

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1994-05-13** | Period of Report: **1994-03-31**  
SEC Accession No. **0000075129-94-000016**

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**OTTER TAIL POWER CO**

CIK: **75129** | IRS No.: **410462685** | State of Incorporation: **MN** | Fiscal Year End: **1231**  
Type: **10-Q** | Act: **34** | File No.: **000-00368** | Film No.: **94527722**  
SIC: **4911** Electric services

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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, 1994

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 0-368

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

Minnesota  
(State or other jurisdiction of  
incorporation or organization)

41-0462685  
(I.R.S. Employer  
Identification No.)

215 South Cascade Street, Box 496, Fergus Falls, Minnesota 56538-0496  
(Address of principal executive offices) (Zip Code)

218-739-8200  
(Registrant's telephone number, including area code)

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

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 X NO

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

May 1, 1994 - 11,180,136 Common Shares (\$5 par value)  
OTTER TAIL POWER COMPANY

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## OTTER TAIL POWER COMPANY

CONSOLIDATED BALANCE SHEETS  
(Unaudited)

## - ASSETS -

	March 31, 1994	December 31, 1993
	-----	-----
	(Thousands of Dollars)	
Plant		
<S> Electric Plant in Service	<C> \$681,667	<C> \$679,282
Other	35,022	34,626
	-----	-----
Total	716,689	713,908
Less Accumulated Depreciation and Amortization	275,762	270,385
	-----	-----
Construction Work in Progress	440,927 10,423	443,523 8,341
	-----	-----

Net Plant	451,350	451,864
	-----	-----
Investments and Other Assets:	43,822	43,853
	-----	-----
Current Assets:		
Cash and Cash Equivalents	7,762	3,808
Temporary Cash Investments	433	451
Accounts Receivable:		
Trade - Net	22,456	19,531
Other	2,772	3,361
Materials and Supplies		
Fuel	3,838	3,667
Inventory, Materials and Operating Supplies	15,889	14,552
Deferred Income Taxes	4,565	4,482
Accrued Utility Revenues	3,836	4,368
Other	2,542	2,477
	-----	-----
Total Current Assets	64,093	56,697
	-----	-----
Deferred Debits:		
Unamortized Debt Expense and Reacquisition Premiums	5,528	5,611
Other	6,040	5,880
	-----	-----
Total Deferred Debits	11,568	11,491
	-----	-----
TOTAL	\$570,833	\$563,905
	=====	=====

See Accompanying Notes to Consolidated Financial Statements

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OTTER TAIL POWER COMPANY  
CONSOLIDATED BALANCE SHEETS  
(Unaudited)

-LIABILITIES-

	March 31, 1994	December 31, 1993
	-----	-----
	(Thousands of Dollars)	
Capitalization:		
Common Shares, Par Value \$5 Per Share - Authorized		
<S>  15,000,000 Shares; Outstanding 1994 and 1993,	<C>	<C>
11,180,136 Shares	\$55,901	\$55,901
Premium on Common Shares	30,335	30,336

Retained Earnings	88,168	84,209
	-----	-----
Total	174,404	170,446
Cumulative Preferred Shares - Authorized 1,500,000 Shares Without Par Value; Outstanding 1994 and 1993, 388,311 Shares:		
Subject to Mandatory Redemption	18,000	18,000
Other	20,831	20,831
Cumulative Preference Shares - Authorized 1,000,000 Shares Without Par Value; Outstanding - None		
	--	--
Long-Term Debt	165,816	166,563
	-----	-----
Total Capitalization	379,051	375,840
Current Liabilities:		
Sinking Fund Requirements and Current Maturities	7,749	9,356
Accounts Payable	17,159	15,987
Federal and State Income Taxes Accrued	5,138	--
Other Taxes Accrued	11,876	11,187
Interest Accrued	1,828	3,522
Other	4,508	5,687
	-----	-----
Total Current Liabilities	48,258	45,739
Noncurrent Liabilities:		
	6,932	5,690
Deferred Credits:		
Accumulated Deferred Income Taxes	93,511	92,940
Accumulated Deferred Investment Tax Credit	23,210	23,518
Regulatory Liability	16,305	16,046
Other	3,566	4,132
	-----	-----
Total Deferred Credits	136,592	136,636
	-----	-----
TOTAL	\$570,833	\$563,905
	=====	=====

See Accompanying Notes to Consolidated Financial Statements

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OTTER TAIL POWER COMPANY

CONSOLIDATED STATEMENTS OF INCOME  
(Unaudited)

Three Months Ended  
March 31,  
1994                      1993  
                                    Restated  
-----                      -----  
(Thousands of Dollars)

&lt;S&gt;

&lt;C&gt;

&lt;C&gt;

Operating Revenues		
Electric	\$54,889	\$53,817
Health Services	10,920	1,053
Diversified Operations	7,627	3,844
	-----	-----
Total Operating Revenues	73,436	58,714
Operating Expenses		
Production Fuel	8,658	7,870
Purchased Power	6,713	7,728
Electric Operation Expenses	11,703	11,190
Electric Maintenance	3,037	2,760
Cost of Health Services Sold	7,423	--
Other Health Services Expenses	2,784	980
Diversified Cost of Goods Sold	4,803	1,968
Other Diversified Expenses	1,999	1,316
Depreciation and Amortization	5,233	4,778
Property Taxes	2,982	2,869
Income Taxes	5,754	4,998
	-----	-----
Total Operating Expenses	61,089	46,457
Operating Income	12,347	12,257
Allowance For Equity (Other) Funds Used During Construction	31	13
Other Income and Deductions and Applicable Taxes	312	(41)
	-----	-----
Income Before Interest Charges	12,690	12,229
Interest Charges	3,348	3,246
Allowance For Borrowed Funds Used During Construction - Credit	(14)	(7)
	-----	-----
Net Income	9,356	8,990
Preferred Dividend Requirements	590	617
	-----	-----
Earnings Available for Common Shares	\$8,766	\$8,373
	=====	=====
Earnings Per Average Common Share	\$0.78	\$0.75
	=====	=====
Average Number of Common Shares Outstanding	11,180,136	11,180,136
Dividends Per Common Share	\$0.43	\$0.42

See Accompanying Notes to Consolidated Financial Statements

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OTTER TAIL POWER COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

		Three Months Ended March 31,	
<S>	<C>	1994	1993 Restated
		-----	-----
		(Thousands of Dollars)	of Dollars)
		<C>	<C>
<b>Cash Flows From Operating Activities:</b>			
Net Income		\$9,356	\$8,990
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Depreciation and Amortization		6,427	5,538
Deferred Investment Tax Credit - Net		(308)	(306)
Deferred Income Taxes		928	892
Change in Deferred Debits and Other Assets		395	(24)
Change in Noncurrent Liabilities and Deferred Credits		376	5,001
Allowance for Equity (Other) Funds Used During Construction		(31)	(14)
Loss on Disposal of Noncurrent Assets		20	260
Cash Provided by (Used for) Current Assets and Current Liabilities:			
Change in Receivables, Materials and Supplies		(3,360)	1,658
Change in Other Current Assets		496	(4,129)
Change in Payables and Other Current Liabilities		1,086	(2,225)
Change in Interest and Income Taxes Payable		3,442	2,168
		-----	-----
Net Cash Provided by Operating Activities		18,827	17,809
<b>Cash Flows From Investing Activities:</b>			
Gross Capital Expenditures		(6,573)	(5,495)
Proceeds from Disposal of Noncurrent Assets		494	69
Purchase of Subsidiaries, Net of Cash Acquired		(574)	(3,964)
Change in Temporary Cash Investments		18	(4,976)
Change in Marketable Securities		(381)	(1,792)
		-----	-----
Net Cash Used in Investing Activities		(7,016)	(16,158)
<b>Cash Flows From Financing Activities:</b>			
Proceeds from Issuance of Long-Term Debt		678	1,898
Payments for Retirement of Long-Term Debt		(3,082)	(763)
Payments for Debt Issuance Expenses		(56)	--
Dividends Paid		(5,397)	(5,313)
		-----	-----
Net Cash Used in Financing Activities		(7,857)	(4,178)
Net Change in Cash and Cash Equivalents		3,954	(2,527)
Cash and Cash Equivalents at Beginning of Year		3,808	8,369
		-----	-----
Cash and Cash Equivalents at March 31		\$7,762	\$5,842
		=====	=====
<b>Supplemental Cash Flow Information</b>			
Cash Paid for Interest and Income Taxes:			
Interest		\$4,816	\$5,062
Income Taxes		\$552	\$420

See Accompanying Notes to Consolidated Financial Statements

OTTER TAIL POWER COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

The Company, in its opinion, has included all adjustments (including normal recurring accruals) necessary for a fair presentation of the results of operations for the periods. The financial statements for 1994 are subject to adjustment at the end of the year when they will be audited by independent accountants. The financial statements and notes thereto should be read in conjunction with the financial statements and notes for the years ended December 31, 1993, 1992 and 1991 included in the Company's 1993 Annual Report to the Securities and Exchange Commission on Form 10-K.

Effective January 1, 1994, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 112 - Employers' Accounting for Postemployment Benefits and SFAS No. 115 - Accounting for Certain Investments in Debt and Equity Securities. SFAS No. 112 establishes standards of financial accounting and reporting for the estimated cost of benefits provided by an employer to former or inactive employees after employment but before retirement. SFAS No. 115 establishes standards of financial accounting and reporting for investments in equity securities that have readily determinable fair values and for all investments in debt securities. The adoption of SFAS No. 112 and SFAS No. 115 did not have a material impact on the Company's financial statements.

On September 22, 1993, the North Dakota Public Service Commission entered an Order approving an Agreement for Incentive Regulation for 1993. As part of the Order, the Company is required to accrue the North Dakota portion of unbilled revenue as of January 1, 1993, (\$4.4 million) and to amortize it over a 36-month period beginning in January 1993. The Company's financial statements for the three months ended March 31, 1993, have been restated to reflect this change. The effects of the restatement are considered immaterial.

Because of seasonal and other factors, the earnings for the three-month period ended March 31, 1994, should not be taken as an indication of earnings for all or any part of the balance of the year.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Material Changes in Financial Position

Cash provided by operating activities of \$18,827,000 as shown on the Consolidated Statement of Cash Flows for the three months ended March 31, 1994, allowed the Company to finance its construction program, pay dividends, retire long-term debt, and invest in an additional nonutility business. At March 31, 1994, the Company had \$8,195,000 in Cash, Cash Equivalents and Temporary Cash Investments. In addition, the Company had \$17,145,000 in marketable securities included in Investments and Other Assets which could be used to supplement cash needs.

The Company estimates that funds internally generated, combined with funds on



hand, will be sufficient to provide for all of its 1994-1998 electric construction program expenditures (including allowance for funds used during construction) and to meet all sinking fund payments for First Mortgage Bonds in the next five years. Additional short or long-term financing will be required in the period 1994-1998 in connection with the maturity of First Mortgage Bonds and a Long-Term Lease Obligation (\$21,000,000), in the event the Company decides to refund or retire early any of its presently outstanding debt or cumulative preferred shares, to complete its common stock repurchase program or for other corporate purposes.

The increases in Construction Work in Progress reflects new construction related to electric utility operations, principally in production, transmission, and distribution plant. The increase in Cash and Cash Equivalents is because the cash provided from operating activities exceeded what was used in investing and financing activities. Normal changes in seasonal demand for electricity and increased activity at one of the Company's Health Services subsidiaries caused the increase in Trade Accounts Receivable. The increases in the current liability for Federal and State Income Taxes Accrued and Other Taxes Accrued were caused by the timing of tax payments. The reduction in Interest Accrued reflects the fact that interest payments for the majority of the Company's bonds were made in February. Payment of an employee incentive plan liability accrued at December 31, 1993, caused the balance in Other Current Liabilities to decrease. Noncurrent Liabilities increased due primarily to the accrual of postretirement benefits other than pensions costs.

The increase in Inventory, Materials and Operating Supplies, and Accounts Payable, and the decrease in Sinking Fund Requirements and Current Maturities are due to increased activity at one of the Company's Health Services subsidiaries. The increase in Accounts Payable was offset, to a smaller extent, by a seasonal decline in the Accounts Payable of the electric utility.

#### Material Changes in Results of Operations

The 2% increase in Electric Operating Revenues for the quarter ended March 31, 1994, as compared to the quarter ended March 31, 1993, is due primarily to a 4.6% increase in retail revenue offset by a 27% decrease in power pool sales. Retail revenue increased because of a 5.9% increase in kwh sales. The colder weather experienced in the first quarter of 1994 (average system heating degree days increased by 5.3% over 1993) contributed to the increase in kwh sales. Power pool sales decreased for the quarter due to a 32.6% decrease in kwh sales, as the Company utilized generation to serve its own retail customers.

The increase in Production Fuel for the quarter ended March 31, 1994, as compared to the quarter ended March 31, 1993, is due primarily to a 9.3% increase in generation, which relates to the increase in retail kwh sold. The decrease in Purchased Power for the three months ended March 31, 1994, as compared to the same period in 1993, is due to a 38.6% decrease in kwh purchases for resale, which corresponds to the decrease in power pool sales.

The increase in Health Services Operating Revenues, Cost of Health Services Sold, and Other Health Services Expenses for the quarter ended March 31, 1994, as compared to the same period in 1993, is principally due to including the results of a new Health Services subsidiary acquired by the Company toward the end of the first quarter of 1993.

The increase in Diversified Operations Operating Revenues, Diversified Cost of

Goods Sold, and Other Diversified Expenses in the first quarter of 1994, as compared to the same period in 1993, was primarily caused by including three months of subsidiary operations in the first quarter of 1994, as compared to only two months in 1993.

The increase in Income Taxes for the three months ended March 31, 1994, as compared to the same period in 1993, is primarily due to higher taxable income, the Federal tax rate change, and a SFAS 109 adjustment made in 1993. The increase in Other Income and Deductions and Applicable Taxes in the quarter ended March 31, 1994, as compared to the same period in 1993, is due to higher investment income.

Item 6. Exhibits and Reports on Form 8-K.

- a) Exhibits: None
- b) Report on Form 8-K.

No reports on Form 8-K were filed during the fiscal quarter ended March 31, 1994.

#### 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 POWER COMPANY

By: Andrew E. Anderson

Andrew E. Anderson  
Controller/Chief Accounting Officer  
Authorized Officer

Dated: May 11, 1994