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___

REVENUE REQUIREMENT

Rebuttal Testimony and Schedules of

CHRISTY L. PETERSEN

November 4, 2024

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I. INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME AND CURRENT EMPLOYER.

A. My name is Christy L. Petersen. I am employed by Otter Tail Power Company (OTP) as Manager, Regulatory Accounting.

Q. DID YOU PREPARE DIRECT TESTIMONY IN THIS PROCEEDING?

A. Yes. I filed Direct Testimony on OTP's overall revenue requirements, the jurisdictional cost of service study (JCOSS) and the calculation of the 2024 Test Year revenue requirement and base rate revenue deficiency. I also described OTP's capital and operations and maintenance (O&M) budgets, which provide the basis for the 2024 Test Year.

Q. DID YOU FILE SUPPLEMENTAL DIRECT TESTIMONY IN THIS PROCEEDING?

A. Yes. My Supplemental Direct Testimony described OTP's revised 2024 Test Year revenue requirement and associated revenue deficiency, which incorporated revisions identified after filing Direct Testimony.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of my Rebuttal Testimony is to describe OTP's Rebuttal Testimony 2024 Test Year revenue requirement, which incorporates certain adjustments to the Supplemental Direct Testimony revenue requirement and base rate revenue deficiency.

I also respond to certain recommendations included in the October 4, 2024 Direct Testimony of Dante Mugrace on behalf of the North Dakota Public Service Commission (the Commission) Advocacy Staff. Specifically, I address the following issues and recommendations:

- Vacancy Rate;
- Accumulated Deferred Income Taxes (ADIT);
- Short-Term Construction Work in Progress (CWIP);
- Payroll Taxes; and
- Cash Working Capital

II. REBUTTAL TESTIMONY 2024 TEST YEAR REVENUE REQUIREMENT AND REVENUE DEFICIENCY

A. Overall Rebuttal Testimony 2024 Test Year Revenue Requirement and Revenue Deficiency

Q. WHAT IS THE REBUTTAL TESTIMONY REVENUE REQUIREMENT?

A. The Rebuttal Testimony revenue requirement is OTP's overall 2024 Test Year revenue requirement reflecting adjustments made since filing Supplemental Direct Testimony, corrections identified during the discovery process, and the acceptance of some, but not all, Advocacy Staff recommendations.

Q. WHAT ARE OTP'S REBUTTAL TESTIMONY 2024 TEST YEAR REVENUE REQUIREMENT AND REVENUE DEFICIENCY?

A. OTP's Rebuttal Testimony 2024 Test Year revenue requirement is $227.5 million.[1] This amount is approximately $1.0 million lower than the revenue requirement in OTP's Supplemental Direct Testimony. The Rebuttal Testimony 2024 Test Year gross base rate revenue deficiency is $44.8 million. After accounting for the costs of projects moving from riders into base rates, the Rebuttal Testimony 2024 Test Year net base rate revenue deficiency is $21.5 million.

Q. DOES YOUR REBUTTAL TESTIMONY INCLUDE FINANCIAL SCHEDULES SUPPORTING OTP'S REBUTTAL REVENUE REQUIREMENT?

A. Yes. Exhibit___(CLP-3), Schedule 1 to my Rebuttal Testimony is a Summary of Rebuttal Revenue Requirements. Exhibit___(CLP-3), Schedule 1a to my Rebuttal Testimony is a Summary of Cost of Capital. Exhibit___(CLP-3), Schedule 2 compares the Supplemental Direct Testimony and Rebuttal Testimony rate base, and Exhibit___(CLP-3), Schedule 3 is a bridge schedule identifying Rebuttal Testimony rate base adjustments. Exhibit___(CLP-3), Schedule 4 compares the Supplemental Direct Testimony and Rebuttal Testimony operating statement, and Exhibit___(CLP-3), Schedule 5 is a bridge schedule identifying Rebuttal Testimony adjustments to the operating statement.

[1] Unless otherwise noted, all dollar values in my testimony are for the North Dakota retail jurisdiction. Such North Dakota retail jurisdiction costs also are sometimes labeled as "(OTP ND)". Total company costs are labeled as "(OTP Total)".

Q. HAS OTP REVISED ITS 2024 TEST YEAR RATE OF RETURN?

A. Yes. While OTP continues to request an authorized return on equity (ROE) of 10.60 percent, OTP witness Mr. Todd R. Wahlund explains in his Rebuttal Testimony that OTP has updated its proposed costs of Long-Term Debt (LTD) and Short-Term Debt (STD), resulting in an authorized rate of return (ROR) of 7.80 percent. I have used the 7.80 percent ROR for purposes calculating the Rebuttal Testimony Revenue Requirement.

Q. DO ALL OF THE ADJUSTMENTS INCREASE OTP'S REBUTTAL REVENUE REQUIREMENT?

A. No. OTP proposes to incorporate some adjustments that reduce the revenue requirement, along with some that increase the revenue requirement. Where we have identified issues that need to be corrected, we are proposing to update them even if they decrease the 2024 Test Year revenue requirement. This is a reasonable step that will ensure the test year produces rates that are just and reasonable.

Q. HAVE YOU PREPARED A LIST OF THE ADJUSTMENTS TO THE SUPPLEMENTAL DIRECT TESTIMONY REVENUE REQUIREMENT?

A. Yes, the following is a list of the adjustments:

Rate Base Adjustments

- Remove Plant Held for Future Use
- Ellendale Jurisdictional Assignment Update

Operating Statement Adjustments

- Plant Outage Normalization
- Three-Year Average of Non-Rider Other Electric Revenues
- Aircraft Expenses
- JCOSS E1 Allocation Factor

B. Rate Base

1. Remove Plant Held for Future Use

Q. WHAT IS PLANT HELD FOR FUTURE USE?

A. Plant Held for Future Use is a purchased asset that is being held in plant in service balances to be used in a future capital expenditure.

Q. WHAT IS THE REBUTTAL ADJUSTMENT TO PLANT HELD FOR FUTURE USE?

A. During the year, we were informed by our accounting group that the Transmission component of Plant Held for Future use was being used by an expansion for one of our larger load customers and was transferred to the capital project in early 2024. The Distribution component was transferred to a non-utility property account and was removed from the rate base calculation of the COSS.

Q. WHAT IS THE IMPACT OF THIS ADJUSTMENT ON THE 2024 TEST YEAR?

A. Removing Plant Held for Future Use reduces rate base by $4,921.

Q. WHAT IS MR. MUGRACE'S RECOMMENDATION REGARDING PLANT HELD FOR FUTURE USE?

A. Mr. Mugrace recommended a $4,921 reduction to Plant Held for Future Use.[2]

Q. WHAT IS YOUR REPSONSE TO MR. MUGRACE'S RECOMMENDATION?

A. Given the new information provided by our accounting group, the Company agrees with Mr. Mugrace to remove this amount from rate base.

2. Ellendale Jurisdictional Assignment Update

Q. WHAT IS THE UPDATE RELATED TO THE ELLENDALE JURISDICTIONAL TRANSFER?

A. The 2024 Test Year includes an adjustment to directly assign the non-retail portion of certain transmission projects into the FERC jurisdiction. While preparing discovery requests, OTP identified that the Plant in Service amount directly assigned to the FERC jurisdiction was too high for the BSS-Ellendale project.

Q. WHY ARE COSTS DIRECTLY ASSIGNED TO THE FERC JURISDICTION?

A. As I explained in my Direct Testimony, the JCOSS is used to assign costs to our retail and wholesale jurisdictions.[3] While preparing a discovery response, OTP identified that the amount of Plant in Service transferred to the FERC jurisdiction

[2] Mugrace Direct at 13:14.
[3] Petersen Direct at 3:27-4:2.

for BSS-Ellendale was too large. To ensure that rates are accurate, it is necessary to correct this issue.

Q. WHAT IS THE IMPACT OF THE ADJUSTMENT TO CORRECT THE DIRECT ASSIGNMENT?

A. Updating the direct assignment to the FERC jurisdiction increases the rate base for Plant in Service by approximately $0.7 million and increases the 2024 Test Year base rate revenue requirement by approximately $0.06 million.

C. Operating Statement

1. Plant Outage Normalization

Q. PLEASE EXPLAIN THE ISSUE OF PLANT OUTAGE NORMALIZATION.

A. In my Direct Testimony, I indicated that during the process of finalizing testimony, the Company determined that the revenue requirement did not include a standard adjustment to normalize plant outage costs. The issue was identified in time to incorporate it into interim rates, but not in time for it to be incorporated into the Direct Testimony 2024 Test Year revenue requirement. In my Supplemental Direct Testimony, I explained the basis for the plant outage normalization adjustment, which increased the 2024 Test Year revenue deficiency by approximately $1.1 million.

Q. WHAT IS MR. MUGRACE'S RECOMMENATION REGARDING PLANT OUTAGE NORMALIZATION?

A. Mr. Mugrace did not dispute whether the plant outage costs should be normalized but identified some costs that he categorized as related to routine maintenance, rather than a major outage. Mr. Mugrace recommended that the costs related to major outages be included in the 2024 Test Year, but that the costs related to routine maintenance should not. Mr. Mugrace calculated a reduction of approximately $0.2 million from the Supplemental Direct Testimony revenue requirement.[4]

[4] Mugrace Final Direct at 19:16-24.

Q. WHAT IS YOUR RESPONSE TO MR. MUGRACE'S RECOMMENDATION?

A. The Company agrees to Mr. Mugrace's recommendation and will reduce the plant normalization outage expenses by approximately $0.2 million. After incorporating related impacts to income taxes, this adjustment reduces the 2024 Test Year revenue deficiency by approximately $0.1 million.

2. Three-Year Average of Non-Rider Other Electric Revenues

Q. PLEASE DESCRIBE THE ADJUSTMENT RELATED TO NON-RIDER RELATED OTHER ELECTRIC REVENUES.

A. Mr. Mugrace recommended that revenues for some Other Electric Revenues, including late fees, connections, rent, integrated transmission deficiency payments, miscellaneous service, and other miscellaneous revenues, should be based on a three-year average.[5] As discussed by OTP witness Ms. Amber M. Grenier in her Rebuttal Testimony, OTP agrees to part of Mr. Mugrace's recommendation. Specifically, Ms. Grenier explains that while it might be reasonable to base some of these expense items on three-year averages, certain revenues that are recovered through other mechanisms and non-recurring revenues should not be averaged.[6]

Q. WHAT IS THE IMPACT OF THIS ADJUSTMENT?

A. Ms. Grenier explains that OTP's approach increases Other Electric Revenues by approximately $0.43 million. After incorporating resulting tax impacts, this adjustment reduces the revenue deficiency by approximately $0.40 million.

3. Aircraft Expenses

Q. WHAT IS THE ADJUSTMENT RELATED TO AIRCRAFT EXPENSE?

A. While preparing the response to Discovery Request ND PSC DR 006, attached as Exhibit___(CLP-3), Schedule 7, the Company determined that the aircraft expense included in the 2024 Test Year was too high and indicated that it would correct this issue in Rebuttal Testimony. Incorporating this revision reduces aircraft expense by $9,322.[7]

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[5] Mugrace Final Direct at 16:11-20.
[6] Grenier Rebuttal at Section II.B.
[7] The calculation in OTP's response to Discovery Request ND-PSC- 006 was as an OTP Total value: $9,322 is the North Dakota retail jurisdiction portion of the adjustment.

4. JCOSS E1 Allocation Factor

Q. PLEASE DESCRIBE THE ADJUSTMENT RELATED TO JCOSS E1 CONTROL FACTOR LOAD.

A. In her Rebuttal Testimony, Ms. Grenier explains that the JCOSS E1 allocation factor typically includes only non-interruptible customer loads. After filing Direct Testimony, OTP determined that the JCOSS E1 allocation factor did not receive an adjustment to remove certain interruptible loads. Ms. Grenier provides more detail about this adjustment in her Rebuttal Testimony.[8]

Q. WHAT IS THE IMPACT OF THIS ADJUSTMENT?

A. Incorporating this adjustment reduces the North Dakota portion of the JCOSS E1 allocation factor, which reduces the North Dakota base rate revenue requirement by approximately $0.1 million. This adjustment is incorporated into Column D of Schedule 5, identifying adjustments due to changes in allocation percentages.

D. Rebuttal Testimony Revenue Requirement Conclusion

Q. WHAT IS THE TOTAL REBUTTAL TESTIMONY REVENUE DEFICIENCY FOR THE 2024 TEST YEAR?

A. The total Rebuttal Testimony Revenue Deficiency for the 2024 Test Year is $44.7 million.

III. CONTESTED ISSUES

A. Staff Revenue Requirement Calculation (Advocacy Staff–Mugrace)

Q. HAVE YOU PREPARED A SCHEDULE SHOWING A DIRECT COMPARISON OF THE RESULTS OF ADVOCACY STAFF RECOMMENDATIONS AND THE COMPANY'S PROPOSED 2024 TEST YEAR REVENUE REQUIREMENT?

A. Yes. In evaluating the testimony provided by Witness Mugrace, I determined that there are some inconsistencies in the way that Advocacy Staff consultants incorporate their recommendations to produce a base rate revenue requirement. The differences relate to the treatment of other electric revenue (which is not base rate revenue), as well as Advocacy Staff consultants not having a fully developed

[8] Grenier Rebuttal at Section II.A.

model to incorporate the impacts of a net operating loss and cash working capital calculations that are performed in OTP's cost of service software. While OTP does not agree with all of the recommendations of the Advocacy Staff consultants, I have prepared Schedule 6 incorporating their recommendations into our software, which will allow for a direct comparison to OTP's proposed 2024 Test Year revenue requirement.

B. Vacancy Rate (Advocacy Staff-Mugrace)

Q. WHAT DID MR. MUGRACE RECOMMEND REGARDING A VACANCY RATE?

A. Mr. Mugrace calculated a vacancy rate to represent full time equivalent (FTE) positions that are not filled during the test year and applied that vacancy rate to several line items to recommend disallowance of labor related costs.

Mr. Mugrace calculated a vacancy rate of 4.05 percent by averaging the percentage of unfilled positions during 2022 and 2023.[9] Mr. Mugrace applied the vacancy rate to the following expenses with associated disallowance recommendations:

- Production O&M: $16,784[10]
- Transmission O&M: $9,690[11]
- Distribution O&M: $17,031[12]
- Customer Accounting O&M: $10,537[13]
- Customer Service & Information O&M: $647[14]
- Normalized Pension and Postretirement Medical and Life Insurance (PRM): $45,809[15]

In total, these adjustments would result in an overall disallowance of $100,497 due to Mr. Mugrace's vacancy rate.[16]

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[9] Mugrace Final Direct at 52:11-12.
[10] *Id.* at 22:3-6.
[11] *Id.* at 23:7-8.
[12] *Id.* at 23:21-22.
[13] *Id.* at 24:5-6.
[14] *Id.* at 24:17-18.
[15] *Id.* at 27:2-3.
[16] Mugrace Final Direct, Schedule DM-10.

Q. DO YOU AGREE WITH MR. MUGRACE'S RECOMMENDATION ON VACANCY RATES?

A. No. OTP's labor budgets already include a calculation to account for vacant positions. As a result, Mr. Mugrace's adjustment double counts vacancies and does not produce a reasonable result.

Furthermore, I am concerned that Mr. Mugrace's vacancy rate relies on outlier results that were impacted by the COVID-19 pandemic.

Finally, Mr. Mugrace applies the vacancy rate to recommend disallowances to pension and PRM costs. This is not appropriate, as the pension and PRM programs are closed, and so cannot be impacted by the number of FTEs or vacant positions.

I will provide more details on each of these issues with Mr. Mugrace's recommendation.

1. OTP Budget Treatment of Vacancies

Q. HOW DID OTP CALCULATE THE LABOR-RELATED O&M COSTS FOR THE 2024 TEST YEAR?

A. The labor-related O&M costs in the 2024 Test Year were developed using a budgeting process based on a certain number of FTE employees. As explained in OTP's Direct Testimony, the 2024 Test Year budget is based upon 800 FTEs.[17]

Mr. Mugrace applied a vacancy rate to this figure to produce his recommendations. But it appears that Mr. Mugrace was not aware that the 800 FTE budget already includes an adjustment for vacant positions.

Q. HOW DID OTP DEVELOP THE 800 FTES IN THE 2024 TEST YEAR BUDGET?

A. The 2024 Test Year budget is based on 800 FTEs. This number is the result of decisions from leaders across the Company about the number of employees they will require to provide safe and reliable service to customers. These costs are included in budgets for each cost area and, when added together, resulted in an estimate of 840 FTEs. This number was then adjusted to account for anticipated vacancies, resulting in a final 2024 Test Year budget number of 800 FTEs.

[17] Wasberg Direct at 2:19-25.

Q. HOW DID OTP CALCULATE THE ADJUSTMENT FOR VACANT POSITIONS?

A. The 2024 Test Year budget incorporates an adjustment to account for 40 unfilled positions during the 2024 Test Year. Of this amount, 75 percent are allocated to O&M and 25 percent are allocated to capital. This results in a 2024 Test Year reduction of 30 FTEs when budgeting for O&M costs, a reduction that already is incorporated into the budgets that provide the foundation for the 2024 Test Year.

This adjustment was based on historical vacancy data shown in Table 1.

Table 1
Vacancy Rate Calculation

Year	Avg FTE	Avg Open	Avg Vac	Dec FTE	Year-end Open	YE Vac
2019	759.1	N/A		745.4	21	2.8%
2020	741.2	N/A		734.2	20	2.7%
2021	730.1	20.4	2.8%	752.3	22	2.9%
2022	726.3	31.5	4.3%	724.5	39	5.4%
2023	774.4	29.1	3.8%	787.6	21	2.7%

N/A – we did not track in our system prior to 2021.

The adjustment for vacancies was based on two points of information – the average open positions throughout the year, and the year-end open positions. During this period, we averaged 27 vacancies over the year, and 24.6 vacancies at year-end. Using this information, we adopted a conservative, high-end estimate of 40 vacancies for the 2024 Test Year.

Q. HOW DOES THE ALREADY-INCORPORATED VACANCY ADJUSTMENT COMPARE TO ACTUAL VACANCY DATA?

A. The comparison is favorable. The 2024 Test Year budget assumes 800 FTEs, which incorporates a reduction of 40 FTEs for vacancies. In recent months, the Company actually has had more employees and fewer vacancies than are included in the 2024 Test Year budgets. This is an indication that the 2024 Test Year labor costs are conservative estimates, and a reasonable basis on which to set rates.

I provide actual FTE counts and vacancy rates in Table 2.

Table 2

Actual 2024 FTE and Vacancy Count

		September		August		July		June		May		April		March		February		January	
	FTE Conversion	Head Count	FTE	Head Count	FTE	Head Count	FTE	Head Count	FTE	Head Count	FTE	Head Count	FTE	Head Count	FTE	Head Count	FTE	Head Count	FTE
Full-time	1.00	790	790	790	790	781	781	787	787	793	793	796	796	793	793	796	796	793	793
Part-time	0.70	14	9.8	14	9.8	14	9.8	14	9.8	13	9.1	13	9.1	13	9.1	13	9.1	13	9.1
Temporary	0.25	4	1.00	3	0.75	14	4	21	5.25	21	5.25	7	1.75	5	1.25	4	1	4	1
Total Head Count and FTE		**808**	**800.8**	**807**	**800.55**	**809**	**794**	**822**	**802.05**	**827**	**807.35**	**816**	**806.85**	**811**	**803.35**	**813**	**806.1**	**810**	**803.1**
Open Positions		36		40		30		28		25		22		16		23		26	
Upcoming Postings		0		0		0		0		0		0		1		1		3	
Accepted Offers (not started)		3		8		5		6		6		10		8		7		4	
Total Open Positions		**39**		**48**		**35**		**34**		**31**		**32**		**25**		**31**		**33**	

This table demonstrates that our annual estimate of FTEs in the 2024 Test Year budget is reasonable. The number of actual FTEs has been higher than the amount included in the 2024 Test Year budget in each month except July, and the number of vacancies has been comparable in each month as well.

Q. HOW DOES THE ALREADY-INCLUDED VACANCY RATE COMPARE TO THE VACANCY RATE CALCULATED BY MR. MUGRACE?

A. Mr. Mugrace calculated a vacancy rate of 4.05 percent. The vacancy rate that is already applied to the 2024 Test Year budget is 30 FTEs compared to 800 FTEs employed. That is a vacancy rate of 3.75 percent, lower than Mr. Mugrace's figure, and a further demonstration that his adjustment is duplicative.

2. Data Selection

Q. WHICH YEARS DID MR. MUGRACE RELY ON TO CALCULATE HIS VACANCY RATE?

A. OTP provided Advocacy Staff with vacancy rate data in response to Discovery Request ND-PSC-024, for the years from 2019 to 2023.[18] Our response provided the following vacancy rates for that time period:

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

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[18] *See* Exhibit____(CLP-3), Schedule 8.

Instead of using the entire time period to calculate his vacancy rate, Mr. Mugrace calculated his vacancy rate using only two of the five years, 2022 and 2023.

Q. WAS THIS A REASONABLE DATA SET TO USE FOR THE VACANCY RATE CALCULATION?

A. No. Focusing on those two years produces an unreasonably high vacancy rate.

Over the last five years, the normal vacancy rate for OTP has been between 2.7 percent and 2.9 percent. The variance between four of the five years in the time period is very low. The vacancy rate went up in one year, for an obvious reason I will explain, and then returned to normal the following year.

In one year, 2022, the vacancy rate was much higher than normal. As we explained in our response to Discovery Request ND-PSC-024, the vacancy rate in 2022 was much higher because of the COVID-19 pandemic. That data point is clearly an outlier, and the vacancy rate returned to normal the following year.

Utilizing only 2022 and 2023 ignores that 2022 is an outlier and gives that year a significant weight (50 percent) in the calculation. This approach does not produce a vacancy rate that is representative of OTP's operations. Further, based on the data in Table 2, it is clear that the proposed vacancy adjustment is higher than the actual number of vacancies experienced during 2024.

3. Any Vacancy Rate Adjustment Should Not be Applied to Pension and PRM Expenses.

Q. HOW DID MR. MUGRACE PROPOSE TO APPLY HIS VACANCY RATE TO PENSION AND PRM BENEFITS?

A. As I explained above, Mr. Mugrace proposed to include a vacancy rate adjustment for labor-related costs across many expense areas, including pension and PRM benefits. His recommended adjustment for Pension and PRM is $45,809.[19]

Q. SHOULD A VACANCY RATE BE APPLIED TO PENSION COSTS?

A. No. As OTP explained in its Direct Testimony, the pension program is now closed and no new employees are eligible to participate in the program.[20] The freeze was established for the OTP Pension Plan beginning on August 31, 2006, and for the

[19] Mugrace Direct at 27:2-3.
[20] Wasberg Direct at 15:21-32.

Coyote Pension Plan on December 31, 2008. As a result, the number of people in the pension program has not increased since 2008 and will not increase in the future.

Because the pension program is closed to new participants, the amount of pension expense is no longer related to the number of current employees at OTP. Applying a vacancy rate to expense for a closed pension program is unnecessary and unreasonable.

Q. SHOULD A VACANCY RATE BE APPLIED TO PRM BENEFITS?

A. No. As with the pension, OTP explained in its Direct Testimony that we eliminated the post-retirement medical benefit for new employees on August 31, 2006 for non-union employees, on December 31, 2008 for bargaining units at Coyote Station, and on October 31, 2010 for other bargaining units.[21] The number of employees in the programs can no longer increase and has not increased since 2010.

Because the number of participants in the PRM program cannot increase, the expense of the program is not related to the number of current employees at OTP. As a result, applying a vacancy rate adjustment to the costs is unnecessary and unreasonable.

Q. HOW ARE THE COSTS FOR THE PENSION AND PRM BENEFITS CALCULATED?

A. The cost of the pension and PRM benefits are not calculated based on FTEs or expected vacancies. Instead, the costs are based on actuarial calculations considering only those who would have a benefit within the applicable pension plan or qualify for PRM benefits. Actuarial calculations include current and future benefit calculations, discount rates, return on assets, and benefit payments. Actuarial data also includes recognized assumptions on withdrawal (retirement or other attrition), retirement age, deferred vested commencement age, spouse assumptions, and forms of payment. The calculation of pension and PRM costs are not based on the headcount of current company employees.

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[21] Wasberg Direct at 15:33-16:9.

Q. WHAT IS YOUR RECOMMENDATION ABOUT APPLYING THE VACANCY RATE TO THE PENSION AND PRM COSTS?

A. As I have explained, the pension and PRM programs are closed to new participants. This means that the costs of the programs do not change based on how many employees OTP has. For that reason, no vacancy rate should be applied to these expenses.

4. Conclusion on Vacancy Rate

Q. IS MR. MUGRACE'S RECOMMENDATION TO DISALLOW COSTS FOR A VACANCY RATE REASONABLE?

A. No, it is not. As I have explained, our Test Year 2024 budgets already incorporate a vacancy rate adjustment, and Mr. Mugrace's recommendation is duplicative of that adjustment. Even if some additional adjustment was needed, which it is not, Mr. Mugrace's calculation is incorrect.

I recommend that Mr. Mugrace's adjustments related to vacancy rate not be adopted.

C. ADIT (Advocacy Staff – Mugrace)

Q. PLEASE EXPLAIN THE UPDATES PREVIOUSLY MADE TO ADIT BALANCE.

A. ADIT includes several balances related to income taxes. Part of ADIT reflects the differences between income taxes that are included in rates and the income taxes that are currently payable using accelerated and bonus depreciation. Another part of ADIT reflects credits that are recorded as deferred tax assets, that will be used to offset tax liability in the future. When ADIT is positive, as in this case, it is included as an offset to rate base, which increases the revenue requirement.

As I explained in my Supplemental Direct Testimony, while responding to discovery requests from Advocacy Staff consultants, we determined that a software error resulted in the exclusion of Production Tax Credits (PTCs) and North Dakota Investment Tax Credits (ITCs) associated with the legacy wind farms, Ashtabula, Laverne and Langdon from the ADIT balance, and the double counting of North Dakota ITC Amortization.

The purpose of my Supplemental Direct Testimony was to identify these software errors and correct these balances to be incorporated into the 2024 Test Year. The balances are not new but had been inadvertently excluded or double counted. I corrected these errors in my Supplemental Direct Testimony. Correcting these issues reduced the 2024 Test Year ADIT balance by $33.1 million, which increases rate base by $33.1 million.[22]

Q. WHAT WAS MR. MUGRACE'S RECOMMENDATION REGARDING THE ADIT BALANCE UPDATE?

A. Mr. Mugrace did not identify any errors with the updated calculations, but recommended that the North Dakota ITC of $10.8 million and North Dakota ITC Amortization balance of $(15.2) million should be "[kept] and maintain[ed]" on corporate books, but excluded from ratemaking.[23] This recommendation would, in effect, remove the deferred tax asset for North Dakota ITCs from the ADIT balance, and double count the regulatory liability for North Dakota ITC Amortization in the ADIT balance.[24]

Q. WHAT IS MR. MUGRACE'S JUSTIFICATION FOR THIS RECOMMENDATION?

A. Mr. Mugrace briefly argued that OTP should not earn a return on these items absent a showing of quantified benefits accruing to North Dakota customers, or a showing of usefulness or other North Dakota customer-related benefits.[25]

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

A. No. The North Dakota ITC and North Dakota ITC Amortization are not new items and have been included in OTP's ADIT balances for many years.[26] They were identified in my Supplemental Direct Testimony because a computer error caused them to be handled incorrectly when initially calculating the 2024 Test Year revenue requirement. My Supplemental Direct Testimony was not proposing a change in policy or identifying new items, but rather correcting an inadvertent error.

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[22] Petersen Supplemental Direct at 5:6-20.
[23] Mugrace Final Direct at 11:23-25.
[24] Mugrace Final Direct at 12:1-2.
[25] Mugrace Final Direct at 11:25-28.
[26] *See, e.g.*, *Otter Tail Power Company 2010 Renewable Resource Cost Recovery Adj. Factor*, Case. No. PU-10-18, Findings of Fact, Conclusions of Law and Order (Aug. 4, 2010).

Q. WHAT IS THE GENESIS OF THE NORTH DAKOTA ITCS?

A. The North Dakota ITC was created in furtherance of a North Dakota state policy to incentivize investments in the state.[27] OTP supported this policy by investing in wind farms, which resulted in good-paying jobs, economic development, and the production of cost-effective electricity for our customers.

The North Dakota ITC balance represents the North Dakota ITCs that were earned when OTP's legacy wind farms were placed into service in 2007 through 2009. The credits were earned based on a set percentage of the original cost of the assets.

Q. HOW ARE THE NORTH DAKOTA ITCS TREATED AFTER THEY ARE GENERATED?

A. The North Dakota ITCs are held on our books until they can be used to offset OTP's North Dakota tax liability or when they can be sold to Otter Tail Corporation (OTC), so that OTC can use them to offset consolidated North Dakota taxes. Until they are used, the North Dakota ITCs are a deferred tax asset and therefore reduce ADIT and increases rate base. Given the reasonable tax rate in North Dakota, it has taken many years to make use of the North Dakota ITC, but we now anticipate that OTC will have increased appetite for tax credits in future years.

For federal tax purposes, federal investment tax credits must be normalized and returned to customers over the life of the assets. OTP applies the same treatment to the North Dakota ITCs. As a result, the North Dakota ITCs were acquired faster than they are being credited to customers. The difference between the North Dakota ITCs acquired and the North Dakota ITCs returned to customers is recorded as a regulatory liability. The North Dakota ITC Amortization balance referred to by Witness Mugrace is this regulatory liability.

Both the North Dakota ITC deferred tax asset, and the North Dakota ITC Amortization regulatory liability are included in ADIT and are part of rate base.[28] When the North Dakota ITCs were originally earned, the North Dakota ITC deferred tax asset, and the North Dakota ITC Amortization regulatory liability largely offset each other and resulted in a rate base neutral impact. As the North

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[27] N.D. Cent. Code § 57-38-01.8.

[28] The deferred tax asset reduces ADIT and increases rate base; the deferred tax liability increases ADIT and reduces rate base.

Dakota ITCs are used to offset tax liability, and as they are credited to customers, there are some differences in the balance of the deferred tax asset compared to the regulatory liability.

Q. HAS TREATMENT OF THE DEFERRED TAX ASSET OR REGULATORY LIABILITY CHANGED FOR THIS CASE?

A. No. The North Dakota ITCs were earned over the initial years, 2007 through 2009, when the legacy wind farms were placed into service, and the resulting deferred tax asset and regulatory liability have been on our books since that time. No change is proposed in this case, other than to update the values as the North Dakota ITCs have been used to offset tax liability, and as credits have been returned to customers.

The purpose of my Supplemental Direct Testimony was to identify that a software error had caused these balances to be incorporated into the 2024 Test Year incorrectly as part of Direct Testimony. Specifically, the software did not include North Dakota ITCs in the deferred tax asset and had double counted the balance of the North Dakota ITC Amortization regulatory liability. I corrected these errors in my Supplemental Direct Testimony, but this did not represent a change from historical treatment.

Q. HAVE THE NORTH DAKOTA ITCS AND NORTH DAKOTA ITC AMORTIZATION BEEN INCLUDED IN THE ADIT BALANCE IN THE PAST?

A. Yes. Deferred tax assets always are included in rate base, and it is a standard practice in the industry. The Commission has approved the inclusion of these items in ADIT for many years.[29]

Q. DO CUSTOMERS BENEFIT FROM THE NORTH DAKOTA ITCS?

A. Yes. Customers receive a credit of North Dakota ITCs over the life of the facility. In addition, customers also benefit from North Dakota's policy of incentivizing investment in local communities. This investment results in good-paying jobs, local tax revenue, and low-cost electricity that our customers continue to benefit

[29] *See, e.g.*, *Otter tail Power Company 2010 Renewable Resource Cost Recovery Adj. Factor*, Case. No. PU-10-18, Findings of Fact, Conclusions of Law and Order (Aug. 4, 2010).

from. Customers also benefit as the North Dakota ITCs are used by OTC, because OTP receives cash that is used to fund operations, reducing the need for financing in the future. The accounting treatment for North Dakota ITCs directly results from these benefits.

Q. WHAT IS YOUR RECOMMENDATION REGARDING THE ADIT BALANCE UPDATE?

A. The ADIT balance should be updated as I described in my Supplemental Direct Testimony to correct a computer error that had led the exclusion of some and double counting of other tax credit items. It would be unreasonable, in particular, to include items that were inadvertently double counted. It also would be unreasonable to remove the deferred tax asset from the ADIT balance but include – and in fact double count – the associated regulatory liability. These costs have been included in rates for many years and Witness Mugrace has not identified any reasonable basis for his recommended adjustment.

D. Short Term CWIP (Advocacy Staff – Mugrace)

Q. WHAT IS CONSTRUCTION WORK IN PROGRESS?

A. Construction Work in Progress (CWIP) is an accounting term used to describe the costs for work that is in progress but not yet completed. CWIP is a standard construct in utility accounting and is recognized by the FERC Uniform System of Accounts.[30] CWIP traditionally is included in rate base.

As I explained in my Direct Testimony, the 2024 Test Year contains only short-term CWIP,[31] which represents balances for projects that are anticipated to be in service within 30 days. The amount of short-term CWIP included in the 2024 Test Year rate base is $0.8 million.

Q. WHAT IS MR. MUGRACE'S RECOMMENDATION REGARDING CWIP?

A. Mr. Mugrace recommended the complete disallowance of short-term CWIP, a departure from previous rate case treatment.[32]

[30] *See* 18 C.F.R. § 35.25.
[31] Petersen Direct at 21:20-27.
[32] Mugrace Final Direct at 14:5-11.

Mr. Mugrace appears to have two concerns. First, he requested that the Company verify the final costs of the projects in short-term CWIP. Second, he stated that all plant in service should be used and useful in the provision of service.

Q. WHAT IS YOUR REPONSE TO MR. MUGRACE'S RECOMMENDATION?

A. As I explained in my Direct Testimony, short-term CWIP is used only to record costs related to projects that are under $10,000 and will be in-service in less than 30 days.[33] As a result, the short-term CWIP balance is frequently updated as projects are completed and new short-term CWIP projects are started.

The amount of short-term CWIP included in the 2024 Test Year is not intended to reflect specific projects. It is a budgeted amount reflecting a representative amount of short-term CWIP based on prior experience and expectations going forward that should be included in the 2024 Test Year.

Q. CAN YOU VERIFY THAT THE AMOUNT OF SHORT-TERM CWIP INCLUDED IN THE 2024 TEST YEAR IS REASONABLE?

A. Yes. The amount of short-term CWIP included in the 2024 Test Year is $780,990.[34] Updated information confirms that this amount of short term CWIP is reasonable. I am providing updated actual balances in Table 3 below. I note that the actual balance of short-term CWIP currently is higher than the amount included in the 2024 Test Year, demonstrating that the amounts in the 2024 Test Year are representative, reasonable, and should be allowed.

[33] Petersen Direct at 21:20-27.
[34] Petersen Direct at 21:17-18.

Table 3
Short Term CWIP
Ending Balance September 2024

Short Term CWIP Balance	**OTP Total**	**OTP ND**
Production	$1,036,440	$445,364
Transmission	$1,110,767	$435,367
Distribution	$1,639,237	$753,161
General	$275,460	$119,383
Intangible	$0	$0
Total	$4,061,904	$1,753,275

Q. HOW IS SHORT TERM CWIP TRADITIONALLY HANDLED BY THE COMMISSION?

A. The Commission traditionally has allowed short-term CWIP to be included in rate base. For example, short-term CWIP was included in rates in OTP's most recent rate case.[35] In that proceeding, OTP and Advocacy Staff agreed one project should have been removed from CWIP, but otherwise agreed that the short-term CWIP balance should be included in rates. In fact, the Settlement Agreement between OTP, Midwest Large Energy Consumers, Wal-Mart Stores, Inc., and Advocacy Staff, which was approved by the Commission, specifically states that short-term CWIP should be included in rate base.[36]

While Mr. Mugrace argues that CWIP should be excluded for policy reasons, that argument is not consistent with the historical treatment by the Commission.

Q. WHAT IS YOUR RECOMMENDATION REGARDING SHORT-TERM CWIP?

A. I have provided actual cost data that demonstrates the amount of short-term CWIP included in the 2024 Test Year rate base is reasonable. I have also established that

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[35] OTP Witness Tyler Akerman explained how CWIP was included in rate base. *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 14-15 (May 18, 2018).

[36] *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).

it is standard for the Commission to include short-term CWIP in rates. Mr. Mugrace's recommendation should be rejected.

E. Payroll Taxes (Advocacy Staff-Mugrace)

Q. WHAT IS MR. MUGRACE'S RECOMMENDATION ON PAYROLL TAXES?

A. Mr. Mugrace recommends a disallowance of $286,437 as a payroll tax adjustment.[37] This adjustment is based on his proposed reductions to labor costs. As explained above and by OTP witness Mr. Bruce G. Gerhardson,[38] no payroll tax adjustment is appropriate because the underlying adjustments to labor costs are themselves not reasonable.

In my testimony, I also identify an error related to the way that Mr. Mugrace calculated the payroll tax adjustment.

Q. HOW ARE PAYROLL TAXES INCORPORATED INTO THE 2024 TEST YEAR?

A. As I explained in my Direct Testimony, labor costs include a labor loading rate that reflects benefit costs, payroll taxes, and paid time off.[39] As a result, payroll tax is already incorporated into the labor line-item costs in the 2024 Test Year budget, and there is no separate cost item for payroll tax.

In other words, Mr. Mugrace's proposed adjustments for labor-related costs already include a reduction to payroll tax. Calculating a separate reduction for payroll tax would be duplicative.

Q. ARE THERE ANY OTHER ISSUES RELATED TO THE LABOR LOADING RATE?

A. Yes. Mr. Mugrace makes a series of recommendations related to a vacancy rate. As I explained above, the 2024 Test Year budgets already include an adjustment for a vacancy rate.

The adjustments also are unreasonable because they do not properly account for the labor loading rate. If a vacancy rate adjustment were to be made, it needs to be made to unloaded labor dollars. Applying it to labor costs after loading would include benefits, payroll, and paid time off in the adjustment, which is unreasonable to count when evaluating positions that are empty. The already-

[37] Mugrace Final Direct at 50:6-10.
[38] Gerhardson Rebuttal at Section III.A.3(e).
[39] Petersen Direct at 16:29-31.

applied adjustment that OTP made to account for 40 FTEs of open positions was properly made before loading costs were added.

F. Cash Working Capital (Advocacy Staff – Mugrace)

Q. WHAT IS CASH WORKING CAPITAL?

A. As I explained in my Direct Testimony, cash working capital represents a determination of cash working capital requirements for operation, maintenance, and other expenses.[40]

Q. WHAT IS MR. MUGRACE'S RECOMMENDATION REGARDING CASH WORKING CAPITAL?

A. Mr. Mugrace accepted the Company's methodology but calculated a different (and lower) amount of cash working capital based on Advocacy Staff adjustments to the 2024 Test Year revenue requirement.[41] In other words, the adjustments Mr. Mugrace proposes related to other line items leads to his proposed reduction in cash working capital.

Q. IS MR. MUGRACE'S RECOMMENDATION REGARDING CASH WORKING CAPITAL REASONSABLE?

A. No, it is not. As I have explained, Mr. Mugrace's underlying adjustments are not reasonable, which means that the resulting adjustment to cash working capital is also not reasonable.

IV. CONCLUSION

Q. PLEASE PROVIDE A SUMMARY OF THE REBUTTAL REVENUE REQUIREMENT AND REVENUE DEFICIENCY.

A. OTP's Rebuttal Testimony revenue requirement is approximately $227.5 million for the 2024 Test Year.

The Rebuttal Testimony gross base rate revenue deficiency is $44.8 million. After rider roll-in, the net base rate revenue deficiency is approximately $21.5 million.

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[40] Petersen Direct at 22:32-34.
[41] Mugrace Direct at 12:21-25.

The Rebuttal Testimony revenue requirement reflects additional data gathered since Direct Testimony, corrections identified during the discovery process, and the acceptance of some, but not all, positions of the intervenor witnesses.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes, it does.

Otter Tail Power Company
Revenue Requirements Summary-North Dakota Jurisdiction
Rebuttal Year Ending December 31, 2024

Line No.	Description	Direct Testimony	Suplemental Direct Testimony	Rebuttal Testimony	Difference
1	Average Rate Base	$661,733,552	$695,424,813	$695,770,561	$345,748
2	Rate of Return	7.85%	7.85%	7.80%	-0.05%
3	Required Operating Income	51,946,084	54,590,848	54,270,104	(320,744)
4	Operating Income	21,208,693	19,989,882	20,423,906	434,024
5	Income Deficiency	$30,737,390	$34,600,966	$33,846,198	($754,768)
6	Gross Revenue Conversion Factor	1.322837	1.322837	1.322837	
7	Gross Revenue Deficiency	$40,660,559	$45,771,441	$44,773,005	($998,435)
8	Percentage Increase Needed	22.26%	25.04%	24.50%	-0.55%
9	Riders Rolled In	$23,302,321	$23,308,950	$23,308,950	
10	Net New Revenues [1]	$17,358,238	$22,462,491	$21,464,055	
11	Base Rate Revenue Requirement	$223,347,447	$228,554,275	$227,555,839	

[1] Amount to be reflected in customer notices

Otter Tail Power Company
Cost of Capital
Rebuttal Year Ending December 31, 2024

Line No.	Capital Structure	Amount	Amount as % of Total	Cost of Capital	Rate of Return
1	Long-Term Debt	902,118,455	46.50%	4.57%	2.13%
2	Preferred Debt	-	0.00%		0.00%
3	Common Equity	1,037,715,500	53.50%	10.60%	5.67%
4	Total	1,939,833,955	100.00%		7.80%

Otter Tail Power Company
Revised Rate Base Calculation

		North Dakota JURISDICTION RATE BASE SUMMARY REBUTTAL ENDING DECEMBER 31, 2024		
		(A)	(B)	(C)
Line No.	**Adjustment Description**	**As Calculated Supplemental Direct**	Total Adjustments	**As Calculated Rebuttal**
	PLANT IN SERVICE			
1	Production	$634,293,597	($641,898)	$633,651,699
2	Transmission	215,820,853	680,610	216,501,463
3	Distribution	329,751,162	0	329,751,162
4	General	53,301,572	(18,214)	53,283,358
5	Intangible	18,267,291	(6,242)	18,261,049
6	Total Plant in Service	$1,251,434,475	$14,256	$1,251,448,731
	RESERVE FOR DEPRECIATION			
7	Production	($245,950,425)	$289,483	($245,660,942)
8	Transmission	(62,608,627)	0	(62,608,627)
9	Distribution	(123,383,576)	0	(123,383,576)
10	General	(21,909,367)	7,486	(21,901,881)
11	Intangible	(7,538,299)	2,575	(7,535,724)
12	Total Reserve for Depreciation	($461,390,294)	$299,544	($461,090,750)
	NET PLANT IN SERVICE			
13	Production	$388,343,172	($352,415)	$387,990,757
14	Transmission	$153,212,226	$680,610	$153,892,836
15	Distribution	$206,367,586	$0	$206,367,586
16	General	$31,392,205	($10,728)	$31,381,477
17	Intangible	$10,728,992	($3,667)	$10,725,325
18	Total Net Plant in Service	$790,044,181	$313,800	$790,357,981
	OTHER RATE BASE ITEMS			
20	Utility Plant Held for Future Use	4,921	(4,921)	0
21	CWIP	780,993	(49)	780,944
22	Materials & Supplies	14,737,429	(3,766)	14,733,663
23	Fuel Stocks	4,495,117	(8,545)	4,486,572
24	Prepayments	18,607,498	7,390	18,614,888
25	Customer Advances & Deposits	(709,884)	(282)	(710,166)
26	Cash Working Capital	1,531,800	(11,406)	1,520,394
27	Accumulated Deferred Income Taxes	(134,067,242)	53,528	(134,013,714)
28	Total Other Rate Base Items	($94,619,368)	$31,949	($94,587,419)
29	TOTAL AVERAGE RATE BASE	$695,424,813	$345,749	$695,770,561

Otter Tail Power Company
Revised Available for Return Calculation

		North Dakota JURISDICTION OPERATING INCOME SUMMARY REBUTTAL YEAR ENDING DECEMBER 31, 2024		
		(A)	(B)	(C)
Line No.	**Description**	**As Calculated Supplemental**	Total Adjustments	**As Calculated Rebuttal**
	UTILITY OPERATING REVENUES			
1	Retail Revenue	$182,782,834	$0	$182,782,834
2	Other Electric Operating Revenue	12,253,679	430,267	12,683,946
3	Total Operating Revenues	$195,036,513	$430,267	$195,466,780
	UTILITY OPERATING EXPENSES			
4	Production	$88,254,903	($213,480)	$88,041,423
5	Transmission	14,086,555	0	14,086,555
6	Distribution	8,393,231	0	8,393,231
7	Customer Accounting	7,295,595	0	7,295,595
8	Customer Service & Information	1,331,017	0	1,331,017
9	Sales	135,872	0	135,872
10	Administrative & General	20,770,596	(17,107)	20,753,489
11	Depreciation	33,165,285	(18,035)	33,147,250
12	General Taxes	7,103,512	(3,294)	7,100,218
13	Total Operating Expenses	$180,536,564	-$251,916	$180,284,648
	Net Operating Income Before			
14	Taxes & AFUDC	$14,499,949	$682,183	$15,182,132
	Taxes:			
15	Investment Tax Credit	($2,939,618)	($4)	($2,939,622)
16	Deferred Income Taxes	(2,550,314)	248,162	(2,302,152)
17	Federal & State Income Tax	(0)	(0)	(0)
18	Total Taxes	($5,489,932)	$248,158	($5,241,774)
19	Net Operating Income Before AFUDC	$19,989,882	$434,025	$20,423,906
20	AFUDC	-	0	0
21	Total Available for Return	$19,989,882	$434,025	$20,423,906

Otter Tail Power Company
Summary of Rebuttal Adjustments - Rate Base

Line No.	Adjustment Description	(A) As Calculated Supplemental	(B) Petersen Remove Plant Held for Future Use (1)	(C) Petersen Ellendale Jur. Assignment Update (2)	(D) Adjustments Due to Changes in Allocation %'s (3)	(E) Total Adjustments	Rebuttal
	PLANT IN SERVICE						
1	Production	634,293,597			($641,898)	($641,898)	$633,651,698
2	Transmission	215,820,853		680,610		$680,610	$216,501,463
3	Distribution	329,751,162				$0	$329,751,162
4	General	53,301,572			($18,214)	($18,214)	$53,283,358
5	Intangible	18,267,291			($6,242)	($6,242)	$18,261,049
6	Total Plant in Service	$1,251,434,475	$0	$680,610	($666,354)	$14,256	$1,251,448,730
	RESERVE FOR DEPRECIATION						
7	Production	(245,950,425)			$289,483	$289,483	($245,660,942)
8	Transmission	(62,608,627)				$0	($62,608,627)
9	Distribution	(123,383,576)				$0	($123,383,576)
10	General	(21,909,367)			$7,486	$7,486	($21,901,881)
11	Intangible	(7,538,299)			$2,575	$2,575	($7,535,724)
12	Total Reserve for Depreciation	($461,390,294)	$0	$0	$299,544	$299,544	($461,090,750)
	NET PLANT IN SERVICE						
13	Production	388,343,172	$0	$0		($352,415)	$387,990,757
14	Transmission	153,212,226	0	680,610		$680,610	$153,892,836
15	Distribution	206,367,586	0	0		$0	$206,367,586
16	General	31,392,205				($10,728)	$31,381,477
17	Intangible	10,728,992				($3,667)	$10,725,325
18	Total Net Plant in Service	$790,044,181	$0	$680,610	$0	$313,800	$790,357,980
	OTHER RATE BASE ITEMS						
19	Big Stone Plant Capitalized						
20	Utility Plant Held for Future Use	4,921	(4,921)			($4,921)	$0
21	CWIP	780,993			($49)	($49)	$780,944
22	Materials & Supplies	14,737,429			($3,766)	($3,766)	$14,733,663
23	Fuel Stocks	4,495,117			($8,545)	($8,545)	$4,486,572
24	Prepayments	18,607,498			$7,390	$7,390	$18,614,888
25	Customer Advances & Deposits	(709,884)			($282)	($282)	($710,166)
26	Cash Working Capital	1,531,800			($11,406)	($11,406)	$1,520,394
27	Accumulated Deferred Income Taxes	(134,067,242)			$53,528	$53,528	($134,013,714)
28	Total Other Rate Base Items	($94,619,368)	($4,921)	$0	$36,870	$31,949	($94,587,419)
29	TOTAL AVERAGE RATE BASE	$695,424,813	($4,921)	$680,610	$36,870	$345,748	$695,770,561

(1) Rebuttal Testimony of Petersen; Section II; Part B
Rebuttal Testimony of Petersen; Section II; Part B

(2) This adjustment is the result of changes in allocation factor percentages between the 2024 Supplemental COSS, as filed, and the 2024 Supplemental COSS run with OTP's proposed rebuttal adjustments. OTP's COSS model calculates certain allocation percentages based on actual information entered into the COSS model and as a result any new adjustments can affect a variety of allocation percentage calculations which in turn affects the amounts allocated to the various jurisdictions resulting in different amounts being allocated to ND.

Otter Tail Power Company
Summary of Rebuttal Adjustments - Operating Statement

Line No.	Description	As Calculated Supplemental	(A) Petersen Plant Outage Normalized Expense (1)	(B) Grenier 3 Year Average of Other Electric Revenues (2)	(C) Byrnes Aircraft Expense (3)	(D) Adjustments Due to Changes in Allocation %'s (4)	(E) Total Adjustments	Rebuttal
	UTILITY OPERATING REVENUES							
1	Retail Revenue	$182,782,834					-	182,782,834
2	Other Electric Operating Revenue	$12,253,679		429,864		$403	430,267	12,683,946
3	Total Operating Revenues	$195,036,513	$0	$429,864	$0	$403	$430,267	195,466,781
	UTILITY OPERATING EXPENSES							
4	Production	$88,254,903	($194,252)			($19,228)	(213,480)	88,041,423
5	Transmission	$14,086,555					-	$14,086,555
6	Distribution	$8,393,231					-	$8,393,231
7	Customer Accounting	$7,295,595					-	$7,295,595
8	Customer Service & Information	$1,331,017					-	$1,331,017
9	Sales	$135,872					-	$135,872
10	Administrative & General	$20,770,596			(9,322)	($7,785)	(17,107)	$20,753,489
12	Depreciation	$33,165,285				($18,035)	(18,035)	$33,147,250
13	General Taxes	$7,103,512				($3,294)	(3,294)	$7,100,218
14	Total Operating Expenses	$180,536,564	($194,252)	$0	($9,322)	($48,342)	($251,916)	180,284,650
	Net Operating Income Before							
15	Taxes & AFUDC	$14,499,949	$194,252	$429,864	$9,322	$48,745	$682,183	$15,182,131
	Taxes:							
16	Investment/Production Tax Credit	($2,939,618)				($4)	(4)	($2,939,622)
17	Deferred Income Taxes	($2,550,314)				$248,162	248,162	($2,302,152)
18	Federal & State Income Tax	($0)	47,407	104,908	2,275	($154,590)	(0)	($0)
19	Total Taxes	($5,489,932)	$47,407	$104,908	$2,275	$93,568	$248,158	($5,241,774)
20	Net Operating Income Before AFUDC	$19,989,882	$146,845	$324,956	$7,047	($44,823)	$434,025	$20,423,906
21	AFUDC	-						-
22	Total Available for Return	$19,989,882	$146,845	$324,956	$7,047	($44,823)	$434,025	$20,423,906
		-						

(1) Rebuttal Testimony of Petersen; Section II; Part C
(2) Rebuttal Testimony of Grenier; Section II, Part B
(3) Rebuttal Testimony of Byrnes; Section III; Part C
(4) This adjustment is the result of changes in allocation factor percentages between the 2024 Supplemental COSS, as filed, and the 2024 Supplemental COSS run with OTP's proposed Rebuttal adjustments. OTP's COSS model calculates certain allocation percentages based on actual information entered into the COSS model and as a result any new adjustments can affect a variety of allocation percentage calculations which in turn affects the amounts allocated to the various jurisdictions resulting in different amounts being allocated to ND.

Otter Tail Power Company
Revenue Requirements Summary-North Dakota Jurisdiction
2024 Test Year Ending December 31, 2024

Line No.	Description	OTP Supplemental Direct	OTP Rebuttal	Advocacy Staff Direct	Advocacy Staff Direct Recalculated With OTP Software	Difference from Recalculating Advocay Staff Direct
1	Average Rate Base	$695,424,813	$695,770,561	$668,327,616	$668,216,741	($110,875)
2	Rate of Return	7.85%	7.80%	7.22%	7.22%	0.00%
3	Required Operating Income	54,590,848	54,270,104	48,260,472	48,245,249	($15,223)
4	Operating Income	19,989,882	20,423,906	29,090,699	26,546,877	($2,543,822)
5	Income Deficiency	$34,600,966	$33,846,198	$19,169,773	$21,698,372	$2,528,599
6	Gross Revenue Conversion Factor	1.322837	1.322837	1.322837	1.322837	
7	Gross Revenue Deficiency	$45,771,441	$44,773,005	$25,358,486	$28,703,410	$3,344,924
8	Percentage Increase Needed	25.04%	24.50%	12.84%	15.70%	2.86%
9	Riders Rolled In	$23,308,950	$23,308,950	$23,308,950	$23,308,950	
10	Net New Revenues [1]	$22,462,491	$21,464,055	$2,049,536	$5,394,460	$3,344,924
11	Base Rate Revenue Requirement	$228,554,275	$227,555,839	$222,856,402	$211,486,244	($11,370,158)

[1] Amount to be reflected in customer notices

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

Data Request:
Does Otter Tail utilize aircraft in the operations of its North Dakota gas utility operations? If so, please provide a detailed breakdown of the costs and the need for the aircraft for the periods 2022, 2023 and the test year 2024

Attachments: 0

Response:

OTP understands the reference to "gas utility operations" should state "electric utility operations." Based on that understanding, OTP responds as follows:

OTP owns a 2009 Hawker Beechcraft B200GT turboprop aircraft, which was purchased in 2018 as a replacement of a 1987 King Air. OTP utilizes its aircraft in its North Dakota electric utility operations to provide transportation to business meetings and regulatory hearings in a time efficient manner. OTP serves approximately 130,000 customers in a large territory that spans approximately 70,000 square miles across all three states, with the majority of the service area being rural and without commercial air services. The plane is also used to travel within the Company's service territory to conduct the ongoing needs of the Company.

Typically, managerial-level employees and subject matter experts attend regulatory meetings in person, which in our experience provides Commissioners and other regulators direct access and is of benefit to all parties. When employees from OTP attend regulatory hearings, they can attend the meeting and return to the office in the same day, which would not be true if employees drove to the meeting. Bismarck, ND, for example, is approximately an eight hour drive round-trip from Fergus Falls, MN. Use of the plane can avoid overnight stays or multiple days of driving. Flying can avoid driving costs and reduce the burden on employees of being away from home longer, which also reduces the risk of automobile travel.

Commercial air travel is not available from Fergus Falls, MN. In North Dakota, the only towns with commercial air service available to travel within the service territory are Fargo and Grand Forks. Flights from Jamestown and Devils Lake only fly to and from Denver. Commercial flights from Bismark, ND only fly to Minneapolis and Denver. Due to these limitations, commercial air service is not an option for traveling within the Company's service territory and is inconvenient when necessary to travel to other locations.

OTP shares the use of the aircraft with Otter Tail Corporation (OTC), which creates efficiency that benefits OTP's ratepayers. For budgeting purposes, OTP employees are anticipated to use the aircraft about 65 percent of the flight hours in a given year. Use of the aircraft by OTC reduces the fixed costs allocated to OTP. Fixed costs are all costs that do not vary based on the number of flights and include depreciation, licenses/fees/subscriptions, pilot salaries and benefits, repairs and maintenance and hangar rental. Each of OTP and OTC are responsible for their own respective variable costs, which include fuel, airport fees and travel expenses that are incurred or consumed based on an incremental basis for each trip.

Aircraft costs are allocated to OTP's North Dakota electric utility operations based on the P90, General Plant Factor, allocation factor of approximately 43.355 percent in the 2024 Test Year. The table below identifies total aircraft costs for OTC, OTP, and the ND share of OTP costs for 2022-2023 and the 2024 Test Year. Of note, the aircraft was not utilized from January to June of 2022. For context 2019 was added to this request, as that year is representative of normal usage of the aircraft before the COVID-19 pandemic when Otter Tail reduced usage of the aircraft.

In drafting this response, OTP determined the aircraft expense included in the 2024 Test Year was over by $21,509. The correct values are shown below. OTP will incorporate this correction into its Rebuttal Testimony.

Aircraft Total Cost Allocation				
	OTC	OTP Total	OTP ND	OTP Hours
2019	$820,150	$587,995	$254,927	110.2
2022	$354,734	$131,531	$57,025	9.9
2023	$606,829	$413,916	$179,455	100.2
2024 (TY)	$607,135	$394,638	$171,097	93.6

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:
Please provide a vacancy ratio rate for the past five years 2019-2023

Attachments: 0

Response:

While not a calculation typically tracked, we have monthly and yearly average FTE data for 2019-2023. We also have weekly and year-end open position data for 2021-2023, and year-end open position data for 2019-2020. This information is provided in the table below for Otter Tail Power Company overall:

Year	Avg FTE	Avg Open	Avg Vacancy Rate	YE FTE	YE Open	YE Vacancy Rate
2019	759.1	N/A		745.4	21	2.8%
2020	741.2	N/A		734.2	20	2.7%
2021	730.1	20.4	2.8%	752.3	22	2.9%
2022	726.3	31.5	4.3%	724.5	39	5.4%
2023	774.4	29.1	3.8%	787.6	21	2.7%

These years include the COVID-19 pandemic, where we experienced lower employee counts and longer times to fill some positions.

During the period 2019-2023, we noted a high of 49 positions open and a low of 11 positions open, demonstrating the fluctuation.

The open position numbers include only positions that were posted and unfilled at the time.