

**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, 2020**

**South Dakota Jurisdiction**  
Electric Utility



**2020**

## TABLE OF CONTENTS

I.	Return on Equity .....	Exhibit 1
II.	Operating Income.....	Exhibit 2
III.	Average Rate Base .....	Exhibit 3
IV.	Cost of Capital .....	Exhibit 4
V.	Required Rate of Return .....	Exhibit 5
VI.	Revenue Deficiency .....	Exhibit 6
	Addendum 1	
	Addendum 2	
	Addendum 3	
	Addendum 4	

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

**I. Return on Equity**

<b><u>Actual Return on Equity (ROE)</u></b>		<b><u>2020</u></b>	<b><u>2019</u></b>
(In Thousands)			
1	Operating Income from Electric Operations (Exhibit 2)	\$4,330	\$6,428
2	Average Regulated Rate Base (Exhibit 3)	\$100,836	\$98,049
3	Rate of Return on Rate Base (Line 1/Line 2)	4.29%	6.56%
4	Weighted Cost of Debt (Exhibit 4)	4.89%	5.20%
5	Weighted Cost of Preferred Stock (Exhibit 4)	0.00%	0.00%
6	Percent of Equity in Capital Structure	52.61%	53.11%
7	Return on Equity (ROE)	3.74%	7.76%

**Normalization Impact**

8	Operating Income from Electric Operations	\$4,237	\$6,018
9	Impact of weather on mWh Sales	420	(9,299)
10	Impact of Weather on Electric Operating Income	(\$93)	(\$410)
11	Weather Normalized Operating Income	\$4,237	\$6,018
12	Average Regulated Rate Base	\$100,839	\$98,025
13	Weather Normalized Rate of Return on Rate Base	4.20%	6.14%
14	Weather Normalized Return on Equity (ROE)	3.57%	6.97%

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

**II. OPERATING INCOME**

Line		2020 Total OTP	2020 SD Juris	2019 SD Juris	Annual Change
	<b><u>Operating Revenues</u></b>				
1	Residential	\$127,820,944	\$11,473,713	\$12,856,331	-10.75%
2	Small Commercial	93,027,227	7,905,580	8,992,170	-12.08%
3	Large Commercial & Industrial	156,048,928	14,272,133	18,009,373	-20.75%
4	Streetlighting	3,810,482	397,714	464,576	-14.39%
5	OPA	3,490,319	319,344	339,829	-6.03%
6	Total Retail	\$384,197,900	\$34,368,484	\$40,662,279	-15.48%
7	Other Operating Revenue	55,185,625	2,333,213	1,426,898	63.52%
8	Total Revenue	\$439,383,525	\$36,701,697	\$42,089,177	-12.80%
	<b><u>Operating Expenses</u></b>				
9	Production	\$137,359,950	\$14,002,290	\$16,503,473	-15.16%
10	Transmission	29,362,372	2,908,610	2,951,073	-1.44%
11	Distribution	17,070,454	1,706,560	1,846,799	-7.59%
12	Customer Accounting	15,030,388	1,327,210	1,196,692	10.91%
13	Customer Service and Information	12,509,933	945,228	886,538	6.62%
14	Sales	209,549	23,107	15,923	45.12%
15	Admin & General	44,011,619	4,316,376	4,860,211	-11.19%
16	Charitable Contributions	(9,296)	(9,296)	(10,386)	0.00%
17	Depreciation & Amortization	61,335,317	6,277,821	5,614,786	11.81%
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	17,026,036	1,471,122	1,057,471	39.12%
25	Income Tax	10,208,555	(597,591)	738,695	-180.90%
25	Total Expenses	\$344,114,877	32,371,437	35,661,275	-9.23%
26	Allowance for Funds Used During Construction	\$6,188,344	0	0	0
27	Regulated Operating Income	\$101,456,992	\$4,330,260	\$6,427,902	-32.63%

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

**III. Average Rate Base**

Line		<b>2020 Total OTP</b>	<b>2020 SD Juris</b>	<b>2019 SD Juris</b>	<b>Annual Change</b>
1	Plant in Service	\$2,268,130,225	\$200,642,228	\$189,558,748	5.85%
2	Accumulated Depreciation	(855,279,823)	(85,783,953)	(81,542,580)	5.20%
3	Net Plant in Service	\$1,412,850,402	\$114,858,275	\$108,016,168	6.33%
4	Plant Held for Future Use	\$29,657	\$3,005	\$2,985	0.67%
5	Construction Work in Progress	308,948,712	0	0	
6	Materials and Supplies	23,276,084	2,369,813	2,267,186	4.53%
7	Fuel Stocks	8,316,246	870,491	866,139	0.50%
8	Prepayments	5,135,014	417,453	(855,482)	-148.80%
9	Customer Advances	(2,538,448)	(206,364)	(152,851)	35.01%
10	Cash Working Capital	12,220,083	614,355	994,799	-38.24%
11	Accum. Deferred Taxes	(292,877,268)	(18,405,252)	(13,440,807)	36.94%
12	Unamortized Holding Company Formation Expense	0	0	0	0.00%
	Unamortized Rate Case Expense	314,541	314,541	350,847	-10.35%
13	Total Other Rate Base	\$62,824,621	(\$14,021,958)	(\$9,967,184)	40.68%
14	Total Average Rate Base	\$1,475,675,023	\$100,836,317	\$98,048,984	2.84%

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

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

**2020 Actual**

Line		<u>Amount</u>	<u>% of Total</u>	<u>Cost</u>	<u>Weighted Cost</u>
1	Long-Term Debt	\$654,263,124	47.39%	4.89%	2.32%
2	Short-Term Debt	-	0.00%		0.00%
3	Total Debt	<u>\$654,263,124</u>	<u>47.39%</u>		
4	Preferred Stock	-	0.00%	0.00%	0.00%
5	Common Equity	<u>\$726,310,248</u>	<u>52.61%</u>	3.74%	1.97%
6	Total Equity	<u>\$726,310,248</u>	<u>52.61%</u>		
7	Total Capital	\$1,380,573,372	100.00%		4.29%

**2020 Normalized**

Line		<u>Amount</u>	<u>% of Total</u>	<u>Cost</u>	<u>Weighted Cost</u>
8	Long-Term Debt	\$654,263,124	47.39%	4.89%	2.32%
9	Short-Term Debt	-	0.00%	0.00%	0.00%
10	Total Debt	<u>\$654,263,124</u>	<u>47.39%</u>		
11	Preferred Stock	-	0.00%	0.00%	0.00%
12	Common Equity	<u>\$726,310,248</u>	<u>52.61%</u>	3.57%	1.88%
13	Total Equity	<u>\$726,310,248</u>	<u>52.61%</u>		
14	Total Capital	\$1,380,573,372	100.00%		4.20%

<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>

**2020 Based on Authorized ROE**

Line		<u>Amount</u>	<u>% of Total</u>	<u>Cost</u>	<u>Weighted Cost</u>
1	Long-Term Debt	\$654,263,124	47.39%	4.89%	2.32%
2	Short-Term Debt		0.00%	0.00%	0.00%
3	Total Debt	\$654,263,124	47.39%		
4	Preferred Stock		0.00%	0.00%	0.00%
5	Common Equity	<u>\$726,310,248</u>	<u>52.61%</u>	8.75%	4.60%
6	Total Equity	\$726,310,248	52.61%		
7	Total Capital	\$1,380,573,372	100.00%		6.92%

<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**

2020 Based on Authorized ROE

		<b>Actual 2020 SD Jurisdiction</b>	<b>Weather Normalized 2020 SD Jurisdiction</b>
Line	<b>Revenue Deficiency</b>		
1	Total Operating Income	\$4,330,260	\$4,236,900
2	Total Average Rate Base	100,836,317	100,839,448
3	Require Operating Income (Rate Base x Required Return)	6,977,873	6,978,090
4	Operating Income	4,330,260	4,236,900
5	Operating Income Deficiency	\$2,647,613	\$2,741,190
6	Incremental Taxes	708,830	733,883
7	Revenue Deficiency (Income Deficiency x Conversion Factor)	\$3,356,443	\$3,475,073



Otter Tail Power Company (SD)  
Electric Utility - South Dakota Retail Jurisdiction  
Cost of Service Study  
2020 Actuals

Rate Base Summary <sup>1</sup>

	<b>Total Company</b>	<b>South Dakota</b>	<b>All Others</b>
	<b>13 Month</b>	<b>13 Month</b>	<b>13 Month</b>
	<b>Average Balance</b>	<b>Average Balance</b>	<b>Average Balance</b>
<b>1</b> Plant Investment	\$2,268,130,225	\$200,642,228	\$2,067,487,997
<b>2</b> Depreciation Reserve	(855,279,823)	(85,783,953)	(769,495,870)
<b>3</b> Net Utility	1,412,850,402	114,858,275	1,297,992,127
<b>4</b> Plant Held for Future Use	29,657	3,005	26,652
<b>5</b> CWIP	308,948,712	0	308,948,712
<b>6</b> Accumulated Deferred Taxes	(292,877,268)	(18,405,252)	(274,472,016)
Other Rate Base:			0
<b>7</b> Cash Working Capital	12,220,083	614,355	11,605,728
<b>8</b> Materials & Supplies	23,276,084	2,369,813	20,906,271
<b>9</b> Fuel Inventory	8,316,246	870,491	7,445,755
<b>10</b> Non-Plant Assets & Liab	314,541	314,541	0
<b>11</b> Prepaids & Other	2,596,566	211,089	2,385,477
<b>12 Total Rate Base</b>	<b>\$1,475,675,023</b>	<b>\$100,836,317</b>	<b>\$1,374,838,706</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)  
Electric Utility - South Dakota Retail Jurisdiction  
Cost of Service Study  
2020 Actuals

Income Statement Summary

	Total Company Electric	SD Retail Electric	All Others
<b>Operating Revenues</b>			
Retail	\$384,197,900	\$34,368,484	\$349,829,416
Other Operating	55,185,625	2,333,213	52,852,412
<b>Total Operating revenues</b>	<b>\$439,383,525</b>	<b>\$36,701,697</b>	<b>\$402,681,828</b>
<b>Expenses</b>			
Operating Expenses:			
Fuel & Purchased Energy	\$75,661,760	7,728,653	\$67,933,107
Power Production	61,698,190	6,273,636	55,424,554
Transmission	29,362,372	2,908,610	26,453,762
Distribution	17,070,454	1,706,560	15,363,894
Customer Accounting	15,030,388	1,327,210	13,703,178
Customer Service & Information	12,509,933	945,228	11,564,705
Sales, Econ Dvp & Other	209,549	23,107	186,442
Administrative & General	44,011,619	4,316,376	39,695,243
General Taxes	17,026,036	1,471,122	15,554,914
Charitable Contributions	(9,296)	(9,296)	0
<b>Total Operating Expenses</b>	<b>\$272,571,005</b>	<b>\$26,691,206</b>	<b>\$245,879,799</b>
Depreciation	\$61,335,317	\$6,277,821	\$55,057,496
Amortization	0	0	0
<b>Taxes</b>			
Investment Tax Credit	(\$2,564,860)	(\$226,891)	(\$2,337,969)
Deferred Income Taxes	(825,612)	(370,699)	(454,913)
Current Income Taxes (Addendum 3)	13,599,026	0	13,599,026
<b>Total Taxes</b>	<b>\$10,208,554</b>	<b>(\$597,590)</b>	<b>\$10,806,144</b>
<b>Total Expenses</b>	<b>\$344,114,876</b>	<b>\$32,371,437</b>	<b>\$311,743,439</b>
AFUDC	6,188,344	0	6,188,344
<b>Total Operating Income</b>	<b>\$101,456,993</b>	<b>\$4,330,260</b>	<b>\$97,126,733</b>

Otter Tail Power Company (SD)  
Electric Utility - South Dakota Retail Jurisdiction  
Cost of Service Study  
2020 Actuals

Current Income Tax Summary

	Total Company Electric	SD Retail Electric	All Others
<b>Income Before Taxes</b>			
Total Operating Revenues	\$439,383,525	\$36,701,697	\$402,681,828
less: Total Operating Expenses	(255,544,969)	(25,220,085)	(230,324,884)
Book Depreciation & Amortization	(61,335,317)	(6,277,821)	(55,057,496)
Taxes (Other Than Current Income)	(17,026,036)	(1,471,122)	(15,554,914)
<b>Total Before Tax Book Income</b>	<b>\$105,477,203</b>	<b>\$3,732,669</b>	<b>\$101,744,534</b>
less: Interest Cost	31,798,646	3,076,992	28,721,654
<b>Net Income Before Tax</b>	<b>\$73,678,557</b>	<b>\$655,677</b>	<b>\$73,022,880</b>
<b>Federal Schedule M Adjustments</b>			
Additional Tax Depreciation	\$11,942,409	\$970,863	\$10,971,546
Cost to Remove	4,464,998	362,984	4,102,014
Directly Assigned Schedule M Items	0	0	0
Accrued Vacation Pay	485,488	39,468	446,020
Charges - Operating Reserves	7,550,558	613,826	6,936,732
Provisions - Operating Reserves	(9,658,684)	(785,207)	(8,873,477)
Unbilled Revenues	0	0	0
Preferred Dividends Paid Credits	0	0	0
Other Schedule M Items	4,775,261	388,207	4,387,054
<b>Total Schedule M Adjustments</b>	<b>\$19,560,030</b>	<b>\$1,590,141</b>	<b>\$17,969,889</b>
<b>Federal Adjusted Income Before Income Taxes</b>	<b>54,118,527</b>	<b>(934,464)</b>	<b>55,052,991</b>
Less:			
Minnesota State Income Tax	1,486,092	0	1,486,092
North Dakota State Income Tax	845,126	0	845,126
<b>Federal Taxable Income</b>	<b>51,787,309</b>	<b>(934,464)</b>	<b>52,721,773</b>
Federal Tax Rate	21%	21%	21%
Federal Income Tax Before Credits	11,071,572	(196,237)	11,071,572
Investment Tax Credit - Debits Utilized	0	0	0
less: Current Federal Income Taxes transferred to	196,237	196,237	0
Deferred Taxes due to Net Operating Loss			
<b>Federal Income Taxes</b>	<b>\$11,267,809</b>	<b>\$0</b>	<b>\$11,071,572</b>
<b>State Income Taxes</b>			
Minnesota State Income Tax	1,486,092	0	1,486,092
North Dakota State Income Tax	845,126	0	845,126
<b>Total Current Income Taxes</b>	<b>\$13,599,027</b>	<b>\$0</b>	<b>\$13,402,790</b>

Otter Tail Power Company (SD)  
Electric Utility - South Dakota Retail Jurisdiction  
Cost of Service Study  
2020 Actuals

Revenue Requirement & Return Summary

Capital Structure		Rate	Ratio	Weighted Cost	Composite Income Tax Rates	
1	Long Term Debt	\$654,263,124	4.89%	47.39%	2.32%	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	\$726,310,248	3.74%	52.61%	1.97%	Total South Dakota Composite Tax Rate 21.00%
5	Required Earned Rate of Return			4.29%	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	101,456,992	4,330,260	97,126,732
7	Total Average Rate Base	1,475,675,023	100,836,317	1,374,838,706
8	<b>ROR (Operating Income/Rate Base)</b>	6.88%	4.29%	7.06%
<b>Return on Equity (ROE)</b>				
9	Total Operating Income	\$101,456,992	\$4,330,260	\$97,126,732
10	Debt Interest (Rate Base x Weighted Debt Cost)	34,235,661	2,339,403	31,896,258
11	Preferred Stock (Rate Base x Weighted Preferred Cost)	0	0	0
12	Earnings Available for Common	67,221,331	1,990,857	65,230,474
13	Equity Rate Base (Rate Base x Equity Ratio)	776,342,579	53,049,300	723,293,279
14	<b>ROE (Earnings for Common / Equity Rate Base)</b>	8.66%	3.75%	9.02%
<b>Revenue Deficiency</b>				
15	Require Operating Income (Rate Base x Required Return)		\$6,977,873	
16	Operating Income		4,330,260	
17	Operating Income Deficiency		2,647,613	
18	Incremental Taxes		708,830	
19	<b>Revenue Deficiency</b>		<u>\$3,356,443</u>	
<b>Total Retail Revenue Requirements</b>				
20	Retail Related Revenues		\$34,368,484	
21	Revenue Deficiency		3,356,443	
22	<b>Total Retail Revenue Requirements</b>		<u>\$37,724,927</u>	
23	Percentage Increase (Decrease)		9.77%	