

Before the North Dakota Public Service Commission
State of North Dakota

In the Matter of the Application of Otter Tail Power Company
For Authority to Increase Rates for Electric Utility
Service in North Dakota

Case No. PU-17-398
OAH File No. 20170622

Exhibit ____

POLICY

Supplemental Direct Testimony of

BRUCE GERHARDSON

March 23, 2018

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1 **I. INTRODUCTION**

2 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

3 A. My name is Bruce Gerhardson. My business address is 215 South Cascade Street, Fergus
4 Falls, Minnesota, 56537.

5
6 Q. DID YOU PREVIOUSLY FILE DIRECT TESTIMONY IN THIS PROCEEDING?

7 A. Yes. I filed Direct Testimony on behalf of Otter Tail Power Company (OTP) addressing
8 why OTP is requesting a rate increase and providing information illustrating OTP's
9 exceptional performance.

10
11 Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL DIRECT TESTIMONY?

12 A. The purpose of my Supplemental Direct Testimony is to address updates to our rate
13 request. The updates are made to reflect information that became available after our
14 filing was made on November 2, 2017, and to make corrections to information that we
15 have identified since the filing was made.

16 **II. SUMMARY DESCRIPTION OF UPDATES AND CORRECTIONS IN**
17 **THIS SUPPLEMENTAL FILING**

18 Q. WHAT IS THE OVERALL IMPACT OF THE UPDATES YOU ARE MAKING IN
19 THIS SUPPLEMENTAL FILING?

20 A. The overall impact of the updates is a reduction to our identified deficiency of \$6,005,205
21 which includes the impacts of tax reform. Of the decrease, \$1,232,653 is related to other
22 updates and \$4,772,552 is related to tax reform. Stated as a percentage, the updates
23 reduce our requested increase from 10.61 percent to 6.64 percent.

24
25 Q. PLEASE SUMMARIZE THE UPDATES AND CORRECTIONS OTP IS MAKING IN
26 THIS FILING OF SUPPLEMENTAL DIRECT TESTIMONY?

27 A. The updates we have made are briefly described below:

- 1 • We have updated the cost of debt and related schedules for a debt issuance completed in
2 February 2018. OTP's average weighted cost of debt is reduced from 5.43 percent to
3 5.35 percent, and the overall rate of return is reduced from 7.97 percent to 7.92 percent.
4 The cost of the refinancing is described in the Supplemental Direct Testimony of Mr.
5 Kevin G. Moug. In Mr. Moug's initial Direct Testimony at page 15, lines 6 and 7, he
6 indicated OTP would update the costs of capital to reflect this debt issuance. Mr. Moug
7 has also updated his schedules to reflect this change.
- 8 • Mr. Moug's and Robert B. Hevert's Supplemental Direct Testimonies briefly describe the
9 impact on credit metrics of the Tax Cuts and Jobs Act, which became effective as of
10 January 1, 2018.
- 11 • We have updated pension and OPEB costs to reflect our ASC 715 determination, our
12 2018 actuarial report, which became available on January 9, 2018, and a pension
13 contribution made since the initial filing. The overall impact of all of these adjustments
14 is a decrease in OTP's 2018 total company expense of approximately \$3.2 million and a
15 decrease in in the 2018 Test Year North Dakota revenue requirement of approximately
16 \$963,442. These changes are described in the Supplemental Direct Testimony of
17 Christine L. Peterson.
- 18 • Mr. Tyler Akerman sponsors summary financial schedules and addresses the impacts of
19 the TCJA of \$4,772,552.
- 20 • We have made updates to reflect an extension of the amortization life for the CISOne
21 project from five to ten years. By extending the life, the annual amortization expense is
22 reduced from \$709,039 to \$354,520. The unamortized balance of the project costs
23 included in the Test Year rate base increases from \$7,668,205 to \$7,946,742. This
24 extension of the amortization for the CISOne project is described by Mr. Tyler A.
25 Akerman in his Supplemental Direct Testimony.
- 26 • We provide an update to explain how the TCJA passed in late 2017 impacts balances of
27 ADIT and the corresponding revenue requirement attributable to the proration of those
28 ADIT balances in both the Test Year and the Interim Period. In summary, the TCJA
29 impacts will reduce the revenue requirement in both the Test Year as well as for the

1 Interim Period. In the initial filing, the Interim Test Year revenue requirement was
2 approximately \$96,000 higher than the 2018 Test Year amount due to proration. As a
3 result of the TCJA, the interim period revenue requirement drops from approximately
4 \$187,000 to \$40,107 and is approximately \$32,000 higher than the updated 2018 Test
5 Year impact. These updates are explained in the Supplemental Direct Testimony of Mr.
6 Stuart D. Tommerdahl.

- 7 • We have updated OTP's proposal for recovery of the Coyote Station's pebble lime costs
8 to move recovery out of base rates and into the rider at the end of this case. This update
9 is explained in Mr. Tommerdahl's Supplemental Direct Testimony.
- 10 • We have updated the rate of return used for the revenues assumed to be derived from
11 riders (Renewable Rider, Transmission Rider and Environmental Rider). The Initial
12 filing included the rider revenues at an assumed 7.93 percent ROR, but the Supplemental
13 Test Year schedules are calculated at 7.92 percent ROR. This change decreases rider
14 revenues approximately \$15,000. This correction is described in the Supplemental
15 Direct Testimony of Mr. Bryce C. Haugen. The Rates of return applied to the riders is
16 described by Mr. Haugen in his original Direct Testimony at page 3.
- 17 • We have updated the Base/Peak split used in the ECR, which used a 66.87% Base and
18 33.13 percent Peak allocation. The test year in the original filing used a split of 81.73
19 percent and 18.27 percent, respectively. Updating this Base/Peak split decreases the rider
20 revenues approximately \$140,000. This change to the Base/Peak split is described in the
21 Supplemental Direct Testimony of Mr. Haugen.
- 22 • We have determined that anticipated adjustment to Cash Working Capital (CWC) in the
23 Lead Lag Study described in the Direct Testimony of Ms. Gina S. Ice are not necessary.
24 Ms. Ice describes this in her Supplemental Direct Testimony.
- 25 • We have made a correction to the proposed Residential fixed customer charge. The
26 correction reduces the proposed fixed charge from \$17.70 to \$15.23. The correction is
27 described in the Supplemental Direct Testimony of Mr. David G. Prazak.

1 **III. IMPACTS TO INTERIM RATES FROM UPDATES AND**
2 **CORRECTIONS**

3 Q. HAVE YOU MADE ANY UPDATES OR CORRECTIONS THAT WILL AFFECT
4 INTERIM RATES OR ANY POSSIBLE INTERIM RATE REFUND
5 CALCULATIONS?

6 A. Yes. Technically, all the revenue requirement adjustments above, will affect the interim
7 rate refund calculation. We are not proposing to change the interim rates at this time.
8 We recently reduced the interim rates to incorporate the lower cost of service impacts
9 from the TCJA. We also have two changes to how we calculated interim rates that will
10 affect the calculation of interim rate refunds at the end of this case.

11
12 Q. WHAT ARE THE INTERIM RATE CALCULATION CORRECTIONS THAT YOU
13 HAVE IDENTIFIED?

14 A. After we made the initial filing, we identified that the Production Tax Credits (PTCs) had
15 already been removed from the 2018 Test Year and therefore we should not have had a
16 separate interim rate adjustment to remove the PTCs from interim rates. By doing so, we
17 have effectively double counted the PTCs for the interim rate period.

18 We also indicated in our initial filing that we were expecting to discontinue the
19 Economic Development Credit Rider beginning January 1, 2018, but our present
20 revenues used to compute interim rates still included the credit, resulting in present
21 revenues being understated, thereby overstating the interim revenue by the amount of the
22 credit. Mr. Tommerdahl explains this occurrence in his Supplemental Direct Testimony.
23 We have therefore not discontinued the credit as we anticipated in our initial filing but
24 have left it in place to offset the inadvertent increase in interim rates by the amount of the
25 credit. Mr. Tommerdahl explains how this matter will be handled in the interim rate
26 refund as well as final rates.

1 Q. ARE YOU PROPOSING TO CHANGE YOUR INTERIM RATES AT THIS TIME?

2 A. No. As indicated, we recently reduced interim rates to account for the changes to tax
3 rates under the TJCA. Also, as indicated above, the reductions to the revenue
4 requirement due to updates described above are offset by the double counting of the
5 PTC's in the calculation of interim rates. We therefore, propose that these updates will
6 be accounted for in the calculation of interim rate refunds at the conclusion of this case.

7 **IV. CONCLUSION**

8 Q. WHAT IS YOUR CONCLUSION?

9 A. OTP has filed this Supplemental Direct Testimony to update the information included in
10 its original filing in this case. The impact of these updates is a reduction of the revenue
11 requirement and a reduction to the requested increase in rates from 10.61 percent to 6.64
12 percent.

13

14 Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL DIRECT TESTIMONY?

15 A. Yes.