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Direct Testimony and Schedules

Dante Mugrace

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 Electric Rates

In North Dakota

Case No. PU-23-342

Overall Revenue Requirement

Rate Base Valuation

Operating Income

May 15, 2024

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Prefiled Direct Testimony and Schedules of Dante Mugrace - Redacted
Public Service Commission Advocacy Staff
Mitch Armstrong, SAAG, Advocacy Counsel

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I. INTRODUCTION – STATEMENT OF QUALIFICATION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Dante Mugrace. My business address is 22 Brooks Avenue, Gaithersburg, MD 20877.

Q. WHAT IS YOUR PRESENT OCCUPATION?

A. I am a Senior Consultant with the Economic and Management Consultant Firm of PCMG and Associates, LLC. (PCMG). In my capacity as a Senior Consultant, I am responsible for evaluating and examining rate and rate-related proceedings before various governmental entities, preparing expert testimony and reviewing and making recommendations concerning revenue requirement proposals, as well as, offering opinions on economic policy and policy issues and methodologies used to set a value on a utility's rate base and cost of service components of revenue requirements.

Q. PLEASE SUMMARIZE YOUR PROFESSIONAL EXPERIENCE?

A. PCMG is an association of experts in the area of utility regulation and policy, economics, accounting, and finance. PCMG's members have over 75 years of collective experience providing assistance to counsel and expert testimony regarding the regulation of electric, gas, water and wastewater utilities that operate under local, state, and federal jurisdictions. PCMG brings to client engagements a consultative and collaborative approach to the identification of issues and the development of positions with strict adherence to client procedures and deadlines. PCMG focuses on areas regarding revenue requirement, cost of service, rate design, cost of capital and rate of return. We provide overall analyses on various ratemaking concepts as well as a review of public utility accounting methods used by various public utilities and State Public Service Commissions. We also evaluate the reasonableness of costs and investments that are used to set rates, and measure the value of rate base, whether these costs are prudent in nature, used and useful and known and measurable in utility operations. Prior to my association with PCMG, I was employed as a Senior Consultant with the consulting firm of Snavely-King Majoros and Associates (SKM) from 2013 to 2015 in the same capacity as PCMG. Prior to SKM, I was employed by the New Jersey Board of Public Utilities (NJBPU or BPU or Board) from 1983 to my retirement in 2011. During my tenure at the NJBPU, I held various Accounting, Auditing, Rate Analyst, Supervisory and Management positions. My last position was Bureau Chief of Rates in the Agency's Water Division (Bureau Chief of Rates). I held this position for nearly 10 years. My CV is attached as Appendix A.

Q. WHAT EXPERIENCE DO YOU HAVE IN THE AREA OF UTILITY RATE SETTING PROCEEDINGS AND OTHER REGULATORY AND UTILITY MATTERS?

A. In my capacity as Bureau Chief of Rates, I was responsible for managing, assigning, directing, and overseeing the rate process regarding the administrative, financial, and managerial functions of the Rates Bureau. My primary duties were to ensure that the utilities had sufficient revenues to cover their operating expenses, while ensuring that those expenses were reasonable in nature, prudent, and known and measurable in providing service and benefits to customers, and were in accordance with Board policies, regulatory standards, and prior rate Orders. I also was responsible to ensure that the utilities had the opportunity to earn a reasonable return on their plant investments, including the ability to provide safe, adequate, and proper service at reasonable rates. During my time at the NJBPU, I was involved in hundreds of rate and rate-related proceedings that were resolved either through settlement or fully litigated proceedings. In my capacity as a Senior Consultant, I was involved or am currently involved in rate and rate-related proceedings before the Commissions in the Commonwealths of Massachusetts and Pennsylvania, and the States of Hawaii, Maine, Maryland, New Jersey, New York, North Dakota, and Ohio. I was involved in the Generic Proceedings to Establish Parameters for the Next Generation Performance Based Rate Plans before the Alberta Utilities Commission. I have been or am currently involved in matters before the Federal Energy Regulatory Commission ("FERC") regarding transmission formula rate plans. More recently I was involved in the Generic Proceeding instituted by the NJ Board of Public Utilities (NJBPU) regarding the Tax Cuts and Jobs Act of 2017 (BPU Docket No. AX1801001) regarding the setting of the federal tax adjustments and the adjustment of rates and the impact on the flowback of excess accumulated deferred income taxes. I am currently involved in several proceedings with the NJBPU with respect to the establishment of energy efficiency and peak demand reduction programs in accordance with the NJ Clean Energy Act of 2018 (BPU Docket Nos. QO19010040, QO19060748 and QO17091004).

Q. WHAT IS YOUR EDUCATIONAL BACKGROUND?

A. I hold a Master of Business Administration ("MBA") degree with a concentration in Strategic Management from Pace University – Lubin School of Business in New York City, New York. I hold a Master of Public Administration ("MPA") degree from Kean University in Union, New Jersey. I hold a Bachelor of Science ("BS") degree in Accounting from Saint Peter's University in Jersey City, New Jersey.

Q. ON WHOSE BEHALF ARE YOUR TESTIFYING?

A. I am testifying on behalf of the Advocacy Staff of the North Dakota Public Service Commission (NDPSC).

II. PURPOSED OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to evaluate and make a revenue requirement recommendation regarding Otter Tail Power Company's (OTP or Company) electric base rate case proceeding filed with the North Dakota Public Service Commission (NDPSC or Commission), that was filed on November 2, 2023 in Case No. PU-23-342. My overall revenue requirement recommendations are based upon the Company's proposed test year period ending December 31, 2024. The Company has proposed an annual revenue requirement increase of $40,660,558 or 8.43% over current rate revenues. Incorporated into my testimony, I have presented findings with respect to the Company's test year rate base, revenues, operating expenses and net income at present rate revenues. I have incorporated and am relying on the recommendations of Dr. Marlon Griffing for cost of capital and return on equity, and Dr. Karl Pavlovic for cost of service and rate design that may affect my revenue requirement.

Q. HAVE YOU REVIEWED AND EXAMINED THE COMPANY'S TESTIMONY AND ACCOMPANYING EXHIBITS IN THIS PROCEEDING?

A. Yes. I have reviewed OTP's testimony, statements and exhibits, and have also reviewed and relied on the responses to data requests propounded by Advocacy Staff and PCMG.

Q. HAVE YOU PREPARED SCHEDULES TO ACCOMPANY YOUR TESTIMONY?

A. Yes. I have prepared Schedules DM-1 through DM-22.

Q. PLEASE SUMMARIZE THE RATE RELIEF PROPOSED BY OTP.

A. As previously indicated above, the Company filed an application for an increase in electric service on November 2, 2023, requesting an increase in base distribution rates in the amount of $40,660,558 or 8.43% above current rates. OTP's $40,660,558 revenue requirement increase includes $17,358,237 of net base revenue requirement plus revenues previously recovered in its Rider Revenues of $23,302,321. (ND-PSC-015). The revenue requirement is predicated upon a future test year ending December 31, 2024, (Exhibit CLP-1 Schedule 12) which includes an overall rate of return of 7.85% and a common equity component of 10.60%. (Exhibit TRW-1 Schedule D-1-a). The Company has computed an average rate base balance of $661,733,555 based upon average balances of plant investments. The Company is proposing to include certain investments currently recovered in the Renewable Resource Cost Recovery Rider (RRCR Rider), the Transmission Cost Recovery Rider (TCR Rider), Metering & Distribution Technology Cost Recovery Rider (MDT Rider), and the General Cost Recovery Rider (GCR Rider) into base rates. OTP stated that the results are a decrease of $23.3 million to rider revenues and an increase of $40.7 million to base revenues. The net result is an average increase of 8.43% (Gerhardson Testimony page 2). The Company's last base rate case was in Case No. PU-17-398 filed in November 2017.

Q. HOW DID THE COMPANY COMPUTE ITS PROPOSED REVENUE REQUIREMENT INCREASE OF $40,660,558?

A. The Company has computed its proposed revenue requirement increase by computing the average rate base (beginning and ending test year balances) and then adding and subtracting average balances related to accumulated depreciation, Cash Working Capital (CWC) materials and supplies, fuel inventory, prepayments, customer advances, construction work in progress, plant held for future use and subtracting accumulated deferred income taxes. The Company multiplied its proposed average rate base balance of $661,733,555 by the proposed rate of return of 7.85% to arrive at a proposed Operating Income requirement of $51,946,084. The Company then subtracted its Operating Income at present rates of $21,208,695 to arrive at an income deficiency of $30,737,389.[1] The Company then multiplied this amount by its revenue conversion factor of 1.322837 to arrive at its revenue requirement increase proposal of $40,660,558.

Q. HAVE YOU ACCEPTED THE COMPANY'S PROPOSED TEST YEAR ENDING DECEMBER 31, 2024?

A. Yes.

Q. HAS THE COMPANY UPDATED ITS PROPOSED REVENUE REQUIREMENT INCREASE SUBSEQUENT TO THE NOVEMBER 2, 2023 FILING DATE?

A. No.

Q. PLEASE SUMMARIZE YOUR FINDING AND RECOMMENDATIONS.

A. Based upon the use of the Company's test year period ending December 31, 2024, I have the following recommendations:

1. My recommended rate base balance is $660,426,056, which is $1,307,493 lower than the Company's proposed rate base balance of $661,733,555.
2. My rate of return is based upon the recommendation of Dr. Marlon Griffing, which recommends an overall return of 7.48%, which includes a common equity component of 10.25%.

[1] Company Exhibit CLP-1 Schedule A-1

3. My recommended operating revenues at present rates is $197,460,169 which is $1,793,848 higher than the Company's operating revenues at present rates of $195,666,321.
4. My overall revenue requirement increase based upon an overall rate of return of 7.48% is $27,481,994 or 13.918%; this is $13,178,562 lower than the Company's requested overall revenue requirement increase of $40,660,558.

Q. HOW IS THE REMAINDER OF YOUR TESTIMONY ORGANIZED?

A. The remainder of my testimony is organized by documenting and explaining adjustments to various rate base components and net operating income components to arrive at my recommended revenue requirement.

Q. ARE YOU ACCEPTING ANY OF THE COMPANY'S PROPOSED RATE BASE BALANCE AND OPERATING INCOME ADJUSMENTS?

A. Yes. I am accepting certain of the Company's Rate Base balances and certain of the Company's Operating Income adjustments. These adjustments are not identified in my testimony but are identified in my revenue requirement schedules. My testimony reflects the areas of disagreement from that of the Company and the effect these adjustments have on rates.

III. Cost of Capital

Q. WHAT HAS THE COMPANY PROPOSED WITH RESPECT TO ITS COST OF CAPITAL?

A. The Company has proposed an overall Cost of Capital of 7.85%. The breakdown of this return is based upon a long-term debt rate of 2.57%, a short-term debt rate of 0.16% and a common equity component of 10.60%. (Exhibit TRW-1, Schedule D-1-a).

Q. WHAT IS YOUR RECOMMENDED COST OF CAPITAL?

A. As per Advocacy Staff witness Dr. Griffing's recommendation, I am incorporating an overall cost of capital of 7.48% which includes a common equity component of 10.25%. This is shown on Schedule DM-2, and on Dr. Griffing's Exhibit MFG-20, Schedule 3.

REVENUE REQUIREMENT ISSUES

IV. Rate Base Issues

A. Electric Plant in Service

Q. WHAT HAS THE COMPANY PROPOSED WITH RESPECT TO ITS ELECTRIC PLANT IN SERVICE BALANCE?

A. As shown on Exhibit CLP-1 Schedule 6, the Company proposed an average plant in service balance of $1,259,341,147, as of December 31, 2024. The Company has developed this balance starting with total Company investments during the actual year 2022, and making adjustments in the current period 2023, based upon actual results through July 2023, and forecasted results through December 2023. The 2024 test year period is based upon prior years' data with OTP's capital budget and reflects traditional adjustments as shown on Exhibit CLP-1 Schedule 7 (Petersen testimony page 18). The Company calculated the investment related to the North Dakota jurisdiction by the use of a simple average. The Company adjusted the simple average for known and measurable changes along with traditional regulatory adjustments to arrive at the 2024 Regulatory Year to normalize the budgeted financial information for one-time events that will not be recurring on an on-going basis. (Petersen testimony page 19).

Q. HOW DOES OTTER TAIL CORPORATION (THE PARENT COMPANY) ALLOCATE ITS ELECTRIC PLANT IN SERVICE BALANCE TO OTP?

A. OTP used its Jurisdictional Cost of Service Study (JCOSS) to determine the portion of OTP's total company costs and revenues that should be recognized in the North Dakota jurisdiction for the 2024 Test Year. (Petersen Testimony page 1). Ms. Petersen stated that multi-jurisdictional utilities use a JCOSS to determine the portion of total company costs and revenues that should be recognized in a specific jurisdiction. The Parent Company serves retail customers in North Dakota, Minnesota and South Dakota. Costs that OTP incurs to meet the requirements of a particular jurisdiction are directly assigned to that jurisdiction, and costs that cannot be directly assigned to a specific jurisdiction are allocated to jurisdictions based upon the allocation factors included in the JCOSS. (Petersen Testimony page 3). All of the Parent Company's jurisdictions use the same jurisdictional allocation procedures for its subsidiaries. (Petersen Testimony page 4). (CLP-1 Schedule 2). The Company stated that this is the same process that was used and approved by the Commission in OTP's last North Dakota rate case.

Q. DO YOU HAVE ANY CHANGES OR ADJUSTMENTS TO THE COMPANY'S ALLOCATIONS FACTORS USED IN THE DEVELOPMENT OF THE COMPANY'S REVENUE REQUIREMENT?

A. No. I am accepting the Company's proposed allocation factors that were used in the development of the Company's revenue requirement proposal.

Q. DO YOU HAVE ANY ADJUSMENTS WITH RESPECT TO THE COMPANY'S EPIS BALANCE OF $1,259,341,147?

A. No. I am accepting the Company's proposed average balance. I note that the Langdon Upgrade Project is expected to be completed at the end of 2024. The $10,079,520 balance proposed by the Company is an estimate. The Company stated that there have been no delays in construction or any significant change in cost. On November 2, 2023, the Company filed its Sixteenth RRCR Rider Update to include costs associated with Langdon. This update and others associated with Luverne, Ashtabula I and III were approved by the ND PSC in siting cases PU-23-86, PU-23-176 and PU-23-256. (Foster Testimony page 4). The Upgrades to the Ashtabula I and III will be completed in 2025 and will remain in the RRCR rider until the Company's next North Dakota rate case. (Foster testimony page 5). The Merricourt, Ashtabula III and the Langdon Upgrade costs are part of this base rate case used to determine the 2024 test year revenues. (Foster testimony page 5). I do not have any adjustments at this time. I would ask the Company to provide actual costs related to the Langdon Upgrade Project when new information is received. This balance is shown on my Schedule DM-5.

B. Accumulated Depreciation

Q. WHAT HAS THE COMPANY PROPOSED WITH RESPECT TO ACCUMULATED DEPRECIATION?

A. In the same manner as the Company developed its EPIS balance, the Company performed the same analysis with respect to its Accumulated Depreciation or Depreciation Reserve amount, by taking the simple average of balances at the beginning and end of the test year. (Petersen Testimony page 19). The Company proposed an average accumulated depreciation balance of $461,242,346 as shown on Company Exhibit CLP-1 Schedule 6.

Q. DO YOU HAVE ANY ADJUSMENTS WITH THE WAY THE COMPANY DEVELOPED ITS ACCUMULATED DEPRECIATION BALANCE?

A. No. I am accepting the Company's methodology as to the development of the Company's Accumulated Depreciation.

Q. WHAT SPECIFIC ADJUSTMENTS DO YOU HAVE REGARDING YOUR ADJUSTMENTS TO THE COMPANY'S ACCUMULATED DEPRECIATION BALANCE?

A. I do not have any adjustments. I am accepting the Company's Accumulated Depreciation Expense balance of $461,242,346. This balance is reflected on my Schedule DM-6.[2]

C. Accumulated Deferred Income Taxes (ADIT)

Q. WHAT HAS THE COMPANY PROPOSED REGARDING ITS ACCUMULATED DEFERRED INCOME TAXES?

A. The Company has proposed an ADIT balance of $175,768,672 as shown on Company Exhibit CLP-1 Schedule 6. The amounts reflect a simple average of the beginning and end of year balances, without proration (Petersen Testimony page 23).

[2] Any differences due to rounding issues.

Q. WHAT HAS THE COMPANY STATED WITH RESPECT TO ITS NORMALIZATION REQUIREMENTS TO SET THE ACCUMULATED DEFERRED INCOME TAX BALANCE?

A. According to Ms. Stalboerger the Company obtained a Private Letter Ruling (PLR) from the Internal Revenue Service (IRS) addressing the requirements for ADIT proration. That PLR directed that, in order to comply with normalization requirements, ADIT proration is to be based on the date rates become effective and that the PLR also determined how ADIT proration must be applied for both final rates and interim rates and rates refund. (Stalboerger testimony page 16). Ms. Stalboerger stated that to comply with normalization requirements, the rate must be computed by applying ADIT proration to only the portion of the test year that follows the date of implementation of the rates. If the rates were implemented as of August 1, 2024, ADIT proration would be required only for the period from August 1, 2024 through December 31, 2024. (Stalboerger Testimony page 17). Changes in ADIT balances from January 1, 2024 to July 31, 2014 are not prorated but the incremental monthly charges to ADIT from August 1, 2024 to December 31, 2024 are prorated. Ms. Stalboerger stated that the 2024 test year revenue requirement is calculated as if the final rates go into effect January 1, 2025, so no proration has been applied. (Stalboerger Testimony page 17).

Q. DO YOU HAVE ANY ADJUSTMENTS REGARDING THE COMPANY'S METHODOLOGY ON THE DEVELOPMENT OF ITS ADIT?

A. No. I am accepting the Company's methodology as to the development of the Company's ADIT. This is shown on my Schedule DM-7.

D. Cash Working Capital (CWC)

Q. WHAT HAS THE COMPANY PROPOSED WITH RESPECT TO CASH WORKING CAPITAL (CWC)?

A. The Company has proposed a CWC balance of $1,464,908 as shown on Exhibit CLP-1 Schedule 6 and Schedule B-2-e. Ms. Petersen stated that the CWC requirement is based upon a lead/lag study prepared by the Company using calendar year 2020 financial data. The study analyzed the lapse of time between the average day on which the Company incurred expenses to serve its customers and the average day on which cash is received from customers in payment of that service. (Petersen Testimony page 23).

Q. DO YOU HAVE ANY ADJUSTMENTS IN THE WAY THE COMPANY HAS COMPUTED ITS CWC BALANCE?

A. No. I am accepting the Company's methodology but have adjustments related to my recommended adjustment to the Company's proposed revenues and expenses.

Q. WHAT ARE YOUR ADJUSTMENTS?

A. Based upon my adjustments to the Company's Rate Base components, the Operating Income and the Operating Expenses, I have calculated a CWC balance of $942,467. This is shown on Schedule DM-8.

E. Other Rate Base Items

Q. WHAT HAS THE COMPANY PROPOSED WITH RESPECT TO ITS OTHER RATE BASE ITEMS?

A. The Company has proposed the following balances with respect to its Other Rate Base Items as shown on Company Exhibit CLP-1 Schedule 6:

Plant Held for Future Use	$4,921
Construction Work in Progress	$780,995
Materials & Supplies	$14,737,569
Fuel Stocks	$4,495,117
Prepayments	$18,630,686
Customer Advances	($710,769)

Q. WHAT ADJUSTMENT DO YOU HAVE?

A. I am making an adjustment to remove the Company's proposed Plant Held for Future Use balance of $4,921.

Q. WHAT DID THE COMPANY STATE WAS THE NEED TO INCLUDE THIS BALANCE IN RATE BASE?

A. In response to ND-PSC-29, the Company stated that this balance represents land purchases that were acquired in advance and held for future transaction and distribution facilities. The Company stated that these costs have been included in prior cases, and as the planning process takes time, it is reasonable that these costs are included within Rate Base as the intent is to provide better service and reliability for customers in those areas.

Q. WHAT IS YOUR RESPONSE?

A. I am recommending disallowance of this balance to develop the Rate Base calculation. The Company has not provided when these land purchases related to transmission and distribution facilities will occur or be used and useful in the provision of utility service (ND-PSC-029). Costs should be based on known and measurable items and not for costs that are unknown or for future use. Also, the Company should not be earning a return for which no utility services are being provided to ratepayers. All expenditures should be placed in service and provide utility service when rates are set by the Commission.

Q. DO YOU HAVE ANY ADJUSTMENTS RELATED TO THE COMPANY'S PROPOSED OTHER RATE BASE ITEMS?

A. I am adjusting the Company's short-term CWIP of $780,995. The Company stated that these costs represent all projects anticipated to be in service within 30 days (ND-PSC-206). I am recommending disallowing these costs in Rate Base, until such time as the Company can verify the final costs of its projects. Unless the Company can confirm that all CWIP balances that represent projects that have been placed in service as of May 1, 2024, I am recommending disallowance. All plant in service should be used and useful in the provision of utility service.

V. Operating Income Issues

A. Operating Revenues

Q. WHAT HAS THE COMPANY PROPOSED WITH RESPECT TO ITS OPERATING REVENUES AT PRESENT RATES AND PROPOSED RATES?

A. The Company has proposed Operating Revenues at Present Rates of $195,666,321 as shown on Exhibit CLP-1 Schedule 9. The Electric Retail Revenues are comprised of $182,686,888 and Other Electric Revenue of $12,979,433. (The response to ND-PSC-31 provided the breakdown of Other Electric Revenues). The Company adjusted its Revenues at Present Rates by including the proposed revenue deficiency of $40,660,558 to arrive at Revenues at Proposed Rates of $236,326,879 (ND-PSC-019).

Q. WHAT WEATHER NORMALIZATION PERIOD HAS THE COMPANY USED TO DEVELOP ITS SALES REVENUES?

A. The Company has utilized a weather normalization period of 20 years of normal weather condition and forecasted economic and demographic conditions for the 2024 (Ms. Mortenson Testimony page 4).

Q. DO YOU HAVE ANY ADJUSTMENTS TO THE COMPANY'S OPERATING REVENUES AT PRESENT RATES?

A. Yes. I made one adjustment to the Company's Other Electric Revenues. The Company included $12,979,433 of revenues in its Test Year 2024 related to items such as late fees, connection revenues, Rent from Electric Properties, Other Miscellaneous Revenues, Integrated Transmission Deficiency Payments, Miscellaneous Services and Load Control and Dispatching Revenues (ND-PSC-031 and 208). These types of revenues typically fluctuate year to year depending on various conditions, terms, circumstances and events. As shown on Attachment A to NDPSC 208, these items fluctuated from 2022 to 2023 and can be a useful comparison to the 2024 Test Year. Due to these fluctuations, it is more appropriate to average these revenues over a three-year period to smooth out and normalize these revenue adjustments. The Company provided the following balances to its Other Electric Revenues allocated to the North Dakota jurisdiction:

	2022	2023	2024
Balance	$18,158,018	$13,185,392	$12,979,433

A three-year average of these costs results in a 2024 balance of $14,773,281. This increases the Company proposed balance by $1,793,848. This is shown on Schedule DM-9.

B. Operating and Maintenance Expenses

Q. WHAT HAS THE COMPANY PROPOSED WITH RESPECT TO ITS OPERATING AND MAINTENANCE EXPENSE?

A. As shown on Company Exhibit CLP-1 Schedule 10, the Company proposed a total Operating and Maintenance Expense (O&M) balance for the 2024 test year of $179,322,905. This balance is composed of various accounts related to Production, Transmission, Distribution, Customer Accounting, Customer Service, and Sales, General, and Administrative. This balance includes the Company specific adjustments in each of the accounts listed above, and as shown on Exhibit CLP-1 Schedule 12. I will discuss these specific adjustments further in my testimony.

Q. HOW DID THE COMPANY ALLOCATE ITS O&M EXPENSES RELATED TO THE NORTH DAKOTA JURSDICTION?

A. As explained by Ms. Petersen, the O&M Budget includes two primary components: (1) labor and (2) non-labor costs. (Ms. Petersen Testimony page 16). Ms. Petersen stated that labor costs were developed based on the number of individual employees within each department and each functional area and are then cumulated at the functional area level. The 2024 budgeted level of employees was based upon the recent historical employee levels. With respect to the non-labor costs, these were primarily developed using averages from recent years and requested adjustments that were known for the 2024 O&M budget, either increasing or reducing costs for known changes and expected major events, such as generating plant outages (Ms. Petersen Testimony page 16 and 17).

Q. HAS THE COMPANY UPDATED ITS FILING TO INCLUDE O&M EXPENSE OUTAGES?

A. While the Company addressed its O&M Outage adjustment of $1,091,341 as reflected in response to ND-PSC-017, the Company did not update its revenue requirement.

Q. WHAT IS YOUR RECOMMENDATION?

A. My recommendation is that the Company should not be allowed to include these O&M outage costs for recovery. The Company stated that if this cost was included it would increase the revenue deficiency from the original as filed balance of $40,660,556 to $41,751,899. The Company should not be able to receive a greater increase in revenue requirement for specific expenses than the amount requested in the initial filing.

Q. WHAT ADJUSTMENTS DO YOU HAVE WITH RESPECT TO THE COMPANY'S OVERALL OPERATING AND MAINTENANCE EXPENSES?

A. I have adjustments to certain of the Company's overall O&M Expense balance that do not include specific adjustments the Company has made and proposed as shown on Exhibit CLP-1 Schedule 12.

1. Production Expense

Q. WHAT HAS THE COMPANY PROPOSED REGARDING ITS PRODUCTION EXPENSE?

A. As shown on Company Exhibit CLP-1 Schedule 10 and 12, the Company proposed a Regulatory Year 2024 balance of $86,694,044. To that balance, the Company added $414,420 related to normalized pension and post-retirement medical expenses. The Test Year 2024 balance then becomes $87,108,465. The Company stated that the majority of this balance is Production Expenses related to fuel and purchased power expenses, as well as maintenance costs of the Company's generation plants. (Ms. Petersen Testimony page 33).

Q. HOW DID THE COMPANY DEVELOP ITS ADJUSTMENT RELATED TO ITS NORMALIZED PENSION AND POST-RETIREMENT MEDICAL (PRM) EXPENSES?

A. The Company stated that the budgeted Pension and PRM costs were calculated based upon demographics and standard actuarial assumptions. (Ms. Petersen Testimony page 39). The 2024 budgeted PRM and post-retirement (LTD) medical benefits expenses were based upon the 2024 expense include in Mercer's Five Year Pension Estimate. (CONFIDENTIAL Exhibit CLP-1 Schedule 14). According to Company witness Ms. Petersen, the Company is requesting to normalize the level of Pension and PRM based upon Mercer's actuarial estimated expenses for 2024-2028. (Ms. Petersen Testimony page 39).

Q. WHAT ADJUSTMENTS DO YOU HAVE?

A. I am accepting the Company's normalized Pension and PRM costs to set the balance in the Test Year of $414,420. As more fully discussed further in my testimony, I am implementing a Vacancy Rate Ratio to adjust the Company's Normalized Pension and PRM costs to recognize not all of the Company's projected attrition of 64 positions and projected hires of 67 in 2024 will occur. The Company stated that it does not know exactly which roles will require replacement throughout any given year, and it would estimate annual salaries. Given this information, it is uncertain whether or not the Company will actually hire the number of employees it has proposed, and I recommend using a Vacancy Rate Ratio. The Company has not provided any expected dates of hires and has not provided the status of interviews for these proposed hires. Utilizing a Vacancy Rate Ratio of 4.05% and multiplying the balance of $414,420, produces an adjustment of $16,784. This balance reflects the fact that the full complement of employees may not be realized in the 2024 Test Year period. My adjustment is shown on my Schedule DM-11.

Q. WHAT OTHER ADJUSTMENT DO YOU HAVE?

A. In reviewing the response to ND-PSC-216 the Company included costs related to Gifts and Employee Recognition of $225,387 (three-year average) to which

$96,966 is attributable to the ND Jurisdiction. I recommend disallowing these costs for ratemaking purposes. Ratepayers should not be paying for costs related to gifts and employee recognition. These types of costs should be borne by the Company as these relate to morale boosting, service awards for employment at the Company, and certain employee achievements that may not benefit ratepayers in the areas of safety, reliability, customer service or satisfaction. The $96,966 balance was allocated among the Company's Production, Transmission, Distribution, Customer Accounts and Customer Service categories. My balances are shown on my Schedule DM-11 through DM-15. For the Production expense balance, this represents a disallowance of $32,601.

2. Transmission Expense

Q. WHAT HAS THE COMPANY PROPOSED REGARDING ITS TRANSMISSION EXPENSE?

A. As shown on Company Exhibit CLP-1 Schedule 10 and 12, the Company proposed a Regulatory Year 2024 balance of $13,847,298. To that balance the Company added $239,257 related to normalized Pension and PRM expenses. The Test year 2024 balance then becomes $14,086,555. The Company stated that this balance includes load dispatching, substation expenses, transmission line and substation maintenance, transmission of electricity by others, rents for transmission property, engineering, computer hardware and software for the operations of the transmission system and transmission market costs (Ms. Petersen's Testimony page 33).

Q. HOW DID THE COMPANY DEVELOP ITS ADJUSTMENT RELATED TO ITS NORMALIZED PENSION AND POST-RETIREMENT MEDICAL (PRM) EXPENSES?

A. As stated previously, the Company stated that the budgeted Pension and PRM costs were calculated based upon demographics and standard actuarial assumptions (Ms. Petersen Testimony page 39). The 2024 budgeted PRM and post-retirement (LTD) medical benefits expenses were based upon the 2024 expense include in Mercer's Five Year Pension Estimate. (CONFIDENTIAL

Exhibit CLP-1 Schedule 14). According to Company witness Ms. Petersen, the Company is requesting to normalize the level of Pension and PRM based upon Mercer's actuarial estimated expenses for 2024-2028. (Ms. Petersen Testimony page 39).

Q. WHAT ADJUSTMENTS DO YOU HAVE?

A. I performed the same adjustments in applying a Vacancy Rate Ratio to the Company's projected Normalized Pension and PRM costs of $239,257. Using the Vacancy Rate Ratio of 4.05%, results in an adjustment of $9,690.

Q. WHAT OTHER ADJUSTMENT DO YOU HAVE?

A. As I discussed in my Production Expense section, costs related to Gifts and Employee Recognition should be disallowed. A portion of these costs was allocated to the Transmission Expense in the amount of $14,230 and should be disallowed for the reasons discussed above. My adjustments are shown on my Schedule DM-12.

3. Distribution Expense

Q. WHAT HAS THE COMPANY PROPOSED WITH RESPECT TO ITS DISTRIBUTION EXPENSE?

A. As shown on Company Exhibit CLP-1 Schedule 10 and 12, the Company proposed a Regulatory Year 2024 balance of $7,972,703. To that balance the Company added $420,521 related to normalized Pension and PRM costs. The Test year 2024 balance then becomes $8,393,224. The Company stated that this balance includes O&M expense related to the distribution system, including substations, wires, transformers, meters, and lighting.

Q. HOW DID THE COMPANY DEVELOP ITS ADJUSTMENT RELATED TO ITS NORMALIZED PENSION AND POST-RETIREMENT MEDICAL (PRM) EXPENSES?

A. As stated previously, the Company stated that the budgeted Pension and PRM costs were calculated based upon demographics and standard actuarial assumptions. (Ms. Petersen Testimony page 39). The 2024 budgeted PRM and post-retirement (LTD) medical benefits expenses were based upon the 2024 expense include in Mercer's Five Year Pension Estimate. (CONFIDENTIAL Exhibit CLP-1 Schedule 14). According to Company witness Ms. Petersen, the Company is requesting to normalize the level of Pension and PRM based upon Mercer's actuarial estimated expenses for 2024-2028. (Ms. Petersen Testimony page 39).

Q. WHAT IS YOUR RESPONSE?

A. I performed the same adjustments in applying a Vacancy Rate Ratio to the Company's projected Normalized Pension and PRM costs of $420,521. Using the Vacancy Rate Ratio of 4.05%, results in an adjustment of $17,031. My adjustments are shown on my Schedule DM-13.

Q. WHAT OTHER ADJUSTMENT DO YOU HAVE?

A. As I discussed in previous expense sections, costs related to Gifts and Employee Recognition should be disallowed. A portion was allocated to the Distribution Expense in the amount of $25,682 and should be disallowed for the reasons discussed above. My adjustments are shown on my Schedule DM-13.

4. Customer Accounting

Q. WHAT HAS THE COMPANY PROPOSED WITH RESPECT TO ITS CUSTOMER ACCOUNTING EXPENSE?

A. The Company has proposed a Customer Accounting balance in its Regulatory Year 2024 of $7,035,433 as shown on Company Exhibit CLP-1 Schedule 10 and 12. To that balance the Company included $260,162 to normalize Pension and PRM costs. The Test year 2024 balance then becomes $7,295,595. These costs include meter reading, billing and maintenance of customer records.

Q. HOW DID THE COMPANY DEVELOP ITS ADJUSTMENT RELATED TO ITS NORMALIZED PENSION AND POST-RETIREMENT MEDICAL (PRM) EXPENSES?

A. As previously indicated, the Company stated that the budgeted Pension and PRM costs were calculated based upon demographics and standard actuarial assumptions (Ms. Petersen Testimony page 39). The 2024 budgeted PRM and post-retirement (LTD) medical benefits expenses were based upon the 2024 expense include in Mercer's Five Year Pension Estimate. (CONFIDENTIAL Exhibit CLP-1 Schedule 14). According to Company witness Ms. Petersen, the Company is requesting to normalize the level of Pension and PRM based upon Mercer's actuarial estimated expenses for 2024-2028. (Ms. Petersen Testimony page 39).

Q. WHAT IS YOUR RESPONSE?

A. I performed the same adjustments applying a Vacancy Rate Ratio to the Company's projected Normalized Pension and PRM costs of $260,162. Using the Vacancy Rate Ratio of 4.05%, results in an adjustment of $10,537. My adjustments are shown on my Schedule DM-14.

Q. WHAT OTHER ADJUSTMENT DO YOU HAVE?

A. As I discussed in my previous expense sections, costs related to Gifts and Employee Recognition should be disallowed. A portion was allocated to the Customer Accounting Expense in the amount of $19,756 and should be disallowed for the reasons discussed above. My adjustments are shown on my Schedule DM-14.

5. Customer Service & Information Expense

Q. WHAT HAS THE COMPANY PROPOSED REGARDING ITS CUSTOMER SERVICE AND INFORMATION EXPENSE?

A. The Company proposed a Regulatory Year 2024 balance to its Customer Service and Information Expense of $1,315,049 as shown on Company Exhibit CLP-1 Schedule 10 and 12. To that balance the Company added $15,968 to normalize its Pension and PRM costs. The Test Year 2024 balance is $1,331,017. The Company stated that these costs include customer assistance expenses. (Ms. Petersen's Testimony page 34).

Q. HOW DID THE COMPANY DEVELOP ITS ADJUSTMENT RELATED TO ITS NORMALIZED PENSION AND POST-RETIREMENT MEDICAL (PRM) EXPENSES?

A. As stated previously, the Company stated that the budgeted Pension and PRM costs were calculated based upon demographics and standard actuarial assumptions. (Ms. Petersen Testimony page 39). The 2024 budgeted PRM and post-retirement (LTD) medical benefits expenses were based upon the 2024 expense include in Mercer's Five Year Pension Estimate. (CONFIDENTIAL Exhibit CLP-1 Schedule 14). According to Company witness Ms. Petersen, the Company is requesting to normalize the level of Pension and PRM based upon Mercer's actuarial estimated expenses for 2024-2028. (Ms. Petersen Testimony page 39).

Q. WHAT IS YOUR RESPONSE?

A. I performed the same adjustments in applying a Vacancy Rate Ratio to the Company's projected Normalized Pension and PRM costs of $15,9658. Using the Vacancy Rate Ratio of 4.05%, results in an adjustment of $647. My adjustments are shown on my Schedule DM-15.

Q. WHAT OTHER ADJUSTMENT DO YOU HAVE?

A. As I discussed in my previous expense sections, costs related to Gifts and Employee Recognition should be disallowed. A portion was allocated to the Customer Service Expense in the amount of $4,606 and should be disallowed for the reasons previously discussed. My adjustments are shown on my Schedule DM-15.

6. Sales Expenses

Q. WHAT HAS THE COMPANY PROPOSED WITH RESPECT TO ITS SALES EXPENSE?

A. The Company proposed a Regulatory Year 2024 balance of $135,872 related to its Sales Expense as shown on Company Exhibit CLP-1 Schedule 10 and 12. The Company did not include any adjustments to its Normalized Pension and PRM costs, nor any other adjustments to arrive at its Test Year 2024 balance of

$135,872. The Company stated that these costs include selling and advertising expenses as well as economic development costs. (Ms. Petersen's Testimony page 34).

Q. WHAT ADJUSTMENTS DO YOU HAVE?

A. I do not have any adjustments to the Company's Sales Expenses. My recommendation is shown on my Schedule DM-16.

7. Administrative & General Expenses (A&G)

Q. WHAT HAS THE COMPANY PROPOSED WITH RESPECT TO ITS ADMINISTRATIVE AND GENERAL EXPENSES?

A. As shown on Company Exhibit CLP-1 Schedule 10 and 12, the Company proposed a Regulatory Year 2024 balance of $17,534,200. To that balance the Company included the following adjustments:

a) Rate Case Expenses	$359,404
b) Normalized Pension and PRM	$1,131,083
c) Non-Employee Director Restr. Stock	$262,850
d) ESSRP	$61,296
e) Employee Recognition/Gifts	$96,967
f) Investor Relations	$102,431
g) Long-Term Incentive	$1,221,363
h) Changes in Allocation	$5,674
Total	$3,241,068

The Company stated that the remaining costs included in the Administrative and General Expenses are costs related to salaries and benefits, office supplies and expenses, various administrative & general expenses, outside services employed, property insurance, injury and damages, employee benefits, regulatory commission expenses, miscellaneous general expenses, informational advertising, rents, and building maintenances. (Ms. Petersen's testimony page 35). I will address each of the Company's A&G Expense adjustments below. I will also address the Company's Incentive Compensation adjustments as outlined in Company response to CONFIDENTIAL ND-PSC-022.

a). Rate Case Expenses

Q. WHAT HAS THE COMPANY PROPOSED REGARDING RATE CASE EXPENSES?

A. The Company proposed an annual Rate Case Expense recovery balance of $359,404 as shown on Company Exhibit CLP-1 Schedule 12. The Company proposed an overall Rate Case Expense of $1,080,000; reduced the balance by $1,787 that was related to unregulated activity or $1,078,213 and amortized this balance over a three-year period to arrive at an annual recovery of $359,404 (Workpaper TY-02). The Company stated that a three-year amortization period was used because the Company believes it will likely file its next rate case in three years (Byrnes Testimony page 16).

Q. WHAT ADJUSTMENTS DO YOU HAVE?

A. I am accepting the Company's balance to its Rate Case expenses of $359,404 amortized over a three-year period. The Company should provide an update of this balance when available.

b). Normalized Pension and PRM

Q. WHAT HAS THE COMPANY PROPOSED WITH RESPECT TO ITS PENSION AND PRM COSTS?

A. The Company proposed a Normalized Pension and PRM balance of $1,131,083 as shown on Company Exhibit CLP-1 Schedule 12 and Workpaper TY-04.

Q, HOW DID THE COMPANY DETERMINE ITS ESTIMATED PENSION AND PRM COSTS?

A. As stated previously, the Company stated that the budgeted Pension and PRM costs were calculated based upon demographics and standard actuarial assumptions. (Ms. Petersen Testimony page 39). The 2024 budgeted PRM and post-retirement (LTD) medical benefits expenses were based upon the 2024 expense include in Mercer's Five Year Pension Estimate. (CONFIDENTIAL

Exhibit CLP-1 Schedule 14). According to Company witness Ms. Petersen, the Company is requesting to normalize the level of Pension and PRM based upon Mercer's actuarial estimated expenses for 2024-2028. (Ms. Petersen Testimony page 39).

Q. WHAT ARE YOUR ADJUSTMENTS?

A. I performed the same adjustments in applying a Vacancy Rate Ratio to the Company's projected Normalized Pension and PRM costs of $1,131,083. Using the Vacancy Rate Ratio of 4.05% results in an adjustment of $45,809. My adjustments are shown on my Schedule DM-17.

c). <u>Non-Employee Director Restricted Stock</u>

Q. WHAT HAS THE COMPANY PROPOSED TO INCLUDE WITH RESPECT TO NON-EMPLOYEE DIRECTOR RESTRICTED STOCK?

A. The Company has included $262,850 of expenses related to Non-Employee Director Restricted Stock as shown on Company Exhibit CLP-1 Schedule 12. (ND-PSC-043). According to Ms. Petersen, this adjustment reverses the effects of the traditional adjustments which removed these costs in the Company's Bridge Adjustments (Ms. Petersen Testimony page 48). Company witness Mr. Byrnes explained the reasonableness of including these costs in rates. Mr. Byrnes stated that these costs should be included in the 2024 Test Year revenue requirement because the Company must provide compensation commensurate with other boards of directors in the utility industry to attract and retain qualified professionals to serve on its Board of the Directors (Mr. Byrnes Testimony page 7). The Company provides compensation to the non-employee members of Otter Tail Corporation Board of Directors for the work they perform, which is reasonable and consistent with how boards of directors of other corporations are treated, including in the utility industry. Mr. Bynes states that these costs are necessary costs as Otter Tail Corporation is the parent company of OTP (Mr. Byrnes Testimony page 8).

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

A. According to Mr. Byrnes, the Company based its non-employee director compensation on the market. The Compensation and Human Capital Management Committee for the Board of Directors periodically review compensation practices to determine their competitiveness with market practices.

Q. HOW IS COMPENSATION PROVIDED TO THE BOARD OF DIRECTORS?

A. According to Mr. Byrnes the compensation consists of two components: (1) an annual retainer; and (2) an annual fixed equity grant of restricted stock, vesting over a period of three years (33.3 percent per year). Mr. Byrnes stated that the ratepayers of North Dakota are only paying for the costs allocated to the North Dakota operations and the OTP customers receive the benefit of the Board by only paying for a percentage based on a blended allocator (Mr. Byrnes Testimony page 8).

Q. WHAT ADJUSTMENTS DO YOU HAVE?

A. I am recommending disallowing these costs for ratemaking purposes. I believe these types of incentive costs do not provide ratepayer benefits in the areas of customer satisfaction, service, safety and reliability. These types of incentive costs benefit shareholders and the Company's President to increase shareholder return, return on equity and other financial related goals. The Company should be responsible and bear the risk for the attraction and retention of Board members. The Company should bear the responsibility to be competitive with market practices and also be responsible for operating an investor-owned utility. The Company should not have unfettered access to ratepayer money as these types of costs do not benefit ratepayers. Therefore, I am recommending disallowing the $262,850 from the Company's revenue requirement. My adjustment is shown on my Schedule DM-17.

d). Executive Survivor & Supplemental Retirement Plan (ESSRP)

Q. WHAT HAS THE COMPANY PROPOSED WITH RESPECT TO ESSRP COSTS?

A. The Company has proposed to include $61,296 of ESSRP costs in the revenue requirement reversing the effects of the traditional adjustment which removed these costs in the Company's Bridge Adjustments. (Ms. Petersen Testimony page 48). According to Company witness Mr. Wasberg, the ESSRP is a defined benefit plan that was adopted in 1983 to provide key executives and management employees competitive survivor and retirement benefits. (Mr. Wasberg Testimony page 14). Mr. Wasberg stated that certain tax law limitations reduced the amount of pension-related retirement benefits that could be received by key executives and management employees. The ESSRP was designed as a Supplemental Executive Retirement Plan. It was transitioned to a restoration benefit used to restore the pension-related retirement benefits of impacted employees to the same baseline level of OTP's overall pension plan. (Mr. Wasberg Testimony page 14). Mr. Wasberg stated that no additional participants are being added to the ESSRP since 2009. In 2019 the restoration retirement benefit component for participants was frozen and no new benefits were being earned within the ESSRP. (Mr. Wasberg Testimony page 14-15).

Q. IS THE BALANCE OF $61,296 ALL OF THE COMPANY'S ESSRP COSTS?

A. No. In response to ND-PSC-043, the Company stated that the total ESSRP costs allocated to the North Dakota jurisdiction is $267,000. The Company included approximately 25% of the ESSRP costs in this proceeding. (ND-PSC-080), See ND-PSC-074.

Q. WHAT IS YOUR RECOMMENDATION?

A. These costs should be disallowed as there are no ratepayer benefits accruing. These types of benefits accrue to the Company by retaining key employees and are akin to a SERP. The Company institutes these costs as a way to reward and retain key employees, but has not provided any information supporting the inclusion of this expense in rates. Under this plan the Company retains all the benefits in the event an employee dies because the Company pays for the costs to maintain the plan. Even if the employee quits or leaves the Company, the Company has access to the money and gets the cash value of the plan. I do not see any benefits between ESSRP costs and ratepayer benefits. Ratepayer should not be burdened with costs that inure to the Shareholders of the Company. (See Section 8. Labor Expense item a). My adjustment is shown on my Schedule DM-17.

e). Employee Recognition / Gifts

Q. WHAT HAS THE COMPANY PROPOSED WITH RESPECT TO ITS EMPLOYEE RECOGNITION / GIFTS?

A. The Company has proposed to include $96,967 of costs related to achievement awards. (Company Exhibit CLP-1 Schedule 12). Company witness Mr. Wasberg stated that the Company believes these costs are necessary and appropriate. (Mr. Wasberg Testimony page 22). Mr. Wasberg stated that these costs are used to recognize and reward employees that have performed exceptionally well on special projects or challenging work outside of normal assignments. These awards are not only part of a successful total employee compensation program, but they are also directly attributable to a particular project benefiting customers. (Mr. Wasberg Testimony page 22). Mr. Wasberg stated that these Employee Recognition/Gifts cost are short-term incentives, in that from time to time, the Company grants achievement awards, a cash award intended to recognize and reward employees. (Mr. Wasberg Testimony page 8). (ND-PSC-068).

Q. WHAT ADJUSTMENTS DO YOU HAVE WITH RESPECT TO THE COMPANY'S EMPLOYEE RECOGNITION/GIFTS?

A. I am inclined to disallow these costs as the Company has not specifically identified projects worked on by employees benefiting ratepayers. In response to ND-PSC-068, the Company has not provided a schedule breaking down these costs by employee or specifically identified whether the costs do accrue to ratepayers in the provision of safe and reliable utility service. While the Company may believe this provides ratepayer benefits, I see no nexus between rewarding employees for work outside of normal working assignments, or for covering duties in the absence of another employee. These types of incentives should be absorbed by the Company. My adjustments have been addressed previously under each of the Company's O&M Expense categories. While I did not make an adjustment shown on my Schedule DM-17, these are reflected in the breakdown shown on my Schedules DM-11 through DM-15.

f). Investor Relations

Q. WHAT HAS THE COMPANY PROPOSED WITH RESPECT TO INVESTOR RELATIONS?

A. As shown on Company Exhibit CLP-1 Schedule 12, the Company proposed inclusion of Investor Relations costs of $102,431. The Company decreased this balance by $102,432 under its Bridge Adjustments (Company Exhibit CLP-1 Schedule 11) but reversed this balance to include the full amount of $204,869 (Ms. Petersen Testimony page 49, and in response to ND-PSC-043). These costs include administrative activities that are required for publicly traded companies including dividend payments, coordinating dividend reinvestments, annual reports, shareholder record-keeping, required annual meetings, and Securities Exchange Commission requirements. These costs also involve managing and coordinating relationships with equity and debt investors. (Mr. Byrnes Testimony page 6).

Q. WHAT DID THE COMPANY STATE WAS THE NEED TO INCLUDE THESE COSTS?

A. According to Mr. Byrnes these costs help the Company effectively compete for capital and educate the investment community about risks, rewards, and performance inherent in the Company's equity and debt securities. The work of the investor relations group involves developing and supporting strong relationships with both debt and equity capital markets for purposes of raising the necessary funds to support the Company's capital funding needs. (Mr. Byrnes Testimony page 6). Mr. Byrnes stated that these costs are spent on maintaining solid credit rates, which reduces the cost of debt, and it is a direct benefit to ratepayers. The Company stated that these informational and relationship functions coupled with shareholder relationships help the Company obtain the most cost-effective financing which helps to control costs to the benefit of customers. (Mr. Byrne Testimony page 6).

Q. WHAT ARE YOUR RECOMMENDATIONS?

A. I recommend maintaining the 50% or $102,431. Ratepayers should not be paying for all of the costs that are the responsibility and under the control of the Company and its shareholders. The Company should share in the business risk, and a 50% inclusion provides for that. These costs not only help reduce the cost of financing and debt to ratepayers, but also assist the Company and its shareholders to do the same. Therefore, a fifty-fifty split is appropriate. My adjustment is shown on my Schedule DM-17.

g). <u>Long-Term Incentive</u>

Q. WHAT HAS THE COMPANY PROPOSED WITH RESPECT TO LONG-TERM INCENTIVE?

A. The Company has included $1,221,363 of Long-Term Incentive in this filing. Ms. Petersen stated that in the prior rate case, the settlement terms excluded these costs. In this case, the Company is reversing this position and including these costs stating that these are a necessary component to its compensation package. (Ms. Petersen Testimony page 46). Mr. Wasberg stated that qualifying management employees receive long-term incentive in the form of grants of restricted stock units (RSU). Qualifying employees are awarded RSUs based on salary, job level and the price of stock at the date of grant. These long-term incentives are considered along with other components of compensation when reviewing compensation levels. (Mr. Wasberg Testimony page 8). Mr. Wasberg stated that these long-term incentives link the long-term success of the Company to qualifying employee compensation, encourage the retention of management over the long-term, and provide the opportunity to earn competitive total compensation. (Mr. Wasberg Testimony page 8). Mr. Wasberg stated that these RSUs are part of the overall package for executives and key management employees and allow the Company to attract and retain key talent with the skills and experience necessary to successfully operate the Company. Mr. Wasberg stated that the RSU program has a vesting period, and individuals only earn the RSUs after a sustained period with the Company. (Mr. Wasberg Testimony page 23).

Q. WHAT IS YOUR RESPONSE?

A. I am not disagreeing with how the Company's total compensation package is developed. However, this portion of the compensation package should not be passed onto ratepayers. The Company has provided no evidence that retaining and recognizing these employees provides benefits to ratepayers in the areas of safety, reliability, customer service and reliability. It is not the responsibility of the ratepayers to pay for costs that should be solely in the hands of the Company. The Company should not require ratepayers to pay for and take the risks of rewarding executives and key managers without knowing if these executives and key managers will eventually stay with the Company in the long run. Ratepayers should not pay for costs they do not have any control over with respect to attracting and retaining key personnel. Further, the Company has the sole responsibility in determining whether the Long-Term Incentives plan are successes or failures, and thus, the risks should remain with the Company. My adjustment is shown on my Schedule DM-17.

h. Executive Restoration Plus Plan (ERPP)

Q. WHAT HAS THE COMPANY PROPOSED WITH RESPECT TO ITS ERPP?

A. The Company has included **(BEGIN CONFIDENTIAL)** [redacted] **(END CONFIDENTIAL)** of ERPP costs in its revenue requirement. (ND-PSC-073). Mr. Wasberg stated the ERPP provides a benefit on total pay, including incentive compensation, in recognition of the fact that more executive compensation is tied to performance that can fluctuate year over year (at-risk). Earned incentive compensation is not calculated as part of a retirement benefit for non-union employees. The ERPP provides a method to recognize at-risk pay, when earned, as part of total compensation for calculating retirement. (Mr. Wasberg Testimony page 14).

Q. WHAT ADJUSTMENTS DO YOU HAVE?

A. Any form of incentive compensation paid by ratepayers should be tied to the benefits accruing to ratepayers in the areas of safety, reliability, and customer service issues. The ERPP is merely a plan to increase salary to at-risk employees (given that executive compensation and performance can fluctuate year over year) in the event performance cannot be achieved or incentive compensation cannot be fully paid out in any given year. These types of executive pay should be borne by the Company and not accrue to the ratepayers absent benefits, especially when tied to performance that benefits shareholders. I am recommending disallowance of the Company's ERPP balance of **(BEGIN CONFIDENTIAL)** [redacted] **(END CONFIDENTIAL).** My adjustment is shown on my Schedule DM-17.

i). <u>Changes in Allocations</u>

Q. WHAT HAS THE COMPANY STATED REGARDING CHANGES TO ITS ALLOCATIONS?

A. Ms. Petersen stated that $6,590 of adjustments impact costs that are used in certain allocation factors. The overall effect of these adjustments is shown on Company Exhibit CLP-1 Schedule 12.

Q. WHAT IS YOUR RESPONSE?

A. I am accepting the Company's allocation adjustments of $6,590. My adjustment is shown on my Schedule DM-17.

Q. WHAT OTHER ADJUSTMENTS ARE YOU MAKING IN THE COMPANY'S A&G EXPENSE CATEGORY?

A. I am making adjustments to the following expense categories:

<u>i. Aviation</u>

Q. WHAT HAS THE COMPANY PROPOSED REGARDING ITS AVIATION EXPENSES?

A. The Company has included $171,097 of Aviation or aircraft costs used in its electric operations and allocated to the North Dakota jurisdiction (ND-PSC-006). The Company stated that it owns a turboprop aircraft purchased in 2018 as a replacement of a 1987 King Air aircraft. The Company stated that the aircraft is to provide transportation to business meetings and regulatory hearings in a time efficiency manner. The Company stated that the plane is used to travel within the Company's service territory to conduct ongoing meetings of the Company. The Company stated that commercial air travel is not available from Fergus Falls, MN, and in North Dakota the only towns with commercial air service available to travel with the service territory are Fargo and Grand Forks. The Company stated that the use of commercial air service is not an option for traveling and is inconvenient when necessary to travel to other locations.

Q. WHAT ADJUSTMENTS DO YOU HAVE?

A. I am recommending removing all Aviation Costs from rates, an adjustment of $171,097. While I understand that there are limited avenues for Company employees to travel back and forth to various service territories for business meetings, regulatory hearings and other related conferences, ratepayers should not be responsible to cover all of the Company's Aviation costs. The only benefit for Aviation costs is to the Company in that employees can quickly participate in meetings and return back to their prospective office locations during the same day. I don't see a benefit accruing to the ratepayer. These Aviation costs do not cover or provide safe and reliable service to ratepayers, nor provide any customer service related benefits in the provision of electric utility operations. These costs benefit the Company so that employees are maximizing their time to the benefit of the Company. Given these scenarios, these costs should be recovered from the Company and not from ratepayers. My adjustment is shown on my Schedule DM-17.

8. Labor Expenses

Q. WHAT HAS THE COMPANY PROPOSED REGARDING ITS LABOR EXPENSES?

A. In response to ND-PSC-025, the Company segregated out all Labor Expenses from its Operation and Maintenance expenses and arrived at a balance of $30,606,581. According to the Company this balance includes salaries and wages, incentive compensation, and benefits costs (including employee medical/dental benefits, retirement benefits (defined benefits, defined contribution and other post-retirement benefits).

Q. HOW MUCH OF THE BALANCE OF THE LABOR COSTS IS ASSOCIATED WITH INCENTIVE COMPENSATION?

A. According to the CONFIDENTIAL response to ND-PSC-022, the Company included **(BEGIN CONFIDENTIAL)** [redacted] **(END CONFIDENTIAL)** related to Incentive Compensation.

Q. HOW DID THE COMPANY DEVELOP ITS COMPENSATION FOR ITS EMPLOYEES?

A. Company witness Mr. Wasberg provided an overview of the Company's workforce and compensation plan. (Mr. Wasberg Testimony page 2). He stated that the Company expects to have 800 full-time employees in 2024, (Mr. Wasberg Testimony page 2) with approximately 230 allocated to the North Dakota Jurisdiction. (ND-PSC-057). Mr. Wasberg stated that the Company's compensation goals are to attract, retain and engage employees to achieve the Company's mission 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 the Company does business.

Q. HOW WERE THE COMPANY'S 2024 WAGES AND SALARY LEVELS DETERMINED?

A. According to Mr. Wasberg, the 2024 base wages and salaries are based upon a four percent increase over base wage and salary levels for 2023 for both union and non-union employees. The wage and salary component for 2024 has been adjusted for the projected wage and salary components for 2024 for the projected employee census. The four percent increase reflected what the Company believes is necessary to remain competitive in the labor market and to address changes in the cost of living. (Mr. Wasberg Testimony page 18). The four percent increase will become effective April 1, 2024. The four percent increase is based upon the Company's collective bargaining agreements. (CONFIDENTIAL RESPONSE TO ND-PSC-077).

Q. ARE THERE ANY OTHER COSTS ASSOCIATED WITH SALARIES AND WAGES THAT ARE NOT INCLUDED IN THE AMOUNT ABOVE?

A. Yes. In response to ND-PSC-059, the Company has included $92,000 related to the Supplemental Executive Retirement Plan.

Q. WHAT ADJUSTMENTS DO YOU HAVE RELATED TO THE COMPANY'S TOTAL SALARY AND WAGES COSTS?

A. I will discuss each of my adjustments related to the Company's Salary and Wages costs below.

a. Supplemental Executive Retirement Plan (SERP)

Q. DID THE COMPANY PROPOSE ANY ADJUSTMENTS TO ITS SERP EXPENSES?

A. While the Company did not specifically identify any changes to its SERP costs in its filing, through discovery the Company identified that $92,000 was allocated to the North Dakota jurisdiction and included in the 2024 Test Year budget. (ND-PSC-059).

Q. WHAT IS YOUR OPINION ON THE INCLUSION OF SERP COSTS IN RATES FOR RATEMAKING PURPOSES?

A. These costs should be disallowed in rates. These types of costs do not benefit ratepayers but rather benefit the Company. SERP[3] plans are funded by the Company out of cash flows, investment funds or cash value insurance. Any

[3] Supplemental Executive Retirement Plans (SERP) | BoliColi.com

deferred benefits are not currently taxable to the employee. When paid, the benefits become taxable income to the executive and tax deductible by the Company. Under a SERP, the Company purchases a life insurance policy on the employee's life that is sufficient to recover the costs associated with the future benefits outlined in the SERP agreement. The Company pays the premiums, owns the insurance policy and becomes the policy beneficiary. The policy cash value grows tax deferred and can be used at any time by the Company at its discretion. When an employee retires, the employee receives the supplemental income, paid by the Company, based upon the terms of the agreement. In the event the employee dies, the policy's death benefit is payable to the Company to recover the costs of the plan, and which can be used to provide continual supplemental benefits or to provide a lump sum benefit to the executive's named beneficiary. Based upon the above, SERP costs benefit the Company with no benefit accruing to the ratepayers, and therefore, show be disallowed. My recommendation is shown on my Schedule DM-18.

b. <u>Incentive Compensation</u>

Q. WHAT HAS THE COMPANY PROPOSED WITH RESPECT TO ITS ANNUAL INCENTIVE COMPENSATION?

A. According to Company witness Mr. Wasberg, the Company has included $1.43 million of annual incentive expenses. (Mr. Wasberg Testimony page 20). This amount was broken down as follows:

(BEGIN CONFIDENTIAL)

1	KPA Plan	[redacted]
2	People Leaders	[redacted]
3	Coyote Retention Incentive Plan	[redacted]
4	Management Plan	[redacted]
5	OTP President	[redacted]

(END CONFIDENTIAL)

	Total	$1,433,000

Q. DID THE COMPANY INCLUDE ANY OTHER INCENTIVE TYPE OF COMPENSATION BESIDES WHAT WAS INCLUDED ABOVE?

A. Yes. In response to ND-PSC-022, the Company included **(BEGIN CONFIDENTIAL)** $[redacted] **(END CONFIDENTIAL).**

Q. WHAT DO THESE LABOR COSTS REPRESENT?

A. According to the response to ND-PSC-223, these costs represent Corporate allocated labor from Otter Tail Corporation (OTC) to Otter Tail Power (OTP), which occurs when OTC employees are serving in functions that benefits Otter Tail ratepayers, the activities are reasonably incurred and appropriate for the operations of an electric utility. These costs include activities in financial reporting, tax planning and reporting, treasury, financial planning, corporate communications, internal audit, benefits plan, safety and risk management, shareholder services and investor relations, aviation, and executive management.

Q. HAS THE COMPANY PROVIDED A BREAKDOWN OF THESE COSTS?

A. No. While the Company has explained the reasoning for allocating these costs, it has not provided how these costs were developed, nor what level of costs are incentive based payments, employee based salary, or other types of salary related costs. In response to CONFIDENTIAL ND-PSC-022, the Company provided **(BEGIN CONFIDENTIAL)** [redacted] **(END CONFIDENTIAL).** This balance was part of the Company's Incentive Compensation package of costs with no breakdown as to which of the balance is incentive type pay and which balance was base salary pay.

Q. WHAT IS YOUR RECOMMENDATION?

A. It is unclear how much of the Company's allocated labor costs from OTC to OTP is base salary and how much is incentive type pay. Given this vagueness, I am recommending at this point these costs be disallowed from the Company's revenue requirement. The Company should provide a detailed breakdown of these costs to determine the reasonableness of each of the components that make up the **(BEGIN CONFIDENTIAL)** [redacted] **(END CONFIDENTIAL)** balance. The response to CONFIDENTIAL ND-PSC-223 does not provide sufficient information to evaluate these costs nor provide any benefits to ratepayers if such balance include incentive type pay. My recommendation is shown on my Schedule DM-18.

Q. HAS THE COMPANY PROVIDED A DESCRIPTION FOR EACH OF ITS FIVE ANNUAL INCENTIVE PLANS?

A. Yes. Mr. Wasberg has provided a description for each of the Company's five Annual Incentive Plans. I will address each of the Company's five Annual Incentive Plans along with my recommended levels to be included in the Company's revenue requirement proposal.

Q. HAS THE COMPANY PROVIDED AND EXPLAINED THE BENEFITS TO RATEPAYERS REGARDING ITS ANNUAL INCENTIVE PLANS AND COMPENSATION PACKAGES?

A. Yes. Company witness Mr. Wasberg stated that the Company's Annual Incentive Plans benefit customers because financial performance depends on the prudent management of costs, which allows the Company to provide electric utility service at reasonable prices. Mr. Wasberg stated that combining financial criteria, along with performance measures ensures that the Company maintains the balance between reliable service and reasonable prices. (Mr. Wasberg Testimony page 6). Mr. Wasberg stated that the Company's Annual Incentive Plans are needed to maintain an appropriate level of cash compensation required to attract and retain employees. Absent this cash compensation, the Company would be significantly below the market median of total cash compensation and would impede the Company's ability to attract and retain essential employees. Mr. Wasberg stated that the Annual Incentive Plans encourage increased productivity and enable the Company to reward employees for providing quality services to its customers, and customers benefit from setting employee incentives that tie directly to its customer needs. (Mr. Wasberg Testimony page 7). Mr. Wasberg stated that in the alternative, absent an Annual Incentive Plan, the only way to maintain a competitive cash compensation level would be to increase base salaries, which would increase other costs and substantially reduce the flexibility and incentives for performance. (Mr. Wasberg Testimony page 7).

Q. WHAT IS YOUR APPROACH TO EVALUATING AND ANALYZING THE COMPANY'S ANNUAL INCENTIVE PLAN?

A. My approach in evaluating and analyzing the Company's Annual Incentive Plan is to determine whether these incentives benefit ratepayers in the areas of safety, reliability, customer service issues and satisfaction of employees' performance as it affects interaction with customers, and whether such incentives provide positive benefits to servicing ratepayers in the provision of electric service. As more fully described below, I am recommending disallowance of the Company's Annual Incentive Plan related to financial performance, increasing Company's shareholder values, increasing dividend value and earnings per share, and other incentive pay that does not provide ratepayer benefits or customer service related issues.

1. <u>OTP Key Performance Award or OTP KPA Plan</u>

Q. WHAT IS THE OTP KEY PERFORMANCE AWARD OR OTP KPA PLAN?

A. According to Mr. Wasberg, the OTP KPA Plan covers about 400 OTP non-union employees. This plan is based upon four operating criteria (safety, customer satisfaction indicator, reliability based upon average outage minutes per customer and equivalent plant availability and one financial criterion related to the control of operation and maintenance (O&M) costs. Each of the five criteria has a weighting that together comprise the six percent maximum payout. (Mr. Wasberg Testimony page 5). Mr. Wasberg stated that 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 criteria. (Mr. Wasberg Testimony page 5).

Q. WHAT HAS THE COMPANY PROVIDED AS THE DOLLAR WEIGHT FOR EACH CRITERIA FOR THE OTP KPA PLAN?

A. As shown in response to CONFIDENTIAL response to ND-PSC-061, the Company provided the following dollar weighting for each of the Company's five criteria:

(BEGIN CONFIDENTIAL)

KPA Goal	Weighting	ND Jurisdiction
[redacted]		

(END CONFIDENTIAL)

Q. WHAT ADJUSTMENTS DO YOU HAVE WITH RESPECT TO THE COMPANY'S OTP KPA PLAN?

A. I am recommending disallowance of the Company's **(BEGIN CONFIDENTIAL)** [redacted]. **(END CONFIDENTIAL).** This criterion does not benefit ratepayers in the provision of safe and reliable electric service, but rather is aligned with the Company's financial goals and earnings per share growth. While the Company stated that this criteria is related to the control of O&M expenses, I believe this is related to non-ratepayer performance measures, such as increasing operating income, increasing shareholder growth and promoting shareholder interest. In addition, the weighing is geared heavily towards non-customer related criteria. The Company's **(BEGIN CONFIDENTIAL)** [redacted] **(END CONFIDENTIAL)** which will accrue to the Company's shareholders and not to ratepayers in the area of customer service, performances, measures and other related issues. In this instance, the Company's shareholders should fund this type of incentive and not require the ratepayers to be burdened with this cost.

2. People Leaders Plan

Q. WHAT DID MR. WASBERG STATE REGARDING THE COMPANY'S PEOPLE LEADERS PLAN?

A. Mr. Wasberg stated that based upon external markets along with the need to be able to attract and retain talented people who can help serve its customers, the Company has added an additional plan, specific to people leaders (managers/supervisors) that do not otherwise quality for any incentive beyond the current OTP KTA Plan. (Mr. Wasberg Testimony page 5). Market data showed that the Company is below market on short-term incentive compensation, and as the Company has been challenged with higher attrition rates, the Company added a plan that will incentivize people leaders. This plan will recognize good leadership, with the objectives to recognize the leadership that will help meet key performance objectives that are positively impacting the service provided to customers. (Mr. Wasberg Testimony page 5). The Company included **(BEGIN CONFIDENTIAL)** [redacted] **(END CONFIDENTIAL)** of incentive costs in its revenue requirement.

Q. WHAT ADJUSTMENTS DO YOU HAVE REGARDING THIS INCENTIVE PLAN?

A. In response to ND-PSC-064, the Company stated that this Plan has only been in place since mid-2023 and was designed to provide appropriate market-based recognition for demonstrated leadership skills, to demonstrate the Company's commitment to people leaders, to help curb attrition across OTP and to attract the quality leadership that is needed to perform as an organization and service customers well. Given that this plan has only been in place since mid-2023, there is no data to measure whether this plan has provided any incentive in helping curb attrition, attract leadership or demonstrate commitment to people leaders. There is no prior criteria data to determine whether establishing this plan meets what it was designed to do or benefits ratepayers. Therefore, I am recommending disallowing **(BEGIN CONFIDENTIAL)** [redacted] **(END CONFIDENTIAL)** from the Company's revenue requirement.

3. Coyote Retention Incentive Plan

Q. WHAT DID MR. WASBERG STATE REGARDING THE COMPANY'S COYOTE RETENTION INCENTIVE PLAN?

A. Mr. Wasberg stated that with the uncertainty brought about by current and proposed federal regulations that could potentially impact some generation facilities, the Company added a plan specific to non-union employees at Coyote Station. (Mr. Wasberg Testimony page 5). The plan objectives were to focus participants' attention to the Company's operating results ensuring that the Company can continue to achieve desired outcomes. With the current uncertainty for some power plants, and with the need to continue operating safely and efficiently at Coyote Station, the Company is recognizing good performance for those non-union employees who are choosing to remain employees at Coyote Station. (Mr. Wasberg Testimony page 5-6). The Company included **(BEGIN CONFIDENTIAL)** [redacted] **(END CONFIDENTIAL)** of incentive costs in its revenue requirement.

Q. WHAT GOALS AND TARGETS DID THE COMPANY PROVIDE WITH RESPECT TO THE COYOTE RETENTION PLAN?

A. As shown in response to CONFIDENTIAL ND-PSC-061, the Company provided the following goals and weighing metrics:

(BEGIN CONFIDENTIAL)

Coyote Goals	Weighting	ND Jurisdiction
Safety	[redacted]	
Employee Turnover	[redacted]	
Employee Training	[redacted]	
Plant Equivalent	[redacted]	
Personal Performance	[redacted]	
Total	[redacted]	

(END CONFIDENTIAL)

Q. DID THE COMPANY PROVIDE ANY INFORMATION RELATED TO THE RESULTS THAT HAVE OCCURRED IN IMPLEMENTING THIS PLAN?

A. In response to ND-PSC-65, the Company stated that to date, this incentive has been effective in retaining non-union leaders and staff at Coyote Station. The Company stated it had no turnover, beyond two retirements, for this group since implementing the plan. The lack of turnover has been very helpful as training efforts have improved, which is even more critical as the Company has seen higher turnover in union staff related to uncertainty.

Q. WHAT ADJUSTMENTS DO YOU HAVE?

A. I am recommending disallowance related to **(BEGIN CONFIDENTIAL)** [redacted] **(END CONFIDENTIAL)**. I believe this type of incentive does not provide a nexus between ratepayer benefits and these costs are for an individual achieving his/her own fulfillment or accomplishment. **(BEGIN CONFIDENTIAL)** [redacted] **(END CONFIDENTIAL)** typically includes creating a vision for career development, developing a plan to achieve certain goals, satisfaction at work, learning new skills, and taking on additional responsibilities. There is a level of subjectivity in evaluating this type of criteria which are not related to customer service, or other customer-related issues. The Company has not provided any other further information on this criterion.

<u>4. OTP Management Plan</u>

Q. WHAT DID MR. WASBERG STATE WITH RESPECT TO THE COMPANY'S OTP MANAGEMENT PLAN?

A. Mr. Wasberg stated that the OTP Management Plan covers 24 management employees (not including the OTP President, who has a separate plan). The OTP Management Plan includes **(BEGIN CONFIDENTIAL)** [redacted]. **(END CONFIDENTIAL)** (Mr. Wasberg Testimony page 6). The Company provided a breakdown of the goals and weighting as follows:

(BEGIN CONFIDENTIAL)

MIP Goals	Weighing	ND Jurisdiction
[redacted]		

(END CONFIDENTIAL)

Q. WHAT RECOMMENDATIONS DO YOU HAVE?

A. I am recommending disallowing the costs related to **(BEGIN CONFIDENTIAL)** [redacted] **(END CONFIDENTIAL).** I am only recommending allowing **(BEGIN CONFIDENTIAL)** [redacted] **(END CONFIDENTIAL).**

Q. WHAT ARE YOUR REASONS FOR THE ABOVE COST DISALLOWANCE?

A. At first glance, the Company's OTP Management Plan is heavily weighted towards **(BEGIN CONFIDENTIAL)** [redacted] **(END CONFIDENTIAL)** appears to be geared toward performance accomplishments that may or may not benefit ratepayers. With respect to the **(BEGIN CONFIDENTIAL)** [redacted] **(END CONFIDENTIAL),** these types of goals do not benefit ratepayers in the provision of electric utility services. As I explained previously, these types of goals are geared toward benefitting the Company in achieving certain financial and performance goals that do not reflect customer service performance and measures, safety or reliability goals. These types of incentive pay should be borne by the Company shareholders and not passed on to ratepayers. These types of goals align the Company's financial performance by increasing operating income, increasing the return on plant assets and increasing dividend payout to the shareholders of the Company. With respect to the OTP Management Plan related to **(BEGIN CONFIDENTIAL)** [redacted] **(END CONFIDENTIAL)**, this type of incentive appears to benefit the individual. As I previously stated this goal typically includes creating a vision for career development, developing a plan to achieve certain goals, satisfaction at work, learning new skills, and taking on additional responsibilities. There is a level of subjectivity in evaluating this type of criteria which are not related to customer service, or other customer related issues. This type of incentive should not require ratepayer money to pay for it, as ratepayers have no control over whether an individual achieves his or her satisfaction at work or achieves a vision for oneself through career development. The risk of achieving these goals should lie with the Company. The Company has not provided any other further information on this criterion. My total disallowance is therefore, **(BEGIN CONFIDENTIAL)** [redacted] **(END CONFIDENTIAL)**. My allowance is **(BEGIN CONFIDENTIAL)** [redacted] **(END CONFIDENTIAL).**

<u>5. OTP President</u>

Q. WHAT DID MR. WASBERG STATE REGARDING THE COMPANY'S INCENTIVE PLAN FOR THE OTP PRESIDENT?

A. Mr. Wasberg stated that the OTP President is under the Otter Tail Corporation Executive Annual Incentive Plan (Executive Plan), and under that Plan, the Compensation and Human Capital Management Committee of the Otter Tail Corporation Board of Directors determines the criteria and target incentives. Mr. Wasberg stated that the criteria under the Executive Plan include the following and as reflected in CONFIDENTIAL response to ND-PSC-067 **(BEGIN CONFIDENTIAL)** [redacted] **(END CONFIDENTIAL)**:

(BEGIN CONFIDENTIAL)

Plan Metric	Weighing	2024 Payout (ND)

[redacted]

(END CONFIDENTIAL)

Mr. Wasberg stated that the financial criteria have a weighting of 70 percent, the safety and individual criteria have a cumulative weighting of 30 percent. The diversity, equity and inclusion, and environmental criteria are evaluated after the annual incentive payout is calculated (based on measures 1-5) and can add up to 5 percent of the target annual incentive to the payout, respectively. (Mr. Wasberg Testimony page 6).

Q. WHAT RECOMMENDATIONS DO YOU HAVE?

A. I am recommending that all of the OTP President Incentive Compensation be disallowed with the exception of **(BEGIN CONFIDENTIAL)** [redacted] **(END CONFIDENTIAL)**. The OTP President Annual Incentive is heavily geared toward financial performance, which I believe benefits shareholder performance goals and measures. As I previously stated my disallowance related to financial, earnings per share, and other shareholder or Company financial measures is based upon the fact that these types of incentive provide no benefit to ratepayers in the areas of customer service, satisfaction, reliability of electric service, or minimizing issues (outages) affecting ratepayers. With respect to individual performance this type of incentive appears to benefit the individual. As I previously stated this goal typically includes creating a vision for career development, developing a plan to achieve certain goals, satisfaction at work, learning new skills, and taking on additional responsibilities. There is a level of subjectivity in evaluating this type of criteria which are not related to customer service, or other customer related issues. The Company has not provided any other further information on this criterion.

Q. WHAT IS YOUR POSITION ON THE COMPANY'S ADDER OF DIVERSITY, EQUITY AND INCLUSION AND ENVIRONMENTAL CRITERIA?

A. With respect to Diversity, Equity and Inclusion (DEI) I believe this criterion does not provide any ratepayer benefits. These types of costs or payments reflect organizational frameworks which seeks to promote the fair treatment and full participation of all people who have been subject to discrimination. DEI focuses on social disparities and allocating resources and decision-making authority to groups that have historically been disadvantaged. I do not see a nexus between DEI initiatives and ratepayer benefits in the areas of customer service, safety, reliability, service issues or the provision of safe and reliable electric service to ratepayers. I believe these types of incentive costs should be borne by the Company/shareholders. The Company has not provided any information that shows or reflects benefits accruing to ratepayers through DEI initiatives. Ratepayers should not be burdened with these costs. With respect to the Environmental criteria[4] of the OTP President incentive costs, these incentives are geared toward the Environmental, Social and Governance (ESG) issues that increase the focus on a corporation's social responsibilities, including a fair and diverse workplace, providing the employees with a living wage and improvement the environment. These incentive costs should not be paid for by the ratepayers as the ratepayers do not have any control over how the Company operates, promotes and oversees the Company operations. Those responsibilities fall squarely within the Company purview. The Company should not have unfettered access to ratepayer money to promote its organization as being socially, environmentally, and good corporate citizens.

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[4] Inclusion of ESG Metrics in Incentive Plans: Evolution or Revolution? (harvard.edu)

Q. PLEASE SUM UP THE COMPANY'S PROPOSED INCENTIVE COMPENSATION COSTS AND YOUR RECOMMENDED INCENTIVE COMPENSATION COSTS?

A. My recommended inclusion of costs with respect to the Company's Incentive Compensation costs, by Incentive Plan is as follows:

(BEGIN CONFIDENTIAL)

[redacted]

(END CONFIDENTIAL)

My recommendation is shown on my Schedule DM-18.

Q. WHAT HAS THE COMPANY PROPOSED WITH RESPECT TO CORPORATE ALLOCATED LABOR?

A. As shown in response to CONFIDENTIAL response NDPSC-022 the Company booked **(BEGIN CONFIDENTIAL)** [redacted] **(END CONFIDENTIAL)** related to allocated labor from OTC to Otter Tail Power.

Q. DID THE COMPANY SEPARATE OUT ANY COSTS THAT WERE DEEMED INCENTIVE PAY?

A. No. Company witness Mr. Bynes described how OTC allocates labor to Otter Tail Power but did not provide any breakdown related to incentive pay.

Q. WHAT ADJUSTMENTS DO YOU HAVE?

A. Using my same recommended allocation of incentive compensation as I have described above, I am recommending the same allocation with respect to the labor allocation from OTC to Otter Tail Power. This calculates to an overall disallowance of **(BEGIN CONFIDENTIAL)** [redacted] **(END CONFIDENTIAL)**. My recommended incentive allowance of **(BEGIN CONFIDENTIAL)** [redacted] **(END CONFIDENTIAL).** My adjustment is reflected on my Schedule DM-18.

Q. DID YOU MAKE ADJUSTMENTS TO THE COMPANY'S PAYROLL TAXES WITH RESPECT TO YOUR RECOMMENDED LEVEL OF LABOR COSTS?

A. Yes. While the Company did not calculate payroll taxes under its Taxes other than Income Taxes, the payroll taxes are incorporated into the overall Labor Costs as explained in response to ND-PSC-022. I utilized a FICA tax rate of 7.65% to calculate my recommended adjustment to payroll taxes which results in a reduction of $286,437 as shown on my Schedule DM-18.

<u>c. Base Wages and Benchmark Studies</u>

Q. WHAT DID THE COMPANY RELY UPON TO SET ITS BASE COMPENSATION WAGES?

A. Company witness Mr. Wasberg stated that the Company routinely used market survey information to compare its compensation level to those of other utilities and some non-utilities, using numerous surveys and information sources including Willis Towers Watson (WTW), Mercer, Silverstone and Aon Hewitt (Hewitt). (Mr. Wasberg Testimony page 8). The most recent study was conducted by Mercer. Mercer's 2022 compensation competitiveness study examined base salaries and annual incentives. The Company's compensation levels were compared using a combination of general industry, energy/utility industry, and North Central regional data to reflect the labor markets in which the Company competes for employees. (Mr. Wasberg Testimony page 9). This study covered non-executive employees and included a broad sample of positions. (Mr. Wasberg Testimony page 9).

Q. WHAT DID THE COMPANY STATE REGARDING ITS EXECUTIVE COMPENSATION?

A. Company witness Mr. Wasberg stated that Mercer conducted an Executive Benchmarking study (the Mercer Executive Benchmarking Study) (Study) that evaluated a number of compensation components, including base salary, total cash compensation, and total direct compensation which included base salary, annual incentive compensation and long-term incentive. (Mr. Wasberg Testimony page 10). According to the Study the Company's executive base salaries were five percent below the market median and total compensation was four percent below market median. (Mr. Wasberg Testimony page 10). Mr. Wasberg concluded that the Company's executive compensation is below the market median but within the competitive range. (Mr. Wasberg Testimony page 10).

Q. WHAT DID THE COMPANY CONCLUDE WITH RESPECT TO THE MERCER 2022 COMPENSATION COMPETITIVENESS STUDY?

A. Mr. Wasberg stated that overall the Company's compensation plan is competitive with the market and reasonable, especially considering the average tenure of the Company's employee group. It also indicated that the Company's compensation structure included in the Company's request for non-executive employees is fair and reasonable. (Mr. Wasberg Testimony page 9-10).

Q. DO YOU HAVE ANY OPINION REGARDING THE WAY THE COMPANY DEVELOPED ITS COMPENSATION FOR ITS NON-EXECUTIVE AND EXECUTIVE EMPLOYEES?

A. No. I do not have any adjustments or altercations of how the Company developed its compensation for its non-executive and executive employees. I reviewed the Company's CONFIDENTIAL Exhibit PEW-1 Schedule 2, which is the Company's Mercer Compensation Competitiveness Study 2022. My adjustments to Executive Compensation are discussed previously with respect to certain disallowances. I am accepting the Company's proposed adjustments to its employees (Union and Non-Union) base salary levels and the 2024 annual increase of four percent effective April 1, 2024.

d. Vacancy Rate Ratios

Q. DID THE COMPANY PROPOSE A VACANCY RATE RATIO AS PART OF ITS ADJUSTMENT TO CALCULATE THE COMPANY'S LABOR EXPENSE?

A. No. In response to ND-PSC-024, the Company was asked to provide a vacancy rate ratio for the past five years 2019-2023. The Company stated that while not a calculation the Company typically tracks, the Company has monthly and yearly average full-time employees for 2019-2023. The Company provided the following vacancy rate ratios:

2019	2.8%
2020	2.7%
2021	2.9%
2022	5.4%
2023	2.7%

The Company stated that during the COVID-19 Pandemic it experienced lower employee counts and longer times to fill some positions. The Company experienced a high of 49 open positions during 2019-2023, and a low of 11 open positions during the same period. These were considered positions that were posted and unfilled at the time.

Q. WHAT ARE YOU RECOMMENDING?

A. I am recommending a vacancy rate adjustment by taking the Company's 2022-2023 vacancy rate ratio or a 2-year average of 4.05%. ((5.45% + 2.7%)/2). In response to ND-PSC-023, the Company stated that it projected attrition of 64 positions, and projected hires of 67 in 2024. The Company stated that it does not know exactly which roles will be requiring replacement throughout any given year and annual salary would be estimated. Given this information it is uncertain whether or not the Company will actually hire the number of employees it has proposed. The Company has not provided any expected dates of hires, nor has provided the status of interviews for these proposed hires.

Q. IS IT TYPICAL OF COMPANIES TO HAVE A CERTAIN LEVEL OF VACANCIES AT ANY GIVEN PERIOD OF TIME?

A. Yes. At any given time of the year, there will always be vacancies at a company. This is due to employee turnover, retirements, voluntary and involuntary leaves, and people getting laid off or getting fired. Companies cannot with certainty determine the actual number of employees at its organization at any given time period. Therefore, it is appropriate to institute a vacancy rate ratio to determine employee levels and labor costs and compare them to what level of employees the Company has been authorized to hire. The Company in response to ND-PSC-024, stated that it has experienced vacant positions over the past five years, and I believe that this vacancy rate will continue throughout 2024, with a certain level of positions remaining unfilled.

Q. WHAT IS YOUR RECOMMENDED VACANCY RATE RATIO ADJUSTMENT?

A. I am recommending a vacancy rate ratio adjustment of $1,077,845. I used the Company's base salary expenses of **(BEGIN CONFIDENTIAL)** [redacted]. **(END CONFIDENTIAL)**.

e. Employee Benefits

Q. WHAT HAS THE COMPANY PROPOSED REGARDING ITS EMPLOYEE BENEFITS?

A. As outlined in Company Exhibit CLP-1 Schedule 12, the Company has included $2,481,411 of Employee Benefits and Post-Retirement Medical (PRM) Benefits. $1,817,195 is related to adjustments for FASB 87 Pension Costs and (ND-PSC-035) and $664,216 is related to adjustments for Post-Retirement Benefits (ND-PSC-038). The Company has allocated these costs through its Operating Expense categories (Production, Transmission, Distribution, Customer Account, Customer Service and Information and Administrative and General Expenses). The Employee Benefits expense covers employee medical/dental benefits;

retirement benefits including a defined pension plan and defined contribution 401(k) and other Post-Retirement benefits. (Mr. Wasberg Testimony page 10).

Q. WHAT ADJUSTMENTS DO YOU HAVE?

A. My adjustments are reflected on my Schedule DM-10 where I adjusted the Company's Employee Benefits and Post-Retirement Medical to the level of employees expected to be hired and on the books in the Test Year 2024. As reflected on my Schedule DM-10, I have disallowed $100,497 of these costs from the Company's Test Year 2024. These costs reflect total Benefits and Pension adjustments.

f. Retirement Savings and Pension

Q. WHAT HAS THE COMPANY PROPOSED REGARDING RETIREMENT SAVINGS AND PENSION?

A. According to Mr. Wasberg, the Company provides 401(k) defined benefits pension plans for certain employees depending on the date they were hired, and also provides 401(k) matching plan. Mr. Wasberg stated that all Company employees are eligible for some form of match based upon individual contributions to the 401(k) plans. For those employees who are not pension eligible, such as non-union employees and bargaining unit employees (other than Coyote Station union employees) they are eligible for a match of fifty percent of their first eight percent individually contributed (maximum of four percent). Coyote bargaining unit employees are eligible for a match of fifty percent of the first six percent individually contributed (maximum of three percent). (Mr. Wasberg Testimony page 13-14). Mr. Wasberg stated that the Company provides other post-retirement benefits (OPEBs) including the PRM plan, Post-Retirement (LTD) Medical Benefits for a limited number of disabled employees and life insurance for a limited number of eligible retirees. (Mr. Wasberg Testimony page 15).

Q. HAS THE COMPANY TAKEN STEPS TO MANAGE ITS COSTS FOR PENSIONS AND OPEBS?

A. According to Mr. Wasberg, since 2006 the Company has made significant changes to retirement benefits to control costs. The Company has eliminated eligibility to participate in the Company's Pension Plan for employees hired after a certain date, which depends on the bargaining unit status. These dates range from August 31, 2006 (non-union employees), December 31, 2008 (Coyote Plant bargaining unit employees) and October 31, 2023 (other bargaining unit employees). (Mr. Wasberg Testimony page 15). In addition, Mr. Wasberg stated that the Company eliminated the post-retirement medical benefits for new employees. Employees hired after certain dates are not eligible for post-retirement medical benefits. These dates range from August 31, 2006 (non-union employees), December 31, 2008 (Coyote Plant bargaining unit employees), and October 31, 2020 (other bargaining unit employees). Participation is limited to persons who are age 55 or older at retirement with 10 years or more of service and eligible for or enrolled in the Company's medical program as of retirement. (Mr. Wasberg Testimony page 15-16). Mr. Wasberg stated that the adjustments to the participation eligibility have reduced the number of employees participating in the Pension Plan to 60 percent and the Company expects that percentage to increase over the next ten years. (Mr. Wasberg Testimony page 16). Mr. Wasberg stated that beginning in 2020, the Company began the process of moving from the Retiree Drug Subsidy (RDS) to the Employer Group Waiver Plan (EGWP) within the PRM Plan. This has provided some relief to the costs within the post-retirement medical expenses and the RDS benefits have been reducing and moving to the EGWP and found to be beneficial especially in the short term. (Mr. Wasberg Testimony page 16). Finally, the Company made the decision to move to a private exchange for Medicare-eligible retirees (post-65), with all Medicare supplemental medical and prescription benefits no longer being provided through the Company's self-insured plan. All age-65 and older retirees will move to the Mercer Marketplace Exchange effective January 1, 2024 and will provide more comprehensive coverage opportunities for retirees, while significantly reducing the PRM expenses. (Mr. Wasberg Testimony page 17).

Q. WHAT ADJUSTMENTS DO YOU HAVE?

A. I am not making any adjustments to the Company's Retirement Savings and Pension. My adjustments reflect the level of employees expected to be hired and on the books in the Test Year 2024. As reflected on my Schedule DM-10, I have disallowed $100,497 of these costs from the Company's Test Year 2024. These costs reflect total Benefits and Pension adjustments.

C. Depreciation Expenses

Q. WHAT HAS THE COMPANY PROPOSED WITH RESPECT TO DEPRECIATION EXPENSE?

A. The Company proposed an Unadjusted Depreciation Expense of $32,603,918 (Company Exhibit CLP-1 Schedule 12). The Company adjusted this balance to include $489,384 related to the Normalized Langdon Upgrade Project. The Company calculated a Test Year 2024 Depreciation Expense of $33,093,302.

Q. WHAT IS THE LANDGON UPGRADE PROJECT?

A. The Langdon Upgrade Project is a wind energy facility of which certain components of the Upgrade Project are expected to be placed in service in the third quarter of 2024. The Company has adjusted the annual cost associated with the project in 2024. (Company Workpaper TY-01- ND Share). The cost of the Langdon Upgrade Project additions is $23,305,077 of which $10,079,520 is allocated to the North Dakota jurisdiction.

Q. WHAT ADJUSTMENTS DO YOU HAVE?

A. I do not have any adjustments to the Company's Depreciation Expense. My recommendation is on my Schedule DM-19.

D. Taxes Other Than Income (General Taxes)

Q. WHAT HAS THE COMPANY PROPOSED WITH RESPECT TO ITS TAXES OTHER THAN INCOME?

A. The Company has proposed a total Taxes Other Than Income of $7,102,692 (Unadjusted). To that balance the Company added a reconciliation adjustment of $796 to arrive at a Test Year balance of $7,103,488. In response to ND-PSC-218, these costs represent Property Taxes. General Taxes do not include payroll taxes, other payroll taxes or other taxes. The Company stated that the Property Taxes are generally determined by the State Board of Equalization, which certifies taxes to the counties. The counties then determine the taxes due for each property. The property taxes used in the unadjusted Year 2024 are based upon historical assessed taxes plus each state's composite tax rate multiplied by the 2024 forecasted additions.

Q. WHAT IS YOUR RECOMMENDATION?

A. Since I did not have any adjustments to the Company's Electric Plant in Service balance, I do not have any adjustments to the Company's Taxes other than Income. This is shown on my Schedule DM-20.

E. Investment Tax Credits

Q. WHAT HAS THE COMPANY PROPOSED WITH RESPECT TO INVESTMENT TAX CREDITS?

A. The Company proposed an Investment Tax Credit balance of ($2,939,568) under the Regulatory Year and under the Test Year 2024 as shown on Company Exhibit CLP-1 Schedule 12.

Q. WHAT ADJUSTMENTS DO YOU HAVE?

A. After a review of the response to NDPSC-220, I am accepting the Company's Investment Tax Credit balance of ($2,939,568). This is shown on my Schedule DM-4.

F. Deferred Income Taxes

Q. WHAT HAS THE COMPANY PROPOSED WITH RESPECT TO ITS DEFERRED INCOME TAXES?

A. As shown on Company Exhibit CLP-1 Schedule 12 and Schedule C-5, the Company proposed a Deferred Income Tax balance of $5,059,809 under the Regulatory Year and ($1,925,497) under the Test Year period. The balance of this account is as follows:

	Regulatory Year	Adj.	Test Year
Removal Costs	$189,771	$297	$190,068
Excess Tax Over Book Dep.	$5,085,238	$7,961	$5,093,199
Interest Cap. On Construction	$159,926	$250	$160,176
Other Capitalized Items	$108,787	$103,733	$212,520
Total	$5,543,722	$112,241	$5,655,963
Transferred State/Federal Taxes Due to NOL	($483,913)	($7,097,547)	($7,581,460)
Total Deferred Income Taxes	**$5,059,809**	**($6,985,306)**	**($1,925,497)**

Q. WHAT ADJUSTMENTS DO YOU HAVE?

A. After review of the response to NDPSC-202, I am accepting the Company's balance of $1,925,497. This is shown on my Schedule DM-21.

G. Federal and State Income Taxes

Q. WHAT HAS THE COMPANY PROPOSED WITH RESPECT TO ITS FEDERAL AND STATE INCOME TAXES?

A. The Company proposed a Federal and State Income Tax Expense of $0, due to net operating losses in the current year. This is shown on Company Exhibit CLP-1 Schedule 12 and Schedule C-4. The Company calculated its proposed Federal and State Income tax by multiplying the proposed revenue requirement of

$40,660,558 by the composite tax rate of 24.4049% to calculated the proforma Federal and State tax of $9,923,169.

Q. HOW DID THE COMPANY COMPUTE ITS FEDERAL AND STATE INCOME TAX?

A. The Company's Federal and North Dakota income tax expense are based solely on the regulated income and expense items included in the revenue requirement calculation using the "stand alone" method. The stand-alone method determines the jurisdictional regulated income tax expense based solely on allowable regulated income and expense items. The current income tax expense calculation utilizes straight-line depreciation rates to determine depreciation expense as part of the current income tax expense calculation, while modified accelerated income tax depreciation (MACRS) rates and a special bonus depreciation provision were used to determine deferred income taxes (which are treated as a reduction to Rate Base). Ms. Petersen Testimony page 40-41).

Q. HOW DID YOU COMPUTE YOUR FEDERAL AND STATE INCOME TAXES FOR PURPOSES OF THIS PROCEEDING?

A. I have used the Company's methodology to calculate the Company's Federal Income and State Income Taxes, and the flow-throughs of my adjustments to Operating Revenues, Operating Expenses, Depreciation Expenses, and Rate Base related adjustments.

Q. WHAT IS YOUR FEDERAL AND STATE INCOME TAX EXPENSE?

A. My Federal and State Income Tax Expense is ($573,792) under Present Rate Revenues. I utilized the Company's template as provided in ND-PSC-219 to add my adjustments to Operating Revenue and Operating Expenses. This is shown on my Schedule DM-22. I then gross up my recommended Income Deficiency of $20,775,042 by the gross revenue factor of 1.322837 to calculate the additional Federal and State taxes of $6,706,952 as shown on my Schedule DM-1.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does. I reserve the right to amend my direct testimony in the event other information becomes available subsequent to the filing of this testimony.

STATE OF NORTH DAKOTA

PUBLIC SERVICE COMMISSION

Otter Tail Power Company
2023 Electric Rate Increase
Application

Case No. PU-23-342

VERIFICATION

STATE OF New Jersey)
) ss.
COUNTY OF Ocean)

Dante Mugrace, being first duly sworn on oath, deposes and states that he has read the testimony and any exhibits submitted in the above captioned matter under his name, that they were prepared by him or under his direction, that he knows the contents thereof, and that the same are true and correct to the best of his knowledge and belief.

Dante Mugrace

Dante Mugrace

Subscribed and sworn to before me this 14 day of May, 2024.

SARA KLINSKY
Notary Public - State of New Jersey
My Commission Expires Feb 28, 2025

Notary Public
My Commission Expires: 2/28/25

Otter Tail Power Co. - ND
Test Year Endind December 31, 2024

ND Public Service Commission
Case No. PU-23-342

Schedule DM-1

REVENUE REQUIREMENT

		(1) Company Proposed	Adjustments	ND PSC Advocacy Staff	References
1	**Average Rate Base**	**$ 661,733,555**	**$ (1,307,499)**	**$ 660,426,056**	
2	Available for Return	$ 21,208,695	$ 7,416,132	$ 28,624,827	
3	AFUDC	$ -		$ -	
4	Overall Rate of Return	3.205%		4.334%	
5	Required Return	7.850%		7.480%	
6	**Operating Income Requirement**	**$ 51,946,084**	**$ (2,546,215)**	**$ 49,399,869**	
7	**Income Deficiency**	**$ 30,737,389**	**$ (9,962,348)**	**$ 20,775,042**	
8	Gross Revenue Requirement Factor	1.322837		1.322837	(2)
9	**Revenue Deficiency**	**$ 40,660,556**	**$ (13,178,562)**	**$ 27,481,994**	
10	Revenues at Present Rates	$ 195,666,321	$ -	$ 197,460,169	
11	Percentage Increase	20.781%		13.918%	
	Total Revenue Requirement	**$ 236,326,877**	**$ (11,384,714)**	**$ 224,942,163**	

(1) Company Exhibit CLP1-Schedule A-1
(2) Company Exhibit CLP-1 Schedule F-2

State Income Tax	4.310000%
Federal Income Tax	20.090000%
Effective Tax Rate	24.400000%
Operating Income	75.600000%
Revenue Requirement Factor	**1.322751**

Differences due to rounding

Otter Tail Power Co. - ND
Test Year Ending December 31, 2024

ND Public Service Commission
Case No. PU-23-342

Schedule DM-2

WEIGHTED AVERAGE
COST OF CAPITAL

		Ratios	Cost of Capital	Weighted Average
(1)	Company Proposed			
1	LT Debt	55.1000%	4.6600%	2.5677%
2	ST Debt	3.0000%	5.2500%	0.1575%
	Long & Short Term Debt	46.5000%	4.6800%	2.1762%
3	Common Equity	53.5000%	10.6000%	5.6710%
4	**Total Capital**	**100.0000%**		**7.8472%**
(2)	ND PSC Advocacy Staff			
5	LT Debt	45.0000%	4.6500%	2.0925%
6	ST Debt	5.0000%	5.2500%	0.2625%
7	Common Equity	50.0000%	10.2500%	5.1250%
8	**Total Capital**	**100.0000%**		**7.4800%**
				2.3550%

(1) Company Exhibit TRW-1 Schedule D-1-a
(2) Griffing Testimony

Otter Tail Power Co. - ND
Test Year Ending December 31, 2024

ND Public Service Commission
Case No. PU-23-342

Schedule DM-3

AVERAGE RATE BASE

		(1) Company Proposed	Adjustments	ND PSC Advocacy Staff	References
	Electric Plant In Service				
1	Production Plant	$ 642,199,353	$ -	$ 642,199,353	ND-PSC-001
2	Transmission Plant	$ 215,820,853	$ -	$ 215,820,853	
3	Distribution Plant	$ 329,751,162		$ 329,751,162	
4	General Plant	$ 53,302,251	$ -	$ 53,302,251	
5	Common Plant	$ 18,267,524		$ 18,267,524	
6	**Total Electric Plant In Service**	**$ 1,259,341,143**	**$ -**	**$ 1,259,341,143**	DM-5
	Reserve for Depreciation				
7	Production Plant	$ 245,802,099		$ 245,802,099	
8	Transmission Plant	$ 62,608,627		$ 62,608,627	
9	Distribution Plant	$ 123,383,576		$ 123,383,576	
10	General Plant	$ 21,909,647		$ 21,909,007	
11	Common Plant	$ 7,538,396		$ 7,538,176	
12	**Total Reserve for Depreciation**	**$ 461,242,345**	**$ (860)**	**$ 461,241,485**	DM-6
	Net Utility Plant In Service				
13	Production Plant	$ 396,397,254	$ -	$ 396,397,254	
14	Transmission Plant	$ 153,212,226	$ -	$ 153,212,226	
15	Distribution Plant	$ 206,367,586	$ -	$ 206,367,586	
16	General Plant	$ 31,392,604	$ 640	$ 31,393,244	
17	Common Plant	$ 10,729,128	$ 220	$ 10,729,348	
18	**Net Electric Utility Plant In Service**	**$ 798,098,798**	**$ 860**	**$ 798,099,658**	
19	Electric Utility Plant Held for Future Use	$ 4,921	$ (4,921)	$ -	ND-PSC-029
20	Constuction Work in Progress	$ 780,995	$ (780,995)	$ -	ND-PSC-206
21	Accumulated Deferred Income Taxes	$ (175,768,672)	$ -	$ (175,768,672)	
22	Cash Working Capital	$ 1,464,907	$ (522,440)	$ 942,467	
23	**Sub-Total**	**$ 624,576,028**	**$ (1,302,575)**	**$ 623,273,453**	
	Other Rate Base Items				
24	Materials and Supplies	$ 14,737,569	$ -	$ 14,737,569	
25	Fuel Stock	$ 4,495,117	$ -	$ 4,495,117	
26	Prepayments	$ 18,630,686	$ -	$ 18,630,686	
27	Customer Advances	$ (710,769)	$ -	$ (710,769)	
28	Customer Deposits	$ -	$ -	$ -	
31	**Total Other Rate Base Items**	**$ 37,152,603**	**$ -**	**$ 37,152,603**	
32	**Total Average Rate Base**	**$ 661,733,552**	**$ (1,307,496)**	**$ 660,426,056**	ND-PSC-049

(1) Company Exhibit CLP-1 Schedule B-2

OPERATING INCOME STATEMENT

		(1) Company Proposed Present Rates	Rate Adjustments	Company Proposed Final Rates	Adjustments	Present Rates ND PSC Advocacy Staff	References
	Operating Revenues						
1	Retail Revenues	$ 182,686,888	$ 40,660,558	$ 223,347,446		$ 182,686,888	ND-PSC-018
2	Interdepartmental Revenues	$ -	$ -	$ -			ND-PSC-017
3	Other Operating Revenues	$ 12,979,433	$ -	$ 12,979,433	$ 1,793,848	$ 14,773,281	ND-PSC-015
4	**Total Operating Revenues**	**$ 195,666,321**	**$ 40,660,558**	**$ 236,326,879**	**$ -**	**$ 197,460,169**	ND PSC -001
							NDPSC-208
	Operating Expenses						
5	Fuel & Purchased Energy	$ -	$ -	$ -	$ -	$ -	
6	Production Expense	$ 87,108,465	$ -	$ 87,108,465	$ (49,386)	$ 87,059,079	DM-11
7	Transmission	$ 14,086,555	$ -	$ 14,086,555	$ (24,010)	$ 14,062,545	DM-12
8	Distribution	$ 8,393,231	$ -	$ 8,393,231	$ (34,069)	$ 8,359,162	DM-13
9	Customer Accounting	$ 7,295,595	$ -	$ 7,295,595	$ (30,293)	$ 7,265,302	DM-14
10	Customer Service & Info.	$ 1,331,017	$ -	$ 1,331,017	$ (5,253)	$ 1,325,764	DM-15
11	Sales Expense	$ 135,872	$ -	$ 135,872	$ -	$ 135,872	DM-16
12	Admin. & General	$ 20,775,238	$ -	$ 20,775,238	$ (2,022,215)	$ 18,753,023	DM-17
	O&M Outages						ND-PSC-017
13	Labor Adjustments (including Payroll)				$ (4,030,711)	$ (4,030,711)	DM-18
14	**Total Operating Expenses**	**$ 139,125,973**	**$ -**	**$ 139,125,973**	**$ (6,195,936)**	**$ 132,930,037**	(2)
15	Depreciation Expense	$ 33,093,414	$ -	$ 33,093,414	$ (112)	$ 33,093,302	DM-19
16	Amortization Expense	$ -	$ -	$ -	$ -	$ -	
17	Taxes Other Than Income	$ 7,103,488	$ -	$ 7,103,488	$ -	$ 7,103,488	DM-20
18	**Total Operating Expenses**	**$ 179,322,875**		**$ 179,322,875**	**$ (6,196,048)**	**$ 173,126,827**	
19	**Net Operating Income Before Taxes**	**$ 16,343,446**	**$ 40,660,558**	**$ 57,004,004**		**$ 24,333,342**	
20	Investment Tax Credit	$ (2,939,781)	$ -	$ (2,939,781)	$ -	$ (2,939,781)	NDPSC-220
21	Deferred Income Taxes	$ (1,925,497)	$ -	$ (1,925,497)	$ -	$ (1,925,497)	DM-21
22	Federal Income Taxes	$ -	$ 9,923,169	$ 9,923,169	$ (10,496,961)	$ (573,792)	DM-22
23	**Total Income Taxes**	**$ (4,865,278)**	**$ 9,923,169**	**$ 5,057,891**	**$ (9,349,376)**	**$ (4,291,486)**	
24	AFUDC	$ -		$ -			
							ND-PSC-020
25	Total Operating Income	**$ 21,208,724**	**$ 30,737,389**	**$ 51,946,113**	$ (23,321,286)	$ 28,624,827	ND-PSC-008
	Total Available for Return	**$ 21,208,724**	**$ 23,235,961**	**$ 44,444,685**	**$ (23,321,286)**	**$ 28,624,827**	
							ND-PSC-019
26	**Rate Base**	**$ 661,733,555**		**$ 661,733,555**	**$ (1,307,499)**	**$ 660,426,056**	
27	**Rate of Return**	**3.21%**		**7.85%**		**7.48%**	
(1)	Company Exhibit CLP-1 Schedule C-1			$ 51,946,113	$ (2,546,244)	$ 49,399,869	

(2) Any differences due to rounding

Otter Tail Power Co. - ND
Test Year Ending December 31, 2024

ND Public Service Commission
Case No. PU-23-342

Schedule DM-5

ELECTRIC PLANT IN SERVICE

	Plant Categories	(1) Company Proposed Unadjusted	Adjustments	Company Proposed Adjusted	Adjustments	ND PSC Advocacy Staff	References
1	**Production**	$ 658,582,109					
2	Production - Hoot Lake Solar		$ (26,462,276)	$ 642,199,353		$ 642,199,353	ND-PSC-009
3	Production - Langdon Upgrade (2)		$ 10,079,520				ND-PSC-028 ND-PSC-010
4	**Transmission**	$ 323,246,976					ND-PSC-027
5	GIPs Projects		$ (19,287,409)				ND-PSC-028
6	Transmission and Recovery		$ (88,138,714)	$ 215,820,853		$ 215,820,853	
7	**Distribution**	$ 330,597,673					
8	Customer Engagement Portal						ND-PSC-011
9	Electric Vehicles		$ (846,512)	$ 329,751,161		$ 329,751,161	
10	**General**	$ 53,302,251		$ 53,302,251		$ 53,302,251	
11	**Intangible**	$ 18,266,994	$ 530	$ 18,267,524		$ 18,267,524	
12	**Total Electric Plant In Service**	**$ 1,383,996,003**	**$ (108,272,105)**	**$ 1,259,341,142**	**$ -**	**$ 1,259,341,142**	ND-PSC-045 ND-PSC-051

TCR-Rider	ND-PSC-054
MDT-Rider	ND-PSC-055
GCR-Rider	ND-PSC-056

(1) Company Exhibit CLP-1 Schedule 7
Company response to ND-PSC-030

(2) Response to ND-PSC-046
Response to ND-PSC-053

RESERVE FOR DEPRECIATION

		(1) Company Proposed Unadjusted	Adjustments	Company Proposed Adjusted	Adjustments	ND PSC Advocacy Staff	References
1	**Production**	$ (246,215,224)					
2	Production - Hoot Lake Solar		$ 568,838	$ (245,802,099)		$ (245,802,099)	
3	Production - Langdon Upgrade		$ (155,713)				
4	**Transmission**	$ (72,478,191)					
5	Transmission - GIPs Projects		$ 1,212,465				
6	Transmission - Transmission Recovery		$ 8,657,099	$ (62,608,627)		$ (62,608,627)	
7	**Distribution**	$ (123,426,235)					
8	Distribution - Electric Vehicles		$ 42,659	$ (123,383,576)	$ -	$ (123,383,576)	
9	**General**	$ (21,909,007)	$ -	$ (21,909,007)	$ -	$ (21,909,007)	
10	**Intangible**	$ (7,538,176)	$ -	$ (7,538,176)	$ -	$ (7,538,176)	
11							
12	**Total Reserve for Depreciation**	**$ (471,566,833)**	**$ 10,325,348**	**$ (461,241,485)**	**$ -**	**$ (461,241,485)**	

(1) Company Exhibit CLP-1 Schedule 7

ACCUMULATED DEFERRED INCOME TAXES

		(1) Company Proposed Unadjusted	Adjustments	Company Proposed Adjusted	Adjustments	ND PSC Advocacy Staff	References
1	Production	$ -	$ -	$ -	$ -	$ -	
2	Transmission	$ -	$ -	$ -	$ -	$ -	
3	Distribution	$ -	$ -	$ -	$ -	$ -	
6	General	$ -	$ -	$ -	$ -	$ -	
7	Common/Intangible	$ -	$ -	$ -	$ -	$ -	
8	Net Operating Loss	$ -	$ -	$ -	$ -	$ -	
9	Non-Plant Related	$ -	$ -	$ -	$ -	$ -	
10	AGIS			$ -		$ -	
11	**Total Accum. Deferred Income Taxes**	**$ (187,351,325)**	**$ 11,608,702**	**$ (175,768,672)**	**$ -**	**$ (175,768,672)**	NDPSC-204 NDPSC-202 NDPSC-201

(1) Exhibit CLP-1 Schedule 7
Differences due to rounding

CASH WORKING CAPITAL

		(1) Company Proposed Operating Exp.	Expense Per Day	Expense Lag Day	Net Dollars	Adjustments	ND PSC Advocacy Staff	References
1	Fuel - Coal	$ 23,301,382	$ 63,839	15.19	$ 969,721	$ -	$ 969,721	
2	Fuel - Oil	$ 4,561,691	$ 12,498	25.41	$ 317,569	$ -	$ 317,569	
3	Purchased Power	$ 42,027,450	$ 115,144	1.53	$ 176,170	$ -	$ 176,170	
4	Labor and Associated Payroll	$ 29,067,115	$ 79,636	23.82	$ 1,896,928	$ (203,248)	$ 1,693,680	
5	All Other Expenses	$ 40,168,364	$ 110,050	21.81	$ 2,400,197	$ (370,228)	$ 2,029,969	
6	Property Taxes	$ 7,062,203	$ 19,349	(261.87)	$ (5,066,792)	$ -	$ (5,066,792)	
7	Coal Conversion	$ 41,285	$ 113	(1.29)	$ (146)		$ (146)	
8	Federal Income Taxes	$ (1)	$ (0)	34.30	$ (0)	$ -	$ -	
9	State Income Taxes	$ -	$ -	34.30	$ -	$ -	$ -	
10	Incremental Federal Income Taxes	$ -	$ -	34.30	$ -	$ -	$ -	
	Incremental State Income Taxes	$ -	$ -	34.30	$ -		$ -	
11	Bank Balances	$ -	$ -	0.00		$ 9	$ 9	
12	Special Deposits	$ -	$ -	0.00	$ 817,548	$ 817,548	$ 817,548	
13	Working Funds	$ -	$ -	0.00	$ 4,740	$ -	$ 4,740	
14	Tax Collections Available	$ -	$ -	0.00		$ -	$ -	
15	FICA Withholdings	$ (2,399,937)	$ (6,575)	0.00	$ -	$ -	$ -	
16	Federal Withholdings	$ (3,879,432)	$ (10,629)	0.00	$ -	$ -		
17	State Withholdings - MN	$ -	$ -	0.00	$ -	$ -	$ -	
18	State Withholdings - ND	$ (303,808)	$ (832)	61.23	$ (50,965)	$ -	$ -	
19		$ -	$ -	0.00		$ -	$ -	
20	State Sales Tax	$ (72)	$ (0)	13.84	$ (3)	$ -	$ -	
21	Franchise Taxes	$ -	$ -	0.00		$ -	$ -	
22		$ -	$ -	0.00			$ -	
23	**Total Cash Working Capital**		**$ -**	**0.00**	**$ 1,464,967**	**$ -**	**$ -**	
							$ 942,467	

(1) Company Exhibit CLP-1 Schedule B-1-e

Otter Tail Power Co. - ND
Test Year Ending 12/31/2024

ND Public Service Commission
Case No. PU-23-342

Schedule DM-9

OPERATING REVENUES

		(1) Company Present Rates	Adjustments	Company Proposed	Adjustments	Present Rates ND PSC Advocacy Staff	References
1	Electric Retail Revenues						
2	Retail Revenues - Rider Roll In	$ 205,989,209	$ (23,302,321)	$ 182,686,888		$ 182,686,888	
3	Other Electric Revenues	$ 12,976,906	$ 2,527	$ 12,979,433	$ 1,793,848	$ 14,773,281	
4	**Total**	**$ 218,966,552**	**$ (23,302,321)**	**$ 195,666,321**	**$ -**	**$ 197,460,169**	
	Hoot Lake Solar - MD	$ 1,313,341					ND-PSC-042
	Production Tax Credits	$ 4,186,187					ND-PSC-042
	GIP Projects	$ (1,688,273)					ND-PSC-042
	Rider CWIP Projects	$ (2,720,332)					ND-PSC-042
	Transmission Recovery	$ (12,044,474)					ND-PSC-042

Any adjustments to these accounts should flow through to Income Taxes, Depreciation, deferred taxes

(1) Company Exhibit CLP-1 Schedule C-7
Company response to ND-PSC-031

Operating & Maintenance Expenses Workpaper

		(1) Company Regulatory	Adjustments	Company Test Year	Adjustments	ND PSC Advocacy Staff	References
1	Production Expenses	$ 86,694,044				$ -	
2	Normalized Pension and PRM		$ 414,420	$ 87,108,464	$ (16,784)	$ 397,636	ND-PSC-012 NDPSC-213
3	Transmission Expenses	$ 13,847,298				$ -	
4	Normalized Pension and PRM		$ 239,257	$ 14,086,555	$ (9,690)	$ 229,567	
5	Distribution Expenses	$ 7,972,703				$ -	
6	Normalized Pension and PRM		$ 420,521	$ 8,393,224	$ (17,031)	$ 403,490	
7	Customer Accounting	$ 7,035,433				$ -	
8	Normalized Pension and PRM		$ 260,162	$ 7,295,595	$ (10,537)	$ 249,625	
9	Customer Service / Information	$ 1,315,049				$ -	
10	Normalized Pension and PRM		$ 15,968	$ 1,331,017	$ (647)	$ 15,321	
11	Sales Expenses	$ 135,872	$ -	$ 135,872	$ 0	$ -	
12	Admininistrative/General	$ 17,534,200	$ -			$ -	
13	Rate Case Expenses		$ 359,404				
14	Normalized Pension and PRM		$ 1,131,083		$ (45,809)	$ 1,085,274	
15	Non-Employee Director Restricted Stock		$ 262,850				
16	ESSRP		$ 61,296				
17	Employee Recognition and Gifts		$ 96,967				
18	Investor Relations		$ 102,431				
19	Long-Term Incentive		$ 1,221,363				
20	Other Changes and Effects		$ 5,674	$ 20,775,268			
21	**Total O&M Expenses**	**$ 134,534,599**	**$ 4,591,396**	**$ 139,125,995**	**$ (100,497)**		ND-PSC-01

(1) Exhibit CLP-1 Schedule 12

POWER PRODUCTION

		(1) Company Proposed	Adjustments	ND PSC Advocacy Staff	References
1	**Regulatory Year 2024**	**$ 86,694,044**	$ -	**$ 86,694,044**	
			$ -		
2	Normalized Pension & PRM	$ 414,420	$ (16,784)	$ 397,636	
3	Employee Recognition and Gifts	$ -	$ (32,601)	$ (32,601)	NDPSC-216
4		$ -	$ -	$ -	
5	**Test Year 2024**	**$ 87,108,464**	**$ (49,385)**	**$ 87,059,079**	
					ND-PSC-032
6	Labor Expense	$ 6,277,657			ND-PSC--025
	FASB 87 Pension Costs	$ 303,489			ND-PSC-035
	PRM	$ 110,932			ND-PSC-038
	Total	$ 414,421			NDPSC-212
	Hoot Lake Solar - MN	$ 1,267,955			ND-PSC-042

(1) Exhibit CLP-1 Schedule 12

TRANSMISSION EXPENSES

		(1) Company Proposed	Adjustments	ND PSC Advocacy Staff	References
1	**Regulatory Year 2024**	**$ 13,847,298**	$ -	**$ 13,847,298**	
		$ -	$ -		
2	Normalized Pension and PRM	$ 239,257	$ (9,690)	$ 229,567	
3	Employee Recognition and Gifts		$ (14,320)	$ (14,320)	NDPSC-216
4		$ -	$ -	$ -	
5	**Test Year 2024**	**$ 14,086,555**	**$ (24,010)**	**$ 14,062,545**	
					ND-PSC-026
6	Labor Expense	$ 3,074,400			ND-PSC-025
	FASB-87 Pension Costs	$ 175,213			ND-PSC-035
	PRM	$ 64,043			ND-PSC-038
	Total	$ 239,256			NDPSC-212

(1) Company Exhibit CLP-1 Schedule 12

DISTRIBUTION EXPENSES

		(1) Company Proposed	Adjustments	ND PSC Advocacy Staff	References
1	**Regulatory Year 2024**	**$ 7,972,703**		**$ 7,955,672**	
		$ -	$ -	$ -	
2	Normalized Pension and PRM	$ 420,521	$ (17,031)	$ 403,490	
3	Customer Engagement Portal				ND-PSC-011
4	Employee Recognition and Gifts	$ -	$ (25,682)	$ (25,682)	NDPSC-216
5	**Test Year 2024**	**$ 8,393,224**	**$ (34,062)**	**$ 8,359,162**	
6	Labor Expense	$ 4,924,594			ND-PSC-025
					ND-PSC-026
	FASB 87 Pension Costs	$ 307,957			ND-PSC-035
	PRM	$ 112,564			ND-PSC-038
	Total	$ 420,521			NDPSC-212

(1) Company Exhibit CLP-1 Schedule 12
(2)

Otter Tail Power Co. - ND
Test Year Ending 12/31/2024

ND Public Service Commission
Case No. PU-23-342

Schedule DM-14

CUSTOMER ACCOUNTING EXPENSE

		(1) Company Proposed	Adjustments	ND PSC Advocacy Staff	References
1	**Regulatory Year 2024**	**$ 7,035,433**		**$ 7,035,433**	
			$ -		
2	Normalized Pension and PRM	$ 260,162	$ (10,537)	$ 249,625	
3	Employee Recognition and Gifts		$ (19,756)	$ (19,756)	NDPSC-216
4	**Test Year 2024**	**$ 7,295,595**	**$ (30,293)**	**$ 7,265,302**	
					ND-PSC-026
5	Labor Expense	$ 3,811,926			ND-PSC-025
	FASB 87 Pension Costs	$ 190,522			ND-PSC-035
	PRM	$ 69,639			ND-PSC-038
	Total	$ 260,161			NDPSC-212

(1) Company Exhibit CLP-1 Schedule 12
(2)

Otter Tail Power Co. - ND
Test Year Ending 12/31/2024

ND Public Service Commission
Case No. PU-23-342

Schedule DM-15

CUSTOMER SERVICE & INFORMATION EXPENSE

		(1) Company Proposed	Adjustments	ND PSC Advocacy Staff	References
1	**Regulatory Year 2024**	**$ 1,315,049**		**$ 1,315,049**	
2	Normalized Pension and PRM	$ 15,968	$ (647)	$ 15,321	
3	Employee Recognition and Gifts		$ (4,606)	$ (4,606)	NDPSC-216
4	Adjustments	$ -		$ -	
5	**Adjusted Balance**	**$ 1,331,017**	**$ (5,253)**	**$ 1,325,764**	
					ND-PSC-026
6	Labor Expense	$ 813,774			ND-PSC-025
	FASB 87 Pension Costs	$ 11,694			ND-PSC-035
	PRM	$ 4,274			ND-PSC-038
	Total	$ 15,968			NDPSC-212

(1) Company Exhibit CLP-1 Schedule 12

Otter Tail Power Co. - ND
Test Year Ending 12/31/2024

ND Public Service Commission
Case No. PU-23-342

Schedule DM-16

SALES EXPENSES

		(1) Company Proposed	Adjustments	ND PSC Advocacy Staff	References
1	**Regulatory Year 2024**	**$ 135,872**	**$ -**	**$ 135,872**	
2	Normalized Pension and PRM	$ -	$ -	$ -	
3	**Test Year 2024**	**$ 135,872**	**$ -**	**$ 135,872**	
	Labor Expense	$ 78,821			ND-PSC-026 ND-PSC-025 NDPSC-212

(1) Company Exhibit CLP-1 Schedule 12

Otter Tail Power Co. - ND
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Schedule DM-17

ADMINISTRATIVE & GENERAL EXPENSES

		(1) Company Proposed	Adjustments	ND PSC Advocacy Staff	References
1	**Regulatory Year 2024**	**$ 17,534,200**	$ -	**$ 17,534,000**	ND-PSC-042
					ND-PSC-043
2	Rate Case Expenses	$ 359,404	$ -	$ 359,404	
3	Normalized Pension and PRM	$ 1,131,083	$ (45,809)	$ 1,085,274	
4	Non-Employee Director Restr. Stock	$ 262,850	$ (262,850)	$ -	ND-PSC-043
5	ESSRP	$ 61,296	$ (267,000)	$ (328,296)	ND-PSC-074
6	Employee Recognition/Gifts	$ 96,967	$ -	$ 96,967	ND-PSC-068
7	Investor Relations	$ 102,431	$ (102,431)	$ -	ND-PSC-043
8	Long-Term Incentive	$ 1,221,363	$ (1,221,363)	$ -	ND-PSC-069/79
	CONFIDENTIAL DATA BEGINS				
	[redacted]				ND-PSC-073
	CONFIDENTIAL DATA ENDS				
9	Changes in Allocations	$ 5,674	$ -	$ 5,674	
10	Other - Aircraft Costs	$ -	$ 171,097	$ -	ND-PSC-006
11	**Adjusted Balance - Test Year 2024**	**$ 20,775,268**	**$ (2,022,245)**	**$ 18,753,023**	
					ND-PSC-026
12	Labor Expense	$ 11,625,409			ND-PSC-025
	FASB 87 Pension Costs	$ 828,318			ND-PSC-035
	PRM	$ 302,765			ND-PSC-038
	Total	$ 1,131,083			NDPSC-212
					ND-PSC-075

(1) Company Exhibit CLP-1 Schedule 12

Advertising
Dues- Chambers of Commerce/Foundational civic donations
association Dues/Subscriptions /Membership Dues
Economic Development

Otter Tail Power Co. - ND
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Schedule DM-18

LABOR EXPENSES INCENTIVE COMPENSATION EXPENSES

		(1) Company Proposed	Adjustments	ND PSC Advocacy Staff	References
1	**Regulatory Year 2024**	$ -		$ -	
2	Production Expenses	$ 6,277,657			
3	Transmission Expenses	$ 3,074,400	$ -	$ -	
4	Distribution Expenses	$ 4,924,594	$ -		
5	Customer Accounting	$ 3,811,926	$ -		
6	Customer Service & Information	$ 813,774			
7	Sales Expenses	$ 78,821	$ -		
8	Administrative & General	$ 11,625,409		$ -	
9	Other	$ -		$ -	
10		$ -		$ -	
11	**Adjusted Balance - Test Year 2024**	**$ 30,606,581**	**$ (3,744,274)**	**$ 25,952,696**	ND-PSC-022
					ND-PSC-007
12	Vacancy Rate Ratio (2 Yr average)	4.05%			ND-PSC-024
					ND-PSC-023
	Incentive Compensation Costs - BEGIN CONFIDENTIAL				
13	OTP KPA	[redacted]			ND-PSC-061
14	People Leader Plan				ND-PSC-064
15	Coyote Retention				ND-PSC-061
16	OTP Management				ND-PSC-061/66
17	OTP President				ND-PSC-067
18	Corporate Allocated Labor				NDPSC-223
19	**Total (included in above)**				ND-PSC-060
					ND-PSC-024
20	Base Salary without Incentives				ND-PSC-025
	END CONFIDENTIAL				ND-PSC-057
					ND-PSC-058
	SERP Expenses	$ 92,000	$ (92,000)	$ -	ND-PSC-059
					ND-PSC-078
	Payroll Tax Adjustment		$ (286,437)		

(1) Company Exhibit CLP-1 Schedule 12

Otter Tail Power Co. - ND
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Schedule DM-19

DEPRECIATION EXPENSE

		(1) Company Proposed	Adjustments	ND PSC Advocacy Staff	References
1	**Unadjusted Balance 2024**	**$ 35,004,220**	**$ -**	**$ 35,004,220**	
2	Electric Vehicles	$ (78,037)		$ (78,037)	
3	GIPs	$ (311,858)	$ -	$ (311,858)	
4	Hoot Lake Solar	$ (685,029)		$ (685,029)	
5	Transmission Recovery	$ (1,325,266)	$ -	$ (1,325,266)	
6	Changes in Allocation / Normalization	$ (112)	$ -	$ (112)	
7	**Regulatory Year 2024**	**$ 32,603,918**	**$ -**	**$ 32,603,918**	
8	Normalized Langdon Upgrade	$ 489,384	$ -	$ 489,384	ND-PSC-043
9	Cost of Removal				
10	**Adjusted Balance**	**$ 33,093,302**	**$ -**	**$ 33,093,302**	NDPSC-214

(1) Company Exhibit CLP-1 Schedule C-1

Otter Tail Power Co. - ND Test Year Ending 12/31/2024	ND Public Service Commission Case No. PU-23-342	Schedule DM-20

TAXES OTHER THAN INCOME TAXES

		(1) Company Proposed	Adjustments	ND PSC Advocacy Staff	References
1	**Unadjusted Balance**	**$ 8,019,087**	**$ -**	**$ 8,019,087**	
2	Adjustments	$ (916,395)	$ -	$ (916,395)	
3		$ -	$ -	$ -	
4	**Regulatory Year 2024**	**$ 7,102,692**	**$ -**	**$ 7,102,692**	
5	Adjustments	$ 796		$ 796	
6	**Test Year 2024**	**$ 7,103,488**	**$ -**	**$ 7,103,488**	
7	**Total Taxes Other Than Income**	**$ 7,103,488**	**$ -**	**$ 7,103,488**	ND-PSC-Set 2-18

(1) Company Exhibit CLP-1 Schedule C-1
Differences due to rounding

Otter Tail Power Co. - ND
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Schedule DM-21

DEFERRED INCOME TAXES

	(1) Company Proposed	Adjustments	ND PSC Advocacy Staff	References
Removal Costs	$ 190,068		$ 190,068	
Excess Tax Over Book Depreciation	$ 5,093,199		$ 5,093,199	
Interest Capitalized on Construction	$ 160,176		$ 160,176	
Other Capitalized Items	$ 212,520		$ 212,520	
Total Deferred Income Taxes	**$ 5,655,963**		**$ 5,655,963**	
Transferred State and Federal Taxes due to Net Operating Loss	$ (7,581,460)		$ (7,581,460)	
Total Deferred Income Taxes	**$ (1,925,497)**		**$ (1,925,497)**	NDPSC-202

Otter Tail Power Co. - ND
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Schedule DM-22

FEDERAL INCOME TAXES

		(1) Company Proposed	Adjustments	Present Rates ND PSC Advocacy Staff	References
1	Total Operating Revenues	$ 195,666,321	$ -	$ 197,460,169	
2	Less Operating Expenses	$ (139,125,973)	$ -	$ (132,930,037)	
3	**Balance**	**$ 56,540,348**	**$ 7,989,784**	**$ 64,530,132**	
4	Depreciation Expense	$ (33,093,414)	$ -	$ (33,093,302)	
5	Amortization Expense	$ -	$ -	$ -	
6	Taxes Other Than Income	$ (7,103,488)	$ -	$ (7,103,488)	
7	Interest Costs	$ (14,425,792)		$ (15,553,034)	
8	**Balance**	**$ 1,917,654**	**$ -**	**$ 8,780,308**	
	Tax Additions Schedule M				
9	Additional Tax Depreciation	$ 28,688,010	$ -	$ 28,688,010	
10	Other Schedule M Items	$ 4,291,736	$ -	$ 4,291,736	
11	**Total Tax Deductions**	**$ 32,979,746**	**$ -**	**$ 32,979,746**	
12	ND Adjustments to Federal Schedule M	$ 1,673	$ -	$ 1,673	
13	**State Taxable Income**	**$ (31,113,765)**	**$ -**	**$ (24,251,111)**	
14	State Income Tax Rate	4.31%	$ -	4.31%	
15	**Total State Income Tax and Min Fee**	**$ (1,339,763)**	$ -	**$ (1,045,223)**	
16	State Taxes Transferred NOL	$ 1,339,763		$ 1,030,449	
17	**Total State Income Taxes**	**$ -**		**$ (14,774)**	
18	**Federal Taxable Income**	**$ (31,113,765)**	**$ -**	**$ (24,265,885)**	
19	Add Back Schedule M Adjustments	$ 1,339,763	$ -	$ 1,030,449	
20	**Adjustable Federal Taxable Income**	**$ (29,722,328)**	**$ -**	**$ (23,168,989)**	
21	Federal Income Tax Rate	21.00%	$ -	21.00%	
22	**Total Federal Income Taxes**	**$ (6,241,689)**	**$ -**	**$ (4,865,488)**	
23	Federal Taxes Transferred NOL	$ 6,241,689	$ -	$ 4,306,469	
	Total Federal Income Taxes			$ (559,019)	
24	**Total Federal Income Taxes**	**$ -**	**$ (573,792)**	**$ (573,792)**	

(1) Company Exhibit CLP-1 Schedule C-4