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PRESENTATION

Operator

Good morning. And welcome to Otter Tail Corporation's 2019 Earnings Conference Call. Today's call is being recorded. (Operator Instructions) I will now turn the call over to the company for opening comments.

Loren Hanson - *Otter Tail Corporation - Assistant Secretary*

Good morning, everyone. And welcome to our call. My name is Loren Hanson, and I manage Otter Tail's Investor Relations area.

Last night, we announced our 2019 earnings results and our 2020 earnings per share guidance range. Our complete earnings release and slides accompanying this call are available on our website at ottertail.com. A replay of the call will be available on our website later today. With me on the call today are Chuck MacFarlane, Otter Tail Corporation's President and CEO; and Kevin Moug, Otter Tail Corporation's Senior Vice President and Chief Financial Officer.

Before we begin, I wanted to remind you that we will be making forward-looking statements during this call. As noted on Slide 2, these statements represent our current judgment or opinion of what the future holds. They are subject to risks and uncertainties that may cause actual results to differ materially. So please be advised about placing undue reliance on any of these statements. Our forward-looking statements are described in more detail in our filings with the Securities and Exchange Commission, which we encourage you to review. Otter Tail Corporation disclaims any duty to update or revise our forward-looking statements due to new information, future events, developments or otherwise.

For opening remarks, I will now turn the call over to Otter Tail Corporation's President and CEO, Mr. Chuck MacFarlane.

Charles S. MacFarlane - *Otter Tail Corporation - President, CEO & Director*

Thank you, Loren, and good morning, everyone. Welcome to our 2019 year-end earnings call. Please refer to Slide 5, as I begin my comments. Earnings per share were $2.17, which is above the midpoint of our updated 2019 earnings guidance of $2.10 to $2.20. Operating revenues, net income and diluted earnings per share all increased year-over-year. Our Electric segment earnings increased primarily due to transmission costs and renewable resource rider recovery as well as final rate increases in our South Dakota rate case. While Manufacturing segment earnings were relatively flat, we saw an improved performance at BTD that's driven by growth in Parts revenue. As anticipated, Plastics segment earnings were lower due to lower pipe prices and lower operating margins.

Some of Otter Tail Power's 2019 accomplishments include Merricourt Wind Energy Center, Astoria Station, South Dakota Transmission Reliability and self-fund transmission projects all begin construction. Our projected investment in those projects totals approximately $500 million. To put this into context, this represents approximately 43% of our current $1.2 billion rate base. I'll touch briefly on a few of these projects.

On Slide 16, the Merricourt Wind Energy Center remains on time and on budget. More than 2/3 of all civil work and tower foundations are complete. The project has received Minnesota renewable resource rider approval, North Dakota advance determination of prudence and South Dakota phase-in rider recovery. We estimate this project will cost approximately $258 million and will generate enough energy to power more than 65,000 homes. This is the largest capital project in Otter Tail Power history. We anticipate beginning commercial operation in the fourth quarter of 2020.

On Slide 17, the Astoria Station construction also remains on time and on budget. We were awarded the general work contract last quarter. Astoria will be a highly efficient 245-megawatt natural gas combustion turbine. It will complement our wind generation by providing a reliable backstop when the wind isn't blowing, and it will add flexible operating options and low CO_2 emissions. We expect to invest approximately $158 million in this project and anticipate it will be online near year-end 2020.

We completed the first of a 2-phase transmission project to improve reliability for customers who live in the southern part of our service area. The first phase was a 15-mile 115-kV transmission line that connects the expanded Hetland substation to the new Lake Norden substation in South Dakota. In August, we began construction on the second phase of the project, a new 43-mile 115-kV transmission line from Lake Norden to Astoria in South Dakota. Phase 2 engineering is 90% complete. We've attained 99% of project easements, and we've set approximately 18 of the 43 total miles of structures. We expect to energize the line in mid-2021.

As shown on line -- on Slide 19, we have the opportunity to add approximately $45 million rate base associated with new generator interconnection upgrades as proposed by the MISO generator interconnection process. Self-fund is an election by the transmission owner, in this case, Otter Tail Power, to fund the initial network upgrades associated with new generator interconnections. To date, FERC has approved 8 facility service agreements or FSAs between interconnection customers and Otter Tail Power. We have another 7 FSAs filed with FERC, and MISO is preparing an additional 12. Otter Tail will fund and earn a return on and return of the capital cost of these network upgrades over a 20-year period from the interconnection customers.

Minnesota Public Utilities Commission approved an extension until September 1, 2021, for filing of our next resource plan. 2 key federal environmental regulations that may impact the company are the Regional Haze Rule and the proposed Affordable Clean Energy Rule. Generation sources subject to Round 2 of the Regional Haze Rule, including Coyote Station, will likely be required to undertake emission control measures reasonably consistent with those required of sources during Round 1. Delaying our resource plan filing will allow us to better understand the direction of environmental regulations and develop a more informed plan.

I'd like to give special recognition to Otter Tail Power Company employees who marked 2019 with the company's best OSHA record on -- rate on record and continue to put safety first.

BTD, our contract metal fabricator, had an excellent year, increasing sales 4% and net income by 14%. Their Washington, Illinois plant, which has some production in parts used in the oil and gas fracking industry, continues to be impacted by the effects of the soft oil and gas market. The company reduced employee counts at Illinois and Detroit Lakes, Minnesota sites last year as part of its sales, inventory and operation planning, or SIOP process. They continue to balance production output and inventory levels to ensure continued on-time deliveries. Their Georgia facility significantly improved profitability as sales grew nearly 20% in 2019. The company achieved this while reporting its lowest OSHA rate on record and its highest on-time delivery in history.

In our Plastics segment, as part of our strategic succession planning, Northern Pipe Products announced Terry Mitzel as Company President. Mitzel has been employed with Northern Pipe Products for more than 12 years. His most recent roles were Vice President of Sales and Marketing, preceded by Director of Sourcing. In his role as President, Mitzel oversees the executive leadership team and continues to manage the resin buying process for the Plastics segment. We are confident that his experience and skills, coupled with a strong team and momentum existing in Northern Pipe Products, will lead to a continued achievement of outstanding customer service, operational excellence and talent development. Both companies are implementing continuous improvement projects to enhance efficiency and capacity.

On a final note, we continue to enhance our balanced generation mix, as shown back on Slide 6. We anticipate that by 2022, Otter Tail Power customers will receive 30% of their energy from renewable resources. Our carbon emissions will be at least 30% below 2005 levels, all while keeping average residential rates nearly 30% below the national average.

With growing investor concern about companies generating more than 25% of revenues from thermal coal, it's assuring to note that Otter Tail Corporation's percentage of revenue from coal assets is well below that threshold. As shown on Slide 10, the percentage of consolidated revenues from our coal assets was 13.7% in 2019 and is projected to decline to 11% by 2022.

I'll now turn it over to Kevin for the financial perspective.

Kevin G. Moug - *Otter Tail Corporation - Senior VP & CFO*

Well, thanks, Chuck, and good morning, everyone. I'll cover the following items: our 2019 full year financial results, details on the fourth quarter results are covered in our earnings release, our liquidity position, strength of balance sheet, corporate credit ratings, the increase in our 2020 indicated annual dividend rate, our 5-year capital expenditure plan and our 2020 business outlook.

2019 was another strong year for us financially. We earned $2.17 a share, which represents a 5.3% increase over 2018. This increase was primarily driven by our Electric segment supported in large part by our continued investments in our growing rate base. Our Manufacturing segment earnings were flat year-over-year. BTD's earnings grew approximately 14% but were offset by a disappointing year-over-year decline of T.O. Plastics' earnings of 54%. And as expected, our Plastics segment earnings were down from a record year in 2018.

Our 2019 return on equity was 11.6% on an equity ratio of 52.9%. Our 2-platform strategy continues to deliver higher returns on equity on a higher equity layer when compared to holding company peers.

Let me now provide an overview of 2019 earnings by segment. As shown on Slides 24 and 25. Electric segment net earnings increased $4.6 million. Key drivers include: increased transmission cost recovery in Minnesota, renewable resource rider revenues, increased retail revenues in South Dakota due to the final outcome of our 2018 South Dakota rate case settlement, increased revenues from the establishment of a generation cost recovery rider in North Dakota in conjunction with the construction of the Astoria Station, increased Minnesota CIP revenues and slightly favorable year-over-year weather impact.

Other key items impacting Electric segment earnings were a decrease in transmission service revenues due to lower MISO tariff revenues and the impact of the November FERC ruling related to the methodology used to determine the return on equity component of the transmission rate under the MISO tariff. This ruling negatively impacted Electric segment earnings by $1.4 million. A reduction in O&M expenses, as explained in the earnings release, and higher depreciation and property tax expense associated with rate base additions in 2019 and increased income tax expense.

Net earnings for the Manufacturing segment were basically flat year-over-year. Key items impacting these changes were that BTD net revenues increased to $9.5 million due to a $12.3 million increase in parts sales to its major end markets except for decreased sales to its energy end markets. $11.6 million of the increase relates to higher sales volumes with the balance representing higher material costs passed on to the customer. The increased parts revenues were offset in part by a $2.8 million decrease in scrap revenues from lower scrap metal prices.

Higher cost of goods sold and material costs were partially offset by the recovery of tooling costs from customers. And increased gross margins were partially offset by higher operating expense, resulting in a $1.4 million increase in BTD's year-over-year earnings.

T.O. Plastics revenues declined $700,000 due to lower industrial and horticultural sales and a change in their sales mix due to a customer bringing more production in-house. These were partially offset by increased sales in life science and scrap materials. Higher cost of goods sold due to increased labor costs, increased operating expenses and lower operating margins due to the unfavorable sales mix resulted in a $1.4 million decrease in year-over-year earnings.

Our Plastics segment earnings decreased $3.2 million year-over-year due to a 4.2% decrease in pounds of pipes sold and a 3.3% decrease in pipe sales prices. The lower volume resulted from poor weather conditions across our sales territory last year, combined with lower demand from products in both the Midwest and West Coast states that we serve.

Cost of goods sold decreased $8.9 million due to the decrease in sales volumes and a 1.9% decrease in the cost per pound of pipe sold. The decrease in pipe prices, net of the decreases in costs resulted in a 7.7% decrease in gross margins.

Corporate costs net of tax increased $3.1 million year-over-year primarily due to: There were no contributions made to Otter Tail Corporation's foundation in 2019. We experienced increases in the value of corporate-owned life insurance benefits, corporate costs allocated to our operating companies, increased earnings from our captive insurance company and lower post-retirement benefit costs. These items were offset in part by higher employee benefit costs and higher interest expense. We also had an increase in corporate income tax savings of $2.3 million due to changes in uncertain tax positions, state net operating loss valuation allowances and other tax adjustments.

Moving to Slide 26. Let me review our financial condition and liquidity. Our 2019 financing activity consists of $175 million private placement of debt for Otter Tail Power Company.

Slide 27 shows the tranches associated with the private placement. The first tranche was issued for $100 million in October of 2019. The remaining proceeds will be issued in 2020 through delayed draws of $35 million in February and $40 million in August. We also issued $19.8 million in new equity net of commissions during the fourth quarter of last year. We expect to issue additional equity in 2020 from our at-the-market dividend reinvestment and employee stock purchase programs. Both the debt and the equity are being issued in connection with our rate base growth projects at the utility.

Our 2 credit agreements are in place until October 31, 2024. Between expected cash flow generated from 2020 operating activities and these credit facilities, we have the appropriate levels of liquidity to support our businesses.

As shown on Slide 28, the Board of Directors increased our indicated annualized dividend rate from $1.40 a share to $1.48 per share. This 5.7% increase reflects our solid 2019 performance, our 2020 outlook, the company's strong balance sheet, liquidity, cash generation profile and our commitment to enhancing shareholder returns. We expect future dividend increases to be in line with earnings growth rate while maintaining the targeted payout ratio of 60% to 70%. And this will be the 81st year or 325 consecutive quarters we have paid a dividend on our common stock.

Slide 29 highlights our capital expenditure plans for the 2020 through 2024 time frame. We expect capital expenditures for 2020 to be $385 million, of which 96% is earmarked for our Electric segment. Plant expenditures for this year include $178 million for the Merricourt Wind project and $82 million (sic) [$81 million] for the Astoria Station natural gas-fired plant. The 5-year capital expenditure plan calls for approximately $897 million in utility projects, of which approximately 40% will be recovered through riders. The plant also includes $87 million for Manufacturing and Plastics segments.

Moving on to our business outlook on Slide 30. Our 2020 diluted earnings per share guidance is $2.22 to $2.37 a share. The midpoint of the guidance reflects a 6% growth rate of 2019 diluted earnings per share. Our guidance also reflects $0.05 of dilution associated with additional equity plan for this year. And the guidance range equates to a return on equity range of 11% to 11.7% based on an estimated equity to total cap ratio of 53%.

We expect our Electric segment to provide 75% of our consolidated earnings in 2020 with an increase over 2019 segment net income based on increased revenues from capital spending on our Merricourt and Astoria Station rate base projects, increased revenues related to anticipated capital spending from the self-funded generator interconnection agreements with no planned plant outages for 2020. These items were offset in part by normal weather. Weather favorably impacted earnings per share by $0.08 compared to normal in 2019.

Increased expenses in large part due to higher pension expense. Our discount rate for 2020 is 3.47% compared to 4.5% last year. Each 25 basis point decline in the discount rate results in an increase in pension expense by about $1 million. Also, the long-term rate of return for 2020 is 6.88% compared to 7.25% last year. Each 25 basis point decline in this rate results in approximately a $700,000 increase in pension expense.

Higher property tax and depreciation expense due to large transmission projects put into service. And increased interest expense on the $100 million of senior unsecured notes that were issued in October of 2019. And interest on the $35 million and $40 million of senior unsecured notes expected to be issued in February and August of 2020.

We expect earnings from our Manufacturing segment to be in line with 2019 earnings due to lower sales volumes and the recreational vehicle end markets served by BTD, and continued softness in scrap metal revenues stemming from lower sales volumes while scrap prices are expected to stay flat between the years.

We expect higher earnings at T.O. Plastics mainly due to increased sales to horticultural, life science and industrial end markets. The backlog for this segment is approximately $179 million for 2020 compared to $211 million a year ago. Material price deflation is driving down backlog by $19 million, and the remaining $13 million decrease in backlog is volume driven. We expect Plastics 2020 net income to be lower than 2019 due to lower operating margins resulting from lower sales prices with stable resin prices on slightly higher volumes compared to last year.

And our corporate costs, net of tax, are expected to be higher in 2020 primarily due to higher short-term borrowing costs at the corporate level. Higher income tax expense of which are offset in part by lower employee benefit and health care costs.

Our strategic initiatives to grow our business and achieve operational and commercial excellence positions us to achieve a 5% to 7% compounded annual growth rate in earnings per share using 2019's $2.17 a share. Key drivers in achieving our 2020 guidance for the utility include continued execution of our Merricourt and Astoria Station capital projects.

Our compounded annual growth rate in rate base is projected to be 8.2% over the 2019 through 2024 time frame. For BTD, the key drivers will be continued utilization of existing capacity and operational improvements across all locations to further improve our return on sales margins and returns on invested capital. And our Plastics segment is well positioned to provide another strong year in earnings and continues to provide strong cash flows to support our dividend and returns on invested capital.

We are now ready to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Tate Sullivan with Maxim Group.

Tate H. Sullivan - *Maxim Group LLC, Research Division - Senior VP & Senior Industrials Analyst*

Slide 19 on the self-fund transmission projects. Are the -- can you just walk through what is included in your current CapEx guidance, just the ones that have received the FERC approval? Is that the case?

Charles S. MacFarlane - *Otter Tail Corporation - President, CEO & Director*

Tate, this is Chuck. The ones that are included are all the ones that we anticipate to interconnect in '20 and '21. They include both ones that have approved for interconnection and then the anticipated ones. One other thing is this -- each project may have more than 1 FERC FSA that goes with it. So we're anticipating that these are largely the projects that will be put in service before the end of the ramp down of the PTC for wind.

Tate H. Sullivan - *Maxim Group LLC, Research Division - Senior VP & Senior Industrials Analyst*

Okay. And then Kevin, on CapEx on the -- also on the CapEx guidance, slight changes from your previous guidance. I mean can you just comment -- was the timing related to -- I think you've previously guided spending $233 million this year. You spent $207 million and then you increased by a lesser amount for the out-years. But can you just give us some context to what changed, please?

Kevin G. Moug - *Otter Tail Corporation - Senior VP & CFO*

Yes. I mean, Tate -- thanks. I mean a fair amount of it's just timing in terms of the one the expenditures are coming through. It's the one we originally expected. It's what's driving that kind of change. And then maybe just to further clarify your first question, we have -- what's actually included in the self-fund is the $45 million in our capital plan that we show on Slide 14 and on Slide 19.

Operator

Our next question comes from Chris Ellinghaus of Siebert Williams.

Christopher Ronald Ellinghaus - *Siebert Williams Shank & Co., L.L.C., Research Division - Principal & Senior Equity Utility Analyst*

Can you guys elaborate a little bit about your outlook for BTD and specifically sort of what you're thinking about the ATV market and how that might influence Georgia's performance also?

Kevin G. Moug - *Otter Tail Corporation - Senior VP & CFO*

Yes. Chris, this is Kevin. We're -- as we head into '20 and what we're seeing from our customers in that recreational vehicle market, we're starting to see some softening in terms of the -- some of the demands that are coming from them. And so our 2020 guidance for manufacturing of which BTD is included is reflecting what we expect to see that decline in volumes to be coming from the RV end market or specifically to customers within that end market.

Christopher Ronald Ellinghaus - *Siebert Williams Shank & Co., L.L.C., Research Division - Principal & Senior Equity Utility Analyst*

Okay. So can we infer from the -- with the midpoint of the manufacturing guidance seems to be kind of in the flat range, should we be generally expecting a little weaker BTD offset by your expectations for improvement?

Kevin G. Moug - *Otter Tail Corporation - Senior VP & CFO*

In terms of cutoff, there will be, Chris, at the end. But in terms of the guidance range of that $0.31 to $0.35 and that midpoint, BTD is -- part of that is slightly lower now than when our 2019 earnings came in. And that -- like I said, that's really driven in large part by the softening in the RV end market.

Christopher Ronald Ellinghaus - *Siebert Williams Shank & Co., L.L.C., Research Division - Principal & Senior Equity Utility Analyst*

Okay. Yes, what I was saying was it looks like -- or I'm inferring from the midpoint of the range being kind of flat. Maybe BTD is down a little bit, but that's picked up by a slack at -- from improvement you talked about expecting at T.O.?

Kevin G. Moug - *Otter Tail Corporation - Senior VP & CFO*

That's correct.

Christopher Ronald Ellinghaus - *Siebert Williams Shank & Co., L.L.C., Research Division - Principal & Senior Equity Utility Analyst*

And what is your thought about T.O.'s outlook that's better than 2019 at this point?

Kevin G. Moug - *Otter Tail Corporation - Senior VP & CFO*

Sure. T.O. had kind of a handful of struggles in 2019. They were -- started out the year as a challenge with productivity, efficiency on the manufacturing side. They have some challenges related to, of course, the roof collapse in March that occurred and shut the warehouse down and had impact on shipping for a while. And then we had a number of new hires in the plant. There was lots of transition and training and education that occurred with that.

And so our productivity and efficiency around the manufacturing process was certainly below our expectations in '19. We saw that continue into December of '19. And as we head into '20, we expect that those efficiencies and plant productivities -- or the inefficiencies, I should say, are pretty much behind us. And so we would expect to see better productivity coming out of the plants. And then given some of the slowness that occurred in sales in the fourth quarter in December, we expect to see a pickup from that as we head into 2020.

Christopher Ronald Ellinghaus - *Siebert Williams Shank & Co., L.L.C., Research Division - Principal & Senior Equity Utility Analyst*

Okay. And as far as PVC's outlook, sort of address what you're -- the kind of weakness that you saw in some of the demand in 2019. And also, can you elaborate on what the weather impact looked like in 2019 a little bit?

Charles S. MacFarlane - *Otter Tail Corporation - President, CEO & Director*

Yes. I think we do expect -- we saw weather impact on the second -- probably the tail end of the first quarter into the second quarter. And as we talk about increased volumes in 2020, we expect that we're going to see some of that come back to us in 2020 because of the delays that were caused by the heavy rains that occurred in our regions that we serve.

So that's -- this volume increase that we're talking about for '20 is in part driven by getting that weather back -- or I'm sorry, the weather delays back based on, if you will, a more normal weather pattern for construction that we would expect to see in our regions.

Christopher Ronald Ellinghaus - *Siebert Williams Shank & Co., L.L.C., Research Division - Principal & Senior Equity Utility Analyst*

Okay. And the general demand weakness that you sort of note, is that -- was that influenced by the weather as well?

Charles S. MacFarlane - *Otter Tail Corporation - President, CEO & Director*

In part, it certainly was, yes.

Christopher Ronald Ellinghaus - *Siebert Williams Shank & Co., L.L.C., Research Division - Principal & Senior Equity Utility Analyst*

And your -- what kind of market weakness -- and weakness in last year? And is that outlook better for this year?

Charles S. MacFarlane - *Otter Tail Corporation - President, CEO & Director*

Well, we saw weakness in parts of our Midwest and West Coast service territories, if you will, in '19. We ended up -- we sold a fair amount of product into Texas as a part of softening in the Midwest and West Coast. And based on -- as we expect to see in 2020 some strengthening back in the West Coast and Midwest markets as we head into the year. And we certainly have assumptions around that in our guidance.

Christopher Ronald Ellinghaus - *Siebert Williams Shank & Co., L.L.C., Research Division - Principal & Senior Equity Utility Analyst*

Okay. In 2019, where -- are they ending up being lower margin due to the distance for transportation?

Charles S. MacFarlane - *Otter Tail Corporation - President, CEO & Director*

Yes.

Operator

Our next question comes from Brian Russo with Sidoti.

Brian J. Russo - *Sidoti & Company, LLC - Research Analyst*

The $158 million total cost for Astoria, how much is allocated to Minnesota?

Charles S. MacFarlane - *Otter Tail Corporation - President, CEO & Director*

Brian, this is Chuck. It's -- all of our generation and transmission is based on allocation foreign level that's largely driven by our coincident peak. So roughly 53% of that total project will be allocated to Minnesota when complete.

Brian J. Russo - *Sidoti & Company, LLC - Research Analyst*

Okay. Got it. And that as well as any other accumulating rate base you'll file for a recovery in late 2020 with the 2021 test year?

Charles S. MacFarlane - *Otter Tail Corporation - President, CEO & Director*

We will -- and I think it's important that in Minnesota -- because we do have rider recovery in the Dakotas for the Astoria Station, in Minnesota we have approval in our integrated resource plan of the gas plant. And -- but we will need to file that. We're collecting AFUDC at this point, but we will need to file that in our next general rate case, which is likely anticipated at the end of 2020 for a 2021 test year. Yes.

Brian J. Russo - *Sidoti & Company, LLC - Research Analyst*

Okay. Great. And remind us of when the last rate case was finalized in Minnesota.

Kevin G. Moug - *Otter Tail Corporation - Senior VP & CFO*

It's 2017.

Charles S. MacFarlane - *Otter Tail Corporation - President, CEO & Director*

2017. I do not know the month we got the final order.

Kevin G. Moug - *Otter Tail Corporation - Senior VP & CFO*

Yes. It was filed. We filed in November '17. And I think the final order was in the -- the specific day, it was either the late third quarter or early fourth quarter of '18.

Brian J. Russo - *Sidoti & Company, LLC - Research Analyst*

Got it. Okay. And then I think you said that there's $0.05 dilution to the at-the-market and/or dividend reinvestment plans in 2020. Would you mind just quantifying that on an absolute basis of how much equity might be needed?

Kevin G. Moug - *Otter Tail Corporation - Senior VP & CFO*

Yes. Brian, we're expecting to issue another $55 million to $60 million of equity in 2020.

Brian J. Russo - *Sidoti & Company, LLC - Research Analyst*

Okay. Great. And then just on pension expense, the incremental information was helpful. What is the drag in 2020 over 2019 due to the lower interest rate. And is that onetime? Or is that just kind of the new levelized cost going forward?

Kevin G. Moug - *Otter Tail Corporation - Senior VP & CFO*

Yes. So the impact on the discount rate change is approximately $4 million year-over-year from that $4 million, $5 million to the new rate that we have for 2020. And then the drag on the long-term rate of return change is about another $1 million. So collectively, about $5 million year-over-year impact because of the change in the 2 rates. That is then an effect. That's the impact for 2020. We reset those rates annually. So in December, late December of 2020, we will reset those rates based on current interest rate conditions in place at the time using the methodologies we use upon matching model to set our discount rate. And then of course, we'll look at what kind of actual returns we had in our pension plan and what our asset allocation is amongst the planned assets to help set the long-term rate of return for 2021.

Brian J. Russo - *Sidoti & Company, LLC - Research Analyst*

Okay. And is -- that incremental pension expense, is that included in the updated -- or included in the corporate cost for 2020? Or is that -- does that fall somewhere else?

Kevin G. Moug - *Otter Tail Corporation - Senior VP & CFO*

That is predominantly, Brian, in the utilities numbers. Utility is where the pension plan sits. Corporate has a slight impact from that because there are a few corporate employees that are in the pension plan, but it's predominantly at the utility.

Brian J. Russo - *Sidoti & Company, LLC - Research Analyst*

Okay. Great. And I think you mentioned in 2019, there was a $0.06 positive weather impact versus normal. Could you narrow that down to which quarter that occurred in?

Kevin G. Moug - *Otter Tail Corporation - Senior VP & CFO*

It was $0.08, Brian. It was the impact in the -- there would have been a pretty healthy impact in the first quarter of '19. It was where a fair amount of that came from.

Brian J. Russo - *Sidoti & Company, LLC - Research Analyst*

Okay. Great. And then just lastly, the mix of business. I think you disclosed in 2020, roughly 75% of earnings will be derived from the Electric segment. Is that kind of the ideal mix, 75%, 25%? Or do you expect, given what appears to be well above average electric or regulated utility growth rate is offset by rather flat, if not lower unregulated segment earnings. So if all else equal, the regulated earnings profile on a percentage basis should increase through the planning period.

Charles S. MacFarlane - *Otter Tail Corporation - President, CEO & Director*

Brian, it's Chuck. Yes, our target is 25% manufacturing, 75% utility. We've been over the last couple of years -- had a little bit higher percentage than 25% from manufacturing. And our intent is to get to the -- in 2020, because of the utility investment, to get back to this 25%, 75%. And we project that we'll -- we want to maintain that, give or take. It's going to vary a little bit year-to-year, but that is our target long term.

Operator

(Operator Instructions) And I'm not showing any further questions at this time. I'd like to turn the call back to Chuck MacFarlane for closing comments.

Charles S. MacFarlane - *Otter Tail Corporation - President, CEO & Director*

Thank you for your questions and your support of Otter Tail Corporation. With continued execution on our utility growth projects and emphasis on operational and commercial performance in our manufacturing companies, we remain confident in our ability to deliver shareholder value.

In 2020, we will focus on continuing to improve BTD profitability. We will further refine our long-term strategy for Northern Pipe, Vinyltech, and T.O. Plastics. And we'll continue to execute on Otter Tail Power's major generation and transmission projects. We believe this will allow us to deliver on our 2020 guidance of $2.22 to $2.37 a share.

Thank you for joining our call. We appreciate your interest in Otter Tail Corporation, and we look forward to a successful year.

Operator

Ladies and gentlemen, this does conclude today's presentation. You may now disconnect. And have a wonderful day.
