changes in variable costs (i.e., aviation fuel).



## Corporate Cost Allocation Manual

\$9,000. Otter Tail Power has recorded depreciation expense for the quarter of \$1,000 which is added to the \$9,000 of un-cleared costs for a total of \$10,000. The \$10,000 is multiplied by the non-utility usage factor (the percentage of hours flown for operating companies other than Otter Tail Power) and for our example we'll say it's 52%. Otter Tail Power will then be charged \$3,800 (\$9,000 less \$5,200 (\$10,000 x 52%)) to reflect the utility-portion of costs not cleared on the King Air.

### **V. DESCRIPTION AND ALLOCATION OF SERVICES PROVIDED**

Further detail is discussed below on the services provided by Corporate. Each service shown below is directly related to an individual cost center at Corporate. For each service a description is provided along with the primary allocation factor that is used to allocate associated costs. Again, costs that can be directly assigned to the various operating companies are directly assigned. Indirect costs are allocated using one of the factors discussed in Section III.

#### **Corporate Overheads**

Description: Represents charges for bank charges, building lease and depreciation expense.

Allocation Factor: All costs not directly assigned are allocated on the General Allocation Factor.

#### **A. Executive Management Services**

Description: Represents charges for Otter Tail Corporation's executive management team and Contributions.

Allocation Factor: Contributions are not allocated and all other costs not directly assigned are allocated on the General Allocation Factor including labor classified as Corporate.

#### **B. Board of Directors**

Description: Represents charges for board of director fees, restricted stock, travel and other expenses associated with attending Board meetings or related to being a board member.

Allocation Factor: Fees and restricted stock expense are allocated on the General Allocation Factor. Otter Tail Power is not allocated any costs associated with travel related expenses.

#### **~~C. Corporate Development~~**





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~~Description: Represents charges for the Corporate Development staff that are responsible for identifying and researching acquisition candidates, due diligence on acquisition targets, and integrating recently acquired companies into Otter Tail Corporation.~~

~~Allocation Factor: All costs are currently being directly assigned to Varistar Corporation but if Otter Tail Power uses these services for an acquisition, the associated costs would be directly billed to Otter Tail Power.~~

### ~~**D.C.**~~ **Platform Leadership**

Description: Represents charges for the Platform Leaders and their staff that have oversight responsibilities with the non-electric operating companies.

Allocation Factor: All costs are currently being directly assigned to Varistar Corporation ~~with the exception of the Administrative Assistant position assigned to this department.~~ Since that role not only provides services to the Platform Leadership but to other corporate functions, her time is allocated between Varistar and Otter Tail Power by being directly assigned as appropriate or by the Corporate Allocation Factor.:

### ~~**E.D.**~~ **Administrative Services**

Description: Represents charges for providing administrative support to all the other services, office supplies and office equipment leases.

Allocation Factor: All costs not directly assigned are allocated on the General Allocation Factor including labor classified as Corporate.

### ~~**F.E.**~~ **Information Technology**

Description: Represents charges for supporting corporate computers, networks, land-based phones and T1 lines, internet, software and other various pieces of hardware. In addition, consulting services are provided as requested to the various operating companies.

Allocation Factor: License and maintenance fees comprise a large portion of the non-labor costs. As much as possible, these costs are directly assigned based on the number of user licenses utilizing the software by each operating company. All costs not directly assigned are allocated on the IT Factor including labor classified as Corporate. The corporate VP of Information Technology is a shared position with Otter Tail Power Company. The specific costs for this position are directly assigned to Otter Tail Power as appropriate.

### ~~**G.F.**~~ **Corporate Accounting**



## Corporate Cost Allocation Manual

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Description: Represents charges for maintaining financial records, statements and systems, SEC filings, tax accounting and filings, cash management and consulting with various operating companies on an as-needed basis.

Allocation Factor: External audit fees are allocated as discussed in Section IV. Costs not directly assigned are allocated on the General Allocation Factor including labor classified as Corporate.

### **H.G. Internal Audit**

Description: Represents charges for reviewing internal controls and conducting operation audits at the various companies within Otter Tail Corporation.

Allocation Factor: Costs not directly assigned are allocated on the Internal Audit Factor including labor classified as Corporate.

### **I.H. Financial Planning**

Description: Represents charges for supporting financial analysis and budgeting at the operating company and corporate level.

Allocation Factor: Costs not directly assigned are allocated on the General Allocation Factor including labor classified as Corporate.

### **J.I. Treasury**

Description: Represents charges for communicating with both debt and equity analysts, maintaining Otter Tail Corporation's capital structure, monitoring and accessing capital markets and other services as identified by the Chief Financial Officer.

Allocation Factor: Costs not directly assigned are allocated on the General Allocation Factor including labor classified as Corporate.

### **K.J. Corporate Communications**

Description: Represents charges for corporate communications including, but not limited to, brand strategy and corporate narrative, advertising, press releases, annual report and related annual meeting production, and enterprise news distribution. ~~press releases, advertising and branding and annual report preparation. Another service provided is coordinating and tracking contributions made on behalf of Corporate.~~

Allocation Factor: Costs not directly assigned are allocated on the General Allocation Factor including labor classified as Corporate.





### **L.K. Shareholder Services**

Description: Represents charges for maintaining shareholder records, communicating with investors at various fairs, coordinating transfer agents and planning the annual shareholder meeting.

Allocation Factor: Costs not directly assigned are allocated on the General Allocation Factor including labor classified as Corporate.

### **M.L. Human Resources/Leadership Development**

Description: Represents charges for establishing and maintaining policies related to employment and benefits of corporate employees and executive compensation, searches for candidates for upper-level management positions on behalf of operating companies, organizing and facilitating leadership training, organizing and aiding in the administration of company benefit programs.

Allocation Factor: Costs not directly assigned are allocated on the HR Factor including labor classified as Corporate. In case of leadership and employee development training, costs are allocated based on employees in attendance at training sessions, if possible and otherwise allocated using the HR allocator.

### **N.M. Legal Affairs**

Description: Represents charges for legal services related to employment law, litigation, contracts, rates and regulation, environmental matters, real estate and other various legal matters.

Allocation Factor: Most costs associated with legal services are directly assigned but if costs cannot be directly charged, the general allocator is used. Typically, labor costs for all corporate lawyers other than the General Counsel are generally assigned to the Varistar companies as Otter Tail Power employs their own attorneys, however, there are times when corporate lawyers perform work for Otter Tail Power which would be assigned as such.

### **O.N. Risk Management**

Description: Represents charges for assisting operating companies with assessment and management of risks, identifying and implementing loss control strategies to minimize the frequency and financial consequences of accidental losses, assisting operating companies in post loss claim management, overseeing Otter Tail Corporation's consolidated insurance program, and identifying and documenting the environmental conditions during the process of acquiring a new company.



## Corporate Cost Allocation Manual

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Allocation Factor: Costs not directly assigned are allocated on the RM Factor including labor classified as Corporate.

### VI. CONCLUSION

As circumstances arise, such as adding a new service that will be provided by Corporate, appropriate changes will be made to the manual. Appendix A will be updated annually in February when the prior-year audited records are available and Appendix B will be updated as Aviation Rates are changed.



## **Forecast Corporate Cost Allocation Procedures**

**Updated: October ~~2017~~2023**



## Forecast Corporate Cost Allocation Procedures

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### **I. INTRODUCTION**

The corporate entity (“Corporate”) of Otter Tail Corporation provides services to the operating companies that comprise the Corporation. One of three things can occur with costs from Corporate services: 1) allocated to Otter Tail Power Company (“OTP”); 2) allocated to Varistar ~~Ine~~Corporation., or 3) not allocated and remain at Corporate. The procedures laid out in this document detail how budgeted/forecasted costs are being allocated to Otter Tail Power Company.

Corporate prepares a budget for the following year during the fourth quarter. For example, the ~~2018-2023~~ budget is prepared in the fall of ~~2017~~2022. During the budget year (~~2018~~2023), three additional forecasts are made for ~~2018~~2023. The first is in April and covers the remainder of the year and the following year. The second is in July and covers only the remaining months of the current year. The third is in October and forecasts the remaining three months of the current year along with the five-year budget.

Otter Tail Power desires to file any future rate case on a forward-looking test year if the jurisdiction allows this methodology. In order for interim rates to go into effect on January 1, the rate case must be filed on or before November 1. Therefore, it is the updated forecast Otter Tail Power receives from Corporate in April for allocated costs which will most likely be used in the forward-looking test year.

The remainder of this document discusses the methodology and allocation factors used to allocate forecasted corporate service costs to Otter Tail Power Company.

### **II. LABOR AND BENEFIT ALLOCATION**

Corporate identifies costs in three categories: 1) directly assignable costs, 2) indirect costs that are allocated on a department or functional allocation factor, and 3) general costs that are allocated using a general allocation factor.

Directly assignable costs are those costs where the purpose behind the costs can be attributed to a specific operating company. If there is a forecasted cost which is specifically for OTP, then it will be directly assigned in the forecast/budget. For example, any legal fees associated with a project or function identified as strictly for the benefit or need of OTP.

Labor and benefit costs make up 60-65% of Corporate’s overall budget or total expenses. ~~Labor and benefit costs are allocated using the same allocation factors as defined in the Corporate Cost Allocation Manual. Corporate employees track their time each pay period and based on how their time is distributed between operating companies, labor and benefit costs are allocated accordingly. For budget/forecast purposes, each employees’ time~~



## Forecast Corporate Cost Allocation Procedures

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~~allocation over the previous 12 months is used to allocate their respective salary and benefit costs.~~

### III. NON-LABOR O&M ALLOCATION

Non-labor O&M in the budget/forecast is allocated using the same allocation factors as defined in the Corporate Cost Allocation Manual (“Manual”). As defined in the Manual, the allocations factors for the current year are based on actual results from the prior year. Since the budget is prepared before actual results are available, the allocation factors for the following year are estimated using the nine months of actual data and three months of forecasted data. The estimates produced have been very comparable to the final allocation factors once the actual results for the year are available. For the forecasts created in April, July and October actual allocation factors from Exhibit A of the Manual are used.

The five allocation factors developed are as follows:

- General Allocator
- IT Allocator
- HR Allocator
- RM Allocator
- Internal Audit Allocator

The rest of this section discusses each service or function/department comprising Corporate and what allocator is used to allocate their respective non-labor O&M costs.

- A. Corporate: This department houses all the costs like depreciation expense, rent expense, CAM charges for maintaining and cleaning the space Corporate rents, and costs associated with the Employee Stock Purchase Plan (“ESPP”). In addition, incentive compensation for all Corporate employees is accrued in the department. The allocation of incentive compensation follows how each Corporate employees’ labor is allocated. The factor used to allocate costs other than incentive compensation and ESPP is the **General Allocator**.
- B. Officers: This department is for all the costs associated with the Officers of Otter Tail Corporation along with Contributions and Long-Term Stock Incentive Compensation costs. The allocation procedures for these two costs are discussed in more detail below. Because of the varying nature of costs recorded in this department, the procedure is to directly assign as many of the budgeted/forecasted costs as possible. All other costs not directly assigned are allocated using the **General Allocator**.



Forecast Corporate Cost Allocation Procedures

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- C. Board of Directors: This department tracks costs for board of director fees, restricted stock, travel and other expenses associated with attending Board meetings or related to being a board member. The factor used to allocate costs is the **General Allocator**.
- D. ~~Corporate Development and Platform Leadership~~: ~~These two departments deal~~ This department deals with non-regulated companies or those companies who roll up under Varistar. No costs from ~~these two departments~~ this department are charged to OTP except for a small portion of labor and benefit costs associated with an executive assistant who supports the CEO.
- E. Administrative: This department is for all costs associated with running and maintaining the office. Costs like postage, office supplies, rent expense for copying machines and printers and other office-related costs. The factor used to allocate these costs is the **General Allocator**.
- F. IT: This department tracks all the costs associated with maintaining all the related IT costs like network maintenance, computer supplies, IT support, and other IT-related costs. The factor used to allocate these costs is the **IT Allocator**.
- G. External Reporting and Tax: This department is responsible for both internal and external reporting of the consolidated financial results of the Corporation. This includes SEC reporting for the 10Q and 10K, management reporting, accounting for all the transactions at Corporate, and maintaining the allocation manual and methodologies. In addition, all federal and state income taxes are prepared by this group. The factor used to allocate these costs, (except for external audit fees discussed below), is the **General Allocator**.
- H. Internal Audit: This department incurs costs associated with performing strategic, financial, compliance and consulting projects in partnership with Otter Tail's operating companies. The factor used to allocate these costs is the **Internal Audit Allocator**.
- I. ~~Financial Planning~~ Finance: This department is responsible for coordinating and consolidating the financial forecasts for each of the operating companies. It also performs valuation and goodwill testing on those companies having goodwill, maintaining the software used for budgeting and consolidation purposes, monthly operating reviews with each operating companies and any financial analysis as requested by the Chief Financial Officer. ~~The factor used to allocate these costs is the~~ **General Allocator**.
- Treasury: This department is also responsible for all the daily cash management activities, monitoring and accessing equity and debt markets, maintaining the Corporation's capital structure, lease agreements, and Chairing the Investment



## Forecast Corporate Cost Allocation Procedures

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Committee responsible for overseeing the pension plan. The factor used to allocate these costs (other than Rating Agency fees discussed below) is the **General Allocator**.

- J. Corporate Communications: This department is responsible for communicating the Corporation's strategic plan inside and outside Otter Tail Corporation, shaping, managing and protecting the Corporation's brand, and acting as a spokesperson in relations with media and the public. The factor used to allocate these costs is the **General Allocator**.
- K. Shareholder Services: This department is responsible for all costs and services performed on behalf of shareholders, SEC filings on behalf of Corporate Officers, and investor relations. The factor used to allocate these costs is the **General Allocator**.
- L. HR and Leadership Development: These two departments are responsible for all HR and benefit-related matters, payroll, maintaining our UltiPro software, consulting with the HR departments at each operating company, and developing the leadership skills of all employees across the corporation. The factor used to allocate these costs (~~except for various costs discussed below~~) is the **HR Allocator**.
- M. Legal: This department is responsible for all legal matters regarding the Corporation and the operating companies. Any legal matter directly attributable to one of the operating companies is billed directly to the operating company and does not impact Corporate's budget/forecast. All Corporate-related legal matters are allocated using the **General Allocator**.
- N. Risk Management: This department manages the insurance program for all Otter Tail Corporation companies. This includes the commercial lines for property, excess GL, Worker Comp, and Auto, D&O, and several other commercial lines. It also manages the captive insurance program for casualty insurance. The factor used to allocate these costs is the **RM Allocator**. Finally, this department also manages the Aviation program for the corporation. This is discussed in more detail below.

## IV. CLARIFICATION ON CERTAIN COSTS

There are certain costs that need to be discussed in further detail to gain an understanding of exactly how they are being allocated, or in some instances, not being allocated. This section will list each of these costs individually and provide background and instruction on how each is handled for allocation purposes used in developing the forecast.

- A. ~~Employee Stock Purchase Plan: The costs associated with this Plan are allocated based on the ratio of Otter Tail Power Company employees stock purchased under the Plan divided by the total stock purchased.~~





Forecast Corporate Cost Allocation Procedures

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B.A. External Audit Fees: Otter Tail Corporation currently retains an independent registered public accounting firm to audit its financial reports and records. Each year this firm provides to Otter Tail Corporation a Client Service Plan that outlines the number of hours it has assigned to audit electric and non-electric operations. Forecasted Fees from the firm are allocated based on the ratio of assigned hours for Otter Tail Power Company versus total audit hours on consolidated operations. The hours assigned to corporate are allocated using the **General Allocator**.

C.B. Rating Agency Fees: These ~~fees are allocated based on Otter Tail Power Company's share of long-term debt, fees will be direct assigned where applicable. Otherwise, fees for rating on long term debt are allocated based on Otter Tail Power Company's share of long term debt relative to consolidated long term debt. Fees for ratings on the lines of credit are allocated based on Otter Tail Power Company's credit facility amount relative to the consolidated credit facility amount.~~

D.C. Restricted Stock and Restricted Stock Units: Under ASC Topic 718, *Compensation—Stock Compensation* companies are required to record the value of restricted stock and restricted stock units over the period in which the shares vest. Restricted stock and restricted stock unit expense on shares granted to Otter Tail Power employees are directly assigned to Otter Tail Power. The portion of restricted stock or restricted stock units granted to Corporate employees and the Board of Directors is allocated to Otter Tail Power Company based on the **General Allocator**.

E.D. Executive Stock Incentive Plan: Under ASC Topic 718, *Compensation—Stock Compensation* companies are required to record the value of incentive stock awarded based on the performance of the company's stock price and ROE over the time period used to evaluate performance. Otter Tail Corporation provides incentive stock to the corporate officers as part of their overall compensation package. The costs associated with this plan are allocated using same allocation factors as defined in the Corporate Cost Allocation Manual ~~based on the prior year time allocations for each executive~~. In addition, when performance shares are awarded to Otter Tail Power's president the cost related to his award is directly assigned to Otter Tail Power.

F.E. Bank Charges: Corporate serves as the "Bank" for operating companies and therefore incurs the various fees associated with the accounts maintained by the operating companies. Otter Tail Power is directly charged for its respective fees and the fees associated with Corporate's accounts are allocated using the General Allocation Factor.

G.F. Contributions: The contributions made by Otter Tail Corporation are not allocated to Otter Tail Power. Each operating company makes its own contributions and those contributions made from a corporation perspective are typically not allocated.



## Forecast Corporate Cost Allocation Procedures

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~~H.G.~~ Meetings: Costs associated with periodic meetings that involve personnel from across the operating companies such as leadership meetings, quarterly accounting and HR meetings are not allocated.

~~I.H.~~ Travel and meals: ~~Costs associated with~~ ~~With the exception of~~ travel-related ~~expense related to operations of Otter Tail Power's jointly owned generation plants and travel that can be direct assigned, travel expenses~~ is/are not allocated.

~~J.~~ Leadership Development: ~~These costs are allocated based on Otter Tail Power Company employees in attendance in training sessions divided by the total number of employees attending. Budgeted/Forecasted costs will be allocated based on the actual allocation incurred over the most recent 12-month period.~~

~~K.I.~~ Aviation Services: Corporate provides air service for the operating companies of Otter Tail Corporation. There is one aircraft available for use which is the King Air. The King Air is owned by Otter Tail Power Company. To help recover the variable costs associated with flying this aircraft, corporate charges an hourly rate of ~~\$750~~ \$850 which is reviewed periodically.<sup>1</sup>

Because the King Air is owned by Otter Tail Power, at the end of each quarter the costs associated with the King Air that have not been recovered through the hourly rate are charged to Otter Tail Power. For example, the costs not cleared for the quarter total \$9,000. Otter Tail Power has recorded depreciation expense for the quarter of \$1,000 which is added to the \$9,000 of un-cleared costs for a total of \$10,000. The \$10,000 is multiplied by the non-utility usage factor (the percentage of hours flown for operating companies other than Otter Tail Power) and for our example we'll say it's 52%. Otter Tail Power will then be charged \$3,800 (\$9,000 less \$5,200 (\$10,000 x 52%)) to reflect the utility-portion of costs not cleared on the King Air.

## VI. CONCLUSION

There is a one-month delay in Corporate costs being billed to Otter Tail Power Company. So for example, January's costs for Corporate are billed to OTP and recorded in February. Therefore, the credit to account 7999 in Corporate's ledger for February reflects the Otter Tail Power Company allocated costs from January.

Corporate and Otter Tail Power Company share common costs like pension expense, post-retirement and post-employment. Coordination takes place each forecast to make sure both entities are reflecting their share of the same total for each of these costs.

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<sup>1</sup> The aviation charge rates may be changed during the year to reflect changes in variable costs (i.e., aviation fuel).



#### Forecast Corporate Cost Allocation Procedures

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Finally, any updates to the Allocation Manual are reviewed quarterly by Financial Planning and the procedures used to allocate budgeted/forecasted costs will try and reflect to the extent possible any changes in allocation methodology.

Legislative Versions of

Interim Tarriff Sheet ND 13.01 - Energy Adjustment Rider by Service Category

Proposed Tariff Sheet ND 13.01 - Energy Adjustment Rider by Service Category



Fergus Falls, Minnesota

## ENERGY ADJUSTMENT RIDER BY SERVICE CATEGORY

**ENERGY ADJUSTMENT CHARGE:** There shall be added to the monthly bill an Energy Adjustment Charge calculated by multiplying the customers applicable monthly billing kilowatt hours (kWh) by the customers applicable billed Energy Adjustment Factor (EAF) per kWh. The billed EAF amount per kilowatt-hour (rounded to the nearest 0.001¢) will be the average monthly cost of Energy per kilowatt-hour as determined for that customers service category. The average cost of Energy per kilowatt-hour for the current period shall be calculated from data covering actual costs from the most recent four-month period as follows:

Energy costs from actual months 1, 2, 3, and 4 plus unrecovered (or less over recovered) prior cumulative Energy costs divided by retail sales for actual months 1, 2, 3, and 4 equals the cost of Energy adjustment for month 6.

**ENERGY ADJUSTMENT FACTOR (EAF):** A separate EAF will be determined for each Customer service category defined by Customer class. The EAF for each service category is the sum of the Current Period Average Cost of Energy and applicable monthly true-up, multiplied by the applicable EAF Ratio. The applicable EAF for each calendar month will be applied to that calendar month's daily pro-ration of Energy usage included on the bill.

Service Category	Section	EAF Ratio
Residential	9.01, 9.02,	1.025
Farm	9.03	0.969
General Service	10.01, 10.02, 10.03	1.016
Large General Service	10.04, 10.05, 10.06, 11.01, 14.13	0.967
Irrigation Service	11.02	0.937
Outdoor Lighting	11.03, 11.04, 11.07	0.784
OPA	11.05	1.011
Controlled Service - Water Heating	14.01	1.035
Controlled Service - Interruptible	14.04, 14.05, 14.12	1.037
Controlled Service - Deferred	14.06, 14.07	0.963

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The average cost of Energy shall be determined as follows:

1. The cost of fossil fuel, as recorded in Account 151, used in the Company's generating plants, and the costs of reagents and emission allowances for the Company to operate its generating plants in compliance with the associated Federal Environmental

NORTH DAKOTA PUBLIC  
SERVICE COMMISSION  
Case No. PU-23-027

Approved by order dated April 12, 2023

EFFECTIVE with bills rendered on  
and after May 1, 2023, in North Dakota

APPROVED: Bruce G. Gerhardson  
Vice President, Regulatory Affairs



Fergus Falls, Minnesota

Protection Agency rules and regulations. Energy from the Company's hydro generating plants shall be included at zero cost.

2. The Energy cost of purchased power included in Account 555 when such Energy is purchased on an economic dispatch basis, exclusive of Capacity or Demand charges. This includes but is not limited to net costs linked to the utility's load serving obligation, associated with participation in wholesale electric Energy markets operated by Regional Transmission Organizations, Independent System Operators or similar entities that have received Federal Energy Regulatory Commission approval to operate the Energy markets. All ~~Midwest~~<sup>Midcontinent</sup> Independent System Operator ("MISO") Energy and Ancillary service market charges and credits relating to retail sales and asset based sales, specifically including (but not limited to) Schedule 16 and 17 charges and credits shall be included in the calculation. C
3. The actual identifiable fossil and nuclear fuel costs associated with Energy purchased for reasons other than identified in 2 above.
4. The net Energy cost of Energy purchases from a renewable Energy source, including hydropower, wood, windpower, and biomass.
5. Less the fuel-related costs recovered through intersystem sales.
6. The Energy cost of avoided purchased power resulting from Hoot Lake Solar output.
7. Known MISO Planning Resource Auction capacity costs will be added to the energy adjustment rider or revenues will be credited (flow through) the energy adjustment rider. ~~N~~  
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8. All revenues and associated costs attributable to Asset-based Sales Margins, as defined below and in the amount calculated as described below, shall be ~~reflected as a credit~~ to included in the Energy adjustment calculation described in this schedule 1-6, above. C  
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 Vice President, Regulatory Affairs



Fergus Falls, Minnesota

North Dakota, Section 13.01  
 ELECTRIC RATE SCHEDULE  
 Energy Adjustment Rider by Service Category  
 Page 3 of 3  
Second Revision~~First~~

**Asset-based Sales Margins:**

Asset-based Sales Margins are defined as wholesale Energy and ancillary services sales revenues from Company-owned generation resources less the sum of fuel, Energy costs (including costs associated with MISO markets that are recorded in FERC Account 555), and any additional transmission or other costs incurred that are required to make such sales (referred to as “margins”). One hundred percent of these actual revenues and costs shall be included in the energy adjustment rider as they are incurred.

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~~The amount of the Asset-based Sales Margin credit shall be determined as described below:~~

~~LD~~

~~**Credit calculation:** The credit shall be eighty-five percent (85%) of Asset-based Sales Margins. The Asset-based Sales Margin credit shall be calculated monthly based on a forecast of the margins expected for that month and a true-up shall be made to adjust prior forecasted credits to reflect eighty-five percent (85%) of the actual margins earned in prior months. The true-up adjustments shall be made as soon as reasonably practical after the receipt of actual results and shall reflect MISO and other resettlements that would have impacted prior credits.~~

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Case No. PU-23-~~027~~

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 Gerhardson

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Vice President, Regulatory Affairs





Fergus Falls, Minnesota

## ENERGY ADJUSTMENT RIDER BY SERVICE CATEGORY

(Identified on the bill as Fuel & Purchase Power)

**ENERGY ADJUSTMENT CHARGE:** There shall be added to the monthly bill an Energy Adjustment Charge calculated by multiplying the customers applicable monthly billing ~~k~~Kilowatt hours (kWh) by the customers applicable billed Energy Adjustment Factor (EAF) per kWh. -The billed EAF amount per ~~k~~Kilowatt-hour (rounded to the nearest 0.001¢) will be the average monthly cost of Energy per ~~k~~Kilowatt-hour as determined for that customers service category. The average cost of Energy per ~~k~~Kilowatt-hour for the current period shall be calculated from data covering actual costs from the most recent four-month period as follows:

Energy costs from actual months 1, 2, 3, and 4 plus unrecovered (or less over recovered) prior cumulative Energy costs divided by retail sales for actual months 1, 2, 3, and 4 equals the cost of Energy adjustment for month 6.

**ENERGY ADJUSTMENT FACTOR (EAF):** A separate EAF will be determined for each Customer service category defined by Customer class. The EAF for each service category is the sum of the Current Period Average Cost of Energy and applicable monthly true-up, multiplied by the applicable EAF Ratio. The applicable EAF for each calendar month will be applied to that calendar month's daily pro-ration of Energy usage included on the bill.

Service Category	Section	EAF Ratio
Residential	9.01, 9.02,	1.025
Farm	9.03	0.969
General Service	10.01, 10.02, 10.03	1.016
Large General Service	10.04, 10.05, 10.06, 11.01, 14.13	0.967
Irrigation Service	11.02	0.937
Outdoor Lighting	11.03, 11.04, 11.07	0.784
OPA	11.05	1.011
Controlled Service <del>Deferred Load-</del> <del>Water Heating</del>	14.01	1.035
Controlled Service Interruptible	14.04, <del>14.05</del> , 14.12	1.037
Controlled Service <del>Off Peak-</del> <del>Deferred</del>	14.06, 14.07	0.963

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Vice President, Regulatory Affairs



Fergus Falls, Minnesota

The average cost of Energy shall be determined as follows:

1. The cost of fossil fuel, as recorded in Account 151, used in the Company's generating plants, and the costs of reagents and emission allowances for the Company to operate its generating plants in compliance with the associated Federal Environmental Protection Agency rules and regulations. Energy from the Company's hydro generating plants shall be included at zero cost. L
2. The Energy cost of purchased power included in Account 555 when such Energy is purchased on an economic dispatch basis, exclusive of Capacity or Demand charges. This includes but is not limited to net costs linked to the utility's load serving obligation, associated with participation in wholesale electric Energy markets operated by Regional Transmission Organizations, Independent System Operators or similar entities that have received Federal Energy Regulatory Commission approval to operate the Energy markets. All ~~Midwest~~<sup>Midcontinent</sup> Independent System Operator ("MISO") Energy and Ancillary service market charges and credits relating to retail sales and asset based sales, specifically including (but not limited to) Schedule 16 and 17 charges and credits shall be included in the calculation. L  
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3. The actual identifiable fossil and nuclear fuel costs associated with Energy purchased for reasons other than identified in 2 above.
4. The net Energy cost of Energy purchases from a renewable Energy source, including hydropower, wood, windpower, and biomass.
5. Less the fuel-related costs recovered through intersystem sales.
6. The Energy cost of avoided purchased power resulting from Hoot Lake Solar output.
7. Known MISO Planning Resource Auction capacity costs will be added to the energy adjustment rider or revenues will be credited (flow through) the energy adjustment rider. N  
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8. All revenues and associated costs attributable to Asset-based Sales Margins, as defined below and in the amount calculated as described below, shall be reflected as a credit ~~to~~ included in the Energy adjustment calculation described in this schedule ~~1-6, above.~~ C  
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Fergus Falls, Minnesota

**Asset-based Sales Margins:**

Asset-based Sales Margins are defined as wholesale Energy and ancillary services sales revenues from Company-owned generation resources less the sum of fuel, Energy costs (including costs associated with MISO markets that are recorded in FERC Account 555), and any additional transmission or other costs incurred that are required to make such sales (referred to as “margins”). One hundred percent of these actual revenues and costs shall be included in the energy adjustment rider as they are incurred.

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~~The amount of the Asset-based Sales Margin credit shall be determined as described below:~~

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~~**Credit calculation:** The credit shall be eighty-five percent (85%) of Asset-based Sales Margins. The Asset-based Sales Margin credit shall be calculated monthly based on a forecast of the margins expected for that month and a true-up shall be made to adjust prior forecasted credits to reflect eighty-five percent (85%) of the actual margins earned in prior months. The true-up adjustments shall be made as soon as reasonably practical after the receipt of actual results and shall reflect MISO and other resettlements that would have impacted prior credits.9. The costs of fuel and reagents resulting from steam and water sales and the revenues from steam and water sales shall be included in the energy adjustment rider.~~

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**MANDATORY AND VOLUNTARY RIDERS:** The amount of a bill for service will be modified by any Mandatory Rate Riders that must apply or Voluntary Rate Riders selected by the Customer, unless otherwise noted in this rate schedule. See Sections 12.00, 13.00 and 14.00 of the North Dakota electric rates for the matrices of riders.

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Otter Tail Power Company

POET Steam and Water Sales Revenues and Expenses

2020-2022 Actuals

Line No.	Revenue	2020	2021	2022
1	BSP Total Plant	\$ (1,497,988)	\$ (1,638,146)	\$ (3,645,657)
2	OTP Share	\$ (772,885)	\$ (848,514)	\$ (1,930,661)
3	ND Share - Allocator = NEPIS	\$ (257,265)	\$ (274,158)	\$ (681,091)
4				
5	<b>Fuel Expense</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
6	BSP Total Plant	\$ 357,737	\$ 408,464	\$ 1,202,309
7	OTP Share	\$ 192,868	\$ 220,246	\$ 648,158
8	ND Share - Allocator = Blended E1/D1	\$ 67,579	\$ 76,144	\$ 256,001
9				
10	Net OTP Share (Line 2 + Line 7)	\$ (580,017)	\$ (628,268)	\$ (1,282,503)
11	ND Share (Line 3 + Line 8)	\$ (189,686)	\$ (198,014)	\$ (425,090)