

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 \_\_\_\_

**TRANSITION OF CAPITAL PROJECTS FROM RIDERS TO BASE RATES**

Supplemental Direct Testimony of

**BRYCE C. HAUGEN**

March 23, 2018

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1 **I. INTRODUCTION**

2 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

3 A. My name is Bryce C. Haugen. 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 (1) Moving investments currently being recovered in the Environmental Cost Recovery  
9 Rider (ECRR), Renewable Resource Adjustment Rider (RRAR), and Transmission Cost  
10 Recovery Rider (TCRR) into base rates, and the treatment of Renewable Resource  
11 Adjustment Rider (RRAR)-related Production Tax Credits (PTCs); and (2) Advertising  
12 expenses.

13  
14 Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL DIRECT TESTIMONY?

15 A. My Supplemental Direct Testimony addresses updates to the 2018 Test Year. These  
16 updates do not impact Interim Rates. I address the updated rate of return used to calculate  
17 ECRR, RRAR, and TCRR revenues that are included in the calculation of present  
18 revenues.<sup>1</sup> I also address the Base and Peak Demand Factors used to calculate the North  
19 Dakota jurisdiction share of the ECRR revenue requirement. Finally, I provide an update  
20 to the expected impact of the Tax Cut and Jobs Act (TCJA) on the utilization of PTCs in  
21 the RRAR.

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<sup>1</sup> Haugen Direct, Page 3, Footnote 1.

1 **II. CORRECTION TO ECRR, RRAR, AND TCRR COST OF DEBT**

2 Q. PLEASE SUMMARIZE THE UPDATE TO YOUR DIRECT TESTIMONY RELATED  
3 TO THE 2018 TEST YEAR RATE OF RETURN USED IN THE ECRR, RRAR, AND  
4 TCRR.

5 A. The ECRR, RRAR, and TCRR 2018 Test Year revenue requirements were calculated  
6 using a rate of return of 7.93 percent. Due to updates made in Supplemental Direct  
7 Testimony, OTP's revised rate of return for the 2018 Test Year is 7.92 percent.<sup>2</sup>

8  
9 Q. PLEASE SUMMARIZE THE IMPACT OF THIS CORRECTION ON THE 2018 TEST  
10 YEAR.

11 A. Incorporating the 7.92 percent rate of return into the calculation of the 2018 Test Year  
12 revenue requirements for these three riders decreases 2018 Test Year present revenues  
13 approximately \$15,000 (OTP ND).<sup>3</sup>

14  
15 Q. WILL OTP PROVIDE UPDATED ECRR, RRAR AND TCRR SCHEDULES AT THE  
16 CONCLUSION OF THE CASE?

17 A. Yes. OTP will provide updated rider schedules as part of the calculation of final rates that  
18 will reflect actual ECRR, RRAR and TCRR balances. The updated rider schedules will  
19 include updated actual costs and revenues at the roll-in point, and the update to which I  
20 am now testifying.

21 **III. CORRECTION TO ECRR BASE AND PEAK DEMAND FACTORS**

22 Q. PLEASE SUMMARIZE THE UPDATE NEEDED TO THE BASE AND PEAK  
23 DEMAND FACTORS IN OTP'S ECRR.

24 A. The ECRR revenue requirement is calculated at a total company level. The total company  
25 amount is allocated to North Dakota based on a blended allocation of the Base and Peak  
26 Demand Factors and the E1 and D1 allocation factors. The 2018 Test Year ECRR

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<sup>2</sup> Moug Supplemental Direct, Schedule 2.

<sup>3</sup> Akerman Supplemental Direct, Schedule 6, Columns E, F, and G.

1 revenue requirements included in the Initial Filing did not reflect updated Base and Peak  
2 Demand Factors.

3  
4 Q. WHAT ARE THE UPDATED BASE AND PEAK DEMAND FACTORS?

5 A. The Initial Filing used a 66.87 percent Base Demand Factor and a 33.13 percent Peak  
6 Demand Factor when allocating total company ECRR revenue requirements to the North  
7 Dakota jurisdiction. The correct Base Demand Factor is 81.73 percent and the correct  
8 Peak Demand Factor is 18.27 percent.

9  
10 Q. PLEASE SUMMARIZE THE IMPACT OF THIS CORRECTION ON THE 2018 TEST  
11 YEAR.

12 A. Incorporating the corrected Base and Peak Demand Factors decreases North Dakota's  
13 share of the total ECRR revenue requirement by \$140,000 (OTP ND);<sup>4</sup> 2018 Test Year  
14 present revenues decrease by this same amount.

15 **IV. TCJA AND PTCs IN THE RRAR**

16 Q. PLEASE SUMMARIZE THE IMPACT OF THE TCJA ON PTCs IN THE RRAR.

17 A. As I described in my Direct Testimony, OTP earns PTCs for generation at certain OTP  
18 wind facilities.<sup>5</sup> PTCs are credits against taxable income and are utilized against OTP's  
19 tax expense in the year they are generated, so customers receive the benefit of the PTCs  
20 immediately. Unused PTCs are carried forward to reduce future tax liabilities.

21 The TCJA decreases income tax expense for 2018 (resulting in lower rates for  
22 OTP's North Dakota customers).<sup>6</sup> The lower income tax rate and associated lower  
23 income tax expense as a result of the TCJA will delay when OTP can use the PTCs on  
24 future tax returns. As discussed above, unused PTCs are carried forward as a deferred tax  
25 asset that is part of rate base. Under OTP's proposal, the deferred tax asset would be  
26 rolled into base rates at the conclusion of this case.

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<sup>4</sup> Akerman Supplemental Direct, Schedule 6, Columns H.

<sup>5</sup> Haugen Direct, Pages 13-14.

<sup>6</sup> OTP's Updated Interim Rates Filing on February 15, 2018 reduced Interim Rates in this proceeding as a result of the TCJA with the reduced rates effective March 1, 2018.

1 Q. IS THIS TREATMENT OF PTCS CONSISTENT WITH PRIOR COMMISSION  
2 ORDERS?

3 A. Yes. Both current PTC crediting to customers within tax expense calculations, as well as  
4 the handling of the actual usage of PTCs and any associated deferrals, is consistent with  
5 the treatment the Commission approved in prior cases for OTP's RRAR.<sup>7</sup>  
6

7 Q. WHAT IS THE ESTIMATED REVENUE REQUIREMENT IMPACT OF THE  
8 LARGER DEFERRED TAX ASSET?

9 A. OTP estimates that the increase in the deferred tax asset for PTCs could increase annual  
10 revenue requirement between \$250,000 and \$500,000 (OTP ND) depending on the level  
11 of actual PTCs generated and associated balances at the time final rates go into effect.  
12

13 Q. WILL THE DEFERRED TAX ASSET ROLLED INTO BASE RATES BE BASED ON  
14 THE ACTUAL AMOUNT OF UNUSED PTCS?

15 A. Yes. As discussed above, OTP will provide an updated RRAR schedule as part of the  
16 final rider roll-in that will include updated actual costs and revenues at the roll-in point.  
17 The actual costs and revenues would include the actual unused PTC balance as of the  
18 roll-in date.

19 **V. CONCLUSION**

20 Q. WHAT IS YOUR CONCLUSION?

21 A. OTP's ECRR, RRAR, and TCRR continue to be in effect during this case. OTP will  
22 provide updated schedules for each of these riders as part of its compliance filing in this  
23 case to detail the projects rolling-in to base rates and address and over or under collection  
24 in these riders.  
25

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<sup>7</sup> The RRAR was originally established in Case Nos. PU-08-742 and PU-08-862. The November 25, 2009 Commission Order details the inclusion of PTCs in the RRAR at the time earned. The treatment of PTCs within the RRAR is discussed in detail in those cases and, most recently, in OTP's Application for Approval of the Annual Rate Update to Rate Schedule, Section 13.04, Renewable Resource Cost Recovery Adjustment Factor in Case No. PU-16-14. The Commission approved OTP's current Cost Recovery Adjustment Factor in its June 22, 2016 Order.

- 1 Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL DIRECT TESTIMONY?
- 2 A. Yes, it does.