

Otter Tail Power Company
Policy of Capitalizing Interest
For the period January 1, 2020 Through December 31, 2024

| Line No. | Policy Description |
|---------------------|--|
| 1 | <u>Allowance for Funds Used During Construction</u> |
| 2 | |
| 3 | AFUDC is calculated on a monthly basis by applying the monthly rate to the sum of the |
| 4 | balance of the project at the beginning of the month plus one-half of the current month's |
| 5 | charges. Capitalization ceases when the project is placed in service. All capital projects |
| 6 | are charged interest except the following: |
| 7 | |
| 8 | A. Projects estimated to cost less than \$10,000 |
| 9 | B. Projects estimated to take less than 30 days to construct |
| 10 | C. Customer Service Center blanket distribution projects |
| 11 | D. Others as determined by the Fixed Assets Department |
| 12 | |
| 13 | The allowance rate is based on the composite cost of capital as required under Federal |
| 14 | Energy Regulatory Commission Order 561. Capitalization ceases when the project is |
| 15 | placed in service. |
| 16 | |
| 17 | |
| 18 | <u>Labor Related Loadings</u> |
| 19 | |
| 20 | Overhead costs (Payroll loading and Warehouse Clearing) related to construction |
| 21 | projects are capitalized in accordance with Electric Plant instruction of the FERC |
| 22 | Uniform System of Accounts |
| 23 | |
| 24 | |
| 25 | These methods and procedures have been in place for the last five calendar years. |