

**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, 2022**

**South Dakota Jurisdiction**  
**Electric Utility**



**2022**

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## Otter Tail Power Company South Dakota Retail Jurisdiction

### I. Return on Equity

<u>Actual Return on Equity (ROE)</u>		<u>2022</u>	<u>2021</u>	<u>2020</u>
(In Thousands)				
1	Operating Income from Electric Operations (Exhibit 2)	\$8,996	\$7,819	\$4,330
2	Average Regulated Rate Base (Exhibit 3)	\$133,144	\$131,795	\$100,836
3	Rate of Return on Rate Base (Line 1/Line 2)	6.76%	5.93%	4.29%
4	Weighted Cost of Debt (Exhibit 4)	4.35%	4.50%	4.89%
5	Weighted Cost of Preferred Stock (Exhibit 4)	0.00%	0.00%	0.00%
6	Percent of Equity in Capital Structure	53.59%	52.66%	52.61%
7	Return on Equity (ROE)	8.84%	7.22%	3.74%

### Normalization Impact

8	Operating Income from Electric Operations	\$8,541	\$7,799	\$4,237
9	Impact of weather on mWh Sales	9,233	906	420
10	Impact of Weather on Electric Operating Income	(\$455)	(\$21)	(\$93)
11	Weather Normalized Operating Income	\$8,541	\$7,799	\$4,237
12	Average Regulated Rate Base	\$133,118	\$131,795	\$100,839
13	Weather Normalized Rate of Return on Rate Base	6.42%	5.92%	4.20%
14	Weather Normalized Return on Equity (ROE)	8.21%	7.20%	3.57%

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

**II. OPERATING INCOME**

Line	<u>2022 Total OTP</u>	<u>2022 SD Juris</u>	<u>2021 SD Juris</u>	<u>Annual Change</u>
<b><u>Operating Revenues</u></b>				
1 Residential	\$144,665,326	\$13,692,002	\$12,445,812	10.01%
2 Small Commercial	107,175,644	9,297,969	8,377,305	10.99%
3 Large Commercial & Industrial	207,843,436	21,533,798	18,330,027	17.48%
4 Streetlighting	4,287,552	436,491	405,609	7.61%
5 OPA	<u>3,840,377</u>	<u>373,053</u>	<u>349,735</u>	<u>6.67%</u>
6 Total Retail	\$467,812,335	\$45,333,312	\$39,908,488	13.59%
7 Other Operating Revenue	77,656,665	3,509,968	3,596,989	-2.42%
8 Total Revenue	<u>\$545,469,000</u>	<u>\$48,843,280</u>	<u>\$43,505,477</u>	<u>12.27%</u>
<b><u>Operating Expenses</u></b>				
9 Production	\$209,482,147	\$19,907,429	\$16,615,191	19.81%
10 Transmission	37,477,229	3,639,828	3,208,620	13.44%
11 Distribution	17,303,680	1,778,408	1,731,476	2.71%
12 Customer Accounting	14,027,785	1,246,416	1,085,704	14.80%
13 Customer Service and Information	10,866,633	759,636	1,146,210	-33.73%
14 Sales	590,071	90,535	86,289	4.92%
15 Admin & General	54,448,584	5,070,422	4,376,800	15.85%
16 Charitable Contributions	(5,817)	(5,817)	(7,746)	0.00%
17 Depreciation & Amortization	64,691,140	6,355,825	6,835,921	-7.02%
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	17,733,835	1,483,077	1,546,597	-4.11%
25 Income Tax	<u>22,382,333</u>	<u>(478,954)</u>	<u>(938,711)</u>	<u>-48.98%</u>
25 Total Expenses	<u>\$448,997,619</u>	<u>39,846,804</u>	<u>35,686,351</u>	<u>11.66%</u>
26 Allowance for Funds Used During Construction	\$2,620,406	0	0	0
27 Regulated Operating Income	<u>\$99,091,787</u>	<u>\$8,996,476</u>	<u>\$7,819,126</u>	<u>15.06%</u>

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

**III. Average Rate Base**

Line	2022 Total OTP	2022 SD Juris	2021 SD Juris	Annual Change
1 Plant in Service	\$2,797,581,063	\$240,782,743	\$241,186,037	-0.17%
2 Accumulated Depreciation	(965,913,879)	(92,746,754)	(92,051,029)	0.76%
3 Net Plant in Service	\$1,831,667,184	\$148,035,989	\$149,135,008	-0.74%
4 Plant Held for Future Use	\$29,657	\$3,028	\$3,021	0.24%
5 Construction Work in Progress	102,641,162	0	0	
6 Materials and Supplies	29,190,203	2,914,753	2,453,733	18.79%
7 Fuel Stocks	9,850,187	960,673	745,556	28.85%
8 Prepayments	26,368,230	2,131,090	927,292	129.82%
9 Customer Advances	(1,797,137)	(145,245)	(127,142)	14.24%
10 Cash Working Capital	8,881,040	1,135,162	565,596	100.70%
11 Accum. Deferred Taxes	(321,704,219)	(21,934,575)	(22,084,942)	-0.68%
12 Unamortized Holding Company Formation Expense	0	0	0	0.00%
Unamortized Rate Case Expense	43,410	43,410	176,883	-75.46%
13 Total Other Rate Base	(\$146,497,468)	(\$14,891,705)	(\$17,340,003)	-14.12%
14 Total Average Rate Base	\$1,685,169,716	\$133,144,284	\$131,795,006	1.02%

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

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

<b>2022 Actual</b>					<b>Weighted Cost</b>
Line	<u>Amount</u>	<u>% of Total</u>	<u>Cost</u>		<u>Cost</u>
1 Long-Term Debt	\$752,990,671	46.41%		4.35%	2.02%
2 Short-Term Debt	-	0.00%			0.00%
3 Total Debt	<u>\$752,990,671</u>	<u>46.41%</u>			
4 Preferred Stock	-	0.00%	0.00%		0.00%
5 Common Equity	\$869,346,098	53.59%	8.84%		4.74%
6 Total Equity	<u>\$869,346,098</u>	<u>53.59%</u>			
7 Total Capital	\$1,622,336,769	100.00%			6.76%
 <b>2022 Normalized</b>					
Line	<u>Amount</u>	<u>% of Total</u>	<u>Cost</u>		<u>Weighted Cost</u>
8 Long-Term Debt	\$752,990,671	46.41%		4.35%	2.02%
9 Short-Term Debt	-	0.00%		0.00%	0.00%
10 Total Debt	<u>\$752,990,671</u>	<u>46.41%</u>			
11 Preferred Stock	-	0.00%	0.00%		0.00%
12 Common Equity	\$869,346,098	53.59%	8.21%		4.40%
13 Total Equity	<u>\$869,346,098</u>	<u>53.59%</u>			
14 Total Capital	\$1,622,336,769	100.00%			6.42%

<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>**

**2022 Based on Authorized ROE**

Line	<u>Amount</u>	<u>% of Total</u>	<u>Cost</u>	<u>Weighted Cost</u>
1 Long-Term Debt	\$752,990,671	46.41%	4.35%	2.02%
2 Short-Term Debt		0.00%	0.00%	0.00%
3 Total Debt	\$752,990,671	46.41%		
4 Preferred Stock		0.00%	0.00%	0.00%
5 Common Equity	<u>\$869,346,098</u>	<u>53.59%</u>	8.75%	4.69%
6 Total Equity	\$869,346,098	53.59%		
7 Total Capital	\$1,622,336,769	100.00%		6.71%

<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**

2022 Based on Authorized ROE

		<b>Actual 2022 SD Jurisdiction</b>	<b>Weather Normalized 2022 SD Jurisdiction</b>
Line	<b>Revenue Deficiency</b>		
1	Total Operating Income	\$8,996,476	\$8,541,307
2	Total Average Rate Base	133,144,284	133,117,918
3	Require Operating Income (Rate Base x Required Return)	8,933,981	8,932,212
4	Operating Income	8,996,476	8,541,307
5	Operating Income Deficiency	<u>(\$62,494)</u>	<u>\$390,906</u>
6	Incremental Taxes	<u>(16,612)</u>	<u>103,912</u>
7	Revenue Deficiency (Income Deficiency x Conversion Factor)	<u>(\$79,107)</u>	<u>\$494,817</u>



**Otter Tail Power Company (SD)**  
**Electric Utility - South Dakota Retail Jurisdiction**  
**Cost of Service Study**  
**2022 Actuals**

**Rate Base Summary<sup>1</sup>**

	<u><b>Total Company</b></u> <b>13 Month</b> <b>Average Balance</b>	<u><b>South Dakota</b></u> <b>13 Month</b> <b>Average Balance</b>	<u><b>All Others</b></u> <b>13 Month</b> <b>Average Balance</b>
<b>1</b> Plant Investment	\$2,797,581,063	\$240,782,743	\$2,556,798,320
<b>2</b> Depreciation Reserve	(965,913,879)	(92,746,754)	(873,167,125)
<b>3</b> Net Utility	1,831,667,184	148,035,989	1,683,631,195
<b>4</b> Plant Held for Future Use	29,657	3,028	26,629
<b>5</b> CWIP	102,641,162	0	102,641,162
<b>6</b> Accumulated Deferred Taxes	(321,704,219)	(21,934,575)	(299,769,644)
Other Rate Base:			
<b>7</b> Cash Working Capital	8,881,040	1,135,162	7,745,879
<b>8</b> Materials & Supplies	29,190,203	2,914,753	26,275,451
<b>9</b> Fuel Inventory	9,850,187	960,673	8,889,514
<b>10</b> Non-Plant Assets & Liab	43,410	43,410	0
<b>11</b> Prepaids & Other	24,571,092	1,985,844	22,585,248
<b>12 Total Rate Base</b>	<b>\$1,685,169,716</b>	<b>\$133,144,284</b>	<b>\$1,552,025,432</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**  
**2022 Actuals**

**Income Statement Summary**

	<b>Total Company Electric</b>	<b>SD Retail Electric</b>	<b>All Others</b>
<b>Operating Revenues</b>			
Retail	\$467,812,335	\$45,333,312	\$422,479,023
Other Operating	77,656,665	3,509,968	74,146,697
<b>Total Operating revenues</b>	<b>\$545,469,000</b>	<b>\$48,843,280</b>	<b>\$496,625,720</b>
<b>Expenses</b>			
Operating Expenses:			
Fuel & Purchased Energy	\$103,843,938	9,936,232	\$93,907,706
Power Production	105,638,209	9,971,197	95,667,012
Transmission	37,477,229	3,639,828	33,837,401
Distribution	17,303,680	1,778,408	15,525,272
Customer Accounting	14,027,785	1,246,416	12,781,370
Customer Service & Information	10,866,633	759,636	10,106,997
Sales, Econ Dvp & Other	590,071	90,535	499,535
Administrative & General	54,448,584	5,070,422	49,378,162
General Taxes	17,733,835	1,483,077	16,250,758
Charitable Contributions	(5,817)	(5,817)	0
<b>Total Operating Expenses</b>	<b>\$361,924,147</b>	<b>\$33,969,934</b>	<b>\$327,954,214</b>
Depreciation	\$64,691,140	\$6,355,825	\$58,335,315
Amortization	0	0	0
<b>Taxes</b>			
Investment Tax Credit	(\$744,523)	(\$1,477,545)	\$733,021
Deferred Income Taxes	18,708,424	998,590	17,709,833
Current Income Taxes (Addendum 3)	4,418,432	0	4,418,432
<b>Total Taxes</b>	<b>\$22,382,333</b>	<b>(\$478,954)</b>	<b>\$22,861,287</b>
<b>Total Expenses</b>	<b>\$448,997,619</b>	<b>\$39,846,804</b>	<b>\$409,150,815</b>
AFUDC	2,620,406	0	2,620,406
<b>Total Operating Income</b>	<b>\$99,091,787</b>	<b>\$8,996,476</b>	<b>\$90,095,311</b>

**Otter Tail Power Company (SD)  
Electric Utility - South Dakota Retail Jurisdiction  
Cost of Service Study  
2022 Actuals**

**Current Income Tax Summary**

	<b>Total Company Electric</b>	<b>SD Retail Electric</b>	<b>All Others</b>
<b>Income Before Taxes</b>			
Total Operating Revenues	\$545,469,000	\$48,843,280	\$496,625,720
less: Total Operating Expenses	(344,190,312)	(32,486,857)	(311,703,455)
Book Depreciation & Amortization	(64,691,140)	(6,355,825)	(58,335,315)
Taxes (Other Than Current Income)	(17,733,835)	(1,483,077)	(16,250,758)
<b>Total Before Tax Book Income</b>	<b>\$118,853,713</b>	<b>\$8,517,522</b>	<b>\$110,336,191</b>
less: Interest Cost	33,409,411	2,894,448	30,514,963
<b>Net Income Before Tax</b>	<b>\$85,444,302</b>	<b>\$5,623,074</b>	<b>\$79,821,228</b>
<b>Federal Schedule M Adjustments</b>			
Additional Tax Depreciation	\$93,063,759	\$7,521,446	\$85,542,313
Cost to Remove	(21,841,662)	(1,765,251)	(20,076,411)
Directly Assigned Schedule M Items	0	0	0
Accrued Vacation Pay	(614,577)	(49,670)	(564,907)
Charges - Operating Reserves	7,215,835	583,186	6,632,649
Provisions - Operating Reserves	(4,153,905)	(335,720)	(3,818,185)
Unbilled Revenues	0	0	0
Preferred Dividends Paid Credits	0	0	0
Other Schedule M Items	1,621,933	131,085	1,490,848
<b>Total Schedule M Adjustments</b>	<b>\$75,291,383</b>	<b>\$6,085,076</b>	<b>\$69,206,307</b>
<b>Federal Adjusted Income Before Income Taxes</b>	<b>10,152,919</b>	<b>(462,002)</b>	<b>10,614,921</b>
Less:			
Minnesota State Income Tax	716,695	0	716,695
North Dakota State Income Tax	(134,153)	0	(134,153)
<b>Federal Taxable Income</b>	<b>9,570,377</b>	<b>(462,002)</b>	<b>10,032,379</b>
Federal Tax Rate	21%	21%	21%
Federal Income Tax Before Credits	2,009,779	(97,020)	2,106,800
Investment Tax Credit - Debits Utilized	0	0	0
less: Current Federal Income Taxes transferred to Deferred Taxes due to Net Operating Loss	913,056	97,022	816,033
<b>Federal Income Taxes</b>	<b>\$2,922,835</b>	<b>\$2</b>	<b>\$2,922,833</b>
<b>State Income Taxes</b>			
Minnesota State Income Tax	716,695	0	716,695
North Dakota State Income Tax	(134,153)	0	(134,153)
<b>Total Current Income Taxes</b>	<b>\$3,505,377</b>	<b>\$2</b>	<b>\$3,505,375</b>

Otter Tail Power Company (SD)  
Electric Utility - South Dakota Retail Jurisdiction  
Cost of Service Study  
2022 Actuals

Revenue Requirement & Return Summary

Capital Structure		Rate	Ratio	Weighted Cost	Composite Income Tax Rates		
1	Long Term Debt	\$752,990,671	4.35%	46.41%	2.02%	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	\$869,346,098	8.84%	53.59%	4.74%	Total South Dakota Composite Tax Rate	21.00%
5	Required Earned Rate of Return				6.76%	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	99,091,787	8,996,476	90,095,311
7 Total Average Rate Base	1,685,169,716	133,144,284	1,552,025,432
8 ROR (Operating Income/Rate Base)	5.88%	6.76%	5.81%
<b>Return on Equity (ROE)</b>			
9 Total Operating Income	\$99,091,787	\$8,996,476	\$90,095,311
10 Debt Interest (Rate Base x Weighted Debt Cost)	34,040,428	2,689,515	31,350,914
11 Preferred Stock (Rate Base x Weighted Preferred Cost)	0	0	0
12 Earnings Available for Common	65,051,358	6,306,961	58,744,397
13 Equity Rate Base (Rate Base x Equity Ratio)	903,015,789	71,346,755	831,669,034
14 ROE (Earnings for Common / Equity Rate Base)	7.20%	8.84%	7.06%
<b>Revenue Deficiency</b>			
15 Require Operating Income (Rate Base x Required Return)		\$8,933,981	
16 Operating Income		8,996,476	
17 Operating Income Deficiency		(62,494)	
18 Incremental Taxes		(16,612)	
19 Revenue Deficiency		(\$79,106)	
<b>Total Retail Revenue Requirements</b>			
20 Retail Related Revenues		\$45,333,312	
21 Revenue Deficiency		(79,106)	
22 Total Retail Revenue Requirements		\$45,254,207	
23 Percentage Increase (Decrease)		-0.17%	