

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\_\_\_\_

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

Rebuttal Testimony and Schedules of

**CHRISTOPHER E. BYRNES**

November 4, 2024

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1 **I. INTRODUCTION AND QUALIFICATIONS**

2 Q. PLEASE STATE YOUR NAME AND CURRENT EMPLOYER.

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

5

6 Q. DID YOU PREPARE DIRECT TESTIMONY IN THIS PROCEEDING?

7 A. Yes. On November 2, 2023, I filed my Direct Testimony in this proceeding  
8 addressing several revenue requirement and regulatory issues, including corporate  
9 cost allocation, lead lag study, Energy Adjustment Rider (EAR), rate case expenses,  
10 advertising expenses, and electronic payment processing fees.

11

12 Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

13 A. My Rebuttal Testimony replies to the October 4, 2024 Direct Testimony of Mr.  
14 Dante Mugrace filed on behalf of the Advocacy Staff of the North Dakota Public  
15 Service Commission (the Commission).

16

17 Q. PLEASE SUMMARIZE YOUR REBUTTAL TESTIMONY.

18 A. My Rebuttal Testimony addresses Mr. Mugrace's recommendation that OTP  
19 update rate case expenses, which OTP agrees to do as part of the final compliance  
20 rates in this proceeding. I also explain that OTP's requests to recover non-  
21 employee director restricted stock, investor relations, aviation, and Otter Tail  
22 Corporation executive incentive-based compensation costs are reasonable and  
23 appropriately part of the 2024 Test Year revenue requirement.

24 **II. RATE CASE EXPENSE**

25 Q. DID ADVOCACY STAFF RECOMMEND AN ADJUSTMENT TO OTP'S RATE  
26 CASE EXPENSE?

27 A. No. Mr. Mugrace accepted the Company's rate case expense of \$359,404, to be  
28 amortized over a three-year period.<sup>1</sup> He did, however, request that OTP provide  
29 an update of this balance when it is available.

30

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<sup>1</sup> Mugrace Direct at 26:18-21.

1 Q. WHAT IS OTP’S RESPONSE TO THAT REQUEST?  
2 A. OTP agrees that the 2024 Test Year revenue requirement should be based on actual  
3 rate case expense and commits to using the actual amount when calculating final  
4 rates. The actual rate case expense can be provided in OTP’s compliance filing.

5 **III. CONTESTED ISSUES**

6 **A. Non-Employee Director Restricted Stock**

7 Q. WHAT WAS MR. MUGRACE’S RECOMMENDATION FOR THE TREATMENT  
8 OF NON-EMPLOYEE DIRECTOR RESTRICTED STOCK?

9 A. Mr. Mugrace recommended the disallowance of \$262,850 in non-employee  
10 director restricted stock expenses for the 2024 Test Year.<sup>2</sup>

11

12 Q. WHY DID MR. MUGRACE MAKE THIS RECOMMENDATION?

13 A. Mr. Mugrace asserts these costs “do not provide ratepayer benefits in the areas of  
14 customer satisfaction, service, safety and reliability.”<sup>3</sup>

15

16 Q. DID MR. MUGRACE PROVIDE ANY EVIDENCE THAT THE LEVEL OF NON-  
17 EMPLOYEE DIRECTOR COMPENSATION IS UNREASONABLE?

18 A. No. Nor did Mr. Mugrace acknowledge that Otter Tail Corporation’s  
19 Compensation and Human Capital Management Committee establishes the non-  
20 employee director compensation to be competitive with market practices.<sup>4</sup>

21

22 Q. DO YOU AGREE WITH MR. MUGRACE’S PHILOSOPHICAL POSITION  
23 REGARDING NON-EMPLOYEE DIRECTOR COMPENSATION?

24 A. No. Non-employee director compensation expenses are a reasonable and  
25 necessary cost of providing service. Further, Mr. Mugrace is incorrect to assert  
26 these costs do not benefit customers. As discussed in my Direct Testimony,  
27 director restricted stock expense is necessary to attract and retain qualified  
28 professionals to serve on the Otter Tail Corporation board of directors.<sup>5</sup> My Direct  
29 Testimony also explains that providing compensation to the non-employee  
30 members of the Otter Tail Corporation Board of Directors in exchange for the work

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<sup>2</sup> Mugrace Direct at 28:8-17.

<sup>3</sup> Mugrace Direct at 28:10-11.

<sup>4</sup> Byrnes Direct at 8:9-19.

<sup>5</sup> Byrnes Direct at 7:19-23.

1 they perform is consistent with how boards of directors of other corporations are  
2 treated, including in the utility industry.<sup>6</sup> These individuals provide leadership and  
3 guidance to OTP executives, setting the strategic direction in the areas of customer  
4 satisfaction, service, safety, and reliability – all of which benefit customers.  
5 Further, Mr. Bruce G. Gerhardson explains in his Rebuttal Testimony that Mr.  
6 Mugrace is creating a false dichotomy, namely, that some costs can be assigned to  
7 shareholders, as opposed to customers, despite the fact such costs are reasonably  
8 incurred for the operation of the utility and reasonable in amount. Also, in this  
9 instance, while Mr. Mugrace asserts that “the Company should bear responsibility  
10 to be competitive with market practices,”<sup>7</sup> his position ignores the fact that the  
11 success of the Company has a direct impact on customers because customers’  
12 interests and the Company’s goals are aligned. Customers benefit when the  
13 Company appropriately assesses risks and prioritizes its responsibilities. Logically,  
14 it is also in the ratepayer’s interest that the Company adequately invests in human  
15 capital to best serve ratepayers.

16 **B. Investor Relations**

17 Q. WHAT WAS MR. MUGRACE’S RECOMMENDATION FOR THE TREATMENT  
18 OF INVESTOR RELATION COSTS?

19 A. Mr. Mugrace recommends the 2024 Test Year revenue requirement only include  
20 fifty percent of the North Dakota allocated share of investor relations costs.<sup>8</sup>  
21

22 Q. IS MR. MUGRACE’S ADJUSTMENT THE APPROPRIATE TREATMENT OF  
23 INVESTOR RELATION COSTS?

24 A. No. The disallowance of fifty percent of investor relations costs was the result of a  
25 negotiated settlement in OTP’s last rate case. That negotiated result was a  
26 departure from past practice: in Case No. PU-08-742, the full North Dakota share  
27 of investor relations costs was included in the test year revenue requirement.  
28

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<sup>6</sup> Byrnes Direct at 8:3-6.

<sup>7</sup> Mugrace Direct at 28:14-15.

<sup>8</sup> Mugrace Direct at 31:20-27.

1 Q. DO INVESTOR RELATIONS ACTIVITIES BENEFIT RATEPAYERS?  
2 A. Yes. Contrary to Mr. Mugrace’s assertions, customers do benefit from investor  
3 relations.<sup>9</sup> OTP is in the midst of a significant period of capital spending while  
4 maintaining some of the lowest rates in the nation, as discussed in Mr.  
5 Gerhardson’s Direct Testimony and Rebuttal Testimony.<sup>10</sup> Investor relations help  
6 the Company effectively compete for the capital needed to fulfill that investment  
7 program.<sup>11</sup> That includes both debt and equity capital, as explained in my Direct  
8 Testimony.<sup>12</sup> Investor relations efforts are spent on maintaining solid credit  
9 ratings for OTP, which reduce the cost of our debt and are a direct benefit to  
10 ratepayers.<sup>13</sup>  
11  
12 Q. DO NORTH DAKOTA CUSTOMERS PAY THE ENTIRETY OF INVESTOR  
13 RELATIONS COSTS?  
14 A. No. As explained in my Direct Testimony, North Dakota customers only pay 22.8  
15 percent of the total corporate investor relations cost.<sup>14</sup>  
16  
17 Q. HOW DOES THAT ALLOCATION COMPARE WITH THE RATIO OF  
18 UTILITY/NON-UTILITY CAPITAL SPENDING OVER THE NEXT 5 YEARS?  
19 A. OTP’s 2024-2028 capital expenditure is forecast to be approximately \$1.307  
20 billion across all jurisdictions, or 87 percent of Otter Tail Corporation’s total  
21 \$1.499 billion capital budget.<sup>15</sup> While cash flows from current operations will  
22 provide some funding for those expenditures, OTP will require both additional  
23 debt and equity funding during this timeframe. The efforts of the investor relations  
24 group over this time period will be heavily weighted on the needs of the utility.  
25

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<sup>9</sup> Mr. Gerhardson also explains that this is another example of use of a false premise that things can only benefit customer or investors, but not both.

<sup>10</sup> Gerhardson Direct at 6:6-10:8.

<sup>11</sup> Byrnes Direct at 6:12-15.

<sup>12</sup> Byrnes Direct at 6:15-18.

<sup>13</sup> Wahlund Direct at 7:4-10:21.

<sup>14</sup> Byrnes Direct at 7:7-9.

<sup>15</sup> Otter Tail Corporation 2023 Year End Earnings Conference Call, February 13, 2024, p. 32, available at [https://s1.q4cdn.com/276295446/files/doc\\_events/2024/Feb/13/2023-year-end-earnings-call-presentation-final.pdf](https://s1.q4cdn.com/276295446/files/doc_events/2024/Feb/13/2023-year-end-earnings-call-presentation-final.pdf).

1 Q. IF OTP WERE A STANDALONE PUBLICLY HELD UTILITY, WOULD THE  
2 FUNCTIONS AND RELATED COSTS OF AN INVESTOR RELATIONS GROUP  
3 FOR THAT UTILITY BE MATERIALLY DIFFERENT?

4 A. No. OTP ratepayers would be responsible for 100 percent of the investor relations  
5 costs of OTP because none of these costs would go away. They are ordinary costs  
6 for a publicly traded company.  
7

8 Q. WHAT IS OTP'S RECOMMENDATION WITH REGARD TO INVESTOR  
9 RELATIONS COSTS?

10 A. When comparing the ratio of utility to non-utility investment (87 percent utility/  
11 13 percent non-utility) planned over the next five years with the current allocation  
12 of investor relations costs (52 percent utility / 47 percent non-utility, with only a  
13 portion of the 52 percent being allocated to the North Dakota jurisdiction), OTP  
14 believes the current utility/non-utility allocation of investor relations costs is  
15 reasonable. OTP continues to request full recovery of these costs.

16 **C. Aviation**

17 Q. WHAT IS MR. MUGRACE'S RECOMMENDATION FOR THE RECOVERY OF  
18 AIRCRAFT COSTS?

19 A. Mr. Mugrace recommends the removal of all \$171,097 of aviation costs from the  
20 2024 Test Year revenue requirement.<sup>16</sup>  
21

22 Q. WHY DID MR. MUGRACE RECOMMEND THE DISALLOWANCE OF AVIATION  
23 COSTS?

24 A. Mr. Mugrace claims that there is no benefit to ratepayers and that there are no  
25 service-related benefits for employees to efficiently travel through the service  
26 territory.<sup>17</sup> He also asserts that customers should not be responsible for all  
27 aviation costs.<sup>18</sup>  
28

29 Q. DO YOU AGREE WITH MR. MUGRACE'S RECOMMENDATION?

30 A. No. As discussed below, OTP's aviation program is a reasonable and necessary  
31 part of providing service across its 70,000 square mile service territory that spans  
32 three states. OTP has policies in place to ensure that air travel is only used when

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<sup>16</sup> Mugrace Direct at 35:2.

<sup>17</sup> Mugrace Direct at 35:6-11.

<sup>18</sup> Mugrace Direct at 35: 3-6.

1 flying is the most economic mode of transportation. Finally, Mr. Mugrace is  
2 incorrect to assert that OTP customers are solely responsible for aviation costs.

3  
4 Q. HOW DOES OTP UTILIZE ITS AIRCRAFT TO CONDUCT ITS BUSINESS?

5 A. OTP serves about 133,000 customers and has a large service territory that spans  
6 approximately 70,000 square miles. The majority of the service territory is rural  
7 and has no commercial air service. OTP operates in three states and needs to  
8 attend business meetings and regulatory hearings in a time efficient manner. OTP  
9 has an aircraft policy (described in more detail below) that outlines why OTP owns  
10 aircraft and the process to utilize the aircraft.

11  
12 Q. IS THE PLANE NECESSARY FOR REGULATORY MEETINGS?

13 A. Yes. Typically, several managerial-level employees and, in many cases, subject  
14 matter experts, are needed for regulatory hearings/meetings. In our experience,  
15 providing Commissioners and other regulators access to such personnel is  
16 beneficial to an understanding of our business. When the plane is used, these  
17 employees can attend the regulatory matter and be back in the office the same day,  
18 which would not be true if employees drove to the meetings.

19 Bismarck is approximately an eight hour round trip by car from Fergus  
20 Falls.<sup>19</sup> Use of the plane can avoid overnight stays or multiple days of driving.  
21 Flying can thus avoid driving costs as well as reducing the burden on employees of  
22 being away from home longer by minimizing time on the road.

23  
24 Q. IS THE PLANE USED FOR PURPOSES OTHER THAN REGULATORY  
25 MEETINGS?

26 A. Yes. The plane is also used to efficiently travel within the Company's service  
27 territory to conduct the ongoing needs of the Company, when the advantages are  
28 similar to the advantages of avoiding driving to Bismarck, St. Paul and Pierre.  
29 When a larger group of employees or executives needs to travel to one of our  
30 customer service centers, the plane helps these passengers avoid spending many  
31 non-productive hours on the road in multiple vehicles and overnight stays. The  
32 plane is also used to efficiently travel for meetings outside the Company's service  
33 territory. Due to the drive involved in reaching commercial air service, the

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<sup>19</sup> St. Paul, Minnesota is at least six hours, round trip, from Fergus Falls, while Pierre, South Dakota is approximately 10 hours round trip.

1 Company plane facilitates efficient travel for particular trips beyond our service  
2 territory as well.

3  
4 Q. PLEASE DESCRIBE OTP’S POLICIES REGARDING USE OF THE COMPANY-  
5 OWNED AIRCRAFT.

6 A. OTP uses a model (referred to internally as the “Fly v. Drive Tool”) to compare the  
7 costs and benefits of using the plane compared to driving for a particular trip. The  
8 Fly v. Drive Tool was developed based on a similar model developed by the  
9 Minnesota Department of Transportation (MN DOT).<sup>20</sup> OTP made some  
10 modifications to the MN DOT model to match OTP operations. For example, the  
11 OTP Fly v. Drive Tool calculates flying costs on a rate per hour, while the MN DOT  
12 model uses a rate per mile. OTP chose to use a cost per hour because the aircraft is  
13 billed on a per hour basis. Both models use the variable costs of the aircraft to  
14 determine the rate. Examples of variable costs are fuel, oil, and travel expenses.<sup>21</sup>

15  
16 Q. HOW IS TRAVEL TIME VALUED IN OTP’S FLY V. DRIVE TOOL?

17 A. There are time-related costs applied to driving in the Fly v. Drive Tool. These  
18 values are not applied to the cost of flying because the aircraft is viewed as a secure  
19 office environment where work can be accomplished. Thus, the time spent flying  
20 is not considered lost productivity. OTP calculates the hourly values of employee  
21 work time for the time spent driving based on average hourly value for certain job  
22 levels. The models use rates of 5.7 for directors and 3.8 for middle management  
23 and professionals.

24  
25 Q. DOES THE FLY V. DRIVE TOOL INCLUDE OTHER ASSUMPTIONS?

26 A. Yes. The OTP model compares the costs for each form of transportation for each  
27 trip. The assumptions were that meetings would last an average of three hours and

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<sup>20</sup> The MN DOT uses a fly vs drive model to help state employees determine whether it is more economical to use a state plane for transportation instead of driving. The MN DOT’s webpage highlights the advantages of flying: “Simply stated, business aviation helps a company obtain maximum productivity from its two most important assets - people and time. Schedules that require late night travel or longer-than-necessary trips often result in post-trip fatigue, damaging productivity in the day(s) after the trip.” <https://flyordrivep.dot.state.mn.us/about.vm> (visited October 23, 2024).

<sup>21</sup> Variable costs of operating the plane include fuel, airport fees and travel expenses that are incurred or consumed based on an incremental basis for each trip. Such costs would be avoided if a particular trip were not taken. The most significant avoided cost is time, which results from the size of OTP’s service territory and the driving time (and overnight time) to and from the three state capitals to which OTP employees often travel and are all located hours away from OTP’s headquarters in Fergus Falls. Fixed costs of owning the aircraft include all costs that do not vary based on the number of flights. Fixed costs include depreciation, licenses/fees/subscriptions, pilot salaries and benefits, repairs and maintenance and hangar rental.

1 if, including travel time, any trip was over 10 hours, the cost of one night at a hotel  
2 would be added. Productive time was calculated using the total hours required by  
3 either driving or flying multiplied by the number of travelers. The model also  
4 incorporates an estimate of the value of the time required by flying or driving.  
5

6 Q. IS THERE A SAFETY FACTOR INVOLVED WITH THE COMPANY PLANE THAT  
7 IS NOT CAPTURED IN THE COST OF DRIVING?

8 A. Yes, according to the National Safety Council, the odds of dying in a motor vehicle  
9 crash in 2021 were 1 in 93 whereas the odds of dying in an airplane crash were too  
10 few in 2021 to calculate.<sup>22</sup> Long workdays that involve driving several hours to the  
11 location, attending meetings and driving home create fatigue and unsafe, drowsy  
12 driving conditions. The National Highway Traffic Safety Administration (NHTSA)  
13 states that 693 lives were claimed in 2022 due to drowsy driving and there were  
14 91,000 motor vehicle crashes involving drowsy driving in 2017.<sup>23</sup> A final key  
15 element of safety is that many of the miles OTP employees would travel are rural,  
16 exposed highways where winter driving conditions are often extreme. While the  
17 weather is certainly a factor in flying, the plane allows safe travel on days when  
18 road conditions would not permit travel. Avoiding the number of hours of winter  
19 driving that the plane allows is a significant factor in favor of using the plane.  
20

21 Q DO ADDITIONAL COSTS OF DRIVING EXIST THAT ARE NOT INCLUDED IN  
22 THE FLY V. DRIVE TOOL?

23 A. Yes. There are additional costs of driving that are not included in the Fly v. Drive  
24 Tool that support owning the plane. Such costs include additional fleet vehicles  
25 that would be needed, additional staff that would be required, and incidental costs  
26 such as meals that would be incurred by lengthening travel time. Further, without  
27 the time savings from flying, OTP would likely have to hire two or more additional  
28 employees. The cost of hiring one full-time employee (analyst level) is  
29 approximately \$117,600 (OTP Total), which includes wages, taxes, and benefits.  
30 Further, the safety factor noted above can be translated into a financial factor. If  
31 an injury to an employee from a motor vehicle accident results in a workers'

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<sup>22</sup> <https://injuryfacts.nsc.org/all-injuries/preventable-death-overview/odds-of-dying/> (Visited October 23, 2024).

<sup>23</sup> <https://www.nhtsa.gov/risky-driving/drowsy-driving> (Visited October 23, 2024).

1 compensation claim, which in 2020 cost an average of \$73,559 per claim,<sup>24</sup> and  
2 one accident over a four-year period can be avoided, the value of avoiding that  
3 injury would be \$18,390 each year.  
4

5 Q. HAS OTP PREVIOUSLY ASSESSED THE COST EFFECTIVENESS OF ITS  
6 AVIATION PROGRAM?

7 A. Yes. OTP analyzed 45 flights that occurred in 2019 (the last full pre-COVID year)  
8 and found that flying was more cost effective than driving based on the costs able  
9 to be quantified using the Fly v. Drive Tool. In addition to the quantifiable benefits  
10 there are various, non-quantifiable benefits. Thus, it is clear that OTP's aviation  
11 program reduces costs for OTP's customers.  
12

13 Q. DOES OTTER TAIL CORPORATION CONTRIBUTE TO THE COST OF THE OTP  
14 AIRCRAFT?

15 A. Yes. Otter Tail Corporation employees are able to use the aircraft, which creates  
16 efficiency that benefits OTP's ratepayers. For budgeting purposes, OTP employees  
17 are anticipated to use the plane about 65 percent of flight hours in a year, meaning  
18 approximately 35 percent of the fixed aircraft costs are allocated to (and paid by)  
19 Otter Tail Corporation, not customers. Use of the plane by Otter Tail Corporation  
20 reduces the fixed costs allocated to the utility. Otter Tail Corporation's portion of  
21 the fixed costs is not included in OTP's request for cost recovery.  
22

23 Q. SHOULD AVIATION COSTS BE INCLUDED IN THE 2024 TEST YEAR?

24 A. Yes. OTP utilizes its aircraft for a number of reasons including our large service  
25 territory, limited commercial air service options, safety of employees, and the  
26 valuable time that is saved. OTP has responsible policies in place so that the  
27 aviation program ultimately reduces customers' costs, and these costs have been  
28 historically included in North Dakota rates. As such, aviation costs should be  
29 included in the 2024 Test Year.

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<sup>24</sup> <https://www.safetyandhealthmagazine.com/articles/17819-the-roi-of-safety?page=2> (September 26, 2020).

1           **D.     Otter Tail Corporation Incentive-Based Compensation Costs**

2    Q.    PLEASE SUMMARIZE MR. MUGRACE’S RECOMMENDATION REGARDING  
3           OTTER TAIL CORPORATION INCENTIVE-BASED COMPENSATION.

4    A.    Mr. Mugrace recommends disallowing Otter Tail Corporation incentive-based  
5           compensation costs.<sup>25</sup> He developed his disallowance by excluding approximately  
6           65 percent of Otter Tail Corporation labor costs allocated to OTP.<sup>26</sup>

7  
8    Q.    DO YOU AGREE WITH THIS RECOMMENDATION?

9    A.    No. First, as explained in more detail by Mr. Gerhardson, the Otter Tail  
10           Corporation incentive-based compensation costs allocated to OTP are reasonable  
11           and necessary to provide safe and reliable service, and they should be included in  
12           the 2024 Test Year. Therefore, a disallowance is inappropriate.

13                 Second, there is far less Otter Tail Corporation incentive-based  
14           compensation cost included in the 2024 Test Year than removed by Mr. Mugrace,  
15           meaning his recommendation in effect removes other, non-incentive-based  
16           compensation costs.<sup>27</sup>

17  
18   Q.    WHAT IS THE TOTAL AMOUNT OF OTTER TAIL CORPORATION INCENTIVE-  
19           BASED COMPENSATION INCLUDED IN THE 2024 TEST YEAR?

20   A.    The amount of Otter Tail Corporation incentive-based compensation costs  
21           allocated to OTP and included in the North Dakota 2024 Test Year is \$275,359  
22           (OTP ND).

23  
24   Q.    PLEASE EXPLAIN THE DEVELOPMENT OF THE AMOUNT OF OTTER TAIL  
25           CORPORATION INCENTIVE-BASED COMPENSATION INCLUDED IN THE  
26           2024 TEST YEAR.

27   A.    As explained in more detail in OTP’s Direct Testimony, the 2024 Test Year revenue  
28           requirement reflects a cap on incentive-based compensation, such that incentive  
29           compensation does not exceed 25 percent of base pay for any individual  
30           employee.<sup>28</sup>

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<sup>25</sup> Mugrace Direct at 49:25-27.

<sup>26</sup> Mugrace Direct at 49:1-50:3.

<sup>27</sup> Mr. Mugrace’s adjustment also is applied against a loaded number, meaning it over-states the amount of incentive-based compensation (under his theory).

<sup>28</sup> Wasberg Direct at 21:5-14.

1 Q. HOW DID OTP IMPLEMENT THE CAP ON INCENTIVE-BASED  
 2 COMPENSATION IN DEVELOPMENT OF THE 2024 TEST YEAR REVENUE  
 3 REQUIREMENT?

4 A. The cap on incentive-based compensation was implemented through a regulatory  
 5 adjustment, specifically, the incentive compensation adjustment shown on  
 6 Exhibit\_\_\_(CLP-1), Schedule 11, Column (K) to the Direct Testimony of Ms.  
 7 Christy L. Petersen. The development of the adjustment is provided in Volume 4A,  
 8 Workpaper ND-01. That workpaper shows that the 2024 Otter Tail Corporation  
 9 incentive-based compensation included in the cost of service is \$640,046 (OTP  
 10 Total), which equates to \$275,359 (OTP ND), as shown in the table below.

11  
 12 **Table 1**  
 13 2024 Test Year Otter Tail Corporation Incentive-Based Compensation

Line No.		Allocation Factor	Labor Ratios	Corporate Bonus Capped at 25% (OTP Total)		Corporate Bonus Capped at 25% (ND Share)
				Allocation Factor %		
1	Administrative & General Expenses					
2	Salaries, Supplies, Pensions & Benefits					
3	Production	OXPD	34.080%	\$ 218,125	42.4424%	\$ 92,577
4	Transmission	D2	16.211%	\$ 103,760	39.1952%	\$ 40,669
5	Distribution	OXD	25.101%	\$ 160,656	45.3974%	\$ 72,934
6	Customer Accounts	OXC	19.969%	\$ 127,811	43.8933%	\$ 56,100
7	Customer Service & Info	C1	4.639%	\$ 29,694	44.0459%	\$ 13,079
8				<u>\$ 640,046</u>		<u>\$ 275,359</u>

14  
 15  
 16 Mr. Gerhardson explains in more detail why there should not be any disallowance  
 17 related to Otter Tail Corporation incentive-based compensation costs, but if a  
 18 disallowance were to occur, it would need to be limited to the amount actually  
 19 included in proposed rates (\$275,359 (OTP ND)), and not the much larger  
 20 disallowance Mr. Mugrace recommended.

21  
 22 Q. WHAT IS YOUR OVERALL RECOMMENDATION REGARDING ALLOCATED  
 23 OTTER TAIL CORPORATION INCENTIVE-BASED COMPENSATION COSTS?

24 A. As explained in more detail in OTP’s Direct Testimony and Rebuttal Testimony,  
 25 these costs are reasonable and needed to provide service, so they should be  
 26 included in the test year. If any disallowance is made to exclude incentive-based  
 27 compensation costs allocated from Otter Tail Corporation to OTP in the 2024 Test  
 28 Year (which already are limited to no more than 25 percent of the individual’s base

1 salary), it must be limited to the amount actually included in the 2024 Test Year,  
2 which is \$275,359 (OTP ND).

3 **IV. CONCLUSION**

4 Q. WHAT ARE YOUR CONCLUSIONS?

5 A. I agree with Mr. Mugrace on the treatment of rate case expenses, and OTP will  
6 provide an update on these expenses during the compliance filing. I disagree with  
7 Mr. Mugrace on his recommended disallowance of non-employee director  
8 restricted stock due to the faulty logic and precedent of previous North Dakota rate  
9 cases. I disagree with Mr. Mugrace on the limit of the inclusion of fifty percent of  
10 investor relations costs, as these activities provide a clear benefit to North Dakota  
11 ratepayers. I disagree with Mr. Mugrace on his recommended disallowance of  
12 aviation costs as they are necessary for OTP employees to efficiently serve  
13 customers, and this recommended disallowance goes against treatment in prior  
14 North Dakota rate cases. Finally, I disagree with Mr. Mugrace's treatment of Otter  
15 Tail Corporation incentive-based compensation costs, including underlying theory  
16 for disallowance and level of the adjustment he recommends.

17

18 Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

19 A. Yes, it does.