Risk Factors Comparison 2024-02-14 to 2023-02-15 Form: 10-K

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Our businesses are subject to various risks and uncertainties. Any of the risks described below or elsewhere in this report on Form 10- K or in our other SEC filings could materially adversely affect our business, operating results, financial condition and liquidity. Additional risks and uncertainties we are not presently aware of or that we currently consider immaterial may also affect our business, operating results, financial condition and liquidity. ~~Oversight of Risk and Related Processes A key accountability of the Board of Directors is the oversight of material risk. Management and the Board of Directors have responsibility for overseeing the identification and mitigation of significant and emerging risks. Management identifies and analyzes risks to determine the impact and other attributes such as timing, likelihood and management control. Identification and analysis occur formally through an assessment of significant and emerging risks conducted by senior management, the financial disclosure process, and internal auditing and compliance with financial and operational controls. Management also identifies and analyzes risk through the development of goals and key performance indicators, which include risk identification to determine barriers to implementing our strategy. We promote a culture of compliance, including tone at the top. The process for risk mitigation includes adherence to our code of business ethics and compliance policies, operation of formal risk management structures and overall business management to mitigate the risks inherent in the implementation of strategy. We manage and further mitigate risks through formal risk management structures, including a management executive risk committee and internal business functions such as internal audit / business risk management and legal. Management communicates regularly with our Board of Directors and key stakeholders regarding risk. Senior management presents and communicates a periodic risk assessment to our Board of Directors which provides information on the risks management believes are material, including the earnings impact, timing, likelihood and management control. The Board of Directors approaches oversight, management and mitigation of risk as an integral and continuous part of its governance of Otter Tail Corporation. The Board of Directors regularly reviews management' s top risk assessment and analyzes areas of existing and future risks and opportunities. Finally, the Board of Directors conducts an annual strategy session where our future plans and initiatives are reviewed.~~ OPERATIONAL RISKS Our strategy includes large capital investments, which are subject to risks. Our business strategy includes major capital investments at our ~~existing~~ **operating** companies ~~. Our capital investment program planned for the next five years includes Electric segment investments in renewable generation, transmission asset additions and upgrades, and technology and infrastructure projects, and Manufacturing and Plastics segments investments in facilities, equipment and machinery~~ . These capital projects are planned years in advance of their in- service dates and are subject to various risks including: ~~obtaining necessary permits, licenses and timely approvals;~~ adverse changes in regulatory treatment or public policy; changes in commodity pricing **or** ~~, equipment and~~ construction costs; ~~technology changes;~~ delivery ~~delays~~ of critical materials ~~and components~~ ; **obtaining necessary permits and licenses** ~~delays caused by construction accidents, injuries or public health crises; adverse weather conditions; unforeseen product defects; limited access to capital~~ ; and other adverse conditions. Capital investments in our Electric segment require regulatory approval and are subject to the risks of not being granted timely **approval** or allowed to be fully recovered. ~~The~~ **In addition, our ability to construct and own utility assets may be impacted by regulatory requirements to competitively bid such investments, which could impact the amount and timing of our capital investments. A lack of direct ownership, or the** inability to complete capital projects on budget and in a timely manner could **impact our ability to achieve our strategic financial goals and could** adversely impact our operating results and financial condition. ~~Our acquisition or divestiture strategies are subject to risk and could adversely impact our financial position and operating results. As part of our business strategy, we continually assess our mix of businesses and potential strategic acquisitions or divestitures. This investment strategy is subject to various risks including the ability to identify appropriate acquisition candidates or successfully negotiate and finance any acquisitions. In addition, difficulties in integrating the operations, services, products and personnel of the acquired business, and the potential loss of key employees, customers and suppliers of the acquired business could adversely impact our financial condition and operating results. The sale of any of our businesses may result in the recognition of a loss if the business is sold for less than its book value and may expose us to risk arising from indemnification obligations that arose out of the conduct of the business prior to the sale. These obligations may include warranty and environmental obligations or the recoverability of certain assets sold as part of the transaction. Unforeseen costs related to these obligations could impact our operating results.~~ Weather impacts, including ~~normal~~ seasonal ~~fluctuation~~ **fluctuations** ~~and extreme weather events~~ , could adversely affect our operating results. Our Electric segment business is seasonal and weather patterns ~~can~~ have ~~a material~~ **had an** impact on our financial performance **in the past and may again in the future** . Demand for electricity is normally greater in the winter and summer months. Unusually mild summers and winters could have an adverse effect on our financial condition and results of operations. ~~Weather can also have a significant impact on our Plastics segment businesses as most U. S. PVC resin production plants are located in the Gulf Coast region, which is prone to seasonal hurricane activity and other extreme weather events.~~ Our ~~access to PVC resin may be impacted by the volume and magnitude of hurricane and storm activity in this region. In addition, our~~ Plastics segment businesses can be affected by **seasonal** weather prohibiting or delaying construction projects at any time of the year in any geography, but specifically times of the year when frozen ground and cold temperatures in many parts of the country can delay construction projects, all of which can result in reduced customer demand **and could have an adverse effect on our financial condition, operating results and liquidity** . **We** ~~Our businesses~~ are ~~located in areas that could be~~ subject to **physical and transition risks associated with climate change and extreme weather events. Longer term shifts in climate patterns may impact our customers' demand**

for electricity, interrupt our business operations and damage our facilities; reduce the availability of natural resources, such as water; and cause disruptions in our supply chains. Climate change may increase the frequency and severity of extreme weather events, such as prolonged periods of extreme cold or heat, and natural disasters **,** such as severe snow and ice storms, tornadoes, flooding and ~~fires~~ **wildfires** . These ~~factors~~ **acute events** could result in **the** interruption of our business **operations** and damage to our facilities. An extreme weather event within our utility service area could directly affect our capital assets, causing disruption in service to customers **,** and result in **reduced operating revenues and** repair or replacement costs, due to downed wires and poles or damage to other operating equipment. In ~~addition to variations~~ **the past, severe weather events** in **the Gulf Coast region of the U. S. have disrupted the supply of PVC resin, the primary material input of our Plastics segment businesses. As most U. S. PVC resin production plants are located in the Gulf Coast region, an area prone to** seasonal **hurricane activity** ~~weather patterns, more widespread climate change may also create physical~~ and **other** ~~financial risk to our businesses. Physical risks of climate change, such as more frequent or more~~ extreme weather events, ~~changes in temperature and precipitation patterns, changes to ground and surface water availability and other phenomena, could affect some or~~ **our** ~~all~~ **access to PVC resin may be impacted by the volume and magnitude** of ~~our operations. Severe weather~~ **hurricane and storm activity in this region, which could impact** ~~or~~ **our** ~~other~~ **Plastics segment businesses. Increased risk of** natural disasters ~~related~~ **, such as wildfires, could have financial consequences, including limiting our ability** to **secure sufficient insurance coverage, or lead to increased insurance cost. While we carry liability insurance, given an extreme event, if we were found to be liable for damages, amounts that exceed our coverage limit could negatively impact our financial condition, operating results and liquidity. These risks may also negatively impact our credit ratings, which may limit our access to capital markets and increase our borrowing costs. In addition, to the extent investors view** climate change **, fossil fuel combustion and GHG emissions as a financial risk, our stock price or our ability to access capital markets on favorable terms and conditions** could be **adversely impacted** ~~destructive and result in increased costs and disruptions in our operations~~ . ~~Extreme weather conditions~~ **We may experience transition risks in moving towards low carbon generation and manufacturing. For example** , ~~such~~ **we may face challenges with the adoption of new technologies, meeting changing customer expectations and committing to voluntary GHG emissions reduction goals,** as **well as complying with evolving local** ~~uncommonly long periods of high or low ambient temperature~~ , **state** ~~generally require more utility system backup, adding to costs and contributing to increased system stress on our~~ - **or** ~~utility infrastructure, which could cause service interruptions~~ **federal regulatory requirements intended to reduce GHG emissions** . The loss of, or significant reduction in revenue from, any of our key customers could have an adverse effect on our operating results. While no single customer provided more than 10 % of our consolidated operating revenues, each of our segments have customers which accounted for over 10 % of the segment' s operating revenues. In ~~2022~~ **2023** , ~~one~~ **two** ~~customer~~ **customers** accounted for ~~11~~ **21** % of Electric segment revenues, ~~three~~ **two** customers combined to account for ~~50~~ **30** % of Manufacturing segment operating revenues and two customers combined to account for ~~46~~ **36** % of Plastics segment operating revenues. The loss of any one of these customers or a significant decline in sales to these customers, would have a significant negative impact on the segment' s financial condition and operating results, and could have a significant negative impact on the Company' s consolidated financial condition, operating results and liquidity ~~. Electric segment operating revenues also include sales to a customer that is a developer and operator of data centers which serve the high performance computing industry, with a concentration of customers involved in cryptocurrency mining and related activities. Customer demand from their cryptocurrency mining customers can directly impact our customer' s demand for electricity. The cryptocurrency industry is highly volatile, and a significant decrease in cryptocurrency mining demand could have a negative impact on our customer' s demand for electricity, and therefore negatively impact our operating revenues~~ . We are subject to counterparty credit risk. We extend credit to our customers in the ordinary course of business in each of our operating segments. Our customers' ability to pay depends on a variety of factors including macroeconomic conditions, local economic conditions including unemployment rates, and industry conditions in which our customers operate. Increased customer delinquencies and bad debts could adversely impact our operating results and liquidity. Our operations are subject to environmental, health and safety laws and regulations. We are subject to numerous federal, state, and local environmental, health and safety laws and regulations governing, among other things, discharges to air and water, natural resources, hazardous waste and toxic substances, the cleanup of contaminated sites, and health and safety matters. Our failure to comply with applicable laws and regulations could result in civil or criminal fines or penalties, enforcement actions, and regulatory or judicial orders enjoining or curtailing operations or requiring corrective measures, which could materially and adversely affect our business. Compliance with these laws and regulations is a significant factor in our business. We have incurred and expect to continue to incur capital expenditures and operating costs to comply with applicable current and future laws and regulations. Our businesses continue to be subject to additional and changing environmental, health and safety laws and regulations, and we could incur additional costs complying with requirements that are promulgated in the future. **New laws or regulations or changes to existing laws and regulations in the future may result in disruptions to our business, changes in customer preferences, or changes in customer demand, which could adversely impact our financial condition, operating results and liquidity.** Recently, various federal and state agencies have heightened their scrutiny of per- and polyfluoroalkyl substances (PFAS), which are manufactured chemicals used in a variety of consumer and industrial products. **Regulators have recently** ~~In August 2022, the U. S. EPA~~ proposed **additional chemicals be designated as hazardous substances, including a proposal** to designate perfluorooctanesulfonic acid ~~(PFOS)~~ and perfluorooctanoic acid ~~(PFOA)~~ , two of the most common PFAS chemicals, as hazardous substances, which could have wide- ranging impacts on companies across various industries, including ours. We are investigating whether PFAS compounds are used in our manufacturing or operating processes that occur in our various businesses. At this time, we cannot predict the outcome or the severity of the impact, if any, of future laws or regulations enacted to address PFAS. A cyber incident, security breach or system failure could adversely affect our business and operating results. The operation of our business is dependent on the secure functioning of our computer hardware and software systems ~~. Furthermore, all our businesses require us to collect and maintain sensitive customer data~~ , as well as **that of** ~~confidential employee and shareholder information, which is subject to electronic theft or loss. We also use~~ third- party **service providers and** vendors **we use** to electronically process certain of our business transactions. Information systems, both ours and those of third parties, are vulnerable to security breaches by computer hackers and cyber terrorists **,** and the negligent or intentional breach of established controls and procedures **,** or mismanagement of confidential information by employees. ~~We~~ **Cyber- attacks or other security breaches** may also be ~~impacted by~~ **perpetrated through the use of artificial intelligence, which could introduce additional complexity to such an** ~~attacks~~ - **attack or** ~~and data security breaches~~ -- **breach** ~~of financial institutions, merchants or third- party service providers~~ . While we employ a defense- in- depth strategy and regularly conduct cybersecurity assessments, we cannot be certain our information security systems and protocols and those of our vendors and other third parties are sufficient to withstand a cyber- attack or other security breach. A major cyber incident could result in significant expenses to investigate and repair security breaches or system damage **,** and could lead to litigation, fines, other remedial action, heightened regulatory scrutiny and damage to our reputation. For example, we may be subject to liability under various federal, state and international **disclosure laws and** data protection laws. These laws are subject to change and expansion and may require additional operational changes and costs to comply. The misappropriation, corruption or loss of personally identifiable information and other confidential data could lead to significant monetary damages, regulatory enforcement actions and breach notification and mitigation expenses, such as credit monitoring, and result in reputational damage affecting relations with shareholders, customers, regulators and others. In addition to property and casualty insurance, which may cover restoration of data, certain physical damage or third- party injuries, we have cybersecurity insurance related to a breach event. However, damage and claims arising from such incidents may not be covered or may exceed the amount of any available insurance. The inability to attract and retain a qualified workforce could have an adverse effect on our operations. The success of our business is heavily dependent on the leadership of our executive officers and key employees for implementation of our strategy. In addition, all of our businesses rely on a qualified workforce, including technical employees who possess certain specialized knowledge and skills. The inability to attract and retain a skilled and stable workforce at necessary staffing levels, whether due to decreases in hiring rates, increases in employee retirements, increases in terminations, or any combination thereof, may negatively affect our ability to service our customers, manufacture products or successfully manage our business and achieve our objectives. **Our acquisition or divestiture strategies are subject to risk and could adversely impact our financial position and operating results. As part of our business strategy, we continually assess our mix of businesses and potential strategic acquisitions or divestitures. This investment strategy is subject to various risks, including the ability to identify appropriate acquisition candidates, or successfully negotiate and finance any acquisitions.** In ~~2022~~ **addition** , ~~we faced labor challenges within our Manufacturing segment~~ **difficulties in integrating the operations, services, products and personnel of the acquired** ~~businesses~~ -- **business,** ~~including difficulty attracting~~ and ~~retaining~~ **the potential loss of key** employees ~~. In response~~ , **customers** ~~we offered increased compensation~~ and **suppliers of the acquired** ~~hiring and retention incentives, which led to increased costs in our~~ business **could adversely impact** ~~. Should these challenges persist or exacerbate,~~ our financial **condition and operating** results ~~could be impacted. If we are unable to maintain our desired staffing levels our ability to meet customer demand and achieve our growth targets could be negatively impacted~~ . FINANCIAL RISKS We are subject to capital market and interest rate risks. We rely on access to debt and equity capital markets as a source of liquidity to fund our investment initiatives, including rate base growth investments in our Electric segment and opportunities for investment, including acquisitions, in our Manufacturing and Plastics segments. Capital markets are impacted by global and domestic economic conditions, monetary policy, commodity prices, geopolitical events and other factors. If we are unable to access capital on acceptable terms and at reasonable costs, our ability to implement our business plans may be adversely affected. In addition, higher market interest rates on outstanding variable- rate, short- term indebtedness could also impact our operating results. In ~~2022~~ **2023** , rising market interest rates caused the applicable rate of interest on our short- term indebtedness to increase significantly. However, the impact to our operating results was not significant due to our low level of outstanding borrowings on our short- term indebtedness. Our operating results could be impacted if we significantly increase our short- term borrowings or issue new long- term debt, and interest rates remain elevated or continue to increase. A decrease in our credit ratings could increase our borrowing costs and result in additional contractual costs. We rely on our investment grade credit ratings to provide acceptable costs for accessing the capital markets. A downgrade of our credit ratings could result in higher borrowing costs thereby negatively impacting our operating results and limiting our ability to access capital markets, which may negatively impact our ability to implement our business plans. In addition, OTP is a party to contracts that require the posting of collateral or settlement of applicable contracts if credit ratings fall below certain levels. Our pension and other postretirement benefit plans are subject to investment and interest rate risks. The financial obligations and related costs of our pension and other postretirement benefit plans are affected by numerous factors. Assumptions related to future costs, investment returns, actuarial estimates and interest rates have a significant effect on our funding obligations and the cost recognized related to these plans. If our pension plan assets do not achieve our estimated long- term rate of return or if our other estimates prove to be inaccurate, our operating results, financial condition and liquidity may be adversely impacted. In addition, our funding requirements could be impacted by changes to the Pension Protection Act. We rely on our subsidiaries to provide sufficient earnings and cash flows to allow us to meet our financial obligations and pay dividends to our shareholders. Otter Tail Corporation is a holding company with no significant operations of its own. The primary source of funds for payment of our financial obligations and dividends to our shareholders is from cash provided by our subsidiary companies. Our ability to meet our financial obligations and pay dividends on our common stock principally depends on the earnings, cash flows, capital requirements and general financial positions of our subsidiary companies. In addition, OTP is subject to federal and state regulations which may restrict its ability to pay dividends. Finally, we are also reliant on our subsidiary companies to maintain compliance with financial covenants under our various short- and long- term debt agreements. Our debt agreements include restrictions on the payment of cash dividends upon an event of default. Changes in tax laws could materially affect our financial condition and operating results. Our provision for income taxes and tax obligations are impacted by various tax laws and regulations, including the availability of various tax credits, IRS tax policies such as tax normalization and, at times, the ability to carryforward net operating losses and tax credits. Changes in tax laws, regulations and interpretations could have an adverse effect on our financial condition and operating results. Tax law changes that reduce or eliminate production or investment tax credits **(ITCs), or the ability to transfer or sell these credits,** may impact the economics of constructing certain electric generation resources, which may impact our planned investments **,** and could adversely affect our financial condition and operating results ~~. A significant impairment of our goodwill would negatively impact our financial position and operating results. As of December 31, 2022, we had $ 37. 6 million of goodwill recorded on our consolidated balance sheet related to businesses within our Manufacturing and Plastics segments. Goodwill is tested for impairment annually or whenever events or changes in circumstances indicate impairment may have occurred. The goodwill impairment test requires us to estimate the fair value of the businesses being tested. Estimating the fair value of a business unit requires significant judgments and estimates, including estimates of future operating results and cash flows, among others. These estimates can be affected by numerous factors, including changes in economic, industry or market conditions, changes in business operations, changes in competition or changes in technologies. Any changes in key assumptions or material differences between actual and forecasted financial performance could affect our fair value estimates and lead to a goodwill impairment charge that could adversely affect our financial condition and operating results, as well as impact compliance with financing agreement covenants~~ . ELECTRIC SEGMENT RISKS General economic and industry conditions impact our business. Several factors, many of which are beyond our control, may contribute to reduced demand for energy from our customers or increase the cost of providing energy to our customers. These risks include economic growth or decline in our service areas, demographic changes in our customer base and changes in customer demand or load growth due to, among other items, proliferation of distributed generation, energy efficiency initiatives and technological advancements. In addition, customer demand could be impacted by increased competition in our service territories or the loss of a service territory or franchise. Other risks include increased transmission or interconnection costs, generation curtailment and changes in the manner in which wholesale power is purchased and sold. A decrease in revenues or an increase in expenses related to our electric operations could negatively impact our financial condition, operating results and liquidity. Our utility business is significantly impacted by government legislation and regulation. OTP is subject to federal and state legislation and comprehensive regulation by federal and state regulatory agencies, including the public utility commissions in each of the three states in which OTP operates, and by the FERC. State utility commissions regulate, among other matters, the establishment of assigned service areas, the siting and construction of major facilities, the capital structure of the utility business, and the allowed rates to charge customers for providing energy and utility service. Each state utility commission operates independent of one another; therefore, OTP is subject to and must adhere to the decisions of each independent state commission. The FERC regulates, among other matters, wholesale energy transactions, hydroelectric licensing, transmission and sale of electric energy in interstate commerce, and the interconnection of electric facilities. Our financial condition, operating results and liquidity are significantly impacted by, and dependent upon, our ability to recover the costs associated with providing utility service and earn a return on our utility capital investments. There is no assurance that each state utility commission will judge our utility costs to have been prudently incurred or that rates will produce full recovery of such costs. In addition, changes in the federal or state regulatory framework could impair our ability to recover utility costs historically collected from our customers. ~~In addition~~ **Diverging public policy priorities across the jurisdictions we serve** , ~~prolonged inflationary~~ **and a lack of inter- jurisdictional consensus, may impact our ability to recover the** cost ~~pressures would increase the cost~~ of **,** ~~constructing our utility assets~~ and **return on, our capital investments and our** operating ~~our utility business. Rising fuel~~ costs **; it may impact** ~~in 2022 have increased the cost of providing energy to~~ our ~~customers. In each instance, there can be no assurance that~~ **future capital investment opportunities; and may result in inefficiencies which could negatively impact** our **financial position, operating results and liquidity** ~~state regulatory commissions will authorize recovery of these rising costs~~ . In addition to the recovery of our utility costs, our profitability is impacted by our authorized ROE, which can be impacted by macroeconomic factors such as interest rates. There can be no assurance that each state utility commission or the FERC will authorize a rate of return which allows us to achieve our financial goals. An adverse decision by one or more regulatory authorities ~~concerning the level or method of determining electric utility rates; the authorized returns on equity; the authority to self- fund transmission upgrades; recoverability of fuel, purchase power and other costs; the allocation of costs between jurisdictions, approval of depreciation rates; implementation of enforceable federal reliability standards or other regulatory matters; permitted business activities, such as ownership or operation of nonelectric businesses;~~ or any prolonged delay in rendering a decision in a rate or other proceeding could adversely impact our financial condition **, operating results and liquidity. Inflationary cost pressures have increased the cost of constructing our utility assets and operating our utility business. There can be no assurance that our state regulatory commissions will authorize recovery of rising costs. Regulatory commissions may also limit future capital investments or the rate of return allowed on such investments in response to inflationary cost pressures and customer bill impacts. Such limitations could negatively impact our financial position** , operating results and liquidity. Our generating facilities are subject to risks that could result in early closure or the sale of our ownership interest. Changes in operational or economic factors, environmental regulation or risks of litigation could result in the early closure ~~of~~ or the sale of our interest in a generating facility. In the event of an early closure, a significant asset impairment charge could be required **,** and we would be obligated to pay for our share of the costs of closure of the generating facility **,** including costs associated with decommissioning, remediation, reclamation and restoration of the property, and any costs of terminating contracts associated with the generating facility, such as coal supply arrangements. In the event of a sale of our interest in a generating facility, we may not be able to negotiate the sale on favorable terms, which could result in the recognition of a loss on the sale and other potential liabilities. There can be no assurance that we would be authorized by any of our state utility commissions to recover any costs or losses associated with the early closure of or sale of our interest in a generating facility. The loss of a major generating facility would require OTP to identify and obtain approval for other sources of generation for its customers, if available, and **potentially** expose ~~it~~ **us** to higher purchased power costs. In addition, OTP may not be able to obtain timely regulatory approval for new generation resources to replace closed or sold facilities. **Our** ~~In September 2021, our~~ IRP ~~filed~~ **, as revised** in ~~the three jurisdictions~~ **two supplemental filings** in **2023,** ~~which we operate~~ outlined our plan to withdraw from our 35 ~~percent~~ **%** ownership interest in Coyote Station, a jointly ~~-~~owned coal- fired generation plant, **in the event** ~~by December 31, 2028. If~~ we ~~proceed with~~ **are required to make a major, non- routine capital investment in** the ~~withdrawal under~~ **plant. In** the **event** ~~updated IRP which~~ we ~~expect~~ **were** to ~~file in March 2023~~ **withdraw from our ownership** , we will seek to recover all costs related to the ~~future~~ withdrawal from Coyote Station ~~,~~ **;** however, there **is a risk** ~~can be no assurance that~~ we ~~will~~ **may not** be granted recovery of ~~any~~ such costs. A full or partial denial of recovery of the costs of withdrawal could significantly impact our operating results, financial condition **and liquidity. Joint ownership of coal- fired generation facilities could impact our ability to manage changing regulations and economic conditions. We own our coal- fired generation facilities jointly with other co- owners with varying ownership interests in such facilities. Our ability to make determinations on our IRP in order to best navigate changing environmental regulations and economic conditions may be impacted by our rights and obligations under the co- ownership agreements and related agreements, and our ability to reconcile a divergence in the interests of OTP and the co- owners of these generation facilities. Such a divergence could impair our ability to effectively manage these changing conditions to meet our strategic objectives and could adversely impact our financial condition, operating results** and liquidity. Federal and state environmental regulation could require us to incur substantial capital expenditures, increased operating costs or make it no longer economically viable to operate some of our facilities. We are subject to federal, state and local environmental laws and regulations relating to air quality, water quality, waste management, natural resources and health safety. These laws and regulations regulate the modification and operation of existing facilities, the construction and operation of new facilities and the proper storage, handling, cleanup and disposal of hazardous waste and toxic substances. Compliance with these legal requirements may require us to commit significant resources and funds toward environmental monitoring, installation and operation of pollution control equipment, payment of emission fees and securing environmental permits. Obtaining environmental permits can entail significant expense and cause substantial construction delays. Failure to comply with environmental laws and regulations, even if caused by factors beyond our control, may result in civil or criminal liabilities, penalties and fines. Coyote Station, one of OTP' s jointly ~~-~~owned coal- fired power plants, is subject to assessment under the second implementation period of RHR as part of the state of North Dakota' s **RHR** ~~state implementation plan, or~~ SIP. We cannot predict with certainty the impact the SIP may have on our business until the plan has been approved or otherwise acted on by the EPA, including its potential implementation of an alternative federal implementation plan. However, significant emission control investments could be required. Alternatively, investments in emission control equipment may prove to be uneconomic and result in the early closure ~~of~~ or the sale of **, or withdrawal from,** our interest in Coyote Station. Existing environmental laws or regulations may be revised and new laws or regulations may be adopted or become applicable to us. The multiple jurisdictions that govern our electric utility business may not agree as to the appropriate resource mix, which may lead to costs incurred to comply with one jurisdiction that are not recoverable across all jurisdictions served by the same assets. Revised or additional regulations which result in increased compliance costs or additional operating restrictions, particularly if those costs are not fully recoverable from customers, could have a material effect on our financial condition, operating results and liquidity, making the operation of some of our facilities no longer economically viable. Legislation, regulation, litigation or other actions related to climate change and greenhouse gas emissions could materially impact us. Current and future federal, state, regional and international regulations to address global climate change and reduce GHG emissions, including measures such as mandated levels of renewable generation, mandatory reductions in CO2 emission levels, taxes on CO2 emissions, or cap- and- trade regimes, could require us to incur significant costs which could negatively impact our financial condition, operating results and liquidity if such costs cannot be recovered through rates granted by rate- making authorities or through increased market prices for electricity. In 2021, the Biden Administration introduced new targets aimed at reducing economy- wide net GHG emissions by 50 **%** to 52 ~~percent~~ **%** from 2005 levels by 2030. In addition, the Administration set a goal to reach 100 ~~percent~~ **%** carbon pollution- free electricity by 2035. ~~To~~ **As a part of** ~~achieve~~ **achieving** these targets **,** the **EPA proposed** ~~Administration may implement~~ new regulations ~~targeting~~ **in May 2023 under Section 111 of the Clean Air Act to regulate** GHG emissions from existing **and new** fossil fuel **- based EGUs. As detailed above, this proposal would require states to implement stringent emissions standards for most coal- fired steam generating units and certain larger natural gas combustion plants. Until the EPA takes final action on this rulemaking, we are unable to evaluate the precise impacts; however, the proposed rule has the potential to impact the emissions controls needed at OTP' s coal** - fired power plants **, which could have** ~~. While the precise nature and~~ - **an** ~~implications of any~~ **impact on our operating results, financial condition and liquidity. The EPA may implement additional** new regulations ~~are uncertain~~ **targeting power plants to support its aforementioned economy- wide GHG reduction goals** , **which** ~~such regulations~~ could impose substantial costs on and impact the operations of our utility business, which may materially impact our financial condition, operating results and liquidity. In addition to complying with legislation and regulation, we could be subject to litigation related to climate change. In recent years, there has been an increase in litigation against electric utilities and fossil fuel producers. If OTP were subjected to such litigation, the costs of such litigation could be significant and an adverse outcome could require substantial capital expenditures, changes in operations and possible payment of penalties or damages which could affect our financial condition, operating results and liquidity if the costs are not recoverable in rates or covered by insurance. ~~To the extent investors view climate change, fossil fuel combustion and GHG emissions as a financial risk, our stock price or our ability to access capital markets on favorable terms and conditions could be adversely impacted.~~ Violations of extensive legal and regulatory compliance requirements could have a negative impact on our business and results of operations. We are subject to an extensive legal and regulatory framework imposed under federal and state laws and regulatory agencies, including the FERC and the **North American Electric Reliability Corporation (** NERC **)** . We could be subject to potential financial penalties for compliance violations. Our transmission systems and electric generation facilities are subject to the NERC mandatory reliability standards, including cybersecurity standards. If a serious reliability incident were to occur, it could have a material effect on our operations or financial results. Some states have the authority to impose substantial penalties in the event of non- compliance. We attempt to mitigate the risk of regulatory penalties through formal training. However, there is no guarantee our compliance program will be sufficient to ensure against violations. In addition, energy policy initiatives at the state or federal level could increase incentives for distributed generation, or authorize municipal utility formation or acquisition of service territory, or local initiatives could introduce generation or distribution requirements that could change the current integrated utility model. These laws and regulations significantly influence our operations and may affect our ability to recover costs from our customers. We are required to have numerous permits, licenses, approvals and certificates from the agencies and other organizations that regulate our business. We believe we have obtained the necessary approvals for our existing operations and that our business is conducted in accordance with applicable laws and regulatory requirements; however, we are unable to predict the impact on our operating results from the future regulatory activities of any of these agencies and other organizations. Changes in regulations or the imposition of additional regulations could have a material adverse impact on our financial condition, operating results and liquidity. Our transmission and generation facilities could be vulnerable to cyber and physical attack. OTP owns electric transmission and generation facilities subject to mandatory and enforceable standards advanced by the NERC. These bulk electric system facilities provide the framework for the electrical infrastructure of OTP’ s service territory and interconnected systems, the operation of which is dependent on information technology systems. Further, the information systems that operate OTP’ s electric system are interconnected to external networks. Parties that wish to disrupt the U. S. bulk power system or OTP’ s operations could view OTP’ s computer systems, software or networks as attractive targets for cyber- attack. In addition, OTP’ s generation and transmission facilities are spread throughout a large service territory. These facilities could be subject to physical attack or vandalism that could disrupt OTP’ s operations or conceivably the regional or U. S. bulk power system. OTP is subject to mandatory cybersecurity and physical security regulatory requirements. OTP implements the NERC standards for operating its transmission and generation assets and remains abreast of best practices within the business and the utility industry to protect its computers and computer- controlled systems from outside attack. We rely on industry- accepted security measures and technology to securely maintain confidential and proprietary information necessary for the operation of our systems. In an effort to reduce the likelihood and severity of cyber intrusions, we have cybersecurity processes and controls and disaster recovery plans designed to protect and preserve the confidentiality, integrity and availability of data and systems. We also take prudent and reasonable steps to protect the physical security of our generation and transmission facilities. However, all these measures and technology may not adequately prevent security breaches, ransomware attacks or other cyber- attacks, or enable us to recover effectively from such a breach or attack. Any significant interruption or failure of our information systems or any significant breach of security due to cyber- attacks, hacking or internal security breaches or physical attack of our generation or transmission facilities could adversely affect our business and our financial condition, operating results and liquidity. Our ~~generating~~ - **generation , transmission, and distribution** facilities ~~and transmission assets~~ are subject to operational risks **which include circumstances** that could result in ~~unscheduled outages~~ **injuries, loss of life, property damage,** and **fires** ~~increased costs~~ . The operation of ~~electric~~ **our** ~~generating~~ - **generation , transmission, and distribution** facilities ~~and transmission assets~~ involves many risks including ~~facility shutdowns due to~~ equipment ~~or process~~ failures **, accidents** ~~; aging equipment~~ and ~~sourcing replacement parts; labor disputes;~~ **workforce safety matters, environmental damage, property damage,** operator error ~~;~~ **, and the occurrence of** catastrophic events such as fires, explosions and floods ~~;~~ **. Diminished availability or performance of** ~~the~~ **those** ~~dependence~~ **facilities could result in facility shutdowns, reduced customer satisfaction, reputational harm, and regulatory inquiries and fines. Accidents, fires, explosions, catastrophic failures, general system damage or dysfunction, intentional acts of destruction, and other unplanned events related to our infrastructure would increase repair costs and may expose us to liability for personal injury, loss of life, and property damage. Fires alleged to have been caused by our transmission, distribution, or generation infrastructure, or that allegedly result from our contractors’ operating or maintenance practices, could also expose us to claims for fire suppression and clean- up costs, evacuation costs, fines and penalties, and liability for economic damages, personal injury, loss of life, property damage, and environmental pollution, whether based** on ~~a specific fuel source; increased~~ **claims of negligence, trespass, or otherwise. We maintain insurance coverage for such operating and event risks, but insurance coverage is subject to the terms and limitations of the available policies and may not be sufficient in amount to cover our ultimate liability. We may be unable to fully recover** costs **in excess of insurance through customer rates or regulatory mechanisms. If the amount of insurance is insufficient or otherwise unavailable, and if we are unable to fully recover in rates the costs of uninsured losses,** ~~or~~ **our** ~~delayed receipt of~~ **financial condition, operating results and liquidity could be** ~~materials~~ **materially affected** ~~due to supply chain disruptions; and the risk of performance below expected levels of output or efficiency~~ . We **are** ~~could be~~ subject to ~~costs~~ **risks** associated with ~~any unexpected failure~~ **the procurement and transportation of fuel** to ~~produce or~~ **our** ~~deliver~~ **coal and natural gas** ~~power~~ **powered generation** ~~, including failures caused by a breakdown or forced outage, as well as damages to~~ facilities ~~or other assets~~ . We rely on a limited number of suppliers to provide coal and **a limited number of service providers to transport** coal ~~transportation~~ **and natural gas** to our facilities. A **counterparty' s** failure to perform **their obligations** ~~by any of these counterparties~~ may arise due to liquidity challenges or insolvency, operational deficiencies or other circumstances such as severe weather or natural disasters, which could impact our ability to provide service to our customers or require us to seek alternative sources for these products and services, if available ~~, which~~ **. A prolonged failure to perform by one or more of our current suppliers or service providers** could lead to increased costs ~~adversely impacting our~~ - **or** ~~financial condition, operating results~~

~~and liquidity. Joint ownership of coal- fired generation facilities could impact our ability to manage changing regulations and economic conditions. We own our coal- fired generation facilities jointly with~~ other **consequences which** ~~co- owners with varying ownership interests in such facilities. Our ability to make determinations on our IRP in order to best navigate changing environmental regulations and economic conditions may be impacted by our rights and obligations under the co- ownership agreements and related agreements, and our ability to reconcile a divergence in the interests of OTP and the co- owners of these generation facilities. Such a divergence~~ could **negatively** ~~impair our ability to effectively manage these changing conditions to meet our strategic objectives and could adversely~~ impact our financial condition, operating results and liquidity. We are subject to risks associated with energy markets. Our electric business is subject to the risks associated with energy markets, including market supply and changing energy prices. If we are faced with shortages in market supply, we may be unable to fulfill our contractual obligations to our retail, wholesale and other customers at previously anticipated costs. This could force us to obtain alternative energy or fuel supplies at higher costs, or suffer increased liabilities for unfulfilled contractual obligations. Any significantly higher than expected energy or fuel costs could negatively affect our financial condition, operating results and liquidity. MANUFACTURING SEGMENT RISKS The price and availability of raw materials could adversely impact our operating results. The companies in our Manufacturing segment use a variety of raw materials in the products they manufacture including, among others, steel, aluminum, and polystyrene and other plastics resins. The price and availability of the raw materials used in our manufacturing processes are based on global supply and demand conditions, which can create volatile pricing and supply disruptions as conditions change. Federal trade policies, including imposed tariffs, can also impact prices for these raw materials. If we are unable to pass cost increases through to our customers or are unable to procure adequate or timely raw material inputs for use in our manufacturing processes, our financial condition, operating results and liquidity could be negatively impacted. Additionally, a certain amount of residual material (scrap) is a by- product of the manufacturing and production processes used by our manufacturing companies. Declines in commodity prices for these scrap materials due to weakened demand or excess supply can negatively impact the profitability of our manufacturing companies as it reduces their ability to mitigate the cost associated with excess material. Competition from **domestic and** foreign ~~and domestic~~ manufacturers could affect the revenues and earnings of our manufacturing businesses. Our manufacturing businesses are subject to intense competition from **domestic and** foreign ~~and domestic~~ manufacturers, many of whom have broader product lines, greater distribution capabilities, greater capital resources, larger marketing, research and development personnel and facilities, and other capabilities. Our ability to compete on product performance, competitive pricing, technological innovation and customer service is critical to our ongoing success. If we are unable to compete in these and potentially other areas, our business and financial condition, operating results and liquidity could be adversely impacted. Economic conditions in the end markets in which our customers operate could have an adverse impact on our operating results and liquidity. Our manufacturing businesses derive a large amount of their revenues from customers in the following industry sectors: recreational vehicle / powersports, lawn and garden, construction, agriculture, energy and horticulture. Factors affecting any of these industries in general could adversely affect our operating results as growth in our operating revenues is largely dependent on the growth of our customers' businesses in their respective industries. These factors include: • seasonality of demand for our customers' products which may cause our manufacturing capacity to be underutilized for periods of time; • our customers' failure to successfully market their products, gain or retain widespread commercial acceptance of their products or compete effectively in their industries; • loss of market share for our customers' products which may lead our customers to reduce or discontinue purchasing our products and components and to reduce prices, thereby exerting pricing pressure on us; • economic conditions in the markets in which our customers operate, the United States ~~,~~ in particular, including recessionary periods such as a global economic downturn; • our customers' decisions to bring the production of components in- house that have traditionally been outsourced to us; and • product design changes or manufacturing process changes that may reduce or eliminate demand for the components we supply. We expect future sales will continue to depend on the success of our customers. If economic conditions or demand for our customers' products deteriorates, we may experience a material adverse effect on our financial condition, operating results and liquidity. Our business may be adversely affected if we are not able to maintain our manufacturing, engineering and technological expertise. The markets for our manufacturing businesses are characterized by changing technology and evolving process development. The continued success of our businesses will depend on our ability to: • maintain technological leadership in our industry; • implement new and expand on current robotics, automation and tooling technologies; and • anticipate or respond to changes in manufacturing processes in a cost- effective and timely manner. We may be unable to develop the capabilities required by our customers in the future. The emergence of new technologies, industry standards or customer requirements may render our equipment, inventory or processes obsolete or noncompetitive. We may be required to acquire new technologies and equipment to remain competitive. The acquisition and implementation of new technologies and equipment may require us to incur significant expense and capital investment, which could reduce our margins and affect our operating results. When we establish or acquire new facilities, we may not be able to maintain or develop our manufacturing, engineering and technological expertise due to a lack of trained personnel, ineffective training of new staff or technical difficulties with machinery. Failure to anticipate and adapt to customers' changing technological needs and requirements and to maintain manufacturing, engineering and technological expertise may have material adverse effects on our financial condition, operating results and liquidity. PLASTICS SEGMENT RISKS ~~.~~ External factors beyond our control could cause fluctuations in demand for our PVC pipe products and changes in our prices and margins,which could adversely impact our operating results.Our PVC pipe products,sold through distributors and wholesalers,are primarily used in municipal and rural water projects,wastewater projects,storm drainage systems and reclamation systems.External factors beyond our control can cause volatility in ~~raw material costs,~~ demand for our products ~~,~~ **and** sales prices **impacting our** ~~,and deterioration in~~ operating margins.These factors can magnify the impact of economic cycles on our business and results of operations.Examples of external factors include:• general economic conditions including housing and construction markets which can be cyclical;• increases in interest rates;•

severe weather and natural disasters;• governmental regulation in the United States; **and** • funding shortages for municipal water and wastewater projects ~~;and • pandemics and other public health threats~~ . ~~Our financial results~~ **Extraordinary industry supply and demand dynamics beginning** in 2021 and **continuing through** ~~2022~~ **2023** ~~were impacted by unique market conditions within the~~ **led to a rapid and significant increase in sales prices for** PVC pipe ~~industry,including~~ **and led to** a significant ~~increase~~ **expansion** in **our operating margins.As industry conditions normalize,sales prices for PVC pipe are expected to moderate from current levels resulting in decreased operating margins prospectively.The pace and magnitude of** the **decline** ~~price of PVC resin,and periodic shortages of certain additives and ingredients used~~ in **product pricing could materially impact our operating results** ~~the manufacturing of PVC pipe which limited the manufacturing of PVC pipe~~ . ~~Strong demand for PVC pipe along with limited manufacturing output~~ Changes in PVC resin prices could negatively affect our plastics business. The PVC pipe industry is highly sensitive to commodity raw material pricing volatility. Historically, when resin prices were rising or stable, margins and sales volumes were higher and when resin prices were falling, sales volumes and margins were lower. Changes in PVC resin prices can negatively affect PVC pipe prices, profit margins on PVC pipe sales and the value of our finished goods inventory ~~. Periodic shortages of PVC resin coupled with robust domestic and global demand for PVC resin led to significantly increased resin pricing throughout 2021 and the first half of 2022, which resulted in higher input costs in our Plastics segment during these years. Resin prices started to decline in the last half of 2022 and we anticipate resin prices will moderate in 2023 as these market conditions normalize. Our operating results could be impacted by the timing and degree to which resin prices stabilize~~ . Our plastics operations are highly dependent on a limited number of vendors and a limited supply of PVC resin and other materials. We rely on a limited number of vendors to supply the PVC resin used in our plastics ~~business~~ **businesses** . In ~~2022~~ **2023 ,** we sourced all of our PVC resin needs from ~~two~~ **three** vendors. In addition, the supply of PVC resin may be limited primarily due to manufacturing capacity and the limited availability of raw material components. Most U. S. resin production plants are located in the Gulf Coast region. This could increase the risk of a shortage of resin in the event of a hurricane, other extreme weather events and other natural disasters in that region. The loss of a key vendor or any interruption or delay in the availability or supply of PVC resin could disrupt our ability to deliver our plastic products, cause customers to cancel orders or require us to incur additional expenses to obtain PVC resin from alternative sources, if such sources were available. Although PVC resin is the most significant raw material input in our PVC pipe manufacturing process, we also use certain other materials, such as stabilizers, gaskets, lumber, banding and others in the process of manufacturing and shipping our PVC pipe products. We generally source these materials from a limited number of suppliers and any significant supply chain constraints or disruptions related to these materials could also disrupt our ability to manufacture or ship products and could result in increased costs. 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. The plastic pipe industry is fragmented and competitive due to the number of producers and the fungible nature of the product. We compete not only against other plastic pipe manufacturers, but also against ductile iron, steel and concrete pipe manufacturers. Due to shipping costs, competition is usually regional instead of national in scope and the principal areas of competition are a combination of price, service, warranty and product performance. Our inability to compete effectively in each of these areas and to distinguish our plastic pipe products from competing products may adversely affect the financial performance of our plastics businesses . External factors beyond our control could...... of stabilized resin and PVC pipe prices . GENERAL RISK FACTORS Economic conditions could negatively impact our businesses. Our businesses are affected by local, national and worldwide economic conditions, including the impact of inflation, tightening of credit in financial markets, economic recessions or other changes in economic conditions. Our businesses may be adversely affected by decreases in the general level of economic activity, such as decreases in business and consumer spending. A decline in the level of economic activity and uncertainty regarding energy and commodity prices could adversely affect our results of operations and our future growth. Inflationary pressures may lead to rising material and commodity costs and increased labor costs. Our operating results and liquidity would be adversely impacted if we were unable to recover these increased costs from our customers. Tightening of credit in financial markets could adversely affect the ability of customers to finance purchases of our goods and services, resulting in decreased orders, cancelled or deferred orders, slower payment cycles, and increased bad debt and customer bankruptcies. If we are unable to achieve the organic growth we expect, our financial performance may be adversely affected. We expect much of our growth in the next few years will come from major capital investments at existing companies. To achieve the organic growth we expect, we must have access to the capital markets, be successful with capital expansion programs related to organic growth, develop new products and services, expand our markets and increase efficiencies in our businesses. Competitive and economic factors could adversely affect our ability to do this. If we are unable to achieve and sustain consistent organic growth, we will be less likely to meet our earnings growth targets, which may adversely affect the market price of our common shares. The ~~economic~~ effects of ~~the coronavirus (COVID- 19) pandemic~~ **a major public health crisis, such as** ~~and~~ - **an** ~~any other~~ epidemic or pandemic, and measures taken to reduce and slow the spread of the disease could adversely impact our business ~~. The outbreak and global spread of COVID- 19 has had widespread impacts on society, economies, financial markets and businesses everywhere since early 2020. The COVID- 19 pandemic has impacted our business operations, including our employees, customers, construction contractors, suppliers and vendors, and some uncertainty in the nature and degree of the continued effects over time still remains. In 2022, our business was impacted by supply chain disruptions and labor shortages resulting from the pandemic, and the associated costs and inflation related thereto. The extent to which COVID- 19 impacts our business going forward, if at all, remains uncertain. We continue to monitor developments involving our workforce, customers, construction contractors, suppliers and vendors and take steps to mitigate against additional impacts, but given the unprecedented and evolving nature of these circumstances, we cannot predict the full extent of the impact that COVID- 19 will have on our operating results, financial condition and liquidity~~ . A future widespread outbreak of an infectious disease, which affects a large percentage of the population regionally, nationally, or globally could impact our business operations, including our employees, customers, construction contractors, suppliers and vendors, and could impact our operating results, financial condition and liquidity. ITEM 1B. UNRESOLVED STAFF COMMENTS