

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____

EMPLOYEE COMPENSATION AND BENEFITS

Direct Testimony and Schedules of

KELSEY N. EVAVOLD

PUBLIC – TRADE SECRET DATA EXCISED

June 4, 2025

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Schedule 2a - Mercer 2022 Compensation Competitiveness Study – CONFIDENTIAL

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Schedule 6 - Mercer Renewal – CONFIDENTIAL

I. INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME AND CURRENT EMPLOYER.

A. My name is Kelsey N. Evavold. I am employed by Otter Tail Power Company (OTP or the Company).

Q. PLEASE SUMMARIZE YOUR CURRENT RESPONSIBILITIES.

A. I am the Director of Human Resources and Safety. I am responsible for leading the Company's human resources and safety functions, including compensation and benefits, labor relations, employee relations, organizational development, compliance, and training.

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

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

II. PURPOSE AND OVERVIEW OF DIRECT TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. The purpose of my Direct Testimony is to discuss matters related to employee compensation and benefits.

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

A. OTP's employee compensation and benefits help us attract and retain a quality workforce that provides our customers with safe, reliable, and economical service. Attracting and retaining employees has become more challenging in recent years. OTP designed its employee compensation program to attract, retain, and engage employees, which is a direct benefit to our customers. The program is competitive and performance-based, resulting in reasonable costs being included in the 2024 Test Year.

Q. HOW IS YOUR DIRECT TESTIMONY ORGANIZED?

A. In Section III, I will discuss OTP's workforce and compensation plan. Section IV describes OTP's employee benefits and, Section V describes certain 2024 Test Year employee costs.

1 Q. HOW HAVE YOU LABELED DOLLAR VALUES in your Direct Testimony and
2 supporting schedules?

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

13 **III. OVERVIEW OF OTP’S WORKFORCE AND COMPENSATION**
14 **PLAN**

15 Q. PLEASE BRIEFLY DESCRIBE OTP’S WORKFORCE?

16 A. In 2024, OTP had an average of 802 full time equivalent (FTE) employees
17 throughout the year, including approximately 368 union employees and 434 non-
18 union employees (not adjusted for employees of jointly owned power plants). The
19 non-union FTE employees include: (1) the OTP President and 7 other executives;
20 (2) 309 exempt employees; and (3) 117 non-exempt employees.

22 Q. WHAT ARE OTP’S COMPENSATION GOALS FOR ITS WORKFORCE?

23 A. OTP’s compensation goals are to attract, retain, and engage employees. Our
24 employees are essential to achieve the Company’s mission, which is to produce and
25 deliver electricity as reliably, economically, and environmentally responsibly as
26 possible to the balanced benefit of customers, shareholders, and employees, and to
27 improve the quality of life in the areas in which we do business. OTP focuses on
28 maintaining a compensation program that provides a competitive, performance-
29 based pay system that helps us attract and retain a quality workforce that provides
30 our customers with safe, reliable, and economical service. Attracting and retaining
31 employees has become more challenging in recent years.

1 Q. PLEASE EXPLAIN THE RECENT CHALLENGES IN ATTRACTING AND
2 RETAINING EMPLOYEES.

3 A. Since 2021, we have seen higher attrition rates compared to previous years. For
4 example, between 2014 and 2020, the average attrition rate for non-retirement
5 reasons was 20 employees per year, with a low of 15 and a high of 27. Between
6 2021 and 2024, we experienced an average of 33 non-retirement attritions per
7 year, with a low of 26 and a high of 43. Many businesses are seeing similar attrition
8 issues. In the current labor market, there are more job opportunities than available
9 workers. These conditions create many challenges in our industry, where on-the-
10 job experience is so critical. For example, we have several positions that are
11 structured as multi-year apprenticeships. Retaining experienced and talented
12 employees is vital given the well-known priority employees, customers and the
13 public place on safety in our industry. As we see pressure on wages, and changing
14 demographics in our region, with less people entering the workforce compared to
15 those exiting the workforce, we will need to find new ways to attract and retain the
16 talent needed to safely and efficiently operate our business, providing electricity to
17 our customers across our service territory.

18
19 Q. ARE THERE OTHER REASONS THAT OTP NEEDS TO HAVE A
20 COMPENSATION PLAN THAT ATTRACTS, RETAINS AND ENGAGES
21 EMPLOYEES?

22 A. Yes. As noted above, our high-quality workforce is essential to providing
23 customers with safe, reliable, and economical service. Like many companies, we
24 are experiencing some generational attrition, with over 30 percent (over 246) of
25 our employees expected to retire during the next ten years. We also have the
26 potential for another 330 employees to leave employment during this same ten-
27 year period based on non-retirement attrition, which, as discussed above, has
28 increased significantly over the past four years. All of this means we will need to
29 hire many high-quality individuals over the next several years, while at the same
30 time doing what is necessary to retain the talent needed to effectively serve our
31 customers. As a relatively small utility serving the rural areas of South Dakota,
32 North Dakota, and Minnesota, OTP faces challenges in attracting and retaining
33 skilled workers, especially with workers who are in the earlier stages of their
34 careers that are willing to relocate.

1 Q. WHAT ARE THE MAIN COMPONENTS OF OTP'S COMPENSATION PLAN?

2 A. The OTP compensation plan consists of: (1) cash compensation based on a
3 combination of base salaries or base wages, plus annual incentive compensation
4 for non-union employees; (2) standard employee benefit plans, including health
5 and dental plans, a 401(k) retirement savings plan with an employer match, and
6 an employee stock ownership plan; (3) defined benefit pensions and post-
7 retirement health benefits for employees whose employment began before 2006,
8 when OTP closed participation in these plans; and (4) defined contributions to a
9 401(k) plan for other employees. Some key OTP management employees are also
10 eligible for long-term incentives.
11

12 Q. PLEASE BRIEFLY DESCRIBE THE BASE SALARY AND WAGE COMPONENT
13 OF OTP'S COMPENSATION PLAN.

14 A. OTP has a combination of exempt and non-exempt employees. Approximately 50
15 percent of OTP's employees are represented by unions. OTP has approximately 50
16 percent salaried employees who are not part of executive management
17 (approximately 39 percent exempt and 12 percent nonexempt). All employees
18 receive either a base wage or base salary as part of the employee's cash
19 compensation.
20

21 Q. PLEASE BRIEFLY DESCRIBE THE OTP ANNUAL INCENTIVE PLAN.

22 A. The OTP Annual Incentive Plan is provided to all regular employees who are not
23 represented by a union and who work at the rate of at least 1,000 hours per year.
24 The OTP Annual Incentive Plan consists of four separate plans: (1) non-union
25 employees (the OTP Key Performance Award Plan or OTP KPA Plan); (2) non-
26 union people leaders who are not eligible for other plans (the KPA People Leaders
27 Plan or OTP KPA-PL Plan); (3) key management employees (the OTP Management
28 Plan); and (4) Coyote Retention Incentive Plan for non-union staff at Coyote
29 Station (the Coyote Retention Incentive Plan).
30

31 Q. PLEASE BRIEFLY DESCRIBE THE OTP KPA PLAN.

32 A. The OTP KPA Plan covers approximately 427 OTP non-union employees. The OTP
33 KPA Plan is based on: (1) four operating criteria (safety, a customer satisfaction
34 indicator, reliability based on the average outage minutes per customer, and
35 equivalent plant availability); and (2) one financial criterion relating to the control
36 of operation and maintenance (O&M) costs. Each of these five criteria has a

weighting that together comprise the six percent maximum payout. The maximum payout level is six percent of an individual employee's base salary. As part of the OTP KPA – People Leaders plan, people leaders can earn up to an additional three percent, above whatever the earned KPA payment is for that year, based on their performance as managers/supervisors.

Q. PLEASE EXPLAIN THE WEIGHTING OF THE FIVE INDIVIDUAL CRITERIA.

A. Customer satisfaction, reliability, and equivalent plant availability each have a weighting of one percent; safety has two targets, each worth 0.5 percent. The O&M cost control criteria has a weighting of up to two percent. Each of the five metrics are measured individually to determine the total award.

Q. PLEASE BRIEFLY DESCRIBE THE PEOPLE LEADERS PLAN.

A. Based on external market data,¹ along with the need to be able to attract and retain talented people who can help serve our customers, OTP has an additional plan, specific to people leaders (managers/supervisors) that qualify for the KPA Plan. Given that market data showed OTP below market on short-term incentive compensation, and our recent challenges with higher attrition rates, we added a plan that will incentivize people leaders. The additional incentive, up to 3 percent above the current KPA Plan, recognizes the leadership that will help OTP meet our key performance objectives that are positively impacting the service we provide to our customers. The incentive also recognizes market conditions where OTP has been below market with short-term compensation. It also provides another way to help attract and retain quality people leaders. The OTP People Leaders Plan covers approximately 130 employees.

Q. PLEASE BRIEFLY DESCRIBE THE OTP MANAGEMENT PLAN.

A. The OTP Management Plan covers 28 OTP management employees (not including the OTP President, who has a separate plan). The OTP Management Plan includes: (1) safety; (2) performance specific to an employee's job and responsibilities; and (3) two overall OTP financial performance metrics. The safety and individual criteria have a cumulative weighting of 50 percent. The financial metrics have a weighting of 50 percent.

¹ Exhibit____(KNE-1), Schedule 2a.

1 Q. PLEASE DESCRIBE THE INCENTIVE PLAN FOR THE OTP PRESIDENT.

2 A. The OTP President is under the Otter Tail Corporation Executive Annual Incentive
3 Plan (Executive Plan). Under the Executive Plan, the Compensation and Human
4 Capital Management Committee of the Otter Tail Corporation Board of Directors
5 determines the criteria and target incentives. Criteria under the Executive Plan
6 include: (1) OTP net income; (2) OTP return on equity; (3) Otter Tail Corporation
7 earnings per share; (4) individual performance; (5) Occupational Safety and
8 Health Administration (OSHA) safety case rate; (6) people & culture; and (7)
9 environmental. The financial criteria have a weighting of 70 percent. The safety
10 and individual criteria have a cumulative weighting of 30 percent. The people &
11 culture and environmental criteria are evaluated after the annual incentive payout
12 is calculated (based on measures 1-5) and can each add up to 5 percent of the target
13 annual incentive to the payout, respectively.
14

15 Q. PLEASE BRIEFLY DESCRIBE THE COYOTE RETENTION INCENTIVE PLAN.

16 A. With the uncertainty brought about by both current and proposed federal
17 regulations that could potentially affect some generation facilities, we created a
18 plan specifically for non-union employees at Coyote Station. The plan objectives
19 are to focus participants' attention on our operating results, ensuring that we can
20 continue to achieve desired outcomes. With the current uncertainty for some
21 power plants, and with the need to continue operations safely and efficiently at
22 Coyote Station, we are recognizing good performance for those non-union
23 employees who are choosing to remain employees at Coyote Station.
24

25 Q. DO THE FINANCIAL CRITERIA OF OTP'S ANNUAL INCENTIVE PLANS
26 PROVIDE BENEFITS TO CUSTOMERS?

27 A. Yes. The financial performance components of the individual plans that make up
28 the Annual Incentive Plan benefit customers because financial performance
29 depends on the prudent management of costs, which allows OTP to provide electric
30 utility service at reasonable prices. Combining financial criteria, along with
31 performance measures, ensures that we maintain the balance between reliable
32 service and reasonable prices. This balance and the financial criteria that support
33 this balance benefits our customers.
34

1 Q. HOW DOES THE OTP ANNUAL INCENTIVE PLAN FIT INTO OTP'S TOTAL
2 COMPENSATION PLAN AND COMPENSATION GOALS?

3 A. The Company needs the OTP Annual Incentive Plan to maintain an appropriate
4 level of cash compensation required to attract and retain employees. Without our
5 Annual Incentive Plan, OTP's total cash compensation would be significantly
6 below the market median of total cash compensation, which would impede OTP's
7 ability to attract and retain essential employees, especially in the current
8 employment market. The annual cash incentive compensation that is part of the
9 OTP Annual Incentive Plan also encourages increased productivity and enables the
10 Company to reward employees for providing quality service to our customers.
11 Customers benefit from employee incentives that tie directly to our customers'
12 needs.
13

14 Q. DOES THE OTP ANNUAL INCENTIVE PLAN AFFECT WORKFORCE
15 CONTINUITY?

16 A. Yes. The OTP Annual Incentive Plan also helps us address workforce continuity.
17 Our electrical plants and electrical systems perform better when we have
18 continuity in our workforce. The technical knowledge needed, and the years
19 required for employees to acquire the specialized skills needed to operate our
20 unique system, are paramount to our ability to provide energy to our customers
21 reliably and efficiently. Our customers also see the advantages of reduced costs
22 associated with the lower recruitment and training requirements associated with a
23 stable workforce. With an expected retirement rate of over 30 percent in the next
24 ten years and increasing non-retirement attrition rates, maintaining a competitive
25 compensation package is critical to our ability to keep our high-quality employees
26 engaged and providing safe and reliable service to customers.
27

28 Q. IS THERE AN ALTERNATIVE TO USING THE OTP ANNUAL INCENTIVE PLAN
29 TO PROVIDE A COMPETITIVE CASH COMPONENT IN THE COMPANY'S
30 COMPENSATION PACKAGE?

31 A. Yes. However, the only way to maintain a competitive cash compensation level
32 without the OTP Annual Incentive Plan would be to increase base salaries, which
33 would increase other costs and substantially reduce both flexibility and incentives
34 for performance.
35

1 Q. DOES OTP PROVIDE LONG-TERM INCENTIVES?

2 A. Yes. Qualifying management employees may receive long-term incentives in the
3 form of Restricted Stock Units (RSU), Performance Stock Awards (PSA), and costs
4 associated with the Employee Stock Purchase Plan (ESPP). The OTP president
5 receives PSA, OTP employees (including the OTP president) receive RSUs, and
6 OTP employees may elect to participate in the ESPP. PSAs and RSUs also are given
7 to Otter Tail Corporation employees, and Otter Tail Corporation employees may
8 also elect to participate in the ESPP. All long-term incentive costs (whether for OTP
9 employees or Otter Tail Corporation employees) are part of the corporate cost
10 allocation discussed by OTP witness Ms. Christy Peterson.
11

12 Q. WHAT IS THE PURPOSE OF THE LONG-TERM INCENTIVE PROGRAM?

13 A. The purposes of OTP's long-term incentives are to: (1) link the long-term success
14 of OTP to qualifying employee compensation; (2) encourage the retention of
15 management over the long-term; and (3) provide the opportunity to earn
16 competitive total compensation for executives and high-level employees.
17

18 Q. HOW DO OTP'S COMPENSATION LEVELS COMPARE TO OTHER UTILITIES?

19 A. OTP's compensation levels generally are at the market median for non-executive
20 employees. Executive cash compensation levels are also in aggregate at the market
21 median. While the Mercer study does not evaluate the competitiveness of OTP's
22 long-term incentives, long-term incentives are an expected component of total
23 rewards compensation for high-level and executive employees in the utility
24 industry. The Mercer 2022 Compensation Competitiveness Study –
25 CONFIDENTIAL is attached as Schedule 2a. Without these long-term incentives,
26 OTP's total compensation would fall below its competitors', which would impair
27 the Company's ability to both retain and attract new high-level and executive
28 employees. A combination of low unemployment rates, the high demand for skills
29 required, and low population within our service territory (meaning the Company
30 needs to look outside its service territory for employees to fill vacancies), make
31 attracting new employees challenging and retaining current employees critical.
32 This difficulty would be greatly exacerbated by loss of the Annual Incentive
33 Programs and long-term incentives.
34

1 Q. DOES OTP USE MARKET SURVEY INFORMATION IN CONNECTION WITH
2 ITS COMPENSATION DECISIONS?

3 A. Yes. OTP routinely uses market survey information to compare its compensation
4 levels to those of other utilities and some non-utilities, using numerous surveys
5 and information sources including PayFactors peer data, Willis Towers Watson
6 (WTW), Mercer, Silverstone, and Economic Research Institute. OTP regularly
7 participates in a benchmark study for non-executive employees. Through a
8 compensation software tool, OTP can review benchmark data and competitive
9 positioning on a frequent basis. The Company conducted the most recent
10 assessment in early 2025. We also periodically participate in studies of executive
11 compensation.
12

13 Q. HOW DOES OTP USE BENCHMARK STUDIES?

14 A. OTP uses benchmark studies as the framework for formulating its compensation
15 programs. We review and analyze salary surveys to find positions that correspond
16 with the essential job duties, skills, and functions of OTP's positions. OTP strives
17 to set compensation at or near the median of the survey data. While the Company
18 bases market-based compensation for a position on the median, it is not limited to
19 the single data point of the median. Rather, the relevant market for a position
20 includes a range above and below the median. Ultimately, the Company
21 determines the compensation for OTP non-union employees using a combination
22 of market data and the employee's responsibilities, performance, and experience.
23

24 Q. PLEASE FURTHER EXPLAIN THE MOST RECENT COMPENSATION
25 COMPETITIVE POSITIONING ASSESSMENT.

26 A. The most recent competitive positioning assessment covered non-executive
27 employees and included compensation information for approximately 80 percent
28 of positions. The assessment examined base salaries only. The Company compared
29 OTP compensation levels using a combination of: (1) general industry; (2)
30 energy/utility industry; and (3) North Central regional data to reflect the labor
31 markets in which OTP competes for employees. The assessment is provided as
32 Exhibit____(KNE-1), Schedule 2b.
33

34 Q. WHAT DID THE COMPENSATION COMPETITIVE POSITIONING
35 ASSESSMENT INDICATE?

36 A. The assessment showed that:

1. OTP base salaries generally are at or slightly below market, based on the 50th percentile;
2. Of the 245 non-union positions that we reviewed, representing 360 employees, some fell below the market median and some were above the market median.

Q. WHAT DID YOU CONCLUDE FROM THESE RESULTS?

A. The assessment showed that, especially when considered together with the 2022 Mercer study, overall, the OTP compensation plan is competitive with the market and reasonable, especially considering the average tenure of our employee group. It also indicated that our compensation structure included in our rate request for non-executive employees is fair and reasonable.

Q. HAS THE COMPANY CONDUCTED A RECENT STUDY OF EXECUTIVE COMPENSATION FOR OTP?

A. Yes. OTP conducted an executive competitiveness assessment that evaluated two compensation components: (1) base salary and (2) total cash compensation. The assessment utilized multiple sources and surveys including: PayFactors peer data, WTW), Mercer, Silverstone, and Economic Research Institute. A copy of the assessment is provided as Exhibit____(KNE-1), Schedule 3.

Q. WHAT DID THE EXECUTIVE COMPETITIVE ASSESSMENT SHOW?

A. The assessment showed the following:

1. OTP executive base salaries were in aggregate one percent below the market median, and
2. OTP's target total executive cash compensation was one percent below the market median.

Q. WHAT DID YOU CONCLUDE FROM THESE RESULTS?

A. I concluded that OTP's executive compensation is below the market median, but within the competitive range (+/- 10 percent).

IV. EMPLOYEE BENEFITS

Q. PLEASE SUMMARIZE THE BENEFITS PROVIDED BY OTP.

A. OTP provides: (1) employee medical/dental benefits; (2) retirement benefits, including a defined benefit pension plan and defined contribution 401(k) plans; and (3) other post-retirement employee benefits.

Q. ARE THE BENEFITS PROVIDED BY OTP A REASONABLE PART OF EMPLOYEE COMPENSATION?

A. Yes. OTP's benefits contribute to attracting and retaining its skilled workforce. As discussed above, OTP and its customers benefit directly from having a stable, long-term workforce. In an industry where employees must train on-the-job for multiple years before working independently, it is fiscally prudent to have a workforce with as low a turnover rate as possible. As we retire over 30 percent of our workforce within the next ten years, it will be increasingly important for OTP to attract and retain a workforce that will continue to provide electricity to our customers in a safe, reliable, and efficient manner.

A. Medical and Dental

Q. PLEASE DESCRIBE OTP'S MEDICAL AND DENTAL BENEFITS.

A. OTP offers qualifying employees group medical and dental insurance benefits. At present, we have three high-deductible health plans (HDHP) and one additional consumer-driven plan for our non-union employees and a separate single HDHP option for our union employees. Table 1 provides a summary of the health care plans.

Table 1

2025 Medical Plans					
	Nonunion Employees				Union Employees
	Premier 80 Non-Embedded	Advantage 70 Embedded	Basic 100 Embedded	Surest	Blue Saver 100 Embedded
Annual Deductible	\$2,000 – Individual \$4,000 – Other Tiers	\$4,000 – Individual \$8,000 – Other Tiers	\$7,000 – Individual \$14,000 – Other Tiers	\$0 – Individual \$0 – Other Tiers	\$3,300 – Individual \$6,400 – Other Tiers
Co-Insurance	80% after deductible	70% after deductible	100% after deductible	No coinsurance \$35-\$135 copays per primary care or specialist	NA
Annual Out of Pocket Max	\$4,000 – Individual \$8,000 – Other Tiers	\$6,000 – Individual \$12,000 – Other Tiers	\$7,000 – Individual \$14,000 – Other Tiers	\$5,500 – Individual \$11,000 – Other Tiers	\$3,300 – Individual \$6,400 – Other Tiers

Premiums for the medical and dental plans vary based on: (1) the plan(s) chosen; (2) whether employee is covering a spouse or dependent(s); and (3) differences between current non-union and union plans.

Q. HAS OTP TAKEN STEPS TO MANAGE ITS HEALTH CARE COSTS?

A. Yes. In 2012, OTP moved to a HDHP for all employees. The move to the HDHP, sometimes called a consumer-driven health plan, has enabled our employees to be better health care consumers. In 2017, we took a further step with our non-union employees and replaced the existing HDHP with three new HDHP options that included different deductibles, premiums, and introduced coinsurance. Coinsurance keeps employees in the decision-making process longer and generally provides for increased consumerism. Although health care costs continue to be a challenge, we believe our actions have enabled our employees to be better consumers, and we expect that our emphasis on preventive health care and wellness will provide long-term benefits for our employees and for Company health care costs.

1 Q. HAS OTP RECENTLY ADDED A NON-HDHP MEDICAL INSURANCE OPTION?

2 A. Yes. OTP recently added a Surest policy to its suite of medical insurance options.
3 Surest takes a unique approach to medical insurance with no deductible, no
4 coinsurance, and no cost-shifting. Instead, employees compare providers and see
5 what they will owe in advance of seeking medical care. This allows employees to
6 plan ahead and make informed decisions about the cost of care. The Surest
7 platform will also help employees make educated decisions about the right level
8 care needed for a particular health issue. For example, if an employee suspects they
9 have influenza, Surest would share the recommended level of care needed,
10 including virtual visits and walk-in clinics, and the associated costs to encourage
11 the employee to select a high-value and low-cost care option (like walk-in-clinics)
12 verses going to a hospital emergency room, at a much higher cost. When employees
13 check prices and provider value before seeking or scheduling care, they are more
14 likely to choose lower-cost care, which allows for a lower total cost per month for
15 employees on the plan, which drives savings for both the employee and OTP.

16
17 Q. HAS OTP TAKEN OTHER STEPS TO CONTROL THE COST OF MEDICAL AND
18 DENTAL BENEFITS?

19 A. Yes. Since the last South Dakota rate case, OTP increased the cost-sharing ratio
20 of employee to employer share of the health care premium. The employer
21 share/employee share for gross health costs, which includes total spend for both
22 OTP and employees, moved from approximately 75 percent employer/25 percent
23 employee to 72 percent employer/28 percent employee on all three of the HDHPs
24 and the Surest plan option. OTP also has a monthly tobacco surcharge of \$40.

25 In our 2023 labor negotiations, we increased premiums in the first year of
26 the three-year contract, along with five percent increases for years two and three.
27 Some of these changes are difficult for our employees and we will continue working
28 on providing quality health care options, while being responsible with the overall
29 costs associated with the benefit. We know that healthcare is a critical benefit for
30 employees, and that it has an impact as current employees weigh other options,
31 and as we recruit future employees.

B. Retirement Savings and Pension

Q. PLEASE SUMMARIZE OTP'S RETIREMENT SAVINGS AND PENSION BENEFITS.

A. OTP provides 401(k) defined contribution retirement plans (401(k) Plans) for all employees and defined benefit pension plans (Pension Plan) for certain employees depending on the date they were hired. OTP also provides a 401(k)-matching plan.

Q. PLEASE DESCRIBE OTP'S 401K PLAN.

A. For employees who are not eligible to participate in OTP's Pension Plan, as of 2025, OTP has 401(k) Plans that include three different defined contribution amounts made by OTP: (1) a five percent contribution for non-union employees; (2) a seven percent contribution for our Coyote Station union employees; and (3) a five percent contribution for our other union employees. A summary description of OTP's 401(k) Plans is included in Exhibit____(KNE-1), Schedule 4a and Exhibit____(KNE-1), Schedule 4b.

Q. DOES OTP MATCH EMPLOYEE CONTRIBUTIONS TO THE 401(K) PLANS?

A. Yes. All OTP employees are eligible for some form of match based on their individual contributions to the 401(k) Plans.

Q. ARE EMPLOYEES ELIGIBLE FOR OTP'S PENSION PLAN ALSO ELIGIBLE TO PARTICIPATE IN THE MATCHING PORTION OF OTP'S 401(K) PLANS?

A. Yes. Pension Plan-eligible employees may make contributions to OTP's 401(k) Plans and are eligible to receive the OTP employer match subject to the maximum matching provisions as noted in Exhibit____(KNE-1), Schedule 4a and Exhibit____(KNE-1), Schedule 4b. They do not receive OTP enhanced contributions.

Q. WHAT 401(K) MATCH IS AVAILABLE TO OTP EMPLOYEES WHO ARE NOT PENSION ELIGIBLE?

A. Non-union employees, and bargaining unit employees (other than Coyote Station union employees), are eligible for a match of fifty percent of their first eight percent individually contributed (maximum of 4 percent). Coyote bargaining unit employees are eligible for a match of fifty percent of their first six percent individually contributed (maximum of 3 percent).

1 Q. PLEASE DESCRIBE OTP'S PENSION PLAN.

2 A. OTP's Pension Plan has two benefit formulas: (1) a benefit formula for non-union
3 and union employees, other than Coyote Station union employees; and (2) a
4 separate benefit formula for union employees at Coyote Station. A summary
5 description of OTP's Pension Plan is provided in Exhibit____(KNE-1), Schedule 4c.
6 An overall retirement benefits eligibility summary is provided in
7 Exhibit____(KNE-1), Schedule 4d.
8

9 Q. DOES OTP HAVE ANY OTHER RETIREMENT PLANS?

10 A. Yes. Key management employees participate in an Executive Restoration Plus Plan
11 (ERPP), an unfunded, non-qualified benefit plan that provides defined
12 contribution payments to these employees. OTP also maintains an Executive
13 Survivor & Supplemental Retirement Plan (ESSRP).
14

15 Q. WHY DOES OTP PROVIDE AN ERPP PLAN?

16 A. The ERPP provides a benefit based on total pay, including incentive compensation,
17 in recognition of the fact that more executive compensation is tied to performance
18 that can fluctuate year-over-year (at risk). Earned incentive compensation is not
19 calculated as part of a retirement benefit for non-union employees. The ERPP
20 provides a method to recognize at-risk pay, when earned, as part of total
21 compensation for calculating retirement benefits.
22

23 Q. PLEASE DESCRIBE THE ESSRP.

24 A. The ESSRP is a defined benefit plan that was adopted in 1983 to provide key
25 executives and management employees with competitive survivor and retirement
26 benefits. In the early 1980s, certain tax law limitations reduced the amount of
27 pension-related retirement benefits that could be received by key executives and
28 management employees. The ESSRP was designed as a Supplemental Executive
29 Retirement Plan. It was transitioned to a restoration benefit used to restore the
30 pension-related retirement benefits of impacted employees to the same baseline
31 (percentage) level of OTP's overall pension plan.
32

33 Q. ARE PARTICIPANTS BEING ADDED TO THE ESSRP?

34 A. No. The last participant was added January 1, 2009, and from that time forward,
35 there have been no new participants in the ESSRP. In 2019, the restoration

1 retirement benefit component for participants was frozen, meaning no new
2 benefits were being earned within the ESSRP.

3 **C. Other Post Retirement Employee Benefits**

4 Q. DOES OTP PROVIDE OTHER POST-RETIREMENT EMPLOYEE BENEFITS?

5 A. Yes. OTP also provides other post-retirement benefits (OPEBs) including: (1) the
6 postretirement medical and life insurance (PRM) Plan; (2) Postemployment (LTD)
7 Medical Benefit Plan for a limited number of disabled employees; and (3) life
8 insurance for a limited number of eligible retirees. Ms. Petersen discusses costs
9 associated with these benefits in her Direct Testimony.

10
11 Q. PLEASE DESCRIBE ELIGIBILITY FOR THE LIFE INSURANCE BENEFIT.

12 A. The life insurance benefit is no longer available to new employees as a company-
13 paid expense. Eligibility is restricted to those employees who had 25 years of
14 service with OTP as of January 1, 2003, and to Coyote Union employees who were
15 employees at the time OTP took over the operations of Coyote Station in 1998.

16 **D. Management of Pension and OPEB Costs**

17 Q. HAS OTP PREVIOUSLY TAKEN STEPS TO MANAGE THE COST OF ITS
18 PENSIONS AND OPEBS?

19 A. Yes. Since 2006, OTP has made significant changes to retirement benefits to
20 control costs. The first significant change eliminated eligibility to participate in
21 the OTP Pension Plan for employees hired after certain dates. This change is
22 sometimes referred to as a “soft freeze.” The effective dates of the soft freeze differ
23 depending on bargaining-unit status. For non-union employees, the soft freeze
24 eliminated participation in the OTP Pension Plan for employees hired after
25 August 31, 2006. For the Coyote Plant bargaining-unit employees, the soft freeze
26 eliminated participation in the OTP Pension Plan for employees hired after
27 December 31, 2008. For our other bargaining-units, the soft freeze eliminated
28 participation in the OTP Pension plan for employees hired after October 31, 2013.
29 Employees not eligible for the OTP Pension Plan are eligible to receive the OTP
30 contributions to their 401(k) Plan as I described earlier in my testimony.

31 The second significant change was the elimination of post-retirement
32 medical benefits for new employees. Like the soft freeze on the OTP Pension Plan,
33 this change means that employees hired after certain dates are not eligible for post-
34 retirement medical benefits. Also like the soft freeze on the OTP Pension Plan, the

1 effective dates differed based on bargaining unit status. For our non-union
2 employees, this soft freeze was effective for employees hired after August 31, 2006.
3 For the Coyote Plant bargaining unit, this soft freeze was effective for employees
4 hired after December 31, 2008. For our other bargaining-units, this soft freeze was
5 effective for employees hired after October 31, 2010. For all these groups,
6 participation also is limited to persons who are age 55 or older at retirement with
7 10 or more years of service and eligible for or enrolled in the OTP medical program
8 as of retirement.
9

10 Q. WHAT EFFECT HAS THE SOFT FREEZE HAD ON THE OTP PENSION PLAN?

11 A. The soft freeze, in combination with retirements, is significantly reducing the
12 number of OTP employees participating in the OTP Pension Plan. As a result of
13 the soft freeze on the OTP Pension Plan, we now have approximately 67 percent of
14 our active employees who are not participating in the OTP Pension Plan (up from
15 33 percent at the time of our last South Dakota rate case), and we would expect
16 that percentage to increase significantly with the number of retirements expected
17 over the next ten years.
18

19 Q. HAS OTP RECENTLY CONTINUED TO TAKE STEPS TO MANAGE THE COST
20 OF ITS PRM PLAN?

21 A. Yes. Beginning in 2020, OTP began the process of moving from the Retiree Drug
22 Subsidy (RDS) to the Employer Group Waiver Plan (EGWP) within the PRM Plan.
23 Since OTP's PRM Plan previously provided a prescription drug component, OTP
24 was eligible for the RDS, providing some relief to the costs within the post-
25 retirement medical expense. More recently, the RDS benefit has been reducing,
26 and moving to EGWP was found to be much more beneficial, especially in the
27 short-term. In 2024, the PRM Plan was moved to the Aptia Marketplace Exchange.
28

29 Q. HAS OTP TAKEN OTHER STEPS TO MANAGE THE COST OF THE PRM PLAN?

30 A. Yes. In 2023, OTP made the decision to move to a private exchange for Medicare-
31 eligible retirees (post-65), with all Medicare supplemental medical and
32 prescription benefits no longer being provided through our self-insured plan. All
33 age-65 and older retirees moved to the Aptia Marketplace Exchange effective
34 January 1, 2024. The move will provide more comprehensive coverage
35 opportunities for retirees, while significantly reducing the PRM expenses, as

discussed by Ms. Petersen in her Direct Testimony. These expense reductions are expected to continue long term.

Q. HAS OTP BEEN PRUDENT IN ESTABLISHING AND THEREAFTER CONTROLLING THE COSTS OF ITS DEFINED BENEFIT PENSION PLAN?

A. Yes. Defined benefit pension plans were very common when OTP established its defined benefit pension plans in 1975, and OTP's decision to establish such a plan was prudent and consistent with industry compensation and benefit practices. Since then, OTP has continued to be prudent in managing its pension plans and other retirement benefits, as I explained earlier. Most importantly, it has frozen participation in the Pension Plan.

Q. ARE OTP'S BENEFIT PLANS REASONABLE COMPARED TO THE MARKET?

A. Yes. In addition to the studies of cash compensation that I discussed earlier in my Direct Testimony, OTP also routinely participates in the Willis Towers Watson (WTW) Energy Services BenVal Study. A copy of the 2023 WTW Energy Services BenVal Study (2023 BenVal Study) is provided as Exhibit____(KNE-1), Schedule 5.

Q. PLEASE DESCRIBE THE 2023 BENVAL STUDY.

A. The 2023 BenVal Study focused on new hires and included 37 participating energy services companies. The study further refined the included companies by revenue size. The 2023 BenVal Study showed OTP's relative benefit program value compared to participating companies of similar revenue size was 10 out of 12. The BenVal Study shows OTP near the middle for current medical benefits provided, and toward the bottom when looking at OPEBs. Overall, the BenVal Study shows that OTP benefits are lower than most of the other participating utility companies.

Q. WHAT ARE THE IMPLICATIONS OF HAVING A BENEFIT PACKAGE WITH A LOWER BENEFIT VALUE?

A. Having a lower benefit value could inhibit OTP's ability to attract, retain and engage the talented workforce needed to deliver safe and reliable electric service to our customers. It is imperative that we continue to offer a compensation and benefit package that is competitive for our employees and good value to our customers. We will continue to monitor our benefit package going forward to ensure it does not become a detriment.

V. 2024 TEST YEAR EMPLOYEE COMPENSATION COSTS

Q. PLEASE IDENTIFY THE COSTS OF OTP'S COMPENSATION PLAN THAT ARE INCLUDED IN THE 2024 TEST YEAR.

A. The 2024 Test Year includes costs of the following components of the OTP compensation plan: (1) wages and salaries; (2) annual incentives; (3) employee health and dental benefit plans; and (4) retirement savings, pension and other postretirement employee benefits. OTP witness Mr. Matthew J. Olsen and Ms. Petersen discuss 2024 Test Year pension and PRM expenses in their testimonies; I address the other components of 2024 Test Year employee compensation and benefits costs.

A. Wages and Salaries

Q. WHAT IS THE 2024 TEST YEAR WAGE AND SALARY EXPENSE?

A. The 2024 Test Year reflects \$62.5 million (OTP Total) / \$6.1 million (OTP SD EST) of base wage and salary expense.

Q. HOW WERE 2024 WAGE AND SALARY LEVELS DETERMINED?

A. The 2024 Test Year base wage and salary expense is based on 2024 actual costs, adjusted for 2025 budgeted wage and salary adjustments and budgeted 2025 FTEs. The wage increase reflects the actual wages and salaries it is paying in 2025, which is what OTP believes is necessary to remain competitive in the labor market in which it competes. Accordingly, its main purpose is to maintain competitive compensation levels and address changes in the cost of labor.

Q. HOW DO THE NUMBER OF FTE EMPLOYEES IN 2024 COMPARE TO THE NUMBER IN 2025?

A. As discussed above, OTP had an average of 802 FTEs throughout 2024. Our 2025 budget indicates an average of 808 FTE employees for the year, an increase of 6. The primary reason for the increase is the number of open positions in 2024. In December 2024, we had 21 open full-time positions, with some of those being offset by upcoming retirements.

Q. DOES THE BUDGETED NUMBER OF 2025 FTES ACCOUNT FOR ANTICIPATED VACANCIES THROUGHOUT THE YEAR?

A. Yes. The 2025 budget is based on 808 FTEs. This number is the result of decisions from leaders across the Company about the number of employees they will require

to provide safe and reliable service to customers. These costs are included in budgets for each cost area and, when added together, resulted in an estimate of 808 FTEs.

Q. WHAT IS THE 2025 WAGE INCREASE FOR NON-UNION, NON-MANAGEMENT EMPLOYEES?

A. OTP budgeted for a three and one half percent wage increase for non-union employees effective March 30, 2025. The three- and one-half percent increase is cumulative and individual employee increases will vary depending on performance, market data, and where the employee's wage falls within the respective wage range.

Q. HAS THAT WAGE INCREASE BEEN PUT INTO EFFECT?

A. Yes. Effective March 30, 2025, OTP did implement the budgeted wage increases.

Q. WHAT ARE THE 2025 WAGE INCREASES FOR UNION EMPLOYEES?

A. OTP has two collective bargaining agreements (CBAs) representing approximately 370 union employees: (1) a CBA with four International Brotherhood of Electrical Workers (IBEW) Local Unions representing approximately 310 employees; and (2) a CBA with one IBEW Local Union representing approximately 60 Coyote Station employees. Both CBAs were renegotiated in 2023, resulting in the following future wage increases:

Table 2
CBA Wage Increases – Coyote IBEW

Period	IBEW - Coyote
Sept 1, 2024 – Aug 31, 2025	[PROTECTED DATA BEGINS... ... PROTECTED DATA ENDS]
Sept 1, 2025 – Aug 31, 2026	

CBA Wage Increases – Other IBEW

Period	IBEW – Other
Nov. 1, 2024 – Oct. 31, 2025	[PROTECTED DATA BEGINS... ... PROTECTED DATA ENDS]
Nov. 1, 2025 – Oct. 31, 2026	

Q. WHAT IS THE 2025 WAGE INCREASE FOR NON-UNION, MANAGEMENT EMPLOYEES?

A. The 2025 budget reflects a three- and one-half percent wage increase for management and executive employees, effective March 30, 2025. The three- and one-half percent increase is cumulative, with individual employee increases varying depending on performance, market data, and where the employee's salary falls within the respective wage range.

B. Annual Incentives

Q. WHAT IS THE 2024 TEST YEAR ANNUAL INCENTIVE EXPENSE?

A. The 2024 Test Year reflects \$3.05 million (OTP Total) / \$0.3 million (OTP SD EST) of annual incentive expense. This is based on 2024 actual incentive expenses. The 2024 Test Year amounts are detailed in Table 3, below.

Table 3
2024 Test Year Annual Incentive Program Expenses
(\$ Millions)

Program	OTP Total	OTP SD EST
	[PROTECTED DATA BEGINS...	
KPA Plan		
People Leaders		
Management Plan		
OTP President		
Coyote Retention		
	... PROTECTED DATA ENDS]	
Total	\$3.05	\$0.3

*Note the incentive totals above do not include FICA taxes.

Q. HAS OTP EXCLUDED ANNUAL INCENTIVE PROGRAM COSTS TIED TO FINANCIAL METRICS FROM THE 2024 TEST YEAR?

A. Yes. OTP is limiting its request for Annual Incentive Plan cost recovery by removing components related to financial performance, consistent with the outcome of our last South Dakota rate case (EL18-021). Ms. Petersen provides additional information regarding this adjustment in her Direct Testimony.

1 Q. WHY IS IT APPROPRIATE TO INCLUDE THE NON-FINANCIAL METRIC
2 COSTS OF THE OTP ANNUAL INCENTIVE PLAN IN THE 2024 TEST YEAR
3 REVENUE REQUIREMENT?

4 A. The costs of the non-financial portion of the OTP Annual Incentive Plan should be
5 included in the 2024 Test Year revenue requirement for several reasons. First,
6 OTP's Annual Incentive Plan is an important part of OTP's total compensation
7 plan; without it, OTP's total cash compensation would be significantly below
8 market, making it harder for OTP to attract and retain essential employees.
9 Second, as I have explained earlier in my Direct Testimony, the OTP Annual
10 Incentive Plan includes an appropriate range and balance of factors that provide
11 benefits to customers. Third, including annual incentive plans in total
12 compensation packages is an established utility market practice. Fourth, OTP has
13 applied controls to the costs to be recovered in the revenue requirement that are
14 consistent with treatment in our last South Dakota rate case.
15

16 Q. HOW DO OTP'S CONTROLS SUPPORT RECOVERY OF THE PROPOSED
17 INCENTIVE COSTS?

18 A. After excluding incentive compensation that is tied to financial metrics, OTP's
19 annual cash compensation levels for executive compensation are even further
20 below competitive market levels. The 2024 actuals for the Management Plan,
21 adjusted to remove financial components, is appropriate for determining OTP's
22 revenue requirement because it is consistent with historic payout levels.

23 **C. OTP Medical, Dental, 401(k) and Other Benefits Expenses**

24 **1. Active Medical and Dental**

25 Q. WHAT IS THE 2024 TEST YEAR AMOUNT FOR OTP'S ACTIVE MEDICAL AND
26 DENTAL COSTS?

27 A. The 2024 Test Year reflects \$13.0 million (OTP Total) / \$1.2 million (OTP SD EST)
28 of active medical and dental costs, which is the actual cost for 2024.

29 **2. 401(k)**

30 Q. WHAT IS THE 2024 TEST YEAR AMOUNT FOR OTP'S 401(k) COSTS?

31 A. The 2024 Test Year reflects \$4.9 million (OTP Total) / \$0.5 million (OTP SD EST)
32 of 401(k) costs, which is the actual cost for 2024.
33

3. ERPP and ESSRP

Q. WHAT IS THE 2024 TEST YEAR AMOUNT FOR THE ERPP AND ESSRP?

A. The 2024 Test Year reflects \$1.5 million (OTP Total) / \$0.15 million (OTP SD EST) of ERPP and ESSRP, which is the actual cost for 2024.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.