

# Memorandum

To: Darrell Nitschke, Executive Secretary

From: Mike Diller 

Date: January 5, 2016

Re: Corrections to Otter Tail's Annual Reports  
2011 – Case No. PU-12-170  
2012 – Case No. PU-13-201

Attached is a copy of Otter Tail's response to information request ND-PSC-03 explaining and correcting its 2011 and 2012 annual reports. Except for income tax changes, the annual reports remain unchanged as originally filed.

cc: Stuart Tommerdahl

4 PU-13-201 Filed 01/05/2016 Pages: 6  
Memorandum  
Public Service Commission Staff  
Mike Diller

5 PU-12-170 Filed 01/05/2016 Pages: 6  
Memorandum  
Public Service Commission Staff  
Mike Diller

OTTER TAIL POWER COMPANY  
Case No: PU-14-246

Response to: North Dakota Public Service Commission  
Analyst: Mike Diller  
Date Received: 11/05/2014  
Date Due: 11/15/2014  
Date of Response: 12/12/2014  
Responding Witness: Stuart Tommerdahl, Manager Regulatory Administration, 218 739-8279

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Information Request:

Last, I note that the effective book income tax rate decreased from 32% in 2011 to 8% in 2013 (rates are simply total income tax expense reported divided by pre-tax net income minus the interest synchronized debt expense). I'm fairly certain of what is causing this but would like the company's statement on the matter.

Attachments: 2

Attachment 1 2011 Page 4.pdf  
Attachment 2 2012 Page 4.pdf

Response:

While reviewing prior year Annual Reports in order to address the question above, Otter Tail discovered some corrections that needed be made in the tax sections of page 4 of the 2011 and 2012 reports.

In the 2011 report, on Page 4, we discovered that the cost of service run used to create the Operating Statement - With Wind scenario only included the Investment Tax Credit ("ITC") amount applicable to the Base scenario. In other words, the ITC amount was the same as the amount reflected on Page 1 in the Base Rate scenario and didn't include the incremental ITC amounts applicable to Rider information incorporated in Page 4. That correction has been made.

In the 2012 report on Page 4, we discovered some formula reference errors that resulted in a mis-categorization and presentation of tax information on the Operating Statement - With Wind and Transmission Rider. This correction has been made.

The following tables show the tax section amounts that were originally reported by Otter Tail in its 2011 and 2012 Annual reports, compared to what the corrected amounts should have been in those respective reports.

**Page 4 Tax Section Amounts**

	2011 As Filed		2011 Corrected	
	Total Company	North Dakota	Total Company	North Dakota
<b>Net Operating Income BIT</b>	55,809,897	26,055,058	55,809,897	26,055,058
<b>Income Tax Expense</b>				
Investment Tax Credit	(854,924)	(362,633)	(9,667,959)	(4,101,522)
Deferred Income Taxes	16,805,399	6,809,516	16,805,399	6,811,987
Income Taxes	(3,369,847)	(631,723)	(3,436,327)	(634,790)
<b>Total Income Tax Expense</b>	12,580,629	5,815,160	3,701,113	2,075,674
<b>Net Regulated Earnings</b>	43,229,269	20,239,898	52,108,784	23,979,383

	2012 As Filed		2012 Corrected	
	Total Company	North Dakota	Total Company	North Dakota
<b>Net Operating Income BIT</b>	53,597,167	26,030,020	53,597,167	26,030,020
<b>Income Tax Expense</b>				
Investment Tax Credit	(2,810,258)	(1,256,852)	(8,785,667)	(3,722,143)
Deferred Income Taxes	2,225,068	851,271	9,704,977	5,385,457
Income Taxes	2,921,925	2,470,284	(3,053,474)	4,993
<b>Total Income Tax Expense</b>	2,336,746	2,064,703	(2,134,164)	1,668,307
<b>Net Regulated Earnings</b>	51,260,421	23,965,317	55,731,330	24,361,714

Attachments 1 and 2 to this information request response are corrected copies of Page 4 for both 2011 and 2012.

The following table summarizes the 2010-2013 Operating Statements including applicable Wind and Transmission Rider information results, corrected for the tax items noted above (Page 4 from annual reports).

**Page 4 ND Operating Statement Summary – Base plus Applicable Riders**

Description	2010NorthDa kota	2011NorthDa kota	2012NorthDa kota	2013NorthDa kota
<b>Operating Revenues:</b>				
Residential	44,712,612	47,340,183	48,290,431	50,603,065
Small Commercial and Industrial	23,163,735	23,336,676	23,945,642	25,579,030
Large Commercial and Industrial	52,109,049	53,863,041	55,754,831	57,309,533
Other Retail	2,641,038	2,674,319	2,607,775	2,662,113
Total Retail Revenue	122,626,434	127,214,219	130,598,679	136,153,741
Other Electric Revenue	6,045,316	7,464,720	8,429,560	9,768,090
Total Revenue	128,671,750	134,678,939	139,028,240	145,921,831
<b>Operating Expenses:</b>				
Production Expenses	52,493,516	54,505,959	55,522,399	58,468,657
Transmission Expenses	4,838,305	5,496,394	7,117,428	8,883,535
Distribution Expenses	7,055,780	6,772,976	7,129,087	7,544,880
Customer Accounting Expenses	5,100,856	5,078,179	5,431,759	5,848,350
Customer Service and Information Expenses	998,245	1,101,687	1,193,407	1,156,369
Sales Expenses	542,195	167,108	140,489	158,258
Administration and General Expenses	13,550,326	13,263,610	13,409,755	16,195,432
Charitable Contributions	0	0	0	0
Depreciation Expense	16,202,197	17,906,784	18,560,095	19,203,803
General Taxes	3,924,184	4,331,185	4,493,799	4,674,431
Total Operating Expenses	104,705,604	108,623,881	112,998,220	122,133,715
Net Operating Income Before Income Taxes	23,966,146	26,055,058	26,030,020	23,788,116
<b>Income Tax Expense:</b>				
Investment Tax Credit	(3,831,722)	(4,101,522)	(3,722,143)	(3,640,842)
Deferred Income Taxes	4,979,402	6,811,987	5,385,457	891,090
Income Taxes	1,738,217	(634,790)	4,993	4,119,980
Total Income Tax Expense	2,885,897	2,075,675	1,668,307	1,370,228
Net Regulated Earnings	21,080,249	23,979,383	24,361,713	22,417,888

## Operating Statement - With Wind

	(A)	(B)	(C)	(D)	(E)	
Line No.	2011 Total Company	2011 North Dakota	N. D. % (B / A)	2010 North Dakota	Annual Change (B-D / D)	
	<b>Operating Revenues:</b>					
1	Residential	104,833,862	47,340,183	45.16%	44,712,612	5.88%
2	Small Commercial and Industrial	53,489,594	23,336,676	43.63%	23,163,735	0.75%
3	Large Commercial and Industrial	137,001,249	53,863,041	39.32%	52,109,049	3.37%
4	Other Retail	6,008,520	2,674,319	44.51%	2,641,038	1.26%
5	Total Retail Revenue	301,333,225	127,214,219	42.22%	122,626,434	3.74%
6	Other Electric Revenue	18,348,820	7,464,720	40.68%	6,045,316	23.48%
7	Total Revenue	319,682,045	134,678,939	42.13%	128,671,750	4.67%
	<b>Operating Expenses:</b>					
8	Production Expenses	129,825,460	54,505,959	41.98%	52,493,516	3.83%
9	Transmission Expenses	13,413,182	5,496,394	40.98%	4,838,305	13.60%
10	Distribution Expenses	15,086,326	6,772,976	44.89%	7,055,780	-4.01%
11	Customer Accounting Expenses	11,743,265	5,078,179	43.24%	5,100,856	-0.44%
12	Customer Service and Information Expenses	8,062,763	1,101,687	13.66%	998,245	10.36%
13	Sales Expenses	577,700	167,108	28.93%	542,195	-69.18%
14	Administration and General Expenses	32,101,907	13,263,610	41.32%	13,550,326	-2.12%
15	Charitable Contributions	533,089	0	0.00%	0	N/A
16	Depreciation Expense	42,343,580	17,906,784	42.29%	16,202,197	10.52%
17	General Taxes	10,184,876	4,331,185	42.53%	3,924,184	10.37%
18	Total Operating Expenses	263,872,148	108,623,881	41.17%	104,705,604	3.74%
19	Net Operating Income Before Income Taxes	55,809,897	26,055,058	46.69%	23,966,146	8.72%
	<b>Income Tax Expense:</b>					
20	Investment Tax Credit	(9,667,959)	(4,101,522)	42.42%	(3,831,722)	7.04%
21	Deferred Income Taxes	16,805,399	6,811,987	40.53%	4,979,402	36.80%
22	Income Taxes	(3,436,327)	(634,790)	18.47%	1,738,217	-136.52%
23	Total Income Tax Expense	3,701,113	2,075,675	56.08%	2,885,897	-28.08%
24	Net Regulated Earnings	52,108,784	23,979,383	46.02%	21,080,249	13.75%

## Operating Statement - With Wind in COSS and TCR

	(A)	(B)	(C)	(D)	(E)	
Line No.	2012 Total Company	2012 North Dakota	N. D. % (B / A)	2011 North Dakota	Annual Change (B-D / D)	
	<b>Operating Revenues:</b>					
1	Residential	106,262,335	48,290,431	45.44%	47,340,183	2.01%
2	Small Commercial and Industrial	54,713,966	23,945,642	43.77%	23,336,676	2.61%
3	Large Commercial and Industrial	141,900,062	55,754,831	39.29%	53,863,041	3.51%
4	Other Retail	6,024,622	2,607,775	43.29%	2,674,319	-2.49%
5	Total Retail Revenue	308,900,985	130,598,679	42.28%	127,214,219	2.66%
6	Other Electric Revenue	20,795,750	8,429,560	40.54%	7,464,720	12.93%
7	Total Revenue	329,696,736	139,028,240	42.17%	134,678,939	3.23%
	<b>Operating Expenses:</b>					
8	Production Expenses	134,556,150	55,522,399	41.26%	54,505,959	1.86%
9	Transmission Expenses	17,264,625	7,117,428	41.23%	5,496,394	29.49%
10	Distribution Expenses	15,868,156	7,129,087	44.93%	6,772,976	5.26%
11	Customer Accounting Expenses	12,501,993	5,431,759	43.45%	5,078,179	6.96%
12	Customer Service and Information Expenses	7,818,294	1,193,407	15.26%	1,101,687	8.33%
13	Sales Expenses	524,740	140,489	26.77%	167,108	-15.93%
14	Administration and General Expenses	32,874,999	13,409,755	40.79%	13,263,610	1.10%
15	Charitable Contributions	82,572	0	0.00%	0	N/A
16	Depreciation Expense	44,012,305	18,560,095	42.17%	17,906,784	3.65%
17	General Taxes	10,595,734	4,493,799	42.41%	4,331,185	3.75%
18	Total Operating Expenses	276,099,569	112,998,220	40.93%	108,623,881	4.03%
19	Net Operating Income Before Income Taxes	53,597,167	26,030,020	48.57%	26,055,058	-0.10%
	<b>Income Tax Expense:</b>					
20	Investment Tax Credit	(8,785,667)	(3,722,143)	42.37%	(4,101,522)	-9.25%
21	Deferred Income Taxes	9,704,977	5,385,457	55.49%	6,811,987	-20.94%
22	Income Taxes	(3,053,474)	4,993	-0.16%	(634,790)	-100.79%
23	Total Income Tax Expense	(2,134,164)	1,668,307	-78.17%	2,075,675	-19.63%
24	Net Regulated Earnings	55,731,330	24,361,713	43.71%	23,979,383	1.59%