

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\_\_\_\_

**POLICY**

Direct Testimony and Schedules of

**MATTHEW J. OLSEN**

June 4, 2025

## **TABLE OF CONTENTS**

I.	INTRODUCTION AND QUALIFICATIONS.....	1
II.	PURPOSE AND OVERVIEW OF DIRECT TESTIMONY AND OTP’S REQUESTS IN THIS CASE.....	1
III.	DESCRIPTION OF OTP .....	6
IV.	RATEMAKING PROPOSALS .....	13
	A.    Pension and Postretirement Medical and Life Insurance Plan Costs .....	13
	B.    Vegetation Management .....	17
	C.    Wildfire Mitigation Planning .....	19
	D.    Excess Liability and Directors and Officers Insurances Costs .....	22
V.	ADDITIONAL TOPICS .....	23
	A.    Low Income Home Energy Assistance Program Funding .....	23
	B.    Federal Tax Changes.....	24
VI.	INTRODUCTION OF WITNESSES .....	24

## **ATTACHED SCHEDULES**

Schedule 1 – Olsen Statement of Qualifications

1   **I.     INTRODUCTION AND QUALIFICATIONS**

2   Q.    PLEASE STATE YOUR NAME AND CURRENT EMPLOYER.

3   A.    My name is Matthew J. Olsen. I am employed by Otter Tail Power Company (OTP)  
4        as the Manager, Regulatory Strategy and Compliance. I have worked at OTP for  
5        nearly 15 years, 11 of those years in the Regulatory Department.

7   Q.    PLEASE SUMMARIZE YOUR CURRENT RESPONSIBILITIES.

8   A.    As the Manager of Regulatory Strategy and Compliance, I am involved in various  
9        regulatory filings and responding and presenting before the Commissions in the  
10       three states served by OTP. I have been involved in rate setting proceedings,  
11       customer service dockets and resource planning discussions in each of our retail  
12       jurisdictions. I am also responsible for OTP's programs supporting compliance  
13       with the Federal Energy Regulatory Commission (FERC), North American Electric  
14       Reliability Corporation (NERC), and state compliance requirements.

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

18  A.    Yes. A summary of my qualifications and experience is included as  
19        Exhibit\_\_\_\_(MJO-1), Schedule 1.

20  **II.   PURPOSE AND OVERVIEW OF DIRECT TESTIMONY AND**  
21  **OTP'S REQUESTS IN THIS CASE**

22  Q.    WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

23  A.    I am the Company's overall policy witness. As such, I provide an overview of OTP  
24        and our requests in this case. I also support OTP's recommended treatment of a  
25        variety of items, including pension and postretirement medical and life insurance  
26        plan costs in the 2024 Test Year, and I introduce the other OTP witnesses.

28  Q.    WHY IS OTP REQUESTING A RATE INCREASE?

29  A.    OTP last filed a rate case with the South Dakota Public Utilities Commission (the  
30        "Commission") on April 20, 2018, based on a historic 2017 Test Year.<sup>1</sup> Since then,  
31        the Company has made significant investment in utility infrastructure to serve our

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<sup>1</sup> Docket EL18-021 (the "2018 Rate Case").

1 customers. Some of these projects have begun recovery in South Dakota through  
2 various rider mechanisms. Through this case, OTP seeks to move recovery of  
3 certain investments out of riders and into base rates. Other investments for which  
4 a rider is not available but have begun serving customers, contribute to the  
5 Company's current deficiency. Other costs of providing utility service have also  
6 risen over time and drive the need for this rate case request.

7  
8 Q. PLEASE SUMMARIZE OTP'S REQUEST IN THIS CASE.

9 A. The net effect of OTP's requests will increase revenue by \$5.7 million,<sup>2</sup> a 12.5  
10 percent increase above total present revenues. As described in my Direct  
11 Testimony and the testimony of other OTP witnesses, our proposal includes  
12 moving Phase-In Rider (PIR) and the Transmission Cost Recovery (TCR) Rider  
13 into base rates, which will decrease rider revenue requirements. We also are  
14 proposing to increase Production Tax Credits (PTC) in the PIR and change  
15 allocations used in the riders based on 2024 Test Year data. These changes will  
16 further reduce rider revenue.

17 Overall, our request results in a \$13.7 million increase to base revenues.  
18 Annualized over the seven years since our last rate case, the net effect of our  
19 requested increase is approximately 1.8 percent per year, which cumulatively is  
20 less than inflation over the same period.

21  
22 Q. WHAT IS THE CHANGE IN TOTAL REVENUE REQUIREMENT AS A RESULT  
23 OF THIS CASE?

24 A. To achieve an appropriate rate of return, OTP's final revenue requirement is \$51.5  
25 million. As shown below in Table 1, the result of this request is an increase in total  
26 revenues of \$5.7 million.

27  
28 **Table 1**

Total Present Retail Revenues	\$45,753,953
Total Proposed Retail Revenues	\$51,473,624
<b>Net Revenue Increase</b>	<b>\$5,719,671</b>

29  

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<sup>2</sup> Unless otherwise noted, all amounts in my Direct Testimony are jurisdictionalized to South Dakota. Total company costs are labeled as "(OTP Total)."

1 Q. PLEASE DESCRIBE THE IMPACT OF THE RIDER ROLL-IN AND FURTHER  
2 CHANGES TO THE RIDERS.

3 A. As mentioned above, our proposal includes moving investments currently  
4 recovered in the PIR and the TCR Rider into base rates. Rider revenues will be  
5 further reduced due to other aspects of the Company's requests. This movement of  
6 costs reduces rider revenues by \$6.4 million and increases base rate revenues by  
7 the same amount. As described by OTP witness Ms. Paula M. Foster, the Company  
8 currently is constructing portions of the Wind Energy Facility Equipment Upgrade  
9 (Upgrade Project), which consists of the repowering of the Langdon, Luverne,  
10 Ashtabula I, and Ashtabula III Wind Energy Facilities (the Langdon Upgrade, the  
11 Luverne Upgrade, the Ashtabula I Upgrade, and the Ashtabula III Upgrade). These  
12 projects are expected to go into service around the time new rates from this  
13 proceeding take effect. These projects will generate additional PTCs. Combined  
14 with changes in rider allocations, this will further reduce rider revenues by \$1.5  
15 million.

16  
17 Q. WHAT IS THE IMPACT ON BASE RATES AFTER REFLECTING THE CHANGES  
18 TO THE RIDERS?

19 A. As shown below in Table 2, the increase to *base rates* necessary to achieve the total  
20 revenue requirement is \$13.7 million.

21  
22 **Table 2**

Total Present Retail Revenues	\$45,753,953
Less: Rider Roll-In Present Revenues	(\$6,443,701)
Rider Adjustments Add'l PTC/Allocations	(\$1,487,451)
<b>Increase to Base</b>	<b>\$13,650,824</b>
Total Proposed Retail Revenues	\$51,473,624

23  
24 Q. WHAT ARE THE PRIMARY FACTORS CONTRIBUTING TO THE COMPANY'S  
25 DEFICIENCY?

26 A. Several factors contribute to the current request. Operating and maintenance costs  
27 – including labor – have risen due to inflation since rates were last set. Further,  
28 the Company's rate base has grown by more than \$27 million (excluding amounts

1 moving from riders to base rates) since our last South Dakota rate case. This  
2 increase accounts for approximately \$2.9 million of the net base rate revenue  
3 deficiency. Finally, return on equity is a significant contributing factor to the  
4 present rate deficiency given capital market changes over the last seven years and  
5 the fact that OTP's currently authorized return on equity (ROE) is the lowest ROE  
6 for a vertically integrated electric utility in the United States since 1980. OTP  
7 witness Ms. Ann E. Bulkley supports OTP's requested ROE of 10.80 percent, which  
8 accounts for approximately \$2.6 million of the total net base rate revenue  
9 deficiency.

10  
11 Q. HAS OTP TAKEN STEPS TO LIMIT ITS REQUESTS IN THIS CASE?

12 A. Yes. In our last rate case, OTP sought to recover certain costs that were eventually  
13 excluded in the settlement reached with Commission staff and ultimately approved  
14 by the Commission. While the Company considers these costs to be reasonable and  
15 necessary for providing utility service, we have chosen not to seek recovery of some  
16 of those same costs from South Dakota customers in an effort to streamline the  
17 litigation of this request.

18  
19 Q. WHAT COSTS EXCLUDED UNDER THE 2018 RATE CASE SETTLEMENT HAS  
20 THE COMPANY EXCLUDED FROM THE 2024 TEST YEAR?

21 A. Consistent with the settlement of the 2018 Rate Case, the Company excluded \$0.03  
22 million of expense related to non-cash employee recognition and gift expense. The  
23 2024 Test Year does include expenses associated with employee recognition for  
24 performance on individual projects. We also have excluded \$0.2 million of expense  
25 related to incentive compensation based on financial criteria, again, consistent  
26 with the settlement of the 2018 Rate Case.

27  
28 Q. IS THE COMPANY SEEKING TO RECOVER ECONOMIC DEVELOPMENT  
29 INCENTIVE?

30 A. Although OTP is committed to pursuing economic development in the small, rural  
31 South Dakota communities we serve, and the Commission has recognized the  
32 important role utilities play in strengthening local economies, OTP is not seeking  
33 to recover economic development costs in this case. Many of the communities OTP  
34 serves are too small to employ dedicated economic development staff.  
35 Nevertheless, OTP – with some of the lowest utility rates in the country – has  
36 successfully supported efforts that have attracted new businesses to the northeast

1 region of the State. This demonstrates OTP's ongoing dedication to the vitality and  
2 growth of the communities it serves.

3 OTP has made substantial investments in electric infrastructure in our  
4 South Dakota service territory totaling \$421 million over the past decade. Major  
5 projects include:

- 6 • The Air Quality Control System at Big Stone Plant (\$197 million (OTP  
7 Total))
- 8 • The Astoria Station (\$152 million (OTP Total))
- 9 • The BSAT-Brookings transmission project (\$72 million (OTP Total)).

10 These large projects brought significant employment and other economic benefits  
11 to the state. Further, the South Dakota legislature has recognized that "energy  
12 development in South Dakota and the Northern Great Plains significantly affects  
13 the welfare of the population, the environmental quality, the location and growth  
14 of industry, and the use of the natural resources of the state."<sup>3</sup>

15  
16 Q. WHAT IS THE SIGNIFICANCE OF THE TIME SINCE THE COMPANY'S MOST  
17 RECENT RATE CASE?

18 A. As the result of a settlement approved by the Commission in the 2018 Rate Case,  
19 the Company agreed to a base rate moratorium of four years. That moratorium  
20 prohibited the Company from filing a base rate increase before April 1, 2022. This  
21 filing is based on a 2024 Test Year, nearly doubling the duration of the base rate  
22 moratorium agreed to in the last settlement. Inflation during this period has been  
23 higher than in recent history, particularly in the period immediately after the  
24 expiration of the 2018 Rate Case base rate moratorium.<sup>4</sup> Despite these and other  
25 challenges, the Company managed its costs and delayed filing another rate case.  
26 This demonstrates that the low rates to serve our customers are the intentional  
27 result of purposeful, prudent management.

28  
29 Q. HOW IS YOUR DIRECT TESTIMONY ORGANIZED?

30 A. In Section III, I provide a description of OTP. In Section IV, I discuss ratemaking  
31 proposals included in this request. In Section V, I describe additional topics that

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<sup>3</sup> SDCL 49-41B-1

<sup>4</sup> See Figure 3 to Ms. Bulkley's Direct Testimony.

1 may impact this request during its pendency. Finally, in Section VI, I introduce  
2 OTP witnesses and their areas of expertise.

### 3 **III. DESCRIPTION OF OTP**

4 Q. PLEASE DESCRIBE OTP.

5 A. OTP is a very small investor-owned utility that serves customers spread across a  
6 very large, sparsely populated area in South Dakota, North Dakota, and Minnesota.  
7 We supply retail electric service to approximately 134,000 customers with  
8 approximately 11,500 customers in South Dakota, approximately 59,000  
9 customers in North Dakota, and approximately 62,000 customers in Minnesota.

10 We serve approximately 420 small communities and rural areas in  
11 northeastern South Dakota, the eastern two-thirds of North Dakota, and western  
12 Minnesota. Our three-state, 70,000 square-mile service territory is roughly the  
13 size of Wisconsin. OTP is headquartered in Fergus Falls, Minnesota and is a  
14 subsidiary of Otter Tail Corporation.

15  
16 Q. HOW DOES OTP COMPARE IN SIZE TO OTHER UTILITIES.

17 A. OTP is one of the very smallest investor-owned utilities in the country in terms of  
18 both number of retail customers and retail revenues generated.

19  
20 Q. HOW MANY PEOPLE DOES OTP EMPLOY?

21 A. In 2024, OTP had an average of 802 full time equivalent (FTE) employees,  
22 including approximately 368 union employees and 434 non-union employees (not  
23 adjusted for employees of jointly owned power plants).

24  
25 Q. WHAT IS OTP'S MISSION?

26 A. OTP's mission is: "To produce and deliver electricity as reliably, economically, and  
27 environmentally responsibly as possible to the balanced benefit of customers,  
28 shareholders, and employees and to improve the quality of life in the areas in which  
29 we do business."

30  
31 Q. PLEASE BRIEFLY DESCRIBE OTP'S GENERATION AND TRANSMISSION  
32 FACILITIES.

33 A. OTP operates two coal-fueled baseload generating plants: Big Stone Plant (475  
34 megawatts (MW)), located near Big Stone City, South Dakota and Coyote Station



1 (427 MW).<sup>5</sup> We own five major wind farms: the Merricourt Wind Energy Center  
2 (Merricourt Wind) (150 MW), the Langdon Wind Energy Center (40.5 MW), the  
3 Ashtabula Wind Energy Center (48 MW), Ashtabula III (62.4 MW), and the  
4 Luverne Wind Farm (49.5 MW). OTP also owns and operates five peaking plants:  
5 Astoria Station simple-cycle natural gas combustion turbine (245 MW) located in  
6 Deuel County, South Dakota, Jamestown 1 and 2 oil combustion turbines (42.5  
7 MW), Lake Preston oil combustion turbine located in Lake Preston, South Dakota  
8 (20 MW), and Solway simple-cycle natural gas combustion turbine (43.7  
9 MW). Finally, we own six hydroelectric stations, one utility-sale solar facility  
10 (Hoot Lake Solar), several smaller solar facilities,<sup>6</sup> and several smaller wind  
11 facilities. OTP owns over 6,000 miles of transmission lines. Our electric system is  
12 interconnected with the facilities of several neighboring suppliers.

13  
14 Q. PLEASE FURTHER DESCRIBE THE COMMUNITIES OTP SERVES.

15 A. As noted above, we serve 420 small communities in total, 53 of which are in South  
16 Dakota. The average population of our communities in South Dakota is  
17 approximately 348 people. The largest community OTP serves is Jamestown,  
18 North Dakota with a population of approximately 15,800 people. OTP only serves  
19 two other communities with populations over 10,000: Fergus Falls (14,000) and  
20 Bemidji (14,500), both of which are in Minnesota.

21  
22 Q. DO YOU HAVE AN ILLUSTRATION SHOWING OTP'S SERVICE AREA AND  
23 GENERATING FACILITIES?

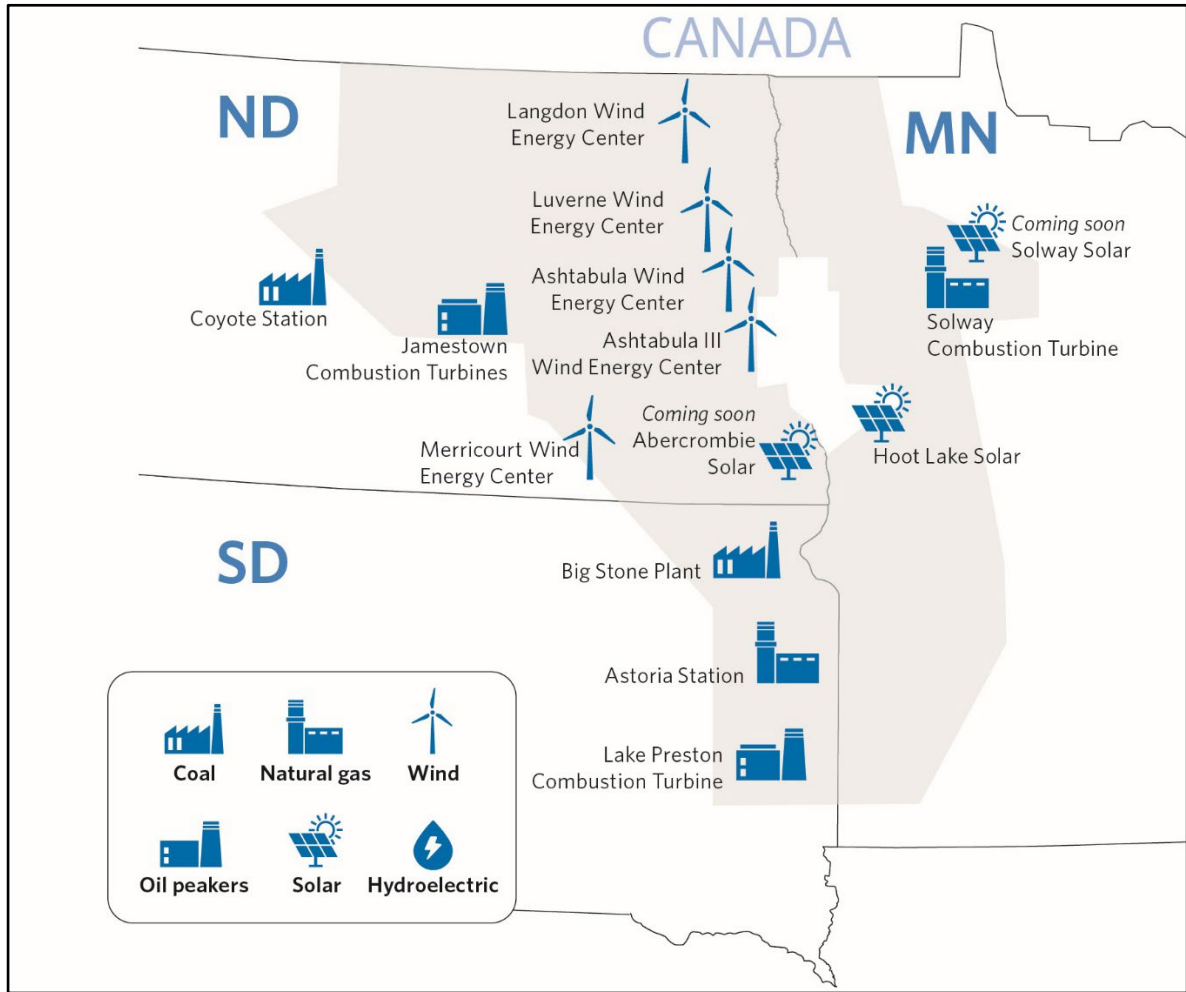
24 A. Yes. Figure 1 is a map illustrating our service area and identifying the locations of  
25 our generating facilities.  
26

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<sup>5</sup> OTP is not the sole owner of Coyote Station or Big Stone Plant: OTP owns 35 percent of Coyote Station and 53.9 percent of Big Stone Plant.

<sup>6</sup> While finalizing this case for submission, OTP determined that the 2024 Test Year inadvertently includes costs associated with 15 small solar facilities placed in service in 2024. The costs associated with these facilities are recovered entirely from Minnesota customers. OTP will remove these costs from the 2024 Test Year at the appropriate time as the case develops. We estimate the removal will reduce the 2024 Test Year revenue requirement by approximately \$4,500. The 2024 Test Year revenue requirement and base rate revenue deficiency amounts discussed in OTP's Direct Testimony do not reflect the impact of removing these costs from the 2024 Test Year.

**Figure 1**  
Overview of OTP Service Area and Generation Facilities

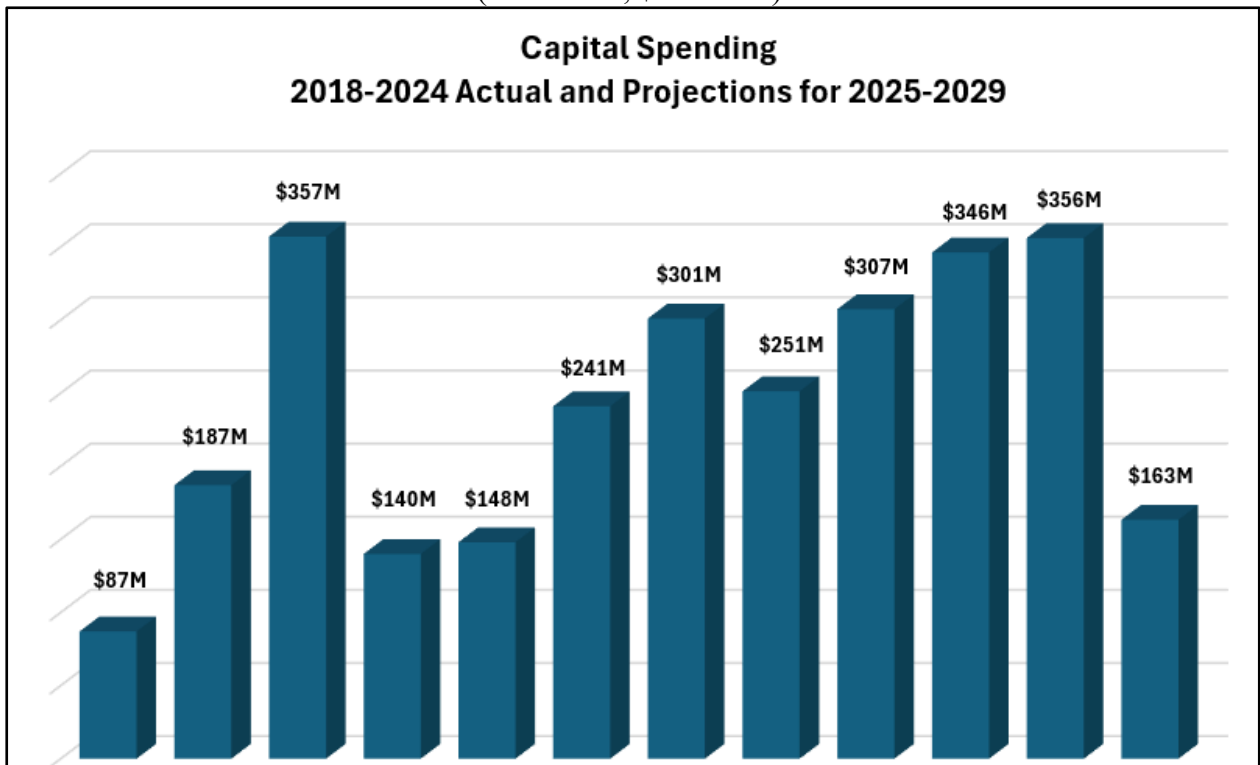


Q. ARE MANY OF OTP'S GENERATING FACILITIES THE RESULT OF CAPITAL EXPENDITURES MADE SINCE OTP'S LAST SOUTH DAKOTA RATE CASE?

A. Yes. OTP has made significant investments in generating facilities since its last South Dakota rate case. These include the 150 MW Merricourt Wind Energy Center (the largest capital investment in OTP's history) and Astoria Station, a 250 MW simple cycle natural gas generator located in Deuel County, South Dakota. We were able to complete both projects below the cost estimates presented to the Commission. We also purchased Ashtabula III, which previously served OTP via a power purchase agreement. OTP also completed the Hoot Lake Solar Facility in 2023 though the costs for this solar facility and its electrical output, renewable energy credits, and associated tax credits are allocated entirely to Minnesota.

1 As shown in the figure below, we have invested approximately \$1.461  
2 billion (OTP Total) across our system since 2018, mostly in the form of non-routine  
3 projects like the Merricourt Wind Energy Center, Astoria Station and large  
4 transmission projects.

5  
6 **Figure 2**  
7 Summary of Capital Spending  
8 (OTP Total, \$ Millions)



9  
10  
11 Q. WHAT IS THE SIGNIFICANCE OF THE COMPANY'S RECENT CAPITAL  
12 EXPENDITURES?

13 A. To replace the coal facility retired at Hoot Lake Plant in 2021, OTP constructed the  
14 Merricourt Wind Energy Center to provide low-cost energy and the Astoria Station  
15 peaking plant to provide dispatchable capacity. These were significant investments  
16 together totaling \$415 million that have provided our customers with affordable,  
17 reliable energy resources. In an era of aging infrastructure and varying generation  
18 sources, we have continued to manage costs efficiently.

19 OTP also has invested in regionally cost-shared transmission projects such  
20 as the Big Stone Area Transmission (BSAT) Project. Transmission that is cost-

1 shared across MISO allows for optimization of the energy markets, while only a  
2 small share is borne by South Dakota customers. OTP has consistently constructed  
3 projects on-time and on or below budget. OTP pursues projects that help keep  
4 costs down; we execute well on project construction; we invest heavily in South  
5 Dakota without burdening our retail customers with the full costs of these  
6 investments.

7  
8 Q. PLEASE DESCRIBE OTP'S PLANNED SYSTEM INVESTMENTS.

9 A. We expect to invest approximately \$1.426 billion (OTP Total) across our system in  
10 2025-2029. We project the average annual investment will increase from \$207.4  
11 million (OTP Total) per year during 2018-2024 to \$285.2 million (OTP Total) per  
12 year during 2025-2029. Some of the larger investments over this period include  
13 the Upgrade Project, Abercrombie and Solway Solar Projects, Demand Response  
14 (DR), and new regional transmission projects, including MISO Long Range  
15 Transmission Projects (LRTP) projects and MISO-SPP Joint Targeted  
16 Interconnection Queue (JTIQ) Portfolio projects.<sup>7</sup>

17  
18 Q. ARE ANY OF THESE FUTURE EXPENDITURES INCLUDED IN THIS  
19 REQUEST?

20 A. Yes, the Company plans to complete the Ashtabula I Upgrade, Luverne Upgrade,  
21 and Ashtabula III Upgrade in 2025. We expect these projects to be in-service by  
22 the time final rates from this request go into effect and will be providing service to  
23 customers during the period rates from this case will be in place. They are  
24 appropriate known and measurable changes, so we have included these as  
25 adjustments to the 2024 Test Year. Other investments that will not be in-service  
26 within twenty-four months of the end of the test year are not included in this  
27 request; these will be addressed in future filings.

28  

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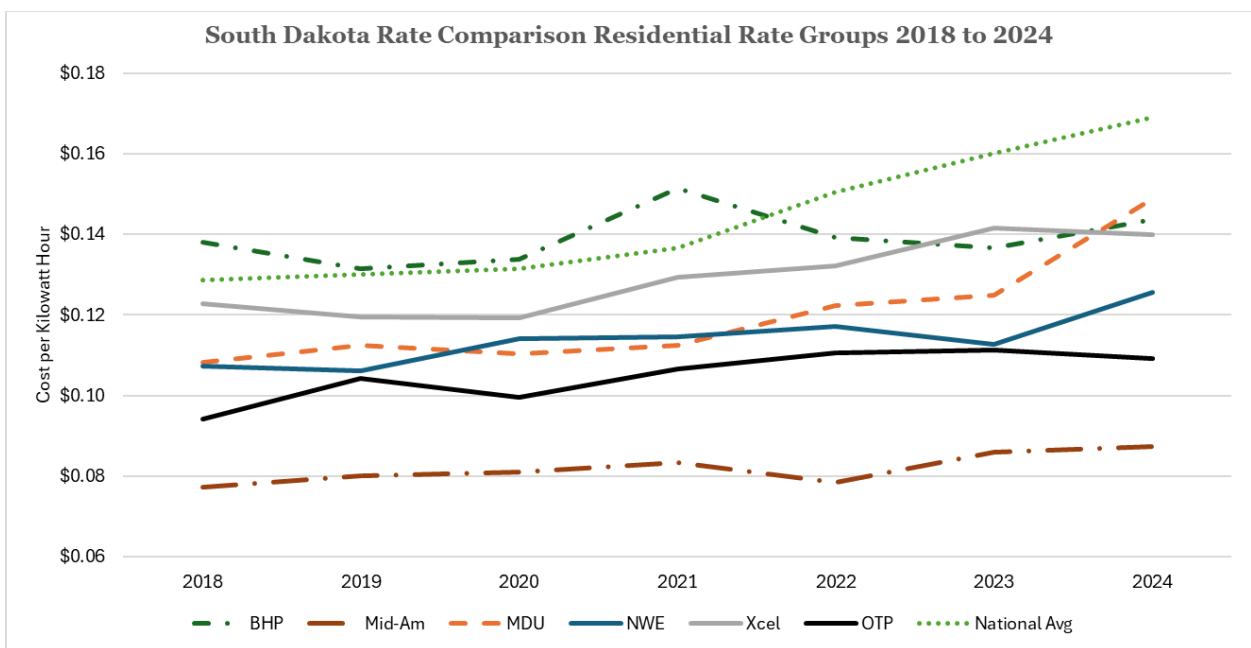
<sup>7</sup> The LRTP projects will support the regional transmission system, with costs being shared across the MISO footprint. The JTIQ Portfolio projects will support development of new generation along the MISO-SPP seam, with costs shared across the MISO and SPP footprints. Also the JTIQ Portfolio projects are expected to be partially funded by a U.S. Department of Energy grant through its Grid Resilience and Innovation Partnerships (GRIP) program.

1 Q. HAS OTP BEEN ABLE TO MAINTAIN LOW RATES WHILE CONTINUING TO  
2 INVEST IN ITS SYSTEM?

3 A. Yes. OTP's rates for electric service in South Dakota are among the lowest in the  
4 nation and have been so for several years. Even after this case, our rates will remain  
5 among the lowest in the nation. We have accomplished this despite the challenges  
6 posed by being a very small utility and serving customers in a very large, sparsely  
7 populated service territory, even with very substantial capital expenditures.

8 Figure 3 compares OTP's residential rates to the residential rates of other  
9 South Dakota investor-owned utilities, and to the national average of all investor-  
10 owned utilities for residential rates since 2018. Figure 3 shows that OTP's  
11 residential rates are nearly the lowest among South Dakota investor-owned  
12 utilities and substantially lower than the national average of all utilities.

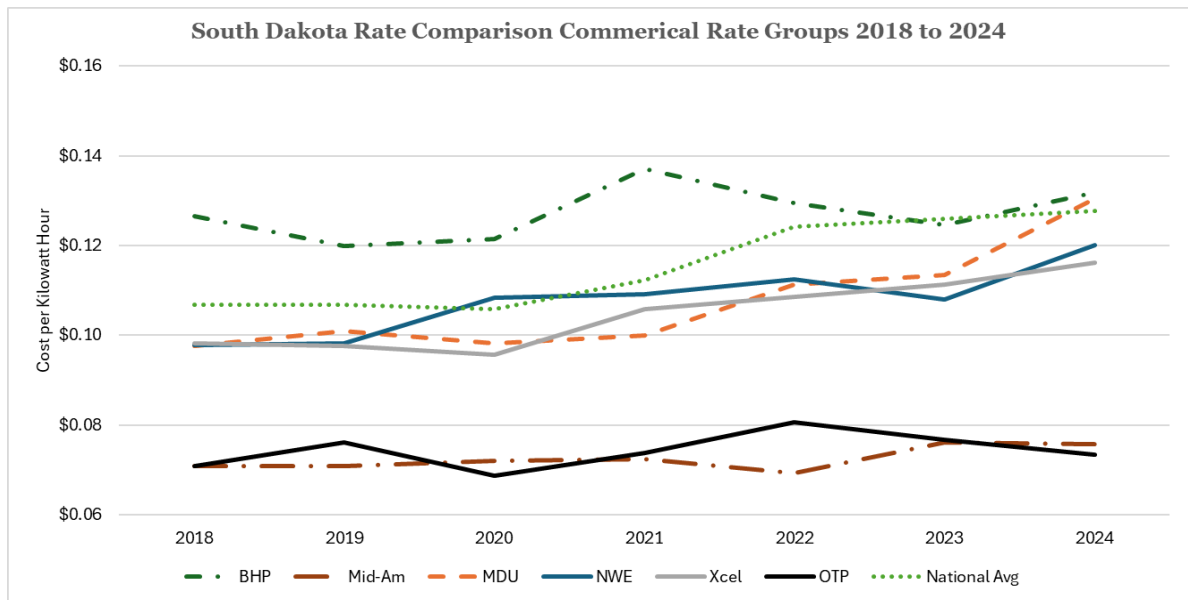
13  
14 **Figure 3**



15  
16  
17 Q. HAS OTP ALSO BEEN ABLE TO MAINTAIN LOW COMMERCIAL RATES?

18 A. Yes. Figure 4 compares OTP's commercial rates to the commercial rates of other  
19 South Dakota investor-owned utilities, and to the national average of all investor-  
20 owned utilities for commercial rates since 2018.

Figure 4



Q. WHAT IS THE SIGNIFICANCE OF THE COMPARISONS ILLUSTRATED BY FIGURE 3 AND FIGURE 4?

A. Figures 3 and 4 show that OTP has kept rates low despite the challenges that come with its small size and large rural territory, even during a period of heightened investment and inflation. It also illustrates that our customers, overall, benefit from advantageous rates.

Q. HAS OTP COMPLETED ANY CUSTOMER SERVICE INITIATIVES SINCE ITS LAST SOUTH DAKOTA RATE CASE?

A. Yes. Over the last several years, OTP has witnessed an evolution in customer expectations, especially in the areas of digital account access, digital self-service, and digital commerce. Along with these changes to customer expectations, we have also seen an increase in the number of products and services offered by other utilities and others involved in retail commerce. We have responded by improving our customer experience programming to meet customers' expectations while maintaining our commitment to delivering low-cost, reliable service. Some examples of completed customer service initiatives include a comprehensive bill redesign (approved by the Commission in Docket No. EL23-021), launching a new Customer Engagement Portal (CEP) and expanding customer communications through the new Outage Management System (OMS).

1 Q. HAS OTP BEEN ABLE TO MAINTAIN HIGH LEVELS OF CUSTOMER  
2 SATISFACTION THROUGH THESE INITIATIVES?

3 A. Yes. OTP measures customer satisfaction by various means, one of which uses a  
4 third-party survey following customer interactions. Within 30 days of a customer  
5 speaking with a Company Customer Service Representative, the third-party will  
6 contact a sample of customers to rate their experience. OTP has a current internal  
7 goal of maintaining a satisfaction rating of 91.5 percent on an annual basis. Over  
8 the past five years, OTP has achieved satisfaction ratings of 92.8 percent or higher.

#### 9 **IV. RATEMAKING PROPOSALS**

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

11 A. In this section, I support certain ratemaking proposals that are part of the  
12 Company's request in this case. These include: (1) a normalization adjustment to  
13 pension and postretirement medical and life insurance plan (PRM) plan costs in  
14 the 2024 Test Year; (2) vegetation management costs; (3) wildfire mitigation  
15 planning; and (4) insurance costs.

##### 16 **A. Pension and Postretirement Medical and Life Insurance Plan** 17 **Costs**

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

19 A. This portion of my Direct Testimony explains why OTP is proposing a  
20 normalization adjustment to pension and PRM plan costs in the 2024 Test Year.  
21

22 Q. WHAT WERE OTP'S 2024 PENSION AND PRM COSTS?

23 A. OTP witness Ms. Christy L. Petersen explains in her Direct Testimony that OTP's  
24 pension and PRM costs are determined in accordance with Accounting Standards  
25 Codification (ASC) 715.<sup>8</sup> The annual costs are calculated by Mercer, who provides  
26 actuarial services to OTP and Otter Tail Corporation. OTP's 2024 pension and  
27 PRM costs are shown in Table 3 below. Both costs are negative in 2024, meaning  
28 they are a credit to income.  
29

---

<sup>8</sup> Pension plan costs formerly were accounted for under Financial Accounting Standard (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.

**Table 3**  
2024 Pension and PRM Costs<sup>9</sup>  
(\$ Millions)

Category	Otter Tail Corporation	OTP Total	OTP SD EST
Pension	(\$4.3)	(\$4.2)	(\$0.3)
PRM	(\$4.2)	(\$4.1)	(\$0.3)

Q. ARE THESE COSTS CONSISTENT WITH PRIOR HISTORY AND FUTURE EXPECTATIONS?

A. No. The 2024 pension and PRM costs are different from both historical experience and our expectations going forward. As a result, OTP is recommending that rates be established based on a normalized amount of pension and PRM expense so that rates reflect a reasonable and representative amount of costs expected to be incurred during the period rates will be in effect. This normalization is similar to the approach used in OTP's most recently concluded North Dakota rate case (North Dakota Public Service Commission Case No. PU-23-342).

Q. HOW DOES THE 2024 PENSION COST COMPARE TO HISTORICAL EXPERIENCE AND EXPECTATIONS GOING FORWARD?

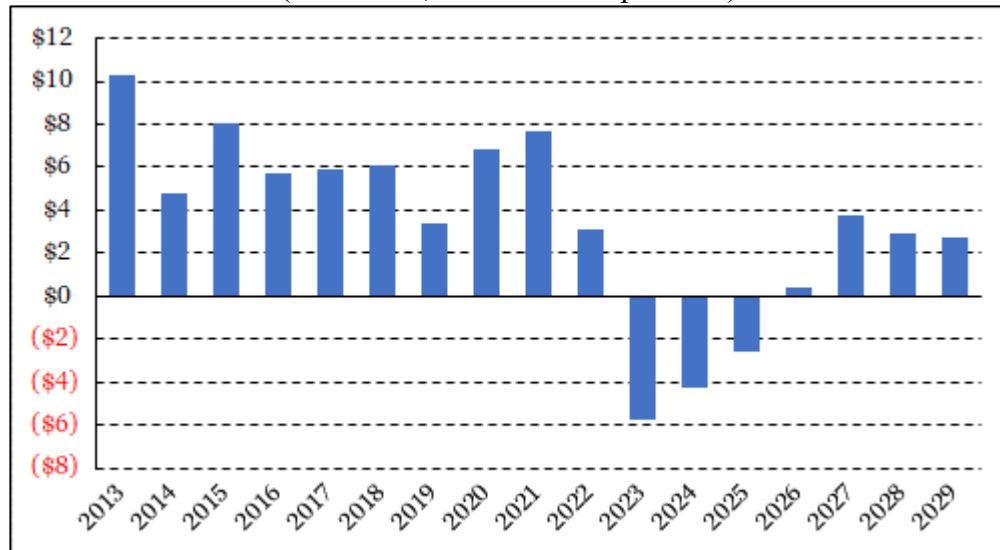
A. As shown in Figure 5 below, the 2024 pension costs are significantly lower than both historical and expected future costs.

---

<sup>9</sup> Amounts shown in Table 1 and throughout my testimony are total costs, including any capitalized portions, unless otherwise noted. Ms. Petersen's testimony discusses the non-capitalized portion of pension and PRM costs.



**Figure 5**  
Historical and Projected Pension Cost  
(\$ Millions, Otter Tail Corporation)



Q. DO YOU HAVE ANY OBSERVATIONS REGARDING THIS FIGURE?

A. Yes. The figure shows that until 2023, pension costs always was a positive amount, only turning negative in 2023. Second, pension costs are expected to return to a positive amount in 2026 and return to something approximating historical levels in 2027 through 2029.

Q. WHAT WOULD BE THE EFFECT OF ESTABLISHING THE 2024 TEST YEAR REVENUE REQUIREMENT ON THE 2024 PENSION COST?

A. Establishing the 2024 Test Year revenue requirement based on the 2024 pension cost would result in a large credit to the cost of service being incorporated into base rates. As pension costs increase in subsequent years, the credit would drive a revenue deficiency and accelerate the need to file a new rate case.

Q. IS THIS DIFFERENT FROM HISTORICAL EXPERIENCE?

A. Yes. OTP's last rate case was based on a 2017 Test Year and the revenue requirement reflected the actual 2017 pension costs. Pension costs in 2018, 2020 and 2021 all exceeded 2017 levels, while 2019 and 2022 pension costs were below 2017 levels, but still positive. These ups and downs, however, were not material and did not accelerate the need to file a rate case. Deviations in 2022-2024 were larger, but those deviations supported earnings and helped offset cost increases in other areas and delayed the need to seek rate relief.

1           Setting rates based only on the 2024 costs would have the opposite effect.  
2           Base rates would reflect an abnormally low amount (as compared to history and  
3           future expectations) and a deficiency would materialize almost immediately as  
4           pension costs normalize.  
5

6   Q.     HOW DID OTP DEVELOP THE NORMALIZED PENSION COST FOR THE 2024  
7           TEST YEAR?

8   A.     We developed the normalized pension expense based on a five-year average of  
9           pension expense for the years 2025-2029.<sup>10</sup> We believe using a forward-looking  
10          average is preferable to a historical average for several reasons. First, a forward-  
11          looking average incorporates the new, higher interest rate environment that is  
12          likely to apply during the period rates are in effect, rather than the historically low  
13          interest rates that drove past results, as further discussed by Ms. Petersen. Second,  
14          the forward-looking approach matches the expense to the period we expect rates  
15          to be in effect. Third, the forward-looking estimate considers projected census  
16          counts and accounts for what is known today about future obligations.<sup>11</sup> Fourth,  
17          in this case, a five-year forward looking average (2025-2029) results in a lower  
18          pension expense than a five-year historical average (2020-2024).  
19

20   Q.     WHY IS OTP RECOMMENDING PRM EXPENSE BE NORMALIZED IN THE  
21           2024 TEST YEAR?

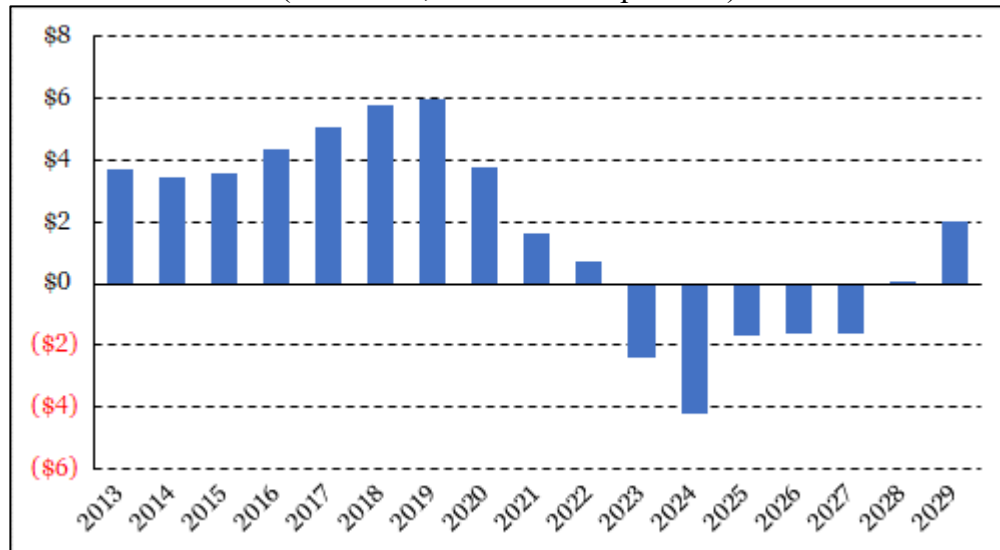
22   A.     As with pension expense, the 2024 PRM costs are not reflective of expectations  
23           going forward.  
24

---

<sup>10</sup> The actual 2025 and estimated 2026-2029 pension cost was developed by Mercer, which provides actuarial services to OTP and Otter Tail Corporation. The data is included as Exhibit\_\_\_(CLP-1), Schedule 13 to Ms. Petersen's Direct Testimony.

<sup>11</sup> As discussed below, this will be particularly important for PRM costs.

**Figure 6**  
Historical and Projected PRM Cost  
(\$ Millions, Otter Tail Corporation)



Q. HOW DID OTP DEVELOP THE NORMALIZED PRM COST FOR THE 2024 TEST YEAR?

A. As shown in Figure 6, above, our future expected PRM costs are dissimilar to historical experience. OTP witness Ms. Kelsey N. Evavold describes in her Direct Testimony that OTP made underlying plan changes that have reduced plan costs. Using a forward looking average to normalize the expense assures those savings are incorporated into rates, while also reflecting the fact that 2024 PRM costs were influenced by the maximum effect of Amortization of Unrecognized Prior Service Cost credits that will decline over time.<sup>12</sup> Ultimately, we feel that it is reasonable and appropriate to use the same normalization period for both pension and PRM costs.

#### **B. Vegetation Management**

Q. WHAT IS VEGETATION MANAGEMENT?

A. Vegetation Management is utility transmission and distribution maintenance practice that prevents undergrowth and fall in risks to avoid energized facilities from contacting vegetation. If a vegetation contact occurs, a fault will likely result, and protection systems may operate to prevent damage or unsafe conditions. This may result in customers experiencing a power outage. To maintain reliability and

<sup>12</sup> Ms. Petersen discusses the Amortization of Unrecognized Prior Service Cost credits in her Direct Testimony.

1 protect equipment, utilities trim trees and maintain other vegetation within the  
2 utility's right-of-way.<sup>13</sup> This can also include danger trees outside the right-of-way  
3 that could fall onto our lines. OTP has had a Vegetation Management Program  
4 since or nearly since its inception as a utility, 115 years ago. Such a plan is part of  
5 prudent utility practice.

6  
7 Q. IS OTP REQUESTING AN INCREASE TO VEGETATION MANAGEMENT  
8 PROGRAM FUNDING?

9 A. Yes. OTP has approximately 6,000 miles of overhead distribution lines across its  
10 three-state system. An industry best-practice is to patrol and trim each distribution  
11 line segment on a rolling five-year cycle. Due to the cost of vegetation management  
12 increasing over time, OTP has only been able to maintain on average 572 miles of  
13 distribution lines over the past five years, compared to 1,200 miles of distribution  
14 line necessary to maintain a 5-year cycle. OTP is requesting an increase in  
15 Vegetation Management Program funding generally consistent with a 6-year cycle  
16 for distribution facilities, or a total non-labor budget of approximately \$4.6 million  
17 (OTP Total) per year. This is an incremental increase in annual expense for the  
18 Vegetation Management Program of \$2.0 million (OTP Total) / \$0.2 million (OTP  
19 SD) above 2024 actual costs. This additional funding will allow the Company to  
20 increase vegetation management activity to achieve a six-year vegetation  
21 maintenance cycle.

22  
23 Q. DOES OTP ANTICIPATE FUTURE REQUESTS TO FURTHER INCREASE  
24 VEGETATION MANAGEMENT EXPENSES?

25 A. Yes. OTP ultimately wants to achieve a five-year vegetation management cycle,  
26 which will require additional funding. We are seeking to reach that goal gradually  
27 in order to moderate cost impacts and reflect them gradually over time.

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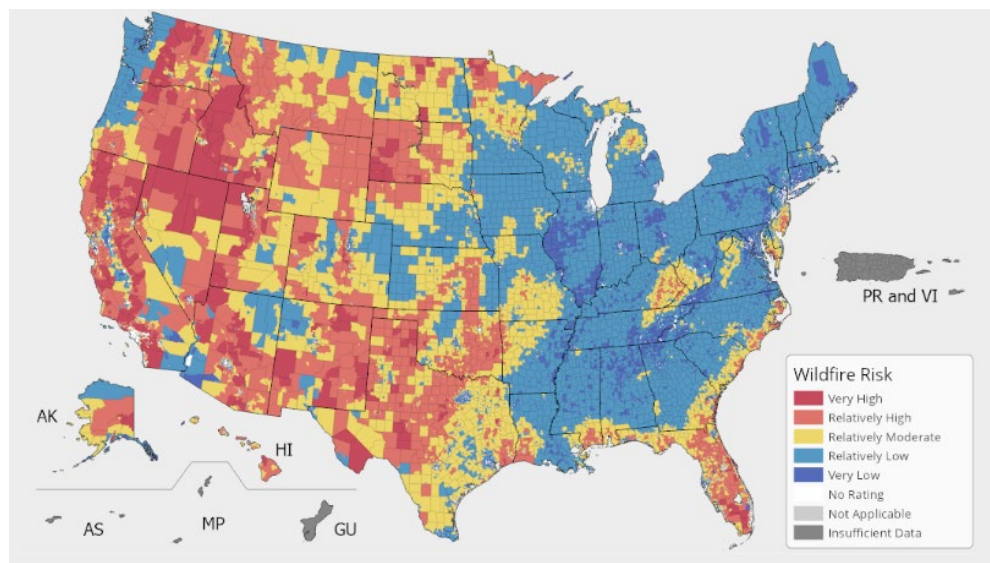
<sup>13</sup> The North American Electric Reliability Organization's glossary of terms provides the following definition of Vegetation Inspection: "The systematic examination of vegetation conditions on a Right-of-Way and those vegetation conditions under the applicable Transmission Owner's or applicable Generator Owner's control that are likely to pose a hazard to the line(s) prior to the next planned maintenance or inspection. This may be combined with a general line inspection." Available at: [https://www.nerc.com/pa/stand/glossary%20of%20terms/glossary\\_of\\_terms.pdf](https://www.nerc.com/pa/stand/glossary%20of%20terms/glossary_of_terms.pdf) (last accessed April 28, 2025).

1       **C.   Wildfire Mitigation Planning**

2       Q.   IS OTP ENGAGING IN WILDFIRE RISK MITIGATION ACTIVITIES?

3       A.   Yes. Providing electric service to customers involves generating, transmitting, and  
4       distributing electricity, which can contribute to wildfires if other conditions are  
5       present.<sup>14</sup> In the case of OTP, these activities occur across a 70,000 square-mile  
6       service territory that is relatively high risk in terms of wildfires (as compared to the  
7       eastern portion of the United States), as shown in the figure below. Therefore,  
8       consistent with our mission of providing reliable service, we are engaging in  
9       wildfire risk mitigation activities.

10  
11                   **Figure 7<sup>15</sup>**



12  
13  
14       Q.   WHAT ARE THOSE WILDFIRE RISK MITIGATION ACTIVITIES.

15       A.   Our risk mitigation activities are being formalized into a Wildfire Mitigation Plan  
16       that we anticipate implementing August 1, 2025. This plan is being developed  
17       based on the specific, inherent risks of OTP's service territory and includes  
18       conditions monitoring, such as wind, precipitation, and heat forecasts for specific  
19       regions. Such forecasts establish when conditions warrant preventative actions,

---

<sup>14</sup> A fire requires oxygen, fuel and an ignition or heat. Electricity can contribute to the ignition or heat part of this equation.

<sup>15</sup> Federal Emergency Management Agency (FEMA) National Risk Index for wildfire, accessed May 30, 2025 at <https://hazards.fema.gov/nri/wildfire>.

1 including operational changes, all of which will be addressed in the Wildfire  
2 Mitigation Plan.

3  
4 Q. HAS THE COMPANY INCLUDED WILDFIRE MITIGATION COSTS IN THE 2024  
5 TEST YEAR?

6 A. Yes, in addition to the approximately \$0.1 million (OTP Total) incurred in 2024,  
7 OTP has included known and measurable incremental costs related to wildfire  
8 mitigation in the 2024 Test Year. These incremental costs include \$45,000 (OTP  
9 Total) / \$4,152 (OTP SD) related to ongoing, incremental operations and  
10 maintenance costs of implementing the Wildfire Mitigation Plan and \$15,000  
11 (OTP Total) / \$1,395 (OTP SD) related to risk conditions monitoring  
12 subscriptions.

13  
14 Q. PLEASE FURTHER DESCRIBE OTP'S WILDFIRE MITIGATION PLAN.

15 A. OTP is working with a consultant to assess the wildfire risk inherent to our service  
16 territory. This assessment includes a risk quantification based on satellite imagery  
17 of each county and section within our service territory. The quantification  
18 considers the facts that forested parcels present higher risk than grasslands, while  
19 parcels with fewer trees or with natural fire breaks such as water ways present  
20 lower risk. With these risks mapped, OTP is developing a plan to be implemented  
21 when certain conditions exist.

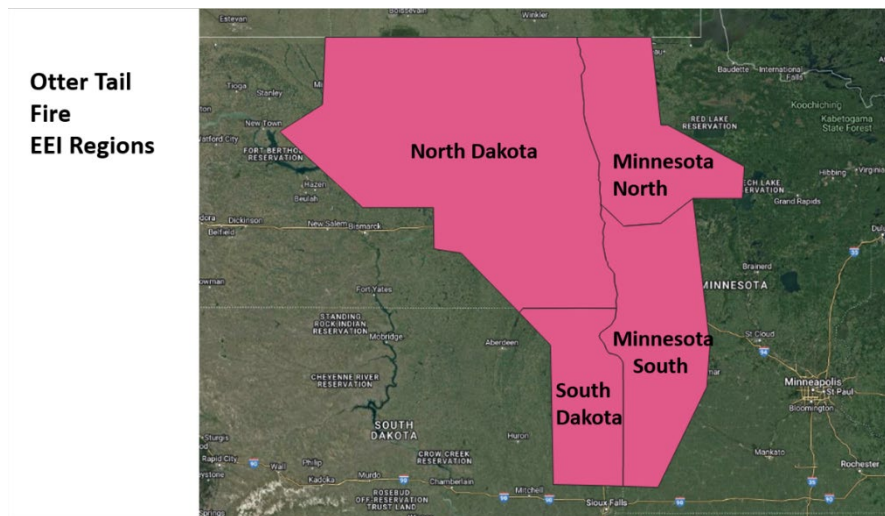
22  
23 Q. WHAT TOOLS ARE BEING USED TO ASSESS IF CONDITIONS EXIST TO  
24 IMPLEMENT MITIGATION ACTIVITIES?

25 A. We are utilizing a vendor, DTN, to provide a wildfire risk conditions forecast for  
26 each of four areas of the Company's service territory (South Dakota, North Dakota,  
27 Minnesota North, and Minnesota South). When wind, precipitation (or persistent  
28 dry patterns), and heat conditions in the forecast provided daily by DTN present  
29 heightened levels of wildfire risk, coupled with real time fire alerts from the  
30 National Weather Service (NWS), OTP's Wildfire Mitigation Plan will provide for  
31 operational changes to reduce the risk of the Company's facilities or equipment  
32 igniting a wildfire.

Q. PLEASE DESCRIBE THE DTN SUBSCRIPTION SERVICE.

A. To increase our situational awareness regarding how current or imminent fire weather conditions may affect our system, the Company subscribes to DTN WeatherSentry. Every day, DTN sends our System Operations team a five-day fire weather forecast. The forecast provides an Energy Event Index (EEI) which indexes and rates fire weather risk in the four regions in our service area.

**Figure 8 - OTP Fire EEI Regions**



DTN's daily alerts provide four separate forecasts to specifically describe the risk in each region. When fire risks are elevated, the Company will actively monitor the NWS Fire Weather Hazard Overview Map, along with Active Alerts as well as State Fire Danger levels. OTP will use the EEI index, coupled with the NWS Hazards Wildfire Forecast or State Fire Danger levels, to trigger awareness communications, prompt risk adjusted work practices, and execute risk mitigation measures.

Q. WHAT KINDS OF OPERATIONAL CHANGES ARE ANTICIPATED UNDER THE WILDFIRE MITIGATION PLAN?

A. We anticipate having two general categories of operational changes under the to-be-finalized Wildfire Mitigation Plan. The first category involves performing normal work with extra precautions and safety protocols, and potentially postponing certain work until conditions improve. The second category of operational changes involves actual changes to how we operate the electric system

1 that would be utilized during heightened risk conditions. We anticipate this will  
2 include a recloser-off<sup>16</sup> program. Both approaches are consistent with our efforts  
3 to mitigate risk of utility equipment being a cause of a wildfire, to the benefit of our  
4 customers and South Dakota. In addition, OTP is ordering fire suppression and  
5 prevention equipment, which we will train our employees to use to reduce the  
6 potential for ignition by Company facilities or equipment. Examples include fire  
7 blankets, pump sprayers and tanks, and string trimmers to cut long grass in areas  
8 where we are working to prevent dry long grass from coming into contact with hot  
9 equipment.

10 **D. Excess Liability and Directors and Officers Insurances Costs**

11 Q. WHAT WILL YOU ADDRESS IN THIS SECTION OF YOUR TESTIMONY?

12 A. In this section, I will address cost changes related to excess liability and Directors  
13 and Officers (D&O) insurance.

14  
15 Q. IS OTP EXPERIENCING INCREASES IN EXCESS LIABILITY AND D&O  
16 INSURANCE COSTS?

17 A. Yes. OTP is a small utility, so insurance is an important element of the Company's  
18 long-term financial stability and risk mitigation strategy. Across all industries, the  
19 number of very large liability awards (exceeding \$10 million) is increasing, as are  
20 the number of utility/energy industry related losses that exceed \$100 million.  
21 These losses are attributable to various causes, including auto and general liability  
22 claims and wildfire risk. OTP must increase our coverage to remain protected and  
23 such coverage increases come with increased insurance premiums. OTP also needs  
24 to maintain industry appropriate D&O coverage, which the Company anticipates  
25 being an increase from current levels.

26  
27 Q. WHAT IS THE INCREASE IN 2025 COSTS FOR EXCESS LIABILITY AND D&O  
28 COVERAGE?

29 A. The costs for these insurance coverages for 2025 will be an increase over 2024 costs  
30 by \$0.8 million (OTP Total) / \$0.07 million (OTP SD) for excess liability and \$0.1  
31 million (OTP Total) / \$0.01 million (OTP SD) for D&O coverage. We expect these

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<sup>16</sup> Reclosers attempt to reclose a connection when there is a fault on a line to automatically restore power, and turning reclosers off during dangerous fire risk conditions can reduce the risk of an ignition, especially where the fault is caused by vegetation coming into contact with the line.



1 costs to increase by an additional 25 percent in 2026, though we are not including  
2 those costs in the 2024 Test Year.

3  
4 Q. ARE THERE OTHER FACTORS CONTRIBUTING TO THE INCREASE IN  
5 INSURANCE COSTS IN THE 2024 TEST YEAR?

6 A. Yes. In 2024, OTP received resilience and membership credits of approximately  
7 \$1.0 million (OTP Total) / \$0.09 million (OTP SD). These credits are episodic and  
8 not within the Company's control. As a result, the Test Year insurance adjustment  
9 (TY-14) discussed by Ms. Petersen in her Direct Testimony removes the resilience  
10 and membership credits from the 2024 Test Year.

## 11 V. ADDITIONAL TOPICS

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

13 A. In this section, I discuss topics that are not addressed by other witnesses but merit  
14 some amount of discussion.

### 15 A. Low Income Home Energy Assistance Program Funding

16 Q. WHAT IS THE LOW INCOME HOME ENERGY ASSISTANCE PROGRAM?

17 A. The Low Income Home Energy Assistance Program (LIHEAP) is a federally funded  
18 program that provides heating and cooling assistance to roughly 6.7 million  
19 households nationwide.<sup>17</sup> Each year, OTP South Dakota customers benefit from  
20 assistance totaling more than \$300,000. Local agencies distribute funds directly to  
21 OTP on behalf of customers who are below an income threshold and are behind in  
22 making their electric utility payments to cover their arrears.

23  
24 Q. WHAT IS THE CURRENT STATUS OF LIHEAP FUNDING?

25 A. There are current federal proposals to eliminate LIHEAP funding. Many details  
26 need to be resolved so it is difficult to predict whether funding will be reduced or  
27 eliminated.

---

28  
<sup>17</sup> [LIHEAP - Low Income Energy Assistance Program](#) (last accessed May 5, 2025).

1 Q. COULD REDUCTIONS IN LIHEAP FUNDING HAVE FINANCIAL IMPACTS ON  
2 THE COMPANY?

3 A. While reductions to LIHEAP funding have the most direct (and adverse) impacts  
4 on customers, it also could have financial impacts for the Company. If LIHEAP  
5 funding is reduced or eliminated, customers will likely accumulate greater arrears.  
6 This may lead to more disconnections, an increase in bad debt, and an increase in  
7 costs that must be spread amongst other customers. Increased bad debt costs may  
8 ultimately lead to a greater cost of service deficiency.  
9

10 Q. IS OTP PROPOSING A CHANGE TO BAD DEBT EXPENSE ASSOCIATED WITH  
11 REDUCED LIHEAP FUNDING AS PART OF THIS CASE?

12 A. Not at this time. This is an issue the Company is monitoring; if federal LIHEAP  
13 funding is reduced or eliminated during the pendency of this case, the Company  
14 may propose a solution at a later stage in the proceeding.

15 **B. Federal Tax Changes**

16 Q. WHAT IS THE CURRENT STATUS OF FEDERAL TAX RATES?

17 A. The federal tax rate of 22 percent included in the Tax Cuts and Jobs Act (TCJA) is  
18 set to expire at the end of 2025, which would increase the federal tax rate to 35  
19 percent. Legislation is pending to extend the TCJA tax rates.  
20

21 Q. DOES THE 2024 TEST YEAR REFLECT THE CURRENT 22 PERCENT FEDERAL  
22 TAX RATE?

23 A. Yes. OTP has not included a known and measurable change for an increase in  
24 taxes. If pending legislation does not extend the TCJA tax rates, then our request  
25 may need to be revised to reflect the tax rate that will be in effect in 2026 and  
26 beyond.

27 **VI. INTRODUCTION OF WITNESSES**

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

29 A. In this section, I introduce OTP's witnesses and briefly discuss the topics each  
30 covers in Direct Testimony.  
31

32 Q. WHO ARE OTP'S OTHER WITNESSES AND WHAT IS THE SUBSTANCE OF  
33 THEIR TESTIMONY?

34 A. OTP's other witnesses and the substance of their testimony is as follows:

- Ms. Ann E. Bulkley addresses ROE and the Company's proposed 2024 Test Year capital structure.
- Ms. Kelsey N. Evavold addresses Employee Compensation and Benefits
- Ms. Paula M. Foster addresses Transition of Capital Projects from Riders to Base Rates
- Ms. Amber M. Grenier addresses Jurisdictional and Class Allocations Factors, Generator Interconnection Projects, Test Year Sales, the Class Cost of Service Study, and Class Revenue Responsibility
- Ms. Christy L. Petersen addresses the Jurisdictional Cost of Service Study and Revenue Requirement
- Mr. Eric P. Schiffer addresses Rate Design and Tariff Changes
- Ms. Annalise M. Smith addresses Calculation of Jurisdictional and Class Allocations Factors
- Mr. Todd R. Wahlund addresses Financial Soundness, Capital Structure, and Cost of Capital

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.