Section 1: 10-Q (FORM 10-Q)

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2020

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ____________ to ____________

Commission file number 0-53713

OTTER TAIL CORPORATION
(Exact name of registrant as specified in its charter)

Minnesota	27-0383995
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
215 South Cascade Street, Box 496, Fergus Falls, Minnesota	56538-0496
(Address of principal executive offices)	(Zip Code)

866-410-8780
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Shares, par value $5.00 per share	OTTR	The Nasdaq Stock Market LLC

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☑ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.:

Large accelerated filer ☑ Accelerated filer ☐

Non-accelerated filer ☐ Smaller reporting company ☐ Emerging growth company ☐

If an emerging growth company, indicate by checkmark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act ☐

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act).
Yes ☐ No ☑

Indicate the number of shares outstanding of each of the issuer's classes of Common Stock, as of the latest practicable date:

April 30, 2020 – 40,416,779 Common Shares ($5 par value)

OTTER TAIL CORPORATION

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Otter Tail Corporation
Consolidated Balance Sheets
(not audited)

(in thousands)	March 31, 2020	December 31, 2019
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 7,884	$ 21,199
Accounts Receivable:		
Trade—Net	96,158	77,947
Other	7,228	8,773
Inventories	98,152	97,851
Unbilled Receivables	19,057	20,911
Income Taxes Receivable	-	1,487
Regulatory Assets	20,358	21,650
Other	7,347	5,042
Total Current Assets	256,184	254,860
Investments	9,462	9,894
Other Assets	38,252	40,196
Goodwill	37,572	37,572

Other Intangibles—Net	10,993	11,290
Regulatory Assets	142,734	144,138
Right of Use Assets - Operating Leases	21,433	21,851
Plant		
Electric Plant in Service	2,211,880	2,212,884
Nonelectric Operations	251,804	247,356
Construction Work in Progress	234,025	185,238
Total Gross Plant	2,697,709	2,645,478
Less Accumulated Depreciation and Amortization	908,337	891,684
Net Plant	1,789,372	1,753,794
Total Assets	$ 2,306,002	$ 2,273,595

See accompanying condensed notes to consolidated financial statements.

Otter Tail Corporation
Consolidated Balance Sheets
(not audited)

(in thousands, except share data)	**March 31, 2020**	**December 31, 2019**
LIABILITIES AND EQUITY		
Current Liabilities		
Short-Term Debt	$ 19,893	$ 6,000
Current Maturities of Long-Term Debt	306	183
Accounts Payable	99,501	120,775
Accrued Salaries and Wages	14,889	22,730
Accrued Taxes	18,234	17,525
Regulatory Liabilities	9,804	7,480
Current Operating Lease Liabilities	4,197	4,136
Other Accrued Liabilities	8,864	10,912
Total Current Liabilities	175,688	189,741
Pensions Benefit Liability	87,214	98,970
Other Postretirement Benefits Liability	71,580	71,437
Long-Term Operating Lease Liabilities	17,755	18,193
Other Noncurrent Liabilities	30,912	30,833
Commitments and Contingencies (note 9)		
Deferred Credits		
Deferred Income Taxes	137,816	131,941
Deferred Tax Credits	18,297	18,626
Regulatory Liabilities	239,108	239,906
Other	3,295	2,885
Total Deferred Credits	398,516	393,358
Capitalization		
Long-Term Debt—Net	724,318	689,581
Cumulative Preferred Shares – Authorized 1,500,000 Shares Without Par Value; Outstanding – None	-	-
Cumulative Preference Shares – Authorized 1,000,000 Shares Without Par Value; Outstanding – None	-	-
Common Shares, Par Value $5 Per Share—Authorized, 50,000,000 Shares; Outstanding, 2020—40,376,448 Shares; 2019—40,157,591 Shares	201,882	200,788
Premium on Common Shares	372,669	364,790
Retained Earnings	231,702	222,341
Accumulated Other Comprehensive Loss	(6,234)	(6,437)
Total Common Equity	800,019	781,482
Total Capitalization	1,524,337	1,471,063
Total Liabilities and Equity	$ 2,306,002	$ 2,273,595

See accompanying condensed notes to consolidated financial statements.

Otter Tail Corporation
Consolidated Statements of Income
(not audited)

(in thousands, except share and per-share amounts)	Three Months Ended March 31, 2020		2019	
Operating Revenues				
Electric:				
Revenues from Contracts with Customers	$	119,957	$	129,144
Changes in Accrued Revenues under Alternative Revenue Programs		(87)		(1,049)
Total Electric Revenues		119,870		128,095
Product Sales from Contracts with Customers		114,877		117,877
Total Operating Revenues		234,747		245,972
Operating Expenses				
Production Fuel – Electric		13,735		18,920
Purchased Power – Electric System Use		18,830		21,952
Electric Operation and Maintenance Expenses		40,615		38,382
Cost of Products Sold (depreciation included below)		85,879		90,582
Other Nonelectric Expenses		11,900		13,477
Depreciation and Amortization		20,399		19,131
Property Taxes – Electric		4,100		3,959
Total Operating Expenses		195,458		206,403
Operating Income		39,289		39,569
Interest Charges		8,123		7,826
Nonservice Cost Components of Postretirement Benefits		871		1,035
Other (Loss) Income		(389)		1,244
Income Before Income Taxes		29,906		31,952
Income Tax Expense		5,638		5,628
Net Income	$	24,268	$	26,324
Average Number of Common Shares Outstanding—Basic		40,217,141		39,657,321
Average Number of Common Shares Outstanding—Diluted		40,444,336		39,903,165
Basic Earnings Per Common Share	$	0.60	$	0.66
Diluted Earnings Per Common Share	$	0.60	$	0.66

See accompanying condensed notes to consolidated financial statements.

Otter Tail Corporation
Consolidated Statements of Comprehensive Income
(not audited)

(in thousands)	Three Months Ended March 31, 2020		2019	
Net Income	$	24,268	$	26,324
Other Comprehensive Income:				
Unrealized Gains on Available-for-Sale Securities:				
Reversal of Previously Recognized Losses on Available for Sale Securities Included in Other Income During Period		2		-
Unrealized Gains Arising During Period		126		91
Income Tax Expense		(27)		(19)
Change in Unrealized Gains on Available-for-Sale Securities – net-of-tax		101		72
Pension and Postretirement Benefit Plans:				
Amortization of Unrecognized Postretirement Benefit Losses and Costs (note 11)		138		130
Income Tax Expense		(36)		(34)
Pension and Postretirement Benefit Plans – net-of-tax		102		96
Total Other Comprehensive Income		203		168
Total Comprehensive Income	$	24,471	$	26,492

See accompanying condensed notes to consolidated financial statements.

Otter Tail Corporation
Consolidated Statements of Common Shareholders' Equity
For the Three-Month Periods Ended March 31, 2020 and 2019
(not audited)

(in thousands, except common shares outstanding)	Common Shares Outstanding	Par Value, Common Shares	Premium on Common Shares	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total Common Equity
Balance, December 31, 2019	**40,157,591**	**$ 200,788**	**$ 364,790**	**$ 222,341**	**$ (6,437)**	**$ 781,482**
Common Stock Issuances, Net of Expenses	257,074	1,285	6,990			8,275
Common Stock Retirements	(38,217)	(191)	(1,881)			(2,072)
Net Income				24,268		24,268
Other Comprehensive Income					203	203
Employee Stock Incentive Plan Expense			2,770			2,770
Common Dividends ($0.37 per share)				(14,907)		(14,907)
Balance, March 31, 2020	**40,376,448**	**$ 201,882**	**$ 372,669**	**$ 231,702**	**$ (6,234)**	**$ 800,019**
Balance, December 31, 2018	**39,664,884**	**$ 198,324**	**$ 344,250**	**$ 190,433**	**$ (4,144)**	**$ 728,863**
Common Stock Issuances, Net of Expenses	120,048	601	(601)			-
Common Stock Retirements	(55,224)	(276)	(2,454)			(2,730)
Net Income				26,324		26,324
Other Comprehensive Income					168	168
ASU 2018-02 2017 TCJA Stranded Tax Transfer				784	(784)	-
Employee Stock Incentive Plan Expense			1,796			1,796
Common Dividends ($0.35 per share)				(13,922)		(13,922)
Balance, March 31, 2019	**39,729,708**	**$ 198,649**	**$ 342,991**	**$ 203,619**	**$ (4,760)**	**$ 740,499**

Otter Tail Corporation
Consolidated Statements of Cash Flows
(not audited)

(in thousands)	Three Months Ended March 31, 2020	2019
Operating Activities		
Net Income	$ 24,268	$ 26,324
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	20,399	19,131
Deferred Tax Credits	(329)	(337)
Deferred Income Taxes	5,812	835
Change in Deferred Debits and Other Assets	5,087	1,464
Discretionary Contribution to Pension Plan	(11,200)	(10,000)
Change in Noncurrent Liabilities and Deferred Credits	860	8,787
Allowance for Equity/Other Funds Used During Construction	(791)	(330)
Stock Compensation Expense	2,770	1,796
Other—Net	46	375
Cash (Used for) Provided by Current Assets and Current Liabilities:		
Change in Receivables	(16,666)	(37,086)
Change in Inventories	(301)	(462)
Change in Other Current Assets	(447)	128
Change in Payables and Other Current Liabilities	(7,690)	4,088
Change in Interest and Income Taxes Receivable/Payable	(41)	2,437
Net Cash Provided by Operating Activities	21,777	17,150
Investing Activities		
Capital Expenditures	(75,059)	(24,687)
Proceeds from Disposal of Noncurrent Assets	2,487	509
Cash Used for Investments and Other Assets	(2,487)	(1,258)
Net Cash Used in Investing Activities	(75,059)	(25,436)
Financing Activities		
Change in Checks Written in Excess of Cash	-	8
Net Short-Term Borrowings	13,893	25,002
Proceeds from Issuance of Common Stock	8,399	-
Common Stock Issuance Expenses	(124)	-
Payments for Shares Withheld for Employee Tax Obligations	(2,072)	(2,730)
Proceeds from Issuance of Long-Term Debt	35,000	-
Short-Term and Long-Term Debt Issuance Expenses	(177)	-
Payments for Retirement of Long-Term Debt	(45)	(42)
Dividends Paid	(14,907)	(13,922)

Net Cash Provided by Financing Activities		39,967		8,316
Net Change in Cash and Cash Equivalents		(13,315)		30
Cash and Cash Equivalents at Beginning of Period		21,199		861
Cash and Cash Equivalents at End of Period	$	7,884	$	891

See accompanying condensed notes to consolidated financial statements.

OTTER TAIL CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(not audited)

In the opinion of management, Otter Tail Corporation (the Company) has included all adjustments (including normal recurring accruals) necessary for a fair presentation of the consolidated financial statements for the periods presented. The consolidated financial statements and condensed notes thereto should be read in conjunction with the consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2019. Because of the coronavirus (COVID-19) outbreak, the seasonality of our businesses and other factors, the earnings for the three months ended March 31, 2020 should not be taken as an indication of earnings for all or any part of the balance of the year.

***1.* Summary of Significant Accounting Policies**

Revenue Recognition
Due to the diverse business operations of the Company, recognition of revenue from contracts with customers depends on the product produced and sold or service performed. The Company recognizes revenue from contracts with customers at prices that are fixed or determinable as evidenced by an agreement with the customer, when the Company has met its performance obligation under the contract and it is probable that the Company will collect the amount to which it is entitled in exchange for the goods or services transferred or to be transferred to the customer. Depending on the product produced and sold or service performed and the terms of the agreement with the customer, the Company recognizes revenue either over time, in the case of delivery or transmission of electricity or related services or the production and storage of certain custom-made products, or at a point in time for the delivery of standardized products and other products made to the customer’s specifications where the terms of the contract require transfer of the completed product. Provisions for sales returns, early payment terms discounts, volume-based variable pricing incentives and warranty costs are recorded as reductions to revenue at the time revenue is recognized based on customer history, historical information and current trends.

In addition to recognizing revenue from contracts with customers under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic *606, Revenue from Contracts with Customers* (ASC *606*), the Company also records adjustments to Electric segment revenues for amounts subject to future collection under alternative revenue programs (ARPs) as defined in ASC Topic *980*, *Regulated Operations* (ASC *980*). The ARP revenue adjustments are recorded on the basis of recoverable costs incurred and returns earned under rate riders on a separate line on the face of the Company’s consolidated statements of income as they do *not* meet the criteria to be classified as revenue from contracts with customers.

Electric Segment Revenues—In the Electric segment, the Company recognizes revenue in *two* categories: (*1*) revenues from contracts with customers and (*2*) adjustments to revenues for amounts collectible under ARPs.

Most Electric segment revenues are earned from the generation, transmission and sale of electricity to retail customers at rates approved by regulatory commissions in the states where Otter Tail Power Company (OTP) provides service. OTP also earns revenue from the transmission of electricity for others over the transmission assets it owns separately, or jointly with other transmission service providers, under rate tariffs established by the independent transmission system operator and approved by the Federal Energy Regulatory Commission (FERC). A *third* source of revenue for OTP comes from the generation and sale of electricity to wholesale customers at contract or market rates. Revenues from all these sources meet the criteria to be classified as revenue from contracts with customers and are recognized over time as energy is delivered or transmitted. Revenue is recognized based on the metered quantity of electricity delivered or transmitted at the applicable rates. For electricity delivered and consumed after a meter is read but prior to the end of the reporting period, OTP records revenue and an unbilled receivable based on estimates of the kilowatt-hours (kwh) of energy delivered to the customer.

ARPs provide for adjustments to rates outside of a general rate case proceeding, usually as a surcharge applied to future billings typically through the use of rate riders subject to periodic adjustments, to encourage or incentivize investments in certain areas such as conservation, renewable energy, pollution reduction or control, improved infrastructure of the transmission grid or other programs that provide benefits to the general public under public policy, laws or regulations. ARP riders generally provide for the recovery of specified costs and investments and include an incentive component to provide the regulated utility with a return on amounts invested.

OTP has recovered costs and earned incentives or returns on investments subject to recovery under several ARP rate riders, including:

- In Minnesota: Transmission Cost Recovery (TCR), Environmental Cost Recovery (ECR), Renewable Resource Adjustment (RRA), Energy Intensive Trade Exposed and Conservation Improvement Program riders.
- In North Dakota: TCR, ECR, Renewable Resource Cost Recovery and Generation Cost Recovery (GCR) riders.
- In South Dakota: TCR, ECR, Phase-in Rate Plan and Energy Efficiency Plan (conservation) riders.

OTP accrues ARP revenue on the basis of costs incurred, investments made and returns on those investments that qualify for recovery through established riders. Amounts billed under riders in effect at the time of the billing are included in revenues from contracts with customers net of amounts billed that are subject to refund through future rider adjustments. Amounts accrued and subject to recovery through future rider rate updates and adjustments are reported as changes in accrued revenues under ARPs on a separate line in the revenue section of the Company's consolidated statement of income. See table in note *3* for total revenues billed and accrued under ARP riders for the *three*-month periods ended *March 31, 2020* and *2019*.

Manufacturing Segment Revenues—Companies in the Manufacturing segment, BTD Manufacturing, Inc. (BTD) and T.O. Plastics, Inc. (T.O. Plastics), earn revenue predominantly from the production and delivery of custom-made or standardized parts to customers across several industries. BTD also earns revenue from the production and sale of tools and dies to other manufacturers. For the production and delivery of standardized products and other products made to customer specifications where the terms of the contract require transfer of the completed product, the operating company has met its performance obligation and recognizes revenue at the point in time when the product is shipped. For revenue recognized on products when shipped, the operating companies have *no* further obligation to provide services related to such products. The shipping terms used in these instances are FOB shipping point.

Plastics Segment Revenues—Companies in our Plastics segment earn revenue predominantly from the sale and delivery of standardized polyvinyl chloride (PVC) pipe products produced at their manufacturing facilities. Revenue from the sale of these products is recognized at the point in time when the product is shipped based on prices agreed to in a purchase order. For revenue recognized on shipped products, there is *no* further obligation to provide services related to such products. The shipping terms used in these instances are FOB shipping point. The Plastics segment has *one* customer for which it produces and stores a product made to the customer's specifications and design under a build and hold agreement. For sales to this customer, the operating company recognizes revenue as the custom-made product is produced, adjusting the amount of revenue for volume rebate variable pricing considerations the operating company expects the customer will earn and applicable early payment discounts the company expects the customer will take. Ownership of the pipe transfers to the customer prior to delivery and the operating company is paid a negotiated fee for storage of the pipe. Revenue for storage of the pipe is also recognized over time as the pipe is stored.

See operating revenue table in note *2* for a disaggregation of the Company's revenues by business segment for the *three*-month periods ended *March 31, 2020* and *2019*.

Agreements Subject to Legally Enforceable Netting Arrangements
OTP has certain derivative contracts that are designated as normal purchases. Individual counterparty exposures for these contracts can be offset according to legally enforceable netting arrangements. The Company does *not* offset assets and liabilities under legally enforceable netting arrangements on the face of its consolidated balance sheet.

Fair Value Measurements
The Company follows ASC Topic *820, Fair Value Measurements and Disclosures* (ASC *820*), for recurring fair value measurements. ASC *820* provides a single definition of fair value, requires enhanced disclosures about assets and liabilities measured at fair value and establishes a hierarchical framework for disclosing the observability of the inputs utilized in measuring assets and liabilities at fair value. The *three* levels defined by the hierarchy and examples of each level are as follows:

Level *1* – Quoted prices are available in active markets for identical assets or liabilities as of the reported date. The types of assets and liabilities included in Level *1* are highly liquid and actively traded instruments with quoted prices, such as equities listed by the New York Stock Exchange and commodity derivative contracts listed on the New York Mercantile Exchange.

Level *2* – Pricing inputs are other than quoted prices in active markets but are either directly or indirectly observable as of the reported date. The types of assets and liabilities included in Level *2* are typically either comparable to actively traded securities or contracts, such as treasury securities with pricing interpolated from recent trades of similar securities, or priced with models using highly observable inputs, such as commodity options priced using observable forward prices and volatilities.

Level *3* – Significant inputs to pricing have little or *no* observability as of the reporting date. The types of assets and liabilities included in Level *3* are those with inputs requiring significant management judgment or estimation and *may* include complex and subjective models and forecasts.

The following tables present, for each of the hierarchy levels, the Company's assets and liabilities that are measured at fair value on a recurring basis as of *March 31, 2020* and *December 31, 2019:*

March 31, 2020 *(in thousands)*	Level 1	Level 2	Level 3
Assets:			
Investments:			
Equity Funds – Held by Captive Insurance Company	$ 1,130		
Corporate Debt Securities – Held by Captive Insurance Company		$ 2,842	
Government-Backed and Government-Sponsored Enterprises' Debt Securities – Held by Captive Insurance Company		5,379	
Other Assets:			
Money Market and Mutual Funds –Retirement Plans	2,526		
Total Assets	$ 3,656	$ 8,221	

December 31, 2019 *(in thousands)*	Level 1	Level 2	Level 3
Assets:			
Investments:			
Equity Funds – Held by Captive Insurance Company	$ 1,586		
Corporate Debt Securities – Held by Captive Insurance Company		$ 2,124	
Government-Backed and Government-Sponsored Enterprises' Debt Securities – Held by Captive Insurance Company		6,060	
Other Assets:			
Money Market and Mutual Funds –Retirement Plans	2,363		
Total Assets	$ 3,949	$ 8,184	

The level *2* fair values for Government-Backed and Government-Sponsored Enterprises' and Corporate Debt Securities Held by the Company's Captive Insurance Company are determined on the basis of valuations provided by a *third*-party pricing service which utilizes industry accepted valuation models and observable market inputs to determine valuation. Some valuations or model inputs used by the pricing service *may* be based on broker quotes.

Coyote Station Lignite Supply Agreement – Variable Interest Entity

In *October 2012* the Coyote Station owners, including OTP, entered into a lignite sales agreement (LSA) with Coyote Creek Mining Company, L.L.C. (CCMC), a subsidiary of The North American Coal Corporation, for the purchase of lignite coal to meet the coal supply requirements of Coyote Station for the period beginning in *May 2016* and ending in *December 2040.* The price per ton paid by the Coyote Station owners under the LSA reflects the cost of production, along with an agreed profit and capital charge. CCMC was formed for the purpose of mining coal to meet the coal fuel supply requirements of Coyote Station from *May 2016* through *December 2040* and, based on the terms of the LSA, is considered a variable interest entity (VIE) due to the transfer of all operating and economic risk to the Coyote Station owners, as the agreement is structured so that the price of the coal would cover all costs of operations as well as future reclamation costs. The Coyote Station owners are required to buy certain assets of CCMC at book value should they terminate the contract prior to the end of the contract term and are providing a guarantee of the value of the equity of CCMC because the Coyote Station owners are required to buy the membership interests of CCMC at the end of the contract term at equity value. Under current accounting standards, the primary beneficiary of a VIE is required to include the assets, liabilities, results of operations and cash flows of the VIE in its consolidated financial statements. *No* single owner of Coyote Station owns a majority interest in Coyote Station and *none,* individually, has the power to direct the activities that most significantly impact CCMC. Therefore, *none* of the owners individually, including OTP, is considered a primary beneficiary of the VIE and the Company is *not* required to include CCMC in its consolidated financial statements.

If the LSA terminates prior to the expiration of its term or the production period terminates prior to *December 31, 2040* and the Coyote Station owners purchase all of the outstanding membership interests of CCMC, the owners will satisfy (or if permitted by CCMC's applicable lender assume) all of CCMC's obligations owed to CCMC's lenders under its loans and leases. The Coyote Station owners have limited rights to assign their rights and obligations under the LSA without the consent of CCMC's lenders during any period in which CCMC's obligations to its lenders remain outstanding. In the event the contract is terminated prior to the end of the term due to certain events, OTP's maximum exposure to additional costs, as a result of its involvement with CCMC, and potential impairment loss if recovery of those costs is denied by regulatory authorities, could be as high as $49.6 million, OTP's 35% share of CCMC's unrecovered costs as of *March 31, 2020.*

Inventories

Inventories, valued at the lower of cost or net realizable value, consist of the following:

(in thousands)	March 31, 2020	December 31, 2019
Finished Goods	$ 29,996	$ 31,863
Work in Process	15,811	16,508
Raw Material, Fuel and Supplies	52,345	49,480
Total Inventories	$ 98,152	$ 97,851

Intangible Assets

Intangible assets with finite lives are amortized over their estimated useful lives and reviewed for impairment in accordance with requirements under ASC Topic *360-10-35, Property, Plant, and Equipment—Overall—Subsequent Measurement*.

The following table summarizes the components of the Company's intangible assets at *March 31, 2020* and *December 31, 2019:*

March 31, 2020 *(in thousands)*	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Remaining Amortization Periods (months)
Amortizable Intangible Assets:				
Customer Relationships	$ 22,491	$ 11,543	$ 10,948	85 - 185
Other	179	134	45	5 - 42
Total	$ 22,670	$ 11,677	$ 10,993	

December 31, 2019 *(in thousands)*	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Remaining Amortization Periods (months)
Amortizable Intangible Assets:				
Customer Relationships	$ 22,491	$ 11,259	$ 11,232	88 - 188
Other	179	121	58	8 - 45
Total	$ 22,670	$ 11,380	$ 11,290	

The amortization expense for these intangible assets was:

	Three Months Ended March 31,	
(in thousands)	2020	2019
Amortization Expense – Intangible Assets	$ 296	$ 296

The estimated annual amortization expense for these intangible assets for the next *five* years is:

(in thousands)	2020	2021	2022	2023	2024
Estimated Amortization Expense – Intangible Assets	$ 1,140	$ 1,105	$ 1,105	$ 1,104	$ 1,099

Supplemental Disclosures of Cash Flow Information

(in thousands)	As of March 31, 2020	2019
Noncash Investing Activities:		
Transactions Related to Capital Additions not Settled in Cash	$ 16,193	$ 4,338

New Accounting Standards Adopted

ASU *2016-13*—In *June 2016* the FASB issued Accounting Standards Update (ASU) *No. 2016-13, Financial Instruments—Credit Losses (Topic 326)* (ASC *326*), which changes how entities account for credit losses on receivables and certain other assets effective for interim and annual periods beginning on or after *December 31, 2019.* The guidance requires use of a current expected credit loss model, which *may* result in earlier recognition of credit losses than under previous accounting standards. The Company adopted ASC *326* in the *first* quarter of *2020.* Adoption of the new standard did *not* have a material impact on the Company's consolidated financial statements and the Company did *not* record a cumulative effect adjustment to retained earnings on adoption.

Accounting Policy

Trade account and unbilled receivables reflected in the Company's consolidated balance sheets represent the net amounts expected to be collected. An allowance for credit losses is established based on expected losses. Expected losses are estimated by reviewing individual accounts, considering aging, financial condition of the debtor for certain accounts, recent payment history, current and forecasted economic conditions and other relevant factors.

Allowance for Credit Losses

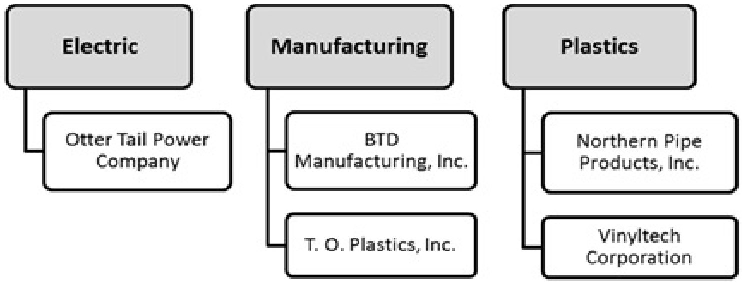
Following is a summary of activity in allowances for credit losses on trade and unbilled accounts receivable across the Company:

(in thousands)	Three Months Ended March 31, 2020	2019
Beginning Balance	$ 1,339	$ 1,407
Additions Charged to Expense (net of recoveries)	635	247
Reductions for Amounts Written Off	(293)	(121)
Ending Balance	$ 1,681	$ 1,533

ASU *2018-15*—In *August 2018* the FASB issued ASU *No. 2018-15, Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40)*, which amends ASC *350-40, Internal-Use Software*, to address a customer's accounting for implementation costs incurred in a cloud computing arrangement that is a service contract. The amendments in ASU *2018-15* align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). Accordingly, the amendments in ASU *2018-15* require an entity (customer) in a hosting arrangement that is a service contract to follow the guidance in ASC *350-40* to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense. The amendments in ASU *2018-15* also require the entity to present the expense related to the capitalized implementation costs in the same line item in the statement of income as the fees associated with the hosting element (service) of the arrangement and classify payments for capitalized implementation costs in the statement of cash flows in the same manner as payments made for fees associated with the hosting element. The entity is also required to present the capitalized implementation costs in the statement of financial position in the same line item that a prepayment for the fees of the associated hosting arrangement would be presented. The amendments in ASU *2018-15* were effective for interim and annual periods beginning on or after *December 15, 2019* with early adoption permitted in any interim period. The Company adopted the amendments in ASU *2018-15* in the *first* quarter of *2020.* There was *no* impact to its consolidated financial statements on adoption, but the Company will begin capitalizing implementation costs incurred in cloud computing arrangements post-adoption.

2. Segment Information

The accounting policies of the segments are described under note *1* – Summary of Significant Accounting Policies. The Company's businesses have been classified into *three* segments to be consistent with its business strategy and the reporting and review process used by the Company's chief operating decision maker. These businesses sell products and provide services to customers primarily in the United States. The Company's business structure currently includes the following three segments: Electric, Manufacturing and Plastics. The chart below indicates the companies included in each segment.



Electric includes the production, transmission, distribution and sale of electric energy in Minnesota, North Dakota and South Dakota by OTP. In addition, OTP is a participant in the Midcontinent Independent System Operator, Inc. (MISO) markets. OTP's operations have been the Company's primary business since *1907*.

Manufacturing consists of businesses in the following manufacturing activities: contract machining, metal parts stamping, fabrication and painting, and production of plastic thermoformed horticultural containers, life science and industrial packaging, and material handling components. These businesses have manufacturing facilities in Georgia, Illinois and Minnesota and sell products primarily in the United States.

Plastics consists of businesses producing PVC pipe at plants in North Dakota and Arizona. The PVC pipe is sold primarily in the upper Midwest and Southwest regions of the United States.

OTP is a wholly owned subsidiary of the Company. All of the Company's other businesses are owned by its wholly owned subsidiary, Varistar Corporation. The Company's Corporate operating costs include items such as corporate staff and overhead costs, the results of the Company's captive insurance company and other items excluded from the measurement of operating segment performance. Corporate assets consist primarily of cash, prepaid expenses, investments and fixed assets. Corporate is *not* an operating segment. Rather, it is added to operating segment totals to reconcile to totals on the Company's consolidated financial statements.

While no single customer accounted for over *10%* of consolidated revenue in *2019*, certain customers provided a significant portion of each business segment's *2019* revenue. The Electric segment has one customer that provided 11.9% of *2019* segment revenues. The Manufacturing segment has one customer that manufactures and sells recreational vehicles that provided 23.8% of *2019* segment revenues and one customer that manufactures and sells lawn and garden equipment that provided 11.1% of *2019* segment revenues. The Manufacturing segment's top five revenue-generating customers provided over 54% of *2019* segment revenues. The Plastics segment has two customers that individually provided 25.3% and 20.4% of *2019* segment revenues. The loss of any *one* of these customers would have a significant negative impact on the financial position and results of operations of the respective business segment and the Company.

All of the Company's long-lived assets are within the United States and 99.1% and 99.0% of its operating revenues for the respective *three*-month periods ended *March 31, 2020* and *2019* came from sales within the United States.

The Company evaluates the performance of its business segments and allocates resources to them based on earnings contribution and return on total invested capital. Information for the business segments for the *three* months ended *March 31, 2020* and *2019* and total assets by business segment as of *March 31, 2020* and *December 31, 2019* are presented in the following tables:

Operating Revenue

(in thousands)	Three Months Ended March 31, 2020	2019
Electric Segment:		
Retail Sales Revenue from Contracts with Customers	$ 106,690	$ 114,955
Changes in Accrued ARP Revenues	(87)	(1,049)
Total Retail Sales Revenue	106,603	113,906
Transmission Services Revenue	10,841	10,862
Wholesale Revenues – Company Generation	876	1,527
Other Revenues	1,556	1,814
Total Electric Segment Revenues	119,876	128,109
Manufacturing Segment:		
Metal Parts and Tooling	57,211	66,724
Plastic Products and Tooling	9,883	9,045
Other	1,385	2,053
Total Manufacturing Segment Revenues	68,479	77,822
Plastics Segment – Sale of PVC Pipe Products	46,397	40,058
Intersegment Eliminations	(5)	(17)
Total	$ 234,747	$ 245,972

Interest Charges

(in thousands)	Three Months Ended March 31, 2020	2019
Electric	$ 7,384	$ 6,641
Manufacturing	554	584
Plastics	148	149
Corporate and Intersegment Eliminations	37	452
Total	$ 8,123	$ 7,826

Income Taxes

(in thousands)	Three Months Ended March 31, 2020	2019
Electric	$ 3,620	$ 4,771
Manufacturing	1,461	1,454
Plastics	1,917	1,329
Corporate	(1,360)	(1,926)
Total	$ 5,638	$ 5,628

Net Income (Loss)

(in thousands)	Three Months Ended March 31, 2020	2019
Electric	$ 16,182	$ 18,700
Manufacturing	4,927	4,842
Plastics	5,449	3,729
Corporate	(2,290)	(947)
Total	$ 24,268	$ 26,324

Identifiable Assets

(in thousands)		March 31, 2020		December 31, 2019
Electric	$	1,955,465	$	1,931,525
Manufacturing		201,892		195,742
Plastics		102,654		92,049
Corporate		45,991		54,279
Total	$	2,306,002	$	2,273,595

3. Rate and Regulatory Matters

Below are descriptions of OTP's major capital expenditure projects that are expected to have a significant impact on OTP's revenue requirements, rates and alternative revenue recovery mechanisms, followed by summaries of specific electric rate or rider proceedings with the Minnesota Public Utilities Commission (MPUC), the North Dakota Public Service Commission (NDPSC), the South Dakota Public Utilities Commission (SDPUC) and the FERC, impacting OTP's revenues in *2020* and *2019*.

Major Capital Expenditure Projects

Merricourt Wind Energy Center (Merricourt)—On *November 16, 2016* OTP entered into an Asset Purchase Agreement (the Purchase Agreement) with EDF Renewable Development, Inc. and certain of its affiliated companies (collectively, EDF) to purchase the development assets and assume certain specified liabilities associated with Merricourt, a *150*-megawatt (MW) wind farm in southeastern North Dakota, for a purchase price of approximately $34.7 million, subject to adjustments for interconnection costs. Also on *November 16, 2016,* OTP entered into a Turnkey Engineering, Procurement and Construction Services Agreement (the TEPC Agreement) with EDF-RE US Development, LLC (EDF-USD) pursuant to which EDF-USD will develop, design, procure, construct, interconnect, test and commission the wind farm with a targeted completion date in *2020* for consideration of approximately $200.5 million, subject to certain adjustments, payable following the closing of the Purchase Agreement in installments in connection with certain project construction milestones. In connection with action by the FERC, OTP and EDF-US agreed, in the First Amendment to the Purchase Agreement and the TEPC Agreement dated *June 11, 2019,* to change the purchase price to $37.7 million and to make a related reallocation of responsibility for interconnection costs and liabilities. On *July 16, 2019* OTP closed on the purchase of substantially all of the development assets and assumed certain specified liabilities from EDF related to Merricourt pursuant to the Purchase Agreement, as amended, for a purchase price of approximately $37.7 million, subject to certain adjustments, and issued the notice to EDF-USD to begin construction in *August 2019.* The agreements contain customary representations, warranties, covenants and indemnities for this type of transaction. The Merricourt generator interconnection agreement with MISO was approved by the FERC in *April 2019*.

With the NDPSC's *March 18, 2020* approval of OTP's annual update to its North Dakota Renewable Resource Cost Recovery rider, OTP is now earning a return in all *three* states served by OTP on amounts invested in Merricourt while the project is under construction. Returns are recovered in Minnesota under the Renewable Resource Adjustment rider and in South Dakota under the Phase-In Rate Plan rider. As of *March 31, 2020,* OTP had capitalized approximately $95.8 million in project costs and allowance for funds used during construction (AFUDC) associated with Merricourt. OTP has received Notices of Force Majeure from EDF-USD claiming a delay of production and project completion due to COVID-*19* impacts. While details regarding this claim and the related impact to the project schedule are *not* yet finalized, OTP has adjusted its expectation for completion and currently expects Merricourt to be completed before *December 31, 2020.* If *not* completed by *December 31, 2020,* OTP risks the potential loss of federal production tax credits (PTCs).

Astoria Station—OTP is constructing this 245 MW simple-cycle natural gas-fired combustion turbine generation facility near Astoria, South Dakota as part of its plan to reliably meet customers' electric needs, replace expiring capacity purchase agreements and prepare for the planned retirement of its Hoot Lake Plant in *2021.* A final order granting an Advanced Determination of Prudence for Astoria Station was issued by the NDPSC on *November 3, 2017,* subject to certain qualifications and compliance obligations. On *August 3, 2018* the SDPUC issued an order granting a site permit for Astoria Station. In a *September 26, 2018* hearing the NDPSC established a GCR rider for future recovery of costs incurred for Astoria Station. On *March 6, 2019* the SDPUC issued an order approving a settlement that allows a phase-in rider which includes recovery of Astoria Station costs. The interconnection agreement for Astoria Station was executed by MISO in *December 2018* and accepted by the FERC in *January 2019.* Site preparation and excavation began in *May 2019,* and construction is occurring on the site. As of *March 31, 2020,* OTP had capitalized approximately $78.0 million in project costs and AFUDC associated with Astoria Station. OTP currently expects this project will be completed in late *2020* or early *2021.*

General Rates

Minnesota—The MPUC rendered its final decision in OTP's *2016* general rate case in *March 2017* and issued its written order on *May 1, 2017.* Pursuant to the order, OTP's allowed rate of return on rate base is 7.5056% and its allowed rate of return on equity (ROE) is 9.41%.

The MPUC's order also included: (*1*) the determination that all costs (including FERC allocated costs and revenues) of the Big Stone South–Brookings and Big Stone South–Ellendale MVPs will be included in the Minnesota TCR rider and jurisdictionally allocated to OTP's Minnesota customers (see discussion under Minnesota Transmission Cost Recovery Rider below), and (*2*) approval of OTP's proposal to transition rate base, expenses and revenues from ECR and TCR riders to base rate recovery, which occurred when final rates were implemented on *November 1, 2017.* Certain MISO expenses and revenues remain in the TCR rider to allow for the ongoing refund or recovery of these variable revenues and costs.

North Dakota—On *March 23, 2018* OTP made a supplemental filing to its initial request for a rate review, reducing its request for an annual revenue increase from $13.1 million to $7.1 million, a 4.8% annual increase. The $6.0 million decrease included $4.8 million related to tax reform and $1.2 million related to other updates.

In a *September 26, 2018* hearing the NDPSC approved an overall annual revenue increase of $4.6 million (3.1%) and a ROE of 9.77% on a 52.5% equity capital structure. The NDPSC's approval established a GCR rider for future recovery of costs incurred for Astoria Station. The net revenue increase reflected a reduction in income tax recovery requirements related to the *2017* Tax Cuts and Jobs Act (TCJA) and decreases in rider revenue recovery requirements. Final rates were effective *February 1, 2019,* with refunds of excess revenues collected under interim rates applied to customers' *April 2019* bills, including $0.8 million for amounts collected reflecting the higher tax rates under interim rates in effect in *January* and *February 2018.*

South Dakota—On *April 20, 2018* OTP filed a request with the SDPUC to increase non-fuel rates in South Dakota by approximately $3.3 million annually, or 10.1%, as the *first* step in a *two*-step request. Interim rates were effective *October 18, 2018.* The *second* step in the request was an additional 1.7% revenue increase to recover costs for Merricourt when the wind generation facility goes into service. The SDPUC approved a partial settlement on *March 1, 2019* on all issues of the rate case except ROE. The partial settlement included approval of a phase-in plan to provide for a return on amounts invested in Astoria Station and Merricourt, which addressed the *second* step of the request for increased rates in South Dakota. The partial settlement also included a moratorium on filing another general rate case in South Dakota until the new generation projects have been in service for a year. The partial settlement also allowed OTP to retain the impact of lower tax rates related to the TCJA from *January 1, 2018* through *October 17, 2018* resulting in the reversal of an accrued refund liability and recognition of $1.0 million in revenue in the *first* quarter of *2019.* The SDPUC approved the ROE portion of the rate case on *May 14, 2019* and pursuant to the SDPUC's *May 30, 2019* order, OTP's allowed ROE was set at 8.75%, resulting in an annual revenue increase of approximately $2.2 million. Final rates went into effect *August 1, 2019.* An interim rate refund for the lower ROE going back to *October 18, 2018* was applied to South Dakota customers' *October 2019* bills.

On *July 9, 2019* the SDPUC approved a stipulation agreement entered into by OTP with SDPUC staff. The revenue requirement stated in the SDPUC's final order dated *May 30, 2019* understated the amount of OTP's South Dakota share of electric transmission plant in service, resulting in an annual revenue requirement shortfall of approximately $341,000. To address the shortfall, the parties agreed that OTP would file an update to its South Dakota TCR rider. OTP was authorized full recovery of the transmission rate base correction reflected in the TCR rider tracker beginning as of the *first* date of interim rates, *October 18, 2018,* with the TCR rider rate update going into effect on *October 1, 2019.*

To ensure rates are appropriately set under the stipulation, the parties agreed to establish an earnings sharing mechanism to share with customers any weather-normalized earnings above the authorized ROE of 8.75%. OTP's annual weather-normalized earnings are reported each year by *June 1* in its jurisdictional annual report, which will be used to determine the earnings level for purposes of calculating any refund. The earnings sharing mechanism requires that OTP will refund to customers 50% of any weather-normalized revenue that corresponds to the earnings in excess of its authorized ROE, up to a maximum of 9.50% ROE for a particular year. OTP will refund 100% of any earnings above *9.50%* each year. In the event a refund is due under this provision, OTP will notify the SDPUC of the refund amount and plan for crediting customers within *30* days of filing its South Dakota jurisdictional annual report.

Rate Riders

In addition to general rates, OTP has several rate riders in place in each of its state jurisdictional service areas. These rate riders are designed to recover expenses, costs and returns on rate base investments *not* currently being recovered in base, or general, rates. In addition to fuel cost recovery riders in each state, OTP has recovered costs and earned incentives or returns on investments subject to recovery under several rate riders, including:

- In Minnesota: Transmission Cost Recovery (TCR), Environmental Cost Recovery (ECR), Renewable Resource Adjustment (RRA), Energy Intensive Trade Exposed and Conservation Improvement Program riders.
- In North Dakota: TCR, ECR, Renewable Resource Cost Recovery and Generation Cost Recovery (GCR) riders.
- In South Dakota: TCR, ECR, Phase-in Rate Plan and Energy Efficiency Plan (conservation) riders.

Following is a brief summary of recent proceedings of riders in place in each state served by OTP, followed by tables showing revenues recorded under rate riders for the *three*-month periods ended *March 31, 2020* and *March 31, 2019* and a listing of rate rider updates impacting revenues in *2020* and *2019*. Additional information and background on these rate riders is provided in the Company's Annual Report on Form *10*-K for the year ended *December 31, 2019*.

Minnesota

Minnesota Conservation Improvement Programs (MNCIP)—On *May 1, 2020* OTP filed a request for approval of its *2019* energy savings, recovery of $2.7 million in accrued financial incentives and recovery of *2019* program costs *not* included in base rates.

Transmission Cost Recovery Rider—In OTP's *2016* general rate case order issued on *May 1, 2017*, the MPUC ordered OTP to include, in the TCR rider retail rate base, Minnesota's jurisdictional share of OTP's investment in the Big Stone South–Brookings and Big Stone South–Ellendale Multi-Value Projects (MVPs) and all revenues received from other utilities under MISO's tariffed rates as a credit in its TCR revenue requirement calculations. In doing so, the MPUC's order diverted interstate wholesale revenues that have been approved by the FERC to offset FERC-approved expenses, effectively reducing OTP's recovery of those FERC-approved expense levels. The MPUC-ordered treatment resulted in the projects being treated as retail investments for Minnesota retail ratemaking purposes. Because the FERC's revenue requirements and authorized returns vary from the MPUC revenue requirements and authorized returns for the project investments over the lives of the projects, the impact of this decision can vary over time and be dependent on the differences between the revenue requirements and returns in the *two* jurisdictions at any given time. On *August 18, 2017* OTP filed an appeal of the MPUC general rate case order with the Minnesota Court of Appeals to contest the portion of the order requiring OTP to jurisdictionally allocate costs of the FERC MVP transmission projects in the TCR rider.

On *June 11, 2018* the Minnesota Court of Appeals reversed the MPUC's order related to the inclusion of Minnesota's jurisdictional share of OTP's investment in the Big Stone South–Brookings and Big Stone South–Ellendale MVPs and all revenues received from other utilities under MISO's tariffed rates as a credit in OTP Minnesota TCR revenue requirement calculations. On *July 11, 2018* the MPUC filed a petition for review of the MVP decision to the Minnesota Supreme Court, which granted review of the Minnesota Court of Appeals decision.

On *November 30, 2018* OTP filed its annual update and supplemental filing to the Minnesota TCR rider. In this filing *two* scenarios were submitted based on whether the Minnesota Supreme Court affirmed the original decision by the Minnesota Court of Appeals to exclude the MVP projects from the TCR rider or overturned the Minnesota Court of Appeals decision and includes the *two* MVP projects in the TCR rider. In addition, on *April 1, 2019*, the MNDOC filed comments in OTP's TCR rider docket, opposing OTP's proposal for TCR rider recovery of these costs. The Minnesota Supreme Court issued its opinion on *April 22, 2020*, concluding that the MPUC lacked authority to amend an existing transmission cost-recovery rider approved under Minnesota state law to include the costs and revenues associated with the Big Stone South–Brookings and Big Stone South–Ellendale MVPs and affirming the decision of the Minnesota Court of Appeals. The MPUC is *not* expected to act on the TCR rider until additional briefing has occurred in the docket. After OTP has filed its comments in response to the Minnesota Supreme Court opinion with the MPUC and the MNDOC has filed reply comments, OTP will make a supplemental filing to the TCR docket to revise its revenue requirements under the TCR update request to exclude the MVP projects and to include additional recoverable costs incurred since the initial annual update request was filed. The estimated amount credited to Minnesota customers through the TCR rider through *March 31, 2020* is approximately $2.6 million, which OTP will now seek to recover through its annual update and supplemental filing to the TCR rider.

Renewable Resource Adjustment—On *June 21, 2019* OTP filed its annual update to the Minnesota RRA requesting approval for recovery of the difference in PTCs in base rates and the actual PTCs generated, as well as recovery of Merricourt. On *December 19, 2019* the MPUC approved a revised request which included changes related to Merricourt capitalized costs.

Fuel and Purchased Power Costs Recovery—In a *December 2017* order, the MPUC adopted a program to implement certain procedural reforms to Minnesota utilities' automatic fuel adjustment clause (FAC) for fuel and purchased power cost recovery. With this order, the method of accounting for all Minnesota electric utilities changed to a monthly budgeted, forward-looking FAC with annual prudence review and true-up to actual allowed costs. On *October 31, 2019* the MPUC approved the forecasted monthly fuel cost rates submitted by OTP for *2020* and the rates became effective on *January 1, 2020.* This mechanism could result in reductions in Electric segment operating income margins, increase variability in consolidated net income in future periods if costs per kwh vary from forecasted costs per kwh, and cause an increase in working capital and short-term borrowings in the event recovery of all or a portion of excess costs is delayed or denied by the MPUC.

North Dakota

Renewable Resource Adjustment—On *December 31, 2019* OTP filed its annual update to the North Dakota RRA requesting approval for recovery of the difference in PTCs in base rates and the actual PTCs generated, as well as a return on Merricourt costs incurred while under construction. This update also included a credit for the remaining unrefunded credit balance in the North Dakota ECR rider tracker on *November 30, 2019.* On *February 25, 2020* OTP filed a revised request which was approved by the NDPSC on *March 18, 2020.* Part of the NDPSC's approval included adopting a levelized utilization of PTCs from the Merricourt project over the expected *25*-year life of the project for rate-making purposes. PTCs on prior projects were passed back to customers through lower rates as they were generated over *10* years.

Generation Cost Recovery Rider—On *May 15, 2019* the NDPSC approved OTP's request to establish an initial GCR rider rate for recovery of OTP's North Dakota jurisdictional share of the revenue requirements on its investment in Astoria Station, effective on bills rendered after *July 1, 2019.*

South Dakota

Phase-In Rate Plan Rider—On *May 31, 2019* OTP petitioned the SDPUC for approval of its initial rate for the Phase-In Rate Plan Rider as described in OTP's most recent South Dakota general rate case settlement stipulation and was approved by the SDPUC's order in that rate case. The petition was OTP's initial filing for the rider to recover OTP's South Dakota share of actual and forecasted costs for Astoria Station and Merricourt, and to refund forecasted net benefits associated with additional load growth in the Lake Norden area. On *August 21, 2019* the SDPUC approved OTP's supplemental filing for its South Dakota Phase-In Rate Plan Rider effective *September 1, 2019.*

Revenues Recorded under Rate Riders

The following table presents revenue recorded by OTP under rate riders in place in Minnesota, North Dakota and South Dakota for the *three*-month periods ended *March 31:*

Rate Rider *(in thousands)*	2020	2019
Minnesota		
Renewable Resource Recovery	$ 3,254	$ 1,316
Conservation Improvement Program Costs and Incentives	1,086	887
Transmission Cost Recovery	715	641
Environmental Cost Recovery	-	(1)
North Dakota		
Transmission Cost Recovery	1,482	1,772
Renewable Resource Adjustment	1,129	729
Generation Cost Recovery	948	248
Environmental Cost Recovery	-	575
South Dakota		
Phase-In Rate Plan	646	-
Transmission Cost Recovery	562	473
Conservation Improvement Program Costs and Incentives	344	244
Environmental Cost Recovery	-	(4)
Total	$ 10,166	$ 6,880

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Rate Rider Updates

The following table provides summary information on the status of updates since *January 1, 2018* for the rate riders described above:

Rate Rider	**R - Request Date A - Approval Date**	**Effective Date Requested or Approved**	**Annual Revenue *($000s)***	**Rate**
Minnesota				
Conservation Improvement Program				
2019 Incentive and Cost Recovery	*R* – May 1, 2020	October 1, 2020	$ 8,247	$0.00485/*kwh*
2018 Incentive and Cost Recovery	*A* – December 27, 2019	January 1, 2020	$ 11,926	$0.00710/*kwh*
2017 Incentive and Cost Recovery	*A* – October 4, 2018	November 1, 2018	$ 10,283	$0.00600/*kwh*
Transmission Cost Recovery				
2018 Annual Update–Scenario A	*R* – November 30, 2018	June 1, 2019	$ 6,475	*Various*
–Scenario B			$ 2,708	*Various*
2017 Rate Reset	*A* – October 30, 2017	November 1, 2017	$ (3,311)	*Various*
Environmental Cost Recovery				
2018 Annual Update	*A* – November 29, 2018	December 1, 2018	$ -	*0% of base*
Renewable Resource Adjustment				
2019 Annual Update – Revised	*A* – December 19, 2019	January 1, 2020	$ 12,506	$0.00467/*kwh*
2018 Annual Update	*A* – August 29, 2018	November 1, 2018	$ 5,886	$0.00219/*kwh*
North Dakota				
Renewable Resource Adjustment				
2020 Annual Update	*A* – March 18, 2020	April 1, 2020	$ 5,762	5.637% *of base*
2019 Annual Update	*A* – May 1, 2019	June 1, 2019	$ (235)	-0.224% *of base*
2018 Rate Reset for effect of TCJA	*A* – February 27, 2018	March 1, 2018	$ 9,650	7.493% *of base*
Transmission Cost Recovery				
2019 Annual Update	*A* – December 18, 2019	January 1, 2020	$ 5,739	*Various*
2018 Supplemental Update	*A* – December 6, 2018	February 1, 2019	$ 4,801	*Various*
2018 Rate Reset for effect of TCJA	*A* – February 27, 2018	March 1, 2018	$ 7,469	*Various*
Environmental Cost Recovery				
2019 Update	*A* – October 22, 2019	November 1, 2019	$ -	0% *of base*
2018 Update	*A* – December 19, 2018	February 1, 2019	$ (378)	-0.310% *of base*
2018 Rate Reset for effect of TCJA	*A* – February 27, 2018	March 1, 2018	$ 7,718	5.593% *of base*
Generation Cost Recovery				
2020 Annual Update	*R* – March 2, 2020	July 1, 2020	$ 6,184	6.041% *of base*
2019 Initial Request	*A* – May 15, 2019	July 1, 2019	$ 2,720	2.547% *of base*
South Dakota				
Transmission Cost Recovery				
2020 Annual Update	*A* – February 19, 2020	March 1, 2020	$ 2,327	*Various*
2019 Rate Reset	*A* – September 17, 2019	October 1, 2019	$ 2,046	*Various*
2019 Annual Update	*A* – February 20, 2019	March 1, 2019	$ 1,638	*Various*
2018 Interim Rate Reset	*A* – October 18, 2018	October 18, 2018	$ 1,171	*Various*
Environmental Cost Recovery				
2018 Interim Rate Reset	*A* – October 18, 2018	October 18, 2018	$ (189)	-$0.00075/*kwh*
Phase-In Rate Plan Recovery				
2019 Initial Request	*A* – August 21, 2019	September 1, 2019	$ 864	3.345% *of base*

FERC

Wholesale power sales and transmission rates are subject to the jurisdiction of the FERC under the Federal Power Act of *1935* (Federal Power Act). The FERC is an independent agency with jurisdiction over rates for wholesale electricity sales, transmission and sale of electric energy in interstate commerce, interconnection of facilities, and accounting policies and practices. Filed rates are effective after a suspension period, subject to ultimate approval by the FERC.

MVPs—MVPs are designed to enable the MISO region to comply with energy policy mandates and to address reliability and economic issues affecting multiple transmission zones within the MISO region. The cost allocation is designed to ensure that the costs of transmission projects with regional benefits are properly assigned to those who benefit from the MVP.

ROE—On *November 12, 2013* a group of industrial customers and other stakeholders filed a complaint with the FERC seeking to reduce the ROE component of the transmission rates that MISO transmission owners, including OTP, *may* collect under the MISO Tariff. The complainants sought to reduce the 12.38% ROE used in MISO's transmission rates to a proposed 9.15%. The complaint established a *15*-month refund period from *November 12, 2013* to *February 11, 2015.* A non-binding decision by the presiding Administrative Law Judge (ALJ) was issued on *December 22, 2015* finding that the MISO transmission owners' ROE should be 10.32%, and the FERC issued an order on *September 28, 2016* setting the base ROE at 10.32%. Several parties requested rehearing of the *September 2016* order.

On *November 6, 2014* a group of MISO transmission owners, including OTP, filed for a FERC incentive of an additional 50 basis points for Regional Transmission Organization participation (RTO Adder). On *January 5, 2015* the FERC granted the request, deferring collection of the RTO Adder until the FERC issued its order in the ROE complaint proceeding. Based on the FERC adjustment to the MISO Tariff ROE resulting from the *November 12, 2013* complaint and OTP's incentive rate filing, OTP's ROE went to 10.82% (a 10.32% base ROE plus the *0.5%* RTO Adder) effective *September 28, 2016.*

On *February 12, 2015* another group of stakeholders filed a complaint with the FERC seeking to reduce the ROE component of the transmission rates that MISO transmission owners, including OTP, *may* collect under the MISO Tariff from *12.38%* to a proposed 8.67%. This *second* complaint established a *second 15*-month refund period from *February 12, 2015* to *May 11, 2016.* The FERC issued an order on *June 18, 2015* setting the complaint for hearings before an ALJ, which were held the week of *February 16, 2016.* A non-binding decision by the presiding ALJ was issued on *June 30, 2016* finding that the MISO transmission owners' ROE should be 9.7%.

On *November 21, 2019* the FERC adopted a new *two*-step ROE model and capital asset pricing model to determine whether a jurisdictional public utility's rate of ROE is just and reasonable under section *206* of the Federal Power Act. Applying the new methodology in complaints against the MISO transmission owners, the FERC determined that the MISO transmission owners' current base ROE should be *9.88%.* The FERC also stated it will use ranges of presumptively just and reasonable ROEs in its analysis of whether existing ROEs have become unjust and unreasonable. This order also implemented the FERC's new methodology in the *two* complaints against the MISO transmission owners' base ROE. The order granted rehearing on the *first* complaint, found the existing *12.38%* ROE unjust and unreasonable, and directed the MISO transmission owners to adopt a 9.88% ROE effective *September 28, 2016,* and to provide refunds. The order also dismissed the *second* complaint and found that the record in that proceeding did *not* support a finding that the *9.88%* ROE established in the *first* complaint proceeding had become unjust and unreasonable.

OTP has accrued a MISO Tariff ROE refund liability of $3.0 million as of *March 31, 2020.* This includes provisions for:

- a $0.2 million refund related to the *first* complaint as a result of reducing the reasonable ROE from *10.32%,* established in the FERC's *September 28, 2016* refund order, to the newly established *9.88%* ROE,

- a $1.3 million refund for the period from *September 28, 2016* through *December 31, 2019* related to a reduction in the current ROE from 10.82% to 10.38% based on the newly established *9.88%* reasonable ROE for the *first* complaint period plus the 50-point RTO adder granted by the FERC on *January 5, 2015,* and

- a $1.5 million refund related to the *second* complaint period in response to requests for rehearing on the FERC's decision to dismiss the *second* complaint based on a potential reduction in the reasonable ROE for that period from 12.38% to 9.88% plus the 50-point RTO adder.

In response to the FERC's *November 21, 2019* order, the MISO Transmission Owners (including OTP) and others filed requests seeking rehearing of the FERC's *November 21, 2019* order, and a group of parties filed with the United States Court of Appeals for the District of Columbia a protective appeal.

4. Regulatory Assets and Liabilities

As a regulated entity, OTP accounts for the financial effects of regulation in accordance with ASC *980*. This accounting standard allows for the recording of a regulatory asset or liability for costs that will be collected or refunded in the future as required under regulation. Additionally, ASC *980-605-25* provides for the recognition of revenues authorized for recovery outside of a general rate case under alternative revenue programs which provide for recovery of costs and incentives or returns on investment in such items as transmission infrastructure, renewable energy resources or conservation initiatives. The following tables indicate the amount of regulatory assets and liabilities recorded on the Company's consolidated balance sheets:

	March 31, 2020			Remaining Recovery/ Refund Period
(in thousands)	Current	Long-Term	Total	(months)
Regulatory Assets:				
Prior Service Costs and Actuarial Losses on Pensions and Other Postretirement Benefits[1]	$ 9,018	$ 127,038	$ 136,056	*see below*
Accumulated Asset Retirement Obligation (ARO) Accretion/Depreciation Adjustment[1]	-	8,007	8,007	*asset lives*
Minnesota Transmission Cost Recovery Rider Accrued Revenues[2]	5,965	-	5,965	12
Conservation Improvement Program Costs and Incentives[2]	1,288	3,511	4,799	18
MISO Schedule 26/26A Transmission Cost Recovery Rider True-ups[1]	1,767	928	2,695	21
Nonservice Costs Components of Postretirement Benefits Capitalized for Ratemaking Purposes and Subject to Deferred Recovery[1]	-	1,826	1,826	*asset lives*
Big Stone II Unrecovered Project Costs – Minnesota[1]	724	38	762	13
Debt Reacquisition Premiums[1]	204	482	686	150
Deferred Marked-to-Market Losses[1]	557	-	557	9
Big Stone II Unrecovered Project Costs – South Dakota[1]	144	217	361	30
Minnesota Renewable Resource Rider Accrued Revenues[2]	354	-	354	12
South Dakota Deferred Rate Case Expenses Subject to Recovery[1]	138	211	349	31
North Dakota Deferred Rate Case Expenses Subject to Recovery[1]	122	213	335	33
Minnesota SPP Transmission Cost Recovery Tracker[1]	-	206	206	*see below*
South Dakota Phase-In Rate Plan Rider Accrued Revenues[2]	73	-	73	12
Deferred Lease Expenses[1]	-	57	57	36
Minnesota Environmental Cost Recovery Rider Accrued Revenues[2]	4	-	4	12
Total Regulatory Assets	$ 20,358	$ 142,734	$ 163,092	
Regulatory Liabilities:				
Deferred Income Taxes	$ -	$ 140,112	$ 140,112	*asset lives*
Accumulated Reserve for Estimated Removal Costs – Net of Salvage	-	98,465	98,465	*asset lives*
Refundable Fuel Clause Adjustment Revenues	8,078	-	8,078	12
North Dakota Transmission Cost Recovery Rider Accrued Refund	662	-	662	12
Prior Service Costs and Actuarial Gains on Postretirement Benefits	471	-	471	12
Revenue for Rate Case Expenses Subject to Refund – Minnesota	-	460	460	*see below*
North Dakota Renewable Resource Recovery Rider Accrued Refund	325	-	325	12
Minnesota Energy Intensive Trade Exposed Rider Accrued Refund	201	-	201	11
South Dakota Transmission Cost Recovery Rider Accrued Refund	33	-	33	11
North Dakota Generation Cost Recovery Rider Accrued Refund	28	-	28	12
Other	6	71	77	165
Total Regulatory Liabilities	$ 9,804	$ 239,108	$ 248,912	
Net Regulatory Asset/(Liability) Position	$ 10,554	$ (96,374)	$ (85,820)	

[1]*Costs subject to recovery without a rate of return.*
[2]*Amount eligible for recovery under an alternative revenue program which includes an incentive or rate of return.*

(in thousands)	December 31, 2019 Current	Long-Term	Total	Remaining Recovery/ Refund Period (months)
Regulatory Assets:				
Prior Service Costs and Actuarial Losses on Pensions and Other Postretirement Benefits[1]	$ 9,090	$ 129,102	$ 138,192	*see below*
Accumulated Asset Retirement Obligation (ARO) Accretion/Depreciation Adjustment[1]	-	7,772	7,772	*asset lives*
Minnesota Transmission Cost Recovery Rider Accrued Revenues[2]	4,208	-	4,208	12
Conservation Improvement Program Costs and Incentives[2]	4,024	2,844	6,868	21
MISO Schedule 26/26A Transmission Cost Recovery Rider True-ups[1]	2,033	968	3,001	24
Nonservice Costs Components of Postretirement Benefits Capitalized for Ratemaking Purposes and Subject to Deferred Recovery[1]	-	1,681	1,681	*asset lives*
Big Stone II Unrecovered Project Costs – Minnesota[1]	715	225	940	16
Debt Reacquisition Premiums[1]	201	548	749	153
Deferred Marked-to-Market Losses[1]	743	-	743	12
Big Stone II Unrecovered Project Costs – South Dakota[1]	144	253	397	33
Minnesota Renewable Resource Rider Accrued Revenues[2]	131	-	131	12
South Dakota Deferred Rate Case Expenses Subject to Recovery[1]	138	245	383	34
North Dakota Deferred Rate Case Expenses Subject to Recovery[1]	122	244	366	36
Minnesota SPP Transmission Cost Recovery Tracker[1]	-	202	202	*see below*
Deferred Lease Expenses[1]	-	54	54	39
Minnesota Environmental Cost Recovery Rider Accrued Revenues[2]	4	-	4	12
South Dakota Transmission Cost Recovery Rider Accrued Revenues[2]	97	-	97	2
Total Regulatory Assets	$ 21,650	$ 144,138	$ 165,788	
Regulatory Liabilities:				
Deferred Income Taxes	$ -	$ 141,707	$ 141,707	*asset lives*
Accumulated Reserve for Estimated Removal Costs – Net of Salvage	-	97,726	97,726	*asset lives*
Refundable Fuel Clause Adjustment Revenues	3,982	-	3,982	12
North Dakota Transmission Cost Recovery Rider Accrued Refund	700	-	700	12
Prior Service Costs and Actuarial Gains on Postretirement Benefits	471	-	471	12
Revenue for Rate Case Expenses Subject to Refund – Minnesota	-	401	401	*see below*
North Dakota Renewable Resource Recovery Rider Accrued Refund	1,515	-	1,515	12
Minnesota Energy Intensive Trade Exposed Rider Accrued Refund	164	-	164	12
North Dakota Generation Cost Recovery Rider Accrued Refund	287	-	287	6
Other	6	72	78	168
South Dakota Phase-In Rate Plan Rider Accrued Refund	355	-	355	9
Total Regulatory Liabilities	$ 7,480	$ 239,906	$ 247,386	
Net Regulatory Asset/(Liability) Position	$ 14,170	$ (95,768)	$ (81,598)	

[1]*Costs subject to recovery without a rate of return.*
[2]*Amount eligible for recovery under an alternative revenue program which includes an incentive or rate of return.*

The regulatory asset and liability related to prior service costs and actuarial losses on pensions and other postretirement benefits represents benefit costs and actuarial losses and gains subject to recovery or refund through rates as they are expensed. These unrecognized benefit costs and actuarial losses and gains are required to be recognized as components of Accumulated Other Comprehensive Income in equity under ASC Topic *715, Compensation—Retirement Benefits*, but are eligible for treatment as regulatory assets or liabilities based on their probable inclusion in future retail electric rates.

The Accumulated ARO Accretion/Depreciation Adjustment will accrete and be amortized over the lives of property with asset retirement obligations.

The Minnesota Transmission Cost Recovery Rider Accrued Revenues relate to revenues earned on qualifying transmission system facilities and operating costs incurred to serve Minnesota customers that were recoverable from Minnesota customers as of the balance sheet date.

Conservation Improvement Program Costs and Incentives represent mandated conservation expenditures and incentives recoverable through retail electric rates.

MISO Schedule *26/26A* Transmission Cost Recovery Rider True-ups relate to the over/under collection of revenue based on comparison of the expected versus actual construction on eligible projects in the period. The true-ups also include the state jurisdictional portion of MISO Schedule *26/26A* for regional transmission cost recovery that was included in the calculation of the state transmission riders and subsequently adjusted to reflect actual billing amounts in the schedule.

The Nonservice Costs Components of Postretirement Benefits Capitalized for Ratemaking Purposes and Subject to Deferred Recovery are employee benefit-related costs that are required to be capitalized for ratemaking purposes and are recovered over the depreciable lives of the assets to which the related labor costs were applied.

Big Stone II Unrecovered Project Costs – Minnesota are the Minnesota share of generation and transmission plant-related costs incurred by OTP related to its participation in the abandoned Big Stone II project.

Debt Reacquisition Premiums are being recovered from OTP customers over the remaining original lives of the reacquired debt issues, the longest of which is *150* months.

All Deferred Marked-to-Market Losses recorded as of the balance sheet date relate to forward purchases of energy scheduled for delivery through *December 2020*.

Big Stone II Unrecovered Project Costs – South Dakota are the South Dakota share of generation and transmission plant-related costs incurred by OTP related to its participation in the abandoned Big Stone II project.

The Minnesota Renewable Resource Recovery Rider Accrued Revenues relate to revenues earned on qualifying renewable resource costs incurred to serve Minnesota customers that were recoverable from Minnesota customers as of the balance sheet date.

South Dakota Deferred Rate Case Expenses Subject to Recovery relate to costs incurred in conjunction with OTP’s most recent rate case in South Dakota and are currently being recovered beginning with the establishment of interim rates in *October 2018*.

North Dakota Deferred Rate Case Expenses Subject to Recovery relate to costs incurred in conjunction with OTP’s most recent rate case in North Dakota currently being recovered beginning with the establishment of interim rates in *January 2018*.

The Minnesota SPP Transmission Cost Recovery Tracker regulatory asset relates to costs incurred to serve Minnesota customers that are subject to recovery but that had *not* been billed to Minnesota customers as of the balance sheet date.

The South Dakota Phase-In Rate Plan Rider Accrued Revenues relate to revenues earned for actual and forecasted costs for Astoria Station, Merricourt, and additional load growth that were recoverable from South Dakota customers as of the balance sheet date.

Deferred Lease Expenses: Under ASC *842* accounting rules for leases with scheduled escalating payments, rent expense is required to be recognized on a straight-line basis over the life of the lease based on the sum of those payments. Rate-regulated entities are generally only allowed to recover the amount of actual cash payments on leases and FERC accounting rules require that rent expense be recognized on the basis of cash payments. The balance in the deferred lease expense regulatory asset account represents operating lease right of use asset cumulative amortization and interest costs in excess of cumulative lease payments that are subject to recovery in future periods under regulatory accounting treatment as cash payments are rendered.

The Minnesota Environmental Cost Recovery Rider Accrued Revenues relate to revenues earned on the Minnesota share of OTP’s investment in the Big Stone Plant AQCS project that were recoverable from Minnesota customers as of the balance sheet date.

The South Dakota Transmission Cost Recovery Rider Accrued Revenues relate to revenues earned on qualifying transmission system facilities and operating costs incurred to serve South Dakota customers that were recoverable from South Dakota customers as of the balance sheet date.

The regulatory liability related to Deferred Income Taxes results from changes in statutory tax rates accounted for in accordance with ASC Topic *740, Income Taxes*.

The Accumulated Reserve for Estimated Removal Costs – Net of Salvage is reduced as actual removal costs, net of salvage revenues, are incurred.

The North Dakota Transmission Cost Recovery Rider Accrued Refund relates to amounts collected for qualifying transmission system facilities and operating costs incurred to serve North Dakota customers that were refundable to North Dakota customers as of the balance sheet date.

Revenue for Rate Case Expenses Subject to Refund – Minnesota relates to revenues collected under general rates to recover costs related to prior rate case proceedings in excess of the actual costs incurred.

The North Dakota Renewable Resource Recovery Rider Accrued Refund relates to amounts collected for qualifying renewable resource costs incurred to serve North Dakota customers that were refundable to North Dakota customers as of the balance sheet date.

The Minnesota Energy Intensive Trade Exposed Rider Accrued Refund relates to over-collected amounts from Minnesota retail customers for fuel and purchased power costs reductions provided to customers in energy intensive trade exposed industries that were subject to refund to Minnesota customers as of the balance sheet date.

The South Dakota Transmission Cost Recovery Rider Accrued Refund relates to amounts collected for qualifying transmission system facilities and operating costs incurred to serve South Dakota customers that were refundable to South Dakota customers as of the balance sheet date.

The North Dakota Generation Cost Recovery Rider Accrued Refund relates to revenues collected under the rider in excess of returns allowed on recoverable costs incurred for the North Dakota share of OTP's investment in Astoria Station, a natural gas-fired combustion turbine generation facility under construction near Astoria, South Dakota. The balance represents amounts subject to refund to North Dakota customers that had been billed to North Dakota customers as of the balance sheet date.

The South Dakota Phase-In Rate Plan Rider Accrued Refund relates to amounts collected for actual and forecasted costs for Astoria Station, Merricourt, and additional load growth that were refundable to South Dakota customers as of the balance sheet date.

If for any reason OTP ceases to meet the criteria for application of guidance under ASC *980* for all or part of its operations, the regulatory assets and liabilities that *no* longer meet such criteria would be removed from the consolidated balance sheet and included in the consolidated statement of income as an expense or income item in the period in which the application of guidance under ASC *980* ceases.

5. Common Shares and Earnings Per Share

Shelf Registration

On *May 3, 2018* the Company filed a shelf registration statement with the Securities and Exchange Commission (SEC) under which the Company *may* offer for sale, from time to time, either separately or together in any combination, equity, debt or other securities described in the shelf registration statement, which expires on *May 3, 2021.*

On *November 8, 2019,* the Company entered into a Distribution Agreement with KeyBanc Capital Markets Inc. (KeyBanc Capital Markets). Pursuant to the terms of the Distribution Agreement, the Company *may* offer and sell its common shares from time to time through KeyBanc, as the Company's distribution agent for the offer and sale of the shares, up to an aggregate sales price of $75,000,000.

Under the Distribution Agreement, the Company will designate the minimum price and maximum number of common shares to be sold through KeyBanc on any given trading day or over a specified period of trading days, and KeyBanc will use commercially reasonable efforts to sell such shares on such days, subject to certain conditions. Sales of the shares, if any, will be made by means of ordinary brokers' transactions on the Nasdaq Global Select Market at market prices or as otherwise agreed with KeyBanc. The Company *may* also agree to sell shares to KeyBanc, as principal for its own account, on terms agreed to by the Company and KeyBanc in a separate agreement at the time of sale. KeyBanc will receive from the Company a commission of up to 2% of the gross sales price per share for any shares sold through it as the Company's distribution agent under the Distribution Agreement. The Company is *not* obligated to sell and KeyBanc is *not* obligated to buy or sell any of the shares under the Distribution Agreement. The shares, if issued, will be issued pursuant to the Company's existing shelf registration statement.

2020 Common Stock Activity

Following is a reconciliation of the Company's common shares outstanding from *December 31, 2019* through *March 31, 2020:*

Common Shares Outstanding, December 31, 2019	40,157,591
Issuances:	
At-the-Market Offering	112,380
Executive Stock Performance Awards (2017 awards earned)	62,497
Automatic Dividend Reinvestment and Share Purchase Plan:	
Dividends Reinvested	30,677
Cash Invested	12,772
Vesting of Restricted Stock Units	23,000
Employee Stock Purchase Plan:	
Cash Invested	13,432
Dividends Reinvested	2,316
Retirements:	
Shares Withheld for Individual Income Tax Requirements	(38,217)
Common Shares Outstanding, March 31, 2020	40,376,448

Earnings Per Share

The numerator used in the calculation of both basic and diluted earnings per common share is net income with *no* adjustments for the *three*-month periods ended *March 31, 2020* and *2019.* The denominator used in the calculation of basic earnings per common share is the weighted average number of common shares outstanding during the period excluding nonvested restricted shares granted to the Company's directors, which are considered contingently returnable and *not* outstanding for the purpose of calculating basic earnings per share. The denominator used in the calculation of diluted earnings per common share is derived by adjusting basic shares outstanding for the items listed in the following reconciliation for the *three*-month periods ended *March 31:*

	2020	2019
Weighted Average Common Shares Outstanding – Basic	40,217,141	39,657,321
Plus Outstanding Share Awards net of Share Reductions for Unrecognized Stock-Based Compensation Expense and Excess Tax Benefits:		
Shares Expected to be Awarded for Stock Performance Awards Granted to Executive Officers based on Measurement Period-to-Date Performance	125,637	158,159
Underlying Shares Related to Nonvested Restricted Stock Units Granted to Employees	63,897	63,398
Nonvested Restricted Shares	19,861	21,922
Shares Expected to be Issued Under the Employee Stock Purchase Plan	15,977	-
Shares Expected to be Issued Under the Deferred Compensation Program for Directors	1,823	2,365
Total Dilutive Shares	227,195	245,844
Weighted Average Common Shares Outstanding – Diluted	40,444,336	39,903,165

The effect of dilutive shares on earnings per share for the *three*-month periods ended *March 31, 2020* and *2019,* resulted in *no* differences greater than *$0.01* between basic and diluted earnings per share in either period.

6. Share-Based Payments

Stock Incentive Awards
The following stock incentive awards were granted under the *2014* Stock Incentive Plan during the *three*-month period ended *March 31, 2020*.

Award	Grant Date	Shares/ Units Granted		Weighted Average Grant-Date Fair Value per Award	Vesting
Restricted Stock Units Granted:					
To Key Management Employees	*February 3, 2020*	3,000	$	54.0450	25% per year through February 6, 2024
To Executive Officers	*February 12, 2020*	15,300	$	54.0607	25% per year through February 6, 2024
Stock Performance Awards Granted:					
Under Executive Agreement	*February 12, 2020*	47,600	$	47.10	December 31, 2022
Under Legacy Agreement	*February 12, 2020*	7,400	$	52.20	December 31, 2022

The vesting of restricted stock units is accelerated in the event of a change in control, disability, death or retirement, subject to proration in certain cases. Restricted stock units granted to executive officers and certain key employees are eligible to receive dividend equivalent payments on all unvested awards over the awards respective vesting periods, subject to forfeiture under the terms of the restricted stock unit award agreements. The grant-date fair value of each restricted stock unit was the average of the high and low market price per share on the date of grant.

Under the performance share awards the aggregate award for performance at target is 55,000 shares. For target performance the participants would earn an aggregate of 27,500 common shares for achieving the target set for the Company’s 3-year average adjusted ROE. The participants would also earn an aggregate of 27,500 common shares based on the Company’s total shareholder return relative to the total shareholder return of the companies that comprise the Edison Electric Institute Index over the performance measurement period of *January 1, 2020* through *December 31, 2022,* with the beginning and ending share values based on the average closing price of a share of the Company’s common stock for the 20 trading days immediately following *January 1, 2020* and the average closing price for the *20* trading days immediately preceding *January 1, 2023.* Actual payment *may* range from zero to 150% of the target amount, or up to 82,500 common shares. There are *no* voting or dividend rights related to these shares until the shares, if any, are issued at the end of the performance measurement period. The terms of these awards are such that the entire award will be classified and accounted for as equity, as required under ASC *718, Compensation – Stock Compensation*, and will be measured over the performance period based on the grant-date fair value of the award. The grant-date fair value of each performance share award was determined using a Monte Carlo fair valuation simulation model.

Under the *2020* Performance Award Agreements, payment and the amount of payment in the event of retirement, resignation for good reason or involuntary termination without cause is to be made at the end of the performance period based on actual performance, subject to proration in certain cases, except that the payment of performance awards granted to an officer who is party to an Executive Employment Agreement with the Company is to be made at target at the date of any such event. The vesting of these awards is accelerated and paid at target in the event of a change in control.

The end of the period over which compensation expense is recognized for the above share-based awards for the individual grantees is the earlier of the indicated vesting period for the respective awards or the date the grantee becomes eligible for retirement as defined in their award agreement.

As of *March 31, 2020,* the remaining unrecognized compensation expense related to outstanding, unvested stock-based compensation was approximately $4.3 million (before income taxes) which will be amortized over a weighted-average period of 2.1 years.

Amounts of compensation expense recognized under the Company’s stock-based payment programs for the *three*-month periods ended *March 31, 2020* and *2019* are presented in the table below:

	Three months ended March 31,	
(in thousands)	2020	2019
Stock Performance Awards Granted to Executive Officers	$ 1,700	$ 1,113
Restricted Stock Dividend Equivalent Units Granted to Executive Officers and Key Employees	679	427
Restricted Stock Granted to Directors	204	165
Restricted Stock Units Granted to Non-Executive Employees	134	91
ESPP (15% discount)	53	-
Totals	$ 2,770	$ 1,796

7. Retained Earnings and Dividend Restriction

The Company is a holding company with *no* significant operations of its own. The primary source of funds for payments of dividends to the Company’s shareholders is from dividends paid or distributions made by the Company’s subsidiaries. As a result of certain statutory limitations or regulatory or financing agreements, restrictions could occur on the amount of distributions allowed to be made by the Company’s subsidiaries.

Both the Company and OTP credit agreements contain restrictions on the payment of cash dividends upon a default or event of default. An event of default would be considered to have occurred if the Company did *not* meet certain financial covenants. As of *March 31, 2020,* the Company was in compliance with these financial covenants.

Under the Federal Power Act, a public utility *may not* pay dividends from any funds properly included in a capital account. What constitutes “funds properly included in a capital account” is undefined in the Federal Power Act or the related regulations; however, the FERC has consistently interpreted the provision to allow dividends to be paid as long as (*1*) the source of the dividends is clearly disclosed, (*2*) the dividend is *not* excessive and (*3*) there is *no* self-dealing on the part of corporate officials.

The MPUC indirectly limits the amount of dividends OTP can pay to the Company by requiring an equity-to-total-capitalization ratio between 46.0% and 56.2% based on OTP’s *2019* capital structure petition effective by order of the MPUC on *July 19, 2019.* As of *March 31, 2020,* OTP’s equity-to-total-capitalization ratio including short-term debt was 50.9% and its net assets restricted from distribution totaled approximately $549 million. Under the *2019* capital structure petition, total capitalization for OTP cannot currently exceed $1,331,302,000.

8. Leases

No update required for interim reporting periods.

9. Commitments and Contingencies

Construction and Other Purchase Commitments
At *March 31, 2020* OTP had commitments under contracts, including its share of construction program commitments and other commitments, extending into 2021 of approximately $250 million. At *December 31, 2019* OTP had commitments under contracts, including its share of construction program commitments and other nonlease commitments, extending into 2021 of approximately $317 million.

On *October 1, 2019* T.O. Plastics entered into a new six-year resin supply agreement that commenced on *January 1, 2020.* Under the new resin supply agreement, there are *no* minimum purchase requirements, but T.O. Plastics is required to purchase all of a specified class of regrind resin delivered by the supplier at a set price per pound. Based on current forecasted production levels, T.O. Plastics anticipates the quantity of resin delivered under the supply agreement will *not* exceed its requirements over the *six*-year term of the supply agreement or exceed the market cost of alternative sources of the resin. T.O. Plastics estimates it will pay the supplier approximately $1.9 million annually under this agreement.

Electric Utility Capacity and Energy Requirements and Coal Purchase and Delivery Contracts
OTP has commitments for the purchase of capacity and energy requirements under agreements extending into *2043*. OTP also has contracts providing for the purchase and delivery of a significant portion of its current coal requirements. OTP's current coal purchase agreements for Coyote Station expire at the end of 2040. OTP's current coal purchase agreement for Big Stone Plant expire at the end of 2020. OTP has an agreement with Peabody COALSALES, LLC for the purchase of subbituminous coal for Big Stone Plant's coal requirements through *December 31, 2020*. There is *no* fixed minimum purchase requirement under this agreement but all of Big Stone Plant's coal requirements for the period covered must be purchased under this agreement. OTP has an all-requirements agreement with Navajo Transitional Energy Co. (NTEC) for the purchase of subbituminous coal for Hoot Lake Plant through *December 31, 2023*, with *no* fixed minimum purchase requirement.

OTP Land Easements
OTP has commitments to make future payments for land easements *not* classified as leases, extending into *2034* of approximately $10.1 million.

Contingencies
OTP had a $3.0 million refund liability on its balance sheet as of *March 31, 2020*. This represents its best estimate of the refund obligations that would arise net of amounts that would be subject to recovery under state jurisdictional TCR riders. This is based on the outcome of the appeals of the FERC ruling reducing the ROE component of the MISO Tariff and ordering MISO to refund amounts charged in excess of the lower rate. As discussed in note *3* in greater detail, OTP believes its estimated accrued refund liability is appropriate based on the current facts and circumstances and is awaiting results of the appeal before determining if a change in this estimate will be needed.

Contingencies, by their nature, relate to uncertainties that require the Company's management to exercise judgment both in assessing the likelihood a liability has been incurred as well as in estimating the amount of potential loss. In addition to the potential ROE refund described above, the most significant contingencies that could impact the Company's consolidated financial statements are those related to environmental remediation, risks associated with warranty claims relating to divested businesses that could exceed established reserve amounts, risks associated with adverse regulatory decisions that could impact the recovery of fixed asset costs in future rates and litigation matters.

On *August 30, 2019* OTP submitted a depreciation technical update to the MPUC for approval. MPUC approval of OTP's depreciation technical update is currently pending resolution of a disagreement with the MNDOC over the remaining lives assigned to certain of OTP's fixed assets, including Hoot Lake Plant and *seven* hydroelectric plants. Resolution of the disagreement could result in an increase in depreciation expense without provision for recovery of a portion of the unrecovered costs of those assets. OTP cannot determine at this time what portion, if any, of the current unrecovered costs of these assets would be lost as a result of resolving the disagreement over remaining lives, but estimates that the remaining useful lives recommended by the MNDOC could result in an asset impairment charge and after-tax reduction in net income of up to $1.1 million.

State implementation of pollution control plans to improve visibility and air quality at national parks under the EPA's Regional Haze Rule (RHR) could require OTP to incur significant new costs, which could, dependent on determinations by state regulatory commissions on approval to recover such costs from customers, negatively impact OTP's and the Company's net income, financial position and cash flows. OTP understands that the North Dakota Department of Environmental Quality (NDDEQ) intends to require sources subject to RHR Round *2* reasonable progress determinations, including Coyote Station, to undertake emissions control measures that are reasonably consistent with those required of sources during Round *1*. While this process is still in the early stages, if the NDDEQ maintains its initial position, OTP anticipates that significant emissions controls would be required at Coyote Station by *December 31, 2028* in order to maintain compliance with the RHR. Plans are due to be submitted to the EPA by *July 2021*. On *March 3, 2020* the NDDEQ provided initial recommendation for Round *2* Coyote Station control recommendations to the Western Regional Air Partnership. OTP expects the NDDEQ to begin drafting a state implementation plan in mid-*2020*. In light of the costs for such emissions control equipment, there are scenarios where it *may not* be economically feasible to invest in such equipment and an early retirement of the Coyote Station would therefore be necessary. The costs related to an early retirement of Coyote Station would be material to OTP and the Company and would be subject to state commission approval for recovery from customers.

Other
The Company is a party to litigation and regulatory enforcement matters arising in the normal course of business. The Company regularly analyzes current information and, as necessary, provides accruals for liabilities that are probable of occurring and that can be reasonably estimated. The Company believes the effect on its consolidated results of operations, financial position and cash flows, if any, for the disposition of all matters pending as of *March 31, 2020*, other than those relating to the RHR, will *not* be material.

10. Short-Term and Long-Term Borrowings

The following table presents the status of the Company's lines of credit as of *March 31, 2020* and *December 31, 2019:*

(in thousands)	Line Limit	In Use on March 31, 2020	Restricted due to Outstanding Letters of Credit	Available on March 31, 2020	Available on December 31, 2019
Otter Tail Corporation Credit Agreement	$ 170,000	$ 19,893	$ -	$ 150,107	$ 164,000
OTP Credit Agreement	170,000	-	14,101	155,899	154,524
Total	$ 340,000	$ 19,893	$ 14,101	$ 306,006	$ 318,524

Long-Term Debt Issuances

2019 Note Purchase Agreement

On *September 12, 2019,* OTP entered into a Note Purchase Agreement (the *2019* Note Purchase Agreement) with the purchasers named therein (the Purchasers), pursuant to which OTP agreed to issue to the Purchasers, in a private placement transaction, $175 million aggregate principal amount of OTP's senior unsecured notes consisting of (a) $10,000,000 aggregate principal amount of its 3.07% Series *2019A* Senior Unsecured Notes due *October 10, 2029 (*the Series *2019A* Notes), (b) $26,000,000 aggregate principal amount of its 3.52% Series *2019B* Senior Unsecured Notes due *October 10, 2039 (*the Series *2019B* Notes), (c) $64,000,000 aggregate principal amount of its 3.82% Series *2019C* Senior Unsecured Notes due *October 10, 2049 (*the Series *2019C* Notes), (d) $10,000,000 aggregate principal amount of its 3.22% Series *2020A* Senior Unsecured Notes due *February 25, 2030 (*the Series *2020A* Notes), (e) $40,000,000 aggregate principal amount of its 3.22% Series *2020B* Senior Unsecured Notes due *August 20, 2030 (*the Series *2020B* Notes), (f) $10,000,000 aggregate principal amount of its 3.62% Series *2020C* Senior Unsecured Notes due *February 25, 2040 (*the Series *2020C* Notes) and (g) $15,000,000 aggregate principal amount of its 3.92% Series *2020D* Senior Unsecured Notes due *February 25, 2050 (*the Series *2020D* Notes; and together with the Series *2019A* Notes, the Series *2019B* Notes, the Series *2019C* Notes, the Series *2020A* Notes, the Series *2020B* Notes and the Series *2020C* Notes, the Notes).

On *February 25, 2020,* OTP issued the Series *2020A* Notes, the Series *2020C* Notes and the Series *2020D* Notes pursuant to the *2019* Note Purchase Agreement. OTP used the $35 million proceeds from the issuance to pay for capital expenditures and for other corporate purposes. The Series *2019A* Notes, Series *2019B* Notes and Series *2019C* Notes were issued by the Company on *October 10, 2019.* The remaining unissued notes of the Note Purchase Agreement, Series *2020B,* are expected to be issued on *August 20, 2020,* subject to the satisfaction of certain customary conditions to closing.

OTP *may* prepay all or any part of the Notes (in an amount *not* less than 10% of the aggregate principal amount of the Notes then outstanding in the case of a partial prepayment) at 100% of the principal amount so prepaid, together with unpaid accrued interest and a make-whole amount; provided that if *no* default or event of default exists under the *2019* Note Purchase Agreement, any prepayment made by OTP of all of the (a) Series *2020A* Notes then outstanding on or after *August 25, 2029,* (b) Series *2020C* Notes then outstanding on or after *August 25, 2039* or (c) Series *2020D* Notes then outstanding on or after *August 25, 2049* will be made without any make-whole amount. The *2019* Note Purchase Agreement also requires OTP to offer to prepay all outstanding Notes at *100%* of the principal amount together with unpaid accrued interest in the event of a Change of Control (as defined in the *2019* Note Purchase Agreement) of OTP.

The *2019* Note Purchase Agreement contains a number of restrictions on the business of OTP. These include restrictions on OTP's abilities to merge, sell assets, create or incur liens on assets, guarantee the obligations of any other party, and engage in transactions with related parties. The *2019* Note Purchase Agreement also contains other negative covenants and events of default, as well as certain financial covenants. Specifically, OTP *may not* permit its Interest-bearing Debt (as defined in the *2019* Note Purchase Agreement) to exceed 60% of Total Capitalization (as defined in the *2019* Note Purchase Agreement), determined as of the end of each fiscal quarter. OTP is also restricted from allowing its Priority Indebtedness (as defined in the Note Purchase Agreement) to exceed 20% of Total Capitalization, determined as of the end of each fiscal quarter. The *2019* Note Purchase Agreement does *not* include provisions for the termination of the agreement or the acceleration of repayment of amounts outstanding due to changes in OTP's credit ratings. The *2019* Note Purchase Agreement includes a "most favored lender" provision generally requiring that in the event OTP's existing credit agreement or any renewal, extension or replacement thereof, at any time contains any financial covenant or other provision providing for limitations on interest expense and such a covenant is *not* contained in the *2019* Note Purchase Agreement under substantially similar terms or would be more beneficial to the holders of the Notes than any analogous provision contained in the *2019* Note Purchase Agreement (an Additional Covenant), then unless waived by the Required Holders (as defined in the *2019* Note Purchase Agreement), the Additional Covenant will be deemed to be incorporated into the *2019* Note Purchase Agreement. The *2019* Note Purchase Agreement also provides for the amendment, modification or deletion of an Additional Covenant if such Additional Covenant is amended or modified under or deleted from the credit agreement, provided that *no* default or event of default has occurred and is continuing.

The following tables provide a breakdown of the assignment of the Company's consolidated short-term and long-term debt outstanding as of *March 31, 2020* and *December 31, 2019:*

March 31, 2020 *(in thousands)*	OTP	Otter Tail Corporation	Consolidated
Short-Term Debt	$ -	$ 19,893	$ 19,893
Long-Term Debt:			
3.55% Guaranteed Senior Notes, due December 15, 2026		$ 80,000	$ 80,000
Senior Unsecured Notes 4.63%, Series 2011A, due December 1, 2021	$ 140,000		140,000
Senior Unsecured Notes 6.15%, Series 2007B, due August 20, 2022	30,000		30,000
Senior Unsecured Notes 6.37%, Series 2007C, due August 20, 2027	42,000		42,000
Senior Unsecured Notes 4.68%, Series 2013A, due February 27, 2029	60,000		60,000
Senior Unsecured Notes 3.07%, Series 2019A, due October 10, 2029[1]	10,000		10,000
Senior Unsecured Notes 3.22%, Series 2020A, due February 25, 2030	10,000		10,000
Senior Unsecured Notes 6.47%, Series 2007D, due August 20, 2037	50,000		50,000
Senior Unsecured Notes 3.52%, Series 2019B, due October 10, 2039	26,000		26,000
Senior Unsecured Notes 3.62%. Series 2020C, due February 25, 2040	10,000		10,000
Senior Unsecured Notes 5.47%, Series 2013B, due February 27, 2044	90,000		90,000
Senior Unsecured Notes 4.07%, Series 2018A, due February 7, 2048	100,000		100,000
Senior Unsecured Notes 3.82%, Series 2019C, due October 10, 2049	64,000		64,000
Senior Unsecured Notes 3.92%, Series 2020D, due February 25, 2050	15,000		15,000
PACE Note, 2.54%, due March 18, 2021		306	306
Total	$ 647,000	$ 80,306	$ 727,306
Less: Current Maturities net of Unamortized Debt Issuance Costs	-	306	306
Unamortized Long-Term Debt Issuance Costs	2,339	343	2,682
Total Long-Term Debt net of Unamortized Debt Issuance Costs	$ 644,661	$ 79,657	$ 724,318
Total Short-Term and Long-Term Debt (with current maturities)	$ 644,661	$ 99,856	$ 744,517
December 31, 2019 *(in thousands)*			
Short-Term Debt	$ -	$ 6,000	$ 6,000
Long-Term Debt:			
3.55% Guaranteed Senior Notes, due December 15, 2026		$ 80,000	$ 80,000
Senior Unsecured Notes 4.63%, Series 2011A, due December 1, 2021	$ 140,000		140,000
Senior Unsecured Notes 6.15%, Series 2007B, due August 20, 2022	30,000		30,000
Senior Unsecured Notes 6.37%, Series 2007C, due August 20, 2027	42,000		42,000
Senior Unsecured Notes 4.68%, Series 2013A, due February 27, 2029	60,000		60,000
Senior Unsecured Notes 3.07%, Series 2019A, due October 10, 2029[1]	10,000		10,000
Senior Unsecured Notes 6.47%, Series 2007D, due August 20, 2037	50,000		50,000
Senior Unsecured Notes 3.52%, Series 2019B, due October 10, 2039	26,000		26,000
Senior Unsecured Notes 5.47%, Series 2013B, due February 27, 2044	90,000		90,000
Senior Unsecured Notes 4.07%, Series 2018A, due February 7, 2048	100,000		100,000
Senior Unsecured Notes 3.82%, Series 2019C, due October 10, 2049	64,000		64,000
PACE Note, 2.54%, due March 18, 2021		351	351
Total	$ 612,000	$ 80,351	$ 692,351
Less: Current Maturities net of Unamortized Debt Issuance Costs	-	183	183
Unamortized Long-Term Debt Issuance Costs	2,231	356	2,587
Total Long-Term Debt net of Unamortized Debt Issuance Costs	$ 609,769	$ 79,812	$ 689,581
Total Short-Term and Long-Term Debt (with current maturities)	$ 609,769	$ 85,995	$ 695,764

[1]Holder is COBANK, a cooperative lender. Interest payments are subject to cash credits which may result in a lower effective interest rate.

11. Pension Plan and Other Postretirement Benefits

Pension Plan—Components of net periodic pension benefit cost of the Company's noncontributory funded pension plan are as follows:

(in thousands)	Three Months Ended March 31, 2020	2019
Service Cost—Benefit Earned During the Period	$ 1,655	$ 1,373
Interest Cost on Projected Benefit Obligation	3,263	3,603
Expected Return on Assets	(5,505)	(5,325)
Amortization of Prior-Service Cost:		
From Regulatory Asset	-	1
From Other Comprehensive Income[1]	-	2
Amortization of Net Actuarial Loss:		
From Regulatory Asset	2,231	1,163
From Other Comprehensive Income[1]	55	27
Net Periodic Pension Cost[2]	$ 1,699	$ 844
[1]Corporate cost included in nonservice cost components of postretirement benefits.		
[2]Allocation of costs:		
Service costs included in OTP capital expenditures	*$ 423*	*$ 390*
Service costs included in electric operation and maintenance expenses	*1,192*	*950*
Service costs included in other nonelectric expenses	*40*	*33*
Nonservice costs capitalized as regulatory assets	*11*	*(150)*
Nonservice costs included in nonservice cost components of postretirement benefits	*33*	*(379)*

Cash flows—The Company had *no* minimum funding requirement as of *December 31, 2019* but made a discretionary plan contribution of $11.2 million in *January 2020*.

Executive Survivor and Supplemental Retirement Plan—Components of net periodic pension benefit cost of the Company's unfunded, nonqualified benefit plan for executive officers and certain key management employees are as follows:

(in thousands)	Three Months Ended March 31, 2020	2019
Service Cost—Benefit Earned During the Period	$ 45	$ 105
Interest Cost on Projected Benefit Obligation	362	434
Amortization of Prior Service Cost:		
From Regulatory Asset	-	1
From Other Comprehensive Income[1]	-	4
Amortization of Net Actuarial Loss:		
From Regulatory Asset	23	31
From Other Comprehensive Income[1]	86	87
Net Periodic Pension Cost[2]	$ 516	$ 662
[1]Amortization of prior service costs and net actuarial losses from other comprehensive income are included in nonservice cost components of postretirement benefits.		
[2]Allocation of Costs:		
Service costs included in electric operation and maintenance expenses	*$ -*	*$ 26*
Service costs included in other nonelectric expenses	*45*	*79*
Nonservice costs included in nonservice cost components of postretirement benefits	*471*	*557*

Other Postretirement Benefits—Components of net periodic postretirement benefit cost for health insurance benefits for retired OTP and corporate employees, net of the effect of Medicare Part D Subsidy:

(in thousands)	Three Months Ended March 31, 2020	2019
Service Cost—Benefit Earned During the Period	$ 462	$ 321
Interest Cost on Projected Benefit Obligation	598	770
Amortization of Prior-Service Cost:		
From Regulatory Asset	(1,169)	-
From Other Comprehensive Income[1]	(29)	-
Amortization of Net Actuarial Loss:		
From Regulatory Asset	1,051	393
From Other Comprehensive Income[1]	26	10
Net Periodic Postretirement Benefit Cost[2]	$ 939	$ 1,494
Effect of Medicare Part D Subsidy	$ 281	$ (45)
[1]*Corporate cost included in nonservice cost components of postretirement benefits.*		
[2]*Allocation of Costs:*		
Service costs included in OTP capital expenditures	*$ 118*	*$ 91*
Service costs included in electric operation and maintenance expenses	*333*	*223*
Service costs included in other nonelectric expenses	*11*	*7*
Nonservice costs capitalized as regulatory assets	*122*	*333*
Nonservice costs included in nonservice cost components of postretirement benefits	*355*	*840*

12. Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash Equivalents—The carrying amount approximates fair value because of the short-term maturity of those instruments.

Short-Term Debt—The carrying amount approximates fair value because the debt obligations are short-term and the balances outstanding as of *March 31, 2020* and *December 31, 2019* related to the Otter Tail Corporation Credit Agreement were subject to variable interest rates of LIBOR plus 1.50%, which approximate market rates.

Long-Term Debt including Current Maturities—The fair value of the Company's and OTP’s long-term debt is estimated based on the current market indications of rates available to the Company for the issuance of debt. The fair value measurements of the Company’s long-term debt issues fall into level *2* of the fair value hierarchy set forth in ASC *820*.

	March 31, 2020		December 31, 2019	
(in thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and Cash Equivalents	$ 7,884	$ 7,884	$ 21,199	$ 21,199
Short-Term Debt	(19,893)	(19,893)	(6,000)	(6,000)
Long-Term Debt including Current Maturities	(724,624)	(759,980)	(689,764)	(742,279)

13. Property, Plant and Equipment

No update required for interim reporting period.

14. Income Tax Expense

The following table provides a reconciliation of income tax expense calculated at the net composite federal and state statutory rate on income before income taxes and income tax expense reported on the Company's consolidated statements of income for the *three*-month periods ended *March 31, 2020* and *2019:*

	Three Months Ended March 31,	
(in thousands)	2020	2019
Income Before Income Taxes	$ 29,906	$ 31,952
Tax Computed at Company's Net Composite Federal and State Statutory Rate (26%)	7,776	8,308
Increases (Decreases) in Tax from:		
Differences Reversing in Excess of Federal Rates	(1,229)	(983)
Excess Tax Deduction – Equity Method Stock Awards	(402)	(827)
Allowance for Funds Used During Construction – Equity	(312)	(86)
North Dakota Wind Tax Credit Amortization – Net of Federal Taxes	(258)	(258)
Research and Development and Other Tax Credits	(54)	(188)
Corporate Owned Life Insurance	207	(409)
Other Items – Net	(90)	71
Income Tax Expense	$ 5,638	$ 5,628
Effective Income Tax Rate	18.9%	17.6%

The following table summarizes the activity related to the Company's unrecognized tax benefits:

(in thousands)	2020	2019
Balance on January 1	$ 1,488	$ 1,282
Increases Related to Tax Positions for Current Year	41	38
Uncertain Positions Resolved During Year	-	-
Balance on March 31	$ 1,529	$ 1,320

The balance of unrecognized tax benefits as of *March 31, 2020* would reduce the Company's effective tax rate if recognized. The total amount of unrecognized tax benefits as of *March 31, 2020* could be reduced by as much as $725,000 within the next *12* months due to expected settlement. The Company classifies interest and penalties on tax uncertainties as components of the provision for income taxes in its consolidated statement of income.

The Company and its subsidiaries file a consolidated U.S. federal income tax return and various state income tax returns. As of *May 1, 2020,* with limited exceptions, the Company is *no* longer subject to examinations by taxing authorities for tax years prior to 2016 for federal, Minnesota and North Dakota income taxes.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

COVID-19

Otter Tail Corporation (the Company, we, us and our) is closely monitoring the global outbreak of the novel coronavirus (COVID-19) and its impact on our businesses, employees, customers and vendors. As this crisis unfolds, we are following the directives and advice of government leaders and medical professionals and adopting strategies to help curtail the spread of the virus and mitigate its impact on our communities, employees, customers and business operations. Our Electric segment business provides a critical service to our customers and our manufacturing platform businesses provide products and support to critical infrastructure industries. All of our operating companies have been deemed critical infrastructure businesses. Accordingly, it is important we continue to operate our businesses in a manner that is safe for our employees and our customers.

Through March 31, 2020, the end of the fiscal period covered by this report on Form 10-Q, COVID-19 and the resulting economic conditions did not have a material impact on our results of operations, financial position or liquidity. We began to see a reduction in customer demand in our Manufacturing segment in late March 2020 and we have experienced significantly lower levels of customer demand for certain of our businesses following March 31, 2020 and anticipate this reduced demand will continue and that demand may possibly decline further over the near term. The risk of disruptions for our capital projects, including Merricourt and Astoria Station, is also heightened, and may result in delayed completion schedules and increased costs and the potential loss of federal production tax credits for our Merricourt project if it is not completed and in service by December 31, 2020.

Beginning in April, in response to the actual and anticipated impact of COVID-19 on our business operations, we have implemented temporary policies, including furloughs, shift reductions, pay reductions, wage and hiring freezes, travel restrictions, remote work arrangements and other cost reduction efforts to mitigate the negative impact to our financial results. We will continue to review if additional actions may be appropriate throughout the Company. A description of these actions, and the estimated financial impact of COVID-19 and other factors on our businesses for the remainder of 2020 is further discussed in the 2020 Business Outlook section below.

FINANCIAL AND OTHER METRICS USED IN THE FOLLOWING DISCUSSION

Heating Degree Days (HDDs) is a measure of how much (in degrees), and for how long (in days), the outside air temperature was below a certain level. This measure is commonly used in calculations relating to the energy consumption required to heat buildings.

Cooling Degree Days (CDDs) is a measure of how much (in degrees), and for how long (in days), the outside air temperature was above a certain level. This measure is commonly used in calculations relating to the energy consumption required to cool buildings.

Otter Tail Power Company (OTP) generally bases its forecasted kilowatt-hour (kwh) sales and rates on expected consumption under a normal level of HDDs and CDDs over a given period of time in its service territory. Increased or decreased levels of consumption for certain customer classifications are attributed to deviation from the norms and are a significant factor influencing consumption of electricity across our service territory. We present HDDs and CDDs to provide an indication of the impact of weather on kwh sales, revenues and earnings relative to forecast and on period-to-period results.

Backlog, expressed in dollars, is the level of sales orders received but not yet completed by a company or operating segment. The Company discloses these figures for its Manufacturing segment as an indication of future business volume within the segment.

Utility Rate Base is the value of property on which a public utility is permitted to earn a specified rate of return in accordance with rules set by a regulatory agency. In general, the rate base consists of the value of property used by the utility in providing service. Rate base can include: cash, working capital, materials and supplies, deductions for accumulated provisions for depreciation, contributions in aid of construction, customer advances for construction, accumulated deferred income taxes, and accumulated deferred investment tax credits, dependent on the method that is used in the calculation, which can vary from jurisdiction to jurisdiction. The Company presents actual and forecasted levels of utility rate base in its outlook to provide an indication of expected investments on which the Company expects to earn future returns.

RESULTS OF OPERATIONS

Following is an analysis of the Company’s operating results by business segment for the three months ended March 31, 2020 and 2019 followed by a discussion of changes in our consolidated financial position during the three months ended March 31, 2020 and our business outlook for the remainder of 2020.

COMPARISON OF THE THREE MONTHS ENDED MARCH 31, 2020 AND 2019

Consolidated operating revenues were $234.7 million for the three months ended March 31, 2020 compared with $246.0 million for the three months ended March 31, 2019. Operating income was $39.3 million for the three months ended March 31, 2020 compared with $39.6 million for the three months ended March 31, 2019. The Company recorded diluted earnings per share of $0.60 for the three months ended March 31, 2020 compared with $0.66 for the three months ended March 31, 2019.

Amounts presented in the segment tables that follow for operating revenues, cost of products sold and other nonelectric operating expenses for the three-month periods ended March 31, 2020 and 2019 will not agree with amounts presented in the consolidated statements of income due to the elimination of intersegment transactions. The amounts of intersegment eliminations by income statement line item are listed below:

Intersegment Eliminations *(in thousands)*	March 31, 2020	March 31, 2019
Operating Revenues:		
Electric	$ 5	$ 14
Nonelectric	--	3
Costs of Products Sold	5	17

Electric

(in thousands)	Three Months Ended March 31, 2020	2019	Change	% Change
Retail Sales Revenues from Contracts with Customers	$ 106,690	$ 114,955	$ (8,265)	(7.2)
Changes in Accrued Revenues under Alternative Revenue Programs	(87)	(1,049)	962	91.7
Total Retail Sales Revenue	$ 106,603	$ 113,906	$ (7,303)	(6.4)
Transmission Services Revenue	10,841	10,862	(21)	(0.2)
Wholesale Revenues – Company Generation	876	1,527	(651)	(42.6)
Other Revenues	1,556	1,814	(258)	(14.2)
Total Operating Revenues	$ 119,876	$ 128,109	$ (8,233)	(6.4)
Production Fuel	13,735	18,920	(5,185)	(27.4)
Purchased Power – System Use	18,830	21,952	(3,122)	(14.2)
Electric Operation and Maintenance Expenses	40,615	38,382	2,233	5.8
Depreciation and Amortization	15,676	14,485	1,191	8.2
Property Taxes	4,100	3,959	141	3.6
Operating Income	$ 26,920	$ 30,411	$ (3,491)	(11.5)
Electric Megawatt-hour (mwh) Sales				
Retail mwh Sales	1,429,910	1,478,139	(48,229)	(3.3)
Wholesale mwh Sales – Company Generation	38,924	39,334	(410)	(1.0)
HDDs	3,272	4,070	(798)	(19.6)

The following table shows HDDs as a percent of normal:

	Three Months ended March 31, 2020	2019
HDDs as a percent of normal	95.6%	119.5%

The following table summarizes the estimated effect on diluted earnings per share of the difference in retail kwh sales under actual weather conditions and expected retail kwh sales under normal weather conditions in the first quarters of 2020 and 2019 and between quarters:

	2020 vs Normal	2019 vs Normal	2020 vs 2019
Effect on Diluted Earnings Per Share	$ (0.02)	$ 0.07	$ (0.09)

The $7.3 million decrease in retail sales revenue includes:

- A $7.8 million decrease in retail revenue related to the recovery of decreased fuel and purchased power costs to serve retail customers. Decreased demand caused by the milder weather contributed to a 24.6% decrease in kwhs generated for system use and a $4.8 million decrease in fuel costs. Purchased power costs decreased by $3.1 million.

- A $5.1 million decrease in revenues related to decreased consumption due to milder weather in the first quarter of 2020 compared with the first quarter of 2019, evidenced by a 19.6% decrease in HDDs between the quarters.

- A $1.0 million decrease in retail revenue in South Dakota related to the first quarter 2019 reversal of a refund provision related to the 2017 Tax Cuts and Jobs Act accrued in 2018. The South Dakota rate case settlement agreement eliminated the refund requirement.

These decreases in revenue were partially offset by:

- A $2.3 million increase in Minnesota and North Dakota renewable rider revenues related to earning a return on funds invested in Merricourt while the project is under construction.

- A $2.2 million increase in revenue due to increased kwh sales to industrial and other customers, apart from the weather-related decrease in retail kwh sales.

- A $0.7 million increase in revenues under the North Dakota Generation Cost Recovery (GCR) rider due to increasing investment in Astoria Station. The North Dakota GCR rider provides for a return on funds invested in Astoria Station while the generation project is under construction.

- $0.6 million in revenues from the South Dakota Phase-In rider which went into effect in September 2019 to provide returns on funds invested in Astoria Station and Merricourt while the projects are under construction.

- A $0.6 million increase in revenues related to sales mix.

- A $0.1 million increase in conservation rider revenues related to the recovery of increased program spending in Minnesota and South Dakota in the first quarter of 2020.

Wholesale electric revenues decreased $0.7 million due to lower wholesale electric prices and a 1.0% decrease in wholesale kwh sales. The lower wholesale prices per kwh resulted in a $0.3 million decrease in margins on wholesale energy sales from OTP's generating units in the first quarter of 2020 compared with the first quarter of 2019.

Production fuel costs decreased $5.2 million due to a 28.4% decrease in kwhs generated from our fuel-burning plants, slightly offset by a 1.4% increase in the cost of fuel per kwh generated. The decrease in generation resulted from a decrease in demand from retail customers due to milder weather and low market prices in the first quarter of 2020 compared with the first quarter of 2019.

The cost of purchased power to serve retail customers decreased $3.1 million, despite a 17.9% increase in kwhs purchased, due to a 27.2% decrease in purchased power prices resulting from a decrease in demand due to the milder regional weather between quarters.

Electric operating and maintenance expense increased $2.2 million, including:

- A $3.1 million increase in labor and labor-related expenses and an increase in corporate allocations primarily related to employee stock compensation costs.

These items were partially offset by:

- A $0.5 million decrease in Midcontinent Independent Transmission System Operator, Inc. transmission tariff costs.

- A $0.4 million decrease in pollution control costs for fuel and ash treatment related to a 29% reduction in kwhs generated at OTP's coal-burning power plants.

Depreciation expense increased $1.2 million mainly due to 2019 capital additions for generation and transmission plant, the new customer information system that went into service during the first quarter of 2019 and new service vehicles.

Manufacturing

	Three Months Ended March 31,			
(in thousands)	2020	2019	Change	% Change
Operating Revenues	$ 68,479	$ 77,822	$ (9,343)	(12.0)
Cost of Products Sold	50,614	59,239	(8,625)	(14.6)
Operating Expenses	7,278	8,080	(802)	(9.9)
Depreciation and Amortization	3,746	3,682	64	1.7
Operating Income	$ 6,841	$ 6,821	$ 20	0.3

The $9.3 million decrease in revenues in our Manufacturing segment includes the following:

- Revenues at BTD Manufacturing, Inc. (BTD) decreased $10.2 million, due to a reduction in parts revenue of $9.8 million related to decreased sales in recreational vehicle, lawn and garden, construction, agricultural, industrial and energy equipment end markets. Lower prices related to the pass through of lower material costs accounted for $7.1 million of the decrease in parts sales revenue and reduced sales volume accounted for $3.4 million of the decrease, of which approximately $2.5 million is due to COVID-19-related production curtailments by customers. These items were partially offset by a $0.7 million decrease in volume purchase rebates. In addition to the decrease in parts revenue, scrap revenue decreased $0.7 million due to a 20.1% decrease in scrap metal prices and a 15.0% decrease in scrap volume. The decreases in parts and scrap revenue were partially offset by a $0.3 million increase in tooling revenues.

- Revenues at T.O. Plastics, Inc. (T.O. Plastics), our manufacturer of thermoformed plastic and horticultural products, increased $0.8 million primarily due to a $1.1 million increase in sales of horticultural containers, partially offset by a $0.2 million decrease in industrial sales and a $0.1 million decrease in sales of scrap material. Challenging weather conditions were a factor in weaker sales in the northern region of the United States in the first quarter of 2019. Product availability in February 2019 and the partial collapse of a section of a warehouse roof in March 2019 due to heavy snow also contributed to a slow start in horticultural sales in 2019.

The $8.6 million decrease in cost of products sold in our Manufacturing segment includes the following:

- Cost of products sold at BTD decreased $9.6 million as a result of both the decreased sales volume and the $7.1 million in lower material costs passed through to customers.

- Cost of products sold at T.O. Plastics increased $1.0 million related to the increase in sales volume and increased rental costs for more warehouse space.

The $0.8 million decrease in operating expenses in our Manufacturing segment includes a $0.2 million decrease in travel expenses at BTD. Operating expenses at T.O. Plastics decreased $0.6 million as a result of the receipt of insurance settlement proceeds in the first quarter of 2020 related to the March 2019 partial roof collapse.

We estimate COVID-19 issues in the last half of March impacted BTD’s first quarter earnings by approximately a $0.01 per share. This relates to reduced sales as customers started to invoke temporary plant shutdowns which caused lost labor productivity, costs related to personal protective equipment and paying health care costs for furloughed employees.

Plastics

	Three Months Ended March 31,			
(in thousands)	2020	2019	Change	% Change
Operating Revenues	$ 46,397	$ 40,058	$ 6,339	15.8
Cost of Products Sold	35,270	31,360	3,910	12.5
Operating Expenses	2,770	2,665	105	3.9
Depreciation and Amortization	890	891	(1)	(0.1)
Operating Income	$ 7,467	$ 5,142	$ 2,325	45.2

Plastics segment revenues and operating income increased $6.3 million and $2.3 million, respectively, due to an 18.0% increase in pounds of pipe sold, slightly offset by a 1.8% decrease in polyvinyl chloride (PVC) pipe prices. Weather conditions across our sales territory negatively impacted first quarter 2019 sales. Cost of products sold increased $3.9 million (12.5%) due

to the increase in sales volume. While pipe prices decreased slightly, the cost per pound of pipe sold decreased 4.7% and plant productivity was improved due to increased production. These items resulted in an 8.4% increase in gross margin per pound of PVC pipe sold.

Corporate

Corporate includes items such as corporate staff and overhead costs, the results of our captive insurance company and other items excluded from the measurement of operating segment performance. Corporate is not an operating segment. Rather it is added to operating segment totals to reconcile to totals on our consolidated statements of income.

(in thousands)	Three Months Ended March 31, 2020	2019	Change	% Change
Operating Expenses	$ 1,852	$ 2,732	$ (880)	(32.2)
Depreciation and Amortization	87	73	14	19.2

Corporate operating expenses decreased $0.9 million mainly as a result of a $1.3 million increase in corporate costs allocated to OTP, partially offset by a $0.5 million net increase in employee stock compensation and incentive costs.

Interest Charges

The $0.3 million increase in interest charges for the three months ended March 31, 2020 compared with the three months ended March 31, 2019 is primarily due to an increase in interest expense at OTP related to $135 million in debt issued in October of 2019 and February of 2020 under OTP's 2019 Note Purchase Agreement.

Other (Loss) Income

The $1.6 million decrease in other (loss) income is mainly due to the impact from our corporate investments related to corporate owned life insurance policies and investments held at our captive insurance company. The volatile equity markets in March resulted in a $1.4 million decrease in the first quarter of 2020 compared with a $0.8 million increase in the first quarter of 2019. This decrease was partially offset by a $0.5 million increase in allowances for equity funds used during construction at OTP.

Income Tax Expense

Income tax expense increased $10,000 (0.2%) in the three months ended March 31, 2020 compared with the three months ended March 31, 2019, despite a $2.0 million (6.4%) decrease in income before income taxes, mainly due the effect of changes in the values of corporate-owned life insurance policies between the quarters and the impact of non-taxable valuation changes on income before income taxes. The values of these policies track with valuation changes in investment markets. The following table provides a reconciliation of income tax expense calculated at our net composite federal and state statutory rate on income before income taxes on our consolidated statements of income for the three-month periods ended March 31, 2020 and 2019:

(in thousands)	Three Months Ended March 31, 2020	2019
Income Before Income Taxes	$ 29,906	$ 31,952
Tax Computed at Company's Net Composite Federal and State Statutory Rate (26%)	7,776	8,308
Increases (Decreases) in Tax from:		
Differences Reversing in Excess of Federal Rates	(1,229)	(983)
Excess Tax Deduction – Equity Method Stock Awards	(402)	(827)
Allowance for Funds Used During Construction – Equity	(312)	(86)
North Dakota Wind Tax Credit Amortization – Net of Federal Taxes	(258)	(258)
Research and Development and Other Tax Credits	(54)	(188)
Corporate Owned Life Insurance	207	(409)
Other Items – Net	(90)	71
Income Tax Expense	$ 5,638	$ 5,628
Effective Income Tax Rate	18.9%	17.6%

LIQUIDITY

We believe our financial condition is strong and our cash, other liquid assets, operating cash flows, existing lines of credit, access to capital markets, and borrowing ability because of investment-grade credit ratings, when taken together, provide us ample liquidity to conduct business operations and fund capital expenditures related to expansion of existing businesses and development of new projects. Our liquidity, including our operating cash flows and access to capital markets, can be impacted by macroeconomic factors outside of our control, such as those which may be caused by COVID-19. In addition, our liquidity could be impacted by non-compliance with covenants under our various debt instruments. As of March 31, 2020, we were in compliance with all debt covenants (see the Financial Covenant section under Capital Resources below).

As of March 31, 2020, COVID-19 and the resulting deteriorating economic conditions had not had a material impact on our liquidity. We are closely monitoring our liquidity and capital market conditions given the uncertainty surrounding the impact of COVID-19, which could have an adverse effect on the availability and terms of future debt and equity financing.

The following table presents the status of our lines of credit as of March 31, 2020 and December 31, 2019:

(in thousands)	Line Limit	In Use on March 31, 2020	Restricted due to Outstanding Letters of Credit	Available on March 31, 2020	Available on December 31, 2019
Otter Tail Corporation Credit Agreement	$ 170,000	$ 19,893	$ --	$ 150,107	$ 164,000
OTP Credit Agreement	170,000	--	14,101	155,899	154,524
Total	$ 340,000	$ 19,893	$ 14,101	$ 306,006	$ 318,524

Our liquidity modeling indicates we have sufficient liquidity under our credit facilities based on current assumptions of how COVID-19 is expected to impact our business under different scenarios. We have a risk tolerance metric in place to maintain a minimum of $50 million of liquidity based on the current line limit of the Otter Tail Corporation Credit Agreement. The agreement also has an accordion feature to increase the amount available to $290 million, subject to certain terms and conditions. The amount available under the OTP Credit Agreement can be increased to $250 million, subject to certain terms and conditions. We have no long-term debt maturities due until December 2021.

In addition to our cash on hand, other liquid assets and cash flows from operating activities, we had additional liquidity of $283 million from capacity under our existing lines of credit as of April 30, 2020. Additional funds borrowed under the Otter Tail Corporation Credit Agreement in April were invested in OTP to be used for construction expenditures. We also expect to issue our Series 2020B Notes in August 2020 to provide an additional $40.0 million of liquidity. Our At the Market equity offering program, which allows us to sell common shares up to an aggregate sales price of $75 million, remains in effect. We issued $8.4 million of common equity under our At the Market offering program, Dividend Reinvestment and Employee Stock Purchase plans in the first quarter, before the collapse of the equity markets related to COVID-19. We expect to issue an additional $40-$45 million in common equity under these programs in 2020 barring any further deteriorations of the capital markets from the COVID-19 pandemic. If weakened economic conditions persist for a prolonged period of time, we are prepared to add additional liquidity as necessary, including exercising the accordion features under our lines of credit to increase our available borrowing capacity under the lines by $200 million.

Equity and debt financing will be required in the period 2020 through 2024 given the expansion plans related to our Electric segment to fund construction of new rate base investments. Also, such financing will be required should we decide to reduce borrowings under our lines of credit or refund or retire early any of our presently outstanding debt, to complete acquisitions or for other corporate purposes. The terms and conditions and the timing of our equity and debt financing activities could be impacted by the economic effects of COVID-19 and the resulting market volatility. In addition, our borrowing costs can be impacted by changing interest rates on short-term and long-term debt and ratings assigned to us by independent rating agencies, which in part are based on certain credit measures such as interest coverage and leverage ratios.

The determination of the amount of future cash dividends to be declared and paid will depend on, among other things, our financial condition, improvement in earnings per share, cash flows from operations, the level of our capital expenditures and our future business prospects. As a result of certain statutory limitations or regulatory or financing agreements, restrictions could occur on the amount of distributions allowed to be made by our subsidiaries. See note 7 to consolidated financial statements for additional information. The decision to declare a dividend is reviewed quarterly by the board of directors. On February 4, 2020 our board of directors increased the quarterly dividend from $0.35 to $0.37 per common share.

2020 Cash Flows Compared with 2019 Cash Flows

Cash provided by operating activities was $21.8 million for the three months ended March 31, 2020 compared with cash provided by operating activities of $17.2 million for the three months ended March 31, 2019. The primary reason for the $4.6 million increase in cash provided by operations between the quarters was a $5.7 million decrease in cash used for working capital items between the quarters, which was partially offset by a $1.2 million increase in discretionary contributions to the Company’s funded pension plan.

Specific changes in cash used for working capital items include:

- A $20.4 million decrease in cash used for receivables between the quarters, including:
  - A $14.6 million decrease at OTP due, in part, to lower sales resulting from milder weather in the first quarter of 2020 compared to the first quarter of 2019 but also due to a delay in collections of receivables in the first quarter of 2019 related to the implementation of the new customer information and billing system.
  - A $5.8 million decrease in the Manufacturing and Plastics segments, mostly related to a lower level of sales revenue and receivables at BTD in the first quarter of 2020 compared with the first quarter of 2019 due, in large part, to lower material costs being passed through to customers.

These items were partially offset by:

- An $11.8 million increase in cash used for payables and other current liabilities between quarters, primarily due to a $9.2 million reduction in accounts payable and other current liabilities at OTP in the first quarter of 2020 compared with an increase of $6.7 million in the first quarter of 2019.
- A $3.5 million increase in cash related to income taxes as income taxes receivable decreased $1.5 million in the first quarter of 2020 compared with a $5.0 million increase in income taxes payable in the first quarter of 2019.

Net cash used in investing activities was $75.1 million for the three months ended March 31, 2020 compared with $25.4 million for the three months ended March 31, 2019. The $49.7 million increase is primarily due to a $50.4 million increase in cash used for construction expenditures including a $51.2 million increase in cash used for construction expenditures at OTP, partially offset by a $0.8 million net decrease in capital expenditures in our nonutility businesses. OTP’s cash used for capital expenditures totaled $71.2 million in the first quarter of 2020 compared with $20.0 in the first quarter of 2019. The majority of the first quarter 2020 expenditures at OTP were related to the construction of Astoria Station and Merricourt.

Net cash provided by financing activities was $40.0 million for the three months ended March 31, 2020 compared with $8.3 million for the three months ended

March 31, 2019. Financing activities in the first quarter of 2020 included $35.0 million in proceed from the issuance of long-term debt at OTP under its 2019 Note Purchase Agreement to fund its current construction program expenditures. Further information on the debt issuance is provided below under "Capital Resources." We also borrowed $13.9 million under the Otter Tail Corporation Credit Agreement and raised $6.2 million in proceeds from the issuance of common stock, net of issuance costs and payments for shares withheld for employee tax obligations, in the first quarter of 2020. The proceeds from the line borrowings and stock issuances provided the majority of funds for $25 million in equity contributions to OTP to fund its construction program expenditures. Financing activities in the first quarter of 2020 also included $14.9 million in common dividend payments.

Financing activities in the first quarter of 2019 included proceeds of $25.0 million from borrowings of $18.5 million under the Otter Tail Corporation Credit Agreement to provide working capital for our manufacturing companies and $6.5 million under the OTP Credit Agreement to fund OTP capital expenditures. The line of credit borrowings were partially offset by $13.9 million in common dividend payments and $2.7 million in payments for the retirement of capital stock.

CAPITAL REQUIREMENTS

2019-2024 Capital Expenditures

The following table shows our 2019 capital expenditures and 2020 through 2024 anticipated capital expenditures and electric utility average rate base:

(in millions)	2019	2020	2021	2022	2023	2024	Total
Capital Expenditures:							
Electric Segment:							
Renewables and Natural Gas Generation		$ 260	$ 18	$ 51	$ 30	$ --	$ 359
Technology and Infrastructure		7	18	47	54	43	169
Distribution Plant Replacements		22	27	34	25	26	134
Transmission (includes replacements)		61	26	8	13	9	117
Other		19	35	23	18	23	118
Total Electric Segment	$ 187	$ 369	$ 124	$ 163	$ 140	$ 101	$ 897
Manufacturing and Plastics Segments	20	16	18	17	19	17	87
Total Capital Expenditures	**$ 207**	**$ 385**	**$ 142**	**$ 180**	**$ 159**	**$ 118**	**$ 984**
Total Electric Utility Average Rate Base	**$ 1,170**	**$ 1,418**	**$ 1,573**	**$ 1,634**	**$ 1,690**	**$ 1,739**	
Rate Base Growth		21.2%	10.9%	3.9%	3.4%	2.9%	

Execution on the anticipated electric utility capital expenditure plan is expected to grow rate base and be a key driver in increasing utility earnings over the 2020 through 2024 timeframe.

As of March 31, 2020, OTP had capitalized approximately $95.8 million in project costs and allowances for funds used during construction (AFUDC) associated with Merricourt. OTP currently expects Merricourt will cost approximately $258 million. OTP has received Notices of Force Majeure from EDF-RE US Development, LLC claiming a delay of production and project completion due to COVID-19 impacts. While details regarding this claim and the related impact to the project schedule are not yet finalized, OTP has adjusted its expectation for completion and currently expects Merricourt to be completed before December 31, 2020. This and other potential impacts of COVID-19-related disruptions continue to present risks for the schedule, costs and timing of payments related to the project. Meeting the December 31, 2020 completion date is necessary for receiving federal production tax credits, unless alternative regulatory or legislative relief is provided.

As of March 31, 2020, OTP had capitalized approximately $78.0 million in project costs and AFUDC associated with Astoria Station. OTP expects Astoria Station will cost approximately $158 million and anticipate it will be online in late 2020 or early 2021, prior to the planned retirement of Hoot Lake Plant in May 2021. OTP has not altered the construction schedule for Astoria Station due to COVID-19. However, COVID-19-related disruptions have increased risks for the project workforce given, among other factors, that it involves more than one hundred construction workers on site, and circumstances continue to evolve which could result in a delay in completion and increased costs for the project.

As of March 31, 2020, our capital expenditure activities had not been materially impacted by COVID-19. However, future supply chain, workforce, contractor or other disruptions could result in added costs and lead to delayed completion of certain of our capital expenditure projects. We are actively monitoring our supply chains and working with our contractors to ensure the continued safety of all parties.

Contractual Obligations

In the first three months of 2020, OTP paid down a portion of its $317 million in obligations for commitments under contracts in place as of December 31, 2019, reducing its obligations for commitments under contracts to $250 million as of March 31, 2020. This includes commitments related to the construction of Astoria Station and Merricourt of $228 million for the remainder of 2020 and $6 million for 2021. Also in the first quarter of 2020, OTP increased its debt obligations by $35 million in the years beyond 2024.

CAPITAL RESOURCES

On May 3, 2018 we filed a shelf registration statement with the Securities and Exchange Commission (SEC) under which we may offer for sale, from time to time, either separately or together in any combination, equity, debt or other securities described in the shelf registration statement, which expires on May 3, 2021. On May 3, 2018 we also filed a shelf registration statement with the SEC for the issuance of up to 1,500,000 common shares under our Automatic Dividend Reinvestment and Share Purchase Plan (the Plan), which permits shares purchased by participants in the Plan to be either new issue common shares or common shares purchased in the open market. The shelf registration for the Plan expires on May 3, 2021. On November 8, 2019 the Company entered into a Distribution Agreement with KeyBanc under which we may offer and sell our common shares from time to time through KeyBanc, as our distribution agent, up to an aggregate sales price of $75 million through an At-the-Market offering program. In the first quarter of 2020, we received proceeds of $5,637,894, net of $71,366 paid to KeyBank, from the issuance of 112,380 common shares under this program.

Debt

Following are brief descriptions of the short-term and long-term credit and debt agreements currently in place at Otter Tail Corporation and OTP. See note 10 to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2019 for additional information on the terms, provisions, restrictions and covenants under these agreements.

Short-Term Debt

On October 29, 2012 we entered into a Third Amended and Restated Credit Agreement (the OTC Credit Agreement), which provided for an unsecured $130 million revolving credit facility that could be increased subject to certain terms and conditions. On October 31, 2019 the OTC Credit Agreement was amended to extend its expiration date by one year from October 31, 2023 to October 31, 2024, and to increase the amount of the revolving credit facility to $170 million. The amendment also provides this facility can be increased to $290 million subject to certain terms and conditions. Borrowings under the OTC Credit Agreement bear interest at LIBOR plus 1.50%, subject to adjustment based on our senior unsecured credit ratings or the issuer rating if a rating is not provided for the senior unsecured credit.

On October 29, 2012 OTP entered into a Second Amended and Restated Credit Agreement (the OTP Credit Agreement), providing for an unsecured $170 million revolving credit facility that may be increased to $250 million subject to certain terms and conditions. On October 31, 2019 the OTP Credit Agreement was amended to extend its expiration date by one year from October 31, 2023 to October 31, 2024. OTP can draw on this credit facility to support the working capital needs and other capital requirements of its operations, including letters of credit in an aggregate amount not to exceed $50 million outstanding at any time. Borrowings under this line of credit bear interest at LIBOR plus 1.25%, subject to adjustment based on the ratings of OTP's senior unsecured debt or the issuer rating if a rating is not provided for the senior unsecured debt.

Long-Term Debt

On September 12, 2019,OTP entered into a Note Purchase Agreement (the 2019 Note Purchase Agreement) with the purchasers named therein, pursuant to which OTP agreed to issue to the purchasers, in a private placement transaction, $175 million aggregate principal amount of OTP's senior unsecured notes consisting of (a) $10,000,000 aggregate principal amount of its 3.07% Series 2019A Senior Unsecured Notes due October 10, 2029 (the Series 2019A Notes), (b) $26,000,000 aggregate principal amount of its 3.52% Series 2019B Senior Unsecured Notes due October 10, 2039 (the Series 2019B Notes), (c) $64,000,000 aggregate principal amount of its 3.82% Series 2019C Senior Unsecured Notes due October 10, 2049 (the Series 2019C Notes), (d) $10,000,000 aggregate principal amount of its 3.22% Series 2020A Senior Unsecured Notes due February 25, 2030 (the Series 2020A Notes), (e) $40,000,000 aggregate principal amount of its 3.22% Series 2020B Senior Unsecured Notes due August 20, 2030 (the Series 2020B Notes), (f) $10,000,000 aggregate principal amount of its 3.62% Series 2020C Senior Unsecured Notes due February 25, 2040 (the Series 2020C Notes) and (g) $15,000,000 aggregate principal amount of its 3.92% Series 2020D Senior Unsecured Notes due February 25, 2050 (the Series 2020D Notes).

On February 25, 2020, OTP issued the Series 2020A Notes, the Series 2020C Notes and the Series 2020D Notes pursuant to the 2019 Note Purchase Agreement. OTP used the $35 million proceeds from the issuance to pay for capital expenditures and for other corporate purposes. The Series 2019A Notes, Series 2019B Notes and Series 2019C Notes were issued by OTP on October 10, 2019. The remaining notes to be issued under the 2019 Note Purchase Agreement, Series 2020B Notes, are expected to be issued on August 20, 2020, subject to the satisfaction of certain customary conditions to closing.

On February 27, 2018 OTP issued $100 million aggregate principal amount of its 4.07% Series 2018A Senior Unsecured Notes due February 7, 2048 pursuant to a Note Purchase Agreement dated as of November 14, 2017 (the 2018 Note Purchase Agreement).

On December 13, 2016 Otter Tail Corporation issued $80 million aggregate principal amount of its 3.55% Guaranteed Senior Notes due December 15, 2026 (the 2026 Notes) pursuant to a Note Purchase Agreement dated as of September 23, 2016 (the 2016 Note Purchase Agreement). Our obligations under the 2016 Note Purchase Agreement and the 2026 Notes are guaranteed by our Material Subsidiaries (as defined in the 2016 Note Purchase Agreement, but specifically excluding OTP).

On February 27, 2014 OTP issued $60 million aggregate principal amount of its 4.68% Series A Senior Unsecured Notes due February 27, 2029 and $90 million aggregate principal amount of its 5.47% Series B Senior Unsecured Notes due February 27, 2044 pursuant to a Note Purchase Agreement dated as of August 14, 2013 (the 2013 Note Purchase Agreement).

On December 1, 2011 OTP issued $140 million aggregate principal amount of its 4.63% Senior Unsecured Notes due December 1, 2021 pursuant to a Note Purchase Agreement dated as of July 29, 2011 (the 2011 Note Purchase Agreement).

OTP also has outstanding its $122 million senior unsecured notes issued in three series consisting of $30 million aggregate principal amount of 6.15% Senior Unsecured Notes, Series B, due 2022; $42 million aggregate principal amount of 6.37% Senior Unsecured Notes, Series C, due 2027; and $50 million aggregate principal amount of 6.47% Senior Unsecured Notes, Series D, due 2037 (collectively, the 2007 Notes). The 2007 Notes were issued pursuant to a Note Purchase Agreement dated as of August 20, 2007 (the 2007 Note Purchase Agreement).

Financial Covenants

We were in compliance with the financial covenants in our debt agreements as of March 31, 2020.

No Credit Agreement or Note Purchase Agreement contains any provisions that would trigger an acceleration of the related debt as a result of changes in the credit rating levels assigned to the related obligor by rating agencies.

Our borrowing agreements are subject to certain financial covenants. Specifically:

- Under the OTC Credit Agreement and the 2016 Note Purchase Agreement, we may not permit the ratio of our Interest-bearing Debt to Total Capitalization to be greater than 0.60 to 1.00 or permit our Interest and Dividend Coverage Ratio to be less than 1.50 to 1.00 (each measured on a consolidated basis). As of March 31, 2020, our Interest and Dividend Coverage Ratio calculated under the requirements of the OTC Credit Agreement and the 2016 Note Purchase Agreement was 4.44 to 1.00.
- Under the 2016 Note Purchase Agreement, we may not permit our Priority Indebtedness to exceed 10% of our Total Capitalization.
- Under the OTP Credit Agreement, OTP may not permit the ratio of its Interest-bearing Debt to Total Capitalization to be greater than 0.60 to 1.00.
- Under the 2007 Note Purchase Agreement and 2011 Note Purchase Agreement, OTP may not permit the ratio of its Consolidated Debt to Total Capitalization to be greater than 0.60 to 1.00 or permit its Interest and Dividend Coverage Ratio to be less than 1.50 to 1.00, in each case as provided in

the related borrowing agreement, and OTP may not permit its Priority Debt to exceed 20% of its Total Capitalization, as provided in the related agreement. As of March 31, 2020, OTP's Interest and Dividend Coverage Ratio and Interest Charges Coverage Ratio, calculated under the requirements of the 2007 Note Purchase Agreement and 2011 Note Purchase Agreement, was 3.50 to 1.00.

- Under the 2013 Note Purchase Agreement, the 2018 Note Purchase Agreement, and the 2019 Note Purchase Agreement, OTP may not permit its Interest-bearing Debt to exceed 60% of Total Capitalization and may not permit its Priority Indebtedness to exceed 20% of its Total Capitalization, in each case as provided in the related agreement.

As of March 31, 2020, our ratio of Interest-bearing Debt to Total Capitalization was 0.48 to 1.00 on a consolidated basis and 0.49 to 1.00 for OTP. Neither Otter Tail Corporation nor OTP had any Priority Indebtedness outstanding as of March 31, 2020.

OFF-BALANCE-SHEET ARRANGEMENTS

We and our subsidiary companies have outstanding letters of credit totaling $18.6 million, but our line of credit borrowing limits are only restricted by $14.1 million in outstanding letters of credit. We do not have any other off-balance-sheet arrangements or any relationships with unconsolidated entities or financial partnerships. These entities are often referred to as structured finance special purpose entities or variable interest entities, which are established for the purpose of facilitating off-balance-sheet arrangements or for other contractually narrow or limited purposes. We are not exposed to any financing, liquidity, market or credit risk that could arise if we had such relationships.

2020 BUSINESS OUTLOOK

In March 2020, the World Health Organization categorized COVID-19 as a pandemic, and it continues to spread throughout the United States and other countries across the world. To limit the spread of COVID-19, governments have taken various actions including the issuance of stay-at-home orders and social distancing guidelines, causing some businesses to suspend operations resulting in record unemployment insurance claims and reduced demand. This has correspondingly resulted in a decline for many services and products from our direct customers and end-use consumers. While all of our operating companies have been deemed critical infrastructure businesses, some of our locations have been impacted more than others.

- OTP has experienced a reduction in electricity use and demand from its commercial and industrial customers and a slight increase in demand from residential customers starting in April. Its largest industrial customer, a crude oil pipeline operator, has experienced reduced demand as a result of low oil prices, storage constraints and reduction in demand for oil stemming from the COVID-19 economic impacts. Some commercial and industrial customers in our jurisdictions have had to either completely shut down operations or curtail operations given reduced demands for their products and services. We also expect to incur increased costs of bad debts, personal protective equipment and the loss of late fee revenue. The Astoria Station capital project is currently expected to continue on schedule, but COVID-19-related disruptions to global supply chains, construction workforce and equipment supply have increased risks for the project schedule and spending assumptions tied to that schedule. OTP's Merricourt project is now facing COVID-19-related project delays but the project is still currently expected to be completed before December 31, 2020. This and other potential impacts of COVID-19-related disruptions continue to present risks for the schedule, costs and timing of payments related to the project. Meeting the December 31, 2020 completion date is necessary for receiving federal production tax credits, unless alternative regulatory or legislative relief is granted. OTP is working on obtaining regulatory relief to mitigate the impact of COVID-19 on operating results. It has made joint filings with other investor-owned utilities in all three of its state jurisdictions and intends to make additional filings on its own initiating processes for regulatory relief and recovery of current and future COVID-19-related lost commercial and industrial revenues, lost late fees and added expenses for increased bad debts, personal protective equipment and other increased operating and maintenance expenses.

- BTD, our contract metal manufacturing business, has reduced workforce costs through implementation of rotating furloughs expected to affect approximately 55% of its employees who will be participating in the furloughs over the second quarter as the business has been impacted by customer plant shutdowns across all of the end markets it serves due to reduced consumer demand. Additional cost-cutting measures may be taken by BTD depending on the length and severity of this reduced demand for its products and as the impacts from COVID-19 and related responses continue to develop.

- T.O. Plastics is anticipating market softness and has taken steps to reduce workforce hours and implemented a hiring freeze. Additional cost-cutting measures may be taken by T.O. Plastics depending on the length and severity of the market softness for its products and as the impact from COVID-19 and related responses continue to develop.

- Our Plastics segment's resin suppliers are experiencing significant global and regional demand reduction for PVC resin export material due to COVID-19 and low oil prices. Resin suppliers are in the process of reducing production in light of reduced demand. We have reduced production at our Fargo plant in response to the reduction in demand. Additional cost-cutting measures may be taken by our PVC pipe manufacturing companies depending on the length and severity of the reduced demand for PVC pipe and as the impact from COVID-19 and related responses continue to develop.

All these items have resulted in actions taken across the Company to reduce workforce, mostly through furloughs in our contract metal manufacturing business, and to reduce general and administrative expenses, including reducing pay for employees, officers and directors and delaying planned wage increases. We continue to review whether additional actions may be appropriate throughout the Company.

Our current assumptions are based on expectations the second quarter will be negatively impacted by COVID-19, as discussed above. We are assuming there will be a gradual recovery as efforts across the country result in a flattening of the infection rate curve and employees are able to safely return to work while maintaining safe work practices. Based on that assumption, we anticipate our customers' demands for our products to increase and our plants to run at higher levels of capacity in the third and fourth quarters. Our assumptions are based on information published by The Institute for Health Metrics and Evaluation (IHME) which is an independent population health research center at UW Medicine, part of the University of Washington. New COVID-19 state-by-state U.S. analyses from the IHME found some states could relax some aspects of social distancing measures in early May, so long as robust containment strategies are implemented to prevent a second wave of infections. Our assumptions are also based on economists' views that call for a significant drop in second quarter GDP followed by significant year-over-year increases in GDP in the third and fourth quarters, respectively. The COVID-19 pandemic and related impacts are without precedent. Therefore, while we believe our assumptions are reasonable and the reports on which they are based are reliable, they may prove to be inaccurate. If our assumptions are not correct and we experience a prolonged economic impact from COVID-19, our outlook will be revised accordingly.

Our operating results for the three months ended March 31, 2020 are not indicative of the results that may be expected for the fiscal year ending December 31, 2020, particularly in light of the COVID-19 pandemic and its effects on the domestic and global economies.

Accordingly, we are revising and widening our 2020 diluted earnings per share guidance mainly due to the anticipated effects of the COVID-19 outbreak and the measures put in place to slow its spread. We now expect our 2020 diluted earnings per share to be in the range of $2.00 to $2.25 compared to our previously announced guidance of $2.22 to $2.37. Our 2020 diluted earnings per share guidance includes $0.04 of dilution associated with the planned issuance of common shares under our At-the-Market Offering Program and Dividend Reinvestment and Employee Stock Purchase Plans to help fund construction projects at OTP.

In addition to the potential impacts of COVID-19 and the measures taken to slow its spread, we have taken into consideration strategies for improving future operating results, the cyclical nature of some of our businesses, and current regulatory factors facing our Electric segment. We expect capital expenditures for 2020 to be $385 million compared with actual cash used for capital expenditures of $207 million in 2019. Our Electric segment accounts for 96% of our 2020 planned capital expenditures. The increase in our planned expenditures for 2020 is largely driven by the Merricourt and Astoria Station rate base projects.

Segment components of our revised 2020 diluted earnings per share guidance range compared with 2019 actual earnings and with our previously issued guidance are as follows.

	2019 EPS by Segment	2020 Guidance February 20, 2020		2020 Guidance May 5, 2020	
		Low	High	Low	High
Electric	$ 1.48	$ 1.67	$ 1.70	$ 1.65	$ 1.70
Manufacturing	$ 0.32	$ 0.31	$ 0.35	$ 0.14	$ 0.23
Plastics	$ 0.51	$ 0.43	$ 0.47	$ 0.43	$ 0.47
Corporate	$ (0.14)	$ (0.19)	$ (0.15)	$ (0.22)	$ (0.15)
Total	$ 2.17	$ 2.22	$ 2.37	$ 2.00	$ 2.25
Return on Equity	11.6%	11.0%	11.7%	9.9%	11.1%

The following items contribute to our revised earnings guidance for 2020.

- We are maintaining the upper end of our original guidance for our Electric segment but widening the range to reflect added risks related to the impacts of COVID-19. Our 2020 guidance includes:

  - Capital spending on the Merricourt and Astoria Station rate base projects of $178 million and $81 million, respectively, in 2020. The Merricourt project has rider recovery mechanisms in place in all three state jurisdictions. The Astoria Station project has rider recovery mechanisms in place in South Dakota and North Dakota. This project earns AFUDC in Minnesota, is expected to be recovered through a rate case in Minnesota and has already been approved in our integrated resource plan.

  - Increased revenues related to $22 million in anticipated capital spending for self-funded generator interconnection agreements.

  - No planned generation plant outages for 2020. Plant outage costs totaled $3.1 million in 2019.

  - The recent decision by the Minnesota Supreme Court in OTP's favor related to not having to return to ratepayers the excess return earned on Federal Energy Regulatory Commission jurisdiction transmission lines. The estimated impact of this decision is an increase to 2020 earnings of $0.05 per share. On a go-forward basis the positive impact of this decision on an annual basis is $0.01 per share. We are updating our Minnesota Transmission Cost Recovery rider filing with new rates incorporating the results of the decision to reflect the effect of this ruling.

  - Implementation of cost reduction efforts such as lower discretionary spending, wage freezes, hiring freezes and reduction in overtime to mitigate the impact of COVID-19. These efforts are expected to positively impact earnings by $0.08 per share.

  The above items are offset by:

  - The impact of unfavorable weather during the first quarter of 2020 and anticipated normal weather for the remaining months of 2020. Weather favorably impacted 2019 earnings by $0.08 per share compared to normal.

  - Increased expenses caused in large part by a decrease in the discount rate used for the pension plan and a lower rate used for our long-term rate of return. The discount rate for 2020 is 3.47% compared with 4.50% for 2019. For each 25-basis-point decline in the discount rate, pension expense increases approximately $1,041,000. The assumed long-term rate of return for 2020 is 6.88% compared with 7.25% in 2019. Each 25-basis-point decline in this rate equates to approximately $734,000 in increased pension expense.

  - Higher depreciation and property tax expense due to large capital projects being put into service.

  - Increased interest costs associated with a full year's interest expense on the $100 million of senior unsecured notes issued in October 2019 and interest on the $35 million and $40 million of senior unsecured notes issued in February and expected to be issued in August of 2020, respectively.

  - Reductions in commercial and industrial demand related to the negative impacts of COVID-19 as some customers in our jurisdictions have had to either completely shut down operations or curtail operations given reduced demands for their products and services. We also expect to incur increased costs of bad debts, personal protective equipment and the loss of late fee revenue. The total estimated earnings impact of these items ranges from $0.08 per share to $0.12 per share.

- We now expect net income from our Manufacturing segment to be lower than 2019 and lower than our original 2020 guidance based on:

  - An estimated reduction in Manufacturing segment earnings of $0.15 per share from the mid-point of our original segment guidance to the mid-point of our updated segment guidance. This is due to the effects of, and response to, the COVID-19 outbreak.

- o BTD has been impacted by COVID-19-related customer plant shutdowns across all end markets it serves and has cut back on operating levels and implemented temporary rotating furloughs expected to affect approximately 55% of its employees who will be participating in the furloughs over the second quarter.

- o T.O. Plastics' 2020 earnings are also expected to decline from our original guidance given lower demand and uncertainty across the end markets it serves related to the COVID-19 outbreak.

- o Backlog for the Manufacturing segment of approximately $127 million for 2020 compared with $165 million one year ago. Raw material price deflation is driving backlog down by $8 million and the remaining $30 million decrease in backlog is volume driven.

- We are maintaining our guidance range in 2020 net income for our Plastics segment. The industry believes resin prices will be decreasing during the second quarter of 2020 and we expect this could put downward pressure on market prices of PVC pipe which, in turn, could impact operating margins. We also expect the volume of pounds sold in 2020 will be down 3% to 6% due to concerns COVID-19 could result in delays of planned 2020 infrastructure projects.

- We are revising our original guidance range for corporate costs, net of tax, primarily due to the significant decline in the stock market related to COVID-19 and the impact on our investment in corporate owned life insurance and investments held at our captive insurance company. While we have taken expense mitigation efforts to lower our corporate labor and non-labor costs, we do not expect to fully recover the drop in value of these investments before the end of 2020.

Critical Accounting Policies Involving Significant Estimates

The discussion and analysis of the financial statements and results of operations are based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities.

We use estimates based on the best information available in recording transactions and balances resulting from business operations. Estimates are used for such items as depreciable lives, asset impairment evaluations, tax provisions, collectability of trade accounts receivable, self-insurance programs, unbilled electric revenues, interim rate refunds, warranty reserves and actuarially determined benefits costs and liabilities. As better information becomes available or actual amounts are known, estimates are revised. Operating results can be affected by revised estimates. Actual results may differ from these estimates under different assumptions or conditions. Management has discussed the application of these critical accounting policies and the development of these estimates with the Audit Committee of the board of directors. A discussion of critical accounting policies is included under the caption "Critical Accounting Policies Involving Significant Estimates" on pages 57 through 59 of

our Annual Report on Form 10-K for the year ended December 31, 2019. Aside from an interim test of goodwill impairment performed for our BTD reporting unit, which is further described below, there were no material changes in critical accounting policies or estimates during the quarter ended March 31, 2020.

Goodwill is required to be tested annually for impairment and more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Examples of such events or circumstances may include, among others, a significant adverse change in business climate, weakness in an industry in which a reporting unit operates or recent significant cash or operating losses with expectations that those losses will continue. Goodwill is tested for impairment at the reporting unit level. A reporting unit is defined as an operating segment or one level below an operating segment (referred to as a component). A component of an operating segment is a reporting unit if the component constitutes a business for which discrete financial information is available and segment management regularly reviews the operating results of that component.

During the quarter ended March 31, 2020, the Company concluded an interim impairment test of goodwill of its BTD reporting unit, which carries a goodwill balance of $18.1 million, was warranted. This conclusion was reached based on the deteriorating economic conditions resulting from COVID-19 that led to lower product demand across all end markets beginning in the last half of March 2020 and the anticipation of subsequent further reduced demand resulting from temporary plant shutdowns of our original equipment manufacturer customers. In response to this reduced demand, BTD has reduced its operating levels and implemented certain cost reduction efforts, including temporary furloughs of production employees.

We estimated the fair value of the BTD reporting unit primarily using an income approach, which includes a discounted cash flow methodology to arrive at a fair value estimate by determining the present value of projected future cash flows over a specified period plus a terminal value related to cash flows beyond the projection period. The discount rate applied to the estimated future cash flows reflects our estimate of the weighted-average cost of capital of comparable companies. To supplement our income approach, we reference various market indications of fair value, where available. Our market approach includes fair value estimates using multiples derived from comparable enterprise values to EBITDA and revenue multiples, comparable price earnings ratios and, if available, comparable sales transactions for comparative peer companies.

The impairment assessment indicated no impairment was present as the estimated fair value of the reporting unit exceeded the carrying value by approximately 20%. The most significant assumption impacting our fair value estimate under the income approach is the anticipated duration and severity of reduced demand and the resulting impact on revenue levels given the uncertainty of economic conditions in light of COVID-19. Our current assumptions include significantly reduced demand in the second quarter of 2020 followed by recovering levels of demand in the third and fourth quarters of 2020. Other significant assumptions included operating expense levels and our ability to manage costs during the anticipated period of reduced demand, the terminal growth rate which impacts estimated cash flow generation beyond our discrete projection period, and the discount rate applied to our estimated future cash flows.

Our estimates and assumptions inherently include a degree of uncertainty, and these estimates and assumptions could be significantly impacted by factors such as the duration and severity of reduced economic activity and industry conditions within the recreational vehicle, lawn and garden, construction, agricultural, and industrial and energy equipment end markets. A significant change in our estimates and assumptions could result in an impairment charge in a future period which could materially impact our results of operations and financial position.

Forward Looking Information - Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995

In connection with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995 (the Act), we have filed cautionary statements identifying important factors that could cause our actual results to differ materially from those discussed in forward-looking statements made by or on behalf of the Company. When used in this Form 10-Q and in future filings by the Company with the Securities and Exchange Commission, in our press releases and in oral statements, words such as "may", "will", "expect", "anticipate", "continue", "estimate", "project", "believes" or similar expressions are intended to identify forward-looking statements within the meaning of the Act and are included, along with this statement, for purposes of complying with the safe harbor provision of the Act. These forward-looking statements involve risks and uncertainties. Actual results may differ materially from those contemplated by the forward-looking statements due to, among other factors, the risks and uncertainties described in the section entitled “Risk Factors” in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2019, and Part II, Item 1A of this report on Form 10-Q, as well as the various factors described below:

- The economic effects of the COVID-19 outbreak and measures taken to arrest its spread could continue to adversely impact our business, including our results of operations, financial condition and liquidity.

- Federal and state environmental regulation could require us to incur substantial capital expenditures and increased operating costs.
- Weather impacts, including normal seasonal fluctuation of weather, as well as extreme weather events that could be associated with climate change, could adversely affect our results of operations.
- Volatile financial markets and changes in our debt ratings could restrict our ability to access capital and increase borrowing costs and pension plan and postretirement health care expenses.
- Any significant impairment of our goodwill would cause a decrease in our asset values and a reduction in our net operating income.
- The inability of our subsidiaries to provide sufficient earnings and cash flows to allow us to meet our financial obligations and debt covenants and pay dividends to our shareholders could have an adverse effect on the Company.
- We rely on our information systems to conduct our business, and failure to protect these systems against security breaches or cyber-attacks could adversely affect our business and results of operations. Additionally, if these systems fail or become unavailable for any significant period, our business could be harmed.
- Economic conditions could negatively impact our businesses.
- If we are unable to achieve the organic growth we expect, our financial performance may be adversely affected.
- Our plans to grow our businesses through capital projects, including infrastructure and new technology additions, or to grow or realign our businesses through acquisitions or dispositions may not be successful, which could result in poor financial performance.
- We may, from time to time, sell assets to provide capital to fund investments in our electric utility business or for other corporate purposes, which could result in the recognition of a loss on the sale of any assets sold and other potential liabilities. The sale of any of our businesses also exposes us to additional risks associated with indemnification obligations under the applicable sales agreements and any related disputes.
- Significant warranty claims and remediation costs in excess of amounts normally reserved for such items could adversely affect our results of operations and financial condition.
- We are subject to risks associated with energy markets.
- Changes in tax laws, as well as judgments and estimates used in the determination of tax-related asset and liability amounts, could materially adversely affect our business, financial condition, results of operations and prospects.
- Four of our operating companies have single customers that provide a significant portion of the individual operating company’s and the business segment’s revenue. The loss of, or significant reduction in revenue from, any one of these customers would have a significant negative financial impact on the operating company and its business segment and could have a significant negative financial impact on the Company.
- The inability to attract and retain a qualified workforce including, but not limited to, executive officers, key employees and employees with specialized skills could have an adverse effect on our operations.
- We may experience fluctuations in revenues and expenses related to our electric operations, which may cause our financial results to fluctuate and could impair our ability to make distributions to shareholders or scheduled payments on our debt obligations, or to meet covenants under our borrowing agreements.
- Actions by the regulators of our electric operations could result in rate reductions, lower revenues and earnings or delays in recovering capital expenditures.
- OTP’s operations are subject to an extensive legal and regulatory framework under federal and state laws as well as regulations imposed by other organizations that may have a negative impact on our business and results of operations.
- OTP’s electric transmission and generation facilities could be vulnerable to cyber and physical attack that could impair our ability to provide electrical service to our customers or disrupt the U.S. bulk power system.
- OTP’s electric generating facilities are subject to operational risks that could result in early closure, unscheduled plant outages, unanticipated operation and maintenance expenses and increased power purchase costs.
- Regulation of generating plant emissions could affect our operating costs and the costs of supplying electricity to our customers and the economic viability of continued operation of certain of OTP’s steam-powered electric plants.

- The long-range planning required for transmission and generation projects creates risks of increased costs and lower returns on investment when the project is finally completed.

- Competition from foreign and domestic manufacturers, the price and availability of raw materials, trade policy and tariffs affecting prices and markets for raw material and manufactured products, prices and supply of scrap or recyclable material and general economic conditions could affect the revenues and earnings of our manufacturing businesses.

- Economic conditions in the industries in which our customers operate can have an adverse impact on our results of operations and cash flows.

- Our business and operating results may be adversely affected if we are not able to maintain our manufacturing, engineering and technological expertise.

- Our manufacturing, painting and coating operations are subject to environmental, health and safety laws and regulations that could result in liabilities to us.

- Our plastics operations are highly dependent on a limited number of vendors for PVC resin and a limited supply of PVC resin. The loss of a key vendor, or any interruption or delay in the supply of PVC resin, could result in reduced sales or increased costs for our plastics business.

- We compete against many other manufacturers of PVC pipe and manufacturers of alternative products. Customers may not distinguish our products from those of our competitors.

- Changes in PVC resin prices can negatively affect our plastics business.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

At March 31, 2020 we had exposure to market risk associated with interest rates because we had $19.9 million in short-term debt outstanding subject to variable interest rates indexed to LIBOR plus 1.50% under the OTC Credit Agreement.

All of our remaining consolidated long-term debt outstanding on March 31, 2020 has fixed interest rates. We manage our interest rate risk through the issuance of fixed-rate debt with varying maturities, through economic refunding of debt through optional refundings, limiting the amount of variable interest rate debt, and the utilization of short-term borrowings to allow flexibility in the timing and placement of long-term debt.

We have not used interest rate swaps to manage net exposure to interest rate changes related to our portfolio of borrowings. We maintain a ratio of fixed-rate debt to total debt within a certain range. It is our policy to enter into interest rate transactions and other financial instruments only to the extent considered necessary to meet our stated objectives. We do not enter into interest rate transactions for speculative or trading purposes.

The companies in our Manufacturing segment are exposed to market risk related to changes in commodity prices for steel, aluminum, and polystyrene and other plastics resins. The price and availability of these raw materials could affect the revenues and earnings of our Manufacturing segment.

The PVC pipe companies are exposed to market risk related to changes in commodity prices for PVC resins, the raw material used to manufacture PVC pipe. The PVC pipe industry is highly sensitive to commodity raw material pricing volatility. Historically, when resin prices are rising or stable, sales volume has been higher and when resin prices are falling, sales volume has been lower. Operating income may decline when the supply of PVC pipe increases faster than demand. Due to the commodity nature of PVC resin and the dynamic supply and demand factors worldwide, it is very difficult to predict gross margin percentages or to assume that historical trends will continue.

Item 4. Controls and Procedures

Under the supervision and with the participation of company management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of March 31, 2020, the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 31, 2020.

During the fiscal quarter ended March 31, 2020, there were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are the subject of various pending or threatened legal actions and proceedings in the ordinary course of our business. Such matters are subject to many uncertainties and to outcomes that are not predictable with assurance. We record a liability in our consolidated financial statements for costs related to claims, including future legal costs, settlements and judgments, where we have assessed that a loss is probable, and an amount can be reasonably estimated. We believe the final resolution of currently pending or threatened legal actions and proceedings, either individually or in the aggregate, will not have a material adverse effect on our consolidated financial position, results of operations or cash flows.

Item 1A. Risk Factors

Aside from the additional risk factor described below, there has been no material change in the risk factors set forth under Part I, Item 1A, “Risk Factors” on pages 29 through 39 of our Annual Report on Form 10-K for the year ended December 31, 2019.

The economic effects of the COVID-19 outbreak and measures taken to arrest its spread could continue to adversely impact our business, including our

results of operations, financial condition and liquidity.

The outbreak and global spread of COVID-19, which has been declared a pandemic by the World Health Organization, is a rapidly developing situation that has adversely impacted economic activity and conditions worldwide and is currently impacting our business operations. The extent to which COVID-19 will continue to impact our business is highly uncertain and will depend on future developments and the extent of federal, state and local government responses affecting economic recovery. In particular, the COVID-19 pandemic could, among other things:

- further reduce customer demand in our Manufacturing segment, where we have experienced a significant decline in orders as many of our customers are in businesses impacted by the pandemic and have temporarily closed their plants, and where we have already taken steps to reduce our operations, including furloughing of employees;
- reduce customer demand in our Electric segment, including demand from commercial and industrial customers;
- reduce customer demand in our Plastics segment;
- lead to disruptions of our workforce;
- force us to temporarily close certain plants if precautions to prevent the spread of the virus in those plants are not effective;
- increase our bad debt expenses, particularly in our Electric segment;
- increase our future pension benefit cost and funding requirements;
- increase health insurance premiums;
- disrupt the supply chains related to our Electric segment capital expenditure plans, including our Merricourt and Astoria Station projects, resulting in further delays, increased costs and the potential loss of federal production tax credits for our Merricourt project if it is not completed and in service by December 31, 2020;
- disrupt global financial markets, reducing our ability to access capital necessary to finance such expenditures, and which could in the future negatively affect our liquidity; and
- result in a recession or market correction that could materially affect our business and the value of our common stock.

We continue to monitor developments involving our workforce, customers, suppliers and vendors and take steps to mitigate against additional impacts, but given the unprecedented and dynamic nature of these circumstances, we cannot predict the full extent of the impact that COVID-19 will have on our results of operations, financial condition and liquidity. The situation continues to change rapidly, and the magnitude of the impact will depend, in part, on the length and severity of the pandemic, the current closures and any other restrictions or limitations implemented in the future.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

We do not have a publicly announced stock repurchase program. The following table shows common shares of the Company that were surrendered to us by employees to pay taxes in connection with shares issued for incentive awards in February 2020 under our 2014 Stock Incentive Plan:

Calendar Month	Total Number of Shares Purchased	Average Price Paid per Share
January 2020	--	--
February 2020	38,217	$ 54.22
March 2020	--	--
Total	38,217	

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Item 6. Exhibits

3.1	Restated Bylaws dated March 20, 2020 (incorporated by reference to Exhibit 3.1 to the Form 8-K filed by Otter Tail Corporation on March 20, 2020).
10.1	Otter Tail Corporation Executive Restoration Plus Plan (2020 Restatement) (incorporated by reference to Exhibit 10.1 to the Form 8-K filed by Otter Tail Corporation on April 22, 2020).
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.SCH	Inline XBRL Taxonomy Extension Schema Document.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

OTTER TAIL CORPORATION

By: /s/ Kevin G. Moug
Kevin G. Moug
Chief Financial Officer and Senior Vice President
(Chief Financial Officer/Authorized Officer)

Dated: May 8, 2020

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Section 2: EX-31.1 (EXHIBIT 31.1)

Exhibit 31.1

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Charles S. MacFarlane, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Otter Tail Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: May 8, 2020

/s/ Charles S. MacFarlane
Charles S. MacFarlane
President and Chief Executive Officer

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Section 3: EX-31.2 (EXHIBIT 31.2)

Exhibit 31.2

CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Kevin G. Moug, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Otter Tail Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 8, 2020

/s/ Kevin G. Moug
Kevin G. Moug
Chief Financial Officer and Senior Vice President

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Section 4: EX-32.1 (EXHIBIT 32.1)

Exhibit 32.1

CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Otter Tail Corporation (the "Company") on Form 10-Q for the period ended March 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Charles S. MacFarlane, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Charles S. MacFarlane
Charles S. MacFarlane
President and Chief Executive Officer
May 8, 2020

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Section 5: EX-32.2 (EXHIBIT 32.2)

Exhibit 32.2

CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Otter Tail Corporation (the "Company") on Form 10-Q for the period ended March 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Kevin G. Moug, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Kevin G. Moug
Kevin G. Moug
Chief Financial Officer and Senior Vice President
May 8, 2020

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