



2017 Environmental, Social, Governance, and Sustainability Report

Edison Electric Institute Qualitative Template



Otter Tail Corporation, as a member of the Edison Electric Institute, has joined with member companies to provide environmental, social, governance, and sustainability (ESG/sustainability) information that provides investors and others additional insight into our commitments to sustainability.

Section 1: Qualitative information

Otter Tail Corporation and its operating companies employ more than 2,000 people. The corporation, which is headquartered in the upper Midwest, continues to deliver shareholder value through two platforms: electric and manufacturing.

The electric platform includes Otter Tail Power Company, the corporation's largest operating company, which serves more than 132,000 customers who live in 422 communities throughout eastern North Dakota, northeastern South Dakota, and western Minnesota. The service area predominantly is rural and agricultural. Industrial and commercial customers provide approximately two-thirds of the utility's revenues. Otter Tail Power Company's century-plus success stems largely from its hometown understanding of the people and places it serves. You can find more information about the company, its customers and communities, and its economic and environmental impacts at otpc.com/StewardshipReport.

The manufacturing platform includes metal fabricator BTD Manufacturing, Inc., and custom plastic parts manufacturer T.O. Plastics, Inc., both headquartered in Minnesota, and PVC pipe manufacturers Northern Pipe Products, Inc., headquartered in North Dakota, and Vinyltech Corporation, headquartered in Arizona. These companies supply valued products to diverse customers—from small, family-owned businesses to large, industry-leading manufacturers.

Our approach to sustainability

Otter Tail Corporation remains steadfast in its dedication to enhancing shareholder value while balancing key environmental, economic, and community interests. The corporation and its operating companies have been successful at finding a balanced approach to sustainability while serving diverse customers.

Sustainability governance

Board of Directors and management

Otter Tail Corporation's nine-member Board of Directors is committed to sound corporate governance policies and practices that promote effective, transparent, and accountable decision making. Eight board members are independent, including all members of the Compensation, Corporate Governance, and Audit Committees.

The Board of Directors, acting as a committee of the whole, oversees the corporation's comprehensive business risk management program. The Internal Audit and Business Risk Management Department uses a framework to allow the Executive Risk Committee to identify, assess, and manage key risks, including emerging public policy and environmental issues and opportunities. We integrate the program within the corporation's ongoing strategic planning process. Management is responsible for the day-to-day risk management, and reporting occurs at least quarterly between the operating companies and the Executive Risk Committee. The risks are then reported to the Board of Directors on a quarterly basis. We encourage a risk-aware culture throughout the enterprise through our Code of Conduct, core values, and leadership style.

Dedicated teams

In addition to the Internal Audit and Business Risk Management Department, Otter Tail Corporation maintains departments and committees that research, recommend, implement, and report workforce and sustainability efforts.

Human Resources Departments throughout the enterprise oversee efforts to ensure safe and inclusive work environments where talented people thrive. We respect and value diversity among our employees and all those with whom we do business. Since 2013 more than 450 of our employees have participated in

our leadership development program to build enterprise-wide understanding of our culture, strategy, and processes. To help ensure our companies continue to be places where our employees want to work, we've undertaken a multi-year series of employee engagement surveys. We use the feedback to help shape the future of our companies.

The cross-functional Sustainability Committee coordinates and manages multiple streams of ESG and sustainability information. The team collects internal data, shares best practices, and collectively participates in sustainability reporting. The team shares the story of Otter Tail Power Company's ongoing commitment to environmental, economic, and community responsibilities under the Global Reporting Initiative (GRI) framework. The Executive Risk Committee oversees the Sustainability Committee.

The following information is specific to the corporation's electric utility, Otter Tail Power Company.

Utility's resource plan plays important role in sustainability efforts

Otter Tail Power Company's biennial resource plan identifies the most cost-effective combinations of resources for safely and reliably meeting customers' energy needs for the next 15 years. Our 2017-2031 resource plan includes adding up to 200 megawatts (MW) of wind resources in the first five years of the plan, approximately 30 MW of solar resources, and approximately 250 MW of natural gas resources to use during peak conditions. While the resource plan is required only in Minnesota, we develop a strategy for our system as a whole and file the plan with North Dakota and South Dakota regulatory commissions, which historically have applied a least-cost analysis when reviewing rate filings.

We continue to be innovative as we execute our resource plan and transition to a lower-carbon, increasingly clean energy future and implement programs that provide our customers with more options related to their energy use. Over the next ten years, we expect to:

- **Generate cleaner energy** by investing in renewable energy sources, including wind and solar, and new natural gas peaking generation. We estimate that by 2021 approximately 30 percent of the energy we produce to serve our customers will come from renewable resources. We will retire Hoot Lake Plant, our oldest coal-fired plant, in 2021. And by 2022 we expect our carbon dioxide emissions from owned resources to be 33 percent lower than 2005 levels.

Wind energy

Our service area has some of the best wind resources in the country to produce low-cost energy. Since 2007 we've invested more than \$300 million to harness this renewable resource.

Our planned 150-MW Merricourt wind project will strengthen our commitment to renewable energy and lower emissions. And, because of advances in technology, we expect this wind farm will have high energy output—even by North Dakota standards. Merricourt will be the utility's largest-ever capital investment.

Solar energy

In 2013 Minnesota legislators enacted a Solar Energy Standard that requires Minnesota electric investor-owned utilities to provide at least 1.5 percent of sales from solar energy by 2020. For us, this is 20 to 25 MW and at least 10 percent of this requirement must come from systems 40 kilowatts or less. We continue to evaluate cost-effective solar projects for our customers.

- **Modernize our energy grid** to enhance basic service offerings with smart meters and communications technologies, increase power quality and reliability, support more renewable energy resources on our system and the regional grid as a whole, enable greater energy efficiency, and make the grid more resilient to storms and cyber threats.
- **Enhance the customer experience** with technology-enabled offerings such as usage alerts, outage awareness, and more. We plan to accomplish this transformation without sacrificing our low rates and the reliable service we deliver for our customers.

We regularly engage organizations and individuals who are interested in who we are, how we conduct business, and what our future holds. Stakeholder engagement in the development of resource plans is an important step in our process. We meet with stakeholders in the three states we serve to gain perspective and create a resource plan that balances needs and resources. This type of collaboration sets us apart from our peers.

Investing in a stronger grid

Otter Tail Power Company invests in transmission and distribution upgrades and new construction to meet customers' needs and to maintain the system's reliability. We were a leader in the development of the CapX2020 initiative, a regional transmission buildout by 11 utilities. We also have been involved in three Midcontinent Independent System Operator, Inc., multivalue transmission projects. These projects enhance regional and local reliability and enable Midwest renewable energy projects that, in turn, aid regional utilities to comply with renewable energy legislation.

Reducing energy use through efficiency

Otter Tail Power Company continues to pursue aggressive energy-conservation goals and offer a portfolio of conservation programs in Minnesota and South Dakota. Since 2005 we've continued to increase our investment in these programs because helping our customers save energy means helping them save money too. In 2017 our conservation efforts, partnered with our customers, led to \$25.7 million in avoided net energy and capacity costs over the life of the investments.

Enabling the adoption of electric vehicle infrastructure in rural areas

We've partnered with five communities in our service area to provide electric vehicle charging stations for residents and visitors. And we expect that number to grow—even as our rural and vast service area poses challenges for electric vehicle adoption. Providing charging stations throughout our service area will make long stretches of highway between charging stations navigable for drivers. We also offer our customers rebates and off-peak rates to encourage them to install qualified charging stations at their homes or businesses. We believe that electric transportation technology will play an important role in the future of our industry. We're pleased to be a part of it.

Our future

For Otter Tail Corporation, a responsible past means a responsible future. For our shareholders, we'll continue to deliver above average returns through operational excellence and growing businesses. For our customers, we'll remain committed to quality and value in everything we do. For our employees, we'll continue to provide an environment of opportunity with accountability where people are valued and empowered to do their best work. And in our work, we'll continue to balance environmental, economic, and community interests today, tomorrow, and beyond.

The information in this report, including the attached quantitative information, contains forward-looking statements with respect to the plans, objectives, future performance and business of Otter Tail Corporation and its subsidiaries. Statements preceded by, followed by or that include words such as "may," "will," "expect," "anticipate," "continue," "estimate," "anticipate," "plan," "believe," or similar expressions are intended to identify forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and are included, along with this statement, for purposes of complying with the safe harbor provisions of that Act. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from historical results and those currently anticipated or projected. Such risks and uncertainties are set forth under the caption "Risk Factors" and elsewhere in the documents filed by Otter Tail Corporation with the Securities and Exchange Commission from time to time, and are incorporated herein by reference. You should not place undue reliance on any such forward-looking statements. Any forward-looking statements speak only as of the date of this report, and Otter Tail Corporation undertakes no obligation to update any forward-looking statements to reflect events or circumstances that occur after the date hereof.