

Before the North Dakota Public Service Commission
State of North Dakota

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

Case No. PU-23-342

Exhibit_____

POLICY

Rebuttal Testimony and Schedules of

BRUCE G. GERHARDSON

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

November 4, 2024

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ATTACHED SCHEDULES

Schedule 1 - OTP’s Response to ND-PSC-068

Schedule 2 - OTP’s Response to ND-PSC-059

Schedule 3 - OTP’s Response to ND-PSC-073_NOTPUBLIC

Schedule 4 - OTP’s Response to ND-PSC-069_NOTPUBLIC

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Schedule 7 - OTP’s Response to ND-APLD-4.01_NOTPUBLIC

I. INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME AND CURRENT EMPLOYER.

A. My name is Bruce G. Gerhardson. I am currently an independent contractor for Otter Tail Power Company (OTP or the Company), following my retirement in August 2024. Prior to my retirement, I was OTP's Vice President, Regulation and Retail Energy Solutions.

Q. DID YOU PREPARE DIRECT TESTIMONY AND SUPPLEMENTAL DIRECT TESTIMONY IN THIS PROCEEDING?

A. Yes. In my Direct Testimony, I gave an overview of OTP and summarized OTP's request in this proceeding. I also discussed pension and postretirement medical and life insurance plan costs, OTP's proposal to address the potential for changes to its sales volumes between rate cases, and OTP's update to the Super Large General Service rate.

In Supplemental Direct Testimony, I summarized the Company's revised request and explained OTP's revision to the Super Large General Service rate.

Q. ARE YOU ADOPTING THE DIRECT TESTIMONY OF ANY OTHER OTP WITNESSES?

A. Yes. I am adopting the Direct Testimony of OTP witness Mr. Peter E. Wasberg.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. My Rebuttal Testimony provides a policy-level summary of OTP's Rebuttal Testimony filing, and I address policy considerations associated with several recommendations of North Dakota Public Service Commission (the Commission) Advocacy Staff and the Midwest Large Energy Consumers (MLEC).

I also directly respond to certain recommendations included in the October 4, 2024 Direct Testimony of the following witnesses: (1) Dante Mugrace on behalf of Advocacy Staff; (2) Karl Pavlovic on behalf of Advocacy Staff; and (3) Kavita Maini on behalf of MLEC. Specifically, I directly respond to the following issues and recommendations:

- Incentive-Based Compensation, including recommendations related to individual compensation programs; and
- Sales Adjustment Proposal.

II. SUMMARY OF OTP'S REBUTTAL TESTIMONY

Q. PLEASE SUMMARIZE OTP'S REBUTTAL TESTIMONY.

A. OTP has revised its 2024 Test Year base rate revenue requirement to be \$227.56 million (an approximately \$1.0 million decrease for OTP's Supplemental Direct Filing) and associated net base rate revenue deficiency to be \$21.5 million (an approximately \$1.0 million decrease from OTP's Supplemental Direct Filing). This revision reflects some updated actual cost information, acceptance of some recommendations of Advocacy Staff consultants, and certain corrections identified during the discovery process. Overall, OTP is seeking a net average increase of 10.41 percent to present revenue. Annualized over the six years since our last rate case, the net effect of our requested increase to present revenue is approximately 1.74 percent per year, which cumulatively is less than inflation over the same period.

After reviewing testimony of Advocacy Staff consultants and MLEC, OTP continues to support its positions presented in Direct Testimony and Supplemental Direct Testimony, unless specifically noted herein.

Q. DO YOU HAVE ANY INITIAL OBSERVATIONS REGARDING RECOMMENDATIONS OF ADVOCACY STAFF AND MLEC?

A. Yes. I appreciate the thorough review of our requests performed by Advocacy Staff consultants and MLEC. Rate cases are among our most important regulatory proceedings: they are where parties and the Commission can assess the entirety of our operations. That thorough review is a vital part of the regulatory process, and I recognize that Advocacy Staff consultants and MLEC present recommendations they believe to be appropriate.

Some of those recommendations, however, are based on a false dichotomy that costs should be evaluated to determine if they benefit either customers or OTP and its shareholders,¹ when, of course, most costs incurred by a utility benefit both customers and shareholders (as well as employees and the public at large). In this

¹ For example, Mr. Mugrace recommends disallowance of non-employee director restricted stock costs because "[t]hese types of costs do not provide ratepayer benefits...[but rather] benefit shareholders and the Company's President." Mugrace Direct at 27:4-28:17. Similarly, Mr. Mugrace recommends disallowing certain incentive-based compensation costs because "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." Mugrace Direct at 46:12-15. Ms. Maini recommends that the Langdon upgrade Project remain in the Renewable Resource Cost Recovery (RRCR) rider, which "will allow for savings associated with accumulated depreciation and other adjustments to rate base on an annual basis." Maini Direct at 6:6-7.

1 case, the costs we have presented for recovery cannot reasonably be avoided in the
2 course of us performing our obligations as an electric utility. They are necessary
3 and reasonable, and therefore their recovery should not be denied.

4 OTP has never adopted zero-sum thinking where things only benefit
5 customers or only benefit the Company. In my Direct Testimony, I explained that
6 OTP's mission is "To produce and deliver electricity as reliably, economically, and
7 environmentally responsibly as possible to the balanced benefit of customers,
8 shareholders, and employees and to improve the quality of life in the areas in which
9 we do business."² Our mission recognizes the shared benefits of providing reliable,
10 economic and environmentally responsible service. That collaborative, mutually
11 beneficial approach has allowed us to achieve many great things to the shared
12 benefit of customers, shareholders, employees, and our communities.

13
14 Q. PLEASE EXPLAIN SOME OF THESE SHARED BENEFITS.

15 A. OTP has made substantial capital investments since its last North Dakota rate case,
16 which will continue into the future.³ These investments are reasonable and
17 necessary for us to continue providing reliable, economic and environmentally
18 responsible electric service to the benefit of our customers. They also require
19 additional capital and provide a larger capital base upon which investors earn a
20 return.

21
22 Q. HOW DO YOU MEASURE THE SHARED BENEFITS TO CUSTOMERS AND THE
23 COMPANY?

24 A. There are many measures of shared benefits, but the ultimate metric is rates, as
25 rates capture the entirety of our business and are the price customers pay for the
26 service we provide. As illustrated and explained in my Direct Testimony, OTP's
27 rates are the lowest among North Dakota's investor-owned utilities and have been
28 for a number of years.

29
30 Q. ARE THERE OTHER RECOMMENDATIONS THAT IMPLICATE POLICY
31 ISSUES?

32 A. Yes. MLEC witness Ms. Maini recommends that the Langdon Upgrade Project
33 remain in the Renewable Resource Cost Recovery (RRCR) rider, while Dr. Marlon
34 Griffing on behalf of Advocacy Staff recommends that OTP's authorized rate of

² Gerhardson Direct at 4:29-32.

³ Gerhardson Direct at 6:6-7:10.

1 return (ROR) reflect a hypothetical capital structure, rather than OTP’s actual
 2 capital structure.⁴ Both recommendations are a departure from standard practice
 3 in North Dakota. The RRCR rider (and other capital project riders) have been
 4 utilized to recover costs between rate cases, with projects moving into base rates
 5 once they are in service.⁵ I acknowledge Ms. Maini’s position that keeping capital
 6 projects in riders reduces rates between rate cases (due to depreciation), but that
 7 depreciation also is what allows utilities to extend the time between rate cases. Ms.
 8 Maini recommends a different, more formulaic approach. Adopting a formula-rate
 9 construct, while a departure from the historical approach in North Dakota, could
 10 work if it applied to all aspects of OTP’s costs and revenues. Selective application,
 11 however, ultimately would just result in more frequent rate case filings. This is
 12 particularly problematic for OTP, as rate cases are disproportionately expensive
 13 given our relatively small customer base (i.e. on a per-customer basis, rate cases
 14 cost more for OTP than they do for utilities with larger customer counts).

15 Dr. Griffing similarly departs from traditional North Dakota practice in
 16 recommending that rates be set using a hypothetical capital structure. OTP witness
 17 Todd R. Wahlund explains that this recommendation not only is inconsistent with
 18 Dr. Griffing’s acceptance of OTP’s actual costs of long-term debt (LTD) and short-
 19 term debt (STD), but it could also have significant negative customer impacts
 20 through increases in OTP’s financial and business risk. OTP witness Ms. Ann E.
 21 Bulkley also explains that Dr. Griffing applies the incorrect analytical framework
 22 in making his recommendation.
 23

⁴ Griffing Direct at 50.

⁵ Compare *In the Matter of the Application of Otter Tail Power Company for Authority to Increase Rates for Electric Utility Service in North Dakota*, Case PU-17-398, Direct Testimony of Bryce C. Haugen at 18-20 (Nov. 2, 2017) (“The . . . projects forecasted to be in service at the time final rates go into effect are part of the rate base used to determine the . . . Test Year revenue requirement.”), with *In the Matter of the Application of Otter Tail Power Company for Authority to Increase Rates for Electric Utility Service in North Dakota*, Case PU-17-398, Direct Testimony of Ralph C. Smith at 72-93 (Nov. 2, 2017) (agreeing that the rider costs should be rolled into base rates); see also *In the Matter of the Application of Otter Tail Corporation d/b/a Otter Tail Power Company for Authority to Increase Rates for Electric Service in North Dakota*, Case PU-08-862, Order on Settlement, Amended Settlement Agreement at 8 (Nov. 25, 2009) (“The Parties Agree that in its next rate case OTP shall propose including the Ashtabula and Langdon wind farm costs in base rates.”). In addition to these historical examples, ND PSC Staff Consultants in this proceeding reviewed the rider roll-in proposal and did not propose any adjustments or raise any concerns. Mugrace Final Direct at 9:14-30.

1 Q. IS OTP UPDATING ITS COSTS OF LTD AND STD IN ITS REBUTTAL
2 TESTIMONY?

3 A. Yes. In his Rebuttal Testimony, Mr. Wahlund presents updated LTD and STD costs
4 based on actual data since the Company initially filed its rate case. Overall, these
5 updates reduce OTP's requested ROR by five basis points, to be 7.80 percent.
6

7 Q. IS OTP REVISING ITS REQUESTED RETURN ON EQUITY?

8 A. No. Ms. Bulkley explains in her Rebuttal Testimony that updated market data
9 continues to support OTP's requested return on equity (ROE) of 10.60 percent. In
10 fact, some market data indicates the cost of equity has increased since OTP filed
11 its Direct Testimony. Despite this change, OTP continues to request a 10.60
12 percent ROE.
13

14 Q. WHAT IS THE APPROPRIATE FRAMEWORK FOR ASSESSING THE ROE IN
15 THIS CASE?

16 A. The North Dakota supreme court has held that a utility is to be allowed to earn "a
17 fair and reasonable rate of return for its investors."⁶ In doing so, the court cited to
18 the *Hope*⁷ case. Under *Hope*, the return should be "commensurate with returns"
19 earned by comparable companies,⁸ and "assure confidence in the financial
20 integrity of the enterprise...."⁹
21

22 Q. HOW DOES THIS COMPARE TO THE RECOMMENDATION OF MLEC
23 WITNESS MR. CHRISS?

24 A. Mr. Chriss testifies that the Commission should "thoroughly and carefully consider
25 the impact on customers in examining the requested ROE ... to ensure that any
26 increase in the Company's rates reflect the minimum amount necessary to
27 compensate the Company for adequate and reliable service, while also providing
28 OTP an opportunity to earn a reasonable return for its shareholders."¹⁰ If Mr.
29 Chriss is stating that the Commission set the ROE at the "minimum," I believe his
30 recommendation is not consistent with North Dakota's approach to establishing
31 ROE.

⁶ *Montana-Dakota Util. Co. v. Public Service Comm'n*, 413 N.W.2d 308, 310 (N.D. 1987).

⁷ *Federal Power Comm'n v. Hope Natural Gas Co.*, 320 U.S. 591 (1944).

⁸ *Id.* at 603.

⁹ *Id.*

¹⁰ Chriss Direct at 3:19-22.

1 Q. PLEASE EXPLAIN.

2 A. As noted above, one consideration in establishing a fair and reasonable rate of
3 return is whether it “assure[s] confidence in the financial integrity of the
4 enterprise....”¹¹ Selecting the lowest possible ROE does not assure confidence,
5 particularly when allowed ROEs are significant considerations to both debt and
6 equity investors. Further, as discussed in more detail by Mr. Wahlund in his
7 Rebuttal Testimony, this is a particularly poor time for the Commission to signal a
8 change in long-standing practice, as doing so could increase OTP’s perceived
9 business risk, and therefore cost of capital.

10
11 Q. IS OTP REVISING ITS SALES FORECAST AS PART OF ITS REBUTTAL
12 TESTIMONY?

13 A. No. As discussed below (and by OTP witness Ms. Tammy K. Mortenson in her
14 Rebuttal Testimony), OTP has learned information regarding three Large
15 Commercial customers that indicates post-test-year Large Commercial sales could
16 be greater than the amount of Large Commercial sales included in the 2024 Test
17 Year. At the same time, OTP’s actual sales for January – August 2024 were lower
18 than forecast in our Direct Testimony. These kinds of sales deviations can occur,
19 particularly in the current environment regarding large loads, and OTP has
20 developed a sales adjustment proposal to ensure rates capture all effects of non-
21 test year load changes. We continue to support the Direct Testimony sales forecast
22 and using the sales adjustment proposal to capture the effects of changes that may
23 materialize in 2025 and beyond.

24
25 Q. WHO ARE OTP’S OTHER REBUTTAL WITNESSES?

26 A. OTP’s other rebuttal witnesses are:

- 27 • Anne E. Bulkley addresses ROE and capital structure, responding to the
28 testimony of Advocacy Staff witness Dr. Griffing and MLEC witness Mr.
29 Chriss.
- 30 • Christopher E. Byrnes discusses non-employee director restricted stock,
31 investor relations, aviation, and Otter Tail Corporation incentive-based
32 compensation costs included in the 2024 Test Year, responding to the
33 testimony of Advocacy Staff witness Mr. Mugrace.

¹¹ *Hope Natural Gas Co.*, 320 U.S. at 603.

- Paula M. Foster testifies regarding the cost of the Langdon Upgrade Project, including the appropriate form of cost recovery for that project, along with a proposal regarding a regulatory liability in the RRCR rider in response to Mr. Mugrace and MLEC witness Ms. Maini.
- Amber M. Grenier presents two updates that impact OTP's Rebuttal Testimony base rate revenue requirement and revenue deficiency for the 2024 Test Year revenue. She also responds to the testimony of Ms. Maini, Mr. Mugrace, and Advocacy Staff witness Mr. Karl Pavlovic regarding several revenue, revenue requirement, cost allocation, and rate design issues.
- Tammy K. Mortenson provides information regarding OTP's 2024 sales in response to Ms. Maini.
- Christy L. Peterson is OTP's overall revenue requirements witness, and she provides OTP's Rebuttal Testimony base rate revenue requirement and revenue deficiency. She also responds to Mr. Mugrace on certain revenue requirements issues.
- Todd R. Wahlund supports OTP's Rebuttal Testimony overall ROR, and he responds to Dr. Griffing regarding OTP's capital structure.

III. CONTESTED ISSUES

A. Incentive-Based Compensation (Advocacy Staff – Mugrace)

Q. WHAT DID MR. MUGRACE RECOMMEND REGARDING INCENTIVE-BASED COMPENSATION?

A. Mr. Mugrace generally recommended disallowance of most incentive-based compensation.¹²

Q. WHAT IS MR. MUGRACE'S PRIMARY BASIS FOR DISALLOWING INCENTIVE COMPENSATION?

A. It appears that Mr. Mugrace's primary basis is that incentive compensation is not required to provide service and does not benefit customers. For example, Mr. Mugrace stated the following regarding long-term incentives: "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

¹² Mugrace Direct at 32:1-33:7.

1 reliability.”¹³ Mr. Mugrace does not appear to have any concerns about the amount
2 of compensation, but rather, he disagrees with the *concept* of tying compensation
3 to performance.
4

5 Q. DO YOU AGREE WITH MR. MUGRACE’S ASSESSMENT OF INCENTIVE
6 COMPENSATION?

7 A. No. I disagree with Mr. Mugrace because his recommendations are based on a few
8 general assumptions that are simply not true. I will first provide my general
9 response to his overall theory about incentive compensation, and then provide a
10 specific response for each program that Mr. Mugrace addressed in testimony. In
11 addition to disagreeing with his overall philosophy, I will also demonstrate how his
12 disallowances are, in many cases, based on miscalculations. Overall, I recommend
13 that the Commission not adopt Mr. Mugrace’s recommended adjustments for
14 incentive compensation.

15 **1. Customer Benefits of Incentive Compensation.**

16 Q. WHAT IS MR. MUGRACE’S GENERAL THEORY OF INCENTIVE
17 COMPENSATION?

18 A. Throughout his testimony, Mr. Mugrace repeatedly states that incentive
19 compensation programs benefit the Company, but not customers. At many points,
20 Mr. Mugrace states that he does not see a nexus between incentive compensation
21 and customer benefits.¹⁴ Mr. Mugrace appears to believe there is a fundamental
22 misalignment between OTP and its customers such that improving the
23 performance of OTP’s team will not make any difference for customers.

24 This argument does not reflect the OTP culture, and how we focus on safety,
25 reliable energy, and competitive rates. Customers clearly benefit from a team of
26 utility employees that is effective and highly motivated, and impeding OTP’s ability
27 to attract and retain that team could have negative consequences for customers.
28

29 Q. DID MR. MUGRACE PROVIDE ANY EVIDENCE TO SUPPORT HIS OPINION
30 THAT INCENTIVE PROGRAMS DO NOT BENEFIT CUSTOMERS?

31 A. No. His conclusion appears to be based on his opinion of the effectiveness of
32 incentive compensation programs in general.
33

¹³ Mugrace Direct at 32:26-28.

¹⁴ See, e.g., Mugrace Direct at 32:24-33:7, 33:20-29.

1 Q. DO CUSTOMERS BENEFIT FROM OTP'S EFFORTS TO DEVELOP A HIGH
2 PERFORMING UTILITY TEAM?

3 A. Yes. OTP provides an essential service that its customers rely on for their everyday
4 lives, and which drives the economy of eastern North Dakota (as well as western
5 Minnesota and northeastern South Dakota). Providing safe, reliable, and
6 affordable electricity service is a responsibility that OTP takes very seriously.

7 The work needed to provide that service is done by OTP's employees. OTP
8 can provide better, safer, and more affordable service when it attracts the most
9 qualified employees, and those employees are motivated and high-performing. To
10 accomplish that goal, OTP has used long-standing and well-understood incentive
11 compensation programs to attract, retain, and motivate its team.
12

13 Q. WHAT ARE THE BENEFITS OF INCENTIVE-BASED COMPENSATION?

14 A. Incentive compensation helps to attract, retain, and motivate high-performing
15 employees. These employees are incentivized to join OTP because they understand
16 that they can receive additional compensation if they do well, and they choose to
17 stay because the incentive compensation programs tie their success to that of the
18 Company. This benefits customers directly through better employee performance,
19 and it contributes to long-term benefits as employees stay with the Company and
20 share their knowledge and expertise.
21

22 Q. ARE THERE PROBLEMS ASSOCIATED WITH MOVING AWAY FROM AN
23 INCENTIVE-BASED COMPENSATION PROGRAM?

24 A. Yes. Without incentive compensation, OTP would be at a significant disadvantage
25 compared to other employers. Our ability to compete for the best employees, who
26 can provide the best service to customers, would be constrained. As a result, and
27 as discussed in more detail below, eliminating incentive-based compensation
28 would need to be paired with a significant increase in non-incentive compensation
29 to attract and maintain OTP's workforce. In other words, costs would not be
30 reduced even as our ability to incentivize performance would decline.
31

32 Q. ARE OTP'S INCENTIVE PROGRAMS DESIGNED SPECIFICALLY TO BENEFIT
33 CUSTOMERS?

34 A. Yes. Our incentive plans, discussed in Direct Testimony, show we are focused on
35 the right things to deliver our service well. Our goals within these plans include our
36 efforts on safety, customer satisfaction, reliability, operations & maintenance cost

management, plant equivalent availability, leadership, turnover, training advancements, financial performance, and individual performance. Success in these goals enables us to provide safe, reliable, and affordable service to our customers. These goals are interconnected and our best efforts for our customers occur when we are successful across the variety of goals.

Q. DO INDIVIDUAL GOALS FOCUS ON EFFORTS THAT WILL POSITIVELY IMPACT SAFETY, CUSTOMER SERVICE, AND RELIABILITY?

A. Yes. Examples of individual goals, for those within the Management Incentive Plan, the Key Performance Award – People Leaders, and the Coyote Retention Plan include the following: employee safety, employee development, onboarding new employees and managers, successful execution on projects (Advanced Metering Infrastructure, Outage Management System, Load Management System, and system reliability – each of which have direct impacts on customer experience), vegetation management improvements, continuous improvement, agreements for MISO transmission projects, NERC compliance, large load opportunities that ensure value for our customers, productivity, customer care excellence, training, and turnover. These different ways to measure individual performance tie back to outcomes that will positively affect our customers.

Q. IS MR. MUGRACE ARGUING THAT OTP SHOULD NOT TRY TO ATTRACT AND RETAIN HIGH-PERFORMING EMPLOYEES?

A. I do not think so, but that could be the ultimate consequence of his recommendations. He does not provide any alternative strategy or method that OTP should use to ensure that it can build a high-performing team.

I do not believe that OTP could continue to provide the level of service that its customers deserve without well-designed incentive programs such as the ones described in this case.

2. Reasonableness of OTP's Incentive Compensation

Q. PLEASE DESCRIBE HOW OTP DESIGNS ITS COMPENSATION PROGRAM.

A. As explained in Direct Testimony, OTP has designed a total compensation package that appropriately balances base pay and benefits, along with incentive pay that employees can earn through short-, and in some cases, long-term incentives.¹⁵ The

¹⁵ Wasberg Direct at 18:9-25:34.

total compensation package is based on market research, which makes clear that incentive compensation is standard across the industry. Further, OTP's incentive compensation program is essential to make OTP's overall compensation competitive compared to other potential employers.¹⁶ The other option to remain competitive from a total compensation standpoint would be to increase base pay, without incentives.

Q. IS INCENTIVE COMPENSATION COMMON IN THE UTILITY INDUSTRY?

A. Yes. Incentive compensation is standard practice across the utility industry, and for many businesses in most industries. It is common for a portion of overall compensation to be tied to performance, to encourage good performance and provide direction on what outcomes are expected.

This conclusion is supported by the results of the Mercer study provided with Direct Testimony,¹⁷ and our benchmarking process, which compares the standard level of incentive compensation in other utility businesses against OTP's total compensation program.

Q. HOW DOES OTP DETERMINE A REASONABLE LEVEL OF COMPENSATION FOR ITS EMPLOYEES?

A. OTP uses a concept called benchmarking to evaluate its compensation compared to peers.

Q. HOW DOES OTP'S COMPENSATION COMPARE TO INDUSTRY PEERS?

A. Our total compensation is comparable to our peers. The Mercer 2022 Compensation Competitiveness Study, Exhibit____(PEW-1), Schedule 2, demonstrates that **[PROTECTED DATA BEGINS...**

... PROTECTED DATA ENDS] OTP's incentive compensation programs are essential to making its total compensation package competitive in the market.

Our Direct Testimony also provided specific evidence about the competitiveness of our executive compensation programs in Exhibit____(PEW-1),

¹⁶ Wasberg Direct at 21:19-22.

¹⁷ Wasberg Direct at 9:23-31.

1 Schedule 3, a benchmarking study Mercer performed on executive salaries. In the
2 study, Mercer concluded **[PROTECTED DATA BEGINS...**

3
4
5
6
7
8 **...PROTECTED DATA ENDS]**

9
10 Q. DID MR. MUGRACE ADDRESS THE MERCER STUDIES AND THE COMPANY'S
11 TOTAL COMPENSATION PACKAGE?

12 A. No. Mr. Mugrace did not identify any concerns with the Mercer studies, nor
13 provide any evidence to rebut them. In fact, he testified at several points that he
14 does not have a concern with the Company's total compensation package. For
15 example, Mr. Mugrace described the benchmarking analysis provided with Direct
16 Testimony, but he did not identify any specific concerns with it.¹⁸ More
17 specifically, Mr. Mugrace stated, "I am not disagreeing with how the Company's
18 total compensation package is developed."¹⁹ Based on this testimony, it appears
19 that Mr. Mugrace agrees that the total compensation package is well-designed, but
20 still thinks that some part of it should be disallowed.

21
22 Q. DO YOU AGREE WITH THIS RECOMMENDATION?

23 A. No. If the total compensation package is reasonable, and Mr. Mugrace testified that
24 he did not disagree with it, then the costs of that total compensation package are
25 reasonable and should be included in rates.

26
27 Q. DID MR. MUGRACE PROVIDE ANY EVIDENCE TO SUPPORT HIS
28 RECOMMENDATION ON INCENTIVE COMPENSATION?

29 A. No. As I noted above, he appears to rely primarily on his own opinions about the
30 customer benefits of incentive compensation as a general concept. Our Direct
31 Testimony demonstrates, based on evidence, that incentive compensation is
32 standard in the utility industry, that OTP's incentive compensation is a necessary
33 component to make sure that OTP's total compensation is comparable to industry
34 standards, and that a dedicated, experienced workforce is necessary to provide safe

¹⁸ Mugrace Direct at 50:14-51:22.

¹⁹ Mugrace Direct at 32:24-26.

1 and reliable service. Mr. Mugrace did not produce any evidence to dispute any of
2 these facts.

3
4 Q. WOULD CUSTOMERS BE BETTER OFF IF INCENTIVE COMPENSATION
5 WERE ELIMINATED?

6 A. No. If incentive compensation were eliminated, OTP would need to substantially
7 increase base compensation to maintain competitive wages for the industry and
8 continue to attract and keep high performing employees. Customers would not be
9 any better off, and in fact they likely would be worse off because OTP would have
10 fewer tools to retain and incentivize high performing employees.

11 3. Specific Programs

12 a) Employee Gifts and Recognition

13 Q. WHAT ARE EMPLOYEE GIFT AND RECOGNITION COSTS?

14 A. Employee gift and recognition costs represent efforts to recognize and reward
15 employees who have performed exceptionally well. The costs are directly
16 attributable to projects that benefit customers.

17
18 Q. WHAT IS MR. MUGRACE'S RECOMMENDATION REGARDING EMPLOYEE
19 GIFTS AND RECOGNITION?

20 A. Mr. Mugrace recommended that all costs related to employee recognition and gifts
21 be disallowed because the Company had not specifically identified projects that
22 employees had worked on, how those specific projects benefit customers, or
23 provided a breakout schedule for the costs.²⁰

24 Mr. Mugrace calculated a separate adjustment for each O&M expense
25 category on Schedules DM-11 through DM-16, with a total disallowance amount
26 of \$96,967.²¹

27
28 Q. WHAT INFORMATION DID OTP PROVIDE REGARDING 2024 TEST YEAR
29 EMPLOYEE GIFTS AND EXPENSES?

30 A. OTP's response to ND-PSC-068, a copy of which is provided as Exhibit____(BGG-
31 3), Schedule 1, identifies OTP Total and North Dakota jurisdictional share of
32 Achievement awards for 2018-2023, and amounts for the 2024 Test Year. OTP

²⁰ Mugrace Direct at 29:25-30:22.

²¹ Mugrace Direct, Schedule DM-17.

1 does not budget Achievement Awards by program, which is why it was not able to
2 provide more granular information for 2024 Test Year costs. I do note, however,
3 that 2024 Test Year costs are significantly below 2022 and 2023 actual
4 Achievement Award costs.

5
6 Q. HOW DO EMPLOYEE GIFTS AND RECOGNITION COSTS BENEFIT
7 CUSTOMERS AND WHY SHOULD THESE COSTS BE INCLUDED IN THE 2024
8 TEST YEAR?

9 A. As I described above, employees who are engaged and motivated produce better
10 results. Because OTP's primary output is utility service for customers, better work
11 results will result in better utility service. Individual incentive opportunities will
12 encourage employees to do their best work, and that good work will translate to
13 improved service for customers. This requirement further demonstrates that the
14 incentives in question have a positive impact on customers.

15 **b) Retirement Plans**

16 Q. WHAT RETIREMENT PLANS DID MR. MUGRACE PROVIDE
17 RECOMMENDATIONS ABOUT?

18 A. Mr. Mugrace provided recommendations about two retirement plans: the
19 Executive Survivor and Supplemental Retirement Plan (ESSRP) and the Executive
20 Restoration Plan Plus (ERPP). Mr. Mugrace also discusses a Supplemental
21 Executive Retirement Plan (SERP).²²

22
23 Q. DOES OTP HAVE A SERP?

24 A. No. There is no plan called the Supplemental Executive Retirement Plan. It
25 appears that Mr. Mugrace misunderstood our response to ND-PSC-059, which I
26 have attached as Exhibit____(BGG-3), Schedule 2. In that discovery request, Staff
27 asked for information about SERP costs. In our response, we provided information
28 about the ESRP and the ERPP, which are two different supplemental executive
29 retirement plans. These two plans are examples of a supplemental executive
30 retirement plan, but there is no separate retirement benefit called "SERP." As a
31 result, Mr. Mugrace's \$92,000 adjustment for "SERP" should not be accepted,
32 because OTP did not include any costs for a SERP.²³

33

²² Mugrace Direct at 37:1-27.

²³ Mugrace Direct at 37:1-27, Schedule DM-18.

1 Q. WHAT IS THE ESSRP?

2 A. The ESSRP is a defined benefit plan adopted in 1983 to provide survivor and
3 retirement benefits to key executive and management employees. It was frozen to
4 new participants in 2009.
5

6 Q. WHAT IS THE EXECUTIVE RESTORATION PLUS PLAN?

7 A. The ERPP is an unfunded, non-qualified benefit plan that provides defined
8 contribution payments to key management employees.²⁴ It is intended to mitigate
9 the effect of greater reliance on incentive compensation for these individuals in the
10 calculation of retirement benefits. The ERPP allows the retirement benefit to
11 incorporate the performance-based nature of executive pay.²⁵ The ERPP was
12 created in part to replace the ESSRP program when it was frozen. The ERPP
13 provides a benefit without large swings in actuarial accounting. The restoration
14 retirement benefit for existing participants was frozen in 2019.
15

16 Q. WHAT ARE MR. MUGRACE'S RECOMMENDATIONS REGARDING THE ESSRP
17 AND ERPP?

18 A. Mr. Mugrace recommended disallowance of both ESSRP and ERPP costs.
19 Regarding ESSRP,²⁶ Mr. Mugrace argued that customers do not benefit from
20 retaining key employees and that the Company would receive benefits from the
21 program in the event that an employee leaves the Company or dies.

22 Mr. Mugrace recommended disallowance of the entire balance of ERPP
23 costs.²⁷ He argued that any incentive compensation recovered from ratepayers
24 should be tied to benefits in the areas of safety, reliability, and customer service
25 issues. Mr. Mugrace stated that the ERPP is a plan to increase salary for at-risk
26 employees, and that this type of pay should not be included in rates.
27

28 Q. DID YOU IDENTIFY ANY ISSUES IN HOW MR. MUGRACE CALCULATED HIS
29 ESSRP AND ERPP DISALLOWANCES?

30 A. Yes. Based on Schedule DM-17, it appears Mr. Mugrace recommends removing
31 \$328,296 of OTP ESSRP costs and \$210,046 of OTP ERPP costs from the 2024

²⁴ Wasberg Direct at 14:13-16.

²⁵ Wasberg Direct at 14:19-21.

²⁶ Mugrace Direct at 29:13-23.

²⁷ Mugrace Direct at 33:9-29.

1 Test Year revenue requirement.²⁸ Even if Mr. Mugrace's recommendations were
2 justified (which they are not, as discussed below), these are not the correct
3 amounts to implement his recommendations. Rather, his recommended
4 disallowances exceed the total amount of ESSRP and ERPP costs included in the
5 2024 Test Year.

6
7 Q. WHAT IS THE AMOUNT OF ESSRP COST INCLUDED IN THE 2024 TEST YEAR
8 REVENUE REQUIREMENT?

9 A. As explained in Direct Testimony, there are \$267,000 in ESSRP costs included in
10 the 2024 Test Year.²⁹ Mr. Mugrace proposes to disallow more than that amount.

11
12 Q. HOW DID MR. MUGRACE MAKE THIS ERROR?

13 A. I believe that the error may have been based on a misinterpretation of testimony
14 provided by OTP witness Ms. Christy Petersen. As Ms. Petersen explained in her
15 Direct Testimony, in OTP's last rate case, the Commission disallowed 25 percent
16 of the costs for the ESSRP program.³⁰ For that reason, the Company removed
17 \$61,296 in ESSRP expenses as a traditional adjustment when building the 2024
18 regulatory year, an adjustment that Ms. Petersen shows on Schedule 11. Because
19 the ESSRP is reasonable and its full costs should be included in rates, we then made
20 a test year adjustment to add the \$61,296 of ESSRP costs back when building the
21 2024 Test Year, an adjustment Ms. Petersen shows on Schedule 12.

22 It appears that Mr. Mugrace added the \$267,000 amount from Direct
23 Testimony (which is the entire ESSRP cost included in the 2024 Test Year revenue
24 requirement) and the \$61,296 adjustment Ms. Peterson made to arrive at the Test
25 Year total. The \$61,296 reduction is already included in the \$267,000 number,
26 meaning Mr. Mugrace's adjustment is overstated by \$61,296.

27 In reality, there are \$267,000 in ESSRP costs in the 2024 Test Year, all of
28 which should be included in rates. To the extent that there is an adjustment related
29 to OTP costs for the ESSRP, it cannot be greater than \$267,000.

30

²⁸ Mugrace Direct, Schedule DM-17. In his Direct Testimony, Mr. Mugrace marked the amount of his adjustment as Confidential, but that is incorrect. While portions of ND-PSC-073 were marked as confidential, the Company did not mark the dollar amounts as confidential. To make it easier for the ND PSC to review this issue, we clarify that these dollar amounts are not intended to be confidential.

²⁹ Wasberg Direct at 25:16-18.

³⁰ Petersen Direct at 44:16-25.

1 Q. WHAT IS THE AMOUNT OF ERPP COST INCLUDED IN THE 2024 TEST YEAR
2 REVENUE REQUIREMENT?

3 A. As we explained in ND-PSC-059, the amount of ERPP costs included in the 2024
4 Test Year is \$92,000. Mr. Mugrace's ERPP adjustment appears to be the 2024 OTP
5 Total, not just the OTP ND portion included the 2024 Test Year revenue
6 requirement.³¹ Regardless of the merits of Mr. Mugrace's policy arguments, Mr.
7 Mugrace's recommendation cannot result in disallowance of more than the total
8 underlying costs OTP included in the test year.
9

10 Q. WHAT ARE YOUR RESPONSES TO MR. MUGRACE'S REASONING FOR
11 DISALLOWING ERPP COSTS FROM THE 2024 TEST YEAR?

12 A. Mr. Mugrace stated that the ERPP program is a plan to increase salaries for at-risk
13 employees.³² That is simply incorrect. As I explained in OTP's Direct Testimony,
14 the ERPP is a program related to retirement benefits, and the costs of the ERPP
15 program do not increase employee salaries.³³
16

17 Q. DOES THE ERPP PROGRAM BENEFIT CUSTOMERS?

18 A. Yes. The ERPP program is an important part of OTP's executive compensation
19 strategy. As I explained previously, the ERPP is a tool to ensure that the retirement
20 benefits for executive employees reasonably match their compensation. This
21 allows the Company to attract and retain high-performing members of the
22 executive team. These leaders provide direct benefits to customers through
23 effective leadership, and supporting OTP's ultimate goal of providing safe, reliable,
24 and affordable service. The costs of the program are reasonable, and they should
25 be included in the 2024 Test Year.
26

27 Q. DOES OTP CURRENTLY RECOVER ERPP COSTS IN BASE RATES?

28 A. Yes. The settlement in OTP's last North Dakota rate case did not exclude any ERPP
29 costs from the revenue requirement.³⁴ This history further suggests that Mr.
30 Mugrace's recommendation should not be adopted.

³¹ See Exhibit ____ (BGG-3), Schedule 2. It is possible that Mr. Mugrace misinterpreted the amounts shown in ND-PSC-073, a copy of which is provided as Exhibit ____ (BGG-3), Schedule 3, to be North Dakota jurisdictional amounts. As can be seen in ND-PSC-059, the amounts in ND-PSC-073 are total company figures.

³² Mugrace Direct at 33:22-25.

³³ Wasberg Direct at 14:13-24.

³⁴ *In the Matter of the Application of Otter Tail Power Company for Authority to Increase Rates for Electric Utility Service in North Dakota*, Case PU-17-398, Order on Settlement (Sept. 26, 2018).

1 Q. DOES THE ESSRP PROGRAM BENEFIT CUSTOMERS?

2 A. Yes. The ESSRP provides similar benefits to the ERPP. In the past, it was a core
3 component of the Company's executive compensation strategy. That program was
4 designed to attract high-performing executives, who are able to provide benefits to
5 customers by ensuring that utility operations are efficient.

6
7 Q. DOES OTP CURRENTLY RECOVER ESSRP COSTS IN BASE RATES?

8 A. Yes. The Commission historically has allowed recovery of most ESSRP costs.
9 ESSRP costs were allowed in OTP's 2008 rate case (Case No. PU-08-862). Further,
10 the settlement in the 2017 rate case (Case No. PU-17-398) included an adjustment
11 for ESSRP but allowed recovery of most of the costs.³⁵ Mr. Mugrace's
12 recommendation to disallow 100 percent of the costs is not in line with how the
13 Commission has handled these costs in the past, and it is unreasonable.

14
15 Q. WHAT IS YOUR OVERALL RECOMMENDATION FOR RETIREMENT PLANS?

16 A. I recommend and request full recovery of the ERPP and ESSRP costs. Those costs
17 are reasonable, were designed to support the Company's goal to establish a high-
18 performing employee team, and provide benefits to ratepayers. There should be no
19 adjustments to the costs included in the 2024 Test Year.

20 **c) Long-Term Incentives**

21 Q. WHAT IS THE LONG-TERM INCENTIVE PROGRAM?

22 A. As I described in Direct Testimony and in OTP's responses to ND-PSC-069³⁶ and
23 ND-PSC-079,³⁷ the 2024 Test Year revenue requirement includes approximately
24 \$1.2 million (OTP ND) of long-term incentive costs. These long-term incentives
25 take the form of Restricted Stock Units (RSU), Performance Stock Awards (PSA),
26 and costs associated with the Employee Stock Purchase Plan (ESPP). The OTP
27 president receives PSA, OTP employees (including the OTP president) receive
28 RSUs, and OTP employees may elect to participate in the ESPP. PSAs and RSUs
29 also are given to Otter Tail Corporation employees, and Otter Tail Corporation
30 employees may also elect to participate in the ESPP. All long-term incentive
31 (whether for OTP employees or Otter Tail Corporation employees) are part of the

³⁵ *Id.*

³⁶ Exhibit____(BGG-3), Schedule 4.

³⁷ Exhibit____(BGG-3), Schedule 5.

1 corporate cost allocation discussed by OTP witness Mr. Christopher E. Byrnes in
2 his Direct Testimony.³⁸

3
4 Q. WHAT ARE THE GOALS OF THE LONG-TERM INCENTIVE PROGRAM?

5 A. The three goals of the long-term incentive program are to: (1) link the long-term
6 success of OTP to qualifying employee compensation; (2) encourage the retention
7 of management employees over the long-term; and (3) provide the opportunity to
8 earn competitive total compensation. Additional details regarding RSUs can be
9 found in Direct Testimony,³⁹ and PSA and ESPP are both discussed in ND-PSC-
10 069 and ND-PSC-079.

11
12 Q. WHAT IS MR. MUGRACE'S RECOMMENDATION REGARDING LONG-TERM
13 INCENTIVES?

14 A. Mr. Mugrace stated that he did not disagree with OTP's total compensation
15 package, but that long-term incentive costs should not be passed on to ratepayers.
16 He argued that the Company has not provided evidence that retaining employees
17 provides benefits to ratepayers in the areas of safety, reliability, and customer
18 service.⁴⁰ Mr. Mugrace also argued that the Company should bear all the risk of
19 long-term incentives because the Company has "sole responsibility" in
20 determining whether the plan is a success or failure.

21 Based on this analysis, Mr. Mugrace recommends disallowance of
22 \$1,221,363 in long-term incentives.⁴¹

23
24 Q. DOES MR. MUGRACE'S RECOMMENDATION TO DISALLOW LONG-TERM
25 INCENTIVE COSTS MAKE SENSE GIVEN HIS STATEMENT THAT HE DOES
26 NOT DISAGREE WITH OTP'S TOTAL COMPENSATION PACKAGE?

27 A. No. Mr. Mugrace stated that he was "not disagreeing with how the Company's total
28 compensation package is developed." Long-term incentives are a core part of the
29 total compensation package, and without it, total compensation would be far below
30 market averages. If OTP's total compensation is reasonable, as Mr. Mugrace
31 appears to believe, then the long-term incentives are reasonable and should be
32 included in rates.

³⁸ Byrnes Direct at 5:15-20.

³⁹ Wasberg Direct at 22:25-23:30.

⁴⁰ Mugrace Direct at 32:24-33:7.

⁴¹ Mugrace Direct, Schedule DM-17.

1 Q. DOES MR. MUGRACE’S ARGUMENT THAT THE COMPANY SHOULD BEAR
2 THE RISK OF LONG-TERM INCENTIVES MAKE SENSE?

3 A. No. The reason to develop incentive-based compensation programs like this one is
4 to increase the performance of the utility and mitigate the risks that could be
5 caused by poor performance. Customers share in the risk of poor performance,
6 and, over time, could experience impacts to reliability, safety, or customer service
7 if the Company cannot attract and retain high quality leadership.

8 Whether some labor costs are riskier than others is not the correct analysis
9 to focus on. The appropriate question is whether the costs are reasonable and
10 needed to provide service to customers. The analysis is better framed by
11 considering the consequences if the costs were not incurred. In this instance, the
12 Company’s employees do the essential work that is needed to provide electric
13 service, and the costs for those employees, including incentive costs, should be
14 included in rates.

15 **d) Annual Incentive Plans**

16 Q. WHAT PROGRAMS ARE PART OF OTP’S ANNUAL INCENTIVE PLANS?

17 A. Mr. Mugrace provided recommendations on five programs that are part of OTP’s
18 Annual Incentive Plans:

- 19 • Key Performance Award (KPA) Plan
- 20 • People Leaders
- 21 • Coyote Retention Incentive Plan
- 22 • Management Plan
- 23 • OTP President

24
25 Q. DID OTP REQUEST FULL RECOVERY OF COSTS FOR ITS ANNUAL
26 INCENTIVE PLANS?

27 A. No. As explained in Direct Testimony, we have limited our request by excluding
28 incentive amounts that are greater than 25 percent of an individual’s base salary.⁴²
29 This adjustment, which already has been incorporated into the 2024 Test Year,
30 mitigates the concerns that Mr. Mugrace raised about the Annual Incentive Plans,
31 and establishes a reasonable balance of cost recovery to include in the 2024 Test
32 Year.

⁴² Wasberg Direct at 21:5-8.

1 Q. DID MR. MUGRACE ADDRESS THE 25 PERCENT ADJUSTMENT THAT IS
2 ALREADY INCLUDED IN THE TEST YEAR?

3 A. No. To the extent Mr. Mugrace has any valid concerns about the programs, those
4 concerns are fully mitigated by the 25 percent adjustment.
5

6 Q. HAS THE COMMISSION ALLOWED RECOVERY OF INCENTIVE
7 COMPENSATION COSTS IN THE PAST?

8 A. Yes. In OTP's most recent North Dakota rate case, Advocacy Staff consultants
9 initially recommended disallowance of 50 percent or more of the costs related to
10 two annual incentive plans. The settlement approved by the Commission, however,
11 allows recovery of approximately twice the amount initially proposed by Advocacy
12 Staff.⁴³

13 **i. Key Performance Award Plan**

14 Q. WHAT IS THE KPA PLAN?

15 A. The KPA Plan covers approximately 400 OTP non-union employees. It is based on
16 four operational criteria (safety, customer satisfaction, reliability, and plant
17 availability), and one financial criterion relating to control of O&M costs.⁴⁴
18

19 Q. WHY DID MR. MUGRACE RECOMMEND DISALLOWANCE OF KPA COSTS?

20 A. Mr. Mugrace recommended disallowance of all of the KPA costs related to the
21 financial criteria.⁴⁵ He stated that while the criteria was tied to O&M expenses, he
22 actually believes that it is tied to non-ratepayer performance measures such as
23 operating income. He also argued that **[PROTECTED DATA BEGINS...**
24

25 **...PROTECTED DATA ENDS].**

26 Mr. Mugrace's recommendation would disallow **[PROTECTED DATA**
27 **BEGINS... ...PROTECTED DATA**
28 **ENDS].**
29

⁴³ See *In the Matter of the Application of Otter Tail Power Company for Authority to Increase Rates for Electric Utility Service in North Dakota*, Case PU-17-398, Order on Settlement (Sept. 26, 2018).

⁴⁴ Wasberg Direct at 4:33-5:7.

⁴⁵ Mugrace Direct at 42:1-16.

1 Q. HOW DOES THE KPA PLAN BENEFIT CUSTOMERS AND WHY SHOULD
2 THESE COSTS BE INCLUDED IN THE 2024 TEST YEAR?

3 A. Despite Mr. Mugrace's arguments, the KPA plan costs at issue are clearly targeted
4 to benefit customers. Customers benefit directly from reduced O&M costs, as those
5 cost reductions are captured in riders for some projects and future rate cases for
6 others. Keeping O&M costs low is exactly the kind of incentive that ensures that
7 the Company's incentives are aligned with customer interests, especially when it is
8 properly balanced against the goals of safety and reliability. Incentivizing OTP
9 employees to control O&M costs has helped to maintain low rates for customers.

10 The weighting of the KPA factors also is appropriate. While Mr. Mugrace
11 correctly noted that **[PROTECTED DATA BEGINS...**

12 **...PROTECTED DATA ENDS]** it appears that
13 he did not notice that the O&M cost factor is only 1/3 of the overall program, and
14 that the bulk of the KPA incentives are directly tied to safety, customer satisfaction,
15 and reliability. This weighting is important to provide OTP employees with
16 direction to minimize costs while maintaining a high quality of service for
17 customers.

18 This incentive program is carefully designed to provide benefit to customers
19 and its cost should be included in rates.

20 **ii. People Leaders Plan**

21 Q. WHAT IS THE PEOPLE LEADERS PLAN?

22 A. As explained in Direct Testimony, OTP determined, based on market research, that
23 there was a need to develop new strategies to attract and retain managers and
24 supervisors (or people leaders) that did not qualify for other existing incentive
25 programs.⁴⁶ The market data demonstrated that the Company was below market
26 on short-term incentive compensation, which coincided with high attrition rates
27 in these categories. The goal of the program is to increase performance of our
28 teams by ensuring that we recruit and retain talented and motivated managers and
29 supervisors.
30

⁴⁶ Wasberg Direct at 5:15-28.

1 Q. WHAT WAS MR. MUGRACE'S RECOMMENDATION FOR THE PEOPLE
2 LEADERS PROGRAM?

3 A. Mr. Mugrace recommended that the costs of the People Leaders program be denied
4 entirely.⁴⁷ He did not express any concerns about the objectives or design of the
5 program, but based his rejection entirely on the fact that the program was put in
6 place in mid-2023 and did not yet have data on its performance.

7 Based on this analysis, Mr. Mugrace recommended disallowance of the
8 **[PROTECTED DATA BEGINS... ...PROTECTED DATA ENDS]**
9 costs of the plan.
10

11 Q. HOW DOES THE PEOPLE LEADERS PLAN BENEFIT CUSTOMERS AND WHY
12 SHOULD IT BE INCLUDED IN THE 2024 TEST YEAR?

13 A. The People Leaders Plan fits into the overall total compensation approach for OTP,
14 which I have explained above. It is also unique in that it is a compensation plan
15 designed to address a specific, identified problem. As I stated, the Company
16 discovered from market research that it was paying below-market short-term
17 compensation for managers and supervisors. At the same time, the Company was
18 experiencing higher attrition in those positions, and wanted to ensure, especially
19 in the labor markets the industry and region is experiencing, that we did not
20 continue to see higher attrition in these people leader roles. These employees are
21 essential to ensure that OTP can continue to provide safe, reliable, and affordable
22 service to customers. Every manager or supervisor lost to other utilities is
23 detrimental to the functioning of the utility as we lose vital institutional knowledge
24 and expertise. Replacing managers and supervisors is costly, and in this labor
25 market, can leave key positions vacant for extended periods. In response to these
26 challenges, the Company designed and implemented a new program to ensure that
27 it can attract and keep the high-quality team that its customers deserve. This is
28 how a responsible company should operate, and there is no reasonable basis to
29 exclude these costs from rates.

30 **iii. Coyote Retention Incentive Plan**

31 Q. WHAT IS THE COYOTE RETENTION INCENTIVE PLAN?

32 A. The Coyote Retention Incentive Plan is designed to ensure the continued good
33 performance of Coyote Station. As explained in Direct Testimony,⁴⁸ given the

⁴⁷ Mugrace Direct at 43:13-15.

⁴⁸ Wasberg Direct at 5:30-6:2.

1 uncertainty about future plant operations brought about by proposed federal
2 regulations, we identified a need to have a program targeting retention of Coyote
3 Station leadership. The incentive program is intended to recognize good
4 performance for non-union employees who choose to continue working at Coyote
5 Station.

6
7 Q. WHY DID MR. MUGRACE RECOMMEND DISALLOWANCE OF THE COYOTE
8 RETENTION INCENTIVE PLAN COSTS?

9 A. Mr. Mugrace analyzed the different goals and weighting metrics of the Coyote
10 Retention Incentive Plan and recommended disallowing the costs related to the
11 **[PROTECTED DATA BEGINS...**

12 **...PROTECTED DATA ENDS]**.⁴⁹

13
14 Q. HOW DOES THE COYOTE RETENTION INCENTIVE PLAN BENEFIT
15 CUSTOMERS AND WHY SHOULD IT BE INCLUDED IN THE 2024 TEST YEAR?

16 A. Coyote Station is one of OTP's most important assets, but its operation continues
17 to be challenging given the many regulatory pressures. In light of these challenges,
18 non-union employees at Coyote Station face increasing pressures to make different
19 career choices. The Coyote Retention Incentive Plan provides an incentive for
20 those experienced employees to remain at Coyote Station, which benefits all
21 customers by ensuring the continued safe operation of the plant. These costs
22 should be included in the 2024 Test Year.

23 **iv. OTP Management Plan**

24 Q. WHAT IS THE OTP MANAGEMENT PLAN?

25 A. The OTP Management Plan is an incentive program for 24 OTP management
26 employees. Its benefits are tied to measurements of **[PROTECTED DATA**
27 **BEGINS...**

28 **...PROTECTED DATA ENDS]**.

29
30 Q. WHY DID MR. MUGRACE RECOMMEND DISALLOWANCE OF
31 MANAGEMENT PLAN COSTS?

32 A. Mr. Mugrace recommended disallowance of the costs **[PROTECTED DATA**
33 **BEGINS...**

⁴⁹ Mugrace Direct at 44:22-24.

1 **...PROTECTED DATA ENDS]**⁵⁰ Mr. Mugrace

2 argued that these costs are designed to benefit the Company, and not its customers.

3
4 Q. HOW DOES THE MANAGEMENT PLAN BENEFIT CUSTOMERS AND WHY
5 SHOULD THEY BE INCLUDED IN THE 2024 TEST YEAR?

6 A. As I explained above, Mr. Mugrace's disallowance is based on the incorrect
7 assumption that there is a divergence in interests between the Company and its
8 customers. Mr. Mugrace appears to believe that things that benefit the Company
9 are, by definition, harmful to customers. In fact, the opposite is the case. Strong
10 incentive programs ensure that the Company attracts and retains the highest
11 performing employees. Customers benefit directly from these high-quality team
12 members in the form of safer, more reliable, and more affordable electricity
13 service.

14 Further, it is appropriate for leadership incentives to focus on financial
15 performance. Providing electricity service is an infrastructure business and
16 requires consistent investment to both maintain existing facilities and construct
17 new ones. This requires a continuous infusion of capital, and the cost of obtaining
18 that capital is directly related to the Company's financial performance. Ensuring
19 that leadership achieves good financial measures will ultimately help keep costs
20 low for customers by controlling the costs of obtaining the capital needed to
21 provide service.

22 **v. OTP President Incentive**

23 Q. WHAT IS THE OTP PRESIDENT INCENTIVE?

24 A. The OTP President Incentive is part of the Otter Tail Corporation Executive Annual
25 Incentive Plan.⁵¹ The criteria include (1) net income; (2) return on equity; (3)
26 earnings per share; (4) individual performance; (5) safety; (6) diversity, equity,
27 and inclusion (DEI); and (7) environmental. The DEI and environmental criteria
28 are evaluated after the annual calculation and can add up to five percent
29 respectively.⁵²

30

⁵⁰ Mugrace Direct at 45:23-26.

⁵¹ Incentive compensation under the Otter Tail Corporation Executive Annual Incentive Plan is determined by a committee of the Otter Tail Corporation Board of Directors.

⁵² Wasberg Direct at 6:16-24.

1 Q. WHAT DID MR. MUGRACE RECOMMEND FOR OTP PRESIDENT
2 INCENTIVES?

3 A. Mr. Mugrace recommended disallowance of all costs except those specifically
4 related to the safety criteria.⁵³ Mr. Mugrace argued that incentives related to the
5 other factors provides “no benefit” to ratepayers, and instead would benefit the
6 individual employee.

7 Mr. Mugrace also argued that the DEI and environmental criteria should be
8 disallowed because they do not benefit customers.
9

10 Q. HOW DOES THE OTP PRESIDENT INCENTIVE BENEFIT CUSTOMERS AND
11 WHY SHOULD IT BE INCLUDED IN RATES?

12 A. In a similar fashion to the OTP Management Plan, the OTP President’s incentive
13 compensation provides value because it focuses the attention of the Company’s
14 leadership on outcomes that will benefit customers. As I explained above, financial
15 performance measures do impact customers because they impact the cost of
16 obtaining new capital. Ensuring that Company leadership works to maintain good
17 financial performance will allow the Company to continue to access capital at
18 reasonable costs.

19 Mr. Mugrace also expressed disfavor for the incentives related to DEI and
20 environmental benefits.⁵⁴ OTP continues to believe that these goals are important
21 and benefit customers and should be included in rates.

22 **vi. Overall Recommendation on Annual Incentive**
23 **Plans**

24 Q. WHAT IS YOUR OVERALL RECOMMENDATION RELATED TO THE ANNUAL
25 INCENTIVE PLANS?

26 A. Mr. Mugrace recommended disallowance of \$923,918 in costs for the annual
27 incentive plans.⁵⁵ As I have explained, these recommendations are based on the
28 incorrect assumption that customers do not benefit from the Company’s work to
29 attract and retain high performing employees. These costs are an important part
30 of that goal, and they contribute to OTP’s demonstrated history of providing safe,
31 reliable, and affordable service to customers.

⁵³ Mugrace Direct at 47:24-48:6.

⁵⁴ Mugrace Direct at 48:7-29.

⁵⁵ Mugrace Direct at 49:12.

e) Allocated Corporate Labor Costs

Q. WHAT ARE ALLOCATED CORPORATE LABOR COSTS?

A. Otter Tail Corporation incurs labor costs, and some of those costs are allocated to OTP. After the costs are allocated to OTP, they are further allocated to the North Dakota jurisdiction using allocation methods approved by the Commission. When labor costs are allocated from Otter Tail Corporation, they are sometimes referred to as allocated corporate labor costs.

Q. WHAT IS MR. MUGRACE'S RECOMMENDATION RELATED TO ALLOCATED CORPORATE LABOR COSTS?

A. Mr. Mugrace recommends disallowance of **[PROTECTED DATA BEGINS...
... PROTECTED DATA ENDS]** in allocated corporate labor costs related to incentive compensation.⁵⁶

Q. DO YOU AGREE WITH HOW MR. MUGRACE CALCULATED THE PORTION OF ALLOCATED CORPORATE LABOR COSTS ATTRIBUTABLE TO INCENTIVE COMPENSATION?

A. No. Mr. Mugrace calculated his disallowance by using a proxy, which results in an overstatement of the portion of allocated corporate labor costs attributable to incentive compensation. The 2024 Test Year includes approximately \$275,000 in North Dakota jurisdictional allocated corporate labor costs attributable to incentive compensation. The calculation of this figure is explained in more detail in the Rebuttal Testimony of Mr. Byrnes.

If Mr. Mugrace's adjustment for allocated corporate labor costs attributable to incentive compensation was accepted, the maximum adjustment would be \$275,359, and not the much larger recommendation provided by Mr. Mugrace.

Q. IS MR. MUGRACE'S ANALYSIS REASONABLE?

A. No. Mr. Mugrace's first argument for disallowance was that the Company had not explained how much of the costs were related to incentive pay. As explained in more detail by Mr. Byrnes, that is not the case. Volume 4a Workpaper ND-01, located at page 133 of the workpapers, identifies the OTP Total share of Otter Tail Corporation incentive compensation. The Company did provide information about the amount of incentive compensation included in corporate allocations.

⁵⁶ Mugrace Direct at 49:28.

Further, Mr. Mugrace has not identified any specific problem with the allocated labor costs, or with the incentive programs for Otter Tail Corporation, and relies entirely on his overall disfavor for incentive compensation. It is not reasonable to recommend disallowance for compensation programs without identifying any specific concerns about the programs themselves or their design.

Q. HOW DOES INCENTIVE COMPENSATION AT OTTER TAIL CORPORATION BENEFIT CUSTOMERS, AND WHY SHOULD THE COSTS BE INCLUDED IN THE 2024 TEST YEAR?

A. As we explained in response to ND-PSC-223, the costs of labor from Otter Tail Corporation are essential to providing utility service.⁵⁷ The employees at Otter Tail Corporation perform tasks such as required financial reporting, tax planning, treasury, financial planning, internal audit, benefits planning, safety and risk management, and executive management. If these tasks were not performed by Otter Tail Corporation employees, we would need to have that work completed in a different way, either by hiring employees at OTP, or by outsourcing the work. Since these Otter Tail Corporation employees need to perform some similar work for other operating companies within the corporation, it makes the most sense to have them completing the same work for OTP. Regardless of where this required work gets completed, these tasks, like all others, can be done better by employees that are motivated, engaged, and who choose to stay with the Company for the long-term. Incentive programs are the best tool to build a team with these characteristics, and by paying a portion of the costs, rather than all of the costs if they were only OTP employees, sharing these employees is best as we attempt to provide economic service to our customers.

4. Overall Recommendation on Incentive-Based Compensation

Q. WHAT IS YOUR OVERALL RECOMMENDATION ON INCENTIVE-BASED COMPENSATION?

A. Mr. Mugrace's recommendations regarding incentive-based compensation should be rejected. They are not based on any specific evidence about the reasonableness of the costs but are instead based primarily on Mr. Mugrace's unsupported opinions about whether incentive compensation benefits customers. In contrast, OTP's Direct and Rebuttal Testimonies have explained specifically why the programs are important and how they benefit customers.

⁵⁷ Exhibit____(BGG-3), Schedule 6.

Overall, incentive compensation costs included in the 2024 Test Year are reasonable and should be included.

B. Sales Adjustment Proposal (Staff- Pavlovic; MLEC-Maini)

Q. PLEASE DESCRIBE OTP'S SALES ADJUSTMENT PROPOSAL.

A. The proposal has two elements: one focusing on base rates and one focusing on riders. Regarding base rates, OTP proposes to create a new mandatory rider, called the Sales Adjustment Rider, which would capture the effect of sales changes on base rate jurisdictional cost allocations and revenues. The component focusing on riders would provide for annual updates to the jurisdictional allocators used to develop rider revenue requirements between rate cases.

Q. WHY IS OTP MAKING THIS PROPOSAL?

A. Recently, OTP has experienced several material changes in sales to its largest customers and conditions are such that we may experience additional abrupt and material changes going forward. These load changes are of such a magnitude that they present challenges to the traditional way that load changes are incorporated into rates.

Q. HOW ARE LOAD CHANGES NORMALLY INCORPORATED INTO RATES?

A. Load changes occurring outside of test years typically are not incorporated into base rates until the next rate case. If the load change is an addition, the utility receives more revenue than established in the last rate case (all else being equal), which can be used to offset cost increases above and beyond those included in the test year. Then, when a new rate case is filed, base rates are revised to reflect the new, higher sales levels available to meet the utility's cost of service. The new rate case also would involve calculation of new jurisdictional allocators for the development of the retail revenue requirement.

Rider rates are handled differently. In riders, out of test year load changes are reflected annually in the calculation of sales available to meet the rider-specific revenue requirement. But jurisdictional allocators are held constant until the next rate case, despite the revised sales being included in the calculation of sales available to meet the rider-specific revenue requirement.

1 Q. HOW DOES THE SALES ADJUSTMENT PROPOSAL ADDRESS THESE ISSUES?

2 A. For base rates, the sales adjustment proposal provides for a mechanism (the Sales
3 Adjustment Rider) that would capture the effect of out of test year sales changes
4 on base rate jurisdictional cost allocations and revenues. These changes to
5 allocations could result from material sales changes both within North Dakota, or
6 in OTP's other jurisdictions. For example, if a new large load were added outside
7 of North Dakota, the North Dakota jurisdiction would be responsible for a smaller
8 portion of system costs. While the base rates would remain unchanged, the Sales
9 Adjustment Rider would have the effect of ensuring that base rates reflect the most
10 recent sales information and the impact on both revenues and costs (through
11 jurisdictional allocations).

12 For riders, the only change would be that jurisdictional allocators would be
13 updated in each rider filing, in addition to the current process that incorporates
14 updated sales volumes in the calculation of each annual rider rate.

15
16 Q. HAS OTP EXPLAINED THE MECHANICS OF BOTH ASPECTS OF THE SALES
17 ADJUSTMENT PROPOSAL?

18 A. Yes. The Direct Testimony of OTP witness Amber M. Stalboerger⁵⁸ addresses the
19 mechanics of how both aspects of the sales adjustment proposal would be
20 implemented. OTP also provided detail in response to ND-APLD-4.01, a copy of
21 which is provided as Exhibit____(BGG-3), Schedule 7.

22
23 Q. ARE THERE ANY EXAMPLES OF THE KINDS OF LOAD CHANGES BEING
24 TARGETED BY THE SALES ADJUSTMENT PROPOSAL?

25 A. Yes. In 2021, OTP received a Certificate of Public Convenience and Necessity
26 (CPCN) to provide service to APLD Hosting, LLC, a wholly owned affiliate of
27 Applied Digital, Inc. (Applied) (formerly known as Applied Blockchain).⁵⁹ Applied
28 started taking service under OTP's Super Large General Service Tariff, Electric
29 Rate Schedule Section 10.06 (SLGS) in 2022.⁶⁰ The addition of Applied was
30 reflected in the sales volumes used to calculate OTP's riders, resulting in a rate
31 decrease, but there was no corresponding change to rider jurisdictional allocators
32 to account for the fact that the addition of Applied meant North Dakota was a larger

⁵⁸ Ms. Stalboerger has since changed her name to Amber M. Grenier.

⁵⁹ See PU-21-365, Order on Electric Service Area Agreement and Certificate of Public Convenience and Necessity (Sept. 21, 2021).

⁶⁰ See PU-21-366, Order (Sept. 21, 2021).

1 part of the overall OTP system. This asymmetry would be corrected under the sales
2 adjustment proposal. Further, as discussed in Direct Testimony,⁶¹ the addition of
3 Applied provides almost \$2.0 million of benefits to other customers in the 2024
4 Test Year. If the sales adjustment proposal had been in effect, customers would
5 have seen these benefits faster, rather than waiting for final rates in this case to be
6 implemented.

7
8 Q. IS OTP STILL EXPERIENCING THE KINDS OF LOAD CHANGES INTENDED
9 TO BE ADDRESSED BY THE SALES ADJUSTMENT PROPOSAL?

10 A. Yes. Ms. Mortenson explains OTP has learned information regarding three Large
11 Commercial customers that indicates post-test-year Large Commercial sales could
12 be greater than the amount of Large Commercial sales included in the 2024 Test
13 Year. One such change is anticipated new load from North Dakota Soybean
14 Processors, LLC (ND Soy), a customer discussed by Ms. Maini in her testimony.
15 After filing Direct Testimony, OTP learned of information regarding two other
16 customers that also could result in additional expected load.⁶² These are precisely
17 the kinds of sales changes that can be addressed through the sales adjustment
18 proposal.

19
20 Q. WHY ARE THESE LOAD CHANGES GOOD CANDIDATES FOR THE SALES
21 ADJUSTMENT PROPOSAL?

22 A. The ND Soy facility reached commercial operation in October of 2024 and is
23 currently operating at less than 10 percent of anticipated load. As Ms. Mortenson
24 explains in her Rebuttal Testimony, the earliest it could possibly achieve its full
25 load would be three to six months after commercial operation, i.e. January to April
26 2025. The sales adjustment proposal would automatically capture the effects of
27 this load addition on both revenues and costs based on actual operations.

28 The alternative, as recommended by Ms. Maini, is to build projected
29 amounts into the test year.⁶³ As a new facility, those projected amounts would not
30 have support in actual operations and likely would be too high or too low as
31 compared to what actually will happen in 2025 and beyond. The same is true for

⁶¹ Grenier Direct 6:1-10; Gerhardson Direct 24:1-9.

⁶² One of the load additions is from **[PROTECTED DATA BEGINS ...
... PROTECTED DATA ENDS]**. The other is from the customer discussed at page 22:1-5
of my Direct Testimony.

⁶³ Maini Direct at 12:21-21.

1 the other Large Commercial customers discussed by Ms. Mortenson, all of which
2 are recent and have little to no operating history.

3
4 Q. IS OTP RECOMMENDING THESE LOAD CHANGES BE INCORPORATED INTO
5 THE 2024 TEST YEAR?

6 A. No. Given these are all relatively new loads with little to no operating experience,
7 we recommend they be handled through the sales adjustment proposal. If they are
8 to be included in the 2024 Test Year, then both revenues and costs (through
9 jurisdictional allocations) must be revised. Ms. Grenier quantifies the impacts of
10 these load additions on present revenues and costs (through jurisdictional
11 allocations) in her Rebuttal Testimony.

12
13 Q. DOES MS. MAINI SUPPORT THE SALES ADJUSTMENT PROPOSAL?

14 A. No.⁶⁴ Ms. Maini expressed concern that adding another rider would “further
15 exacerbate[] piecemeal ratemaking and increase[] administrative and regulatory
16 burden.”⁶⁵ She also expressed concern that the sales adjustment proposal would
17 “ignore any efficiency gains in O&M costs” that OTP could have achieved replacing
18 aging infrastructure, and that implementation of the sales adjustment proposal in
19 North Dakota “will result in unintended consequences” because other OTP
20 jurisdictions “have not authorized such a proposal.”⁶⁶

21
22 Q. DO YOU SHARE THESE CONCERNS?

23 A. No. First, OTP’s riders already account for volumetric changes between rate cases.
24 But they currently only reflect revenue changes; they do not account for the fact
25 that material sales changes also impact costs (though jurisdictional allocations).
26 The existing approach, where riders only reflect volumetric changes and associated
27 revenues, without accounting for allocation changes, is the true piecemeal
28 ratemaking.

29 Second, OTP retains incentives to control costs between rate cases. The
30 sales adjustment proposal does nothing to alter OTP’s authorized cost of service.
31 Rather, the proposal ensures that base rates and riders more quickly reflect the
32 sales volumes available to meet those costs.

⁶⁴ Maini Direct at 14:2-16.

⁶⁵ Maini Direct at 14:5-6.

⁶⁶ Maini Direct at 14:7-14.

1 Finally, I acknowledge that OTP's other retail jurisdictions have not yet
2 authorized the sales adjustment proposal. This is an issue of timing more than
3 anything, as OTP has not filed a rate case in Minnesota or South Dakota since the
4 advent of the market conditions that are driving the kinds of large loads that are
5 the focus of the sales adjustment proposal. We anticipate making a similar request
6 in Minnesota and South Dakota in our next rate cases in those jurisdictions.
7 Further, those jurisdictions have acknowledged jurisdictional allocators may need
8 to be more flexible going forward given large load activity.⁶⁷
9

10 Q. DOES MR. PAVLOVIC SUPPORT THE SALES ADJUSTMENT PROPOSAL?

11 A. No.⁶⁸ Mr. Pavlovic claimed that decoupling mechanisms in the interim years
12 between rate cases are "problematic" and that OTP failed to provide "(1) the actual
13 formula to be used to update the rate, (2) any substantive evidence regarding the
14 need for such an annual adjustment and (3) any substantive evidence of the
15 probable impact on customers."⁶⁹
16

17 Q. PLEASE ADDRESS MR. PAVLOVIC'S ASSERTIONS.

18 A. First, Mr. Pavlovic mischaracterizes the sales adjustment proposal as "decoupling"
19 and a "formula rate." While those mechanisms have some shared characteristics
20 with the sales adjustment proposal, it is not decoupling or a formula rate, as those
21 terms are commonly used in the industry.

22 I also disagree that OTP did not provide details on the operation of the sales
23 adjustment proposal. Ms. Grenier's Direct Testimony includes detailed discussion
24 of the Sales Adjustment Rider, which is the base rate portion of the sales
25 adjustment proposal, and she provided a proposed Sales Adjustment Rider tariff.⁷⁰
26 Ms. Grenier's Direct Testimony also explained how existing riders would be
27 affected by the rider portion of the sales adjustment proposal.⁷¹

28 Finally, it is impossible to assess customer impact, as it is not possible to
29 know the size of load changes and whether the changes will increase or decrease

⁶⁷ See South Dakota Public Utilities Commission, Docket No. EL21-031, Order Approving 2022 Transmission cost Recovery Rate Adjustment at 2 (Feb. 23, 2022) (requiring OTP to update jurisdictional allocation factors for large load addition); Minnesota Public Utilities Commission, Docket No. E017/M-23-496, Order at 1 (Aug. 5, 2024) (requiring OTP to provide an analysis in its next rider filing of the impact of jurisdictional allocator changes).

⁶⁸ Pavlovic Final Direct at 30:1-10.

⁶⁹ Pavlovic Final Direct at 29:19-21.

⁷⁰ Grenier Direct at 10:16-11:23.

⁷¹ Grenier Direct at 11:25-12:5.

1 sales. But OTP's proposal is symmetrical in that it applies to both load additions or
2 attrition and reflects the impact of load on revenues and expenses.

3 **IV. CONCLUSION**

4 Q. PLEASE SUMMARIZE YOUR TESTIMONY.

5 A. OTP's revised 2024 Test Year base rate revenue requirement of \$227.56 million
6 and associated net base rate revenue deficiency of \$21.5 million are reasonable
7 and should be adopted to establish new base rates.

8

9 Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

10 A. Yes, it does.

Response to Data Request ND-PSC-068
Page 1 of 1

OTTER TAIL POWER COMPANY
Case No: PU-23-342

Response to: ND Public Service Commission

Analyst: Karl Pavlovic

Date Received: February 15, 2024

Date Due: March 01, 2024

Date of Response: February 28, 2024

Responding Witness: Peter Wasberg, Director, Human Resources and Safety - (218) 739-8940

Data Request:

Refer to Mr. Wasberg's testimony on page 8. Please provide a schedule of all Short-Term Incentive costs (Achievement Awards) included in the 2024 test year period by category. Please provide the reasoning for such short-term incentive payout. Please also provide for the 2018-2022 period, the 2023 current period and the estimated 2024 test year period

Attachments: 0

Response:

As stated on page 22 of Mr. Wasberg's testimony, below are the approximate Achievement Award costs included in the test year.

Achievement Awards	Test Year
OTP Total	\$225,000
OTP ND EST	\$97,000

Please also see the associated workpaper TY-08 in Volume 4a for exact test year amounts. The Achievement Award Program provides a means for financially rewarding an extraordinary achievement or extra effort by an employee, without adding to the long-term payroll costs. Achievement Awards are intended to recognize and reward employees for work outside of normal working assignments. Some examples include, covering duties while someone is on leave or there is a position opening for longer than anticipated, going above and beyond, over a period of time, on a project, continuous improvement efforts that provide efficiencies, and developing new programs. Most Achievement Awards are provided to effectively recognize extraordinary effort.

Below is a summary of achievement awards that were paid out during 2018-2023.

Achievement Awards	2018	2019	2020	2021	2022	2023
OTP Total	\$279,917	\$187,694	\$278,681	\$145,233	\$575,771	\$677,241
OTP ND EST	\$122,566	\$82,184	\$122,025	\$63,592	\$252,110	\$296,540

OTTER TAIL POWER COMPANY
Case No: PU-23-342

Response to: ND Public Service Commission

Analyst: Karl Pavlovic

Date Received: February 15, 2024

Date Due: March 01, 2024

Date of Response: March 11, 2024

Responding Witness: Peter Wasberg, Director, Human Resources and Safety - (218) 739-8940

Christine Petersen, Manager, Regulatory Accounting , 218-739-8541

Data Request:

Refer to Mr. Wasberg's testimony page 4. Please provide a schedule of employee compensation including the following components: Please provide for the periods 2022, the current year 2023, and the test year 2024. Please also provide by the categories in Data Requests No. 58. (OTP Total and OTP ND). Please also provide the Operating Expense account numbers where these costs are recorded.

- a) Base Salary
- b) Merit Increases
- c) Annual Incentive (Non-Union)
- d) Employee Benefits
- e) 401K Retirement Savings
- f) Employee Stock Ownership
- g) Defined Benefits Pension and PBOP
- h) Defined Contributions to a 401k for other Employees
- i) Short-Term Incentive
- j) Long-Term Incentive
- k) SERP
- l) Other

Attachments: 1

Attachment 1 to DR ND_PSC_059.pdf

Response:

Based on communications with Staff consultants, OTP understands the reference to Data Request No. 58 should be Data Request No. 57. Subject to that understanding, OTP responds as follows:

Please see Attachment 1 to DR ND-PSC-022, which provides non-capitalized labor cost, including incentives and loadings, for 2024 Budget, 2023 Current Period and 2022 Actual Year.

Response to Data Request ND-PSC-059

Page 2 of 2

OTP provided 2024 Budget rather than 2024 Test Year in order to provide data that is directly comparable (i.e. 2024 Budget, 2023 Current Period and 2022 Actual Year). Attachment 1 to DR ND-PSC-022 presents information at the Functional Area or VP Group level: OTP is not able to present compensation data in the categories requested in DR ND-PSC-057.

Labor costs are included in various FERC accounts. Attachment 1 to DR ND-PSC-025 provides 2024 Budget, 2023 Current Period and 2022 Actual Year non-capitalized labor cost, including incentives and loadings, by function.

Regarding the specific components identified above:

- a) Please see DR ND-PSC-022, including Attachment 1 to DR ND-PSC-022.
- b) Please see pages 18 and 20 of Mr. Wasberg's direct testimony for the wage increase assumptions supporting the 2024 Test Year wages and salaries.
- c) Please see DR ND-PSC-022, including Attachment 1 to DR ND-PSC-022.
- d)-h) Please see Attachment 1 to ND DR-PSC-059 for a listing of all employee benefits and cost total (i.e. capitalized and non-capitalized portion) for each benefit in 2024 Budget, 2023 Current Period and 2022 Actual Year. The list includes the employee benefits that are used to determine the loading percentage that is applied to raw labor dollars. Please note, the loadings shown in Attachment 1 to DR ND-PSC-022 are only the non-capitalized portion.
- i) Please see DR ND-PSC-068.
- j) Please see DR ND-PSC-069 and DR ND-PSC-079.
- k) Please see the table below.

	ESSRP (OTP Total) (1)	ESSRP (OTP ND)	ERPP (OTP Total)	ERPP (OTP ND)
2022	\$778,653	\$329,490	\$200,168	\$84,702
2023 Current Period	\$634,632	\$272,167	\$193,090	\$82,808
2024 Test Budget	\$610,000	\$267,000	\$210,000	\$92,000

(1) OTP was required to exclude 25% of ESSRP costs pursuant to Case No. PU-17-398. The numbers represented here are total and do not reflect the 25% exclusion.

- l) All employee benefits that are in OTP's loading calculation are listed on Attachment 1 to DR-PSC-059.

OTTER TAIL POWER COMPANY
Case No: PU-23-342

Response to: ND Public Service Commission

Analyst: Karl Pavlovic

Date Received: February 15, 2024

Date Due: March 01, 2024

Date of Response: February 29, 2024

Responding Witness: Peter Wasberg, Director, Human Resources and Safety - (218) 739-8940

Data Request:

Refer to Mr. Wasberg's testimony page 14. Where does the Company account for the ERPP costs in its Operating Expenses? Please identify the account number and provide a breakdown of the costs along with the recipients who will receive the ERPP in the test year period. What are the criteria that is used in order for the recipients to earn the ERPP?

Attachments: 0

Response:

Otter Tail deems the data below marked as NOT PUBLIC to be trade secret, proprietary, commercial, or financial information, as defined in N.D.C.C. §§ 44-04-18.4 and 47-25.1-01(4) and subject to restrictions against disclosure and unauthorized use under North Dakota law and the Order on Protection of Information dated January 18, 2024. Specifically, the data marked as NOT PUBLIC is individual compensation information, which derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use.

The Company accounts for ERPP under the administrative and general account (5240.2000). Below is a breakdown of ERPP costs for the test year period.

- We assumed salary from January through March 2024 would remain the same as it is now for applicable employees. We estimated a 3% annual wage increase effective in April 2024
- We also assumed short-term incentive pay (MIP) from January through March 2024 would remain the same as it is now for applicable employees. We estimated a corresponding 3% increase to short-term incentive pay (MIP) effective in April 2024.
- This led us to an expected estimate of \$17,503.83 each month of 2024, or a total of \$210,045.96 (OTP Total) for the year.

Below is a list of active participants in the ERPP plan for the test year period.

[PROTECTED DATA BEGINS...

...PROTECTED DATA ENDS]

The ERPP was added as a replacement to the ESSRP upon that benefit being frozen. People within the ERPP receive a 3% contribution on their eligible earnings for the year. In the event an employee has income in excess of the Code 401(a)(17), \$345,000 in 2024, an additional contribution of 6.5% would be applied to those earnings in excess of \$345,000.

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Response to Data Request ND-PSC-069

Page 1 of 2

OTTER TAIL POWER COMPANY

Case No: PU-23-342

Response to: ND Public Service Commission

Analyst: Karl Pavlovic

Date Received: February 15, 2024

Date Due: March 01, 2024

Date of Response: March 11, 2024

Responding Witness: Peter Wasberg, Director, Human Resources and Safety - (218) 739-8940

Data Request:

Refer to Mr. Wasberg's testimony on page 8. Please provide a schedule of all Long-Term Incentive costs included in the 2024 test year period by category. Please provide the reasoning for such long-term incentive payout. Please also provide for the period 2018-2022, the 2023 current period and the estimated 2024 test year period

Attachments: 0

Response:

Otter Tail deems the data below marked as NOT PUBLIC to be trade secret, proprietary, commercial, or financial information, as defined in N.D.C.C. §§ 44-04-18.4 and 47-25.1-01(4) and subject to restrictions against disclosure and unauthorized use under North Dakota law and the Order on Protection of Information dated January 18, 2024. Specifically, the data marked as NOT PUBLIC is detailed incentive compensation data, which derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use.

Please refer to ND-PSC-079 for a breakdown of the 2024 Test Year long-term incentive cost, which includes Restricted Stock Units (RSU) as stated on Page 22 of Mr. Wasberg's Direct Testimony, as well as Performance Stock Awards (PSA), and costs associated with the Employee Stock Purchase Plan (ESPP).

Below is a breakdown of long-term incentive costs (RSU, PSA, ESPP) for the period 2018 - 2023. As discussed in OTP's response to DR ND-PSC-079, all long-term incentive (whether for OTP employees or Otter Tail Corporation employees) are part of the corporate cost allocation discussed by OTP witness Mr. Christopher Byrnes. Please note that due to a change in the way transactions were recorded, OTP is not able to disaggregate 2018-2020 long-term incentive into its component parts.

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Response to Data Request ND-PSC-069

Page 2 of 2

	2018	2019	2020	2021	2022	2023
All Stock Compensation	[PROTECTED DATA BEGINS...					
RSUs						
PSAs						
ESPP						
OTP Total						
	...PROTECTED DATA ENDS]					

Mr. Wasberg discusses the purpose of long-term incentives (specifically RSUs) at pages 8 and 22-23 of his Direct Testimony. Otter Tial discussed the purpose of PSA and ESSP, along with their reasonableness for cost recovery, in its response to DR ND-PSC-079. Those reasons include: (1) link the long-term success of OTP to qualifying employee compensation; (2) encourage the retention of management over the long-term; and (3) provide the opportunity to earn competitive total compensation.” These features are present for each of the components of long-term incentive compensation (i.e. RSU, PSA, and ESPP), which create alignment between the executives, key management, and directors, and the success of the Company over a period of time.

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Response to Data Request ND-PSC-079

Page 1 of 3

OTTER TAIL POWER COMPANY

Case No: PU-23-342

Response to: ND Public Service Commission

Analyst: Karl Pavlovic

Date Received: February 15, 2024

Date Due: March 01, 2024

Date of Response: March 11, 2024

Responding Witness: Peter Wasberg, Director, Human Resources and Safety - (218) 739-8940

Data Request:

Refer to Mr. Wasberg's testimony page 22. Please provide a detailed breakdown of the Restricted Stock Units cost by recipient

Attachments: 0

Response:

Otter Tail deems the data below marked as NOT PUBLIC to be trade secret, proprietary, commercial, or financial information, as defined in N.D.C.C. §§ 44-04-18.4 and 47-25.1-01(4) and subject to restrictions against disclosure and unauthorized use under North Dakota law and the Order on Protection of Information dated January 18, 2024. Specifically, the data marked as NOT PUBLIC provides compensation information for individuals, which derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use.

The long-term incentive expense of \$2.8 million (OTP Total) / \$1.2M (OTP ND EST) on page 22 of Mr. Wasberg's Direct Testimony, includes Restricted Stock Units referenced on that page, along with Performance Share Awards, and the Employee Stock Purchase Program expenses. Otter Tail will prepare an errata to Mr. Wasberg's Direct Testimony at the appropriate point in the procedural schedule. This errata only impacts Mr. Wasberg's testimony; it does not affect the 2024 Test Year revenue requirement or revenue deficiency.

The OTP president receives Performance Share Awards (PSA), OTP employees (including the OTP president) receive Restricted Stock Units (RSU), and OTP employees may elect to participate in the Employee Stock Purchase Plan (ESPP). PSAs and RSUs are also given to Otter Tail Corporation employees, and Otter Tail Corporation employees may also elect to participate in the ESPP.

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Response to Data Request ND-PSC-079

Page 2 of 3

The PSA are part of the overall compensation for the OTP President and Otter Tail Corporation executive officers and reflect a strong bias towards pay for performance by placing a majority of target compensation at risk. PSA are based on shareholder return compared to other Edison Electric Institute Index, and Return on Equity, with both measured over a three-year period. The ESPP costs represent the discounted amount for the shares purchased by employees under this program.

These long-term incentive programs are part of the overall compensation and benefits that enable us to attract and retain quality people in positions at all levels of the business. Remaining competitive with market practices is a key component. The long-term incentives are reflective of the expenses associated with operating a successful investor-owned utility.

Please see the table below for details of the \$2.8 million (OTP Total) / \$1.2 million (OTP ND EST) of long-term incentive costs included in the 2024 Test Year. All long-term incentive (whether for OTP employees or Otter Tail Corporation employees) are part of the corporate cost allocation discussed by OTP witness Mr. Christopher Byrnes. Other than for the named individuals below, RSUs are not forecasted by individual. Rather, the 2024 projected RSU cost is based on actual 2023 awards, escalated to reflect projected inflationary and market conditions.

[PROTECTED DATA BEGINS...

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Response to Data Request ND-PSC-079

Page 3 of 3

	...PROTECTED DATA ENDS]
OTP Total	\$2,838,887
OTP ND EST	\$1,243,048

Below is a listing of OTP participants that received RSUs in 2023.

[PROTECTED DATA BEGINS...

...PROTECTED DATA ENDS]

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Response to Data Request ND-PSC-223

Page 1 of 1

OTTER TAIL POWER COMPANY

Case No: PU-23-342

Response to: ND Public Service Commission

Analyst: Karl Pavlovic

Date Received: March 21, 2024

Date Due: April 5, 2024

Date of Response: April 5, 2024

Responding Witness: Christopher Byrnes Supervisor Regulatory Analysis, 218-739-8282

Data Request:

Refer to the response to ND-PSC-022 (CONFIDENTIAL). Please describe the balance related to **(BEGIN CONFIDENTIAL)** **(END CONFIDENTIAL)** as it relates to ratepayer benefits. How do these costs benefit ratepayers? Please provide all criteria and metrics used in the development of this balance.

Attachments: 0

Response:

The data in the request above marked as NOT PUBLIC is trade secret, proprietary, commercial, or financial information, as defined in N.D.C.C. §§ 44-04-18.4 and 47-25.1-01(4) and subject to restrictions against disclosure and unauthorized use under North Dakota law and the Order on Protection of Information dated January 18, 2024. Specifically, the data marked as NOT PUBLIC in the request above derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use.

The Corporate allocation of labor from Otter Tail Corporation (OTC) to Otter Tail Power (Otter Tail) is described in Mr. Byrnes's Direct Testimony in Exhibit _ (CEB1), Schedule 3, page 2. Labor that is allocated from OTC to Otter Tail occurs when OTC employees are serving in functions that benefit Otter Tail ratepayers, *i.e.*, the activities are reasonably incurred and appropriate for the operation of an electric utility. Mr. Byrnes describes the specific services OTC provides to Otter Tail on pages 2-3 of his Direct Testimony, which includes financial reporting, tax planning and reporting, treasury, financial planning, corporate communications, internal audit, benefits plans, safety and risk management, shareholder services and investor relations, aviation, and executive management services.

The process for allocating these costs is described in Mr. Byrnes's Direct Testimony and the Corporate Cost Allocation Manual attached to his testimony. (*See* Byrnes's Direct Testimony, p. 4, Ex. __ (CEB-1, Schedule 2, pp. 2-4).) For the 2024 Test Year, approximately fifty-seven percent (57%) of all OTC costs were allocated to Otter Tail or other non-utility operations using direct assignment; nine percent (9%) of OTC costs were allocated to Otter Tail or non-utility operations using indirect allocators; and the remaining thirty-four percent (34%) of OTC costs were allocated to Otter Tail or non-utility operations using a general allocator composed of revenues, assets, and labor dollars, equally weighted. (*See* Byrnes's Direct Testimony, p. 4.) Table 1 of Mr. Byrnes's Direct Testimony shows that approximately 44.6% of OTC costs are projected to be allocated to Otter Tail for the 2024 Test Year. (*See* Byrnes's Direct Testimony, p. 5, Table 1.)

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Response to Data Request ND-AD-4.01
Page 1 of 3

OTTER TAIL POWER COMPANY
Case No: PU-23-342

Response to: Applied Digital
Analyst: Abby Briggerman
Date Received: March 21, 2024
Date Due: May 20, 2024
Date of Response: June 13, 2024
Responding Witness: Amber Stalboerger, Manager, Regulatory Analysis, 218-739-8728

Data Request:

Sales Adjustment Rider. Please refer the Direct Testimony of Bruce G. Gerhardson, pp. 21-25 and the Direct Testimony of Amber R Stalboerger, pp. 10-12.

- a. Is OTP proposing to apply the Sales Adjustment Rider to the Super Large General Service class?
- b. Does OTP intend that the Sales Adjustment charge or credit be applied on an equal cents/kWh basis to all applicable customer classes? If there are any exceptions, please explain.
- c. Please consider the following hypothetical:
 - Assume OTP's proposed base revenue requirement in North Dakota is accepted by the Commission without modification.
 - Assume that OTP's Sales Adjustment Rider proposal is accepted by the Commission without modification.
 - For the purposes of this exercise, assume that South Dakota and Minnesota adopt Sales Adjustment Riders that are identical to what OTP has proposed for North Dakota.
 - Assume that in the Comparison JCOSS period, South Dakota base revenues increase \$1 million due to increased sales, while North Dakota and Minnesota base revenues remain unchanged from OTP's rate case projections.

Please provide an illustrative calculation of the resulting Sales Adjustment Rider in each jurisdiction using these assumptions. Is it OTP's intent that the resulting Sales Adjustment Rider be identical in each jurisdiction (aside from any true-up differences)? If not, please explain why not.

Attachments: 1
Attachment 1 to ND-AD-4.01_PUBLIC

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Response:

OTP deems Attachment 1 to ND-AD-4.01 trade secret, proprietary, commercial, or financial information, as defined in N.D.C.C. §§ 44-04-18.4 and 47-25.1-01(4) and subject to restrictions against disclosure and unauthorized use under North Dakota law and the Order on Protection of Information dated January 18, 2024. Specifically, Attachment 1 to ND-AD-4.01 is a live excel model calculating the North Dakota Sales Adjustment Rider revenue requirement and rate, which derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use. Further, certain data in Attachment 1 to ND-AD-4.01 marked as NOT PUBLIC in Attachment 1 to ND-AD-4.01 trade secret, proprietary, commercial, or financial information, as defined in N.D.C.C. §§ 44-04-18.4 and 47-25.1-01(4) and subject to restrictions against disclosure and unauthorized use under North Dakota law and the Order on Protection of Information dated January 18, 2024. Specifically, Attachment 1 to ND-AD-4.01 contains customer-specific revenues, which is of a privileged nature and has not been previously disclosed publicly. This information also has independent economic value to the customers themselves, who derive value from OTP's efforts to maintain its confidentiality.

- a. Yes, OTP is proposing the Sales Adjustment Rider apply to all customers.
- b. OTP proposes the Sales Adjustment Rider to be applied on a percent of bill basis.
- c. Please see Attachment 1 to DR ND-PSC-4.01 for an illustrative calculation of the North Dakota Sales Adjustment Rider revenue requirement and resulting rate. The assumptions made by OTP include:
 - a. OTP's proposed base revenue requirement in North Dakota is accepted without modification.
 - b. A new 100MW transmission level load in South Dakota at a 75 percent load factor.
 - c. OTP did not increase South Dakota's base revenues by \$1 million, as it does not impact the North Dakota jurisdiction.

These assumptions result in a credit of 3.595 percent to North Dakota customers applied to their proposed base revenues.

If OTP were to receive approval to implement a Sales Adjustment Rider in its Minnesota and South Dakota jurisdictions, OTP's intentions would be for the mechanisms to be substantially similar in each jurisdiction. As discussed in the Direct Testimony of OTP witness Bruce Gerhardson, OTP has experienced large, step-wise changes to sales volumes in the recent past and believes it may experience additional, material sales changes in the future. The Sales Adjustment Rider (or some similar mechanism), is an efficient regulatory mechanism that provides customers with benefits of sales adjustments more quickly and does not allow material sales changes to accelerate otherwise unnecessary rate case filings. OTP believes that such a mechanism would be of value in each of our retail jurisdictions.

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OTP objects to subpart (c) of this data request to the extent: (i) a response calls for speculation; (ii) hypothetical sales rider calculations in other jurisdictions are beyond the scope of the request and determinations to be made by the Commission in this proceeding; (iii) hypothetical sales rider calculations in other jurisdictions is overly-broad and it would be unduly burdensome to produce the information requested.