

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, 2023

South Dakota Jurisdiction
Electric Utility



2023

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

I. Return on Equity

<u>Actual Return on Equity (ROE)</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>
(In Thousands)			
1 Operating Income from Electric Operations (Exhibit 2)	\$8,775	\$8,996	\$7,819
2 Average Regulated Rate Base (Exhibit 3)	\$142,475	\$133,144	\$131,795
3 Rate of Return on Rate Base (Line 1/Line 2)	6.16%	6.76%	5.93%
4 Weighted Cost of Debt (Exhibit 4)	4.33%	4.35%	4.50%
5 Weighted Cost of Preferred Stock (Exhibit 4)	0.00%	0.00%	0.00%
6 Percent of Equity in Capital Structure	54.29%	53.59%	52.66%
7 Return on Equity (ROE)	7.94%	8.84%	7.22%

Normalization Impact

8 Operating Income from Electric Operations	\$8,710	\$8,541	\$7,799
9 Impact of weather on MWh Sales	1,235	9,233	906
10 Impact of Weather on Electric Operating Income	(\$65)	(\$455)	(\$21)
11 Weather Normalized Operating Income	\$8,710	\$8,541	\$7,799
12 Average Regulated Rate Base	\$143,277	\$133,118	\$131,795
13 Weather Normalized Rate of Return on Rate Base	6.08%	6.42%	5.92%
14 Weather Normalized Return on Equity (ROE)	7.79%	8.21%	7.20%

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

II. OPERATING INCOME

Line	2023 Total OTP	2023 SD Juris	2022 SD Juris	Annual Change
<u>Operating Revenues</u>				
1 Residential	\$135,753,652	\$13,260,526	\$13,692,002	-3.15%
2 Small Commercial	98,823,750	9,138,629	9,297,969	-1.71%
3 Large Commercial & Industrial	210,701,625	19,307,522	21,533,798	-10.34%
4 Streetlighting	3,722,843	434,902	436,491	-0.36%
5 OPA	3,719,461	383,296	373,053	2.75%
6 Total Retail	\$452,721,331	\$42,524,875	\$45,333,312	-6.20%
7 Other Operating Revenue	70,377,047	2,773,515	3,509,968	-20.98%
8 Total Revenue	\$523,098,379	\$45,298,390	\$48,843,280	-7.26%
<u>Operating Expenses</u>				
9 Production	\$181,645,979	\$16,426,006	\$19,907,429	-17.49%
10 Transmission	36,748,767	3,712,178	3,639,828	1.99%
11 Distribution	20,135,961	2,094,680	1,778,408	17.78%
12 Customer Accounting	14,668,292	1,304,283	1,246,416	4.64%
13 Customer Service and Information	10,971,526	786,101	759,636	3.48%
14 Sales	440,962	113,156	90,535	24.98%
15 Admin & General	54,009,848	4,960,481	5,070,422	-2.17%
16 Charitable Contributions	(3,518)	0	(5,817)	-100.00%
17 Depreciation & Amortization	73,281,429	6,520,563	6,355,825	2.59%
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	16,604,736	1,356,903	1,483,077	-8.51%
25 Income Tax Expense	564,543	(750,510)	(478,954)	56.70%
25 Total Expenses	\$409,068,526	36,523,840	39,846,804	-8.34%
26 Allowance for Funds Used During Construction	0	0	0	0
27 Regulated Operating Income	\$114,029,853	\$8,774,550	\$8,996,476	-2.47%

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

III. Average Rate Base

Line	2023 Total OTP	2023 SD Juris	2022 SD Juris	Annual Change
1 Plant in Service	\$2,939,311,796	\$252,003,917	\$240,782,743	4.66%
2 Accumulated Depreciation	(1,018,839,747)	(96,035,573)	(92,746,754)	3.55%
3 Net Plant in Service	<u>\$1,920,472,049</u>	<u>\$155,968,345</u>	<u>\$148,035,989</u>	<u>5.36%</u>
4 Plant Held for Future Use	\$12,038	\$1,228	\$3,028	-59.45%
5 Construction Work in Progress	0	0	0	
6 Materials and Supplies	37,066,867	3,727,648	2,914,753	27.89%
7 Fuel Stocks	11,063,805	1,028,383	960,673	7.05%
8 Prepayments	56,437,284	4,583,472	2,131,090	115.08%
9 Customer Advances	(1,832,329)	(148,810)	(145,245)	2.45%
10 Cash Working Capital	11,950,839	1,027,902	1,135,162	-9.45%
11 Accum. Deferred Taxes	(281,770,870)	(23,713,601)	(21,934,575)	8.11%
12 Unamortized Holding Company Formation Expense	0	0	0	0.00%
Unamortized Rate Case Expense	0	0	43,410	-100.00%
13 Total Other Rate Base	<u>(\$167,072,365)</u>	<u>(\$13,493,778)</u>	<u>(\$14,891,705)</u>	<u>-9.39%</u>
14 Total Average Rate Base	<u>\$1,753,399,683</u>	<u>\$142,474,566</u>	<u>\$133,144,284</u>	<u>7.01%</u>

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

IV. Cost of Capital¹

2023 Actual					Weighted Cost
Line	<u>Amount</u>	<u>% of Total</u>	<u>Cost</u>		<u>Cost</u>
1 Long-Term Debt	\$743,350,333	42.76%		4.33%	1.85%
2 Short-Term Debt	51,127,180	2.94%			0.00%
3 Total Debt	<u>\$794,477,513</u>	<u>45.71%</u>			
4 Preferred Stock	-	0.00%		0.00%	0.00%
5 Common Equity	\$943,746,541	54.29%		7.94%	4.31%
6 Total Equity	<u>\$943,746,541</u>	<u>54.29%</u>			
7 Total Capital	\$1,738,224,054	100.00%			6.16%
 2023 Normalized					
Line	<u>Amount</u>	<u>% of Total</u>	<u>Cost</u>		<u>Weighted Cost</u>
8 Long-Term Debt	\$743,350,333	42.76%		4.33%	1.85%
9 Short-Term Debt	51,127,180	2.94%		0.00%	0.00%
10 Total Debt	<u>\$794,477,513</u>	<u>45.71%</u>			
11 Preferred Stock	-	0.00%		0.00%	0.00%
12 Common Equity	\$943,746,541	54.29%		7.79%	4.23%
13 Total Equity	<u>\$943,746,541</u>	<u>54.29%</u>			
14 Total Capital	\$1,738,224,054	100.00%			6.08%

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 Return¹

2023 Based on Authorized ROE

Line	<u>Amount</u>	<u>% of Total</u>	<u>Cost</u>	<u>Weighted Cost</u>
1 Long-Term Debt	\$794,477,513	45.71%	4.50%	2.06%
2 Short-Term Debt		0.00%	0.00%	0.00%
3 Total Debt	\$794,477,513	45.71%		
4 Preferred Stock		0.00%	0.00%	0.00%
5 Common Equity	<u>\$943,746,541</u>	<u>54.29%</u>	8.75%	4.75%
6 Total Equity	\$943,746,541	54.29%		
7 Total Capital	\$1,738,224,054	100.00%		6.81%

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

2023 Based on Authorized ROE

Line	Revenue Deficiency	Actual 2023 SD Jurisdiction	Weather Normalized 2023 SD Jurisdiction
1	Total Operating Income	\$8,774,550	\$8,709,813
2	Total Average Rate Base	142,474,566	143,277,087
3	Require Operating Income (Rate Base x Required Return)	9,702,518	9,757,170
4	Operating Income	8,774,550	8,709,813
5	Operating Income Deficiency	<u>\$927,968</u>	<u>\$1,047,357</u>
6	Incremental Taxes	241,615	392,739
7	Revenue Deficiency (Income Deficiency x Conversion Factor)	<u>\$1,169,582</u>	<u>\$1,440,096</u>

Otter Tail Power Company (SD)
Electric Utility - South Dakota Retail Jurisdiction
Cost of Service Study
2023 Actuals

Rate Base Summary¹

	Total Company	South Dakota	All Others
	13 Month	13 Month	13 Month
	Average Balance	Average Balance	Average Balance
1 Plant Investment	\$2,939,311,796	\$252,003,917	\$2,687,307,879
2 Depreciation Reserve	(1,018,839,747)	(96,035,573)	(922,804,175)
3 Net Utility	1,920,472,049	155,968,345	1,764,503,704
4 Plant Held for Future Use	12,038	1,228	10,810
5 CWIP	0	0	0
6 Accumulated Deferred Taxes	(281,770,870)	(23,713,601)	(258,057,269)
Other Rate Base:			
7 Cash Working Capital	11,950,839	1,027,902	10,922,937
8 Materials & Supplies	37,066,867	3,727,648	33,339,219
9 Fuel Inventory	11,063,805	1,028,383	10,035,422
10 Non-Plant Assets & Liab	0	0	0
11 Prepaids & Other	54,604,956	4,434,662	50,170,293
12 Total Rate Base	\$1,753,399,683	\$142,474,566	\$1,610,925,117

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
2023 Actuals

Income Statement Summary

	Total Company Electric	SD Retail Electric	All Others
Operating Revenues			
Retail	\$452,721,331	\$42,524,875	\$410,196,456
Other Operating	70,377,047	2,773,515	67,603,532
Total Operating revenues	\$523,098,379	\$45,298,390	\$477,799,988
Expenses			
Operating Expenses:			
Fuel & Purchased Energy	\$97,619,860	8,979,110	\$88,640,749
Power Production	84,026,119	7,446,895	76,579,224
Transmission	36,748,767	3,712,178	33,036,589
Distribution	20,135,961	2,094,680	18,041,282
Customer Accounting	14,668,292	1,304,283	13,364,010
Customer Service & Information	10,971,526	786,101	10,185,424
Sales, Econ Dvp & Other	440,962	113,156	327,806
Administrative & General	54,009,848	4,960,481	49,049,367
General Taxes	16,604,736	1,356,903	15,247,834
Charitable Contributions	(3,518)	0	(3,518)
Total Operating Expenses	\$335,222,554	\$30,753,787	\$304,468,767
Depreciation	\$73,281,429	\$6,520,563	\$66,760,866
Amortization	0	0	0
Taxes			
Investment Tax Credit	(\$18,138,381)	(\$1,540,194)	(\$16,598,187)
Deferred Income Taxes	15,613,319	943,470	14,669,848
Current Income Taxes (Addendum 3)	3,089,605	(153,786)	3,243,392
Total Taxes	\$564,543	(\$750,510)	\$1,315,053
Total Expenses	\$409,068,526	\$36,523,840	\$372,544,686
AFUDC	0	0	0
Total Operating Income	\$114,029,853	\$8,774,550	\$105,255,302

Otter Tail Power Company (SD)
Electric Utility - South Dakota Retail Jurisdiction
Cost of Service Study
2023 Actuals

Current Income Tax Summary

	Total Company Electric	SD Retail Electric	All Others
Income Before Taxes			
Total Operating Revenues	\$523,098,379	\$45,298,390	\$477,799,988
less: Total Operating Expenses	(318,617,818)	(29,396,884)	(289,220,933)
Book Depreciation & Amortization	(73,281,429)	(6,520,563)	(66,760,866)
Taxes (Other Than Current Income)	(16,604,736)	(1,356,903)	(15,247,834)
Total Before Tax Book Income	\$114,594,396	\$8,024,040	\$106,570,356
less: Interest Cost	35,906,921	3,211,184	32,695,737
Net Income Before Tax	\$78,687,475	\$4,812,856	\$73,874,619
Federal Schedule M Adjustments			
Schedule M Activity - Temporary Plant - Above the Line	\$66,053,775	\$5,364,461	\$60,689,314
Schedule M Activity - Temporary Non-Plant - Above the Line	\$396,097	32,168	363,929
Schedule M Activity - Permanent - Above the Line	\$1,829,172	148,554	1,680,618
Total Schedule M Adjustments	\$68,279,044	\$5,545,183	\$62,733,861
Federal Adjusted Income Before Income Taxes	10,408,431	(732,327)	11,140,758
Less:			
Minnesota State Income Tax	623,282	0	623,282
North Dakota State Income Tax	414,024	0	414,024
Federal Taxable Income	9,371,125	(732,327)	10,103,452
Federal Tax Rate	21%	21%	21%
Federal Income Tax Before Credits	2,052,300	(153,786)	2,121,725
Investment Tax Credit - Debits Utilized	(18,138,381)	(1,540,194)	0
less: Current Federal Income Taxes transferred to Deferred	15,613,319	943,470	14,669,848
Federal Income Taxes	(\$472,763)	(\$750,510)	\$16,791,573
State Income Taxes			
Minnesota State Income Tax	623,282	0	623,282
North Dakota State Income Tax	414,024	0	414,024
Total Current Income Taxes	\$564,543	(\$750,510)	\$17,828,879

Otter Tail Power Company (SD)
Electric Utility - South Dakota Retail Jurisdiction
Cost of Service Study
2023 Actuals

Revenue Requirement & Return Summary

Capital Structure		Rate	Ratio	Weighted Cost	Composite Income Tax Rates		
1	Long Term Debt	\$743,350,333	4.33%	42.76%	1.85%	State of South Dakota Tax Rate	0.00%
2	Short Term Debt	51,127,180	0.00%	2.94%	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	\$943,746,541	7.94%	54.29%	4.31%	Total South Dakota Composite Tax Rate	21.00%
5	Required Earned Rate of Return			6.16%		Total Corporate Composite Tax Rate	21.00%

	Total Company Electric	SD Retail Electric	All Others	
Rate of Return (ROR)				
6	Total Operating Income	114,029,853	8,774,550	105,255,302
7	Total Average Rate Base	1,753,399,683	142,474,566	1,610,925,117
8	ROR (Operating Income/Rate Base)	6.50%	6.16%	6.53%
Return on Equity (ROE)				
9	Total Operating Income	\$114,029,853	\$8,774,550	\$105,255,302
10	Debt Interest (Rate Base x Weighted Debt Cost)	32,437,894	2,635,779	29,802,115
11	Preferred Stock (Rate Base x Weighted Preferred Cost)	0	0	0
12	Earnings Available for Common	81,591,959	6,138,771	75,453,188
13	Equity Rate Base (Rate Base x Equity Ratio)	951,985,955	77,354,745	874,631,210
14	ROE (Earnings for Common / Equity Rate Base)	8.57%	7.94%	8.63%
Revenue Deficiency				
15	Require Operating Income (Rate Base x Required Return)		\$9,702,518	
16	Operating Income		8,774,550	
17	Operating Income Deficiency		927,968	
18	Incremental Taxes		241,615	
19	Revenue Deficiency		<u>\$1,169,583</u>	
Total Retail Revenue Requirements				
20	Retail Related Revenues		\$42,524,875	
21	Revenue Deficiency		1,169,583	
22	Total Retail Revenue Requirements		<u>\$43,694,459</u>	
23	Percentage Increase (Decrease)			2.75%