

**ANNUAL REPORT**  
**OF**  
**JURISDICTIONAL EARNINGS**  
**BY**  
**OTTER TAIL POWER COMPANY**  
**A MINNESOTA CORPORATION**  
**TO THE**  
**SOUTH DAKOTA PUBLIC UTILITIES COMMISSION**

**FOR THE YEAR ENDING**  
**DECEMBER 31, 2019**

**South Dakota Jurisdiction**  
Electric Utility



**2019**

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**Otter Tail Power Company  
South Dakota Retail Jurisdiction**

**I. Return on Equity**

<b><u>Actual Return on Equity (ROE)</u></b>	<b><u>2019</u></b>	<b><u>2018</u></b>
(In Thousands)		
1 Operating Income from Electric Operations (Exhibit 2)	\$6,428	\$4,875
2 Average Regulated Rate Base (Exhibit 3)	\$98,049	\$89,225
3 Rate of Return on Rate Base (Line 1/Line 2)	6.56%	5.46%
4 Weighted Cost of Debt (Exhibit 4)	5.20%	5.27%
5 Weighted Cost of Preferred Stock (Exhibit 4)	0.00%	0.00%
6 Percent of Equity in Capital Structure	53.11%	52.66%
7 Return on Equity (ROE)	7.76%	5.62%

**Normalization Impact**

8 Operating Income from Electric Operations	\$6,018	\$4,584
9 Impact of weather on mWh Sales	(9,299)	(9,543)
10 Impact of Weather on Electric Operating Income	(\$410)	(\$291)
11 Weather Normalized Operating Income	\$6,018	\$4,584
12 Average Regulated Rate Base	\$98,025	\$89,233
13 Weather Normalized Rate of Return on Rate Base	6.14%	5.14%
14 Weather Normalized Return on Equity (ROE)	6.97%	5.01%

**Otter Tail Power Company  
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**II. OPERATING INCOME**

Line	<u>2019 Total OTP</u>	<u>2019 SD Juris</u>	<u>2018 SD Juris</u>	<u>Annual Change</u>
<b><u>Operating Revenues</u></b>				
1 Residential	\$130,748,777	\$12,856,331	\$11,447,179	12.31%
2 Small Commercial	90,530,574	8,992,170	5,500,001	63.49%
3 Large Commercial & Industrial	174,470,113	18,009,373	16,860,503	6.81%
4 Streetlighting	3,636,432	464,576	400,546	15.99%
5 OPA	<u>3,550,826</u>	<u>339,829</u>	<u>288,086</u>	<u>17.96%</u>
6 Total Retail	\$402,936,722	\$40,662,279	\$34,496,315	17.87%
7 Other Operating Revenue	<u>51,505,393</u>	<u>1,426,898</u>	<u>2,077,428</u>	<u>-31.31%</u>
8 Total Revenue	\$454,442,115	\$42,089,176	\$36,573,743	15.08%
<b><u>Operating Expenses</u></b>				
9 Production	\$166,257,978	\$16,503,473	\$15,859,710	4.06%
10 Transmission	31,344,027	2,951,073	2,796,864	5.51%
11 Distribution	18,329,594	1,846,799	1,739,741	6.15%
12 Customer Accounting	13,387,241	1,196,692	1,169,840	2.30%
13 Customer Service and Information	11,780,740	886,538	665,325	33.25%
14 Sales	197,518	15,923	17,955	-11.32%
15 Admin & General	43,456,966	4,860,211	4,057,012	19.80%
16 Charitable Contributions	(10,386)	(10,386)	0	0.00%
17 Depreciation & Amortization	56,096,436	5,614,786	4,921,348	14.09%
18 Amortization of Big Stone Plant Capitalized Costs	0	0	0	0.00%
23 Spiritwood Amortization	0	0	0	0.00%
24 Other General Taxes	15,782,721	1,057,471	950,152	11.29%
25 Income Tax	<u>16,026,810</u>	<u>738,695</u>	<u>(479,328)</u>	<u>-254.11%</u>
25 Total Expenses	\$372,649,643	35,661,274	31,698,618	12.50%
26 Allowance for Funds Used During Construction	\$4,280,313	0	0	0
27 Regulated Operating Income	<u>\$86,072,785</u>	<u>\$6,427,902</u>	<u>\$4,875,125</u>	<u>31.85%</u>

**Otter Tail Power Company**  
**South Dakota Retail Jurisdiction**

**III. Average Rate Base**

Line	2019 <u>Total OTP</u>	2019 <u>SD Juris</u>	2018 <u>SD Juris</u>	Annual <u>Change</u>
1 Plant in Service	\$2,182,034,508	\$189,558,748	\$171,716,436	10.39%
2 Accumulated Depreciation	<u>(826,066,871)</u>	<u>(81,542,580)</u>	<u>(73,246,889)</u>	11.33%
3 Net Plant in Service	\$1,355,967,637	\$108,016,168	\$98,469,546	9.69%
4 Plant Held for Future Use	\$29,657	\$2,985	\$2,789	7.02%
5 Construction Work in Progress	108,880,703	0	0	
6 Materials and Supplies	22,675,705	2,267,186	1,917,830	18.22%
7 Fuel Stocks	8,523,367	866,139	689,829	25.56%
8 Prepayments	(10,739,193)	(855,482)	(1,547,378)	-44.71%
9 Customer Advances	(1,918,797)	(152,851)	(81,294)	88.02%
10 Cash Working Capital	14,261,501	994,799	2,471,035	-59.74%
11 Accum. Deferred Taxes	(278,286,475)	(13,440,807)	(12,711,508)	5.74%
12 Unamortized Holding Company Formation Expense	0	0	0	0.00%
Unamortized Rate Case Expense	<u>350,847</u>	<u>350,847</u>	<u>13,684</u>	100.00%
13 Total Other Rate Base	(\$136,222,684)	(\$9,967,184)	(\$9,245,013)	7.81%
14 Total Average Rate Base	<u>\$1,219,744,952</u>	<u>\$98,048,984</u>	<u>\$89,224,533</u>	9.89%

**Otter Tail Power Company  
South Dakota Retail Jurisdiction**

**IV. Cost of Capital** <sup>1</sup>

**2019 Actual**

Line		<u>Amount</u>	<u>% of Total</u>	<u>Cost</u>	<u>Weighted Cost</u>
1	Long-Term Debt	\$545,492,875	46.89%	5.20%	2.44%
2	Short-Term Debt	-	0.00%		0.00%
3	Total Debt	<u>\$545,492,875</u>	<u>46.89%</u>		
4	Preferred Stock	-	0.00%	0.00%	0.00%
5	Common Equity	<u>\$617,743,639</u>	<u>53.11%</u>	7.76%	4.12%
6	Total Equity	<u>\$617,743,639</u>	<u>53.11%</u>		
7	Total Capital	\$1,163,236,514	100.00%		6.56%

**2019 Normalized**

Line		<u>Amount</u>	<u>% of Total</u>	<u>Cost</u>	<u>Weighted Cost</u>
8	Long-Term Debt	\$545,492,875	46.89%	5.20%	2.44%
9	Short-Term Debt	-	0.00%	0.00%	0.00%
10	Total Debt	<u>\$545,492,875</u>	<u>46.89%</u>		
11	Preferred Stock	-	0.00%	0.00%	0.00%
12	Common Equity	<u>\$617,743,639</u>	<u>53.11%</u>	6.97%	3.70%
13	Total Equity	<u>\$617,743,639</u>	<u>53.11%</u>		
14	Total Capital	\$1,163,236,514	100.00%		6.14%

<sup>1</sup> Based on 13 month averages, consistent with methodology approved in last rate case, Docket No. EL18-021

**Otter Tail Power Company  
South Dakota Retail Jurisdiction**

**V. Required Rate of Return**

<sup>1</sup>

**2019 Based on Authorized ROE**

Line	<u>Amount</u>	<u>% of Total</u>	<u>Cost</u>	<u>Weighted Cost</u>
1 Long-Term Debt	\$545,492,875	46.89%	5.20%	2.44%
2 Short-Term Debt		0.00%	0.00%	0.00%
3 Total Debt	\$545,492,875	46.89%		
4 Preferred Stock		0.00%	0.00%	0.00%
5 Common Equity	<u>\$617,743,639</u>	<u>53.11%</u>	8.75%	4.65%
6 Total Equity	\$617,743,639	53.11%		
7 Total Capital	\$1,163,236,514	100.00%		7.09%

<sup>1</sup> Based on 13 month averages, consistent with methodology approved in last rate case, Docket No. EL18-021

**Otter Tail Power Company  
South Dakota Retail Jurisdiction**

**VI. Revenue Deficiency**

2019 Based on Authorized ROE

	<b>Actual 2019 SD Jurisdiction</b>	<b>Weather Normalized 2019 SD Jurisdiction</b>
Line <b>Revenue Deficiency</b>		
1 Total Operating Income	\$6,427,902	\$6,017,974
2 Total Average Rate Base	98,048,984	98,024,938
3 Require Operating Income (Rate Base x Required Return)	6,951,673	6,949,968
4 Operating Income	<u>6,427,902</u>	<u>6,017,974</u>
5 Operating Income Deficiency	\$523,771	\$931,994
6 Incremental Taxes	<u>139,230</u>	<u>247,745</u>
7 Revenue Deficiency (Income Deficiency x Conversion Factor)	\$663,001	\$1,179,739



Otter Tail Power Company (SD)  
Electric Utility - South Dakota Retail Jurisdiction  
Cost of Service Study  
2019 Actuals

Rate Base Summary <sup>1</sup>

	<u>Total Company</u> 13 Month Average Balance	<u>South Dakota</u> 13 Month Average Balance	<u>All Others</u> 13 Month Average Balance
1 Plant Investment	\$2,182,034,508	\$189,558,748	\$1,992,475,759
2 Depreciation Reserve	(826,066,871)	(81,542,580)	(744,524,291)
3 Net Utility	1,355,967,637	108,016,168	1,247,951,468
4 Plant Held for Future Use	29,657	2,985	26,672
5 CWIP	108,880,703	0	108,880,703
6 Accumulated Deferred Taxes	(278,286,475)	(13,440,807)	(264,845,668)
Other Rate Base:			0
7 Cash Working Capital	14,261,501	994,799	13,266,702
8 Materials & Supplies	22,675,705	2,267,186	20,408,520
9 Fuel Inventory	8,523,367	866,139	7,657,227
10 Non-Plant Assets & Liab	350,847	350,847	0
11 Prepays & Other	(12,657,990)	(1,008,333)	(11,649,656)
<b>12 Total Rate Base</b>	<b>\$1,219,744,952</b>	<b>\$98,048,984</b>	<b>\$1,121,695,968</b>

<sup>1</sup> Based on 13 month averages, consistent with methodology approved in last rate case,  
Docket No. EL18-021

Otter Tail Power Company (SD)  
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Income Statement Summary

	Total Company Electric	SD Retail Electric	All Others
<b>Operating Revenues</b>			
Retail	\$402,936,722	\$40,662,279	\$362,274,443
Other Operating	51,505,393	1,426,898	50,078,496
<b>Total Operating revenues</b>	<b>\$454,442,115</b>	<b>\$42,089,176</b>	<b>\$412,352,939</b>
<b>Expenses</b>			
Operating Expenses:			
Fuel & Purchased Energy	\$94,192,001	9,354,552	\$84,837,449
Power Production	72,065,977	7,148,921	64,917,056
Transmission	31,344,027	2,951,073	28,392,954
Distribution	18,329,594	1,846,799	16,482,795
Customer Accounting	13,387,241	1,196,692	12,190,548
Customer Service & Information	11,780,740	886,538	10,894,202
Sales, Econ Dvp & Other	197,518	15,923	181,596
Administrative & General	43,456,966	4,860,211	38,596,755
General Taxes	15,782,721	1,057,471	14,725,250
Charitable Contributions	(10,386)	(10,386)	0
<b>Total Operating Expenses</b>	<b>\$300,526,397</b>	<b>\$29,307,793</b>	<b>\$271,218,604</b>
Depreciation	\$56,096,436	\$5,614,786	\$50,481,650
Amortization	0	0	0
<b>Taxes</b>			
Investment Tax Credit	(\$1,347,924)	(\$117,098)	(\$1,230,826)
Deferred Income Taxes	368,346	(112,098)	480,444
Current Income Taxes (Addendum 3)	17,006,388	967,891	16,038,497
<b>Total Taxes</b>	<b>\$16,026,810</b>	<b>\$738,695</b>	<b>\$15,288,115</b>
<b>Total Expenses</b>	<b>\$372,649,643</b>	<b>\$35,661,274</b>	<b>\$336,988,369</b>
AFUDC	4,280,313	0	4,280,313
<b>Total Operating Income</b>	<b>\$86,072,785</b>	<b>\$6,427,902</b>	<b>\$79,644,883</b>

Otter Tail Power Company (SD)  
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Current Income Tax Summary

	Total Company Electric	SD Retail Electric	All Others
<b>Income Before Taxes</b>			
Total Operating Revenues	\$454,442,115	\$42,089,176	\$412,352,939
less: Total Operating Expenses	(284,743,677)	(28,250,322)	(256,493,355)
Book Depreciation & Amortization	(56,096,436)	(5,614,786)	(50,481,650)
Taxes (Other Than Current Income)	(15,782,721)	(1,057,471)	(14,725,250)
<b>Total Before Tax Book Income</b>	<b>\$97,819,282</b>	<b>\$7,166,597</b>	<b>\$90,652,685</b>
less: Interest Cost	29,021,274	2,655,017	26,366,257
<b>Net Income Before Tax</b>	<b>\$68,798,008</b>	<b>\$4,511,581</b>	<b>\$64,286,427</b>
<b>Federal Schedule M Adjustments</b>			
Additional Tax Depreciation	(\$1,603,265)	(\$127,716)	(\$1,475,550)
Cost to Remove	2,919,698	232,583	2,687,115
Directly Assigned Schedule M Items	0	0	0
Accrued Vacation Pay	(169,582)	(13,509)	(156,073)
Charges - Operating Reserves	6,787,268	540,673	6,246,595
Provisions - Operating Reserves	(9,518,436)	(758,237)	(8,760,199)
Unbilled Revenues	0	0	0
Preferred Dividends Paid Credits	0	0	0
Other Schedule M Items	361,303	28,781	332,521
<b>Total Schedule M Adjustments</b>	<b>(\$1,223,015)</b>	<b>(\$97,425)</b>	<b>(\$1,125,589)</b>
<b>Federal Adjusted Income Before Income Taxes</b>	<b>70,021,023</b>	<b>4,609,006</b>	<b>65,412,017</b>
Less:			
Minnesota State Income Tax	2,069,137	0	2,069,137
North Dakota State Income Tax	844,753	0	844,753
<b>Federal Taxable Income</b>	<b>67,107,132</b>	<b>4,609,006</b>	<b>62,498,126</b>
Federal Tax Rate	21%	21%	21%
Federal Income Tax Before Credits	14,092,498	967,891	13,124,606
Investment Tax Credit - Debits Utilized	0	0	0
less: Current Federal Income Taxes transferred to Deferred Taxes due to Net Operating Loss	0	0	0
<b>Federal Income Taxes</b>	<b>\$14,092,498</b>	<b>\$967,891</b>	<b>\$13,124,606</b>
<b>State Income Taxes</b>			
Minnesota State Income Tax	2,069,137	0	2,069,137
North Dakota State Income Tax	844,753	0	844,753
<b>Total Current Income Taxes</b>	<b>\$17,006,388</b>	<b>\$967,891</b>	<b>\$16,038,497</b>

Otter Tail Power Company (SD)  
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Revenue Requirement & Return Summary

Capital Structure		Rate	Ratio	Weighted Cost	Composite Income Tax Rates		
1	Long Term Debt	\$545,492,875	5.20%	46.89%	2.44%	State of South Dakota Tax Rate	0.00%
2	Short Term Debt	0	0.00%	0.00%	0.00%	Federal Statutory Tax Rate	21.00%
3	Preferred Stock	0	0.00%	0.00%	0.00%	Federal Effective Tax Rate (1-State Rate x Fed Rate)	21.00%
4	Common Equity	\$617,743,639	7.76%	53.11%	4.12%	Total South Dakota Composite Tax Rate	21.00%
5	Required Earned Rate of Return				6.56%	Total Corporate Composite Tax Rate	21.00%

	Total Company Electric	SD Retail Electric	All Others	
<b>Rate of Return (ROR)</b>				
6	Total Operating Income	86,072,785	6,427,902	79,644,883
7	Total Average Rate Base	1,219,744,952	98,048,984	1,121,695,968
8	<b>ROR (Operating Income/Rate Base)</b>	7.06%	6.56%	7.10%
<b>Return on Equity (ROE)</b>				
9	Total Operating Income	\$86,072,785	\$6,427,902	\$79,644,883
10	Debt Interest (Rate Base x Weighted Debt Cost)	29,761,777	2,392,395	27,369,382
11	Preferred Stock (Rate Base x Weighted Preferred Cost)	0	0	0
12	Earnings Available for Common	56,311,009	4,035,507	52,275,502
13	Equity Rate Base (Rate Base x Equity Ratio)	647,752,780	52,069,494	595,683,286
14	<b>ROE (Earnings for Common / Equity Rate Base)</b>	8.69%	7.75%	8.78%
<b>Revenue Deficiency</b>				
15	Require Operating Income (Rate Base x Required Return)		\$6,951,673	
16	Operating Income		6,427,902	
17	Operating Income Deficiency		523,771	
18	Incremental Taxes		139,230	
19	<b>Revenue Deficiency</b>		\$663,001	
<b>Total Retail Revenue Requirements</b>				
20	Retail Related Revenues		\$40,662,279	
21	Revenue Deficiency		663,001	
22	<b>Total Retail Revenue Requirements</b>		\$41,325,280	
23	Percentage Increase (Decrease)		1.63%	