

Memorandum

To: Commissioners Brian P. Kalk, Randy Christmann and Julie Fedorchak

From: Victor Schock - Public Utility Analyst

Date: September 28, 2016

Re: Otter Tail Power Company 2015 Electric Operations Annual Report

Case No. PU-16-188

I recommend the commission close the above captioned case which is the North Dakota annual report filing for 2015. I will include a motion to close the case on the October 5, 2016 consent agenda.

Otter Tail Power Company (OTP) provides electric service to about 58,515 customers in North Dakota. Staff has reviewed the company's annual report filing for 2015. The company's return on equity was 10.93% in 2015. The commission authorized a rate of return of 10.75% in the most recent rate case (PU-08-862). With that in mind, the company over earned by about \$540,000 in 2015. When considering the impact of weather, their return rate would have been 11.13% if it were a 'normal' year.

It is worth noting that OTP managed to over-earn in a year that other utilities in North Dakota under-earned to the point of needing to file a rate case. OTP did this in a year that a significant investment in the Big Stone plant was added to their rate base. OTP has been able to reduce expense categories related to company operations such as sales, admin and general, customer service and accounting. All of these factors will put OTP North Dakota rate payers and the company in a better financial position to move into OTPs next round of resource additions to replace the units being retired.

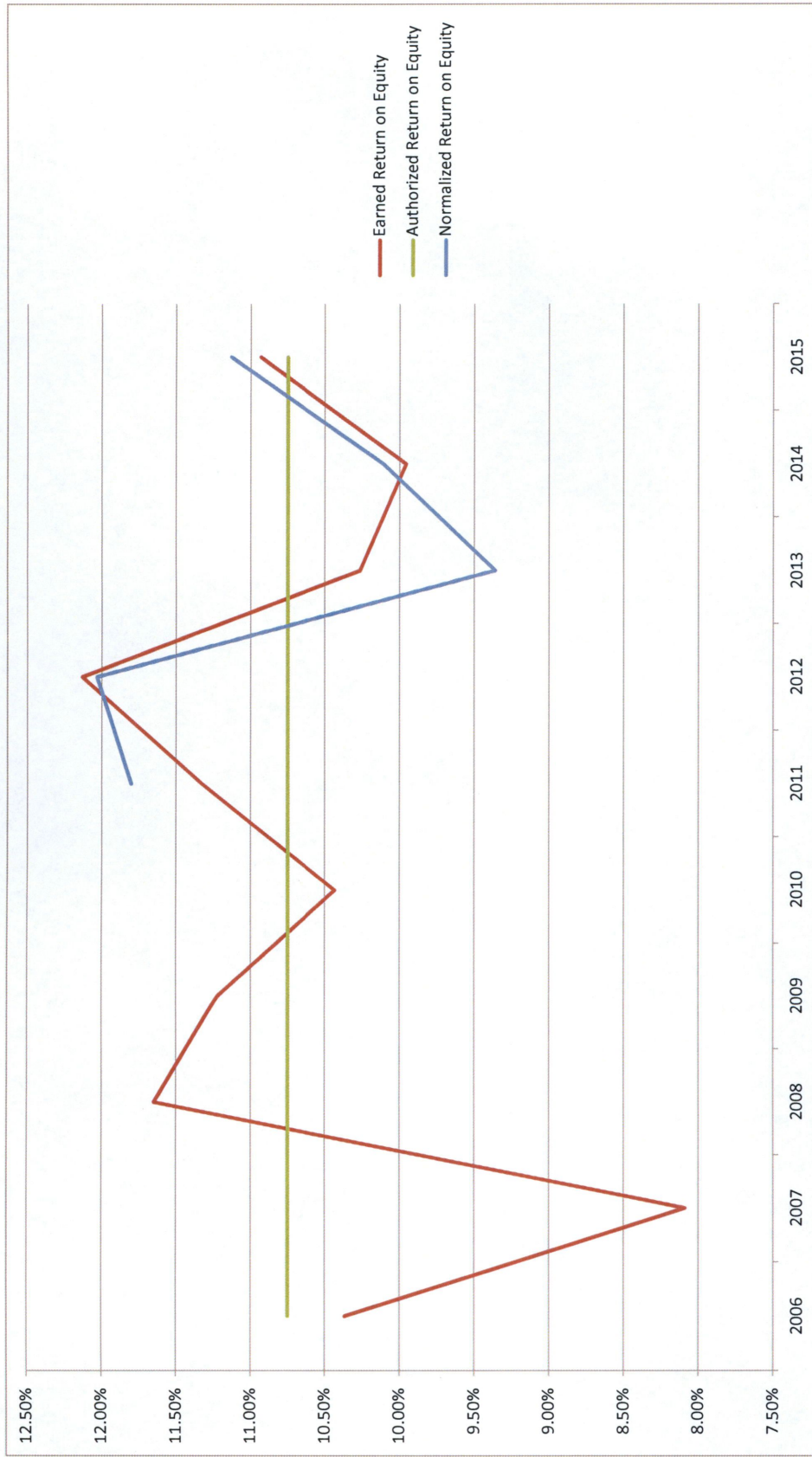
Due to the relatively low value of over-earning, staff sees no reason to further investigate and recommends that the commission close the above captioned case.

Attached are staff generated summaries of OTP ND electric earnings for the last ten years.

Attachment 1 – Return Calculation

Attachment 2 – Net Operating Income

C: Stuart Tommerdahl, OTP



Otter Tail Power Company
 North Dakota
 Revenue Deficiency & Rate Base
 (000's Omitted)

Revenue Deficiency Calculation:

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Rate Base	\$167,024	\$165,071	\$224,619	\$200,107	\$182,550	\$189,882	\$266,903	\$295,435	\$334,736	\$356,396
Cost of Capital	8.69%	8.62%	8.47%	8.67%	8.76%	8.68%	8.30%	8.15%	8.03%	8.27%
Return Required	\$14,512	\$14,223	\$19,016	\$17,351	\$15,983	\$16,481	\$22,141	\$24,064	\$26,893	\$29,485
Net Income	14,162	11,883	20,087	17,850	15,684	17,052	24,007	23,317	25,603	29,821
Return Excess (Deficiency)	(\$350)	(\$2,340)	\$1,071	\$499	(\$299)	\$571	\$1,867	(\$747)	(\$1,290)	\$336
Income Tax Factor 1/	1.654	1.6454	1.6454	1.6437	1.6437	1.6220	1.6220	1.6115	1.6115	1.6078
Revenue Excess (Deficiency)	(\$578)	(\$3,850)	\$1,763	\$820	(\$492)	\$925	\$3,028	(\$1,204)	(\$2,078)	\$540
Excess Revenue Sharing				50%	0%					
Customer Refund (Charge)				422	0					
Rev. Excess (Def.) after Sharing	(\$578)	(\$3,850)	\$1,763	\$398	(\$492)	\$925	\$3,028	(\$1,204)	(\$2,078)	\$540

Rate Base:

Plant in Service	\$372,386	\$382,742	\$450,702	\$430,445	\$443,442	\$460,915	\$591,999	\$615,001	\$638,267	\$684,776
Net Capitalized - Big Stone	159	119	78	58	4	0	0	0	0	0
Accumulated Depreciation	(181,930)	(188,379)	(189,466)	(199,359)	(210,461)	(221,424)	(244,360)	(260,249)	(275,334)	(277,583)
Net Plant	\$190,615	\$194,482	\$261,314	\$231,144	\$232,985	\$239,491	\$347,639	\$354,752	\$362,933	\$407,193
Plant Held for Future Use	12	13	13	13	13	13	13	13	13	13
Construction Work in Progress	2,475	2,216	1,082	763	1,595	3,899	10,014	38,551	70,458	42,713
Material and Supplies	4,778	5,554	6,285	6,682	6,530	6,514	7,066	7,518	7,910	8,066
Fuel Stocks	2,272	2,887	3,091	3,366	3,233	4,388	4,513	4,110	3,787	4,203
Prepayments	(7,979)	(14,003)	(13,628)	(14,772)	(12,355)	(11,918)	(14,174)	(14,129)	(10,707)	(6,655)
Customer Advances	(36)	(51)	(98)	(167)	(185)	(218)	(209)	(252)	(357)	(407)
Cash Working Capital	4,389	4,811	5,795	13,716	1,382	1,999	2,974	3,484	3,439	2,912
Accum. Deferred Income Taxes	(29,502)	(30,838)	(39,235)	(40,638)	(50,648)	(54,286)	(90,932)	(98,612)	(102,741)	(101,642)
Total Rate Base	\$167,024	\$165,071	\$224,619	\$200,107	\$182,550	\$189,882	\$266,903	\$295,435	\$334,736	\$356,396