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Final 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

October 4, 2024

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

Table of Contents

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 utility regulation and policy, economics, accounting, and finance. PCMG's members have over 75 years of collective experience consulting and providing expert testimony regarding the regulation of electric, gas, water and wastewater utilities that operate under local, state, and federal jurisdictions. 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. We also evaluate the reasonableness of costs and investments that are used to set rates and measure the value of rate base, and whether these costs are prudent, used and useful, or known and measurable. 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 administrative, financial, and managerial functions of the Rates Bureau. My primary duties were to ensure the utilities had sufficient revenues to cover operating expenses, while ensuring expenses were reasonable, prudent, and known and measurable in providing service and benefits to customers in accordance with Board policies, regulatory standards, and prior rate Orders. I also was responsible to ensure the utilities had the opportunity to earn a reasonable return on 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 commissions in Massachusetts, Pennsylvania, 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) 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. 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. The Company filed an application on November 2, 2023, requesting an increase in base distribution rates in the amount of $40,660,558 or 8.43% above current rates.[1] 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 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

[1] On December 13, 2023, the Commission approved an interim rate increase, subject to refund with interest, in the amount of $14,214,884 or 6.03% increase in annual revenues effective January 1, 2024. The total interim revenue requirement is $34,450,473, of which $20,235,589 included items currently recovered in rider rates that will be removed from those rider rates effective January 1, 2024.

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.[2] The Company then multiplied this amount by its revenue conversion factor of 1.322837 to account for taxes to arrive at its revenue requirement increase proposal of $40,660,558.

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

A. Yes. On July 3, 2024, the Company updated its 2024 Test Year revenue requirement to $45,771,441, or $5,110,883 more than the prior revenue requirement. This included $22,462,491 of net revenues and $23,308,950 of Rider Roll-in Revenues. The impact on a customer would be an increase of 10.90% over current rate revenues.[3] The Company has maintained its overall rate of return of 7.85% with a common equity component of 10.60% as reflected on Exhibit TRW-1 Schedule D-1-a. The Company computed a revised average rate base balance of $695,424,813, which is $33,691,258 more than the prior average rate base, as shown on Company Supplemental Exhibit CLP-1 Schedule A-1.

Q. PLEASE SUMMARIZE YOUR FINDING AND RECOMMENDATIONS.

A. I have the following recommendations:

1. My recommended rate base balance is $668,327,616, which is $27,097,197 lower than the Company's proposed rate base balance of $695,424,813.
2. My rate of return is based upon the recommendation of Dr. Marlon Griffing, which recommends an overall return of 7.22%, which includes a common equity component of 9.56%. This compares with the Company's proposed overall return of 7.85% and proposed common equity component of 10.60%.
3. My recommended operating revenues at present rates is $197,497,917 which is $2,461,403 higher than the Company's operating revenues at present rates of $195,036,513.

[2] Company Exhibit CLP-1 Schedule A-1
[3] Company filing letter dated July 3, 2024. Company response to ND-PSC-912.

4. My overall revenue requirement increase based upon an overall rate of return of 7.22% is $25,358,485; this is $20,412,956 lower than the Company's requested overall revenue requirement increase of $45,771,440.

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 including the Company's revisions to its revenue requirement update and its Supplemental information and adjusted balances 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 Supplemental Rate Base balances and certain of the Company's Supplemental 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 the Company's filings 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. Per Advocacy Staff witness Dr. Griffing's recommendation, I am incorporating an overall cost of capital of 7.22% which includes a common equity component of 9.56%. 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 originally proposed an average plant in service balance of $1,259,341,147, as of December 31, 2024. In its revised filing, the Company adjusted this balance to $1,251,434,475.[4] The Company arrived at this balance by adding its forecasted investments through December 2023 to its actual investments ending July 2023. The 2024 test year period is based upon prior years' data and 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 using a simple average. The Company developed its 2024 North Dakota Test Year plant in service using budgeted information that was averaged and adjusted for known and measurable changes and one-time, non-recurring events. (Petersen testimony page 19). The Company then updated its plant in service with the following adjustments, which are shown on Company Supplemental Exhibit CLP-2 Schedule 3:

As Originally Filed	$1,259,341,143
Asset Retirement Obligations	($8,423,675)
Revised Langdon Normalization	$517,919
Adjusted Plant-in-Service	$1,251,434,477

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

[4] Any differences are due to rounding issues.

the North Dakota jurisdiction for the 2024 Test Year. (Petersen Testimony page 1). 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).

Q. EXPLAIN THE FIRST ADJUSTMENT, WHICH IS THE ASSET RETIREMENT OBLIGATIONS OR ARO?

A. The ARO represents the cost of retiring long-lived assets such as coal-fired generation plants and these costs include site restoration, closure of ash pits and the removal of structures or other remediation. ARO balances represent the differences in timing of recognition on the expense and recovery of these expenses from customers. (Petersen Supplemental Testimony page 3).

Q. WHY HAS THE COMPANY REMOVED IT?

A. According to Ms. Petersen, in prior years, the Company has included the plant balance of ARO in rate base calculations. While finalizing the 2023 actual test year in development of the 2024 Test Year, the Company discovered a mapping error and evaluated whether this practice should be continued and determined that the ARO entries are offset but have no impact. The actual depreciation expenses and reductions to rate base are already incorporated in other depreciation items in the cost of service. As a result, the Company proposed to remove the ARO balance from rate base in this proceeding. (Petersen Supplemental Testimony page 4).

Q. WHAT CAUSED THE COMPANY TO UPDATE ITS ALLOCATION RELATED TO ITS OPERATIONS?

A. According to Ms. Petersen, the impacts to the revenue requirement proposal are due to changes in the allocators that result from these revisions. For example, changes to net plant in service will have a direct impact on the net electric plant in service (NEPIS) allocation factor calculated as a percentage of total system net plant. The allocation percentage is simultaneously recalculated each time an adjustment to net plant in service occurs, thereby providing the most up-to-date factor possible. (Supplemental Testimony of Petersen page 7). Anything that is allocated on NEPIS is simultaneously re-calculated on a jurisdictional basis as well. The revisions cause changes to allocators that result in an increase to rate base of $4,912. (Supplemental Testimony of Petersen page 7-8).

Q. DO YOU HAVE ANY CHANGES OR ADJUSTMENTS TO THE COMPANY'S ALLOCATIONS FACTORS USED IN THE DEVELOPMENT OF THE COMPANY'S REVENUE REQUIREMENT INCLUDING THE UPDATED ALLOCATION CHANGES SHOWN IN THE COMPANY'S JULY 3, 2024 FILING?

A. No.

Q. DO YOU HAVE ANY ADJUSTMENTS WITH RESPECT TO THE COMPANY'S SUPPLEMENTAL EPIS BALANCE OF $1,251,434,477?

A. No. I am accepting the Company's supplemental proposed average balance. The Langdon Project is expected to be completed at the end of 2024. In its supplemental filing, the Company updated the $10,079,520 cost to complete the project by $517,919 per year (Supplemental Stalboerger testimony at 3). Company witness Ms. Stalboerger stated that the original adjustment of $10,079,520 did not capture the full project cost or associated expenses. (Supplemental Stalboerger testimony at 3). The Company stated that the Langdon Project was originally estimated to be $46.6 million and is now estimated to be $49.0 million, or a difference of $2.4 million. The costs for the Langdon Project are currently recovered in the Renewable Resource Cost Recovery rider (RRCR) and the Company proposes to move them to base rates. The Company stated that there have been no delays in construction or any significant change in cost The Merricourt, Ashtabula III and the Langdon Project costs are part of this rate case's 2024 test year revenues (Foster testimony page 5). As for Ashtabula I and III, the Company estimates they are expected to be completed in 2025, and so the costs will also be recovered in the RRCR rider until the next North Dakota rate case. (Foster testimony page 5). I do not have any adjustments at this time. I would ask the Company to provide the actual project costs when the project is completed, so the costs can be accurately represented when rates go into effect. This balance is shown on Schedule DM-5.

B. Accumulated Depreciation

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

A. The Company averaged the beginning and ending test year balances. (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. On July 3, 2024, the Company increased this balance to $461,390,295, to account for the revisions to its Langdon Normalization balance. (Company Supplemental Schedule 3).

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, as well as the updated balance of $461,390,295. This balance is reflected on Schedule DM-6.[5]

C. Accumulated Deferred Income Taxes (ADIT)

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

A. On July 3, 2024, the Company increased its proposed ADIT balance by $41,701,430 from $134,067,242 to $175,768,672 as shown on Company Exhibit CLP-1 Schedules 5 and 6. The amount is a simple average of the beginning and ending 2024 test year balances without proration (Petersen Testimony page 23). $33,110,820 of this adjustment is related to certain ADIT components which had been inadvertently excluded or double counted with the remaining $8,585,582 related to an ITC ADIT net electric plant in service (NEPIS) allocator related mapping component issues. Ms. Petersen stated these items were excluded only because of an inadvertent mapping error when converting to a new cost of service

[5] Any differences due to rounding issues.

software which caused the initial ADIT balance to be inaccurate. (Petersen Supplemental testimony page 5). Ms. Petersen stated that when the Company incorporated ADIT components in the Company's new cost of service software, the software did not include the Merricourt Production Tax Credit and the Investment Tax Credit deferred tax assets, and that the software double counted North Dakota Investment Tax Credit amortization credits. (Petersen Supplemental testimony page 5). The Supplemental filing corrects the ADIT balance, as well as errors in the Merricourt Production Tax Credit ($7,101,496), the Investment ND Tax Credit ($10,819,517), and the North Dakota Investment Tax Credit Amortization Credits ($15,189,807) (Data Response NDPSC-907 and 201). The Company's $41,701,430 adjustment provides a reconciliation between the corrected ADIT balance and the amount that was included in the initial filing which results in an increase of about $4.0 million to OTP's 2024 test year revenue requirement. (Company Supplemental Exhibit CLP-2 Schedule 6 and data request ND-PSC-201).

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

A. Yes, I have adjustments related to the Company's ITC ND Tax Credits and the Company's ND ITC Amortization.

Q. WHAT IS YOUR RECOMMENDATION WITH RESPECT TO THE COMPANY'S INCLUSION OF ITS ND ITC TAX CREDIT AND ITS ND ITC AMORTIZATION CREDIT?

A. I recommend the Company keep and maintain these ITC Tax Credits of $10,819,517 and its ITC Amortization Credits of $15,189,807 on its corporate books and records, but exclude these two balances for ratemaking purposes.The Company should exclude these two adjustments in the Company's rate base balance, which if not excluded would have the effect of earning a return on these ND ITC Tax Credits and ND ITC Amortization Credits balances. The Company should not earn a return from North Dakota customers on these items absent a showing of quantified benefits accruing to the ND customers and without a showing of usefulness or other North Dakota customer-related benefits. The net effect is that the Company's revenue requirement should be reduced by $2,484,051.[6]

Q. WHAT IS YOUR TOTAL ADJUSTMENT TO THE COMPANY'S ADIT BALANCE?

A. My total adjustment is an increase to the Company ADIT balance of $26,009,324 ($10,819,517 related to the ND Tax Credits and $15,189,807 related to the ND ITC Amortization Credits). My recommended ADIT balance is $160,076,566 as shown on 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. The Company updated this amount in its supplemental filing to $1,531,800 or an increase of $66,893. Ms. Petersen stated that the CWC requirement is based upon a 2020 lead/lag study. The study analyzed the average difference between the time the Company serves its customers to the time that cash is received from those customers for that service. (Petersen Testimony page 23).

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

A. I am accepting the Company's methodology but have adjustments related to the Company's proposed revenues and expenses. Based upon my adjustments to the Company's Rate Base components, Operating Income and Operating Expenses, I have calculated a CWC balance of $1,229,843 This is shown on Schedule DM-8.

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[6] $26,009,324 times the recommended rate of return of 7.22% times the gross revenue factor of 1.3228 equals $2,484.051.

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 and Company Supplemental Exhibit Schedule 3:

Plant Held for Future Use	$4,921
Construction Work in Progress	$780,995
Materials & Supplies	$14,737,429
Fuel Stocks	$4,495,117
Prepayments	$18,607,498
Customer Advances	($709,884)

Q. WHAT ADJUSTMENT DO YOU RECOMMEND?

A. I recommend a $4,921 reduction to Plant Held for Future Use.

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 this balance represents land purchases acquired in advance and held for future transmission and distribution facilities. The Company stated these costs have been included in prior cases, and as the planning process takes time, the Company states it is reasonable to include these costs in Rate Base as the intent is to provide better service and reliability for customers in those areas.

Q. WHAT IS YOUR RESPONSE?

A. I recommend disallowance of this balance. The Company has not provided when these transmission and distribution facility land purchases will occur or be used and useful in the provision of utility service (ND-PSC-029). Costs should be known and measurable 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. Only expenditures placed in service that provide utility service when rates are set by the Commission should be included in rates.

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 these costs were for projects anticipated to be in service within 30 days (ND-PSC-206). I recommend disallowing these costs in Rate Base until such time as the Company can verify the final costs of these projects. Unless the Company can confirm these projects will be in service as of end of the test year period December 31, 2024, I recommend disallowance. All plant in service should be used and useful in the provision of utility service.

Q. DO YOU HAVE ANY ADJUSTMENTS TO THE COMPANY'S UPDATED REMAINING BALANCES?

A. No. I am accepting the Company's updated balances related to Materials and Supplies, Prepayments and Customer Advances. These are shown on Schedule DM-3.

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. DID THE COMPANY UPDATE ITS OPERATING REVENUES IN ITS JULY 3, 2024, FILING?

A. Yes. The Company updated its Retail Revenues by $95,946 to arrive at an updated balance of $182,782,835. The Company updated its Other Electric Revenues by ($725,754) to arrive at an updated balance of $12,253,679. The total updated Operating Revenues are $195,036,514[7] as shown on Company Supplemental Exhibit Schedule 5.

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

A. The Company utilized a weather normalization period of 20 years of normal weather conditions and forecasted economic and demographic conditions for 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 two adjustments to the Company's Other Electric Revenues. The first adjustment is to the Company's Other Electric Revenues of $12,253,679[8] related to items such as late fees, connection revenues, Rent from Electric Properties, Other Miscellaneous Revenues, Integrated Transmission Deficiency Payments, and Miscellaneous Services. (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 less the revenues related to the Load Control and Dispatch revenues:

[7] Any differences due to rounding
[8] The remaining balance of the $12,253,679 is related to revenues for Load Control and Dispatch revenues of $7,661,436.

	2022	2023	2024
Balance	$9,409,566	$4,984,393	$4,593,506
Updated			$12,253,679

A three-year average of these costs results in a 2024 balance of $6,329,155. This increases the Company proposed balance by $1,735,649. This is shown on Schedule DM-9.

Q. WHAT IS YOUR NEXT ADJUSTMENT RELATED TO THE COMPANY'S OTHER OPERATING REVENUES?

A. My next adjustment is related to the Company's Load Control and Dispatch revenues related to the Company's NEPIS allocator that is shown on the Company's filed workpapers Page 8 – 1 (PDF page 10 of 471) and the Company's updated July 3, 2024, Supplemental filing (Supplemental workpaper Page 8 -1 page 9 of 163). In its November 2, 2023, filing the Company included $8,385,927 of revenue related to its Load Control and Dispatch (NEPIS allocator) as shown on Company workpaper page 10 of 471 line 36 North Dakota column. In its Supplemental filing on July 3, 2024, the Company updated this balance by $7,661,436 or a reduction of $725,754 (Supplemental workpapers PDF page 9 of 163 line 36 North Dakota column). As per the testimony of Dr. Karl Pavlovic, I am adjusting this balance to the as filed balance of $8,385,927 or an increase of $725,754. These Operating Revenue adjustments are shown on Schedule DM-9.

Q. WHAT IS YOUR RECOMMENDED OPERATING REVENUES AS PRESENT RATES?

Q. My recommended Operating Revenues at Present Rates is $197,497,916 or an increase of $2,461,403 as 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 pages 16 and 17).

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

A. Yes. In its July 3, 2024 filing, the Company updated its O&M Expense to include costs related to the Company's Plant Outage Normalization in the amount of $1,091,341 as shown on Company Supplemental Exhibit Schedule 5.

Q. PLEASE EXPLAIN THE COMPANY'S INCLUSION OF ITS PLAN OUTAGE NORMALIZATION?

A. According to Ms. Petersen, the Company did not include an intended adjustment to normalize plant outage costs. Ms. Petersen stated that the Company would incorporate the plant normalization adjustment later in the case. (Petersen Supplemental testimony page 8). Ms. Petersen stated that the Plant Outages occur when generators are routinely taken offline to perform maintenance on a regular schedule. The cost of these outages is large but does not happen every year. As a result, it is standard practice to normalize the costs by spreading them over several years so that a representative amount of cost is included in a test year for rates. (Petersen Supplemental testimony page 8).

Q. WHAT HAS THE COMPANY STATED WITH RESPECT TO THE ADJUSTMENTS OF THE PLANT OUTAGE NORMALIZATION?

A. Ms. Petersen stated that the adjustment was to normalize the Plant Outages of the Big Stone Plant and Coyote Station. The Big Stone Plant underwent a major outage in 2022, while Coyote Station is scheduled for an outage in 2025. There are no outages scheduled for 2024. Ms. Petersen stated that the Company normalizes the outage expense over three years. (Petersen Supplemental testimony page 8). Ms. Petersen stated that plant outages are necessary to ensure the continuing operations and reliability of its coal-fired plants, and to ensure the safety of its employees at the plants. Plant Outages are required and a normal cost of providing service but do not always line up with a test year. (Petersen Supplemental testimony page 9). Ms. Petersen stated that Plant Outages protect the ratepayer as normalizing the costs provides for a reasonable level of outage cost to be recovered each year based on planned outages. (Petersen Supplemental testimony page 9).

Q. WHAT DID MS. PETERSEN STATE REGARDING HOW THE COMMISSION HANDLES PLANT OUTAGE NORMALIZATION (PON)?

A. Ms. Petersen stated that PON is standard in the Company's North Dakota rate proceedings. The Company has proposed this adjustment in the Company's last rate case and were included in the settlement approved by the Commission. (Petersen Supplemental testimony page 9).

Q. WHAT CONSTITUTES A MAJOR OUTAGE?

A. According to the response to ND-PSC-1201, major outages for the Company's coal facilities occur every three-years and can vary in length from approximately 4-8 weeks. These outages access the interior parts of the main boiler or heat transfer areas that cannot be examined or repaired while the unit is on-line. Major outages involve inspection and overhaul of the steam turbine or generators. Major outages also involve routine maintenance for efficiency purposes.

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

A. Yes. In response to ND-PSC-1201, the Company provided a breakdown of each of its Major Outage adjustments for the Coyote Outage and for the Big Stone Plant Outage. The Company has included routine maintenance that was performed during each major outage. For the Coyote Major Outage, the Company calculated $9,758,662 of total costs related to the Coyote Major Outage, and $7,849,014 of total costs related to the Big Stone Plant Major Outage for a total of $17,607,676. (ND-PSC-1003). Approximately $2,275,732 and $1,045,619 or a total of $3,321,351, is related to routine maintenance for the Coyote Outage and the Big Stone Plant Outage, respectively. The Company also provided the costs that have been allocated to the North Dakota jurisdiction and the allocation to Base and Peak adjustments. (Attachment 1 to ND-PSC-1003).

Q. WHAT ADJUSTMENTS DO YOU HAVE?

A. I recommend disallowance of the costs for the Company's Major Outage for each of the Coyote Outage and Big Stone Plant that is related to routine maintenance. I believe that routine maintenance costs should be included in the day-to-day operations of the Company as normal business costs, as these costs do not require the Company to take the facilities off-line. With these adjustments my recommended recovery of the Company's Major Outage normalization is $897,213 or a reduction of $194,252. My calculations to arrive at this balance are shown on Attachment 1 to ND-PSC-1003 that include my disallowance of each of the routine repair maintenance.

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

A. I have additional adjustments to components of the Company's overall O&M Expense balance apart from the adjustments the Company has proposed as shown on Exhibit CLP-1 Schedule 12.

Q. WHAT ADJUSTMENTS DO YOU HAVE THAT CALCULATE ACROSS THE COMPANY'S O&M EXPENSES?

A. I am applying a vacancy rate ratio of 4.05% that is allocated across the Company's O&M Expenses and is included in Schedule DM-18. The vacancy rate ratio adjustment is a $1,077,845 reduction to O&M Expense and is discussed further below. The vacancy rate ratio adjustment is allocated across the Company's O&M Expenses and is included and shown on Schedule DM-10. The vacancy rate ratio of 4.05% also adjusts the Company's Pension and Post-Retirement Medical costs (PRM) as shown on Schedule DM-10 under each of the Company's Operating and Maintenance Expense categories which total $100,497. These balances then carry over to Schedule DM-11 -Power Production – ($16,784); Schedule DM-12 – Transmission – ($9,690); Schedule DM-13 – Distribution – ($17,031); Schedule DM-14 – Customer Accounting – ($10,537); Schedule DM – 15 – Customer Service & Information – ($647); and Schedule DM-17 – Administrative & General – ($45,809).

Q. WHAT IS YOUR NEXT ADJUSTMENT THAT CALCULATES ACROSS THE COMPANY'S O&M EXPENSES?

A. My next adjustment is to disallow Employee Recognition and Gifts in the amount of $96,967. My adjustment is allocated across the Company's O&M Expenses and is included and shown on Schedules DM-11 ($32,601); DM-12 ($14,320); DM-13 ($25,682); DM-14 ($19,756); and DM-15 ($4,606). My discussion on the recommended disallowance is outlined further below.

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 the majority of this balance is Production Expenses related to fuel and purchased power expenses and maintenance costs of the Company's generation plants. (Ms. Petersen Testimony page 33). In its July 3, 2024 supplemental filing, the Company included $1,091,341 related to Normalized Outage costs as shown on Company Supplemental Exhibit Schedule 5. This increases the Company's Production Expense to $88,254,903.[9] (Company Exhibit CLP-2 Schedule 5).

Q. WHAT IS YOUR RECOMMENDATION WITH RESPECT TO THE COMPANY'S PLANT OUTAGE NORMALIZATION?

A. As discussed above, I recommend allowance of the Company's Normalized Plant Outages of $897,213. This is shown on Schedule DM-11.

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 actuarial assumptions. (Ms. Petersen Testimony page 39). The 2024 budgeted PRM and post-retirement (LTD) medical benefits expenses were based on 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 recovery of Pension and PRM costs based on normalizing a forward-looking 2024-2028 estimate of actuarial costs supplied by Mercer. (Ms. Petersen Testimony page 39).

Q. WHAT ADJUSTMENTS DO YOU HAVE?

A. I am accepting the Company's $414,420 normalized Pension and PRM costs, but with a Vacancy Rate Ratio applied to recognize that not all the Company's projected attrition of 64 positions and projected hires of 67 in 2024 will occur. (Data Response NDPSC-023). 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 the Company will

[9] Any differences due to rounding.

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. Applying the Vacancy Rate Ratio of 4.05% to the Penson and PRM balance of $414,420 by multiplying the two together produces an adjustment of $16,784. My adjustment is shown on 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 costs should be borne by the Company as they 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 Schedules 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 and updated in its Supplemental filing Exhibit CLP-2 Schedule 5, the Company proposed transmission expense of $13,847,298 for the 2024 Test Year. The Company proposes to adjust it by adding $239,257 for additional Pension and PRM expenses (normalized). This adjustment is related to the proposed additional employee hires in the test year 2024 (Data Response NDPSC-023). The 2024 Test Year balance then becomes $14,086,555. The Company stated that this balance also 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. WHAT ADJUSTMENTS DO YOU HAVE REGARDING THE COMPANY'S PENSION AND PRM EXPENSES?

A. As discussed previously, using the Vacancy Rate Ratio of 4.05%, results in an adjustment of $9,690.

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. (Company Supplemental Exhibit CLP-2 Schedule 5).[10] The Company stated that this balance includes O&M expenses related to the distribution system, including substations, wires, transformers, meters, and lighting.

Q. WHAT ADJUSTMENTS DO YOU HAVE REGARDING THE COMPANY'S PENSION AND PRM EXPENSE??

A. Using the Vacancy Rate Ratio of 4.05% results in an adjustment of $17,031 as shown on Schedule DM-13.

4. Customer Accounting Expense

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

[10] Any differences due to rounding issues.

PRM costs. The Test year 2024 balance then becomes $7,295,595. (Company Supplemental Exhibit CLP-2 Schedule 5). These costs include meter reading, billing and maintenance of customer records.

Q. WHAT ADJUSTMENTS DO YOU HAVE?

A. Using the Vacancy Rate Ratio of 4.05% results in an adjustment of $10,537 as shown on 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. (Company Supplemental Exhibit CLP-2 Schedule 5). The Company stated these costs include customer assistance expenses. (Ms. Petersen's Testimony page 34).

Q. WHAT ADJUSTMENTS DO YOU HAVE?

A. Using the Vacancy Rate Ratio of 4.05% results in an adjustment of $647 as shown on 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 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 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	$1,002
Total	$3,236,396

The balance in the Company's Administrative and General Expenses computes to $20,770,596 as shown on Company Supplemental Exhibit CLP-2 Schedule 5. 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.

Q. HAS THE COMPANY UPDATED ITS A&G EXPENSES IN ITS JULY 3, 2024, SUPPLEMENTAL FILING?

A. Yes. The Company updated its A&G Expenses related to the Changes in Allocation adjusting the balance from $5,672 to ($4,672). This had the effect of updating the balance in the test year by $1,002. (Supplemental Exhibit Schedule 5).

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. WHAT ARE YOUR ADJUSTMENTS?

A. Using the Vacancy Rate Ratio of 4.05% results in an adjustment of $45,809 as shown on Schedule DM-17.

c). Non-Employee Director Restricted Stock

Q. WHAT HAS THE COMPANY PROPOSED 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 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 North Dakota ratepayers are only paying for costs allocated to the North Dakota operations and 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 recommend disallowing these costs for ratemaking purposes. These types of costs do not provide ratepayer benefits in the areas of customer satisfaction, service, safety and reliability. These types of 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. Therefore, I recommend disallowing $262,850 from the Company's revenue requirement as shown on 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 $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 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 no additional participants have been 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 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 instituted 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 relationship 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 Schedule DM-17.

e). <u>Employee Recognition/Gifts</u>

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

A. The Company has proposed $96,967 of costs related to achievement awards. (Company Exhibit CLP-1 Schedule 12). Company witness Mr. Wasberg stated 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 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 Schedule DM-17, these are reflected in the breakdown shown on Schedules DM-11 through DM-15.

f). <u>Investor Relations</u>

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 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 these informational and relationship functions coupled with shareholder relationships help the Company obtain the most cost-effective financing which helps control costs to the benefit of customers. (Mr. Byrnes Testimony page 6).

Q. WHAT ARE YOUR RECOMMENDATIONS?

A. I recommend maintaining the 50% allocation of these costs ($102,431). Ratepayers should not pay 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 as shown on Schedule DM-17.

g). Long-Term Incentive

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

A. The Company has included $1,221,363 of Long-Term Incentives. 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 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 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 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 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 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 the ratepayers, 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 Schedule DM-17.

i). Changes in Allocations

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

A. Ms. Petersen stated that updated ($4,672) related to its Allocation adjustment corrects an inconsistency in the allocators used to allocate costs (Petersen Supplemental testimony page 11 and Petersen Direct testimony page 49. 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 updated allocation adjustments of ($4,672). This reduces the balance to $1,002 ($5,674 less $4,672) as shown on 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:

j. Aviation

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

A. The Company has included $171,097 of aviation costs used in its electric operations and allocated to the North Dakota jurisdiction (ND-PSC-006). The Company stated it owns a turboprop aircraft purchased in 2018. The Company stated the aircraft is to provide transportation to business meetings and regulatory hearings in an efficient manner. The Company stated the plane is used to travel within the Company's service territory to conduct ongoing meetings of the Company. The Company stated commercial air travel is not available from Fergus Falls, MN, and in North Dakota the only towns with commercial air service available to travel within the service territory are Fargo and Grand Forks. The Company stated 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 recommend 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 for 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. My adjustment is shown on 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 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 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 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[11] plans are funded by the Company out of cash flows, investment funds or cash value insurance. Any 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 Schedule DM-18.

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

b. Incentive Compensation

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)

[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 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 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 combining financial criteria, along with performance measures ensures the Company maintains the balance between reliable service and reasonable prices. (Mr. Wasberg Testimony page 6). Mr. Wasberg stated 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 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 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 is to determine whether these incentives benefit ratepayers in the areas of safety, reliability, customer service issues and satisfaction 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.

1. OTP Key Performance Award or OTP KPA Plan

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 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)

[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 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 weighting 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 ratepayers.

<u>2. People Leaders Plan</u>

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) who 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 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 needed to perform as an organization and service customers well. Given 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.

<u>3. Coyote Retention Incentive Plan</u>

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)

[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)**. 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 COFIDENTIAL)** 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.

4. OTP Management Plan

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

A. Mr. Wasberg stated 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)

[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 benefiting 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 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 discussed above. 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 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 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)

[redacted]

(END CONFIDENTIAL)

Mr. Wasberg stated the financial criteria have a weighting of 70 percent, and 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 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 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 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 described above.

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. 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. With respect to the Environmental criteria[12] 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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[12] 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. **(BEGIN CONFIDENTIAL)**

[redacted]

(END CONFIDENTIAL)

My recommendation is shown on 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 the 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]

[redacted] **(END CONFIDENTIAL)**. My recommended incentive allowance is **(BEGIN CONFIDENTIAL)** [redacted] **(END CONFIDENTIAL).** My adjustment is reflected on 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 Schedule DM-18.

c. Base Wages and Benchmark Studies

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

A. Company witness Mr. Wasberg stated 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 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 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 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 alterations of how the Company developed its compensation for its non-executive and executive employees. 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 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 during the COVID-19 Pandemic it experienced lower employee counts and longer times to fill some positions. The Company experienced a high of 49 and a low of 11 positions that were posted and unfilled from 2019-2023.

Q. WHAT ARE YOU RECOMMENDING?

A. I recommend 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 it projected attrition of 64 positions, and projected hires of 67 in 2024. The Company stated 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 the Company will hire the number of employees it has proposed. The Company has not provided any expected dates of hires, nor has it 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 predict 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 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 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 ADJUSTMENTS DO YOU HAVE TO THE COMPANY'S RETIREMENT SAVINGS AND PENSION?

A. I am not making any adjustments to the Company's Retirement Savings and Pension. My only adjustments reflect the level of employees expected to be hired and on the books in the Test Year 2024. As reflected on 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 ADJUSTMENTS DO YOU HAVE WITH RESPECT TO DEPRECIATION EXPENSE?

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

D. Taxes Other Than Income (General Taxes)

Q. WHAT ADJUSTMENTS DO YOU HAVE TO TAXES OTHER THAN INCOME?

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 Schedule DM-20.

E. Investment Tax Credits

Q. WHAT ADJUSTMENTS DO YOU HAVE WITH RESPECT TO INVESTMENT TAX CREDITS?

A. After a review of the response to NDPSC-220, I am accepting the Company's adjusted Investment Tax Credit balance of ($2,939,618). This is shown on Schedule DM-4.

F. Deferred Income Taxes

Q. WHAT ADJUSTMENTS DO YOU HAVE WITH RESPECT TO DEFERRED INCOME TAXES?

A. After review of the response to NDPSC-202, I am accepting the Company's balance of $2,550,313. This is shown on 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 $45,771,440 by the composite tax rate of 24.4049% to calculate the proforma Federal and State tax of $11,704,474.

Q. WHAT CAUSED THE COMPANY TO HAVE A FEDERAL AND STATE INCOME TAX BALANCE OF $0?

A. A Net Operating Loss (NOL) results when a company has more income tax deductions than it has taxable income in a year. (ND-PSC-1216). The excess of the deductions that cannot be used to offset income in a year becomes a NOL. The NOL limits the amount of accumulated deferred income taxes (ADIT) that can be used to reduce rate base pursuant to the federal income tax normalization requirements. Attachment 1 to DR ND-PSC-201 reflects the federal net operating loss (Line 22) and the state net operating loss (Line 77). Failure to reflect the tax asset in the ADIT calculation would result in a normalization violation jeopardizing the use of accelerated and bonus depreciation. The Company stated it expects to be in a NOL position in 2025 and several years thereafter as the Upgrade Projects increase the amount of Production Tax Credits available to offset taxable income (ND-PSC-1215).

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 $78,062 and $13,294, respectively, for a total income tax of 91,356 under Present Rate Revenues. I utilized the Company's template as provided in ND-PSC-219 to adjust the Operating Revenue and Operating Expenses. This is shown on Schedule DM-22. I then grossed up my recommended Income Deficiency of $19,169,773 by the gross revenue tax factor of 1.322837 to calculate the additional Federal and State taxes of $6,188,712 as shown on Schedule DM-1.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does. I reserve the right to amend my testimony as additional information becomes available.

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 1st day of October, 2024.

JUNE M CORNIER
Notary Public, State of New Jersey
My Commission Expires Jan 19, 2027

Notary Public
My Commission Expires: 1/19/2027

REVENUE REQUIREMENT

AMENDED July 3, 2024 Filing

		(1) Company Proposed	Adjustments	ND PSC Advocacy Staff	References
1	**Average Rate Base**	**$ 695,424,813**	**$ (27,097,197)**	**$ 668,327,616**	
2	Available for Return	$ 19,989,880	$ 9,100,819	$ 29,090,699	
3	AFUDC	$ -		$ -	
4	Overall Rate of Return	2.874%		4.353%	
5	Required Return	7.850%		7.221%	
6	**Operating Income Requirement**	**$ 54,590,848**	**$ (6,330,376)**	**$ 48,260,472**	
7	**Income Deficiency**	**$ 34,600,968**	**$ (15,431,195)**	**$ 19,169,773**	
8	Gross Revenue Requirement Factor	1.322837		1.322837	(2)
9	**Revenue Deficiency**	**$ 45,771,440**	**$ (20,412,956)**	**$ 25,358,485**	$ 6,188,712 (3)
10	Revenues at Present Rates	$ 195,036,514	$ -	$ 197,497,917	
11	Percentage Increase	23.468%		12.840%	
	Total Revenue Requirement	**$ 240,807,954**	**$ (17,951,553)**	**$ 222,856,402**	

(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

(3) Additional Income Tax Expense

WEIGHTED AVERAGE COST OF CAPITAL

		Ratios	Cost of Capital	Weighted Average
(1)	Company Proposed			
1	LT Debt	43.5000%	4.6600%	2.0271%
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	45.0200%	4.6500%	2.0934%
6	ST Debt	2.9800%	5.2500%	0.1565%
7	Common Equity	52.0000%	9.5600%	4.9712%
8	**Total Capital**	**100.0000%**		**7.2211%**
				2.2499%

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

Otter Tail Power Co. - ND	ND Public Service Commission	Schedule DM-3
Test Year Ending December 31, 2024	Case No. PU-23-342	

AVERAGE RATE BASE

		(1) Company Proposed	Adjustments	ND PSC Advocacy Staff	References
	Electric Plant In Service				
1	Production Plant	$ 634,293,597	$ -	$ 634,293,597	ND-PSC-001
2	Transmission Plant	$ 215,820,853	$ -	$ 215,820,853	
3	Distribution Plant	$ 329,751,162		$ 329,751,162	
4	General Plant	$ 53,301,572	$ -	$ 53,301,572	
5	Common Plant	$ 18,267,291		$ 18,267,291	
6	**Total Electric Plant In Service**	**$ 1,251,434,475**	**$ -**	**$ 1,251,434,475**	DM-5
	Reserve for Depreciation				
7	Production Plant	$ 245,950,425		$ 245,950,426	
8	Transmission Plant	$ 62,608,627		$ 62,608,627	
9	Distribution Plant	$ 123,383,576		$ 123,383,576	
10	General Plant	$ 21,909,367		$ 21,909,367	
11	Common Plant	$ 7,538,299		$ 7,538,300	
12	**Total Reserve for Depreciation**	**$ 461,390,294**	**$ 2**	**$ 461,390,296**	DM-6
	Net Utility Plant In Service				
13	Production Plant	$ 388,343,172	$ (1)	$ 388,343,171	
14	Transmission Plant	$ 153,212,226	$ -	$ 153,212,226	
15	Distribution Plant	$ 206,367,586	$ -	$ 206,367,586	
16	General Plant	$ 31,392,205	$ -	$ 31,392,205	
17	Common Plant	$ 10,728,992	$ (1)	$ 10,728,991	
18	**Net Electric Utility Plant In Service**	**$ 790,044,181**	**$ (2)**	**$ 790,044,179**	
19	Electric Utility Plant Held for Future Use	$ 4,921	$ (4,921)	$ -	ND-PSC-029
20	Constuction Work in Progress	$ 780,993	$ (780,995)	$ -	ND-PSC-206
21	Accumulated Deferred Income Taxes	$ (134,067,242)	$ (26,009,324)	$ (160,076,566)	
22	Cash Working Capital	$ 1,531,800	$ (301,957)	$ 1,229,843	
23	**Sub-Total**	**$ 658,289,732**	**$ (27,092,276)**	**$ 631,197,456**	
	Other Rate Base Items				
24	Materials and Supplies	$ 14,737,429	$ -	$ 14,737,429	
25	Fuel Stock	$ 4,495,117	$ -	$ 4,495,117	
26	Prepayments	$ 18,607,498	$ -	$ 18,607,498	
27	Customer Advances	$ (709,884)	$ -	$ (709,884)	
28	Customer Deposits	$ -	$ -	$ -	
31	**Total Other Rate Base Items**	**$ 37,130,160**	**$ -**	**$ 37,130,160**	
32	**Total Average Rate Base**	**$ 695,424,813**	**$ (27,097,197)**	**$ 668,327,616**	ND-PSC-049

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

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

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

Schedule DM-4

	OPERATING INCOME STATEMENT	(1) Amended Company Proposed Present Rates	Rate Adjustments	Amended Company Proposed Final Rates	Adjustments	Present Rates ND PSC Advocacy Staff	References
	Operating Revenues						
1	Retail Revenues	$ 182,782,834	$ 45,771,440	$ 228,554,274		$ 182,782,835	ND-PSC-018
2	Interdepartmental Revenues - Rider	$ -	$ -	$ -			ND-PSC-017
3	Other Operating Revenues	$ 12,253,679	$ -	$ 12,253,679	$ 2,461,403	$ 14,715,082	ND-PSC-015
4	**Total Operating Revenues**	**$ 195,036,513**	**$ 45,771,440**	**$ 240,807,953**	**$ -**	**$ 197,497,917**	ND PSC -001
							NDPSC-208
	Operating Expenses						
5	Fuel & Purchased Energy	$ -	$ -	$ -	$ -	$ -	
6	Production Expense	$ 88,254,903	$ -	$ 88,254,903	$ (243,514)	$ 88,011,389	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	$ 20,770,596	$ -	$ 20,770,596	$ (2,193,342)	$ 18,577,254	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**	**$ 140,267,769**	**$ -**	**$ 140,267,769**	**$ (6,561,191)**	**$ 133,706,578**	(2)
15	Depreciation Expense	$ 33,165,285	$ -	$ 33,165,285	$ -	$ 33,165,285	DM-19
16	Amortization Expense	$ -	$ -	$ -	$ -	$ -	
17	Taxes Other Than Income	$ 7,103,512	$ -	$ 7,103,512	$ -	$ 7,103,512	DM-20
18	**Total Operating Expenses**	**$ 180,536,566**		**$ 180,536,566**	**$ (6,561,191)**	**$ 173,975,375**	
19	**Net Operating Income Before Taxes**	**$ 14,499,947**	**$ 45,771,440**	**$ 60,271,387**	**$ (36,748,845)**	**$ 23,522,542**	
20	Investment Tax Credit	$ (2,939,618)	$ -	$ (2,939,618)	$ -	$ (2,939,781)	NDPSC-220
21	Deferred Income Taxes	$ (2,550,314)	$ -	$ (2,550,314)	$ -	$ (2,550,314)	DM-21
22	Federal / State Income Taxes	$ -	$ -	$ -	$ 78,062	$ 78,062	DM-22
23	**Total Income Taxes**	**$ (5,489,932)**	**$ -**	**$ (5,489,932)**	**$ (78,225)**	**$ (5,568,157)**	
24	AFUDC	$ -		$ -			
	Other - rounding			$ 190,607			ND-PSC-020
25	Total Operating Income	**$ 19,989,879**	**$ 34,600,969**	**$ 54,590,848**	$ (25,500,149)	$ 29,090,699	ND-PSC-008
	Total Available for Return	**$ 19,989,879**	**$ 34,600,969**	**$ 54,590,848**	**$ (25,500,149)**	**$ 29,090,699**	
							ND-PSC-019
26	**Rate Base**	**$ 695,424,813**		**$ 695,424,813**	**$ (27,097,197)**	**$ 668,327,616**	
27	**Rate of Return**	**2.87%**		**7.85%**		**7.22%**	
(1)	Company Exhibit CLP-1 Schedule C-1	$ 19,989,879	$ 34,600,969	$ 54,590,848	$ (6,330,376)	$ 48,260,472	
(2)	Any differences due to rounding						
	Operating Income					$ 19,169,773	

ELECTRIC PLANT IN SERVICE

		(1) Company Proposed Unadjusted	Adjustments	Company Proposed Adjusted	Adjustments	ND PSC Advocacy Staff	References
	Plant Categories						
1	**Production**	$ 632,119,833					
2	Production - Hoot Lake Solar		$ -	$ 634,293,606		$ 634,293,606	ND-PSC-009
3	Production - Langdon Upgrade (2)		$ 2,173,773				ND-PSC-028
	ARO Plant Balance		$ (8,423,675)				
	Revise Langdon Upgrade		$ 517,919				
	Allocation Changes		$ 7,905,756				
							ND-PSC-010
4	**Transmission**	$ 215,820,853					ND-PSC-027
5	GIPs Projects		$ -				ND-PSC-028
6	Transmission and Recovery		$ -	$ 215,820,853		$ 215,820,853	
7	**Distribution**	$ 329,751,162					
8	Customer Engagement Portal						ND-PSC-011
9	Electric Vehicles		$ -	$ 329,751,162		$ 329,751,162	
10	**General**	$ 53,300,696	$ 876	$ 53,301,572		$ 53,301,572	
11	**Intangible**	$ 18,266,991	$ 300	$ 18,267,291		$ 18,267,291	
12	**Total Electric Plant In Service**	**$ 1,249,259,535**	**$ 1,176**	**$ 1,251,434,484**	**$ -**	**$ 1,251,434,484**	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**	$ (245,646,386)					
2	Production - Hoot Lake Solar		$ -	$ (245,950,426)		$ (245,950,426)	
3	Production - Langdon Upgrade		$ (304,040)				
	Revised Normalization		$ (148,326)				
4	**Transmission**	$ (62,608,627)					
5	Transmission - GIPs Projects		$ -				
6	Transmission - Transmission Recovery		$ -	$ (62,608,627)		$ (62,608,627)	
7	**Distribution**	$ (123,383,576)					
8	Distribution - Electric Vehicles		$ -	$ (123,383,576)	$ -	$ (123,383,576)	
9	**General**	$ (21,909,007)	$ (360)	$ (21,909,367)	$ -	$ (21,909,367)	
10	**Intangible**	$ (7,538,176)	$ (124)	$ (7,538,300)	$ -	$ (7,538,300)	
11							
12	**Total Reserve for Depreciation**	**$ (461,085,772)**	**$ (452,850)**	**$ (461,390,296)**	**$ -**	**$ (461,390,296)**	

(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**	**$ (175,768,672)**	**$ 41,701,430**	**$ (134,067,242)**	**$ (26,009,324)**	**$ (160,076,566)**	NDPSC-204
							NDPSC-202
(1)	ADIT adjustment (Mapping)		$ 33,110,820				NDPSC-201
	ITC ADIT NEPIS Allocator		$ 8,585,582				
	Allocation Changes		$ 4,912				
			$ 41,701,314				
	rounding issues		$ 116				
	PTC Merricourt		$ 7,101,496				
	ITC ND Tax Credits		$ 10,819,517		$ (10,819,517)		NDPSC-1211
	ND ITC Amortization credits doubled		$ 15,189,807		$ (15,189,807)		NDPSC-1212
(2)	Total		$ 33,110,820		$ (26,009,324)		NDPSC-1208

(1) Exhibit CLP-1 Schedule 7
(2) Response to ND PSC 907
Response to ND PSC 1208 Attach 1
Response to ND PSC 1211

CASH WORKING CAPITAL

		(1) Company Proposed Operating Exp.	Company Proposed Expense Per Day	Company Proposed 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	$ 29,064,971	$ 79,630	23.82	$ 1,896,788	$ (203,108)	$ 1,693,680	
5	All Other Expenses	$ 41,312,276	$ 113,184	21.81	$ 2,468,550	$ (151,205)	$ 2,317,345	
6	Property Taxes	$ 7,062,227	$ 19,349	(261.87)	$ (5,066,809)	$ -	$ (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	$ 816,531	$ 817,548	$ 817,548	
13	Working Funds	$ -	$ -	0.00	$ 4,734	$ -	$ 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	$ (339)		$ -	
23	**Total Cash Working Capital**		**$ -**	**0.00**	**$ 1,531,800**	**$ -**	**$ -**	
							$ 1,229,843	

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

	OPERATING REVENUES	(1) Amended Company Present Rates	Adjustments	Amended Company Proposed	Adjustments	Present Rates ND PSC Advocacy Staff	References
1	Electric Retail Revenues						
2	Retail Revenues - Rider Roll In	$ 182,686,888	$ 95,946	$ 182,782,834		$ 182,782,834	
3	Load Control & Dispatch -NEPIS	$ 8,385,927	$ (725,754)	$ 7,660,173	$ 725,754	$ 8,385,927	
4	Other Electric Revenues	$ 4,593,506	$ -	$ 4,593,506	$ 1,735,649	$ 6,329,155	
5	**Total**	**$ 195,666,758**	**$ (630,245)**	**$ 195,036,513**	**$ 2,461,403**	**$ 197,497,916**	
	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 5 and C-7
Company response to ND-PSC-031
Company response to ND-PSC-208

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	Normalized Outages	$ 1,091,465	$ (194,252)	$ 897,213	NDPSC-904
	Allocation Adjustments	$ 55,097		$ 55,097	NDPSC-10-3
5	**Test Year 2024**	**$ 88,255,026**	**$ (243,637)**	**$ 88,011,389**	
					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)

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

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

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	$ 1,002	$ -	$ 1,002	
10	Other - Aircraft Costs	$ -	$ (171,097)	$ (171,097)	ND-PSC-006
11	**Adjusted Balance - Test Year 2024**	**$ 20,770,596**	**$ (2,193,342)**	**$ 18,577,254**	
					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

PUBLIC DOCUMENT
TRADE SECRET INFORMATION REDACTED

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%	$ 1,077,845		ND-PSC-024
					ND-PSC-023
	Incentive Compensation Costs - CONFIDENTIAL DATA BEGINS				
13	[redacted]				ND-PSC-061
14					ND-PSC-064
15					ND-PSC-061
16					ND-PSC-061/66
17					ND-PSC-067
18					NDPSC-223
19					ND-PSC-060
					ND-PSC-024
20					ND-PSC-025
	CONFIDENTIAL DATA ENDS				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

PUBLIC DOCUMENT
TRADE SECRET INFORMATION REDACTED

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	$ 561,367	$ -	$ 561,367	ND-PSC-043
9	Cost of Removal				
10	**Adjusted Balance**	**$ 33,165,285**	**$ -**	**$ 33,165,285**	NDPSC-214

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

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	$ 820		$ 820	
6	**Test Year 2024**	**$ 7,103,512**	**$ -**	**$ 7,103,512**	
7	**Total Taxes Other Than Income**	**$ 7,103,512**	**$ -**	**$ 7,103,512**	ND-PSC-Set 2-18

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

DEFERRED INCOME TAXES

	(1) Company Proposed	Adjustments	ND PSC Advocacy Staff	References
Removal Costs	$ 189,832		$ 189,832	
Excess Tax Over Book Depreciation	$ 5,086,863		$ 5,086,863	
Interest Capitalized on Construction	$ 159,977		$ 159,977	
Other Capitalized Items	$ 213,600		$ 213,600	
Total Deferred Income Taxes	**$ 5,650,272**		**$ 5,650,272**	
Transferred State and Federal Taxes due to Net Operating Loss	$ (8,200,584)		$ (8,200,584)	
Total Deferred Income Taxes	**$ (2,550,312)**		**$ (2,550,312)**	NDPSC-202

FEDERAL INCOME TAXES

		(1) Company Proposed	Adjustments	Present Rates ND PSC Advocacy Staff	References
1	Total Operating Revenues	$ 195,036,513	$ 2,461,404	$ 197,497,917	
2	Less Operating Expenses	$ (140,267,769)	$ -	$ (133,706,578)	
3	**Balance**	**$ 54,768,744**	**$ 9,022,595**	**$ 63,791,339**	
4	Depreciation Expense	$ (33,165,285)	$ -	$ (33,165,285)	
5	Amortization Expense	$ -	$ -	$ -	
6	Taxes Other Than Income	$ (7,103,512)	$ -	$ (7,103,512)	
7	Interest Costs	$ (15,160,261)		$ (15,036,569)	
8	**Balance**	**$ (660,314)**	**$ 9,146,286**	**$ 8,485,973**	
	Tax Additions Schedule M				
9	Additional Tax Depreciation	$ 28,652,304	$ -	$ 28,652,304	
10	Other Schedule M Items	$ 4,286,394	$ -	$ 4,286,394	
11	**Total Tax Deductions**	**$ 32,938,698**	**$ -**	**$ 32,938,698**	
12	ND Adjustments to Federal Schedule M	$ 1,671	$ -	$ 1,671	
13	**State Taxable Income**	**$ (33,650,683)**	**$ 9,146,286**	**$ (24,504,396)**	
14	State Income Tax Rate	4.31%	$ -	4.31%	
15	**Total State Income Tax and Min Fee**	**$ (1,449,104)**	$ 392,965	**$ (1,056,139)**	
16	State Taxes Transferred NOL	$ 1,449,104	$ (379,671)	$ 1,069,433	
17	**Total State Income Taxes**	**$ -**		**$ 13,294**	
18	**Federal Taxable Income**	**$ (33,650,683)**	**$ 9,159,580**	**$ (24,491,103)**	
19	Add Back Schedule M Adjustments	$ 1,449,104	$ (379,671)	$ 1,069,433	
20	**Adjustable Federal Taxable Income**	**$ (32,149,907)**	**$ 8,766,615**	**$ (23,383,292)**	
21	Federal Income Tax Rate	21.00%	$ -	21.00%	
22	**Total Federal Income Taxes**	**$ (6,751,481)**	**$ 1,840,989**	**$ (4,910,491)**	
23	Federal Taxes Transferred NOL	$ 6,751,481	$ (1,776,221)	$ 4,975,260	
	Total Federal Income Taxes			$ 64,769	
24	**Total Federal and State Income Taxes**	**$ -**	**$ 78,062**	**$ 78,062**	

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