

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 ____

REVENUE REQUIREMENT AND REGULATORY ISSUES

Supplemental Direct Testimony and Schedules of

STUART D. TOMMERDAHL

March 23, 2018

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ATTACHED SCHEDULES

Schedule 1 – ADIT Prorate

1 **I. INTRODUCTION**

2 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

3 A. My name is Stuart Tommerdahl. My business address is 215 South Cascade Street,
4 Fergus 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).
8

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

10 A. My Supplemental Direct Testimony will discuss the impact that the 2017 Tax Cuts and
11 Jobs Act (TCJA) will have on the revenue requirement due to the proration of
12 Accumulated Deferred Income Taxes (ADIT) for the 2018 Test Year as well as for the
13 Interim Test Year. OTP witness Mr. Tyler A. Akerman discusses other impacts of the
14 TCJA on the 2018 Test Year in his Supplemental Direct Testimony. In addition, I will
15 discuss two clarifications to my Direct Testimony related to the Economic Development
16 Credit rider and the CISone project. Lastly, I will discuss a proposed change for the
17 recovery of one specific reagent at Coyote Station currently being recovered in base rates.

18 **II. ACCUMULATED DEFERRED INCOME TAX PRORATION**

19 Q. WHAT WILL YOU DISCUSS IN THIS SECTION OF YOUR SUPPLEMENTAL
20 DIRECT TESTIMONY?

21 A. In this section, I will explain how the TCJA passed in late 2017 impacts balances of
22 ADIT and the corresponding revenue requirement attributable to the proration of those
23 ADIT balances in both the 2018 Test Year and the Interim Test Year. In summary, the
24 TCJA impacts on ADIT balances will reduce the revenue requirement in both the 2018
25 Test Year as well as for the Interim Test Year.
26

27 Q. HOW DOES THE TCJA IMPACT ADIT BALANCES?

28 A. The TCJA reduced the Federal corporate income tax rate from 35 percent to 21 percent
29 effective January 1, 2018 and eliminated bonus tax depreciation effective

1 October 1, 2017. Due to these two changes, the difference between book depreciation
2 and tax depreciation is reduced, thereby reducing the magnitude of the annual change in
3 ADIT balances over the course of the 2018 Test Year and Interim Test Year. As
4 discussed by Mr. Akerman in his Supplemental Direct Testimony, OTP has incorporated
5 these and other impacts of the TCJA into the 2018 Test Year.
6

7 Q. HAVE YOU UPDATED THE ESTIMATED IMPACT OF ADIT PRORATION ON
8 FINAL RATES AS A RESULT OF THE TCJA?

9 A. Yes. Table 1 below summarizes the estimated impact of the proration of ADIT as initially
10 calculated and provided in my Direct Testimony, compared to updated estimates that
11 reflect TCJA. Details of the updated estimate are included in Exhibit__(SDT-2),
12 Schedule 1.

13 **Table 1**
14 ADIT Proration Impact – 2018 Test Year

	Initial Filing ¹	Reflecting TCJA
Increase in Rate Base – (OTP Total)	\$2.235 million	\$0.232 million
Increase in Rate Base – (OTP ND)	\$807,000	\$83,563
Revenue Requirement Increase (OTP ND)	\$91,000	\$8,122

15
16 In summary, the 2018 Test Year revenue requirement impact drops from \$91,000
17 to \$8,122. The updated amounts in Table 1 still assume that final rates are implemented
18 as of August 1, 2018. Actual impacts will be determined in the calculation of final rates.
19

20 Q. HOW IS ADIT PRORATION COMPUTED FOR INTERIM RATES?

21 A. Interim rates became effective January 1, 2018. Interim rates were computed based on a
22 January 1, 2018 to December 31, 2018 Test Year. Because interim rates were computed
23 based on an entirely future test period as defined by the IRS, proration is applied to all
24 incremental changes to ADIT balances from January 1, 2018 to December 31, 2018.

¹ Tommerdahl Direct at 33 and Schedule 4.

1 Q. HAVE YOU UPDATED THE ESTIMATED IMPACT OF PRORATION OF ADIT
2 FOR THE INTERIM TEST YEAR AS A RESULT OF THE TCJA?

3 A. Yes. Table 2 below compares the estimated impact of the proration of ADIT as initially
4 calculated and provided in my Direct Testimony, compared to updated estimates which
5 reflect the impact of the TCJA on the Interim Test Year revenue requirement. Details of
6 the updated estimate are included in Exhibit ___ (SDT-2), Schedule 1.

7 **Table 2**
8 ADIT Proration Impact – 2018 Interim Test Year

	Initial Filing ²	Reflecting TCJA
Increase in Rate Base – (OTP Total)	\$4.6 million	\$1.143 million
Increase in Rate Base – (OTP ND)	\$1.7 million	\$412,626
Revenue Requirement Increase (OTP ND)	\$187,000	\$40,107

9
10 As a result of the TCJA, the Interim Test Year revenue requirement associated
11 with ADIT Proration drops from approximately \$187,000 to \$40,107. As noted in my
12 Direct Testimony, because interim rates are expected to be in effect for only a portion of
13 2018, the actual impact will be less, and the interim effect will be limited to a one-time
14 effect.

15 **III. ECONOMIC DEVELOPMENT CREDIT RIDER**

16 Q. WHAT WILL YOU DISCUSS IN THIS SECTION OF YOUR SUPPLEMENTAL
17 DIRECT TESTIMONY?

18 A. I will discuss a correction to my Direct Testimony regarding the handling of the North
19 Dakota Economic Development Rider and associated impact during the Interim Test
20 Year.
21

² Tommerdahl Direct at 33; Schedule 4

1 Q. PLEASE EXPLAIN THE CORRECTION.

2 A. On page 41 of my Direct Testimony, I indicated that effective with the implementation of
3 interim rates, the North Dakota Economic Development Credit would be set to zero
4 because there were no economic development expenses included in the Interim Test
5 Year. OTP has since discovered that 2018 Test Year and Interim Test Year present
6 revenues reflected an Economic Development Credit of (\$452,443), meaning present
7 revenues in both the 2018 Test Year and Interim Test Year were \$452,443 lower than
8 they should have been.

9

10 Q. WHAT IS THE IMPACT OF THIS ON INTERIM RATES?

11 A. The Interim Test Year increase was \$452,443 larger than it should have been.

12

13 Q. HAS OTP TAKEN STEPS TO PROTECT CUSTOMERS FROM THIS OVERSIGHT?

14 A. Yes. To compensate for that overstatement of the Interim Test Year revenue requirement,
15 OTP has continued to compute and apply the Economic Development Rider Credit to
16 customer bills, effectively negating the overstated interim increase.

17

18 Q. HOW WILL OTP ACCOUNT FOR THIS IN THE INTERIM TEST YEAR REFUND?

19 A. When computing the Interim Test Year refund at the end of the case, OTP will include
20 the actual amount of Economic Development Credit included in customer bills during the
21 Interim Test Year as an offset to the interim rate revenues charged customers during that
22 same time period.

23

24 Q. WHAT WILL HAPPEN AT THE IMPLEMENTATION OF FINAL RATES?

25 A. OTP will remove the credit from present revenues when calculating final rates and the
26 rider rate will be set to zero.

1 **IV. CISONE PROJECT**

2 Q. WHAT WILL YOU DISCUSS IN THIS SECTION OF YOUR SUPPLEMENTAL
3 DIRECT TESTIMONY?

4 A. I will discuss a correction to my Direct Testimony regarding a reference to the total cost
5 of the CISone project.

6
7 Q. WHAT IS THAT CORRECTION?

8 A. On page 17 of my Direct Testimony, I incorrectly indicated that the total cost of the
9 CISone project was \$15.8 million (OTP Total) / \$6.5 million (OTP ND). The actual total
10 cost of the CISone project included in the 2018 Test Year is \$14.8 million (OTP Total) /
11 \$6.1 million (OTP ND).

12

13 Q. ARE THERE ANY OTHER UPDATES YOU CAN PROVIDE REGARDING THE
14 CISONE PROJECT SCHEDULE?

15 A. OTP continues to work on the development and implementation of CISone. OTP
16 currently estimates that the system will “go-live” by the end of 2018. While the system
17 may be operational at some point ahead of that date, for administrative reasons and to
18 align with certain rate case and financial reporting schedules, the actual “go-live” date
19 may shift. OTP will continue to provide updates during this case.

20 **V. REAGENT EXPENSES**

21 Q. WHAT WILL YOU DISCUSS IN THIS SECTION OF YOUR SUPPLEMENTAL
22 DIRECT TESTIMONY?

23 A. I will discuss a potential adjustment in how OTP recovers the costs of pebble lime
24 consumed at OTP’s Coyote Station.

25

26 Q. PLEASE DISCUSS HOW OTP CURRENTLY RECOVERS PEBBLE LIME COSTS.

27 A. OTP recovers pebble lime used at the Big Stone Plant in the new Air Quality Control
28 System (AQCS) through the Reagent and Emissions Allowance Adjustment (REAA)

1 rider.³ OTP recovers the cost of Coyote Station pebble lime through base rates. Because
2 Coyote Station pebble lime was already being recovered in base rates when the REAA
3 was established, it was excluded from the REAA to avoid double recovering that cost.
4

5 Q. WHAT CHANGES ARE YOU PROPOSING?

6 A. As discussed on pages 27-29 of my Direct Testimony, OTP proposes to move all reagent
7 and emissions allowance costs into the Energy Adjustment Rider at the conclusion of this
8 case. This would include pebble lime consumed at the Coyote Station. The Energy
9 Adjustment Rider is a much more appropriate cost recovery mechanism for the cost of
10 pebble lime (and other reagents) because reagent costs are directly correlated to the
11 dispatch of the plant, just like fuel.

12 The 2018 Test Year O&M expense includes \$687,193 (OTP Total) / \$258,227
13 (OTP ND) for Coyote Station pebble lime. OTP proposes to make an adjustment when
14 calculating final rates to remove these reagent costs from the calculation of base rates and
15 into the Energy Adjustment Rider in the compliance filing at the end of the case.

16 **VI. CONCLUSION**

17 Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL DIRECT TESTIMONY?

18 A. Yes, it does.

³ OTP also recovers the costs of Coyote Station, Hoot Lake Plant and Big Stone Plant activated carbon (used in new mercury emissions reduction systems) through the RREA rider, which was approved by the Commission in 2014 as part of Case No. PU-14-668.

Otter Tail Power Company
Proration of Accumulated Deferred Income Tax for Test Year
Proration - August - December
2018 Test Year

(A)	(B)	(C)	(D)	
1	12/31/2017	12/31/2018	Simple Average	
2	Non-Prorated Accumulated Deferred Income Taxes			
3	Federal	(201,238,160)	(204,881,620)	(203,059,890)
4	Minnesota	(32,659,083)	(33,904,568)	(33,281,825)
5	North Dakota	(36,657,578)	(36,531,234)	(36,594,406)
6		(270,554,821)	(275,317,423)	(272,936,122)
7	Prorated Accumulated Deferred Income Taxes			
9	Federal	(201,238,160)	(204,418,457)	(202,828,308)
10	Minnesota	(32,659,083)	(33,904,568)	(33,281,825)
11	North Dakota	(36,657,578)	(36,531,234)	(36,594,406)
12		(270,554,821)	(274,854,259)	(272,704,540)
13	Prorate Adjustment made in the Test Year			
15	Federal			231,582
16	Minnesota			0
17	North Dakota			0
18	Total Change in ADIT (Total Company)			231,582
19	NEPIS Allocation Factor			0.36083
	TY ADIT Balance Impact - ND \$			83,563
	Rate Base Revenue Requirement Factor- Updated			9.72%
	Test Year ND Revenue Requirement Impact \$			8,122

Otter Tail Power Company
Proration of Accumulated Deferred Income Tax for purposes of computing the Interim Period Adjustment
Proration - January - December
2018 Interim Test Year

(A)	(B)	(C)	(D)	
1	12/31/2017	12/31/2018	Simple Average	
2	Non-Prorated Accumulated Deferred Income Taxes			
3	Federal	(201,238,160)	(204,881,620)	(203,059,890)
4	Minnesota	(32,659,083)	(33,904,568)	(33,281,825)
5	North Dakota	(36,657,578)	(36,531,234)	(36,594,406)
6		(270,554,821)	(275,317,423)	(272,936,122)
7	Prorated Accumulated Deferred Income Taxes			
9	Federal	(201,238,160)	(202,594,553)	(201,916,357)
10	Minnesota	(32,659,083)	(33,904,568)	(33,281,825)
11	North Dakota	(36,657,578)	(36,531,234)	(36,594,406)
12		(270,554,821)	(273,030,355)	(271,792,588)
13	Prorate Impact to Interim Test Year ADIT			
15	Federal			1,143,534
16	Minnesota			0
17	North Dakota			0
18	Total Change In ADIT (Total Company)			1,143,534
19	NEPIS Allocation Factor			0.36083
	ADIT Balance Impact for Interim Purposes - ND			412,626
	Rate Base Revenue Requirement Factor- Updated			9.72%
	Interim Test Year ND Revenue Requirement Impact \$			40,107

Interim Adjustment	Estimated Revenue Requirement Impact	
	ADIT Proration Balance Impact ND	Revenue Requirement Impact
Interim (12 Months Prorated) ADIT	\$ 412,626	\$ 40,107
2018 TY (August - December prorated) ADIT	\$ 83,563	\$ 8,122
Total Interim Adjustment to ADIT Balance	\$ 329,063	\$ 31,985