

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, 2021

South Dakota Jurisdiction
Electric Utility



2021

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

I. Return on Equity

<u>Actual Return on Equity (ROE)</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
(In Thousands)			
1 Operating Income from Electric Operations (Exhibit 2)	\$7,819	\$4,330	\$6,428
2 Average Regulated Rate Base (Exhibit 3)	\$131,795	\$100,836	\$98,049
3 Rate of Return on Rate Base (Line 1/Line 2)	5.93%	4.29%	6.56%
4 Weighted Cost of Debt (Exhibit 4)	4.50%	4.89%	5.20%
5 Weighted Cost of Preferred Stock (Exhibit 4)	0.00%	0.00%	0.00%
6 Percent of Equity in Capital Structure	52.66%	52.61%	53.11%
7 Return on Equity (ROE)	7.22%	3.74%	7.76%

Normalization Impact

8 Operating Income from Electric Operations	\$7,799	\$4,237	\$6,018
9 Impact of weather on mWh Sales	906	420	(9,299)
10 Impact of Weather on Electric Operating Income	(\$21)	(\$93)	(\$410)
11 Weather Normalized Operating Income	\$7,799	\$4,237	\$6,018
12 Average Regulated Rate Base	\$131,795	\$100,839	\$98,025
13 Weather Normalized Rate of Return on Rate Base	5.92%	4.20%	6.14%
14 Weather Normalized Return on Equity (ROE)	7.20%	3.57%	6.97%

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

II. OPERATING INCOME

Line	<u>2021 Total OTP</u>	<u>2021 SD Juris</u>	<u>2020 SD Juris</u>	<u>Annual Change</u>
<u>Operating Revenues</u>				
1 Residential	\$133,147,625	\$12,445,812	\$11,473,713	8.47%
2 Small Commercial	93,725,430	8,377,305	7,905,580	5.97%
3 Large Commercial & Industrial	167,774,256	18,330,027	14,272,133	28.43%
4 Streetlighting	3,972,128	405,609	397,714	1.99%
5 OPA	3,536,404	349,735	319,344	9.52%
6 Total Retail	\$402,155,843	\$39,908,488	\$34,368,484	16.12%
7 Other Operating Revenue	73,777,304	3,596,989	2,333,213	54.16%
8 Total Revenue	\$475,933,147	\$43,505,477	\$36,701,697	18.54%
<u>Operating Expenses</u>				
9 Production	\$159,645,714	\$16,615,191	\$14,002,290	18.66%
10 Transmission	32,439,322	3,208,620	2,908,610	10.31%
11 Distribution	17,122,676	1,731,476	1,706,560	1.46%
12 Customer Accounting	12,279,361	1,085,704	1,327,210	-18.20%
13 Customer Service and Information	12,794,005	1,146,210	945,228	21.26%
14 Sales	333,732	86,289	23,107	273.43%
15 Admin & General	45,564,639	4,376,800	4,316,376	1.40%
16 Charitable Contributions	(7,746)	(7,746)	(9,296)	0.00%
17 Depreciation & Amortization	65,871,163	6,835,921	6,277,821	8.89%
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	17,601,364	1,546,597	1,471,122	5.13%
25 Income Tax	22,621,337	(938,711)	(597,591)	57.08%
25 Total Expenses	\$386,265,568	35,686,351	32,371,437	10.24%
26 Allowance for Funds Used During Construction	\$1,450,676	0	0	0
27 Regulated Operating Income	\$91,118,256	\$7,819,126	\$4,330,260	80.57%

Otter Tail Power Company
South Dakota Retail Jurisdiction

III. Average Rate Base

Line	<u>2021 Total OTP</u>	<u>2021 SD Juris</u>	<u>2020 SD Juris</u>	<u>Annual Change</u>
1 Plant in Service	\$2,684,033,652	\$241,186,037	\$200,642,228	20.21%
2 Accumulated Depreciation	(911,661,332)	(92,051,029)	(85,783,953)	7.31%
3 Net Plant in Service	<u>\$1,772,372,320</u>	<u>\$149,135,008</u>	<u>\$114,858,275</u>	29.84%
4 Plant Held for Future Use	\$29,657	\$3,021	\$3,005	0.54%
5 Construction Work in Progress	109,997,693	0	0	
6 Materials and Supplies	23,926,350	2,453,733	2,369,813	3.54%
7 Fuel Stocks	7,003,249	745,556	870,491	-14.35%
8 Prepayments	11,020,262	927,292	417,453	122.13%
9 Customer Advances	(1,510,995)	(127,142)	(206,364)	-38.39%
10 Cash Working Capital	8,430,165	565,596	614,355	-7.94%
11 Accum. Deferred Taxes	(302,466,859)	(22,084,942)	(18,405,252)	19.99%
12 Unamortized Holding Company Formation Expense	0	0	0	0.00%
Unamortized Rate Case Expense	<u>176,883</u>	<u>176,883</u>	<u>314,541</u>	-43.76%
13 Total Other Rate Base	<u>(\$143,393,593)</u>	<u>(\$17,340,003)</u>	<u>(\$14,021,958)</u>	23.66%
14 Total Average Rate Base	<u>\$1,628,978,727</u>	<u>\$131,795,006</u>	<u>\$100,836,317</u>	30.70%

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

IV. Cost of Capital ¹

2021 Actual

Line	<u>Amount</u>	<u>% of Total</u>	<u>Cost</u>	<u>Weighted Cost</u>
1 Long-Term Debt	\$742,517,049	47.34%	4.50%	2.13%
2 Short-Term Debt	-	0.00%		0.00%
3 Total Debt	<u>\$742,517,049</u>	<u>47.34%</u>		
4 Preferred Stock	-	0.00%	0.00%	0.00%
5 Common Equity	<u>\$825,898,503</u>	<u>52.66%</u>	7.22%	3.80%
6 Total Equity	\$825,898,503	52.66%		
7 Total Capital	\$1,568,415,553	100.00%		5.93%

2021 Normalized

Line	<u>Amount</u>	<u>% of Total</u>	<u>Cost</u>	<u>Weighted Cost</u>
8 Long-Term Debt	\$742,517,049	47.34%	4.50%	2.13%
9 Short-Term Debt	-	0.00%	0.00%	0.00%
10 Total Debt	<u>\$742,517,049</u>	<u>47.34%</u>		
11 Preferred Stock	-	0.00%	0.00%	0.00%
12 Common Equity	<u>\$825,898,503</u>	<u>52.66%</u>	7.20%	3.79%
13 Total Equity	\$825,898,503	52.66%		
14 Total Capital	\$1,568,415,553	100.00%		5.92%

¹ 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 ¹

2021 Based on Authorized ROE

Line	<u>Amount</u>	<u>% of Total</u>	<u>Cost</u>	<u>Weighted Cost</u>
1 Long-Term Debt	\$742,517,049	47.34%	4.50%	2.13%
2 Short-Term Debt		0.00%	0.00%	0.00%
3 Total Debt	\$742,517,049	47.34%		
4 Preferred Stock		0.00%	0.00%	0.00%
5 Common Equity	<u>\$825,898,503</u>	<u>52.66%</u>	8.75%	4.61%
6 Total Equity	\$825,898,503	52.66%		
7 Total Capital	\$1,568,415,553	100.00%		6.74%

¹ 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

2021 Based on Authorized ROE

	Actual 2021 SD Jurisdiction	Weather Normalized 2021 SD Jurisdiction
Line Revenue Deficiency		
1 Total Operating Income	\$7,819,126	\$7,798,512
2 Total Average Rate Base	131,795,006	131,794,767
3 Require Operating Income (Rate Base x Required Return)	8,882,983	8,882,967
4 Operating Income	<u>7,819,126</u>	<u>7,798,512</u>
5 Operating Income Deficiency	\$1,063,857	\$1,084,455
6 Incremental Taxes	<u>282,797</u>	<u>288,273</u>
7 Revenue Deficiency (Income Deficiency x Conversion Factor)	\$1,346,654	\$1,372,728

Otter Tail Power Company (SD)
Electric Utility - South Dakota Retail Jurisdiction
Cost of Service Study
2021 Actuals

Rate Base Summary ¹

	<u>Total Company</u>	<u>South Dakota</u>	<u>All Others</u>
	13 Month	13 Month	13 Month
	Average Balance	Average Balance	Average Balance
1 Plant Investment	\$2,684,033,652	\$241,186,037	\$2,442,847,615
2 Depreciation Reserve	(911,661,332)	(92,051,029)	(819,610,303)
3 Net Utility	1,772,372,320	149,135,008	1,623,237,312
4 Plant Held for Future Use	29,657	3,021	26,636
5 CWIP	109,997,693	0	109,997,693
6 Accumulated Deferred Taxes	(302,466,859)	(22,084,942)	(280,381,917)
Other Rate Base:			
7 Cash Working Capital	8,430,165	565,596	7,864,569
8 Materials & Supplies	23,926,350	2,453,733	21,472,617
9 Fuel Inventory	7,003,249	745,556	6,257,693
10 Non-Plant Assets & Liab	176,883	176,883	0
11 Prepays & Other	9,509,268	800,151	8,709,117
12 Total Rate Base	\$1,628,978,727	\$131,795,006	\$1,497,183,721

¹ 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
2021 Actuals

Income Statement Summary

	Total Company Electric	SD Retail Electric	All Others
Operating Revenues			
Retail	\$402,155,843	\$39,908,488	\$362,247,355
Other Operating	73,777,304	3,596,989	70,180,315
Total Operating revenues	\$475,933,147	\$43,505,477	\$432,427,670
Expenses			
Operating Expenses:			
Fuel & Purchased Energy	\$94,237,136	9,780,796	\$84,456,340
Power Production	65,408,578	6,834,395	58,574,183
Transmission	32,439,322	3,208,620	29,230,701
Distribution	17,122,676	1,731,476	15,391,200
Customer Accounting	12,279,361	1,085,704	11,193,657
Customer Service & Information	12,794,005	1,146,210	11,647,795
Sales, Econ Dvp & Other	333,732	86,289	247,443
Administrative & General	45,564,639	4,376,800	41,187,839
General Taxes	17,601,364	1,546,597	16,054,767
Charitable Contributions	(7,746)	(7,746)	0
Total Operating Expenses	\$297,773,067	\$29,789,141	\$267,983,926
Depreciation	\$65,871,163	\$6,835,921	\$59,035,242
Amortization	0	0	0
Taxes			
Investment Tax Credit	(\$744,517)	(\$1,371,210)	\$626,693
Deferred Income Taxes	17,053,268	432,499	16,620,769
Current Income Taxes (Addendum 3)	6,312,586	0	6,312,586
Total Taxes	\$22,621,337	(\$938,711)	\$23,560,048
Total Expenses	\$386,265,568	\$35,686,351	\$350,579,217
AFUDC	1,450,676	0	1,450,676
Total Operating Income	\$91,118,256	\$7,819,126	\$83,299,130

Otter Tail Power Company (SD)
Electric Utility - South Dakota Retail Jurisdiction
Cost of Service Study
2021 Actuals

Current Income Tax Summary

	Total Company Electric	SD Retail Electric	All Others
Income Before Taxes			
Total Operating Revenues	\$475,933,147	\$43,505,477	\$432,427,670
less: Total Operating Expenses	(280,171,703)	(28,242,544)	(251,929,159)
Book Depreciation & Amortization	(65,871,163)	(6,835,921)	(59,035,242)
Taxes (Other Than Current Income)	(17,601,364)	(1,546,597)	(16,054,767)
Total Before Tax Book Income	\$112,288,917	\$6,880,415	\$105,408,502
less: Interest Cost	34,028,543	3,047,004	30,981,539
Net Income Before Tax	\$78,260,374	\$3,833,411	\$74,426,963
Federal Schedule M Adjustments			
Additional Tax Depreciation	\$103,783,537	\$8,732,792	\$95,050,745
Cost to Remove	8,254,720	694,588	7,560,132
Directly Assigned Schedule M Items	0	0	0
Accrued Vacation Pay	(20,608)	(1,734)	(18,874)
Charges - Operating Reserves	6,290,417	529,303	5,761,114
Provisions - Operating Reserves	(2,921,894)	(245,861)	(2,676,033)
Unbilled Revenues	0	0	0
Preferred Dividends Paid Credits	0	0	0
Other Schedule M Items	3,434,147	288,964	3,145,183
Total Schedule M Adjustments	\$118,820,319	\$9,998,051	\$108,822,268
Federal Adjusted Income Before Income Taxes	(40,559,945)	(6,164,640)	(34,395,305)
Less:			
Minnesota State Income Tax	(3,135,070)	0	(3,135,070)
North Dakota State Income Tax	(498,336)	0	(498,336)
Federal Taxable Income	(36,926,539)	(6,164,640)	(30,761,899)
Federal Tax Rate	21%	21%	21%
Federal Income Tax Before Credits	(7,754,573)	(1,294,574)	(6,459,999)
Investment Tax Credit - Debits Utilized	0	0	0
less: Current Federal Income Taxes transferred to Deferred Taxes due to Net Operating Loss	8,850,283	1,294,574	7,555,708
Federal Income Taxes	\$1,095,710	\$0	\$1,095,710
State Income Taxes			
Minnesota State Income Tax	(3,135,070)	0	(3,135,070)
North Dakota State Income Tax	(498,336)	0	(498,336)
Total Current Income Taxes	(\$2,537,696)	\$0	(\$2,537,696)

Otter Tail Power Company (SD)
Electric Utility - South Dakota Retail Jurisdiction
Cost of Service Study
2021 Actuals

Revenue Requirement & Return Summary

Capital Structure		Rate	Ratio	Weighted Cost	Composite Income Tax Rates		
1	Long Term Debt	\$742,517,049	4.50%	47.34%	2.13%	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	\$825,898,503	7.22%	52.66%	3.80%	Total South Dakota Composite Tax Rate	21.00%
5	Required Earned Rate of Return				5.93%	Total Corporate Composite Tax Rate	21.00%

	Total Company Electric	SD Retail Electric	All Others	
Rate of Return (ROR)				
6	Total Operating Income	91,118,256	7,819,126	83,299,130
7	Total Average Rate Base	1,628,978,727	131,795,006	1,497,183,721
8	ROR (Operating Income/Rate Base)	5.59%	5.93%	5.56%
Return on Equity (ROE)				
9	Total Operating Income	\$91,118,256	\$7,819,126	\$83,299,130
10	Debt Interest (Rate Base x Weighted Debt Cost)	34,697,247	2,807,234	31,890,013
11	Preferred Stock (Rate Base x Weighted Preferred Cost)	0	0	0
12	Earnings Available for Common	56,421,009	5,011,893	51,409,116
13	Equity Rate Base (Rate Base x Equity Ratio)	857,789,946	69,400,802	788,389,144
14	ROE (Earnings for Common / Equity Rate Base)	6.58%	7.22%	6.52%
Revenue Deficiency				
15	Require Operating Income (Rate Base x Required Return)		\$8,882,983	
16	Operating Income		7,819,126	
17	Operating Income Deficiency		1,063,857	
18	Incremental Taxes		282,797	
19	Revenue Deficiency		\$1,346,654	
Total Retail Revenue Requirements				
20	Retail Related Revenues		\$39,908,488	
21	Revenue Deficiency		1,346,654	
22	Total Retail Revenue Requirements		\$41,255,142	
23	Percentage Increase (Decrease)		3.37%	