

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 ____

**TCJA IMPACTS, CAPITAL COSTS AND ROR CHANGES, CISONE AMORTIZATION
CHANGES AND INTERIM PTC ADJUSTMENT**

Supplemental Direct Testimony and Schedules of

TYLER A. AKERMAN

March 23, 2018

TABLE OF CONTENTS

I. INTRODUCTION 1

II. PURPOSE AND OVERVIEW OF SUPPLEMENTAL DIRECT TESTIMONY 1

III. IMPACTS OF THE TCJA ON OTP’S RATE CASE FILING 2

 A. OVERVIEW AND BACKGROUND 2

 B. MECHANISM FOR IDENTIFYING AND ADDRESSING TCJA IMPACTS 4

IV. CHANGES IN OTP’S CAPITAL COSTS AND RATE OF RETURN 6

V. CHANGE IN CISONE AMORTIZATION..... 7

VI. CORRECTION TO INTERIM PTC ADJUSTMENT..... 7

VII. CONCLUSION 8

ATTACHED SCHEDULES

- Schedule 1 – Jurisdictional Financial Summary, Supplemental
- Schedule 2 – Test Year Rate Base, Supplemental
- Schedule 3 – Test Year Rate Base Adjustments, Supplemental
- Schedule 4 – Test Year Rate Base Tax Adjustments, Supplemental
- Schedule 5 – Test Year Income Statement, Supplemental
- Schedule 6 – Test Year Income Statement Adjustments, Supplemental
- Schedule 7 – Test Year Income Statement Tax Adjustments, Supplemental

1 **I. INTRODUCTION**

2 Q. PLEASE STATE YOUR NAME AND OCCUPATION.

3 A. My name is Tyler A. Akerman. I am employed by Otter Tail Power Company (OTP) as
4 Manager of the Business Planning/Regulatory Accounting department.

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

6 A. Yes, on November 2, 2017, I submitted my pre-filed Direct Testimony and Schedules in
7 this proceeding, addressing OTP's rate base, revenue requirement and certain adjustments
8 being proposed for use in setting rates in this proceeding filed by OTP in its pending
9 general rate case. Notably, regarding taxation, I testified on issues of OTP's treatment of
10 Accumulated Deferred Income Taxes (ADIT), ADIT proration adjustments and other
11 issues related to income taxes impacting OTP's request for rate relief now before the
12 North Dakota Public Service Commission (Commission) in this proceeding.

13 **II. PURPOSE AND OVERVIEW OF SUPPLEMENTAL DIRECT**
14 **TESTIMONY**

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

16 A. In my Supplemental Direct Testimony, I will address the impacts of the federal Tax Cuts
17 and Jobs Act (TCJA), which was signed into law on December 22, 2017, on both the
18 revenue deficiency for the 2018 Test Year and on Interim Rates. I will also address
19 related issues arising from the TCJA. I will also address an update of the revenue
20 requirement to reflect impacts of updates explained in the Supplemental Direct
21 Testimony of OTP witness Mr. Kevin G. Moug, a change in the CIS One amortization,
22 and a correction to the Interim Production Tax Credit (PTC) adjustment.

23
24 Q. HOW IS YOUR SUPPLEMENTAL DIRECT TESTIMONY ORGANIZED?

25 A. In Section III, I address the impacts of the TCJA, including an overview, a discussion of
26 the mechanisms by which adjustments could be made under the TCJA, and an
27 explanation of the impacts of the TCJA on both the revenue deficiency for the 2018 Test

1 Year and on Interim Rates. In Section IV, I will explain the impact of the updated capital
2 costs presented by Mr. Moug, and in Section V, I will explain the change in the CISone
3 amortization. In Section VI, I will explain a correction to the interim PTC adjustment.
4 Section VII includes my conclusion.

5
6 Q. HAVE YOU INCLUDED ANY SCHEDULES OR EXHIBITS WITH YOUR
7 SUPPLEMENTAL DIRECT TESTIMONY?

8 A. Yes. I have included schedules to support my supplemental direct testimony. The
9 schedules provide initial Test Year, Supplemental, and Supplemental with Tax Reform
10 amounts.

11 **III. IMPACTS OF THE TCJA ON OTP'S RATE CASE FILING**

12 Q. WHAT TOPICS WILL YOU DISCUSS IN THIS SECTION?

13 A. In this Section, I first provide an overview of the TCJA. I then address both the broader
14 impacts of the TCJA on OTP and the aspects we know now that can be addressed in this
15 proceeding as part of a general rate case, including impacts to interim rates. I will also
16 explain OTP's reasoning behind and mechanism for addressing some of those notable
17 TCJA impacts on customer rates and OTP's rate case filing. Finally, I discuss the
18 impacts of the TCJA in terms of appropriate regulatory accounting treatment.

19 **A. OVERVIEW AND BACKGROUND**

20 Q. PLEASE PROVIDE AN OVERVIEW OF THE TCJA?

21 A. The TCJA made several significant changes, including a reduction in the maximum U.S.
22 federal corporate income tax rate from 35 percent to a flat 21 percent tax rate, effective
23 January 1, 2018. This means that all public utilities subject to federal corporate income
24 taxes will compute those taxes based on a 21 percent tax rate. The TCJA also contains
25 certain provisions specific to public utilities, including the continuation of certain interest
26 expense deductibility and relief from 100 percent expensing of capital investments.

1 Q. DOES THE TCJA HAVE IMPACTS ON OTP’S TEST YEAR COST OF SERVICE?

2 A. Yes. The Commission-jurisdictional base rates charged by North Dakota rate-regulated
3 utilities including those of OTP are set using cost of service, which includes an income
4 tax allowance. The TCJA will have three primary impacts on cost of service: 1) current
5 income tax expense will be reduced; 2) bonus depreciation is eliminated for utilities such
6 as OTP; and 3) there will be an amortization of “excess” Accumulated Deferred Income
7 Taxes (ADIT). In addition, the tax gross up factor will be reduced for OTP, from a gross-
8 up factor of 1.607756 to 1.322837.

9

10 Q. PLEASE FURTHER SUMMARIZE THE EFFECTS WITH RESPECT TO FUTURE
11 ADIT.

12 A. The elimination of bonus depreciation and the reduction in the federal tax rate will lead to
13 utilities having lower ADIT liabilities going forward (but not impacting past ADIT net of
14 regulatory liabilities), which in turn increases rate base growth for the same level of
15 expected capital expenditures due to lower forecasted deferred tax liabilities.

16

17 Q. PLEASE SUMMARIZE THE EFFECTS WITH RESPECT TO CURRENT ADIT
18 BALANCES.

19 A. The TCJA requires the revaluation of federal deferred tax assets and liabilities balances
20 using the new lower tax rate. The changes are expected to result in the recording of
21 regulatory assets and liabilities for the excess portion of ADIT, with no estimated income
22 statement impact. The ADIT due to excess tax over book depreciation is “protected”
23 under the TCJA which means the amount is to be amortized over the remaining life of the
24 property that created the ADIT. It is OTP’s understanding that any other treatment would
25 constitute a normalization violation. In OTP’s case, only a small net amount of ADIT
26 (less than one half of a percent) is not “protected” under the new tax law.

1 Q. PLEASE FURTHER EXPLAIN HOW THE IMPACTS OF THE TCJA ON OTP'S
2 DEFERRED TAX ASSETS AND LIABILITIES NEED TO BE ADDRESSED?

3 A. OTP is required to revalue its deferred tax assets and liabilities, including U.S. federal
4 income tax net operating losses, as of the enactment date of the TCJA. Most of OTP's
5 deferred tax assets and liabilities are predominantly subject to a normalization method of
6 accounting. As a result, the revaluation of most of the utility's net deferred taxes is
7 expected to result in the establishment of regulatory liabilities which would then be
8 creditable to the cost of service over the remaining lives of the related assets.

9
10 Q. HAS THE NORTH DAKOTA PUBLIC SERVICE COMMISSION (COMMISSION)
11 BEGUN ADDRESSING THE TCJA?

12 A. Yes. On January 10, 2018 the Commission initiated an investigation of the impacts of
13 the TCJA on rate regulated utilities. Among other things, the Commission directed rate-
14 regulated utilities to file by February 15, 2018 "information in this investigation
15 regarding the impact of the [TCJA] with supporting calculations." The Commission also
16 directed utilities to file comments regarding the appropriate regulatory treatment of TCJA
17 impacts.¹

18
19 Q. HOW HAS OTP RESPONDED TO THAT COMMISSION INVESTIGATION ON THE
20 IMPACTS OF THE TCJA?

21 A. OTP made a submission on February 15, 2018 (February TCJA Submission), along with
22 OTP's request to reduce its interim rate increase in this proceeding approximately 3.65
23 percent for our North Dakota customers, from 10.44% to 6.79%. As noted in that
24 February TCJA Submission, although OTP is still evaluating the impacts of the TCJA,
25 OTP believes the major impacts are sufficiently known to reduce interim rates. OTP has
26 proposed similar adjustments to the Transmission, Renewable, and Environmental Cost

¹ *In the Matter of Public Service Commission Rate Impact and Accounting Treatment Investigation*, Order Initiating Investigation, ordering point 3, December 29, 2017, Commission Case No. PU-17-490.

1 Recovery Riders. Any additional impacts of the TCJA will be evaluated and addressed in
2 the process for setting final rates and subsequent rider true-ups.

3
4 Q. WHAT IS THE INTERIM REVENUE REQUIREMENT IMPACT OF OTP'S
5 REQUEST?

6 A. Effective March 1, 2018, OTP's revenue requirement for interim rates were reduced from
7 \$12.8 million to \$8.3 million, a total reduction in interim revenue of approximately \$4.5
8 million. This decrease is the result of OTP's preliminary assessment of the tax rate
9 reduction components of TCJA. OTP's revenue requirements for its Transmission,
10 Renewable, and Environmental riders will be reduced by approximately \$1.7 million.

11
12 Q. PLEASE FURTHER EXPLAIN THE IMPACTS OF THE TCJA ON ACCUMULATED
13 DEFERRED INCOME TAXES.

14 A. Accumulated deferred income tax is the dollar amount of taxes that some public utilities
15 have collected from customers in anticipation of subsequent payments to the federal
16 government. Due to the tax rate change in the TCJA, the current balance of ADIT on
17 OTP's regulatory books does not accurately reflect the current (post-TCJA) tax liability.
18 As a result, OTP needs to re-measure deferred tax balances at the 21% rate. OTP notes
19 the change to OTP's accumulated deferred income tax balance (ADIT) due to the lower
20 tax rate (causing an increase to rate base) will be offset with a regulatory liability in
21 ADIT. Pre-2018 ADIT will amortize (deferred tax expense) at the rates upon which the
22 ADIT was created. Since rates were set with the higher tax rate, ratepayers will continue
23 to receive the benefit of the ADIT offset through calculating pre-2018 ADIT reversals at
24 a 35 percent rate.

25
26 Q. PLEASE FURTHER EXPLAIN THE IMPACTS OF THE TCJA ON BONUS
27 DEPRECIATION.

28 A. "Bonus depreciation" is a form of tax incentive given to companies to encourage certain
29 types of investment, whereby a company that purchases a qualified business property and
30 places it into service within a taxable year can take a first-year deduction in addition to

1 any depreciation deduction available. Beginning in 2018, the TCJA prohibits the use of
2 bonus depreciation for assets acquired in the trade or business of the furnishing or sale of
3 electrical energy, water, or sewage disposal services. As a result, going forward, OTP
4 will be adding less ADIT, as the difference between book depreciation and tax
5 depreciation in future periods will be less in the early years of a project even though both
6 total tax and book depreciation will remain unchanged over the asset's life. OTP
7 continues to assess the effect of the bonus depreciation change under the TCJA.

8
9 Q. ARE THERE ANY IMPACTS ON THE UTILIZATION OF PRODUCTION TAX
10 CREDITS DUE TO THE TCJA?

11 A. Yes. As Mr. Bryce Haugen discusses in his Supplemental Direct Testimony, the TCJA
12 decreases income tax expense [for 2018] (resulting in lower rates for OTP's North
13 Dakota customers). The lower income tax rate and associated income tax expense as a
14 result of the TCJA will delay when OTP can use the PTCs on future tax returns. This
15 delay will result in an increase in rate base through the creation of a deferred tax asset.
16 The expected impact will be an increase of annual revenue requirements between
17 \$250,000 and \$500,000 as Mr. Haugen discusses.

18
19 Q. ARE THERE OTHER POSSIBLE IMPACTS OF THE TCJA ON UTILITIES,
20 INCLUDING OTP?

21 A. There are other areas of impact or potential impact as well, which regulators and utilities
22 alike continue to study and sort out. For instance, although the TCJA contains many
23 provisions that have broad applicability to energy sector companies, it is intentionally
24 silent on the disposition of many energy-related tax incentives. There are also changes to
25 the expensing of certain capital investments, limitations on deductions for interest
26 expense and modification to the capital contribution rules and net operating loss
27 deductions, to name just a few examples.

1 **B. MECHANISM FOR IDENTIFYING AND ADDRESSING TCJA IMPACTS**

2 Q. DOES OTP SUPPORT MAKING ADJUSTMENTS TO REFLECT THE TCJA IN THIS
3 PROCEEDING?

4 A. Yes, as indicated in its February TCJA Submission OTP believes this proceeding, which
5 uses a 2018 forecast test year, is the most efficient mechanism for identifying and passing
6 on the known beneficial financial impacts of the TCJA to our customers.

7
8 Q. IS OTP PLANNING TO TAKE THE SAME OR SIMILAR APPROACH IN ITS
9 OTHER STATE JURISDICTIONS?

10 A. Not necessarily. In contrast to North Dakota, OTP's rates in Minnesota and South
11 Dakota were set based on our cost of providing service in 2016 and 2009, respectively.
12 This will require that we approach each state differently to assess the impact of the TCJA
13 based on our current cost of providing service. OTP is assessing our current cost of
14 providing service in each of those two other states as well.

15
16 Q. HOW DOES OTP PROPOSE ADDRESSING THOSE TCJA TAX BENEFITS IN THIS
17 NORTH DAKOTA GENERAL RATE CASE FILING?

18 A. Because this rate case proceeding is still pending, OTP requests that it be allowed to
19 determine the impact of the TCJA through this proceeding, while addressing other
20 relevant Commission dockets where TCJA impacts may manifest themselves at
21 appropriate times to those specific cases, other proceedings, or as otherwise directed by
22 the Commission. OTP has already noted in its February TCJA Submission that it will
23 continue to make appropriate filings in that investigation proceeding as required by the
24 Commission. Those forthcoming filings in the investigation docket, however, would be
25 largely derived from calculations made and filed in this general rate case proceeding.

26
27 Q. HAVE YOU PREPARED SCHEDULES TO SHOW THE IMPACTS ON OTP'S
28 RIDERS AND PROPOSED FINAL RATES IN THIS PROCEEDING?

29 A. Yes. Exhibit ___TAA-2, Schedule 4 and Exhibit ___TAA-2, Schedule 7 reflect the rate
30 base and income statement impacts. However, as I noted earlier, there are other aspects

1 of the TCJA that remain unknown in terms of impacts or as to how to account for such
2 impacts at this time.

3
4 Q. PLEASE SUMMARIZE THOSE IMPACTS ON INTERIM RATES.

5 A. OTP's Petition to Reduce Interim Rates in this case sets forth the calculations supporting
6 the reduction. To summarize, OTP requested reduced interim rates from 10.44 percent to
7 6.79 percent. The request, as approved, decreased interim rates from \$12.8 million to
8 \$8.3 million on an annualized basis, in base rate revenue currently being recovered from
9 each customer class; a reduction of \$4.5 million.

10
11 Q. PLEASE SUMMARIZE THOSE IMPACTS ON OTP'S RIDERS.

12 A. OTP's proposal, as approved, reduced the Environmental, Renewable, and Transmission
13 Cost Recovery Rider annualized revenue requirements that current rates are based upon –
14 from \$26.5 million to \$24.8 million – resulting in lower rates provided in the Mandatory
15 Rider tariff sheets included in that filing. Impacts passed through in the Transmission
16 Cost Recovery Rider may be affected by any action yet to be taken at the Midwest
17 Independent System Operator (MISO) and the Federal Energy Regulatory Commission
18 (FERC), and OTP will provide additional assessment of the cost of service impacts of the
19 TCJA in the rate case and rider proceedings as it becomes available.

20
21 Q. PLEASE SUMMARIZE THE TCJA IMPACTS ON OTP'S PROPOSED FINAL
22 RATES IN THIS PROCEEDING.

23 A. The TCJA impacts to Supplemental Rate Base set forth in Exhibit ___ (TAA-1), Schedule
24 4 Column (A) is a \$1,941,934 increase to Total Other Rate Base Items which increases
25 Required Operating Income by \$153,801. The corresponding impacts on the
26 Supplemental Income Statement are a decrease in Rider Revenue of \$1,641,488 as shown
27 in Exhibit ___ (TAA-1), Schedule 7 Column (A). This adjustment decreases Total Income
28 Taxes by \$3,462,921 and increases Total Available for Return by \$1,821,430. Exhibit ___
29 (TAA-2), Schedule 1, Column E reflects the impact of tax reform as a decrease in the

1 gross revenue deficiency of \$4,772,552. As the PTC utilization impacts are not known at
2 this time, no amount is included in the supplemental filing amounts.

3
4 Q. SHOULD THE COMMISSION ALSO CONTINUE TO ALLOW FLEXIBILITY
5 GOING FORWARD AS ADDITIONAL REGULATORY AND RATE TREATMENT
6 ISSUES RELATED TO THE TCJA BECOME CLEARER?

7 A. Yes, such flexibility would help ensure all the benefits to customers are properly
8 addressed. At a minimum, utilities should be permitted to evaluate their change in rates in
9 six months and make any corrections to the calculations of reduced rates for any issues
10 discovered in the calculations as more becomes known about the specific impacts of the
11 TCJA.

12 **IV. CHANGES IN OTP'S CAPITAL COSTS AND RATE OF RETURN**

13 Q. DID MR. MOUG'S SUPPLEMENTAL TESTIMONY IDENTIFY UPDATES TO THE
14 COSTS OF LONG TERM AND SHORT-TERM DEBT AND LEVELS OF THE
15 COMPONENTS OF OTP'S CAPITAL STRUCTURE?

16 A. Yes. Mr. Moug identified several updates to reflect the actual cost of the \$100 million of
17 Long Term Debt issued in 2018, the updated estimates of the cost of Short Term Debt,
18 and the updated forecasts of the levels of the components of OTP's capital structure. The
19 overall effect of these changes reduced OTP's proposed overall rate of return from 7.97
20 percent to 7.92 percent.

21
22 Q. DO YOU REFLECT THE IMPACT OF THESE CHANGES ON OTP'S FINAL 2018
23 REVENUE REQUIREMENT?

24 A. Yes. Exhibit __ (TAA-2), Schedule 1 reflects the updated rate of return of 7.92 percent
25 in the supplemental schedules.

1 **V. CHANGE IN CISONE AMORTIZATION**

2 Q. HAVE ANY CHANGES BEEN MADE TO THE AMORTIZATION OF THE CISONE
3 PROJECT COSTS?

4 A. Yes. OTP reevaluated the amortization used for the CISone project costs and determined
5 a longer amortization to be more appropriate than the 5-year amortization used in the
6 initial filing. After careful consideration, a 10-year amortization was determined more
7 appropriate for the CISone project costs.

8
9 Q. WHAT IS THE IMPACT OF THE CHANGE IN THE AMORTIZATION ON THE
10 TEST YEAR?

11 A. The adjustment made for the CISone project to Supplemental Rate Base set forth in
12 Exhibit___(TAA-1), Schedule 3 Column (A) is a \$278,551 decrease to Intangible
13 Accumulated Depreciation. The corresponding impacts on the Supplemental Income
14 Statement are a decrease in Depreciation Expense by \$354,519 as shown in
15 Exhibit___(TAA-1), Schedule 6 Column (A). This adjustment decreases Total Income
16 Taxes by \$146,665 and decreases Total Available for Return by \$207,855

17 **VI. CORRECTION TO INTERIM PTC ADJUSTMENT**

18 Q. PLEASE SUMMARIZE THE CORRECTION NEEDED TO THE 2018 INTERIM
19 PRODUCTION TAX CREDIT (PTC) ADJUSTMENT?

20 A. The 2018 Interim adjustment titled “PTC Normalization Remove” should not be included
21 in the calculation of the 2018 Interim Test Year. OTP made an interim adjustment to
22 include PTC’s during the interim period because they weren’t in the Test Year which is
23 the starting point for determining the interim period. However, during the interim period,
24 the Renewable Rider continues, which currently does reflect the PTCs for 2018.
25 Therefore, the inclusion of the PTC adjustment caused interim rates to be understated.

26

1 Q. PLEASE SUMMARIZE THE IMPACT ON OTP’S INTERIM DEFICIENCY IN THIS
2 PROCEEDING.

3 A. The impact of this change on the Interim deficiency is an increase of approximately \$1.52
4 million which is derived by multiplying an operating deficiency of \$1.15 million by the
5 updated gross revenue conversion factor of 1.322837.

6

7 Q. HOW WILL THE COMPANY CORRECT THIS ISSUE?

8 A. The PTC Normalization Removal adjustment for the 2018 Interim will be omitted from
9 the final Interim Rate refund calculation. Removing this adjustment will increase the
10 2018 Interim deficiency.

11

12 Q. WHEN WILL OTP PROVIDE UPDATED SCHEDULES?

13 A. OTP proposes to remove the PTC Normalization Removal adjustment from the 2018
14 Interim Test Year as part of final compliance, which includes the calculation of the
15 Interim Rate refund at the conclusion of the case. Therefore, the correction is not
16 provided in any of the supplemental schedules.

17 **VII. CONCLUSION**

18 Q. HAVE YOU PREPARED A SUMMARY OF ALL OF THE UPDATES AND
19 CHANGES MADE BY OTP?

20 A. Yes. Exhibit __ (TAA-2), Schedule 1 reflects all of these impacts on OTP’s proposed
21 2018 final revenue requirement. Exhibit __ (TAA-2), Schedule 2 provides a comparison
22 of supplemental rate base adjustments to the amounts as originally filed.
23 Exhibit __ (TAA-2), Schedule 5 provides a comparison of income statement adjustments
24 to the amounts as originally filed. These schedules depict the amounts as originally filed,
25 the changes addressed in this Supplemental Direct Testimony, the impact of the TCJA in
26 addition to the Supplemental changes, and a comparison to the original filing.

27

1 Q. WHAT IS YOUR CONCLUSION?

2 A. OTP continues to assess the complexities in addressing the changes brought about by the
3 TCJA. OTP looks forward to working with the Commission and Staff to assessing the
4 cost of service impacts of the TCJA, which OTP believes will be best facilitated and
5 effectively addressed in this case, as part of the ongoing rate case proceeding.

6

7 In addition to the TCJA items noted, changes to capital costs, rate of return, and CISone
8 amortization are necessary for this rate proceeding. Also, a PTC adjustment is necessary
9 to correct the interim year deficiency.

10 Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL DIRECT TESTIMONY?

11 A. Yes, it does.

Otter Tail Power Company
 Electric Utility - State of North Dakota
 Jurisdictional Financial Summary, Supplemental
 2018 Test Year Ending December 31, 2018
 Original Filing Compared to Supplemental

Case No. PU-17-398
 Exhibit ____ (TAA-2), Schedule 1
 Page 1 of 1

		(A)	(B)	(C)	(D)	(E)	(F)
		As Originally Filed	Supplemental	Diff of Supplemental changes compared to original filed	Tax Reform with Supplemental changes	Diff of tax reform with supplemental changes compared to Supplemental	Diff of tax reform with supplemental changes compared to original filed
Line No.	Description						
1	Average Rate Base	\$354,191,794	\$358,084,222	\$3,892,428	\$360,026,156	\$1,941,934	\$5,834,362
2	Rate of Return	7.97%	7.92%	-0.05%	7.92%	0.00%	-0.05%
3	Required Operating Income	28,229,086	28,360,270	131,184	28,514,072	153,801	284,986
4	Operating Income	18,454,391	19,352,267	897,876	21,173,697	1,821,430	2,719,306
5	Income Deficiency	<u>\$9,774,695</u>	<u>\$9,008,003</u>	<u>(\$766,692)</u>	<u>\$7,340,375</u>	<u>(\$1,667,629)</u>	<u>(\$2,434,320)</u>
6	Gross Revenue Conversion Factor	1.607756	1.607756	0	1.322837	(0.284919)	(0.284919)
7	Gross Revenue Deficiency	<u>\$15,715,325</u>	<u>\$14,482,671</u>	<u>(\$1,232,653)</u>	<u>\$9,710,119</u>	<u>(\$4,772,552)</u>	<u>(\$6,005,205)</u>
8	Percentage Increase Needed	<u>10.61%</u>	<u>9.79%</u>	<u>-0.82%</u>	<u>6.64%</u>	<u>-3.15%</u>	<u>-3.97%</u>

North Dakota JURISDICTION RATE BASE SUMMARY TEST YEAR ENDING DECEMBER 31, 2018					
Line No.	Adjustment Description	(A) (1) As Originally Filed	(B) (2) Total Adjustments	(C) (3) Supplemental	(D) Tax Reform
PLANT IN SERVICE					
1	Production	\$330,519,065	\$0	\$330,519,065	\$330,519,065
2	Transmission	153,826,930	0	153,826,930	153,826,930
3	Distribution	228,593,947	0	228,593,947	228,593,947
4	General	36,403,979	(66)	36,403,913	36,403,913
5	Intangible	9,051,224	(16)	9,051,208	9,051,207
6	Total Plant in Service	\$758,395,145	(\$82)	\$758,395,063	\$758,395,062
RESERVE FOR DEPRECIATION					
7	Production	(\$142,605,272)	\$0	(\$142,605,272)	(\$142,605,272)
8	Transmission	(48,351,302)	0	(48,351,302)	(48,351,302)
9	Distribution	(98,387,399)	0	(98,387,399)	(98,387,399)
10	General	(14,025,311)	25	(14,025,286)	(14,025,285)
11	Intangible	(1,383,019)	278,553	(1,104,466)	(1,104,466)
12	Total Reserve for Depreciation	(\$304,752,303)	\$278,578	(\$304,473,725)	(\$304,473,724)
NET PLANT IN SERVICE					
13	Production	\$187,913,793	\$0	\$187,913,793	\$187,913,793
14	Transmission	\$105,475,628	\$0	\$105,475,628	\$105,475,628
15	Distribution	\$130,206,548	\$0	\$130,206,548	\$130,206,548
16	General	\$22,378,668	(\$41)	\$22,378,627	\$22,378,628
17	Intangible	\$7,668,205	\$278,537	\$7,946,742	\$7,946,741
18	Total Net Plant in Service	\$453,642,842	\$278,496	\$453,921,338	\$453,921,338
OTHER RATE BASE ITEMS					
20	Utility Plant Held for Future Use	13,044	0	13,044	13,044
21	CWIP	271,747	0	271,747	271,747
22	Materials & Supplies	8,275,549	0	8,275,549	8,275,549
23	Fuel Stocks	4,430,805	0	4,430,805	4,430,805
24	Prepayments	(13,199,141)	7,216,241	(5,982,900)	(5,982,900)
25	Customer Advances & Deposits	(365,882)	(27)	(365,909)	(365,909)
26	Cash Working Capital	3,602,273	(37,689)	3,564,584	3,454,931
27	Accumulated Deferred Income Taxes	(102,479,443)	(3,564,593)	(106,044,036)	(103,992,449)
28	Total Other Rate Base Items	(\$99,451,048)	\$3,613,932	(\$95,837,116)	(\$93,895,182)
29	TOTAL AVERAGE RATE BASE	\$354,191,794	\$3,892,428	\$358,084,222	\$360,026,156

(1) 2018 Test Year JCOSS As Originally Filed
 (2) Adjustments for supplemental
 (3) Columns (A) + (B)

Line No.	Adjustment Description	(A) (1) Update Depr for TY-01 Projects	(B) (2) ADIT Prorate	(C) (3) FAS 87 Prepaid Pension Adjustment	(D) (4) Adjustments Due to Changes in Allocation %'s	(E) Total Supplemental Adjustments
PLANT IN SERVICE						
1	Production					\$0
2	Transmission					\$0
3	Distribution					\$0
4	General				(\$66)	(\$66)
5	Intangible				(\$16)	(\$16)
6	Total Plant in Service	\$0	\$0	\$0	(\$82)	(\$82)
RESERVE FOR DEPRECIATION						
7	Production					\$0
8	Transmission					\$0
9	Distribution					\$0
10	General				\$25	\$25
11	Intangible	278,551			\$2	278,553
12	Total Reserve for Depreciation	278,551	\$0	\$0	\$27	278,578
NET PLANT IN SERVICE						
13	Production	\$0				\$0
14	Transmission	0				0
15	Distribution	0				0
16	General	0			(41)	(41)
17	Intangible	278,551			(14)	278,537
18	Total Net Plant in Service	278,551	\$0	\$0	(\$55)	278,496
OTHER RATE BASE ITEMS						
19	Big Stone Plant Capitalized					\$0
20	Utility Plant Held for Future Use					\$0
21	CWIP					\$0
22	Materials & Supplies					\$0
23	Fuel Stocks					\$0
24	Prepayments			7,216,686	(\$445)	\$7,216,241
25	Customer Advances & Deposits				(\$27)	(\$27)
26	Cash Working Capital				(\$37,689)	(\$37,689)
27	Accumulated Deferred Income Taxes		(723,085)	(2,836,259)	(\$5,249)	(\$3,564,593)
28	Total Other Rate Base Items	\$0	(\$723,085)	\$4,380,427	(\$43,410)	\$3,613,932
29	TOTAL AVERAGE RATE BASE	278,551	(\$723,085)	\$4,380,427	(\$43,465)	\$3,892,428

(1) Rebuttal Testimony of Tyler Akerman; Section III; Part A

This adjustment reflects OTP's adjustment of amortization from the initial filing.

(2) Rebuttal Testimony of Stuart Tommerdahl; Section II

These adjustment reflects the change in the proration of ADIT.

(3) Rebuttal Testimony of Christine Peterson; Section III; Part A

This adjustment reflects OTP's pension contribution made after the initial filing.

(4) This adjustment is the result of changes in allocation factor percentages between the 2018 Test Year COSS, as filed, and the 2018 Test Year COSS run with Supplemental adjustments. OTP's COSS model calculates certain allocation percentages based on actual information entered into the COSS model and as a result any new adjustments can affect a variety of allocation percentage calculations which in turn affects the amounts allocated to the various jurisdictions resulting in different amounts being allocated to ND.

Otter Tail Power Company
Electric Utility - State of North Dakota
Test Year Rate Base Tax Adjustments, Supplemental
2018 Test Year Ending December 31, 2018
Original Filing Compared to Supplemental

Case No. PU-17-398
Exhibit ___(TAA-2), Schedule 4
Page 1 of 1

Line No.	Adjustment Description	(A)	(B)	(C)
		Tax Reform	(1) Adjustments Due to Changes in Allocation %'s	(2) Total Supplemental Adjustments
PLANT IN SERVICE				
1	Production			\$0
2	Transmission			\$0
3	Distribution			\$0
4	General			\$0
5	Intangible			\$0
6	Total Plant in Service	\$0	\$0	\$0
RESERVE FOR DEPRECIATION				
7	Production			\$0
8	Transmission			\$0
9	Distribution			\$0
10	General			\$0
11	Intangible			\$0
12	Total Reserve for Depreciation	\$0	\$0	\$0
NET PLANT IN SERVICE				
13	Production		0	\$0
14	Transmission		0	0
15	Distribution		0	0
16	General		0	0
17	Intangible		0	0
18	Total Net Plant in Service	\$0	\$0	\$0
OTHER RATE BASE ITEMS				
19	Big Stone Plant Capitalized			\$0
20	Utility Plant Held for Future Use			\$0
21	CWIP			\$0
22	Materials & Supplies			\$0
23	Fuel Stocks			\$0
24	Prepayments			\$0
25	Customer Advances & Deposits			\$0
26	Cash Working Capital	(109,653)		(\$109,653)
27	Accumulated Deferred Income Taxes	2,051,587		\$2,051,587
28	Total Other Rate Base Items	\$1,941,934	\$0	\$1,941,934
29	TOTAL AVERAGE RATE BASE	\$1,941,934	\$0	\$1,941,934

(1) Rebuttal Testimony of Tyler Akerman; Section III; Part A

This adjustment reflects the effects of the Tax Cut and Jobs Act

(2) Rebuttal Testimony of Tyler Akerman; Section III; Part A

This adjustment is the result of changes in allocation factor percentages between the 2018 Test Year COSS, as filed, and the 2018 Test Year COSS run with Supplemental adjustments. OTP's COSS model calculates certain allocation percentages based on actual information entered into the COSS model and as a result any new adjustments can affect a variety of allocation percentage calculations which in turn affects the amounts allocated to the various jurisdictions resulting in different amounts being allocated to ND.

North Dakota JURISDICTION OPERATING INCOME SUMMARY TEST YEAR ENDING DECEMBER 31, 2018					
(A)	(B)	(C)	(E)		
As Originally Filed	(1)	(2)	(3)	Tax Reform	
Line No.	Description	Total Adjustments	Supplemental		
	UTILITY OPERATING REVENUES				
1	Retail Revenue	\$148,071,951	(\$156,734)	147,915,217	146,273,726
2	Other Electric Operating Revenue	10,047,294	717	10,048,011	10,048,011
3	Total Operating Revenues	\$158,119,245	(\$156,017)	\$157,963,228	\$156,321,737
4					
5	UTILITY OPERATING EXPENSES				
6	Production	\$59,756,799	(\$263,646)	\$59,493,153	\$59,493,153
7	Transmission	13,507,453	(117,874)	13,389,579	13,389,579
8	Distribution	7,680,921	(246,486)	7,434,435	7,434,435
9	Customer Accounting	6,091,579	(154,841)	5,936,738	5,936,738
10	Customer Service & Information	1,382,509	(8,784)	1,373,725	1,373,725
11	Sales	222,472	0	222,472	222,472
12	Administrative & General	19,596,616	(501,953)	19,094,663	19,094,663
13	Charitable Contributions	-	0	0	0
14	Depreciation	21,425,301	(354,522)	21,070,779	21,070,778
15	General Taxes	4,905,891	365	4,906,256	4,906,257
16	Total Operating Expenses	\$134,569,541	(\$1,647,741)	\$132,921,800	\$132,921,800
17					
18	Net Operating Income Before Taxes & AFUDC	\$23,549,704	\$1,491,724	\$25,041,428	\$23,399,937
19					
20	TAXES				
21	Investment Tax Credit	(\$526,207)	\$0	(\$526,207)	(\$526,207)
22	Deferred Income Taxes	1,317,383	67,699	1,385,082	(1,365,367)
23	Federal & State Income Tax	4,304,134	526,152	4,830,286	4,117,814
24	Total Taxes	\$5,095,310	\$593,851	\$5,689,161	\$2,226,240
25					
26	Net Operating Income Before AFUDC	\$18,454,394	\$897,873	\$19,352,267	\$21,173,697
27	AFUDC	0	0	0	0
28					
29	TOTAL AVAILABLE FOR RETURN	\$18,454,394	\$897,873	\$19,352,267	\$21,173,697

(1) 2018 Test Year JCOSS As Originally Filed
 (2) Adjustments for supplemental
 (3) Column ND (A) + (B)

		North Dakota Jurisdiction Supplemental									
Line No.	Adjustment Description	(A) Update Depr for TY-01 Projects (1)	(B) FAS 87 Adjustment (2)	(C) FAS 106 Adjustment (2)	(D) FAS 112 Adjustment (2)	(E) TCRR Cost of Debt Change (3)	(F) ECRR Cost of Debt Change (3)	(G) Wind RR Cost of Debt Change (3)	(H) ECRR Base/Peak Split (4)	(I) Adjustments Due to Changes in Allocation %'s (5)	(J) Total PUC Proposed Adjustments
UTILITY OPERATING REVENUES											
1	Retail Revenue					(\$3,827)	(\$5,648)	(\$5,838)	(\$141,412)	(\$9)	(\$156,734)
4	Other Electric Operating Revenue									\$717	\$717
5	Total Operating Revenues	\$0	\$0	\$0	\$0	(\$3,827)	(\$5,648)	(\$5,838)	(\$141,412)	\$708	(\$156,017)
UTILITY OPERATING EXPENSES											
6	Production		(\$234,568)	(\$32,879)	\$3,039					\$762	(\$263,646)
7	Transmission		(104,572)	(14,658)	1,355					\$1	(\$117,874)
8	Distribution		(218,798)	(30,668)	2,835					\$145	(\$246,486)
9	Customer Accounting		(137,319)	(19,248)	1,779					(\$53)	(\$154,841)
10	Customer Service & Information		(7,793)	(1,092)	101					\$0	(\$8,784)
11	Sales									\$0	\$0
12	Administrative & General		(444,739)	(62,339)	5,762					(\$637)	(\$501,953)
13	Charitable Contributions									\$0	\$0
14	Depreciation	(354,519)								(\$3)	(\$354,522)
15	General Taxes									\$365	\$365
16	Total Operating Expenses	(\$354,519)	(\$1,147,789)	(\$160,884)	\$14,871	\$0	\$0	\$0	\$0	\$580	(\$1,647,741)
17	Net Operating Income Before Taxes & AFUDC	\$354,519	\$1,147,789	\$160,884	(\$14,871)	(\$3,827)	(\$5,648)	(\$5,838)	(\$141,412)	\$128	\$1,491,724
TAXES											
18	Investment/Production Tax Credit									\$0	\$0
19	Deferred Income Taxes									\$67,699	\$67,699
20	Federal & State Income Tax	146,665	474,840	66,558	(6,152)	(1,583)	(2,337)	(2,415)	(58,502)	(\$90,921)	\$526,152
21	Total Taxes	\$146,665	\$474,840	\$66,558	(\$6,152)	(\$1,583)	(\$2,337)	(\$2,415)	(\$58,502)	(\$23,222)	\$593,851
22	Net Operating Income Before AFUDC	\$207,855	\$672,949	\$94,326	(\$8,719)	(\$2,244)	(\$3,311)	(\$3,423)	(\$82,910)	\$23,350	\$897,873
23	AFUDC										\$0
24	TOTAL AVAILABLE FOR RETURN	\$207,855	\$672,949	\$94,326	(\$8,719)	(\$2,244)	(\$3,311)	(\$3,423)	(\$82,910)	\$23,350	\$897,873

- (1) Rebuttal Testimony of Tyler Akerman; Section III; Part A
This adjustment reflects OTP's adjustment of amortization from the initial filing.
- (2) Rebuttal Testimony of Christine Peterson; Section III; Part A
This adjustment reflects OTP's updates to the final expenses amounts from the 2018 Mercer Update for penion and OPEB.
- (3) Rebuttal Testimony of Bryce Haugen; Section II
This adjustment reflects OTP's updates to rider revenues for updated capital structure amounts since the initial filing.
- (4) Rebuttal Testimony of Bryce Haugen; Section III
This adjustment reflects OTP's updates to the wind rider for updated Base and Peak Demand Factors.
- (5) This adjustment is the result of changes in allocation factor percentages between the 2018 Test Year COSS, as filed, and the 2018 Test Year COSS run with Supplemental adjustments. OTP's COSS model calculates certain allocation percentages based on actual information entered into the COSS model and as a result any new adjustments can affect a variety of allocation percentage calculations which in turn affects the amounts allocated to the various jurisdictions resulting in different amounts being allocated to ND.

Otter Tail Power Company
Electric Utility - State of North Dakota
Test Year Income Statement Tax Adjustments
2018 Test Year Ending December 31, 2018
Original Filing Compared to Supplemental

Line No.	Adjustment Description	(A) (1) Tax Reform	(B) (2) Adjustments Due to Changes in Allocation %'s	(C) Total PUC Proposed Adjustments
UTILITY OPERATING REVENUES				
1	Retail Revenue	(\$1,641,491)		(\$1,641,491)
4	Other Electric Operating Revenue			\$0
5	Total Operating Revenues	(\$1,641,491)	\$0	(\$1,641,491)
UTILITY OPERATING EXPENSES				
6	Production			\$0
7	Transmission			\$0
8	Distribution			\$0
9	Customer Accounting			\$0
10	Customer Service & Information			\$0
11	Sales			\$0
12	Administrative & General			\$0
13	Charitable Contributions			\$0
14	Depreciation			\$0
15	General Taxes			\$0
16	Total Operating Expenses	\$0	\$0	\$0
17	Net Operating Income Before Taxes & AFUDC	(\$1,641,491)	\$0	(\$1,641,491)
TAXES				
18	Investment/Production Tax Credit			\$0
19	Deferred Income Taxes	(2,750,449)		(\$2,750,449)
20	Federal & State Income Tax	(712,472)		(\$712,472)
21	Total Taxes	(\$3,462,921)	\$0	(\$3,462,921)
22	Net Operating Income Before AFUDC	\$1,821,430	\$0	\$1,821,430
23	AFUDC			\$0
24	TOTAL AVAILABLE FOR RETURN	\$1,821,430	\$0	\$1,821,430

(1) Rebuttal Testimony of Tyler Akerman; Section III; Part A
This adjustment reflects the effects of the Tax Cut and Jobs Act

(2) Rebuttal Testimony of Tyler Akerman; Section III; Part A
This adjustment is the result of changes in allocation factor percentages between the 2018 Test Year COSS, as filed, and the 2018 Test Year COSS run with Supplemental adjustments. OTP's COSS model calculates certain allocation percentages based on actual information entered into the COSS model and as a result any new adjustments can affect a variety of allocation percentage calculations which in turn affects the amounts allocated to the various jurisdictions resulting in different amounts being allocated to ND.