Before the South Dakota Public Utilities Commission
State of South Dakota

In the Matter of the Application of Otter Tail Power Company
For Authority to Increase Rates for Electric Utility
Service in South Dakota

Docket No. EL25-

Exhibit___

JURISDICTIONAL COST OF SERVICE STUDY AND REVENUE REQUIREMENT

Direct Testimony and Schedules of

CHRISTY L. PETERSEN

June 4, 2025

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I. INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME AND CURRENT EMPLOYER.

A. My name is Christy L. Petersen. I am employed by Otter Tail Power Company (OTP).

Q. PLEASE SUMMARIZE YOUR CURRENT RESPONSIBILITIES.

A. I am the Manager, Regulatory Accounting. I lead the work group that prepares the jurisdictional cost of service study for all three states in which we provide service (South Dakota, Minnesota and North Dakota).

Q. HAVE YOU INCLUDED AN ATTACHMENT OF YOUR QUALIFICATIONS AND EXPERIENCE?

A. Yes. A summary of my qualifications and experience is included as Exhibit___(CLP-1), Schedule 1.

II. PURPOSE AND OVERVIEW OF DIRECT TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. I am OTP's overall revenue requirements witness, sponsoring the jurisdictional cost of service study (JCOSS), the calculation of OTP's 2024 Test Year revenue requirement and base rate revenue deficiency. As such, I support and sponsor much of the financial data provided as part of this case. I also discuss the development of the rate base and income statement that are being proposed for use in setting rates in this proceeding, including explaining the financial impact of all Traditional and Test Year adjustments, and providing support for some of the adjustments. Other adjustments are supported by other OTP witnesses.

Q. PLEASE PROVIDE A BRIEF OVERVIEW OF YOUR DIRECT TESTIMONY.

A. OTP uses the JCOSS to determine the portion of OTP's total company costs and revenues that should be recognized in the South Dakota jurisdiction for the 2024 Test Year. The overall base rate revenue deficiency for the 2024 Test Year is $13.7 million, consisting of a $6.4 million movement of costs from riders into base rates and $7.2 million increase in base rate revenue. As further explained by OTP witness Mr. Matthew J. Olsen, the overall effect of OTP's proposals in this case increases total revenues by $5.7 million.

Q. HOW IS YOUR DIRECT TESTIMONY ORGANIZED?

A. In Section III, I discuss the JCOSS and the 2024 Test Year revenue deficiency. In Section IV, I discuss the 2024 Test Year rate base, including adjustments made to arrive at the 2024 Test Year rate base. In Section V, I discuss the Income Statement and adjustments to the Income Statement.

Q. HOW HAVE YOU LABELED DOLLAR VALUES IN YOUR DIRECT TESTIMONY AND SUPPORTING SCHEDULES?

A. Throughout my testimony and schedules, I label dollar values as "(OTP SD)" when the values are jurisdictionalized to South Dakota. I label total company costs as "(OTP Total)." Some costs fall into numerous functions each with its own jurisdictional allocation, and therefore a straightforward calculation of a jurisdictional amount based on a single allocator is not possible (e.g., labor cost categories, which may include costs functionalized as generation, transmission, distribution, administration, and general, with each function having its own unique jurisdictional allocation). For costs like this, I have estimated the South Dakota jurisdictional dollar values by multiplying the total company costs by a single blended allocator. I have labeled these values as "(OTP SD EST)."

Finally, for power plant and transmission projects where OTP is only a part owner, and for which I included total project costs, I labeled the values as "(Total Plant)" or "(Total Project)."

III. SUMMARY OF COST OF SERVICE

Q. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR DIRECT TESTIMONY?

A. This section of my testimony identifies OTP's test year, summarizes the overall revenue requirement and revenue deficiency for that test year, and explains OTP's JCOSS.

A. Identification of Test Year and Schedules

Q. WHAT TEST YEAR IS USED IN THE COST OF SERVICE STUDY?

A. OTP's request is based on a 2024 Test Year, consisting of actual financial data for the fiscal year ended December 31, 2024 (the 2024 Unadjusted Year) and modified by Traditional and Test Year adjustments, including known and measurable changes.

Q. PLEASE EXPLAIN THE DIFFERENCE BETWEEN TRADITIONAL ADJUSTMENTS AND TEST YEAR ADJUSTMENTS.

A. The starting point for the 2024 Test Year is the 2024 Unadjusted Year. The 2024 Unadjusted Year data is then modified through Traditional adjustments to arrive at the 2024 Regulatory Year. The Traditional adjustments implement recognized regulatory requirements and normalize the 2024 Unadjusted Year data for one-time events that will not be recurring on an on-going basis. In other words, the Traditional adjustments put the 2024 Unadjusted Year financial data into a format that is consistent with retail ratemaking.

The 2024 Regulatory Year is then further modified by Test Year adjustments to arrive at the 2024 Test Year. The Test Year adjustments reflect specific ratemaking proposals being made in this case.

Q. HAVE YOU PREPARED A SCHEDULE IDENTIFYING THE TRADITIONAL AND TEST YEAR ADJUSTMENTS?

A. Yes. Exhibit___(CLP-1), Schedule 2 is a summary of the Traditional and Test Year adjustments made to arrive at the 2024 Test Year. Each of these adjustments is discussed in more detail below.

B. 2024 Test Year Revenue Deficiency

Q. WHAT IS THE BASIS OF OTP'S 2024 TEST YEAR JURISDICTIONAL REVENUE REQUIREMENT AND REVENUE DEFICIENCY?

A. OTP's 2024 Test Year jurisdictional revenue requirement and revenue deficiency are based on OTP's 2024 Unadjusted Year results, with Traditional adjustments to arrive at the 2024 Regulatory Year and Test Year adjustments to arrive at the 2024 Test Year, including known and measurable changes.

Q. ARE KNOWN AND MEASURABLE CHANGES DESCRIBED IN THE COMMISSION'S RULES?

A. Yes. Commission Rule 20:10:13:44 provides in part that "[N]o adjustments shall be permitted unless they are based on changes in facilities, operations, or costs which are known with reasonable certainty and measurable with reasonable accuracy at the time of the filing ...."

Q. PLEASE PROVIDE THE 2024 TEST YEAR JURISDICTIONAL REVENUE REQUIREMENT AND REVENUE DEFICIENCY.

A. OTP's overall jurisdictional revenue requirement for the 2024 Test Year is $51.5 million (including $8.4 million of revenue requirements that will remain in riders). The 2024 Test Year base rate revenue deficiency is $13.7 million, consisting of: (1) $7.2 million increase to base rate revenue; and (2) a $6.4 million movement of costs from riders into base rates. The 2024 Test Year total revenue deficiency is $12.2 million. The total revenue deficiency is lower than the base rate revenue deficiency due to an approximately $1.5 million reduction to rider revenue requirements as a result of OTP's proposals in this case.

The 2024 Test Year base rate revenue deficiency of $13.7 million represents a 46.3 percent overall increase in base rate retail revenues, including the transition of cost recovery from riders to base rates. The *net* increase in revenue from this case is $5.7 million, or 12.5 percent.

Q. HAVE YOU PREPARED A SUMMARY OF THE 2024 REVENUE DEFICIENCY?

A. Yes. Exhibit___(CLP-1), Schedule 3 and Volume 4A, Section D, Schedule A-1 is a summary of the 2024 Test Year revenue deficiency. Line 1 shows average total rate base of $194 million. Line 2 shows the total amount available for return of $6.5 million, determined at present rate levels. Line 3 shows the 3.34 percent overall rate of return (ROR) earned before any rate increase. Line 4 shows the 8.29 percent required ROR.[1] Line 5 shows the required operating income of $16.1 million, determined by multiplying the 8.29 percent required ROR by the $194 million rate base. Line 6 shows the $9.6 million income deficiency, which is the difference between the required operating income of $16.1 million (on Line 5) and the $6.5 million of available return (on Line 2). The $12.2 million revenue deficiency on Line 8 is determined by multiplying the $9.6 million income deficiency (on Line 6) by the 1.265823 gross-revenue conversion factor (based on the applicable income tax rates and uncollectible factor that is derived from the increased expense). The calculation of the gross revenue conversion factor appears in Volume 4A, Section D, Schedule F-2.

[1] OTP witness Mr. Todd R. Wahlund supports OTP's requested ROR in this proceeding.

Q. HAVE YOU COMPARED OTP'S EARNED OVERALL ROR TO ITS REQUIRED OVERALL ROR SINCE 2023?

A. Yes. OTP's earned ROR was lower than OTP's required ROR in 2023 and lower than OTP's required ROR in 2024 at current rates. Exhibit___(CLP-1), Schedule 4 is a Jurisdictional Financial Summary for the 2023 and 2024 Regulatory Years and the 2024 Test Year. Exhibit___(CLP-1), Schedule 4 shows: (1) the overall ROR for the 2024 Regulatory Year was 5.22 percent and the required ROR (reflecting actual 2024 cost of debt and the return on equity granted in OTP's last rate case) was 6.82 percent; and (2) the overall ROR for the 2024 Test Year is 3.34 percent and the required ROR is 8.29 percent.

C. Jurisdictional Cost of Service Study

Q. WHAT IS THE PURPOSE OF A JCOSS?

A. Multijurisdictional utilities use a JCOSS to determine the portion of a total company costs and revenues that should be recognized in a specific jurisdiction. In this case, OTP used the JCOSS to determine the portion of OTP's total company costs and revenues that should be recognized in the South Dakota jurisdiction for the 2024 Test Year revenue requirement.

Q. WHY IS A JCOSS NECESSARY FOR OTP?

A. OTP serves retail customers in South Dakota, North Dakota, and Minnesota. In addition, OTP provides wholesale service to some municipal utilities and provides wholesale transmission services to load serving entities, and those services are regulated by the Federal Energy Regulatory Commission (FERC). OTP directly assigns the costs that it incurs to meet the requirements of a particular jurisdiction to that jurisdiction. Costs that OTP cannot directly assign to a specific jurisdiction are allocated to the jurisdictions based upon the allocation factors included in the JCOSS. In this way, OTP uses the JCOSS to determine what portion of the total costs it incurs should be recovered from our South Dakota customers.

Q. IS IT IMPORTANT THAT ALL OF A UTILITY'S STATE JURISDICTIONS USE THE SAME GENERAL JURISDICTIONAL ALLOCATION PROCEDURES FOR THE JCOSS?

A. Yes. Following similar procedures in all its state jurisdictions allows OTP to accurately recover the cost of providing retail service across its entire service territory, no more and no less. In this case, OTP used allocation procedures the

Commission approved in OTP's last South Dakota rate case, Docket No. EL18-021 (the 2018 Rate Case), with certain refinements discussed by OTP witnesses Ms. Amber M. Grenier and Ms. Annalise M. Smith in their respective testimonies.[2]

Q. DO ALL OF OTP'S JURISDICTIONS USE THE SAME GENERAL JURISDICTIONAL ALLOCATION PROCEDURES FOR OTP'S JCOSS?

A. Yes. The Minnesota Public Utilities Commission (MN PUC) and North Dakota Public Service Commission (ND PSC) have approved generally the same jurisdictional allocation procedures for OTP's JCOSS that the Commission has approved for OTP's JCOSS.

Q. WHAT ARE THE GENERAL STEPS FOR PREPARING OTP'S JCOSS?

A. Preparing the JCOSS involves the following steps: functionalization, classification, and allocation. *Functionalization* is the process by which costs are arranged according to the utility function they serve, such as production, transmission, distribution, etc. *Classification* is the arrangement of costs within a function by the service characteristic to which they most closely apply or relate, in order to facilitate their allocation based on these service characteristics. *Allocation*, in the JCOSS, is the process of distributing costs to each jurisdiction. I discuss the functionalization and classification steps in more detail below.[3]

Q. IS FUNCTIONALIZATION A REQUIRED PART OF PERFORMING A JCOSS?

A. Yes. The assignment of costs to each function (production, transmission, distribution, customer service, and administrative and general) generally follows the accounting categories defined in the FERC Uniform System of Accounts (USOA). At times, however, there are exceptions. When there are exceptions, the purpose of functionalization, not the accounting treatment, determines the distribution of the functional costs for the cost of service study. For example, lines and substations can fulfill production, transmission, or distribution functions. Additional details regarding OTP's functionalization procedures are included in the Cost Allocation Procedures Manual (CAPM).

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[2] Ms. Grenier addresses the process of jurisdictional cost allocation in her Direct Testimony, while Ms. Smith presents the 2024 Test Year allocation factors in her Direct Testimony.
[3] Ms. Smith sponsors OTP's Cost Allocation Procedures Manual (CAPM) as part of her Direct Testimony.

Q. HOW WERE COSTS CLASSIFIED IN THE JCOSS?

A. Classification approaches differ across different functional categories. For example, fixed production plant is classified into energy-related and demand-related subcategories using the equivalent peaker method. OTP has used the equivalent peaker method to classify fixed production plant costs since 1980. Additional details regarding classification procedures are available in the CAPM.

Q. WHAT IS YOUR CONCLUSION RELATED TO OTP'S JCOSS?

A. After review, I have determined that the results of the JCOSS are appropriate for determining the 2024 Test Year revenue requirement.

D. Corporate Cost Allocation

Q. WHAT WILL YOU DISCUSS IN THIS SECTION OF YOUR DIRECT TESTIMONY?

A. In this section of my Direct Testimony, I will explain how corporate costs that are incurred by Otter Tail Corporation in connection with the services provided by Otter Tail Corporation for the operation of OTP are handled in the 2024 Test Year.

Q. PLEASE DESCRIBE THE RELATIONSHIP BETWEEN OTP AND OTTER TAIL CORPORATION.

A. OTP is a wholly owned subsidiary of Otter Tail Corporation.

Q. WHAT SERVICES DOES OTTER TAIL CORPORATION PROVIDE TO OTP?

A. Otter Tail Corporation provides the following services to OTP: financial reporting, tax planning and reporting, treasury, financial planning, corporate communications, internal audit, benefits plans, safety and risk management, shareholder services and investor relations, aviation, and executive management services.

Q. ARE THESE SERVICES GOVERNED BY ANY AGREEMENTS?

A. Yes. OTP has three agreements with Otter Tail Corporation: (1) an Administrative Services Agreement that describes how services are provided from Otter Tail Corporation to OTP and how costs for such services are assigned and allocated to OTP; (2) a Tax Sharing Agreement that describes how tax obligations and benefits are to be allocated; and (3) a Cash Management Agreement that describes how cash management services can be provided by Otter Tail Corporation to OTP.

Currently, no cash management services are being provided by Otter Tail Corporation to OTP.

Q. HOW ARE OTP TAXES COMPUTED UNDER THE TAX SHARING AGREEMENT?

A. OTP computes its taxes on a standalone basis, excluding Otter Tail Corporation. All tax calculations included in the 2024 Test Year are based only on OTP financial performance. The tax calculations included in this Test Year are detailed in Volume 4A, Section C, Schedule C-4.

Q. HOW DID YOU ARRIVE AT THE APPROPRIATE LEVEL OF OTTER TAIL CORPORATION EXPENSES TO INCLUDE IN THE TEST YEAR?

A. Under the Administrative Services Agreement, the costs of corporate functions are allocated using allocation methodology and specific allocation factors described in the Corporate Cost Allocation Manual, included as Exhibit___(CLP-1), Schedule 5. I applied allocation factors to the actual 2024 corporate expenses, and adjusted for certain corporate expenses that have not been included in retail rates under prior Commission orders.

Q. HOW WERE THE COST ALLOCATION METHODOLOGIES DEVELOPED?

A. The corporate cost allocation methodology was developed based on the following goals:

(1) The result should fully allocate costs;
(2) Costs are directly assigned where possible;
(3) If direct assignment is not possible, an indirect allocation will be made if there is a cost causative link to another cost category for which direct assignment is used;
(4) When neither direct nor indirect cost causation can be found, a representative general allocator is used;
(5) The result is equitable for customers and shareholders;
(6) The method is easy to administer – no additional studies or data gathering is needed; and
(7) The allocators have components that are based on verifiable public information, to the extent possible.

Q. PLEASE EXPLAIN THE CORPORATE COST ALLOCATION PROCESS IN MORE DETAIL.

A. Otter Tail Corporation costs can be charged to OTP or to Otter Tail Corporation's non-utility operations. The allocation process uses three steps. First, all labor and other costs that are appropriate for direct assignment to OTP or non-utility operations are identified and directly assigned. Members of the Corporate Group use timesheets to directly assign labor. Invoices and other costs are directly assigned as appropriate. In the 2024 Test Year, approximately 62.10 percent of all Otter Tail Corporation costs were allocated to OTP or non-utility operations using direct assignment.

Second, indirect allocators are used for certain functions. Indirect allocators are used where an indirect-cost causative linkage to another cost category or group of cost categories exists. About 11.44 percent of corporate costs were allocated to OTP or non-utility operations using indirect allocators.

The remaining 26.46 percent of corporate costs are not appropriate for either direct assignment or indirect allocation. These costs are allocated to OTP or non-utility operations using the general allocator that is composed of revenues, assets and labor dollars, equally weighted.

Q. HOW MUCH OF THE TOTAL OTTER TAIL CORPORATION COST IS ALLOCATED TO OTP IN THE 2024 TEST YEAR?

A. Table 1, below, shows the allocation of Otter Tail Corporation costs for the 2024 Test Year.

Table 1
Otter Tail Corporation Cost Allocation

	Otter Tail Corporation 2024 Costs ($ Millions)		SD Share ($ Millions)
Allocated to OTP	$13.2	37.6%	$1.4
Allocated to Non-Utility	$13.6	38.9%	
Remain with Corporate	$8.2	23.5%	
Total Corporate Costs	$35.0	100%	$1.4

Q. DOES THE ALLOCATION IN TABLE 1 REFLECT THE COMMISSION'S PRIOR DECISIONS REGARDING INCENTIVE COMPENSATION?

A. Yes. The Otter Tail Corporation costs allocated to OTP in the 2024 Test Year reflect the Company's proposal to exclude the financial component of incentive compensation from the 2024 Test Year, consistent with the Commission's order in the 2018 Rate Case.

Q. ARE THE COSTS REFLECTED IN TABLE 1 REASONABLE AND APPROPRIATE FOR INCLUSION IN THE 2024 TEST YEAR?

A. Yes. All costs have been allocated in a manner consistent with prior cases. The Otter Tail Corporation costs reflected in Table 1 are reasonable and appropriate for inclusion in the 2024 Test Year.

IV. RATE BASE

Q. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR DIRECT TESTIMONY?

A. In this section of my Direct Testimony, I will discuss the components of rate base for the 2024 Regulatory Year and the 2024 Test Year. I will also address the rate base effects of transferring recovery of certain projects from riders into base rates, as further discussed by OTP witness Ms. Paula M. Foster in her Direct Testimony. Finally, I identify and explain the Traditional adjustments that are made to the 2024 Unadjusted Year rate base to arrive at the 2024 Regulatory Year rate base, and the Test Year adjustments that are made to the 2024 Regulatory Year rate base to arrive at the 2024 Test Year rate base.

Q. WHAT IS THE AMOUNT OF THE 2024 REGULATORY YEAR RATE BASE AND 2024 TEST YEAR RATE BASE?

A. As shown in Exhibit___(CLP-1), Schedule 6, the 2024 Regulatory Year rate base is $154.3 million, and the 2024 Test Year rate base is $194.3 million.

Q. HOW WERE THE 2024 REGULATORY YEAR AND 2024 TEST YEAR RATE BASE AMOUNTS DEVELOPED?

A. OTP developed the 2024 Regulatory Year and 2024 Test Year rate base using 13-month averages, with the only exception being accumulated deferred income taxes (ADIT), which is calculated based on a simple beginning-of-year and end-of-year average.

A. Rate Base Summary

Q. WHAT ARE THE MAJOR COMPONENTS OF THE RATE BASE?

A. Rate base is generally comprised of the following major items:

- Net utility plant in service (which reflects accumulated depreciation);

- Cash working capital items; and
- Accumulated deferred income taxes (ADIT).

These different components are all identified in Schedule 6 for the 2024 Regulatory Year and the 2024 Test Year.

1. Net Utility Plant in Service

Q. WHAT DOES SCHEDULE 6 INCLUDE REGARDING UTILITY PLANT IN SERVICE?

A. Schedule 6 shows electric plant in service before accumulated depreciation and net electric plant in service. OTP's South Dakota jurisdictional net electric plant in service is $206.1 million for the 2024 Test Year.

Q. WHAT DOES "ELECTRIC PLANT IN SERVICE" REPRESENT?

A. Electric plant in service is based upon the original cost of property from the books and records of OTP, adjusted to account for the projected additions and/or retirements.

Q. WHAT DOES "NET ELECTRIC PLANT" REPRESENT?

A. Net electric plant represents OTP's investment in plant and equipment that is used and useful in providing retail electric service to its customers, net of accumulated depreciation.

Q. PLEASE EXPLAIN THE METHOD USED TO CALCULATE NET ELECTRIC PLANT INVESTMENT IN THIS CASE.

A. The net electric plant is included in rate base at depreciated original cost, reflecting a 13-month average based on monthly balances from December 2023 through December 2024.

Q. DOES SCHEDULE 6 INCLUDE ALL COMPONENTS OF NET ELECTRIC PLANT?

A. Yes. Electric plant in Schedule 6 includes all components of plant in service (production, transmission, distribution, general, and intangible) and the accumulated depreciation related to each of these components. The net of electric plant in service and accumulated depreciation is the net electric plant in service.

Q. DOES SCHEDULE 6 INCLUDE THE RATE BASE COMPONENTS DISCUSSED BY OTP WITNESSES?

A. Yes. Schedule 6 includes all the rate base components discussed by the other OTP witnesses, including the investments currently recovered in riders that are being rolled into base rates discussed in the Direct Testimony of Ms. Foster. I discuss the process of including the investments currently recovered in riders below.

Q. PLEASE BRIEFLY DESCRIBE ACCUMULATED DEPRECIATION SHOWN IN SCHEDULE 6.

A. Schedule 6 includes accumulated depreciation for all the electric plant in service components. The sum of the 2024 Test Year South Dakota jurisdiction accumulated depreciation for these components is ($102.8 million).

2. Working Capital

Q. PLEASE EXPLAIN THE WORKING CAPITAL INCLUDED IN SCHEDULE 6.

A. Schedule 6 shows the South Dakota 2024 Regulatory Year and 2024 Test Year jurisdictional amounts for all working capital elements, including materials and supplies, fuel stocks, prepayments and customer advances/deposits, and cash working capital.

Q. WHAT ITEMS ARE INCLUDED IN THE PREPAYMENTS COMPONENT OF RATE BASE?

A. Four separate items are grouped together under the line item of prepayments: (1) pre-paid insurance; (2) pre-paid pension; (3) post-retirement benefits liability; and (4) post-employment benefits liability. The amounts for each item are developed using 13-month averages.

Q. PLEASE DESCRIBE CASH WORKING CAPITAL INCLUDED IN SCHEDULE 6.

A. Cash working capital represents a determination of cash working capital requirements for operation, maintenance, and other expenses. The cash working capital requirements included in rate base are based on a Lead Lag Study prepared by OTP using calendar year 2020 financial data.[4]

[4] The results of the Lead Lag Study are included in the cash working capital calculations provided in Volume 4A, Section D, Schedule B-2, pages 1-3.

Q. PLEASE DESCRIBE THE LEAD LAG STUDY.

A. The Lead Lag Study is a widely used and accepted method for developing the cash working capital component of rate base in connection with the determination of revenue requirements. This study analyzes the lapse of time between the average day on which OTP incurs expenses to serve its customers and the average day on which cash is received from customers in payment for that service. Lead days refer to the days between incurring an expense and paying for it. Lag days refer to the days between rendering a service and receiving payment for that service.

Q. IS THE CASH WORKING CAPITAL DETERMINATION METHODOLOGY CONSISTENT WITH OTP'S LAST RATE CASE?

A. Yes. The study and procedures used to calculate the working capital requirement are consistent with the approach and methodology used in OTP's last South Dakota rate case. OTP reviewed the procedures used in the Lead Lag Study filed in that case and concluded no significant changes in policies or procedures had occurred and conducted the current study using those same methods.

3. Accumulated Deferred Income Taxes

Q. WHAT IS THE AMOUNT OF ADIT INCLUDED IN SCHEDULE 6?

A. Schedule 6 shows OTP's South Dakota jurisdictional ADIT of ($26.1 million) for the 2024 Test Year. These amounts reflect a simple average of the beginning and end of year balances.

4. Rider Roll-In

Q. IS OTP PROPOSING TO MOVE ANY PROJECTS FROM RIDER RECOVERY TO BASE RATE RECOVERY IN THIS FILING?

A. Yes. In her Direct Testimony, Ms. Foster explains that OTP proposes to transfer recovery of certain costs presently recovered in the Transmission Cost Recovery Rider (TCR Rider) and the Phase-In Rider to base rates.

Q. WHAT IS THE AMOUNT OF THE 2024 TEST YEAR RATE BASE ATTRIBUTABLE TO THE PROJECTS MOVING FROM THE TCR RIDER INTO BASE RATES?

A. The 2024 Test Year rate base for the projects currently recovered in the TCR Rider that are moving to base rate recovery (collectively, the TCR Projects) is $168.9 million (OTP Total), and $6.8 million (OTP SD).[5]

Q. WHAT IS THE 2024 TEST YEAR RATE BASE ATTRIBUTABLE TO PROJECTS MOVING FROM THE PHASE-IN RIDER INTO BASE RATES?

A. The 2024 Test Year rate base for the projects currently recovered in the Phase-In Rider that are moving to base rate recovery (collectively, the Phase-In Rider Projects) is $780.8 million (OTP Total) and $76.6 million (OTP SD).[6]

Q. WHAT IMPACT DOES THE RIDER ROLL-IN HAVE ON OVERALL RATES?

A. The rider roll-in has no impact on overall bills for customers, it simply shifts costs currently recovered through riders into base rates.

B. Adjustments to Rate Base

Q. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR DIRECT TESTIMONY?

A. In this section of my Direct Testimony, I will identify and explain the Traditional adjustments that are made to the 2024 Unadjusted Year to arrive at the 2024 Regulatory Year rate base, and the Test Year adjustments to the 2024 Regulatory Year to arrive at the 2024 Test Year rate base.

Q. HAVE YOU PREPARED BRIDGE SCHEDULES SHOWING ALL ADJUSTMENTS MADE TO ARRIVE AT THE 2024 TEST YEAR RATE BASE?

A. Yes. Exhibit___(CLP-1), Schedule 7 is a bridge schedule that identifies the Traditional adjustments made to the 2024 Unadjusted Year rate base to arrive at the 2024 Regulatory Year rate base. Exhibit___(CLP-1), Schedule 8 identifies Test Year adjustments made to the 2024 Regulatory Year rate base in developing the 2024 Test Year rate base.[7]

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[5] Foster Direct, Exhibit___(PMF-1), Schedule 2.

[6] Foster Direct, Exhibit___(PMF-1), Schedule 2.

[7] Data in Columns H and I of Schedule 8 is protected to maintain confidentiality of information that is attributable to an individual customer.

Q. HOW IS THE INFORMATION IN SCHEDULES 7 AND 8, AND IN THIS SECTION OF YOUR DIRECT TESTIMONY PRESENTED?

A. All the information in Schedules 7 and 8 and in this section of my Direct Testimony is presented in terms of South Dakota jurisdictional amounts.

Q. WHAT ARE THE ADJUSTMENTS TO RATE BASE MADE FOR THE 2024 TEST YEAR?

A. The following is a list of the Traditional adjustments (necessary to arrive at the 2024 Regulatory Year) and Test Year adjustments to rate base (necessary to arrive at the 2024 Test Year):

Traditional Adjustments to Rate Base

a. Short Term CWIP AFUDC
b. Hoot Lake Solar - ADIT
c. North Dakota Investment Tax Credit
d. FERC Transmission
e. Hydroelectric License

Test Year Adjustment to Rate Base

a. Short Term CWIP AFUDC
b. Plant Annualization (TY-01)
c. 2024 Depreciation Study (TY-02)
d. Rate Case Expense Amortization (TY-06)
e. Meter Reading (TY-09)
f. Materials and Supplies (TY-11)
g. Large Loads - BSESP (TY-16)

1. Traditional Adjustments to Rate Base

Q. WHAT IS THE PURPOSE OF THE TRADITIONAL ADJUSTMENTS TO RATE BASE?

A. As discussed above, Traditional adjustments implement recognized regulatory requirements and normalize the 2024 Unadjusted Year data for one-time events that will not be recurring on an on-going basis. In other words, the Traditional adjustments put the 2024 Unadjusted Year financial data into a format that is consistent with retail ratemaking, resulting in the 2024 Regulatory Year. Each

Traditional adjustment to rate base is discussed below and is shown on Schedule 7.

a. Short Term CWIP AFUDC

Q. PLEASE SUMMARIZE THE ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION FOR SHORT TERM CWIP TRADITIONAL ADJUSTMENT.

A. The capitalization of allowance for funds used during construction (AFUDC) on short-term CWIP is the result of previous South Dakota Commission and South Dakota Supreme Court decisions that did not allow short-term CWIP to be included in rate base. Since short-term CWIP is not included in rate base, OTP has added AFUDC attributable to short-term CWIP to rate base since January 1, 1976.

OTP does not include AFUDC on short-term CWIP for book purposes, so historically a Traditional adjustment for AFUDC has been made to reflect the changes to plant balance and depreciation. This treatment of AFUDC for short-term CWIP increases total average rate base by $0.8 million, as shown on Schedule 7.

While the Company has made this adjustment for many years, we propose to stop doing so going forward. Given the length of time since 1976 and the effort required to track this adjustment, the Company proposes that in future rate cases it will not make a Traditional adjustment for AFUDC on Short Term CWIP. To reflect that change, we propose a Test Year adjustment, described below, to remove the effect of the Traditional adjustment. The Company could have obtained the same result by making no adjustments related to the issue but determined that it would be more transparent to make the long-standing Traditional adjustment and explain why the standard process is being changed. In the future, the Company does not intend to include AFUDC related to short-term CWIP.

b. Hoot Lake Solar - ADIT

Q. PLEASE SUMMARIZE THE HOOT LAKE SOLAR TRADITIONAL ADJUSTMENT.

A. On April 29, 2021, the Minnesota Public Utilities Commission (MPUC) authorized OTP's investment in the 49.9-megawatt (MW) Hoot Lake Solar Project (HLS), which is located at the site of OTP's former Hoot Lake power plant in Fergus Falls, Minnesota.[8] In doing so, the MPUC also authorized 100 percent allocation of all

[8] *In the Matter of Otter Tail Power Company's Petition for Approval of the Hoot Lake Solar* Project, MPUC Docket No. M-20-844, ORDER APPROVING PETITION, AUTHORIZING ALLOCATION OF

HLS Project costs to Minnesota retail customers. As a result, we are excluding HLS Project costs from South Dakota base rates. The 2024 Unadjusted Year already reflects direct assignment of the Hoot Lake Solar rate base to the Minnesota retail jurisdiction, except for ADIT. The treatment of ADIT in the cost of service software requires a manual adjustment. The Hoot Lake Solar Traditional adjustment captures the effect of the direct assignment on ADIT and increases South Dakota jurisdictional total average rate base by $0.4 million, as shown on Schedule 7.

c. North Dakota Investment Tax Credit

Q. PLEASE SUMMARIZE THE NORTH DAKOTA INVESTMENT TAX CREDIT TRADITIONAL ADJUSTMENT.

A. The North Dakota Investment Tax Credit (ITC) is a North Dakota state tax credit for OTP's legacy North Dakota wind projects. As a result, it only impacts North Dakota tax returns and is only reflected in North Dakota ADIT. The costs for the wind projects, however, are paid for by all of OTP's retail jurisdictions, and so the Company traditionally has allocated the benefits across retail jurisdictions to match the payment of costs.

This Traditional adjustment reflects the portion of the North Dakota ITC that is allocated to other retail jurisdictions served by OTP. As shown on Schedule 7, the adjustment decreases total accumulated deferred income taxes by approximately $1.4 million and total average rate base by the same amount.

d. FERC Transmission

Q. PLEASE SUMMARIZE THE TRANSMISSION RECOVERY TRADITIONAL ADJUSTMENT.

A. This adjustment conforms to the ratemaking approach approved by the Commission in Docket EL12-054 with respect to OTP's investments in the FERC-approved Multi-Value Projects (MVP) and Regional Expansion Criteria and Benefits (RECB) transmission projects. This adjustment decreases total average rate base by $ 21.1 million, as shown on Schedule 7.

OUTPUT AND COSTS, AUTHORIZING COST RECOVERY, AND REQUIRING COMPLIANCE FILINGS (April 29, 2021).

e. Hydroelectric License

Q. PLEASE SUMMARIZE THE HYDROELECTRIC LICENSE TRADITIONAL ADJUSTMENT.

A. For accounting purposes, licenses to operate hydroelectric facilities are treated as intangible property. The licenses, however, are necessary to operate the associated production plant, so OTP has made a Traditional adjustment to reclassify the hydroelectric facility licenses to be production plant. This adjustment has no impact to rate base overall since it is a reclassification from intangible plant to production plant, but there is a minor change to jurisdictional rate base due to differences in the allocation of production and intangible plant.

2. Test Year Adjustment to Rate Base

Q. WHAT IS THE PURPOSE OF TEST YEAR ADJUSTMENTS TO RATE BASE?

A. As described above, the Traditional adjustments represent recognized regulatory requirements and normalize the 2024 Unadjusted Year data to create a Regulatory Year. The Test Year adjustments to rate base make further adjustments to ensure that the 2024 Test Year is properly representative by including known and measurable changes. Each Test Year adjustment to rate base is discussed below and shown on Schedule 8.

a. Short Term CWIP AFUDC

Q. PLEASE EXPLAIN THE REMOVAL OF AFUDC OF SHORT TERM CWIP.

A. As described above, the purpose of the removal of the AFUDC of Short Term CWIP is to back out the Traditional adjustment. Due to its minimal impact to the COSS and the amount of time that has passed, the Company no longer proposes to make this Traditional adjustment. The effect of this adjustment is a $0.8 million decrease to rate base, as shown on Schedule 8.

b. Plant Annualization (TY-01)

Q. PLEASE EXPLAIN THE PLANT ANNUALIZATION ADJUSTMENT.

A. The purpose of the plant annualization adjustment is to: (1) reflect a full year of balance of plant in service for those projects placed into service in 2024; and (2) capture projects scheduled to be placed in service in 2025, which are therefore available to provide service to customers during the period rates will be in effect. Additional details regarding this adjustment, including the projects included within the adjustment, are described in Volume 4A, Section A, Workpaper SD TY-01.

Q. PLEASE SUMMARIZE THE EFFECT OF THIS ADJUSTMENT ON THE 2024 TEST YEAR RATE BASE.

A. The adjustment increases total average rate base by $27.3 million as shown on Schedule 8. The corresponding impacts on the 2024 Test Year income statement are explained in Section V.B.2, below.

c. 2024 Depreciation Study (TY-02)

Q. PLEASE EXPLAIN THE BASIS FOR THE ADJUSTMENT FOR NEW DEPRECIATION RATES.

A. OTP's electric generating and delivery system is fully integrated and has similar characteristics throughout its service territory. OTP conducts annual depreciation reviews and the five-year depreciation studies on the property and equipment in its entire system. It is reasonable to use consistent depreciation parameters and methods in all three states covered by OTP's service territory. By using a single set of depreciation parameters for our contiguous, fully integrated system, OTP's regulatory and accounting costs are lower, and the Commission and its Staff may consider depreciation issues on an as needed basis. The Test Year adjustment reflects depreciation parameters and rates for use in 2025. Those parameters are used to calculate depreciation rates for South Dakota, North Dakota, and Minnesota.

Additional detail for this adjustment is provided in Volume 4A, Section A, Workpaper SD TY-02.

Q. PLEASE SUMMARIZE THE EFFECT OF THIS ADJUSTMENT ON THE 2024 TEST YEAR RATE BASE.

A. The new depreciation rates reduce plant in service by $0.10 million as shown on Schedule 8.

d. Unamortized Rate Case Expense (TY-06)

Q. PLEASE EXPLAIN THE BASIS FOR THE RATE BASE ADJUSTMENT RELATED TO RATE CASE EXPENSE.

A. As discussed below, the Company estimates that this rate case will result in $642,000 in rate case expense, and we propose to amortize it over three years. While it is being amortized, the unamortized balance will be included in rate base. The 13-month average unamortized balance is $0.5 million, and the calculations related to this adjustment are provided in Volume 4A, Section A, Workpaper SD TY-06.

A related adjustment to the Income Statement is described below.

Q. PLEASE SUMMARIZE THE EFFECT OF THIS ADJUSTMENT ON THE 2024 TEST YEAR RATE BASE.

A. The adjustment increases total average rate base by $0.5 million as shown on Schedule 8.

e. Meter Reading (TY-09)

Q. PLEASE DESCRIBE THE ADJUSTMENT FOR METER READING.

A. The Company has been engaged for several years in installing Advanced Metering Infrastructure ("AMI") for customers, and the project will be complete during 2025. The completion of this project results in several changes to cost items, which are described in Volume 4A, Section A, Workpaper SD TY-09.

First, in the past the Company has incurred both labor and non-labor meter reading expense. In 2024, the actual meter reading expense was $4.7 million (OTP Total), consisting of approximately $2.4 million (OTP Total) of non-labor expense and approximately $2.3 million (OTP Total) of labor expense. The non-labor expense was related to contract meter reading that is no longer needed with the completion of the AMI Project. This cost was already removed from the 2024 Test Year because the allocation factor for meter reading was set to 0.00 percent. This means that the 2024 Test Year already excludes $2.4 million (OTP Total) of expenses that were incurred in 2024.

The Company will redistribute its employees to other projects, and the related costs (approximately $2.3 million (OTP Total)) will be allocated to expense and capital projects accordingly, as shown in Volume 4A, Section A, Workpaper SD TY-09. This redistribution leads to changes to rate base, described here, and to the income statement, described below.

Q. PLEASE SUMMARIZE THE EFFECT OF THIS ADJUSTMENT ON THE 2024 TEST YEAR RATE BASE.

A. This adjustment addresses the capital portion of the approximately $2.3 million (OTP Total) labor expense redistributed following completion of the AMI Project. The adjustment increases total plant in service by $0.1 million as shown on Schedule 8.

f. Materials and Supplies (TY-11)

Q. PLEASE DESCRIBE THE MATERIALS AND SUPPLIES ADJUSTMENT.

A. Rate base includes certain costs related to materials and supplies, including, for example poles, transformers, and substation equipment. Based on current inventory information, the Company expects actual balances for materials and supplies will be greater than during 2024. In particular, as demonstrated in Volume 4A, Section A, Workpaper SD TY-11, we expect that the 13-month average during 2025 will be approximately $50.7 million (OTP Total), while the 13-month average during 2024 was only $45.0 million (OTP Total). Because we anticipate that the higher level of materials and supplies will continue, it is appropriate to make an adjustment to reflect these higher balances in the 2024 Test Year.

Q. PLEASE SUMMARIZE THE EFFECT OF THIS ADJUSTMENT ON THE 2024 TEST YEAR RATE BASE.

A. This adjustment increases total average rate base by $0.6 million as shown on Schedule 8.

g. Large Load - BSESP (TY-16)

Q. PLEASE DESCRIBE THE LARGE LOAD - BSESP ADJUSTMENT.

A. Big Stone Energy Storage Project (BSESP) is a potential new customer for which the Company has a pending Electric Service Agreement with Deviations before the Commission. Ms. Grenier provides more detail about BSESP, and the known and measurable change related to it, in her Direct Testimony. Incorporating the known and measurable change related to BSESP has both a rate base impact, described here, and an income statement impact, described below. The calculations for the adjustments are provided in Volume 4A, Section A, Workpaper SD TY-16.

Q. PLEASE SUMMARIZE THE EFFECT OF THIS ADJUSTMENT ON THE 2024 TEST YEAR RATE BASE.

A. This adjustment increases total average rate base by $2.7 million as shown on Schedule 8.

3. Effect of Test Year Adjustment on Allocations

Q. DO THE 2024 TRADITIONAL AND TEST YEAR RATE BASE ADJUSTMENTS CAUSE IMPACTS TO ALLOCATIONS?

A. Yes. The impacts are due to changes in the allocators that result from the other financial adjustments made to the 2024 Test Year. They are the result of calculations within the cost of service model itself. For example, any adjustment to net plant in service will have a direct impact on the net electric plant in service (NEPIS) allocation factor calculated as a percentage of total system net plant. The allocation percentage is simultaneously recalculated each time an adjustment to net plant in service occurs, thereby providing the most up-to-date factor possible. As a result, anything that is allocated on NEPIS is simultaneously re-calculated on a jurisdictional basis as well. The overall effect of adjustments on allocators is identified on page 1 of Schedule 8 in Column I.

V. INCOME STATEMENT

Q. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR DIRECT TESTIMONY?

A. In this section of my Direct Testimony, I will discuss the income statement for the 2024 Regulatory Year and the 2024 Test Year. In doing so, I identify and explain the Traditional adjustments that I made to the 2024 Unadjusted Year income statement to arrive at the 2024 Regulatory Year income statement, and the Test Year adjustments that I made to the 2024 Regulatory Year income statement to arrive at the 2024 Test Year income statement.

A. Income Statement Summary

Q. WHAT ARE THE 2024 REGULATORY YEAR AND 2024 TEST YEAR TOTALS AVAILABLE FOR RETURN?

A. As shown in Exhibit___(CLP-1), Schedule 9, the 2024 Regulatory Year total available for return (which is net operating income) is $8.1 million and the 2024 Test Year total available for return is $6.5 million.

Q. PLEASE BRIEFLY DESCRIBE WHAT IS INCLUDED IN THE INCOME STATEMENT.

A. The income statement is composed primarily of: (1) operating revenues (which includes both retail revenues and other operating revenues); (2) operating expenses (which includes operations and maintenance (O&M) expenses for the various operating segments, administrative and general expenses, depreciation expense, and general taxes, including property taxes); (3) income tax expense; and (4) total available for return (which is net income).

Q. WHAT ARE THE MAJOR COMPONENTS OF THE INCOME STATEMENT THAT YOU WILL DISCUSS?

A. The major components of the income statement I will discuss are:

- Revenues;
- O&M Expenses;
- Depreciation Expense; and
- Income taxes.

These different components are all identified in Schedule 9 for the 2024 Regulatory Year and the 2024 Test Year.

1. Revenues

Q. WHAT ARE THE COMPONENTS OF REVENUES?

A. There are two components of revenues: (1) retail revenues and (2) other electric operating revenues. Below, I describe the determination of both purposes of calculating the 2024 Test Year base rate revenue deficiency.

a. Retail Revenues

Q. WHAT IS THE AMOUNT OF RETAIL REVENUE INCLUDED IN SCHEDULE 9?

A. Schedule 9 shows that OTP's South Dakota jurisdictional retail revenue is $40.4 million for the 2024 Regulatory Year and $39.3 for the 2024 Test Year.

Q. HOW WAS RETAIL REVENUE DETERMINED?

A. Retail revenue in the 2024 Test Year was determined on a calendar month basis using the actual sales (as described in the Direct Testimony of OTP witness Ms. Grenier) applied to current tariffs, with the Traditional and Test Year adjustments described in this testimony. The same revenue calculation was used to determine the revenue requirement deficiency filed in the JCOSS for this rate case filing.

b. Other Electric Operating Revenue

Q. WHAT IS THE AMOUNT OF OTHER OPERATING REVENUE INCLUDED IN SCHEDULE 9?

A. Schedule 9 shows that OTP's South Dakota jurisdictional other operating revenue is $2.9 million for the 2024 Regulatory Year and $3.1 million for the 2024 Test Year.

Q. WHAT ARE THE COMPONENTS OF OTHER OPERATING REVENUE?

A. Other Operating Revenue includes items such as: 1) Midcontinent Independent System Operator (MISO) transmission related revenues not included in the TCR Rider; 2) revenue from Integrated Transmission Agreements (ITAs); 3) revenues from plant operations and steam sales; 4) asset-based revenues; and 5) other miscellaneous revenues.

Q. ARE MISO REVENUES INCLUDED IN THE 2024 TEST YEAR?

A. Yes. Pursuant to MISO's Transmission and Energy Market Tariff and the MISO Transmission Owners Agreement, OTP receives revenues from several sources for use of its transmission system and related services that it provides. These sources of revenue include, but are not limited to, the following MISO schedules: Schedule 1 - Scheduling, System Control & Dispatch; Schedule 7 - Firm Transmission Service; Schedule 8 - Non-Firm Transmission Service; Schedule 9 - Network Integrated Transmission Service; Schedule 24 – Market Settlements; and Schedule 50 – O&M Recovery of Transmission Owner Interconnection Facilities. Net revenues included in the 2024 Test Year for the MISO schedules noted above are $0.6 million.

Q. DOES OTP RECEIVE REVENUES FOR SCHEDULING AND DISPATCH SERVICES?

A. OTP has agreements with transmission-owning, load-serving entities in its control area for which OTP provides scheduling and dispatch services. These agreements are distinct from the MISO tariff schedule revenue. These scheduling and dispatch services include: (1) transmission line switching; (2) emergency line operations; (3) scheduling or outages; and (4) various related transmission scheduling and transmission dispatch services. There is $0.1 million of revenue for these services in the 2024 Test Year.

Q. PLEASE DISCUSS ITA REVENUE.

A. An ITA is an agreement to jointly plan and construct a common transmission system with discrete ownership of individual facilities with reciprocal usage rights granted to each party. OTP has one remaining ITA with Minnkota Power Cooperative (Minnkota). The Minnkota ITA has been approved by the FERC.

OTP charges Minnkota for scheduling and dispatch services based on OTP's costs associated with system control and dispatching, including operating, maintenance, and fixed costs. Minnkota pays its pro rata share of the system control and dispatching, operating, and maintenance expenses based on the respective joint use facilities owned by Minnkota and OTP.

Q. IS REVENUE FROM THE MINNKOTA ITA INCLUDED IN THE 2024 TEST YEAR?

A. Yes. Minnkota ITA revenue of $0.1 million is included in the 2024 Test Year.

Q. DOES OTP RECEIVE COMPENSATION AS THE PLANT OPERATOR FOR THE TWO JOINTLY OWNED GENERATING UNITS, BIG STONE AND COYOTE?

A. Yes. OTP operates the Big Stone Plant and Coyote Station on behalf of itself and its ownership partners (Minnkota, Northwestern, and Montana-Dakota Utilities for Big Stone and Minnkota, Northwestern, Montana-Dakota Utilities, and Northwestern Municipal Power Agency for Coyote Station). As the plant operator, OTP provides services for which it is compensated by its partners. The services include: scheduling and operations of the plants for both the day-ahead and real-time market; acting as the meter data management agent for all partners of the plants; settlement reconciliation of unit dispatches and actual generation; providing accounting reports and records to the partners; scheduling generator outages; communicating directly with the MISO generator dispatch desk; and providing and maintaining reliable communications between MISO, the plants, and the OTP control center.

Q. IS PLANT OPERATION REVENUE INCLUDED IN THE 2024 TEST YEAR?

A. Yes. Plant operation revenue in the amount of $0.04 million is included in the 2024 Test Year.

Q. PLEASE DISCUSS STEAM SALES REVENUES.

A. As explained by Ms. Foster, OTP is recommending that fuel costs related to steam and water sales be recovered in the Energy Adjustment Rider (EAR), and to credit the revenues collected from steam and water sales to customers through the EAR. OTP proposes that this change become effective with the implementation of final rates in this rate case. Overall, the 2024 Test Year reflects $0.15 million of steam revenues.

Q. DOES OTP RECEIVE REVENUE FROM ASSET-BASE REVENUES?

A. Yes. Asset-based revenue is included in the 2024 Test Year. The corresponding expenses are also included, and any margins are credited to customers through the EAR.

Q. ARE ASSET-BASED REVENUES INCLUDED IN THE 2024 TEST YEAR?

A. Asset-based revenues in the amount of $1.0 million are included in the 2024 Test Year.

Q. ARE THERE OTHER SOURCES OF OTHER OPERATING REVENUES INCLUDED IN THE 2024 TEST YEAR?

A. Yes. Approximately $0.6 million of revenues associated with Generator Interconnection Projects discussed by Ms. Grenier are included in the 2024 Test Year. There are other sources of other operating revenues that are included in the 2024 Test Year, though I do not address them directly in this testimony.

2. O&M Expenses

a. Schedule of O&M Expenses

Q. HAVE YOU PREPARED A SCHEDULE OF 2024 TEST YEAR O&M EXPENSES?

A. Yes. Exhibit___(CLP-1), Schedule 10 includes all O&M expenses included in the 2024 Regulatory Year and the 2024 Test Year, whether they are specifically discussed by me or by other OTP witnesses.

Q. DO THE 2024 TEST YEAR O&M EXPENSES INCLUDE ALLOCATIONS OF COSTS FROM OTTER TAIL CORPORATION?

A. Yes. Like compensation and employee benefits expenses (discussed below), Otter Tail Corporation costs allocated to OTP are reflected in several categories of O&M expenses.

Q. WHAT IS THE AMOUNT OF PRODUCTION EXPENSE INCLUDED IN SCHEDULE 10?

A. Schedule 10 shows that OTP's 2024 South Dakota jurisdictional production expense is $15.0 million for the 2024 Regulatory Year and $16.8 million for the 2024 Test Year.

Q. WHAT IS INCLUDED IN PRODUCTION EXPENSE?

A. The most significant production expenses are fuel and purchased power. Production expense also includes maintenance costs of OTP's generation plants.

Q. WHAT IS THE AMOUNT OF TRANSMISSION EXPENSE INCLUDED IN SCHEDULE 10?

A. Schedule 10 shows that OTP's 2024 South Dakota jurisdictional transmission expense is $3.6 million for the 2024 Regulatory Year and $4.0 million for the 2024 Test Year.

Q. WHAT IS INCLUDED IN TRANSMISSION EXPENSE?

A. Transmission expense includes such things as load dispatching, substation expense, transmission line and substation maintenance, the transmission of electricity by others, rents for transmission property, engineering, computer hardware and software for the operation of the transmission system, and transmission market costs.

Q. WHAT IS THE AMOUNT OF DISTRIBUTION EXPENSE INCLUDED IN SCHEDULE 10?

A. Schedule 10 shows that OTP's 2024 South Dakota jurisdictional distribution expense is $2.0 million for the 2024 Regulatory Year and $2.6 million for the 2024 Test Year.

Q. WHAT IS INCLUDED IN DISTRIBUTION EXPENSE?

A. Distribution expense includes expenses for operation and maintenance of the distribution system, including substations, wires, transformers, meters, and lighting.

Q. WHAT IS THE AMOUNT OF CUSTOMER ACCOUNTING EXPENSE INCLUDED IN SCHEDULE 10?

A. Schedule 10 shows that OTP's 2024 South Dakota jurisdictional customer accounting expense is $1.2 million for the 2024 Regulatory Year and $0.8 million for the 2024 Test Year.

Q. WHAT IS INCLUDED IN CUSTOMER ACCOUNTING EXPENSE?

A. Customer accounting expense includes meter reading, billing, and maintenance of customer records (customer information systems).

Q. WHAT IS THE AMOUNT OF CUSTOMER SERVICE AND INFORMATION EXPENSE INCLUDED IN SCHEDULE 10?

A. Schedule 10 shows that OTP's 2024 South Dakota jurisdictional customer service and information expense is $0.9 million for the 2024 Regulatory Year and $0.9 million for the 2024 Test Year.

Q. WHAT IS INCLUDED IN CUSTOMER SERVICE AND INFORMATION EXPENSE?

A. Customer service and information expense includes customer assistance expenses.

Q. WHAT IS THE AMOUNT OF SALES EXPENSE INCLUDED IN SCHEDULE 10?

A. Schedule 10 shows that OTP's 2024 South Dakota jurisdictional sales expense is $0.1 million for the 2024 Regulatory Year and $0.1 million for the 2024 Test Year.

Q. WHAT IS INCLUDED IN SALES EXPENSE?

A. Sales expense includes selling and advertising expenses as well as economic development costs.

Q. WHAT IS THE AMOUNT OF ADMINISTRATIVE AND GENERAL EXPENSE INCLUDED IN SCHEDULE 10?

A. Schedule 10 shows that OTP's 2024 South Dakota jurisdictional administrative and general expense is $5.3 million for the 2024 Regulatory Year and $6.3 million for the 2024 Test Year.

Q. WHAT IS INCLUDED IN ADMINISTRATIVE AND GENERAL EXPENSE?

A. Administrative and general expense includes certain salaries and benefits related to administration; office supplies & expenses; various administrative & general expenses; outside services employed; property insurance, injuries & damage; employee benefits; regulatory commission expenses; miscellaneous general expenses; informational advertising; rents; and building maintenance expenses.

b. Employee Compensation and Benefits Costs

Q. ARE EMPLOYEE COMPENSATION EXPENSES REFLECTED IN THE VARIOUS CATEGORIES IDENTIFIED IN SCHEDULE 10?

A. Yes. Salaries, wages, annual incentive compensation, and benefits costs (including employee medical/dental benefits, retirement benefits, including a defined benefit pension plan, defined contribution 401(k) plans, and other post-retirement employee benefits expenses) are reflected throughout the O&M expense categories such as production expense, transmission expense, distribution expense, and others, based on the employees providing services in those expense categories.

Q. HOW WERE THE 2024 TEST YEAR EMPLOYEE SALARIES, WAGES AND ANNUAL INCENTIVE COMPENSATION COSTS DEVELOPED?

A. The 2024 Test Year employee salaries, wages, and annual incentive compensation costs reflect 2024 Regulatory Year costs, adjusted for: (1) wage and salary increases taking effect in 2025; (2) expected headcount for 2025; (3) exclusion of certain employee compensation costs from the rate request; and (4) normalized pension and postretirement medical and life insurance (PRM) costs. OTP witness Ms. Kelsey N. Evavold explains the basis for the first two adjustments in her Direct Testimony, while Mr. Olsen supports the third and fourth adjustments in his Direct Testimony. I discuss how the normalized pension and PRM adjustments are calculated below.

Q. PLEASE COMPARE THE 2024 TEST YEAR EMPLOYEE SALARIES, WAGES AND ANNUAL INCENTIVE COMPENSATION COSTS TO 2024 REGULATORY COSTS.

A. Table 2 below compares the various aspects of employee compensation costs between the 2024 Test Year and 2024 Regulatory Year costs.

Table 2
Non-Capitalized Employee Compensation and Benefits Costs
(OTP SD EST, $ Millions)

Cost Item	**2024 Regulatory**	**2024 Test Year**
Salaries and Wages	$5.80	$6.11
Annual Incentive	0.41	0.3
Pension	(0.26)	0.14
PRM	(0.26)	(0.004)
Employee Group Insurance	0.75	0.75
Postemployment (LTD) Medical Benefit	(0.01)	0.09
Defined Contribution and 401(k) Match	0.31	0.31
Federal Insurance Contribution (FICA)	0.38	0.38
Other Labor Related Items	0.11	0.11
Total	$7.24	$8.14

3. Depreciation Expense

Q. WHAT IS THE AMOUNT OF DEPRECIATION EXPENSE INCLUDED IN SCHEDULE 9?

A. Schedule 9 shows OTP's South Dakota jurisdictional depreciation expense is $7.3 million for the 2024 Regulatory Year and $9.0 million for the 2024 Test Year.

Q. HOW WERE TEST YEAR DEPRECIATION EXPENSES DETERMINED?

A. The depreciation expense in the 2024 Test Year reflects the remaining lives and salvage percentage parameters as determined in our depreciation study for 2024 rates. As discussed above, related to rate base, and later, related to the income statement, depreciation rates are regularly updated. Because the updated depreciation rates are a known and measurable change, the Company proposes an adjustment to both rate base and the income statement to account for these changes.

4. Income Taxes

Q. WHAT IS THE AMOUNT OF INCOME TAX EXPENSE INCLUDED IN SCHEDULE 9?

A. Schedule 9 shows OTP's South Dakota jurisdictional income tax expense is $(1.4) million for the 2024 Regulatory Year and $(6.0) million for the 2024 Test Year due to net operating losses and production tax credits.

Q. HOW WERE OTP'S INCOME TAX EXPENSES CALCULATED?

A. OTP's Federal and South Dakota income tax expenses are based solely on the regulated income and expense items included in the revenue requirement calculation using the "stand-alone" method. The stand-alone method determines the jurisdictional regulated income tax expense based solely on allowable regulated income and expense items. The current income tax expense calculation utilizes straight-line depreciation rates to determine depreciation expense as part of the current income tax expense calculation, while modified accelerated income tax depreciation (MACRS) rates and a special bonus depreciation provision were used to determine deferred income taxes (which are treated as a reduction to Rate Base).

B. Adjustments to Income Statement

Q. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR DIRECT TESTIMONY?

A. In this section of my Direct Testimony, I will identify and explain the Traditional adjustments that are made to the 2024 Unadjusted Year to arrive at the 2024 Regulatory Year income statement, and the Test Year adjustments to the 2024 Regulatory Year to arrive at the 2024 Test Year income statement.

Q. HAVE YOU PREPARED BRIDGE SCHEDULES SHOWING ALL ADJUSTMENTS YOU MADE TO ARRIVE AT THE 2024 TEST YEAR INCOME STATEMENT?

A. Yes. Exhibit___(CLP-1), Schedule 11 is a bridge schedule that identifies the Traditional adjustments made to the 2024 Unadjusted Year income statement to arrive at the 2024 Regulatory Year income statement. Exhibit___(CLP-1), Schedule 12 identifies Test Year adjustments made to the 2024 Regulatory Year income statement in developing the 2024 Test Year income statement.[9]

Q. HOW IS THE INFORMATION IN SCHEDULES 11 AND 12, AND IN THIS SECTION OF YOUR DIRECT TESTIMONY PRESENTED?

A. All the information in Schedules 11 and 12, and in this section of my Direct Testimony is presented in terms of South Dakota jurisdictional amounts.[10]

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[9] Data in Columns Q and R of Schedule 12 is protected to maintain confidentiality of information that is attributable to individual customers.

[10] Please note, the software used for performing the cost of service calculates tax impacts at the end of the adjustment process. Therefore, Schedules 11 and 12 do not separately identify the tax changes associated with each adjustment. The tax change impacts are reflected in final amounts. Detail is provided on supporting schedules C-4 and C-5 in Volume 4A.

Q. WHAT ARE THE ADJUSTMENTS TO THE INCOME STATEMENT MADE FOR THE 2024 TEST YEAR?

A. The following is a list of the Traditional adjustments (necessary to arrive at the 2024 Regulatory Year) and Test Year adjustments to income statement (necessary to arrive at the 2024 Test Year):

Traditional Adjustments to Income Statement:

1. Advertising
2. Hoot Lake Solar - EAR
3. Short-Term CWIP AFUDC
4. Charitable Administration
5. Employee Recognition and Gifts
6. Incentive Compensation
7. Organizational Dues
8. FERC Docket Nos. EL14-12 and EL15-14
9. Renewable Energy Credit
10. Rider CWIP
11. FERC Transmission
12. Hydroelectric License
13. Weather Normalization

Test Year Adjustments to Income Statement:

1. Short Term CWIP AFUDC (SD-03)
2. Plant Annualization (TY-01)
3. 2024 Depreciation Study (TY-02)
4. Retail Revenue Normalization (TY-03)
5. Labor Census and Rates (TY-04)
6. Medical/Dental, Pension and OPEB (TY-05)
7. Rate Case Expense Amortization (TY-06)
8. Plant Outage Normalization (TY-07)
9. Vegetation Maintenance (TY-08)
10. Meter Reading (TY-09)
11. Rider Roll-In (TY-10)
12. Wildfire Mitigation Plan (TY-12)
13. Astoria Onsite Fuel Storage (TY-13)
14. Insurance (TY-14)

15. Cyber Security (TY-15)
16. Large Load – BSESP (TY-16)
17. Large Load – Other (TY-17)

1. Traditional Adjustments to Income Statement

Q. WHAT IS THE PURPOSE OF THE TRADITIONAL ADJUSTMENTS TO INCOME STATEMENT?

A. As discussed above, Traditional adjustments implement recognized regulatory requirements and normalize the 2024 Unadjusted Year data for one-time events that will not be recurring on an on-going basis. In other words, the Traditional adjustments put the 2024 Unadjusted Year financial data into a format that is consistent with retail ratemaking, resulting in the 2024 Regulatory Year. Each Traditional adjustment to the income statement is discussed below and is shown on Schedule 11.

a. Advertising Expense

Q. PLEASE DESCRIBE ADVERTISING EXPENSE.

A. Advertising expenses that are reasonable in amount and purpose are included as operating expenses in the cost of service determination for ratemaking purposes. The types of advertising included are those designed to encourage energy conservation, promote safety, inform and educate consumers on the utility's financial services, and disseminate information on a utility's corporate affairs to its owners.

Q. HAVE YOU MADE A TRADITIONAL INCOME STATEMENT ADJUSTMENT FOR ADVERTISING EXPENSES?

A. Yes. We have included an adjustment to remove certain advertising expenses, consistent with prior South Dakota cases. The adjustment decreases O&M expenses by $0.08 million, as shown on Schedule 11.

b. Hoot Lake Solar – Fuel Expense

Q. PLEASE SUMMARIZE THE TRADITIONAL INCOME STATEMENT ADJUSTMENT RELATED TO HOOT LAKE SOLAR FUEL EXPENSE.

A. As discussed above, the Minnesota Public Utilities Commission authorized 100 percent allocation of all HLS costs and revenues to Minnesota. As a result of this decision, all costs related to HLS are directly assigned to the Minnesota jurisdiction. In order to ensure that impacts from HLS are fully allocated to

Minnesota, an adjustment is made remove the impact of HLS from fuel expenses and calculate fuel expense as if HLS were not included in the generation fleet for purposes of South Dakota.

The adjustment increases O&M expenses by $0.2 million, as shown on Schedule 11.

c. AFUDC on Short-Term CWIP

Q. PLEASE SUMMARIZE THE TRADITIONAL INCOME STATEMENT ADJUSTMENT FOR AFUDC ON SHORT-TERM CWIP.

A. I explained the basis for an adjustment for AFUDC on short-term CWIP earlier in my Direct Testimony in Section IV.B.1.a. The adjustment for AFUDC on short-term CWIP increases O&M expenses by $0.08 million, as shown on, Schedule 11.

d. Charitable Administration

Q. PLEASE SUMMARIZE THE TRADITIONAL INCOME STATEMENT ADJUSTMENT FOR CHARITABLE ADMINISTRATION.

A. Consistent with the resolution of OTP's last South Dakota rate case,[11] we have excluded costs associated with administering charitable contributions to arrive at the 2024 Regulatory Year. The adjustment decreases O&M expense by approximately $400, as shown on Schedule 11.

e. Employee Recognition and Gifts

Q. PLEASE SUMMARIZE THE TRADITIONAL INCOME STATEMENT ADJUSTMENT FOR EMPLOYEE RECOGNITION AND GIFTS.

A. Consistent with the resolution of OTP's last South Dakota rate case,[12] we have excluded costs associated with non-cash employee recognition and gifts to arrive at the 2024 Regulatory Year. The adjustment decreases O&M expense by approximately $0.03 million, as shown on Schedule 11.

f. Incentive Compensation

Q. PLEASE SUMMARIZE THE TRADITIONAL INCOME STATEMENT ADJUSTMENT FOR INCENTIVE COMPENSATION.

A. Consistent with the resolution of OTP's last South Dakota rate case,[13] we have excluded the financial component of costs associated with the OTP Management Plan (which is discussed by Ms. Evavold in her Direct Testimony) to arrive at the

[11] *See* Docket No. EL18-021, *Staff Memorandum Supporting Settlement Stipulation* at 11.
[12] *See* Docket No. EL18-021, *Staff Memorandum Supporting Settlement Stipulation* at 11.
[13] *See* Docket No. EL18-021, *Staff Memorandum Supporting Settlement Stipulation* at 9.

2024 Regulatory Year. The adjustment decreases O&M expense by $0.15 million, as shown on Schedule 11.

g. Organizational Dues

Q. PLEASE SUMMARIZE THE TRADITIONAL INCOME STATEMENT ADJUSTMENT FOR DUES.

A. We have excluded association dues consistent with those excluded as part of resolution of OTP's last South Dakota rate case.[14] The adjustment decreases O&M expense by $0.02 million, as shown on Schedule 11.

h. FERC Docket Nos. EL14-12 and EL15-14

Q. PLEASE SUMMARIZE THE TRADITIONAL INCOME STATEMENT ADJUSTMENT FOR FERC DOCKET NOS. EL14-12 AND EL15-14.

A. FERC Docket Nos. EL14-12 and EL15-14 involved complaints at the FERC regarding MISO's rates. OTP had been accruing a refund obligation for the complaints. The complaints were subsequently resolved, and OTP reversed the accrual in 2024. The Traditional adjustment offsets the impact of this one-time event for ratemaking purposes so that rates reflect ongoing sources of revenue. Ultimately, the Traditional adjustment results in a $0.25 million reduction to other operating revenues, as shown on Schedule 11.

i. Renewable Energy Credit

Q. PLEASE SUMMARIZE THE TRADITIONAL INCOME STATEMENT ADJUSTMENT FOR RENEWABLE ENERGY CREDIT.

A. In the 2024 Unadjusted year, the renewable energy credits were attributable to the state of North Dakota. The following adjustment removes the amount from the allocated revenue to a direct assignment to North Dakota. The adjustment reduces other operating revenue by approximately $0.06 million, as shown on Schedule 11.

j. Rider CWIP

Q. PLEASE SUMMARIZE THE TRADITIONAL INCOME STATEMENT ADJUSTMENT FOR RIDER CWIP.

A. OTP excludes long-term CWIP from rate base used to compute base rates, though such projects are included in rider revenue requirement calculations. This adjustment ensures present revenues are consistent with this long-standing

[14] *See* Docket No. EL18-021, *Staff Memorandum Supporting Settlement Stipulation* at 11.

treatment, and reduces present revenues by approximately $0.7 million, as shown on Schedule 11.

k. FERC Transmission

Q. PLEASE SUMMARIZE THE TRADITIONAL INCOME STATEMENT ADJUSTMENT FOR FERC TRANSMISSION RECOVERY.

A. I explained the Traditional adjustment for the FERC transmission recovery above, in section IV.B.1.d. The adjustment decreases operating revenue by approximately $3.5 million, decreases O&M expense by $0.7 million, and decreases total available for return by $2.8 million, all as shown on Schedule 11.

l. Hydroelectric Licenses

Q. PLEASE SUMMARIZE THE TRADITIONAL INCOME STATEMENT ADJUSTMENT TO RECLASSIFY HYDROELECTRIC LICENSES.

A. I explained the Traditional adjustment to reclassify hydroelectric licenses above in my Direct Testimony in section IV.B.1.e. The adjustment has a *de minimis* impact on the 2024 Unadjusted Year.

m. Weather

Q. PLEASE SUMMARIZE THE TRADITIONAL INCOME STATEMENT ADJUSTMENT FOR WEATHER.

A. This adjustment captures the effects of normalizing 2024 sales (and revenues) for weather, as further described by Ms. Grenier. The adjustment increases operating revenue by $0.7 million, increases O&M expense by $0.2 million, and increases total available for return by $0.4 million, all as shown on Schedule 11.

2. Test Year Adjustments to Income Statement

Q. WHAT IS THE PURPOSE OF TEST YEAR ADJUSTMENTS TO THE INCOME STATEMENT?

A. As described above, the Traditional adjustments represent recognized regulatory requirements and normalize the 2024 Unadjusted Year data to create a Regulatory Year. The Test Year adjustments to rate base make further adjustments to ensure that the 2024 Test Year is properly representative. Each Test Year adjustment to the income statement is discussed below and is shown on Schedule 12.

a. Short Term CWIP AFUDC (SD-03)

Q. PLEASE DESCRIBE THE ADJUSTMENT TO REMOVE AFUDC OF SHORT TERM CWIP.

A. As described above, we are proposing to discontinue adding AFUDC on short-term CWIP.

Q. PLEASE SUMMARIZE THE IMPACT THIS ADJUSTMENT ON THE 2024 TEST YEAR INCOME STATEMENT.

A. The adjustment decreases depreciation expenses by $0.08 million as shown on Schedule 12.

b. Plant Annualization (TY-01)

Q. PLEASE DESCRIBE THE ADJUSTMENT TO ANNUALIZE PLANT IN SERVICE.

A. As described above, some of the projects included in the 2024 Test Year were not in service for an entire calendar year, and others are going into service in 2025 and are being included in the 2024 Test Year. The calculation for this adjustment is provided in Volume 4A, Section A, Workpaper SD TY-01.

Q. PLEASE SUMMARIZE THE IMPACT OF THIS ADJUSTMENT ON THE 2024 TEST YEAR INCOME STATEMENT.

A. The adjustment: (1) increases operating expenses by $1.4 million; and (2) decreases total income taxes by $2.8 million, as shown on Schedule 12.

c. 2024 Depreciation Study (TY-02)

Q. PLEASE EXPLAIN THE BASIS FOR A TEST YEAR ADJUSTMENT FOR NEW DEPRECIATION RATES.

A. As described above, in section IV.B.2.c., it is appropriate to adjust the 2024 Test Year to account for new depreciation rates. The impact of this adjustment on rate base was described above, and the impact on operating income is described here. The calculation for this adjustment is provided in Volume 4A, Section A, Workpaper SD TY-02.

Q. PLEASE SUMMARIZE THE IMPACT OF THIS ADJUSTMENT ON THE 2024 TEST YEAR INCOME STATEMENT.

A. The adjustment for the new depreciation rates increases depreciation expense by $0.2 million as shown in Schedule 12.

d. Retail Revenue Normalization (TY-03)

Q. PLEASE EXPLAIN THE BASIS FOR A TEST YEAR ADJUSTMENT TO RETAIL REVENUES.

A. As with other normalization adjustments, the purpose of this adjustment is to ensure that the 2024 Test Year reflects a full year of data. It is discussed in more detail in the Direct Testimony of Ms. Grenier, and is described in Volume 4A, Section A, Workpaper SD TY-03.

Q. PLEASE SUMMARIZE THE IMPACT OF THIS ADJUSTMENT ON THE 2024 TEST YEAR INCOME STATEMENT.

A. The adjustment increases total operating revenues by $0.5 million as shown in Schedule 12.

e. Labor Census and Rates (TY-04)

Q. PLEASE EXPLAIN THE BASIS FOR A TEST YEAR ADJUSTMENT RELATED TO LABOR.

A. The basis for the labor-related costs included in the 2024 Test Year is explained in the Direct Testimony of Ms. Evavold. The calculation for the adjustment is described in Volume 4A, Section A, Workpaper SD TY-04.

Q. PLEASE SUMMARIZE THE IMPACT OF THIS ADJUSTMENT ON THE 2024 TEST YEAR INCOME STATEMENT.

A. The adjustment increases operating expenses by $0.2 million as shown on Schedule 12.

f. Medical/Dental, Pension and OPEB (TY-05)

Q. PLEASE SUMMARIZE THE TEST YEAR INCOME STATEMENT ADJUSTMENT FOR MEDICAL INSURANCE, PENSION AND OPEB PLAN COSTS.

A. The Test Year adjustment for medical insurance, pension and PRM costs increases operating expenses by $0.8 million, as shown on Schedule 12.

Q. PLEASE EXPLAIN THE BASIS FOR THE TEST YEAR ADJUSTMENT RELATED TO INSURANCE.

A. The basis for the medical insurance costs included in the 2024 Test Year is explained in the Direct Testimony of Ms. Evavold. The calculation for the adjustment is described in Volume 4A, Section A, Workpaper SD TY-05.

Q. HOW IS ACTUAL PENSION EXPENSE DETERMINED?

A. The costs for OTP's pension plan are determined in accordance with Accounting Standards Codification (ASC) 715 (formerly Financial Accounting Standard (FAS) 87) by Mercer, which provides actuarial services to OTP and Otter Tail Corporation.

Q. PLEASE PROVIDE AN OVERVIEW OF ASC 715.

A. ASC 715 is an accounting standard that governs employers' accounting for pensions and postretirement medical and life insurance (PRM) plans.[15] Under ASC 715, annual pension cost is made up of several components, including:

(1) The present value of pension benefits that employees will earn during the current year (Annual Service Cost), with the present value being established using the discount rate;

(2) Increases in the present value of the pension obligation that plan participants have earned in previous years (Interest Cost), which is based on the discount rate;

(3) Expected earnings on the pension plan assets during the year (Expected Return on Assets or EROA);

(4) Costs (or income) that differ from assumptions (Amortization of Unrecognized Gains and Losses); and

(5) Cost of changes in benefits (Amortization of Unrecognized Prior Service Cost).[16]

Q. HOW IS ANNUAL SERVICE COST CALCULATED?

A. The annual service cost is the actuarial present value of the projected retirement benefits earned by plan participants in the current period. Actuarial factors are used to reflect the time value of money (the discount rate) and the probability of payment (mortality, turnover, early retirement). The discount rate reflects interest rates on fixed income debt securities that have a rating of AA published by recognized rating agencies, as well as Mercer's proprietary bond model, which determines a set of high-quality bonds that produce cash flows similar to the expected benefit payments and then solves for the average yield of those bonds.

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[15] Pension plan costs formerly were accounted for under FAS 87, while PRM costs were subject to FAS 106. A third category of costs, Postemployment (LTD) Medical Benefit Plan costs, are now subject to ASC 712 and formerly were subject to FAS 112.

[16] The EROA component is not used for calculation of PRM plan expense.

Q. HOW IS INTEREST COST CALCULATED?

A. The interest cost is determined as the increase in the plan's total pension benefit obligation resulting from the fact that anticipated pension benefit payments are one year closer to being paid from the pension plan.

Q. HOW IS EROA DETERMINED?

A. The EROA is determined based on the expected long-term rate of return on the market value of pension plan assets. The product of the EROA multiplied by the amount of assets in the pension trust provides an offset to the service costs and interest costs, and therefore it reduces the pension expense.

Q. HOW IS AMORTIZATION OF UNRECOGNIZED GAINS AND LOSSES CALCULATED?

A. The Amortization of Unrecognized Gains and Losses calculation considers all gains and losses, with gains and losses calculated as the difference between actual results and assumptions. Asset gains and losses are the differences between the actual return on assets during the period and the expected return on assets for that period. Liability gains and losses are the differences between the actual liability at the end of a measurement period and the expected liability at the end of a measurement period. Gains and losses are not included in the period in which the gain or loss occurs, but rather in subsequent periods. Further, the Amortization of Unrecognized Gains and Losses must be included in the calculation of annual cost in a year if, as of the beginning of the year, the unrecognized net gain or loss exceeds a corridor of 10 percent of the greater of the projected benefit obligation or the market-related value of plan assets.

Q. PLEASE EXPLAIN AMORTIZATION OF UNRECOGNIZED PRIOR SERVICE COST CREDITS.

A. The Amortization of Unrecognized Prior Service Cost captures the effect of plan changes on services rendered in prior periods. The effects of those changes are amortized over a period of years.

Q. ARE ANY OF THESE COMPONENTS OF PENSION EXPENSE IMPACTED BY INTEREST RATES?

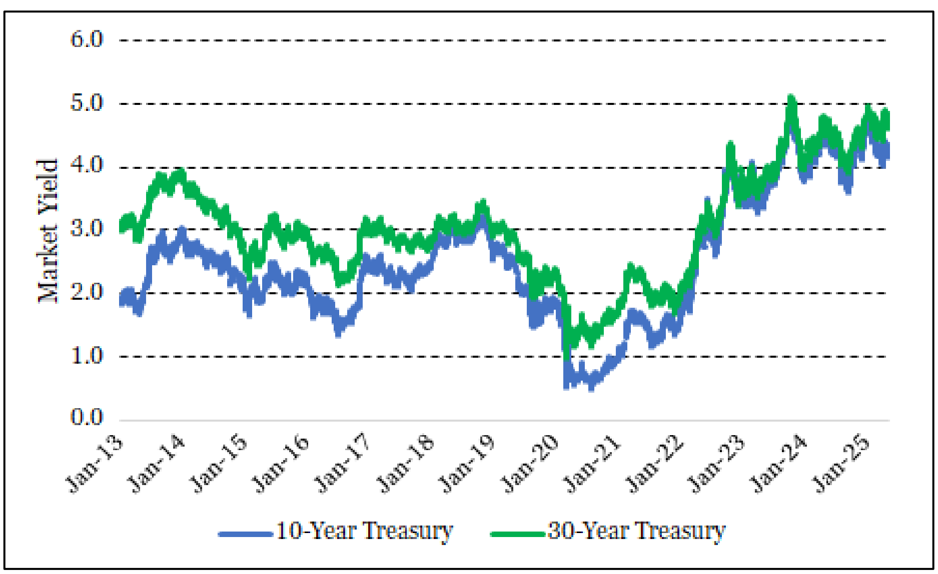
A. Interest rates impact Annual Service Cost, Interest Cost, and Amortization of Unrecognized Gains and Losses, though in different ways. Interest rates influence the discount rate, which is used to determine the present value of Annual Service Cost. All else being equal, a higher discount rate will decrease Annual Service Cost (because you are discounting by a larger number). The higher discount rate will have a similar effect on the present value calculation of the Interest Cost, though that effect is more than offset by the increase in projected benefit obligations, which are assumed to grow at the discount rate.

Interest rates impact the Amortization of Unrecognized Gains and Losses through the effect on differences between assumed and actual liabilities. The Amortization of Unrecognized Gains and Losses calculation considers all gains and losses, with gains and losses calculated as the difference between actual results and assumptions. Asset gains and losses are the differences between the actual return on assets during the period and the expected return on assets for that period. Liability gains and losses are the differences between the actual liability at the end of a measurement period and the expected liability at the end of a measurement period.

Q. HAVE INTEREST RATES CHANGED SINCE OTP'S LAST SOUTH DAKOTA RATE CASE?

A. Yes. As shown in Figure 1 below, interest rates currently are higher than 2018-2019 and have increased materially since Spring 2020. These higher interest rates have put downward pressure on pension costs in 2022 – 2024.

Figure 1
Historical Interest Rates



Q. HAS THIS HAD AN IMPACT ON THE PENSION DISCOUNT RATE AND EROA ASSUMPTIONS?

A. Yes. The table below compares the discount rate used in OTP's last South Dakota rate case to those incorporated in the Mercer Five Year Pension Estimate. The discount rate is significantly higher than the amount supporting pension expense in OTP's last South Dakota rate case.

Table 3
OTP Pension Expense Factors Assumptions

Pension Expense Factor	EL18-021	Mercer 2025 Estimate Values
Discount Rate	4.35%	5.70%
EROA	7.50%	7.00%

Q. WHAT IS THE EFFECT OF THE HIGHER DISCOUNT RATE?

A. All else equal, an increase in the discount rate reduces pension expense.

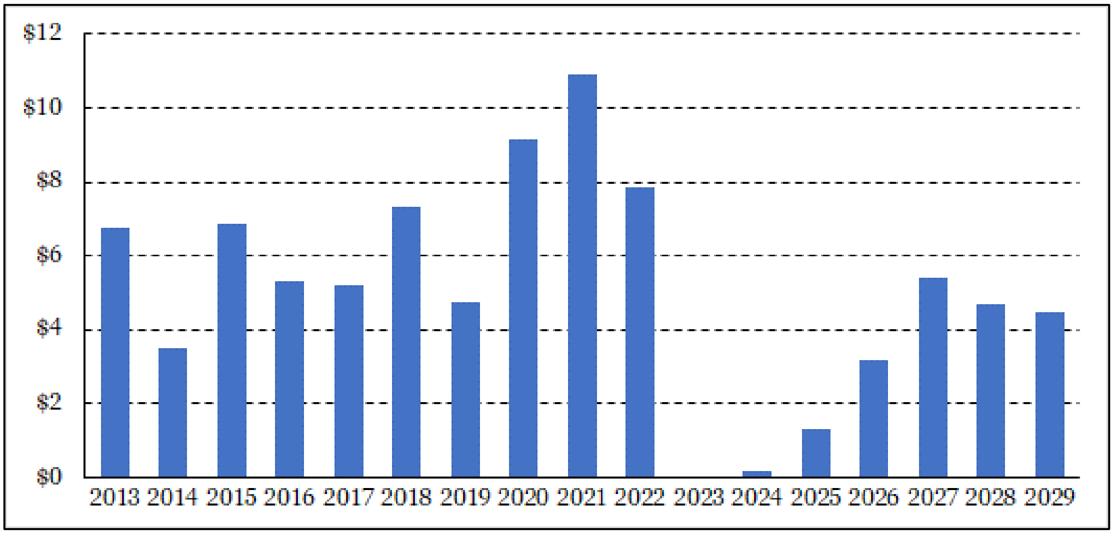
Q. WHAT IS THE EFFECT OF THE LOWER EROA?

A. All else equal, a decrease in EROA increases pension expense.

Q. HOW HAS THE AMORTIZATION OF UNRECOGNIZED GAINS AND LOSSES IMPACTED ANNUAL PENSION COST?

A. As interest rates have risen, liabilities have decreased more than initially assumed and the decline in liabilities has been greater than asset losses. These factors have had particularly acute impacts on 2023 and 2024 results, as shown in Figure 2 below.

Figure 2
Amortization of Unrecognized Gains and Losses – Otter Tail Corporation
($ Millions)



Q. WHY IS THE AMORTIZATION OF UNRECOGNIZED GAINS AND LOSSES EXPECTED TO GROW IN THE FUTURE?

A. Generally, there are two reasons. First, the pension plan experienced a significant market loss in 2022, with year-end plan assets being approximately $101 million lower than expected. Under accounting rules, that loss is "phased-in" over a period of not more than five years. Thus, 2023 was the first year that the market loss was incorporated into the annual cost calculation, but that year only reflected 20 percent of the loss. In subsequent years, an additional 20 percent will be incorporated (so, 40 percent of the 2022 market loss is incorporated into the 2024 pension expense, 60 percent in 2025, 80 percent in 2026 and 100 percent in 2027 and beyond). This phase-in smooths the impact of significant losses and contributes to the increase in the Amortization of Unrecognized Gains and Losses in future years.

The second reason Amortization of Unrecognized Gains and Losses is expected to grow in the future is that it is anticipated that interest rates have stabilized at a new, higher level. As noted above, interest rates increased rapidly throughout 2022, resulting in the decline in pension liabilities being much larger than expected. With an expectation of higher interest rates going forward, the difference between expected liabilities and actual liabilities should stabilize and no longer act as an offset to the Amortization of Unrecognized Gains and Losses.

Q. HAVE INTEREST RATES ALSO IMPACTED PRM COSTS?

A. Yes. As with pension costs, PRM costs generally are inversely related to interest rates. With interest rates increasing, PRM costs decreased.

Q. ARE THERE OTHER FACTORS CONTRIBUTING TO THE CHANGE IN PRM COSTS?

A. Ms. Evavold explains that OTP made changes to the PRM plan beginning in 2020 that have reduced plan costs.

Q. HOW HAVE THESE CHANGES IMPACTED PRM COSTS?

A. The majority of the savings were recognized through Amortization of Unrecognized Prior Service Cost in the years 2020 through 2024. Changes that occurred in 2024 also result in Amortization of Unrecognized Prior Service Cost credits through 2028, but also make permanent reductions to service costs.

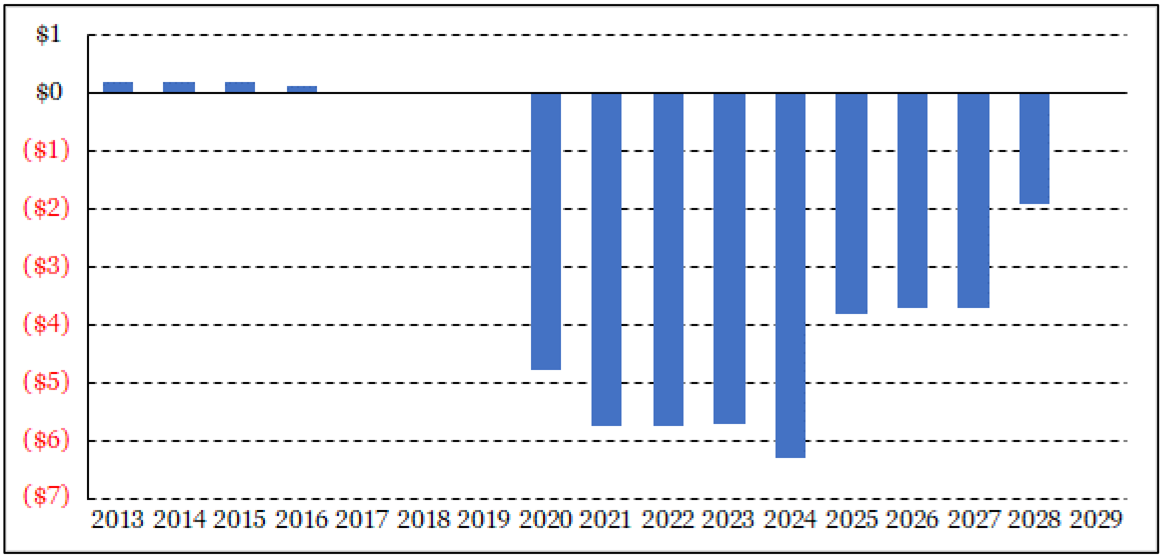
Q. PLEASE EXPLAIN AMORTIZATION OF UNRECOGNIZED PRIOR SERVICE COST CREDITS.

A. Similar to pension, the PRM cost calculation must incorporate Amortization of Unrecognized Prior Service Cost. The Amortization of Unrecognized Prior Service Cost is intended to capture the effect of plan changes on services rendered in prior periods. The effects of those changes are amortized over a period of years.

Q. IS THE AMORTIZATION OF UNRECOGNIZED PRIOR SERVICE COST CREDITS EXPECTED TO CONTINUE INTO THE FUTURE?

A. Yes, though 2024 reflects the greatest amount of Amortization of Unrecognized Prior Service Cost credits, as shown in the figure below. The relatively stable amounts of Amortization of Unrecognized Prior Service Cost credits in 2025-2027 contributes to the relatively stable amounts of expected PRM costs in those years.

Figure 3
Historical and Projected PRM Amortization of Unrecognized Prior Service Cost Credits
($ Millions, Otter Tail Corporation)



Q. HOW DID OTP NORMALIZE PENSION AND PRM EXPENSES IN THE 2024 TEST YEAR?

A. Mr. Olsen explains that the normalized amount of pension and PRM expenses is based on 2025-2029 costs developed by Mercer. Exhibit___(CLP-1), Schedule 13 includes Otter Tail Corporation's actual 2025 pension and PRM plan costs, as well as Mercer's estimate of Otter Tail Corporation's pension plan costs for the 2026-2029 period. The difference between 2024 actual pension and PRM expenses and the normalized amount is the Test Year adjustment, shown in Column (G) of Schedule 12. The calculation of this adjustment is provided in Volume 4A, Section A, Workpaper SD TY-05, page 2 of 5.

g. Rate Case Expense Amortization (TY-06)

Q. PLEASE EXPLAIN THE BASIS FOR AN INCOME STATEMENT ADJUSTMENT FOR RATE CASE EXPENSES.

A. The Company estimates that the rate case expense for this proceeding will be $642,000. We anticipate that our next rate case will be filed in three years, so propose to amortize the costs of the rate case expense over three years. This three-year amortization period results in a Test Year expense of $0.2 million. The calculation of this adjustment is provided in Volume 4A, Section A, Workpaper SD TY-06.

A related adjustment to reflect the rate base impact of the unamortized rate case expense is described above, in section IV.B.2.d.

Q. PLEASE SUMMARIZE THE IMPACT OF THIS ADJUSTMENT ON THE 2024 TEST YEAR INCOME STATEMENT.

A. The adjustment increases operating expenses by $0.2 million as shown on Schedule 12.

h. Plant Outage Normalization (TY-07)

Q. PLEASE EXPLAIN THE ADJUSTMENT RELATED TO PLANT OUTAGE NORMALIZATION.

A. Generating plants require routine outages to conduct maintenance. They occur on a regular schedule but do not occur in every year. For example, the Big Stone Plant had a planned outage in 2022, and Coyote Station had a planned outage in the spring of 2025, but there were no outages during 2024. Both Big Stone and Coyote are scheduled to have a planned outage for maintenance every three years.

In order to develop a test year that includes representative costs, it is appropriate to normalize outage expenses so that the 2024 Test Year includes a representative level of cost. To calculate these costs, we have normalized the level of outage expense and amortized it across three years—the frequency with which major outages occur. The calculation of this adjustment is provided in Volume 4A, Section A, Workpaper SD TY-07.

Q. PLEASE SUMMARIZE THE IMPACT OF THIS ADJUSTMENT ON THE 2024 TEST YEAR INCOME STATEMENT.

A. The adjustment for plant outage normalization increases operating expenses by $0.3 million as shown on Schedule 12.

i. Vegetation Maintenance (TY-08)

Q. PLEASE DESCRIBE THE REASON FOR THE VEGETATION MAINTENANCE ADJUSTMENT TO THE INCOME STATEMENT.

A. The vegetation maintenance adjustment is described in the Direct Testimony of Mr. Olsen, and the calculation is provided in Volume 4A, Section A, Workpaper SD TY-08.

Q. PLEASE SUMMARIZE THE IMPACT OF THIS ADJUSTMENT ON THE 2024 TEST YEAR INCOME STATEMENT.

A. The adjustment increases operating expenses by $0.2 million as shown on Schedule 12.

j. Meter Reading (TY-09)

Q. PLEASE DESCRIBE THE REASON FOR THE METER READING COST ADJUSTMENT TO THE INCOME STATEMENT.

A. As described above, there is a Test Tear adjustment related to meter reading costs following the completion of the AMI Project and the redistribution of approximately $2.3 million (OTP Total) of labor expense that was previously used for meter reading. The rate base impacts were described above, in Section IV.B.2.e. and there are also impacts on the income statement. The calculation for this adjustment is provided in Volume 4A, Section A, Workpaper SD TY-09.

Q. PLEASE SUMMARIZE THE IMPACT OF THIS ADJUSTMENT ON THE 2024 TEST YEAR INCOME STATEMENT.

A. The adjustment reflects the South Dakota jurisdictional share of the redistributed meter reading expense, as shown on Schedule 12. Again, the 2024 Test Year already excludes approximately $2.4 million (OTP Total) of meter reading expense actually incurred in 2024.

k. Rider Roll-In (TY-10)

Q. PLEASE DESCRIBE THE REASON FOR THE INCOME STATEMENT ADJUSTMENT RELATED TO RIDER ROLL-IN REVENUES.

A. As explained in the Direct Testimony of Ms. Foster, the Company proposes to roll-in costs from riders to base rates at the time that new base rates go into effect. During the 2024 calendar year, revenues were received from the Transmission Cost Recovery Rider and the Phase-In Rider related to projects that will be included in base rates going forward. As a result, and to avoid double counting revenues associated with these projects, it is necessary to remove those revenues from the 2024 Test Year. The calculation for this adjustment is provided in Volume 4A, Section A, Workpaper SD TY-10.

Q. PLEASE SUMMARIZE THE IMPACT OF THIS ADJUSTMENT ON THE 2024 TEST YEAR INCOME STATEMENT.

A. The adjustment decreases retail revenues by $6.4 million as shown on Schedule 12.

l. Wildfire Mitigation Plan (TY-12)

Q. PLEASE DESCRIBE THE REASON FOR THE INCOME STATEMENT ADJUSTMENT RELATED TO WILDFIRE MITIGATION.

A. The Company is developing a wildfire mitigation plan, as explained in the Direct Testimony of Mr. Olsen. The plan includes some increased costs related to wildfire mitigation that will be incurred during the period rates from this case will be in effect, and it is appropriate to adjust the 2024 Test Year to include those costs. The calculation for this adjustment is provided in Volume 4A, Section A, Workpaper SD TY-12.

Q. PLEASE SUMMARIZE THE IMPACT OF THIS ADJUSTMENT ON THE 2024 TEST YEAR INCOME STATEMENT.

A. The adjustment increases operating expenses by $5,472 as shown on Schedule 12.

m. Astoria Onsite Fuel Storage (TY-13)

Q. PLEASE EXPLAIN THE REASON FOR THE ADJUSTMENT RELATED TO ASTORIA ONSITE FUEL STORAGE.

A. The 2024 Unadjusted Year includes expenses related to onsite fuel storage at Astoria Station. On July 23, 2024, the North Dakota Public Service Commission rejected the Company's application for an advanced determination of prudence.[17] The capital costs were expensed during 2024 and a Test Year adjustment is needed to remove the one-time expense from the Test Year.

This calculation for this adjustment is provided in Volume 4A, Section A, Workpaper SD TY-13.

Q. PLEASE SUMMARIZE THE IMPACT OF THIS ADJUSTMENT ON THE 2024 TEST YEAR INCOME STATEMENT.

A. The adjustment reduces operating expenses by $0.09 million. as shown on Schedule 12.

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[17] Case No. PU-23-066.

n. Insurance (TY-14)

Q. PLEASE EXPLAIN THE REASON FOR THE ADJUSTMENT RELATED TO INSURANCE.

A. Mr. Olsen describes the insurance adjustment in his Direct Testimony. The calculation for the adjustment is provided in Volume 4A, Section A, Workpaper SD TY-14.

Q. PLEASE SUMMARIZE THE IMPACT OF THIS ADJUSTMENT ON THE 2024 TEST YEAR INCOME STATEMENT.

A. The adjustment increases operating expense by $0.2 million as shown on Schedule 12.

o. Cyber Security (TY-15)

Q. PLEASE EXPLAIN THE REASON FOR THE ADJUSTMENT RELATED TO CYBER SECURITY.

A. The Company invests in software to protect the security of its electronic data and systems. These costs grow over time, as the costs of the software or other expenses increase, and it is appropriate to make an adjustment to the 2024 Test Year to reflect these known and measurable increases in expense.

Q. PLEASE SUMMARIZE THE IMPACT OF THIS ADJUSTMENT ON THE 2024 TEST YEAR INCOME STATEMENT.

A. The adjustment increases operating expense by $0.04 million as shown on Schedule 12.

p. Large Load - BSESP (TY-16)

Q. PLEASE EXPLAIN THE REASON FOR THE ADJUSTMENT RELATED TO BSESP.

A. As noted above, in section IV.B.2.g., there is a known and measurable change related to the BSESP that has an impact both on rate base and the income statement. The calculation for this adjustment is provided in Volume 4A, Section A, Workpaper SD TY-16.

Q. PLEASE SUMMARIZE THE IMPACT OF THIS ADJUSTMENT ON THE 2024 TEST YEAR INCOME STATEMENT.

A. The adjustment increases operating revenues as shown in Schedule 12.

q. Large Load - Other (TY-17)

Q. PLEASE EXPLAIN THE REASON FOR THE OTHER LARGE LOAD ADJUSTMENT.

A. Ms. Grenier explains the known and measurable change related to increased load from a Large General Service that started January 1, 2025 in her Direct Testimony. The calculation for this adjustment is provided in Volume 4A, Section A, Workpaper SD TY-17.

Q. PLEASE SUMMARIZE THE IMPACT OF THIS ADJUSTMENT ON THE 2024 TEST YEAR INCOME STATEMENT.

A. The adjustment increases operating revenues as shown in Schedule 12.

3. Effect of Test Year Adjustments on Allocations

Q. DO THE 2024 TRADITIONAL AND TEST YEAR INCOME STATEMENT ADJUSTMENTS CAUSE IMPACTS TO ALLOCATIONS?

A. Yes. Similar to rate base adjustments, the traditional and rate case income statement adjustments impact costs that are used in certain allocation factors. The overall effect of Traditional adjustments on allocators is identified on Schedule 12, in Column O, while the overall effect of Test Year adjustments on allocators is identified Schedule 11, Column S.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.