

OTTER TAIL POWER COMPANY

Docket No: EL26-021

Response to: SD Public Utilities Commission

Analyst: Logan Schaeffbauer

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Responding Witness: Amber Grenier, Manager, Regulatory Economics, 218-739-8728

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Data Request:

Refer to page 15 section 5, explain why OTP would accept a qualified parent guaranty? What happens if the parent becomes financially troubled at the same time as the customer and can't cover any outstanding costs?

Attachments: 0

Response:

OTP would accept a qualified parent guaranty because it can provide credit support from a financially stronger entity with the resources and legal obligation to support the customer's commitments under the tariff and ESA. Parent guarantees are a common form of credit assurance and may provide protection comparable to other forms of security when the guarantor satisfies OTP's creditworthiness requirements.

If a parent guarantor experiences financial deterioration or no longer meets the required credit standards, OTP may require the customer to provide alternative credit support consistent with the terms of the tariff or ESA. Such alternatives could include a letter of credit, cash collateral, or other Commission-approved security.

OTP recognizes the possibility that both the customer and parent guarantor could experience financial distress simultaneously. For that reason, OTP evaluates the financial strength of the guarantor, establishes credit requirements based on project-specific risks, and may require additional or alternative security if warranted. These provisions are intended to reduce the risk of unrecovered costs and help protect existing customers from financial exposure associated with Tier III service.

It is also important to note that other credit support types like letters of credit are often not available when the amounts become very high, in the hundreds of millions, for example.