

Volume 2B

Direct Testimony and Supporting Schedules:

Peter E. Wasberg

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\_\_\_\_\_

**EMPLOYEE COMPENSATION AND BENEFITS**

Direct Testimony and Schedules of

**PETER E. WASBERG**

**PUBLIC DOCUMENT –**

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

November 2, 2023

## **TABLE OF CONTENTS**

I.	INTRODUCTION AND QUALIFICATIONS .....	1
II.	PURPOSE AND OVERVIEW OF DIRECT TESTIMONY .....	1
III.	OVERVIEW OF OTP’S WORKFORCE AND COMPENSATION PLAN .....	2
IV.	OTP COMPENSATION LEVELS AND THE COMPETITIVE MARKET .....	8
V.	EMPLOYEE BENEFITS .....	10
A.	Medical and Dental.....	11
B.	Retirement Savings and Pension.....	13
C.	Other Post Retirement Employee Benefits .....	15
D.	Management of Pension and OPEB Costs .....	15
VI.	2024 TEST YEAR EMPLOYEE COMPENSATION COSTS .....	18
A.	Wages and Salaries .....	18
B.	Annual Incentives.....	20
C.	Medical, Dental, 401(k) and Other Benefits Expenses.....	24
1.	Active Medical and Dental .....	24
2.	401(k) .....	24
3.	Postemployment (LTD) Medical Benefit Plan Costs for ERPP and ESSRP .....	24
VII.	CONCLUSION .....	26

## **ATTACHED SCHEDULES**

Schedule 1 – Wasberg Statement of Qualifications

Schedule 2 – Mercer 2022 Compensation Competitiveness Study – NOT PUBLIC

Schedule 3 – Mercer 2022 Executive Benchmarking – NOT PUBLIC

Schedule 4a – Summary Description of OTP 401(k) Plans

Schedule 4b – Summary Description of OTP Pension Plans

Schedule 4c – Summary Description of Retirement Benefits Eligibility

Schedule 5 – 2023 Towers Watson Energy Services BenVal Study – NOT PUBLIC

Schedule 6 – Mercer Renewal – NOT PUBLIC

**I. INTRODUCTION AND QUALIFICATIONS**

Q. PLEASE STATE YOUR NAME AND CURRENT EMPLOYER.

A. My Name is Peter E. Wasberg. I am employed by Otter Tail Power Company (OTP).

Q. PLEASE SUMMARIZE YOUR CURRENT RESPONSIBILITIES.

A. I am the Director of Human Resources and Safety. I am responsible for leading the Company's human resources and safety functions, including compensation and benefits, labor relations, employee relations, organizational development, compliance, and training.

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

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

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

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. The purpose of my Direct Testimony is to discuss matters related to employee compensation and benefits. First, I will briefly describe OTP's current compensation plan, including its annual incentive plans. Second, I will discuss how the compensation levels provided by OTP compare to the general market. Third, I will describe the employee benefits provided by OTP. Fourth, I will summarize certain 2024 Test Year compensation and benefit costs. OTP witnesses Mr. Bruce G. Gerhardson and Ms. Christy L. Petersen discuss 2024 Test Year pension and postretirement medical and life insurance (PRM) plan expenses in their respective Direct Testimony.<sup>1</sup>

Q. HOW IS THE REMAINDER OF YOUR DIRECT TESTIMONY ORGANIZED?

A. Section III describes OTP's workforce and compensation plan. Section IV describes OTP compensation levels and the competitive market. Section V

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<sup>1</sup> Pension plan costs formerly were accounted for under FAS 87, while PRM costs were subject to FAS 106. A third category of costs, Postemployment (LTD) Medical Benefit Plan costs, are now subject to ASC 712 and formerly were subject to FAS 112.

describes OTP's employee benefits. Section VI describes certain 2024 Test Year employee costs, and Section VII provides my conclusions.

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

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

### III. OVERVIEW OF OTP'S WORKFORCE AND COMPENSATION PLAN

Q. PLEASE BRIEFLY DESCRIBE OTP'S WORK FORCE.

A. In 2024, OTP expects to have an average of 800 full time equivalent (FTE) employees, including approximately 376 union employees and 424 non-union employees (not adjusted for employees of jointly owned power plants). The non-union FTE employees include nine executives, 282 exempt employees, and 133 non-exempt employees. OTP employees provide a wide range of services required to supply electric utility services to our customers located in North Dakota, South Dakota, and Minnesota.

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

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

1 employees has become more challenging in recent years.

2  
3 Q. PLEASE EXPLAIN THE RECENT CHALLENGES IN ATTRACTING AND  
4 RETAINING EMPLOYEES.

5 A. Between 2014 and 2020, we experienced an average of 20 non-retirement  
6 attritions per year, with a low of 15 and a high of 27. These attrition rates have  
7 changed significantly following the COVID-19 pandemic: in 2021, we had 32 non-  
8 retirement attritions; in 2022, that number increased to 42 in 2022. Through  
9 September 2023, we have had 26 non-retirement attritions, with three months  
10 remaining in the year. Many businesses are seeing similar attrition issues.

11 There also are more job opportunities than available workers in the current  
12 labor market. These conditions create many challenges in our industry, where on-  
13 the-job experience is so critical. For example, we have several positions that are  
14 structured as multi-year apprenticeships. Retaining experienced and talented  
15 employees is vital given the well-known priority employees, customers and the  
16 public place on safety in our industry. As we see pressure on wages, and changing  
17 demographics in our region, with less people entering the workforce compared to  
18 those exiting the workforce, we will need to find new ways to attract and retain the  
19 talent needed to safely and efficiently operate our business, providing electricity to  
20 our customers across our service territory.

21  
22 Q. ARE THERE OTHER REASONS THAT OTP NEEDS TO HAVE A  
23 COMPENSATION PLAN THAT ATTRACTS, RETAINS AND ENGAGES  
24 EMPLOYEES?

25 A. Yes. As noted above, our high-quality workforce is essential to providing  
26 customers with safe, reliable, and economical service. Like many companies, we  
27 are experiencing some generational attrition, with over 30 percent (over 250) of  
28 our employees expected to retire during the next ten years. We also have the  
29 potential for another 250 – 360 employees to leave employment during this same  
30 ten-year period based on historic, non-retirement attrition, which, as discussed  
31 above, has increased significantly over the past three years. All of this means we  
32 will need to hire many high-quality individuals over the next several years, while  
33 at the same time doing what is necessary to retain the talent needed to effectively  
34 serve our customers. As a relatively small utility serving the rural areas of North  
35 Dakota, South Dakota, and Minnesota, OTP faces challenges in attracting and

1 retaining skilled workers, especially with more mobile workers who are in the  
2 earlier stages of their careers.

3  
4 Q. WHAT ARE THE MAIN COMPONENTS OF OTP'S COMPENSATION PLAN?

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

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

17 A. OTP has a combination of hourly and salaried employees. Approximately 50  
18 percent of OTP's employees are represented by unions. OTP has approximately 50  
19 percent salaried (approximately 35 percent exempt and 15 percent nonexempt)  
20 employees who are not part of executive management. All employees receive either  
21 a base wage or base salary as part of the employee's cash compensation.  
22

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

24 A. The OTP Annual Incentive Plan is provided to all regular employees who are not  
25 represented by a union and who work at least 1,000 hours per year. The OTP  
26 Annual Incentive Plan consists of four separate plans: (1) non-union employees  
27 (the OTP Key Performance Award Plan or OTP KPA Plan); (2) non-union people  
28 leaders who are not eligible for other plans (the People Leaders Plan); (3) Coyote  
29 Retention Incentive Plan for non-union staff at Coyote Station (the Coyote  
30 Retention Incentive Plan); and (4) key management employees (the OTP  
31 Management Plan).  
32

33 Q. PLEASE BRIEFLY DESCRIBE THE OTP KPA PLAN.

34 A. The OTP KPA Plan covers approximately 400 OTP non-union employees. The OTP  
35 KPA Plan is based on: (1) four operating criteria (safety, a customer satisfaction  
36 indicator, reliability based on the average outage minutes per customer, and

equivalent plant availability); and (2) one financial criterion relating to the control of operation and maintenance (O&M) costs. Each of these five criteria has a weighting that together comprise the six percent maximum payout. The maximum payout level is six percent of an individual employee's base salary. As part of the OTP KPA – People Leaders plan, people leaders can earn up to an additional three percent, above whatever the earned KPA payment is for that year, based on their performance as managers/supervisors.

Q. PLEASE EXPLAIN THE WEIGHTING OF THE FIVE INDIVIDUAL CRITERIA.

A. Customer satisfaction, reliability, and equivalent plant availability each have a weighting of one percent; safety has two targets, each worth 0.5 percent. The O&M cost control criteria has a weighting of up to two percent. Payouts under the operating criteria are not financially tied to the O&M cost control criterion.

Q. PLEASE BRIEFLY DESCRIBE THE PEOPLE LEADERS PLAN.

A. Based on external market data, along with the need to be able to attract and retain talented people who can help serve our customers, OTP has added an additional plan, specific to people leaders (managers/supervisors) that do not otherwise qualify for any incentives beyond the current KPA Plan. Market data showed OTP below market on short-term incentive compensation, and as we have been challenged with higher attrition rates, we added a plan that will incentivize people leaders. The additional incentive, up to 3 percent above the current KPA Plan, will recognize good leadership, with the objective to recognize the leadership that will help meet our key performance objectives that are positively impacting the service we provide to our customers. The incentive also recognizes market conditions where OTP has been below market with short-term compensation, with the expectation that it provides another way to help attract and retain quality people leaders.

Q. PLEASE BRIEFLY DESCRIBE THE COYOTE RETENTION INCENTIVE PLAN.

A. With the uncertainty brought about by current and proposed federal regulations that could potentially impact some generation facilities, we added a plan specific to non-union employees at Coyote Station. The plan objectives are to focus participants' attention on our operating results, ensuring that we can continue to achieve desired outcomes. With the current uncertainty for some power plants, and with the need to continue operations safely and efficiently at Coyote Station,



1 we are recognizing good performance for those non-union employees who are  
2 choosing to remain employees at Coyote Station.

3  
4 Q. PLEASE BRIEFLY DESCRIBE THE OTP MANAGEMENT PLAN.

5 A. The OTP Management Plan covers 24 OTP management employees (not including  
6 the OTP President, who has a separate plan). The OTP Management Plan includes:  
7 (1) safety; (2) a number of criteria that vary by the employee's job and  
8 responsibilities; and (3) two overall financial criteria relating to OTP. The safety  
9 and individual criteria have a cumulative weighting of 50 percent. The financial  
10 criteria have a weighting of 50 percent.

11  
12 Q. PLEASE DESCRIBE THE INCENTIVE PLAN FOR THE OTP PRESIDENT.

13 A. The OTP President is under the Otter Tail Corporation Executive Annual Incentive  
14 Plan (Executive Plan). Under the Executive Plan, the Compensation and Human  
15 Capital Management Committee of the Otter Tail Corporation Board of Directors  
16 determines the criteria and target incentives. Criteria under the Executive Plan  
17 include: (1) OTP net income; (2) OTP return on equity; (3) Otter Tail Corporation  
18 earnings per share; (4) individual performance; (5) Occupational Safety and  
19 Health Administration (OSHA) safety case rate; (6) diversity, equity and inclusion  
20 (DEI); and (7) environmental. The financial criteria have a weighting of 70  
21 percent. The safety and individual criteria have a cumulative weighting of 30  
22 percent. The DEI and environmental criteria are evaluated after the annual  
23 incentive payout is calculated (based on measures 1-5) and can add up to 5 percent  
24 of the target annual incentive to the payout, respectively.

25  
26 Q. DO THE FINANCIAL CRITERIA OF OTP'S ANNUAL INCENTIVE PLANS  
27 PROVIDE BENEFITS TO CUSTOMERS?

28 A. Yes. The financial performance components of the individual plans that make up  
29 the Annual Incentive Plan benefit customers because financial performance  
30 depends on the prudent management of costs, which allows OTP to provide electric  
31 utility service at reasonable prices. Combining financial criteria, along with  
32 performance measures, ensures that we maintain the balance between reliable  
33 service and reasonable prices. This balance and the financial criteria that support  
34 this balance benefit our customers. For example, in 2022, as described by Mr.  
35 Gerhardson, OTP continues to perform well, with very low rates for its customers.

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

3 A. The OTP Annual Incentive Plan is needed to maintain an appropriate level of cash  
4 compensation required to attract and retain employees. Without our Annual  
5 Incentive Plan, OTP's total cash compensation would be significantly below the  
6 market median of total cash compensation, and OTP would be impeded in its  
7 ability to attract and retain essential employees. The annual cash incentive  
8 compensation that is part of the OTP Annual Incentive Plan also encourages  
9 increased productivity and enables OTP to reward employees for providing quality  
10 service to our customers. Customers benefit from setting employee incentives that  
11 tie directly to our customers' needs.  
12

13 Q. DOES THE OTP ANNUAL INCENTIVE PLAN AFFECT WORKFORCE  
14 CONTINUITY?

15 A. Yes. The OTP Annual Incentive Plan also helps us address workforce continuity.  
16 Our electrical plants and electrical systems perform better when we have  
17 continuity in our workforce. The technical knowledge needed, and the years  
18 required to acquire the specialized skills for our system, are paramount to our  
19 ability to reliably and efficiently provide energy to our customers. Our customers  
20 also see the advantages of reduced costs associated with the lower recruitment and  
21 training requirements associated with a stable workforce. With an expected  
22 retirement rate of over 30 percent in the next ten years and higher non-retirement  
23 attrition following the COVID-19 pandemic, maintaining a competitive  
24 compensation package is critical to our ability to keep our high-quality employees  
25 engaged and providing safe and reliable service to customers.  
26

27 Q. IS THERE AN ALTERNATIVE TO USING THE OTP ANNUAL INCENTIVE  
28 PLAN TO PROVIDE A COMPETITIVE CASH COMPONENT IN OTP'S  
29 COMPENSATION PACKAGE?

30 A. The only way to maintain a competitive cash compensation level without the OTP  
31 Annual Incentive Plan would be to increase base salaries, which would increase  
32 other costs and substantially reduce both flexibility and incentives for  
33 performance.  
34

1 Q. DOES OTP PROVIDE ANY SHORT-TERM INCENTIVES TO EMPLOYEES?

2 A. Yes. From time to time, OTP grants Achievement Awards: a cash award intended  
3 to recognize and reward employees who have performed exceptionally well on  
4 special projects or challenging work outside of normal assignments. Achievement  
5 Awards are modest.

6  
7 Q. DOES OTP PROVIDE LONG-TERM INCENTIVES?

8 A. Yes. Qualifying management employees may receive long-term incentives in the  
9 form of grants of restricted stock units (RSUs). Qualifying employees are awarded  
10 RSUs based on salary, job level, and the price of the stock at the date of grant. These  
11 long-term incentives are considered along with other components of compensation  
12 when we review compensation levels. The purposes of OTP's long-term incentives  
13 are to: (1) link the long-term success of OTP to qualifying employee compensation;  
14 (2) encourage the retention of management over the long-term; and (3) provide  
15 the opportunity to earn competitive total compensation.

16 **IV. OTP COMPENSATION LEVELS AND THE COMPETITIVE**  
17 **MARKET**

18 Q. HOW DO OTP'S COMPENSATION LEVELS COMPARE TO OTHER UTILITIES?

19 A. OTP's compensation levels generally are at the market mid-point for non-executive  
20 employees. Executive compensation levels are lower than the market. I will  
21 explain how OTP compensation levels compare to other utilities in this section of  
22 my Direct Testimony.

23  
24 Q. DOES OTP USE MARKET SURVEY INFORMATION IN CONNECTION WITH  
25 ITS COMPENSATION DECISIONS?

26 A. Yes. OTP routinely uses market survey information to compare its compensation  
27 levels to those of other utilities and some non-utilities, using numerous surveys  
28 and information sources including Willis Towers Watson (WTW), Mercer,  
29 Silverstone, and Aon Hewitt (Hewitt). OTP regularly participates in a benchmark  
30 study for non-executive employees, the most recent of which was conducted by  
31 Mercer. We also periodically participate in studies of executive compensation,  
32 which I will discuss later in my Direct Testimony.

33

1 Q. HOW DOES OTP USE BENCHMARK STUDIES?

2 A. OTP uses benchmark studies as the framework for formulating its compensation  
3 programs. Salary surveys are reviewed and analyzed to find positions that  
4 correspond with the essential job duties, skills, and functions of OTP's positions.  
5 OTP strives to set compensation at or near the median of the survey data. While  
6 the market-based compensation for a position is based on the median, it is not  
7 limited to the single data point of the median. Rather, the relevant market for a  
8 position includes a range above and below the median. The compensation for OTP  
9 non-union employees is ultimately determined by a combination of market data  
10 and the employee's responsibilities, performance, and experience.  
11

12 Q. PLEASE FURTHER EXPLAIN THE MOST RECENT BENCHMARK STUDY  
13 PERFORMED BY MERCER.

14 A. Mercer's 2022 Compensation Competitiveness Study covered non-executive  
15 employees and included compensation information for a broad sample of  
16 positions. The Mercer 2022 Compensation Competitiveness Study examined base  
17 salaries and annual incentives. OTP compensation levels were compared using a  
18 combination of: (1) general industry; (2) energy/utility industry; and (3) North  
19 Central regional data to reflect the labor markets in which OTP competes for  
20 employees. The Mercer 2022 Compensation Competitiveness Study is provided as  
21 Exhibit\_\_\_\_(PEW-1), Schedule 2.  
22

23 Q. WHAT DID THE MERCER 2022 COMPENSATION COMPETITIVENESS  
24 STUDY INDICATE?

25 A. The Mercer 2022 Compensation Competitiveness Study showed that:  
26 1. OTP base salaries overall are at market, based on the 50<sup>th</sup> percentile;  
27 2. OTP total cash compensation (base and short-term incentive) was one  
28 percent below the market median; and  
29 3. Of the 200 non-union positions, representing 302 employees, that were  
30 reviewed, some fell below the market median, and some were above the  
31 market median.  
32

33 Q. WHAT DID YOU CONCLUDE FROM THESE RESULTS?

34 A. The Mercer 2022 Compensation Competitiveness Study showed that, overall, the  
35 OTP compensation plan is competitive with the market and reasonable, especially  
36 considering the average tenure of our employee group. It also indicated that our

1 compensation structure included in our rate request for non-executive employees  
2 is fair and reasonable.

3  
4 Q. HAS MERCER CONDUCTED A RECENT STUDY OF EXECUTIVE  
5 COMPENSATION FOR OTP?

6 A. Yes. Mercer conducted an Executive Benchmarking study (the Mercer 2022  
7 Executive Benchmarking Study) that evaluated a number of compensation  
8 components, including: (1) base salary; (2) total cash compensation; and (3) total  
9 direct compensation (including base salary, annual incentive compensation, and  
10 long-term incentive). The Mercer 2022 Executive Benchmarking Study utilized  
11 multiple data points including: (1) Mercer 2022 US Executive Remuneration  
12 Suite; (2) the Towers Watson 2022 CDB Energy Services Executive Compensation  
13 Survey; and (3) the Mercer 2022 Total Compensation for the Energy Sector Survey.  
14 Mercer utilized information from the energy and utility industry sectors where  
15 possible and applied discounts and premiums when the survey data reflected  
16 companies that were significantly larger or smaller than OTP. A copy of the Mercer  
17 2022 Executive Benchmarking Study is provided as Exhibit\_\_\_\_(PEW-1), Schedule  
18 3.

19  
20 Q. WHAT DID THE MERCER 2022 EXECUTIVE BENCHMARKING STUDY  
21 SHOW?

22 A. The Mercer 2022 Executive Benchmarking Study showed the following:  
23 1. OTP executive base salaries were five percent below the market median, and  
24 2. OTP's actual total executive cash compensation was four percent below the  
25 market median.

26  
27 Q. WHAT DID YOU CONCLUDE FROM THESE RESULTS?

28 A. I concluded that OTP's executive compensation is below the market median, but  
29 within the competitive range (+/- 10 percent).

30 **V. EMPLOYEE BENEFITS**

31 Q. PLEASE SUMMARIZE THE BENEFITS PROVIDED BY OTP.

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

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

A. Yes. OTP's benefits contribute to attracting and retaining its skilled workforce. As discussed above, OTP and its customers are directly benefited by having a stable, long-term workforce. In an industry where multiple years of training are required for employees to work independently, it is fiscally prudent to have a workforce with as low a turnover rate as possible. As we retire over 30 percent of our workforce within the next ten years, it will be increasingly important for OTP to attract and retain a workforce that will continue to provide electricity to our customers in a safe, reliable, and efficient manner.

**A. Medical and Dental**

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

A. OTP provides qualifying employees with the ability to elect group medical and dental insurance benefits. At present, we have three high deductible health plans (HDHP) and one additional consumer-driven plan for our non-union employees and a separate single HDHP option for our union employees. A summary of the health care plans is provided in Table 1 below.

**Table 1**

2024 Medical Plans					
	Nonunion Employees				Union Employees
	Premier 80 Non-Embedded	Advantage 70 Embedded	Basic 100 Embedded	Surest	Blue Saver 100 Embedded
Annual Deductible	\$2,000 – Individual \$4,000 – Other Tiers	\$4,000 – Individual \$8,000 – Other Tiers	\$7,000 – Individual \$14,000 – Other Tiers	\$0 – Individual \$0 – Other Tiers	\$3,200 – Individual \$6,400 – Other Tiers
Co-Insurance	80% after deductible	70% after deductible	100% after deductible	No coinsurance \$35-\$135 copays per primary care or specialist	NA
Annual Out of Pocket Max	\$4,000 – Individual \$8,000 – Other Tiers	\$6,000 – Individual \$12,000 – Other Tiers	\$7,000 – Individual \$14,000 – Other Tiers	\$5,500 – Individual \$11,000 – Other Tiers	\$3,200 – Individual \$6,400 – Other Tiers



1 Premiums for the medical and dental plans vary based on: (1) the plan(s) chosen;  
2 (2) whether dependents are covered; and (3) differences between current non-  
3 union and union plans that will be further described, below.  
4

5 Q. PLEASE SUMMARIZE STEPS OTP HAS TAKEN REGARDING HDHP PLANS.

6 A. In 2012, OTP moved to a HDHP for all employees. The move to the HDHP,  
7 sometimes called a consumer-driven health plan, has enabled our employees to be  
8 better health care consumers. In 2017, we took a further step with our non-union  
9 employees and replaced the existing HDHP with three new HDHP options that  
10 included different deductibles, premiums, and these plan options also introduced  
11 coinsurance. Coinsurance keeps employees in the decision-making process longer  
12 and generally provides for increased consumerism. Although health care costs  
13 continue to be a challenge, we believe our actions have enabled our employees to  
14 be better consumers, and we expect that our emphasis on preventive health care  
15 and wellness will provide long-term benefits for our employees and for Company  
16 health care costs.  
17

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

20 A. Yes. In 2017, OTP increased the cost-sharing ratio of employee to employer share  
21 of the health care premium. The employer share/employee share for gross health  
22 costs, which includes total spend for both OTP and employees, moved from  
23 approximately 80 percent employer/20 percent employee to 75 percent  
24 employer/25 percent employee on all three of the HDHPs.

25 With our changes for non-union employees in 2017, OTP also added a  
26 monthly tobacco surcharge of \$40 and we eliminated health care eligibility for  
27 spouses who were able to obtain health care insurance from their own employer.  
28 The latter has created considerable issues for some employees, and we will be  
29 removing the spousal exclusion in 2024. In 2021, we added the \$40 tobacco  
30 surcharge for our Coyote Union group. In our 2023 labor negotiations, we  
31 increased premiums in the first year of the three-year contract, along with five  
32 percent increases for years two and three. Some of these changes are difficult for  
33 our employees and we will continue working on providing quality health care  
34 options for our employees while being responsible with the overall costs associated  
35 with the benefit. We know that healthcare is a critical benefit for employees, and

1 that it has an impact as current employees weigh other options, and as we recruit  
2 future employees.

3 **B. Retirement Savings and Pension**

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

6 A. OTP provides 401(k) defined contribution retirement plans (401(k) Plans) for all  
7 employees and defined benefit pension plans (Pension Plan) for certain employees  
8 depending on the date they were hired. OTP also provides a 401(k) matching plan.  
9

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

11 A. For employees who are not eligible to participate in OTP's Pension Plan, as of 2024,  
12 OTP has 401(k) Plans that include three different defined contribution amounts  
13 made by OTP: (1) a five percent contribution for non-union employees; (2) a seven  
14 percent contribution for our Coyote Station union employees; and (3) a five  
15 percent contribution for our other union employees. A summary description of  
16 OTP's 401(k) Plans is included in Exhibit\_\_\_\_(PEW-1), Schedule 4a.  
17

18 Q. DOES OTP MATCH EMPLOYEE CONTRIBUTIONS TO THE 401(K) PLANS?

19 A. Yes. All OTP employees are eligible for some form of match based on their  
20 individual contributions to the 401(k) Plans.  
21

22 Q. ARE EMPLOYEES ELIGIBLE FOR OTP'S PENSION PLAN ALSO ELIGIBLE TO  
23 PARTICIPATE IN THE MATCHING PORTION OF OTP'S 401(K) PLANS?

24 A. Yes. Pension Plan-eligible employees may make contributions to OTP's 401(k)  
25 Plans, and we strongly encourage them to do so, but they do not receive OTP  
26 enhanced contributions. Rather, they are eligible to receive the OTP employer  
27 match subject to the maximum matching provisions as noted in Exhibit\_\_\_\_(PEW-  
28 1), Schedule 4a.  
29

30 Q. WHAT 401(K) MATCH IS AVAILABLE TO OTP EMPLOYEES WHO ARE NOT  
31 PENSION ELIGIBLE?

32 A. Non-union employees, and bargaining unit employees (other than Coyote Station  
33 union employees), are eligible for a match of fifty percent of their first eight  
34 percent individually contributed (maximum of 4 percent). Coyote bargaining



1 unit employees are eligible for a match of fifty percent of their first six percent  
2 individually contributed (maximum of 3 percent).

3  
4 Q. PLEASE DESCRIBE OTP'S PENSION PLAN.

5 A. OTP's Pension Plan has two benefit formulas: (1) a benefit formula for non-union  
6 and union employees, other than Coyote Station union employees; and (2) a  
7 separate benefit formula for union employees at Coyote Station. A summary  
8 description of OTP's Pension Plan is provided in Exhibit\_\_\_\_(PEW-1), Schedule  
9 4b. An overall retirement benefits eligibility summary is provided in  
10 Exhibit\_\_\_\_(PEW-1), Schedule 4c.

11  
12 Q. DOES OTP HAVE ANY OTHER RETIREMENT PLANS?

13 A. Yes. Key management employees participate in an Executive Restoration Plus Plan  
14 (ERPP), an unfunded, non-qualified benefit plan that provides defined  
15 contribution payments to these employees. OTP also maintains an Executive  
16 Survivor & Supplemental Retirement Plan (ESSRP).

17  
18 Q. WHY DOES OTP PROVIDE AN ERPP PLAN?

19 A. The ERPP provides a benefit based on total pay, including incentive compensation,  
20 in recognition of the fact that more executive compensation is tied to performance  
21 that can fluctuate year-over-year (at risk). Earned incentive compensation is not  
22 calculated as part of a retirement benefit for non-union employees. The ERPP  
23 provides a method to recognize at-risk pay, when earned, as part of total  
24 compensation for calculating retirement benefits.

25  
26 Q. PLEASE DESCRIBE THE ESSRP.

27 A. The ESSRP is a defined benefit plan that was adopted in 1983 to provide key  
28 executives and management employees competitive survivor and retirement  
29 benefits. In the early 1980s, certain tax law limitations reduced the amount of  
30 pension-related retirement benefits that could be received by key executives and  
31 management employees. The ESSRP was designed as a Supplemental Executive  
32 Retirement Plan. It was transitioned to a restoration benefit used to restore the  
33 pension-related retirement benefits of impacted employees to the same baseline  
34 (percentage) level of OTP's overall pension plan.

1 Q. ARE PARTICIPANTS BEING ADDED TO THE ESSRP?

2 A. No. The last participant was added January 1, 2009, and from that time forward,  
3 there have been no new participants in the ESSRP. In 2019, the restoration  
4 retirement benefit component for participants was frozen, meaning no new  
5 benefits were being earned within the ESSRP.

6 **C. Other Post Retirement Employee Benefits**

7 Q. DOES OTP PROVIDE OTHER POST-RETIREMENT EMPLOYEE BENEFITS?

8 A. Yes. OTP also provides other post-retirement benefits (OPEBs) including: (1) the  
9 PRM Plan; (2) Postemployment (LTD) Medical Benefit Plan for a limited number  
10 of disabled employees; and (3) life insurance for a limited number of eligible  
11 retirees.

12

13 Q. PLEASE DESCRIBE ELIGIBILITY FOR THE LIFE INSURANCE BENEFIT.

14 A. The life insurance benefit is no longer available to new employees as a company-  
15 paid expense. Eligibility is restricted to those employees who had 25 years of  
16 service with OTP as of January 1, 2003, and to Coyote Union employees who were  
17 employees at the time OTP took over the operations of Coyote Station in 1998.

18 **D. Management of Pension and OPEB Costs**

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

21 A. Yes. Since 2006, OTP has made significant changes to retirement benefits to  
22 control costs. The first significant change eliminated eligibility to participate in  
23 the OTP Pension Plan for employees hired after certain dates. This change is  
24 sometimes referred to as a “soft freeze.” The effective dates of the soft freeze differ  
25 depending on bargaining-unit status. For non-union employees, the soft freeze  
26 eliminated participation in the OTP Pension Plan for employees hired after  
27 August 31, 2006. For the Coyote Plant bargaining-unit employees, the soft freeze  
28 eliminated participation in the OTP Pension Plan for employees hired after  
29 December 31, 2008. For our other bargaining-units, the soft freeze eliminated  
30 participation in the OTP Pension plan for employees hired after October 31, 2013.  
31 Employees not eligible for the OTP Pension Plan are eligible to receive the OTP  
32 contributions to their 401(k) Plan I described earlier in my testimony.

33 The second significant change was the elimination of post-retirement  
34 medical benefits for new employees. Like the soft freeze on the OTP Pension Plan,  
35 this change means that employees hired after certain dates are not eligible for post-

1 retirement medical benefits. Also like the soft freeze on the OTP Pension Plan, the  
2 effective dates differed based on bargaining unit status. For our non-union  
3 employees, this soft freeze was effective for employees hired after August 31, 2006.  
4 For the Coyote Plant bargaining unit, this soft freeze was effective for employees  
5 hired after December 31, 2008. For our other bargaining-units, this soft freeze was  
6 effective for employees hired after October 31, 2010. For all these groups,  
7 participation also is limited to persons who are age 55 or older at retirement with  
8 10 or more years of service and eligible for or enrolled in the OTP medical program  
9 as of retirement.

10  
11 Q. WHAT EFFECT HAS THE SOFT FREEZE HAD ON THE OTP PENSION PLAN?

12 A. The soft freeze, in combination with retirements, is significantly reducing the  
13 number of OTP employees participating in the OTP Pension Plan. As a result of  
14 the soft freeze on the OTP Pension Plan, we now have approximately 60 percent of  
15 our active employees who are not participating in the OTP Pension Plan (up from  
16 30 percent at the time of our last North Dakota rate case) and we would expect that  
17 percentage to increase significantly with the number of retirements expected over  
18 the next ten years.

19  
20 Q. HAS OTP RECENTLY CONTINUED TO TAKE STEPS TO MANAGE THE COST  
21 OF ITS PRM PLAN?

22 A. Yes. Beginning in 2020, OTP began the process of moving from the Retiree Drug  
23 Subsidy (RDS) to the Employer Group Waiver Plan (EGWP) within the PRM Plan.  
24 Since OTP's PRM Plan previously provided a prescription drug component, OTP  
25 was eligible for the RDS, providing some relief to the costs within the post-  
26 retirement medical expense. More recently, the RDS benefit has been reducing,  
27 and moving to EGWP was found to be much more beneficial, especially in the  
28 short-term.

29  
30 Q. HAS THE TRANSITION TO EGWP OCCURRED OVER TIME?

31 A. Yes. We started moving non-union retirees to EGWP in 2020. In 2021, we  
32 transitioned retirees who ended their careers under a collective bargaining  
33 agreement to EGWP. The adoption of the EGWP will permanently reduce PRM  
34 expenses, but the majority of the expenses were recognized during the first four  
35 years following the transition.

1 Q. HAS OTP TAKEN OTHER STEPS TO MANAGE THE COST OF THE PRM  
2 PLAN?

3 A. Yes. In 2023, OTP made the decision to move to a private exchange for Medicare-  
4 eligible retirees (post-65), with all Medicare supplemental medical and  
5 prescription benefits no longer being provided through our self-insured plan. All  
6 age-65 and older retirees will move to the Mercer Marketplace Exchange effective  
7 January 1, 2024. The move will provide more comprehensive coverage  
8 opportunities for retirees, while significantly reducing the PRM expenses, as  
9 discussed by Mr. Gerhardson and Ms. Petersen in their respective Direct  
10 Testimonies. These expense reductions are expected to continue long term.  
11

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

14 A. Yes. Defined benefit pension plans were very common when OTP established its  
15 defined benefit pension plans in 1975, and OTP's decision to establish such a plan  
16 was prudent and consistent with industry compensation and benefit practices.  
17 Since then, OTP has continued to be prudent in managing its pension plans and  
18 other retirement benefits, as I explained earlier. Most importantly, it has frozen  
19 participation in the Pension Plan.  
20

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

22 A. Yes. In addition to the studies of cash compensation that I discussed earlier in my  
23 Direct Testimony, OTP also routinely participates in the Willis Towers Watson  
24 (WTW) Energy Services BenVal Study. A copy of the 2023 WTW Energy Services  
25 BenVal Study (2023 BenVal Study) is provided as Exhibit\_\_\_\_(PEW-1), Schedule  
26 5.  
27

28 Q. PLEASE DESCRIBE THE 2023 BENVAL STUDY.

29 A. The 2023 BenVal Study focused on new hires and included 37 participating energy  
30 services companies. The companies were further defined by revenue size. The  
31 2023 BenVal Study showed OTP's relative benefit program value compared to  
32 participating companies of similar revenue size was 10 out of 12. The BenVal  
33 Study shows OTP near the middle for current medical benefits provided, and  
34 toward the bottom when looking at OPEBs. Overall, the BenVal Study shows that  
35 OTP benefits are lower than most of the other participating utility companies.  
36

1 Q. WHAT ARE THE IMPLICATIONS OF HAVING A BENEFIT PACKAGE WITH A  
2 LOWER BENEFIT VALUE?

3 A. Having a lower benefit value could inhibit OTP's ability to attract, retain and  
4 engage the talented workforce needed to deliver safe and reliable electric service to  
5 our customers. It is imperative that we continue to offer a compensation and  
6 benefit package that is competitive for our employees and a good value to our  
7 customers. We will continue to monitor our benefit package going forward to  
8 ensure it doesn't become a detriment.

9 **VI. 2024 TEST YEAR EMPLOYEE COMPENSATION COSTS**

10 Q. PLEASE IDENTIFY THE COSTS OF OTP'S COMPENSATION PLAN THAT ARE  
11 INCLUDED IN THE 2024 TEST YEAR.

12 A. The 2024 Test Year includes costs of the following components of the OTP  
13 compensation plan: (1) wages and salaries; (2) annual incentives; (3) employee  
14 health and dental benefit plans; and (4) retirement savings, pension and other  
15 postretirement employee benefits. Except for pension and PRM expenses, which  
16 are discussed by Mr. Gerhardson and Ms. Petersen, I discuss these expenses  
17 below.<sup>2</sup>

18 **A. Wages and Salaries**

19 Q. WHAT IS THE 2024 TEST YEAR WAGE AND SALARY EXPENSE?

20 A. The 2024 Test Year reflects \$55 million (OTP Total) / \$24 million (OTP ND EST)  
21 of base wage and salary expense.  
22

23 Q. HOW WERE 2024 WAGE AND SALARY LEVELS DETERMINED?

24 A. The 2024 base wages and salaries are based on a four percent increase over the  
25 base wage and salary level for 2023 for both union and non-union employees. The  
26 wage and the salary components for 2024 also have been adjusted for the projected  
27 employee census. The four percent increase reflects what OTP believes is  
28 necessary to remain competitive in the labor market in which it competes.  
29 Accordingly, its main purpose is to maintain competitive compensation levels and  
30 address changes in the cost of living.

---

<sup>2</sup> Unless otherwise noted herein, all amounts shown in this section are total costs, including any capitalized costs.

1 Q. HOW DO THE NUMBER OF FTE EMPLOYEES IN 2023 COMPARE TO THE  
2 NUMBER IN 2024?

3 A. As of September 2023, OTP had approximately 798 FTE employees and our 2024  
4 budget indicates an average of 800 FTE employees, an increase of 2. The primary  
5 reason for the increase is the number of open positions in 2023. In October of  
6 2023, we had 18 open full-time positions, with some of those being offset by  
7 upcoming retirements.  
8

9 Q. PLEASE FURTHER EXPLAIN THE 2024 WAGE INCREASE FOR NON-UNION  
10 EMPLOYEES OTHER THAN MANAGEMENT.

11 A. OTP budgeted for a four percent wage increase for non-union employees effective  
12 April 1. The four percent increase is cumulative and individual employee increases  
13 will vary depending on performance, market data, and where the employee's wage  
14 falls within the respective wage range.  
15

16 Q. WHAT WAS THE SOURCE OF THE 2024 WAGE INCREASE FOR UNION  
17 EMPLOYEES?

18 A. OTP has two collective bargaining agreements (CBAs) representing approximately  
19 375 union employees: (1) a CBA with four International Brotherhood of Electrical  
20 Workers (IBEW) Local Unions representing approximately 315 employees; and  
21 (2) a CBA with one IBEW Local Union representing approximately 60 Coyote  
22 Station employees. Both CBAs were renegotiated in 2023, resulting in the  
23 following wage increases:  
24

**Table 2**  
CBA Wage Increases – Coyote IBEW

<b>Period</b>	<b>IBEW - Coyote</b>
Sept 1, 2022 – Aug. 31, 2023	<b>[PROTECTED DATA BEGINS...</b>
Sept 1, 2023 – Aug 31, 2024	
Sept 1, 2024 – Aug 31, 2025	
Sept 1, 2025 – Aug 31, 2026	
	<b>... PROTECTED DATA ENDS]</b>

CBA Wage Increases – Other IBEW

<b>Period</b>	<b>IBEW – Other</b>
Nov 1, 2022 – Oct 31, 2023	<b>[PROTECTED DATA BEGINS...</b>
Aug 16, 2023 – Oct 31, 2024	
Nov. 1, 2024 – Oct. 31, 2025	
Nov. 1, 2025 – Oct. 31, 2026	
	<b>... PROTECTED DATA ENDS]</b>

Q. PLEASE FURTHER EXPLAIN THE 2024 WAGE INCREASE FOR  
MANAGEMENT AND EXECUTIVE EMPLOYEES.

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

**B. Annual Incentives**

Q. WHAT IS THE 2024 TEST YEAR ANNUAL INCENTIVE EXPENSE?

A. The 2024 Test Year reflects \$3.28 million (OTP Total) / \$1.43 million (OTP ND EST) of annual incentive expense. These amounts can be further broken down as follows:



**Table 3**  
2024 Test Year Annual Incentive Program Expenses

Program	OTP Total	OTP ND EST
	<b>[PROTECTED DATA BEGINS...</b>	
KPA Plan		
People Leaders		
Coyote Retention Incentive Plan		
Management Plan		
OTP President		<b>... PROTECTED DATA ENDS]</b>

Q. DOES TABLE 3 REFLECT THE FULL COST OF OTP'S ANNUAL INCENTIVE PROGRAMS?

A. No. OTP has limited its request for Annual Incentive Plan cost recovery by excluding amounts that exceed 25 percent of an individual's base salary.<sup>3</sup>

Q. DID OTP APPLY THE SAME CAP TO THE 2024 TEST YEAR COSTS OF THE OTP PRESIDENT'S INCENTIVE PLAN?

A. Yes. The OTP president's target incentive is 60 percent of base pay, but OTP is also proposing to limit the level of incentive compensation recovered in rates to 25 percent of the OTP president's individual base salary.

Q. WHY IS IT APPROPRIATE TO INCLUDE THE COSTS OF THE OTP ANNUAL INCENTIVE PLAN IN THE 2024 TEST YEAR REVENUE REQUIREMENT?

A. The costs of the OTP Annual Incentive Plan should be included in the 2024 Test Year revenue requirement for several reasons. First, OTP's Annual Incentive Plan is an important part of OTP's total compensation plan; without it, OTP's total cash compensation would be significantly below market, making it harder for OTP to attract and retain essential employees. Second, as I have explained earlier in my Direct Testimony, the OTP Annual Incentive Plan includes an appropriate range and balance of factors that provide benefits to customers. Third, including annual incentive plans in total compensation packages is an established utility market

<sup>3</sup> There are 14 OTP management employees in the OTP Management Plan that have 2024 target maximum payout levels that exceed 25 percent of their base salaries. The amount in excess of 25 percent has been excluded from the 2024 Test Year revenue requirement.



1 practice. Fourth, OTP has applied appropriate controls to the costs to be recovered  
2 in the revenue requirement.

3  
4 Q. HOW DO OTP'S CONTROLS SUPPORT RECOVERY OF THE PROPOSED  
5 INCENTIVE COSTS?

6 A. When the 25 percent cap is applied, OTP's annual cash compensation levels for  
7 executive compensation are even further below competitive market levels. The  
8 2024 forecasted level for the Management Plan, adjusted to remove any amounts  
9 over a 25 percent cap on individual employee incentives, is appropriate for  
10 determining OTP's revenue requirement because it is consistent with historic  
11 payout levels.

12  
13 Q. DID OTP INCLUDE ANY AMOUNTS FOR ACHIEVEMENT AWARDS IN THE  
14 2024 TEST YEAR?

15 A. Yes, while there was a certain amount excluded from the 2018 Test Year revenue  
16 requirement established by settlement in OTP's last North Dakota rate case, OTP  
17 continues to believe these costs are necessary and appropriate. As noted above,  
18 while modest, Achievement Awards are used to recognize and reward employees  
19 that have performed exceptionally well on special projects or challenging work  
20 outside of normal assignments. These awards are not only part of a successful total  
21 employee compensation program, they are directly attributable to a particular  
22 project benefiting customers. OTP therefore included \$225,000 (OTP Total)/  
23 \$97,000 (OTP ND EST) of Achievement Award expenses in the 2024 Test Year.

24  
25 Q. DID OTP INCLUDE ANY AMOUNTS FOR LONG-TERM INCENTIVE IN THE  
26 2024 TEST YEAR?

27 A. Yes. OTP included \$2.8 million (OTP Total)/ \$1.2 million (OTP ND EST) of long-  
28 term incentive expense in the 2024 Test Year. These expenses take the form of  
29 RSUs.

30  
31 Q. HOW WERE RSU COSTS TREATED IN THE SETTLEMENT FOR THE LAST  
32 NORTH DAKOTA RATE CASE AND WHY IS IT REASONABLE TO INCLUDE  
33 RSU COSTS IN THE 2024 TEST YEAR?

34 A. While settlement in OTP's last North Dakota rate case excluded RSUs from the  
35 2018 Test Year revenue requirement, OTP continues to believe that recovery of  
36 these costs strengthens OTP's workforce. As noted above, long-term incentives in

1 the form of RSUs: (1) link the long-term success of OTP to qualifying employee  
2 compensation; (2) encourage the retention of management over the long-term;  
3 and (3) provide the opportunity to earn competitive total compensation.  
4

5 Q. PLEASE EXPLAIN HOW RESTRICTED STOCK UNITS LINK LONG-TERM  
6 SUCCESS OF OTP TO EMPLOYEE COMPENSATION.

7 A. RSUs are a part of an overall compensation package for executives and key  
8 management employees. RSUs allow OTP to attract and retain key talent – with  
9 the skills and experience necessary to successfully operate the Company. RSUs  
10 also allow OTP to remain competitive within the market, in which historically,  
11 OTP executives have been below the market median.  
12

13 Q. WHY DO RESTRICTED STOCK UNITS ENCOURAGE RETENTION?

14 A. OTP's RSU program has a vesting period of four years, with each award being  
15 subject to its own vesting period. Thus, individuals only earn their RSUs after a  
16 sustained period with the Company. Further, the RSUs reward performance by  
17 creating a longer-term perspective and aligning management interests with both  
18 customer and Company interests.  
19

20 Q. WOULD OTP NEED TO UTILIZE OTHER FORMS OF COMPENSATION IF IT  
21 DID NOT HAVE AN RSU PROGRAM?

22 A. Yes. The RSU program (and long-term incentives generally) represents a part of  
23 the total compensation package for qualifying management personnel. As  
24 discussed above, OTP's executive personnel already receive below-average  
25 compensation, as compared to the market. It is not reasonable to assume that OTP  
26 could eliminate the RSU form compensation and see no effect in its ability to retain  
27 existing (or attract new or replacement) executive personnel. Thus, the alternative  
28 to use of RSUs is some other form of compensation, not a reduction of the total  
29 amount of compensation. Given the benefits of RSUs discussed above, these are  
30 reasonable parts of the 2024 Test Year cost of service.

**C. Medical, Dental, 401(k) and Other Benefits Expenses**

**1. Active Medical and Dental**

Q. WHAT IS THE 2024 TEST YEAR AMOUNT FOR OTP'S ACTIVE MEDICAL AND DENTAL COSTS?

A. The 2024 Test Year reflects \$11.7 million (OTP Total) / \$5.1 million (OTP ND EST) of active medical and dental costs.

Q. HOW DID OTP DETERMINE ITS ACTIVE MEDICAL AND DENTAL COSTS FOR THE 2024 TEST YEAR?

A. OTP has utilized third parties to determine active medical costs for many years and has determined it to be an effective method to project future active employee medical costs. The 2024 Renewal Results, prepared by Mercer, are provided as Exhibit\_\_\_\_(PEW-1), Schedule 6. I note, however, that the 2024 Test Year reflects an earlier, and lower, Mercer estimate of 2024 expenses. Actual 2024 expense, as shown in the 2024 Renewal Results, are expected to exceed the amounts included in the Test Year.

**2. 401(k)**

Q. WHAT IS THE 2024 TEST YEAR AMOUNT FOR OTP'S 401(K) COSTS?

A. The 2024 Test Year reflects \$3.7 million (OTP Total) / \$1.63 million (OTP ND EST) of 401(k) costs.

Q. HOW DID OTP DETERMINE ITS 401(K) COSTS FOR THE 2024 TEST YEAR?

A. OTP utilizes current participation and contributions to project an estimate for the current year. Year-to-date forfeitures are then removed from the projected estimate. For 2023, anticipated employer match changes were calculated based on the projected estimates then added to the net employer match total. An escalator was then applied to the net employer match total to arrive at 2024 values.

**3. Postemployment (LTD) Medical Benefit Plan Costs for ERPP and ESSRP**

Q. WHAT IS THE 2024 TEST YEAR AMOUNT FOR OTP'S ERPP COSTS?

A. OTP has included \$210,000 (OTP Total) / \$92,000 (OTP ND EST) for ERPP in the 2024 Test Year.

1 Q. HOW DID OTP CALCULATE ERPP COSTS FOR THE 2024 TEST YEAR?

2 A. Eligible compensation is based on the annual salaries and target short-term  
3 incentive payout of participants in 2023 and was adjusted to account for  
4 anticipated annual wage increases for the test year. Any wages above the annual  
5 compensation dollar limit are adjusted back to the cap amount. Contribution  
6 percentages were verified in accordance with plan documents.  
7

8 Q. WHY IS IT APPROPRIATE TO INCLUDE THE COST OF THE ERPP IN THE  
9 2024 TEST YEAR?

10 A. The ERPP is a necessary component of OTP's overall compensation and benefits  
11 package for certain key executives and key management employees. Absent this  
12 component of compensation, it would be more difficult to provide a competitive  
13 compensation package for key executive and management employees, whose  
14 compensation levels already lag market medians.  
15

16 Q. WHAT IS THE 2024 TEST YEAR AMOUNT FOR OTP'S ESSRP COSTS?

17 A. OTP has included \$610,000 (OTP Total) / \$267,000 (OTP ND EST) for the ESSRP  
18 in the 2024 Test Year.  
19

20 Q. HOW DID OTP CALCULATE ESSRP COSTS FOR THE 2024 TEST YEAR?

21 A. The costs for the 2024 Test Year is calculated through a third-party actuary,  
22 Mercer, and provided in an ASC 715 report.  
23

24 Q. WHY IS IT APPROPRIATE TO INCLUDE THE COST OF THE ESSRP IN THE  
25 2024 TEST YEAR?

26 A. Like the ERPP, the ESSRP is component of a competitive overall compensation  
27 and benefits package for certain key executives and key management employees.  
28 While the settlement in the last North Dakota rate case excluded a portion of  
29 ESSRP costs from the revenue requirement, OTP continues to believe that recovery  
30 of these costs is a necessary component to its compensation package. Although  
31 this benefit has been reduced in recent years, and ultimately frozen for  
32 participants, and closed to new participants, it is part of our overall reasonable  
33 compensation and benefits package designed to retain quality leadership within  
34 OTP.

**VII. CONCLUSION**

Q. PLEASE SUMMARIZE YOUR DIRECT TESTIMONY.

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

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

PETER E. WASBERG

EMPLOYMENT

---

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

EDUCATION

---

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

PROFESSIONAL AFFILIATIONS

---

- |                                                |                                             |
|------------------------------------------------|---------------------------------------------|
| • University of Minnesota, Crookston           | All-College Advisory &<br>Advancement Board |
| • Society of Human Resources Management (SHRM) | Member                                      |
| • MN Energy Consortium                         | Advisory Group                              |
| • Fergus Falls Public Library                  | Director                                    |



welcome to brighter

# Otter Tail Power Company

## Compensation Competitiveness Study 2022

October 06, 2023

Damien McGuigan  
Ashwini Kumar  
Sophie Sawicki

A business of Marsh McLennan

## Table of Contents

• Compensation Competitive Study Methodology	3
• Competitive Study Findings	5
• Overall Employee Positioning: Base Salary	6
• Overall Employee Positioning: Target Total Cash	7
• Overall Employee Positioning: Target Total Cash vs Actual Total Cash	8
• Next Steps	9



**[PROTECTED DATA BEGINS...**

Schedule 2 – Mercer 2022 Compensation Competitiveness Study  
to  
Direct Testimony of Peter E. Wasberg

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

**THE REMAINDER OF THIS DOCUMENT IS NOT PUBLIC IN ITS ENTIRETY**

**...PROTECTED DATA ENDS]**

# OTTER TAIL POWER COMPANY

## Executive Benchmarking - 2022

Damien McGuigan  
Ashwini Kumar  
Sophie Sawicki

A business of Marsh McLennan

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## Table of Contents

• Introduction	3
• Executive Summary	4
• Benchmarking Methodology	5
• Compensation Data	9
• Appendices	
– Survey Job Match Descriptions	15
– Incumbent Exhibits	25

**[PROTECTED DATA BEGINS...**

Schedule 3 – Mercer 2022 Executive Benchmarking  
to  
Direct Testimony of Peter E. Wasberg

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

**THE REMAINDER OF THIS DOCUMENT IS NOT PUBLIC IN ITS ENTIRETY**

**...PROTECTED DATA ENDS]**

## Summary Plan Description – Retirement Savings Plan

<b>Retirement savings plan - Coyote Station union employees (hired on or after January 1, 2009)</b>	
Read the full <a href="#">retirement savings plan SPD</a> .	
Type	Defined Contribution (401(k))
Eligibility	You must attain age 18.
Participation	First of the month following eligibility Automatic enrollment at a 3% deferral rate
Vesting	100%
Contribution amount	1% - 50% of pay
Matching company contribution	50% of the first 6% contributed by employee
Enhanced Employer Contribution	7% of annual salary
Investment options	25 fund options with Principal
Payment options	Lump sum distribution at termination, death, disability, or age 59½. Must be paid in full by age 73.
In-service withdrawals	Age 59 ½ withdrawals - Rollovers
Loans	Available (2)

<b>Retirement savings plan - Coyote Station union employees (hired before January 1, 2009)</b>	
Read the full <a href="#">retirement savings plan SPD</a> .	
Type	Defined Contribution (401(k))
Eligibility	You must attain age 18.
Participation	First of the month following eligibility Automatic enrollment at a 3% deferral rate
Vesting	100%
Contribution amount	1% - 50% of pay
Matching company contribution	50% of the first 6% contributed by employee
Investment options	25 fund options with Principal
Payment options	Lump sum distribution at termination, death, disability, or age 59½. Must be paid in full by age 73.
In-service withdrawals	Age 59 ½ withdrawals - Rollovers
Loans	Available (2)

## Summary Plan Description – Retirement Savings Plan

### Retirement savings plan - nonunion employees (hired before September 1, 2006)

Read the full [retirement savings plan SPD](#).

Type	Defined Contribution (401(k))
Eligibility	You must attain age 18.
Participation	First of the month following eligibility Automatic enrollment at a 3% deferral rate
Vesting	5 year vesting schedule (20% each year)
Contribution amount	1% - 50% of pay
Matching company contribution	50% of the first 6% contributed by employee
Investment options	25 fund options with Principal
Payment options	Lump sum distribution at termination, death, disability, or age 59½. Must be paid in full by age 73.
In-service withdrawals	Age 59 ½ withdrawals - Rollovers
Loans	Available (2)

### Retirement savings plan - nonunion employees (hired on or after September 1, 2006)

Read the full [retirement savings plan SPD](#).

Type	Defined Contribution (401(k))
Eligibility	You must attain age 18.
Participation	First of the month following eligibility Automatic enrollment at a 3% deferral rate
Vesting	5 year vesting schedule (20% each year)
Contribution amount	1% - 50% of pay
Matching company contribution	50% of the first 8% contributed by employee
Enhanced Employer Contribution	5% of annual salary
Investment options	25 fund options with Principal
Payment options	Lump sum distribution at termination, death, disability, or age 59½. Must be paid in full by age 73.
In-service withdrawals	Age 59 ½ withdrawals - Rollovers
Loans	Available (2)

## Summary Plan Description – Retirement Savings Plan

### **Retirement savings plan - union employees** hired prior to 11/1/2013 (does not apply to Coyote union employees)

Read the full [retirement savings plan SPD](#).

Type	Defined Contribution (401(k))
Eligibility	You must attain age 18.
Participation	First of the month following eligibility Automatic enrollment at a 3% deferral rate
Vesting	100%
Contribution amount	1% - 50% of pay
Matching company contribution	50% of the first 6% contributed by employee
Investment options	25 fund options with Principal
Payment options	Lump sum distribution at termination, death, disability, or age 59½. Must be paid in full by age 73.
In-service withdrawals	Age 59 ½ withdrawals - Rollovers
Loans	Available (2)

### **Retirement savings plan - union employees** (hired on or after November 1, 2013 - does not apply to Coyote union employees)

Read the full [retirement savings plan SPD](#).

Type	Defined Contribution (401(k))
Eligibility	You must attain age 18.
Participation	First of the month following eligibility Automatic enrollment at a 3% deferral rate
Vesting	100%
Contribution amount	1% - 50% of pay
Enhanced Employer Contribution	5% of annual salary
Matching company contribution	50% of the first 8% contributed by employee
Investment options	25 fund options with Principal
Payment options	Lump sum distribution at termination, death, disability, or age 59½. Must be paid in full by age 73.
In-service withdrawals	Age 59 ½ withdrawals - Rollovers
Loans	Available (2)

### Summary Description of Otter Tail Power Pension Plans

Pension plan –Coyote Station Union Employees (hired before January 1, 2009)	
Type	Defined Benefit
Eligibility	Age 18 and date of hire
Benefit Accrual Service	1,000 hours service in a year
Formula	$(.38(\text{Final Average earnings (36 months)}) + .18(\text{Final Average Earnings} - \text{Covered Compensation})) * (\text{Years of service up to 30/30}) + 1\% \text{ for each year of service from 31} - 40 \text{ years}$
Final Average Earnings	Highest 3 year average of past 10 years
Covered Compensation	35 year average of SS taxable wage base ending in year prior to Normal Social Security Retirement Age
Vesting	Cliff: 100% after five years of Benefit Accrual Service
Normal retirement age	65
Early retirement age	Age 55 with at least 10 years of service
Early retirement reductions	Age 62 – 64: None Age 57 - 61: 5% per year prior to age 62 Age 55 - 56: 7% per year prior to age 57
Funding	Employer
Form of payment	50% J&S Annuity, 50%/75%/100% Survivor Annuity, 10-year Certain, Reversion Option
Pension Purchase Option	Roll-over portion of Retirement Savings Plan balance – buys additional annuity
Pre-retirement death benefits	Greater of Qualified Pre-retirement Death Benefit on date of death or 25% of pay



### Summary Description of Otter Tail Power Pension Plans

Pension plan – Nonunion Employees (hired before September 1, 2006) & Union Employees (hired before 11/1/2013 – does not apply to Coyote Union Employees)	
Type	Defined Benefit
Eligibility	Age 18 and date of hire
Benefit Accrual Service	1,000 hours service in a year
Formula	$(.38(\text{Final Average earnings (30 months)}) + .18(\text{Final Average Earnings} - \text{Covered Compensation})) * (\text{Years of service up to } 30/30) + 1\% \text{ for each year of service from } 31 - 40 \text{ years}$
Final Average Earnings	Highest 2.5 year average of past 10 years
Covered Compensation	35 year average of SS taxable wage base ending in year prior to Normal Social Security Retirement Age
Vesting	Cliff: 100% after five years of Benefit Accrual Service
Normal retirement age	65
Early retirement age	Age 55 with at least 10 years of service
Early retirement reductions	Age 62 – 64: None Age 57 - 61: 5% per year prior to age 62 Age 55 - 56: 7% per year prior to age 57
Funding	Employer
Form of payment	50% J&S Annuity, 50%/75%/100% Survivor Annuity, 10-year Certain, Reversion Option
Pension Purchase Option	Roll-over portion of Retirement Savings Plan balance – buys additional annuity
Pre-retirement death benefits	Greater of Qualified Pre-retirement Death Benefit on date of death or 25% of pay

## Otter Tail Power Company – Retirement Benefits Eligibility

Employee Group	Eligible for Pension	Eligible for 401(k) Enhanced Contribution – 5%	Eligible for 401(k) Enhanced Contribution – 7%	Eligible for 401(k) Match; 50% of the First 6% (max – 3.0%)	Eligible for 401(k) Match; 50% of the First 8% (max – 4.0%)	Eligible for Retiree Medical
Non-union hired prior to 9/1/2006	<b>X</b>			<b>X</b> <i>Effective 1/1/2024</i>		<b>X</b>
Non-union hired 9/1/2006 or after		<b>X</b> <i>Effective 1/1/2024</i>			<b>X</b> <i>Effective 1/1/2024</i>	
Coyote Union hired prior to 1/1/2009	<b>X</b>			<b>X</b>		<b>X</b>
Coyote Union hired 1/1/2009 or after			<b>X</b>	<b>X</b>		
Other Union hired prior to 11/1/2013*	<b>X</b>			<b>X</b> <i>Effective 11/1/2023</i>		<b>X</b>
Other Union hired 11/1/2013 or after		<b>X</b>			<b>X</b> <i>Effective 11/1/2023</i>	

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

### Other Notes

Prior to 1/1/2024:

- Non-union, pension employees 401(k) match was 50% of the first 5% (max – 2.5%)
- Non-union, non-pension employees enhanced was 4% and 401(k) match was 50% of the first 5% (max – 2.5%)

Prior to 11/1/23:

- Other union, pension employees 401(k) match was 50% of the first 5% (max – 2.5%)
- Other union, non-pension employees 401(k) match was 50% of the first 6% (max – 3%)

# 2023 Energy Services Benefits Study

BenVal for Otter Tail Corporation

October 2023

[wtwco.com](http://wtwco.com)

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Schedule 5 – Report of the 2023 Willis Towers Watson Energy Services BenVal Study  
to  
Direct Testimony of Peter E. Wasberg

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

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# 2024 Benefits Overview and Considerations

Otter Tail Power

October 16, 2023

A business of Marsh McLennan



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Schedule 6 – Mercer 2024 Renewal  
to  
Direct Testimony of Peter E. Wasberg

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

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