

Memorandum

To: Commissioners Randy Christmann, Julie Fedorchak and Brian Kroshus

From: Victor Schock - Public Utility Analyst

VS

Date: July 7, 2017

Re: Otter Tail Power Company 2016 Electric Operations Annual Report

Case No. PU-17-183

I recommend the commission close the above captioned case, which is the North Dakota annual report filing for 2016. I will include a motion to close the case on the July 26, 2017 agenda.

Otter Tail Power Company (OTP) provides electric service to about 58,609 customers in North Dakota. Staff has reviewed the company's annual report filing for 2016. The company's return on equity was 9.95% in 2016. 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 **under** earned by about \$2.3M in 2016. When considering the impact of weather, their return rate would have been 10.92% and **over** earning of \$540k if it were a 'normal' year.

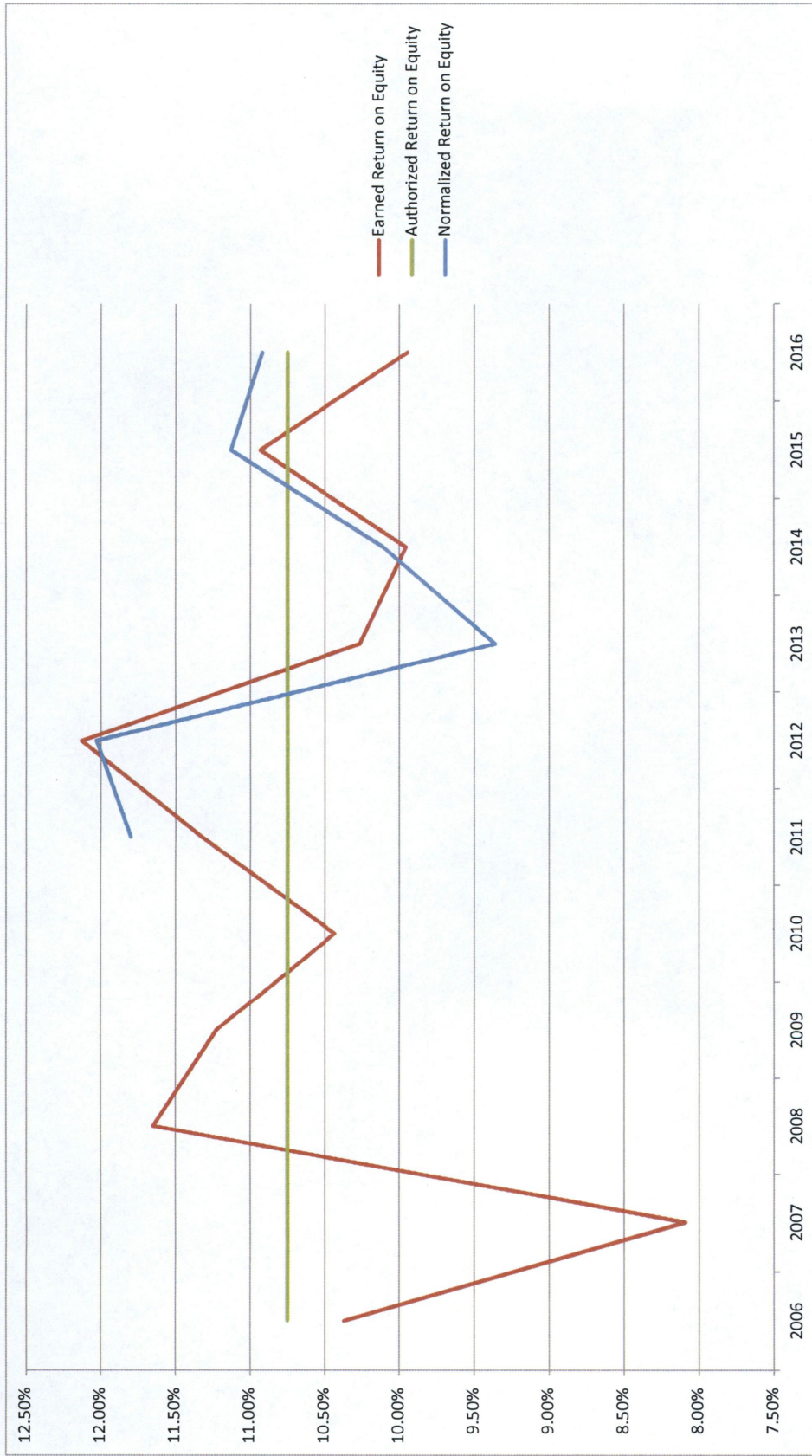
When considering the weather impact to earnings and the relatively low value of under-earning, staff sees no reason to further investigate and recommends that the commission close the above captioned case.

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	2016
Rate Base	\$167,024	\$165,071	\$224,619	\$200,107	\$182,550	\$189,882	\$266,903	\$295,435	\$334,736	\$356,396	\$350,542
Cost of Capital	8.69%	8.62%	8.47%	8.67%	8.76%	8.68%	8.30%	8.15%	8.03%	8.27%	8.22%
Return Required	\$14,512	\$14,223	\$19,016	\$17,351	\$15,983	\$16,481	\$22,141	\$24,064	\$26,893	\$29,485	\$28,824
Net Income	14,162	11,883	20,087	17,850	15,684	17,052	24,007	23,317	25,603	29,821	27,340
Return Excess (Deficiency)	(\$350)	(\$2,340)	\$1,071	\$499	(\$299)	\$571	\$1,867	(\$747)	(\$1,290)	\$336	(\$1,484)
Income Tax Factor 1/	1.654	1.6454	1.6454	1.6437	1.6437	1.6220	1.6220	1.6115	1.6115	1.6078	1.6078
Revenue Excess (Deficiency)	(\$578)	(\$3,850)	\$1,763	\$820	(\$492)	\$925	\$3,028	(\$1,204)	(\$2,078)	\$540	(\$2,386)
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	(\$2,386)

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	\$713,875
Net Capitalized - Big Stone	159	119	78	58	4	0	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)	(275,834)
Net Plant	\$190,615	\$194,482	\$261,314	\$231,144	\$232,985	\$239,491	\$347,639	\$354,752	\$362,933	\$407,193	\$438,041
Plant Held for Future Use	12	13	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	5,735
Material and Supplies	4,778	5,554	6,285	6,682	6,530	6,514	7,066	7,518	7,910	8,066	7,832
Fuel Stocks	2,272	2,887	3,091	3,366	3,233	4,388	4,513	4,110	3,787	4,203	4,030
Prepayments	(7,979)	(14,003)	(13,628)	(14,772)	(12,355)	(11,918)	(14,174)	(14,129)	(10,707)	(6,655)	(6,646)
Customer Advances	(36)	(51)	(98)	(167)	(185)	(218)	(209)	(252)	(357)	(407)	(397)
Cash Working Capital	4,389	4,811	5,795	13,716	1,382	1,999	2,974	3,484	3,439	2,912	2,847
Accum. Deferred Income Taxes	(29,502)	(30,838)	(39,235)	(40,638)	(50,648)	(54,286)	(90,932)	(98,612)	(102,741)	(101,642)	(100,914)
Total Rate Base	\$167,024	\$165,071	\$224,619	\$200,107	\$182,550	\$189,882	\$266,903	\$295,435	\$334,736	\$356,396	\$350,542