



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___

2018 REBUTTAL REVENUE REQUIREMENT AND ADJUSTMENTS

Rebuttal Testimony and Schedules of

Tyler A. Akerman

June 22, 2018

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ATTACHED SCHEDULES

Schedule 1 – Rebuttal Jurisdictional Financial Summary

Schedule 2 – Rebuttal Test Year Rate Base

Schedule 3 – Rebuttal Test Year Rate Base Adjustments

Schedule 4 – Rebuttal Test Year Income Statement

Schedule 5 – Rebuttal Test Year Income Statement Adjustments

Schedule 6 – Rebuttal Short-term CWIP Adjustment

Schedule 7 – Rebuttal CISone Adjustment

1 **I. INTRODUCTION**

2 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

3 A. My name is Tyler Akerman, CPA, and my address is 215 South Cascade Street, Fergus
4 Falls, Minnesota 56537.

5

6 Q. BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR POSITION?

7 A. I am employed by Otter Tail Power Company (OTP or the Company) as its Manager of
8 Business Planning/Regulatory Accounting Department.

9

10 Q. DID YOU PREPARE DIRECT TESTIMONY AND SUPPLEMENTAL DIRECT
11 TESTIMONY IN THIS PROCEEDING?

12 A. Yes. I filed Direct Testimony on behalf of OTP supporting OTP's financial schedules and
13 the determination of a revenue deficiency for the 2018 Test Year. My Supplemental
14 Direct Testimony addressed the impacts of the federal Tax Cuts and Jobs Act (TCJA) on
15 both the revenue deficiency for the 2018 Test Year and on Interim Rates, as well as other
16 issues.

17

18 Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

19 A. My Rebuttal Testimony supports OTP's Rebuttal Testimony financial schedules and
20 Rebuttal Testimony revenue deficiency for the 2018 Test Year. I will also respond to
21 certain positions raised in the Direct Testimony of Mr. Ralph C. Smith filed on behalf of
22 North Dakota Public Service Commission (the Commission) Advocacy Staff (Staff) and
23 the Direct Testimony of Ms. Kavita Maini filed on behalf of the Midwest Large Energy
24 Consumers Group (MLEC).

1 **II. SUMMARY OF REBUTTAL TESTIMONY**

2 Q. WHAT IS OTP'S REBUTTAL REVENUE DEFICIENCY?

3 A. OTP's Rebuttal revenue deficiency is \$10,105,973 for the 2018 Test Year. The Rebuttal
4 revenue deficiency reflects additional data gathered since the Initial Filing, the TCJA and
5 other items discussed in my Supplemental Direct Testimony, corrections identified
6 during the discovery process, and the acceptance of some, but not all, positions of the
7 Staff and MLEC witnesses. The specific Rebuttal Testimony adjustments to our
8 Supplemental Filing revenue deficiency are discussed in Section III below.

9
10 Q. DOES YOUR REBUTTAL TESTIMONY INCLUDE FINANCIAL SCHEDULES
11 SUPPORTING OTP'S REBUTTAL REVENUE DEFICIENCY?

12 A. Yes. Ex. (TAA-3), Schedule 1 to my Rebuttal Testimony is a Summary of Rebuttal
13 Revenue Requirements. Ex. (TAA-3), and Schedule 2 compares the detailed rate base in
14 our Supplemental Direct Testimony and the Rebuttal Testimony. OTP's proposed
15 Rebuttal Testimony adjustments to the rate base are shown are shown on Ex. _(TAA-3),
16 Schedule 3, which bridges our Supplemental Direct Testimony to our Rebuttal
17 Testimony. Ex. (TAA-3), Schedule 4 compares the operating income in our Supplemental
18 Filing and the Rebuttal Testimony. OTP's proposed Rebuttal Testimony adjustments to
19 the income statement are shown are shown on Ex. _(TAA-3), Schedule 5, which bridges
20 our Supplemental Direct Testimony to our Rebuttal Testimony.

21
22 Q. HAS OTP REVISED ITS 2018 TEST YEAR COST OF CAPITAL?

23 A. No. The Rebuttal Testimonies of OTP witnesses Mr. Kevin G. Moug and Mr. Robert B.
24 Hevert address the 2018 Test Year cost of capital. As Mr. Moug and Mr. Hevert explain,
25 no adjustment to OTP's proposed 2018 Test Year cost of capital is appropriate.

26
27 Q. DO YOU ADDRESS ALL PROPOSED FINANCIAL ADJUSTMENTS
28 RECOMMENDED BY INTERVENING PARTIES?

29 A. No. I address the following financial adjustments recommended by Staff and MLEC
30 witnesses:

- 1 (1) The amortization of Non-Protected excess federal Accumulated Deferred
2 Income Tax (ADIT) balances;
3 (2) Payroll expense;
4 (3) Payroll tax expense;
5 (4) Short-term construction work in progress (CWIP); and
6 (5) Cash-working-capital and interest synchronization impacts of adjustments
7 made by OTP.

8 Additionally, I will clarify OTP's position on: (1) refunding the TCJA impacts in January
9 through February of 2018; and (2) OTP's CWIP projects listed in Data Request ND-PSC-
10 15.34. I will also discuss the reduction to 2018 Test Year deferred income tax expense
11 related to OTP's proposal to apply the average rate assumption method (ARAM) to Non-
12 Protected (and Protected) excess ADIT under the TCJA; and (3) OTP's CISOne Project.

13
14 Q. DOES YOUR REBUTTAL TESTIMONY DRAW UPON THE REBUTTAL
15 TESTIMONY OF OTHER OTP WITNESSES?

16 A. Yes. I relied upon and incorporated the Rebuttal Testimony recommendations of other
17 OTP witnesses. I will identify those witnesses in my discussion of the issues.

18 **III. OTP'S PROPOSED REBUTTAL TESTIMONY ADJUSTMENTS**

19 Q. WHAT TOPICS WILL YOU ADDRESS IN THIS SECTION OF YOUR TESTIMONY

20 A. In this section, I identify and explain the Rebuttal Testimony adjustments that OTP
21 proposed to the 2018 Test Year.

22
23 Q. PLEASE IDENTIFY OTP'S PROPOSED REBUTTAL ADJUSTMENTS.

24 A. OTP proposes the following Rebuttal Testimony adjustments:

- 25 (1) 2018 CWIP;
26 (2) CISone project costs; and
27 (3) Cash Working Capital, Lead/Lag Study and Interest Synchronization

28 These Rebuttal Testimony adjustments proposed by OTP are in addition to the
29 adjustments that OTP proposed in its Supplemental Direct Testimony and that have

1 already by reflected in the OTP Jurisdictional Financial Summary, Supplemental and in
2 the Test Year Rate Base, Supplemental, Ex. _(TAA-2), Schedules 1 and 2 and Test Year
3 Income Statement, Supplemental, Ex. _(TAA-2), Schedule 5 that were attached to my
4 Supplemental Direct Testimony and schedules filed March 23, 2018. The Test Year
5 Income Statement Adjustments, Supplemental, Ex. _(TAA-2), Schedule 5 included
6 adjustments for employment benefits costs, which I will further discuss later in my
7 Rebuttal Testimony.

8 **A. 2018 Construction Work in Progress (CWIP)**

9 Q. DOES OTP RECOMMEND CORRECTIONS TO SHORT-TERM CWIP IN THE 2018
10 TEST YEAR?

11 A. Yes. In its response to data request ND-PSC-15.37, OTP noted that we had inadvertently
12 included the Winger-Thief River project in short-term CWIP for the 2018 Test Year and
13 that OTP would remove \$271,747 from its North Dakota jurisdictional rate base because
14 it is not scheduled to be in service until 2023 and should be included in long-term CWIP
15 subject to AFUDC, not short-term CWIP. As discussed later in Rebuttal Testimony, OTP
16 has also determined the 2018 Test Year inadvertently did not include short-term CWIP
17 for any other projects. OTP proposes that the 2017 actual short term CWIP balance of
18 \$3,010,353 be included because it is representative of the 2018 Test Year.

19
20 Q. DID MR. SMITH SUPPORT OTP'S PROPOSAL TO REMOVE THE SHORT-TERM
21 CWIP OF \$271,747 RELATED TO THE WINGER-THIEF RIVER PROJECT?

22 A. Yes. Mr. Smith supports the removal of \$271,747 from short-term CWIP related to the
23 Winger-Thief River project.¹

¹ Smith Direct, p. 14-16.

1 Q. WHEN DID OTP DETERMINE THAT SHORT-TERM CWIP FOR OTHER
2 PROJECTS SHOULD HAVE BEEN INCLUDED IN THE 2018 TEST YEAR RATE
3 BASE.

4 A. OTP determined that short-term CWIP for other capital projects had been inadvertently
5 omitted from the 2018 Test Year Rate Base (in OTPs Initial Filing) when OTP was
6 preparing Rebuttal Testimony and schedules. Given the time of that determination, OTP
7 choose not to make a separate errata filing, but rather to include the change in Rebuttal
8 Testimony and schedules.

9

10 Q. HAVE YOU PREPARED A SCHEDULE OF THE CORRECTED SHORT-TERM
11 CWIP?

12 A. Yes, I have. Ex. _(TAA-3), Schedule 6 reflects the calculation of the \$3,010,353 of
13 short-term CWIP proposed for the 2018 Test Year, including the North Dakota
14 jurisdictional balances for the categories of assets, which include \$1,121,536
15 (Production), \$606,653 (Transmission), \$1,036,182 (Distribution), \$221,540 (General),
16 and \$24,441 (Intangible).

17

18 Q. WHAT IS THE SOURCE OF THESE CALCULATED NORTH DAKOTA
19 JURISDICTIONAL BALANCES?

20 A. The source for all of these balances is the actual amount for 2017 (based on a 13-month
21 average from December 2016 through December 2017).

22

23 Q SHOULD THE COMMISSION ALLOW OTP TO INCLUDE ITS SHORT-TERM
24 CWIP IN RATE BASE?

25 A. Yes. The Commission should allow OTP to include its short-term CWIP in rate base
26 because: (1) doing so is consistent with the Commission's policy regarding short-term
27 CWIP; and (2) OTP has provided full support and explanation for the level of short-term
28 CWIP that is proposes to include in rate base.

1 Q. DOES THE COMMISSION HAVE A POLICY OF ALLOWING SHORT-TERM CWIP
2 TO BE RECOVERED IN RATE BASE?

3 A. Yes. The Commission allows short-term CWIP to be recovered in rate base. As a result,
4 OTP is not requesting that the Commission change its policy
5

6 Q. PLEASE DESCRIBE THE INFORMATION THAT SUPPORTS AND EXPLAINS
7 THE LEVEL OF SHORT-TERM CWIP THAT OTP PROPOSES.

8 A. The information and support provided by OTP is highly reliable and fairly representative
9 of the 2018 Test Year. That information shows that: (1) the 2017 actual short-term
10 calculation is highly reliable because it reflects a detailed analysis of actual results and
11 actual property records for 2017 performed by the Capital Asset Group at OTP and the
12 appropriate allocation factors to determine the North Dakota jurisdictional share; and (2)
13 the 2017 actual results are reasonably representative of the expected results for the 2018
14 Test Year.
15

16 Q. ON WHAT BASIS DO YOU CONCLUDE THAT 2017 ACTUAL CWIP IS
17 REASONABLY REPRESENTATIVE OF SHORT-TERM CWIP FOR THE 2018 TEST
18 YEAR?

19 A. The 2017 actual CWIP results are reasonably representative of short-term CWIP for the
20 2018 Test Year because: (1) the types of projects planned for 2018 are similar to the
21 types of projects that were installed in 2017; and (2) the levels of total capital
22 expenditures budgeted for 2017 and 2018 are also similar. The types of projects
23 budgeted for 2018 and the types of projects completed in 2017 are similar in the
24 allocation to functional areas. For example, both years reflect between 81 percent -85
25 percent capital spend on transmission and 8 percent-13 percent on production. The
26 remaining capital is allocated to distribution, general, and intangible. The levels of
27 budgeted capital expenditures in 2017 and 2018 are also very similar. The total company
28 OTP capital expenditure budget for 2017 was \$122.2 million and the total OTP capital
29 expenditure budget for 2018 is \$123.9 million.

1 Q. FOR BACKGROUND, DO OTP CAPITAL BUDGETS TYPICALLY SEPARATE
2 SHORT-TERM FROM LONG-TERM CAPITAL PROJECTS?

3 A. No. OTP capital budgets typically do not separate short-term projects from long-term
4 projects because the time required to complete projects is generally not sufficiently
5 known at the time the budgets are prepared to support or justify separation at the
6 budgeting stage. There are many factors which make it difficult to determine if the
7 projects will be completed by year-end of the following year, or if they will be in the
8 following year-end CWIP balances. For example, weather has a large impact on when
9 and if certain projects are able to be completed when scheduled. Also, there may be
10 unforeseen capital projects which may need to be completed prior to scheduled projects.
11 Capital budgets are of the same type and distribution in 2017 and 2018.

12
13 Q. DID YOU COMPARE 2017 ACTUAL SHORT-TERM CWIP TO THE LEVEL THAT
14 WOULD RESULT FROM APPLYING THE 2017 PERCENTAGE OF SHORT-TERM
15 CWIP TO THE 2018 TOTAL BUDGETED CAPITAL EXPENDITURE LEVEL?

16 A. Yes. In 2017, approximately 6.1 percent of total capital expenditures were short-term
17 capital expenditures. Applying that 6.1 percent level to the 2018 total capital expenditure
18 budget would result in a 2018 short-term capital expenditure level of approximately \$7.5
19 million (OTP total company). The North Dakota jurisdictional portion of the \$7.5
20 million (OTP Total Company) would be \$3.05 million, slightly higher than the \$3.01
21 million that OTP proposes based on 2017 actual levels.

22
23 Q. DID YOU ALSO CONSIDER THE SHORT-TERM CWIP FROM PRIOR YEARS
24 WHEN DEVELOPING THE ADJUSTMENT TO THE 2018 CWIP?

25 A. Yes. OTP reviewed the CWIP budgets and actual balances from 2015 through 2017
26 when developing the 2018 CWIP adjustment. The actual short-term CWIP as a
27 percentage of budget was 8.6 percent, 9.1 percent, and 6.1 percent respectively for 2015,
28 2016, and 2017. The average for the three years was 7.9 percent. OTP determined the
29 average for the last three years would have resulted in a 2018 Test Year CWIP balance
30 which would have been higher than what 2018 capital projects require and higher than

1 2017 actual results. Instead, OTP used a more conservative approach of basing the 2018
2 adjustment on the 2017 actual balance.

3
4 Q. PLEASE EXPLAIN HOW THE \$3.01 MILLION SHORT-TERM CWIP BALANCE
5 COMPARES TO THE \$1.46 MILLION BALANCE FOR 2017 ON EX. __ (TAA-1),
6 SCHEDULE 5?

7 A. The \$3.01 million short-term CWIP differs from the \$1.46 million short-term CWIP
8 balance included in OTP's Direct Testimony because the amounts of data available were
9 very different when those values were determined. Only partial year 2017 actual data
10 was available when the Direct Testimony was prepared while full year 2017 actual data
11 is now available and has been used for the Rebuttal Testimony adjustment. The \$1.46
12 million short-term CWIP balance in the Direct Testimony reflected actual spending
13 through July 2017 whereas the \$3.01 million adjustment is based on the actual spending
14 through December 31, 2017.

15 **B. CISone Project Costs**

16 Q. HAS OTP MADE AN ADJUSTMENT TO THE CISONE PROJECT COSTS?

17 A. Yes. OTP has made an adjustment to increase the rate base in the 2018 Test Year to
18 reflect increases in the total costs for the CISone Project, which OTP witness Mr. Stuart
19 Tommerdahl explains in his Rebuttal Testimony.

20
21 Q. ARE THE ADJUSTMENTS TO REFLECT COST INCREASES FOR THE CISONE
22 PROJECT REFLECTED IN YOUR REBUTTAL SCHEDULES?

23 A. Yes. The adjustments to rate base to reflect the increased CISone Project costs are shown
24 on Ex. _(TAA-3), Schedule 2 and the adjustments to the income statement are shown on
25 Ex. _(TAA-3), Schedule 3.

1 Q. HAVE YOU PROVIDED A WORKPAPER TO FURTHER EXPLAIN THESE
2 ADJUSTMENTS?

3 A. Yes. Ex. _(TAA-3), Schedule 7 provides the information used in determining the
4 adjustments for rate base and the income statement. The adjustments included a variety
5 of costs, including capitalized internal labor costs.
6

7 Q. WAS AN ADJUSTMENT NEEDED TO 2018 O&M LABOR EXPENSE AS A
8 RESULT OF THE INCREASE IN CAPITALIZED CISONE INTERNAL LABOR
9 COSTS?

10 A. No. There are two reasons that no adjustment in 2018 O&M costs is needed. First, a
11 portion of the internal labor costs that were capitalized to the CISone project were
12 incurred prior to 2018, and there would be no possible impact on 2018 O&M expenses as
13 a result of costs incurred in prior years. Second, as to 2018 labor costs, the 2018 capital
14 budget, including internal labor costs was *developed separately from* the 2018 O&M
15 expense budget.

16 As a result, there is no “zero-sum” characteristic of OTP’s total 2018 labor costs
17 (under which an increase in capitalized labor would necessarily lead to a corresponding
18 decrease in O&M labor expenses). Further, by the time the 2018 O&M expense budget
19 was developed, OTP was aware that the internal capitalized costs of the CISone project
20 would be higher than budgeted. As a result, neither the 2018 budgeting process nor any
21 other factor provides any basis to reduce the budgeted 2018 O&M expenses as a result of
22 the increase in capitalized labor costs for the CISone Project.

23 **C. Cash Working Capital and Interest Synchronization**

24 Q. HAVE YOU ADJUSTED CASH WORKING CAPITAL AND INTEREST
25 SYNCHRONIZATION CALCULATIONS TO REFLECT OTP’S RECOMMENDED
26 REBUTTAL ADJUSTMENTS AND ACCEPTED ADJUSTMENTS?

27 A. Yes. The impact is shown in Ex. _(TAA-3), Schedule 1, Page 3, Columns H and J and
28 Ex. _(TAA-3), Schedule ___, Page ___, Column ___. As a function of all other
29 adjustments made to the Test Year, cash working capital in the Jurisdictional Cost of
30 Service Study is automatically updated to reflect the impact of those adjustments.

1 **IV. DISPUTED ISSUES**

2 Q. WHAT TOPICS WILL YOU ADDRESS IN THIS SECTION OF YOUR TESTIMONY

3 A. In this section, I explain OTP's position as to certain issues raised by other parties that
4 OTP does not accept. These issues include: (1) the effect of the TCJA; (2) Mr. Smith's
5 proposed reduction of payroll expense; and (3) Mr. Smith's proposed reduction of payroll
6 tax expense.

7 **A. TCJA**

8 Q. DID OTHER PARTIES MAKE RECOMMENDATIONS REGARDING THE TCJA?

9 A. Yes. Mr. Smith recommended that Non-Protected excess ADIT balances be amortized
10 over a three-year period. Ms. Maini recommends the amortization of Non-Protected
11 balances be completed in one year. Ms. Maini also recommended that the entire Non-
12 Protected excess ADIT balance be returned in the 2018 Test Year.

13

14 Q. WHAT IS OTP'S POSITION?

15 A. OTP recommends that the Non-Protected ADIT components be amortized over the same
16 time frame as the book/tax differences will be reversed on OTP's financial records using
17 the average rate assumption method (ARAM).

18

19 Q. PLEASE DESCRIBE ARAM.

20 A. ARAM is a method that: (1) matches ADIT normalization provisions that provide that
21 excess ADIT be applied to reduce revenue requirements and revenue no sooner than the
22 book/tax differences are reversed; (2) identifies the deferred tax reversal pattern
23 (comparing book depreciation versus tax); and (3) reverses the excess ADIT beginning
24 when book exceeds tax and the deferred tax reversal actually occurs.

25

26 ARAM conforms to when and how each item included in the excess ADIT
27 balance will be reversed for tax accounting. Each Non-Protected item is unique and
28 reversing of the deferral is dependent on each year's activity related to that temporary
item. The time could range from one year to over 30 years. Due to the number of Non-

1 Protected items and the complexity of the items it is difficult to estimate how the excess
2 ADIT balances will reverse over time.

3

4 Q. WHY IS IT APPROPRIATE TO USE ARAM FOR NON-PROTECTED
5 COMPONENTS OF ADIT?

6 A. Using ARAM for Non-Protected components of ADIT would: (1) follow consistent
7 principles; (2) be consistent with the reversal of book/tax differences on OTP's financial
8 records; and (3) be consistent with the required treatment of Protected ADIT components.
9 Further, that approach would fairly reflect the facts that: (1) customers have already
10 received the benefit of lower tax expenses resulting from PTCs that were recognized as
11 created; and (2) the return of the related ADIT balance should be no faster than the time
12 when OTP can realize the actual benefit of the tax reduction (in relation to the ADIT
13 reversal), which will occur only when the book/tax timing differences are reversed.

14

15 Q. IS MR. SMITH'S RECOMMENDED THREE-YEAR AMORTIZATION PERIOD
16 APPROPRIATE?

17 A. No. Mr. Smith recommends the Non-Protected items be amortized using a three-year
18 straight-line amortization. Using a three-year period for all Non-Protected items would
19 not match how those items will be reversed on an actual basis, would not match the time
20 at which OTP recognizes the income tax effects of the reversal, and would not be
21 consistent with the treatment of the Protected ADIT components. As I explained, these
22 Non-Protected components will reverse based on each year's actual tax accounting
23 activity for each Non-Protected component.

24

25 Q. WHAT IS YOUR RESPONSE TO MR. SMITH'S RELIANCE ON THE THREE-YEAR
26 AMORTIZATION OF RATE CASE EXPENSES?

27 A. Mr. Smith's reliance on matching the three-year amortization used for rate case expenses
28 does not support his position because there is no substantive similarity between Non-
29 Protected ADIT items and rate case expenses. It is an "apples and oranges" comparison.
30 There will be Non-Protected items which may not be reversed for many years. For

1 example, retirement, medical, and pension items have much longer reversals (potentially
2 longer than 30 years) than reserves and prepaids, which have shorter reversals (generally
3 1 year). A three-year amortization is far too short and does not match what OTP will be
4 accounting for on an actual basis or when OTP will realize the benefits of the reduced
5 income tax rate in relation to the Non-Protected component of ADIT. Further, an
6 immediate return in the 2018 Test Year or a short-term amortization would lead to higher
7 rates in the future, which would be an unfair allocation of higher rates to future
8 ratepayers.
9

10 Q. IS MS. MAINI'S RECOMMENDATION TO RECOGNIZE THE ENTIRE NON-
11 PROTECTED EXCESS ADIT BALANCES BALANCE IN THE TEST YEAR
12 APPROPRIATE?

13 A. No. Ms. Maini does not provide any basis for her recommendation to recognize the entire
14 Non-Protected balance in the Test Year as the correct treatment, and that approach would
15 be even more inconsistent with how the Non-Protected items will be reversed for tax
16 accounting purposes.
17

18 Q. PLEASE SUMMARIZE OTP'S POSITION REGARDING THE TREATMENT OF
19 NON-PROTECTED ADIT UNDER THE TCJA.

20 A. The Non-Protected tax items should be reversed over time because that approach is
21 consistent with the reversal of the Non-Protected items under tax accounting and with the
22 treatment of protected items.

23 **B. Payroll Expense**

24 Q. DID MR. SMITH RECOMMEND A REDUCTION OF OTP'S 2018 TEST YEAR
25 PAYROLL EXPENSE?

26 A. Yes. Mr. Smith recommended a reduction in OTP's 2018 Test Year payroll expense of
27 \$3.339 million on a total company basis, which would reduce the 2018 Test Year payroll
28 expense by \$1.332 million on a North Dakota jurisdictional basis.

1 Q. WHAT WAS THE BASIS OF MR. SMITH'S RECOMMENDATION?

2 A. Mr. Smith's recommendation was based on his comparison of: (1) OTP budgeted *total*
3 payroll expenses (including benefits) (which sometimes referred to as "loaded payroll
4 expenses") for 2016 and 2017; to (2) OTP *total* actual loaded payroll expenses for 2016
5 and 2017. Mr. Smith determined that the average variance of -4.74 percent for the two-
6 year period, which he used as the level of his recommended expense reduction.

7
8 Q. PLEASE SUMMARIZE YOUR RESPONSE TO MR. SMITH'S ANALYSIS AND
9 RECOMMENDATION.

10 A. Mr. Smith's analysis does not support his recommendation because:

11 (1) His recommendation reflects a mismatched comparison of total *loaded* labor
12 expenses (including benefits) to *unloaded (cash only)* labor expenses. That
13 mismatch leads to a distortion because OTP *actual total loaded* labor expenses for
14 each year reflect the changes to Pension and Other Post-Employment Benefits
15 (OPEB) expenses provided by Mercer, OTP's actuary. These adjustments to
16 Pension and OPEB expenses do not affect the *unloaded (cash only)* component of
17 labor expense; and

18 (2) Because OTP has already made reductions to its 2018 Test Year Pension and
19 OPEB expenses provided by Mercer (in OTP's Supplemental Direct Testimony),
20 Mr. Smith's recommendation would double-count a reduction in total loaded
21 labor expense. that OTP has already made as part of OTP's Supplemental Direct
22 Testimony.

23 **1. Analysis of Cash Only Payroll Expenses for 2016 and 2017**

24 Q. WHAT APPROACH IS NEEDED TO PERFORM A VALID ANALYSIS?

25 A. To perform a valid analysis of whether OTP's budgeted payroll expenses for 2018 should
26 be adjusted, the unloaded (cash only) payroll expenses need to be analyzed independently
27 from the total loaded payroll expenses.

1 Q. HAS OTP PERFORMED SUCH AN ANALYSIS AND WHAT DID IT SHOW?

2 A. Yes, OTP did perform such an analysis and that analysis shows that budgeted unloaded
3 (cash only) payroll expenses for both 2016 and 2017 were *lower than* actual unloaded
4 payroll expenses for 2016 and 2017. For the cash component of labor expense, this fact
5 is the opposite of Mr. Smith's conclusion (that actual expenses had been below budget),
6 and supports a decision that no adjustment to unloaded payroll expenses would be
7 appropriate for the 2018 Test Year.

8

9 Q. PLEASE EXPLAIN OTP'S ANALYSIS OF UNLOADED (CASH) LABOR EXPENSE
10 FOR 2016 AND 2017.

11 A. Table 1 below summarizes the actual to budgeted 2016 and 2017 unloaded (cash) OTP
12 total company payroll expenses:

13

14

Table 1
2016 and 2017 OTP Budget and Actual Unloaded Payroll Expenses

Description	Actual Payroll Expense	Budgeted Payroll Expense	Variance	Percentage Difference
OTP Total Company 2016 Unloaded Payroll Expense	\$ 66,778,188	\$ 65,863,785	\$ 914,403	1.39%
OTP Total Company 2017 Unloaded Payroll Expense	\$ 68,153,943	\$ 66,619,291	\$ 1,534,652	2.30%
Average Variance Percentage				1.85%

15

16 Table 1 shows that OTP's actual unloaded payroll expenses for both 2016 and 2017 were
17 more than OTP budgeted, and the average variance for the two-year period is a positive
18 1.85 percent, which means that actual cash expenses were 1.85 percent higher than
19 budgeted, not 4.74 percent lower as Mr. Smith assumed.

20 **2. Double Counting of Reduction Already Made**

21 Q. WOULD MR. SMITH'S PROPOSED RECOMMENDATION ALSO RESULT IN A
22 DOUBLE COUNTING OF A REDUCTION IN EXPENSE THAT OTP HAS
23 ALREADY MADE TO THE 2018 TEST YEAR?

1 A. Yes. The double counting would result from the fact that OTP has already reduced its
2 loaded payroll expense in Supplemental Direct Testimony to reflect a reduction in
3 Pension and Post Retirement and Post-Employment Benefits expenses resulting from the
4 updating of the Mercer benefits calculations for 2018.

5
6 Q. PLEASE EXPLAIN THE ADJUSTMENTS TO REDUCE 2018 TEST YEAR BENEFIT
7 COSTS (PAYROLL LOADINGS) THAT OTP HAS ALREADY MADE.

8 A. Exhibit__(TAA-2), Schedule 6, attached to my Supplemental Direct Testimony, reflects
9 three adjustments to loaded payroll expenses for the 2018 Test Year which OTP has
10 already made in its Supplemental Direct Testimony.

11 The basis for those adjustments are described in the Supplemental Direct
12 Testimony of OTP witness Ms. Christine Petersen. As explained by Ms. Petersen, OTP
13 made payroll loading adjustments to incorporate the impact of the following on the 2018
14 Test Year: (1) the impact of updated information from OTP's actuary, Mercer, on OTP's
15 costs and O&M expenses for pension and (OPEBs; (2) the effects of OTP's \$20 million
16 contribution to its pension made in 2018 on OTP's Pension Asset and 2018 pension cost;
17 (3) OTP's decision to retain its prior approach to capitalization of benefit costs under
18 ASC 715 rather than expense all benefit costs; and (4) the overall impact of these matters
19 on OTP's 2018 Test Year North Dakota revenue requirement.

20
21 Q. WHAT IS THE IMPACT OF THE ADJUSTMENTS ON THE 2018 TEST YEAR?

22 A. Table 2 below summarizes the payroll loading adjustments in Exhibit__(TAA-2),
23 Schedule 6, attached to my Supplemental Direct Testimony.

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Table 2
2018 OTP Payroll Loading Adjustments in Supplemental Direct Testimony

Supplemental Direct Payroll Loading Adjustments		North Dakota Jurisdictional Impact on Total Available for Return
FAS 87		\$672,949
FAS 106		\$94,326
FAS 112		(\$8,719)
Total		\$758,556

Table 2 shows that the reductions OTP made to the payroll loading expenses in its Supplemental Direct Testimony increase the Total Available for Return by \$758,556. These adjustments result in a reduction in OTP's gross revenue deficiency of \$1,003,446 after applying the gross revenue conversion factor of 1.322837.

Q. WHAT DO YOU CONCLUDE FROM THIS INFORMATION?

A. There is no basis for any adjustment to OTP's 2018 payroll loading expenses, and any further adjustment to OTP's 2018 payroll loading expenses would be a double counting of the expense reduction already made in OTP's Supplemental Direct Testimony.

Q. WHAT IS YOUR OVERALL CONCLUSION AS TO ANY FURTHER ADJUSTMENT TO THE 2018 TEST YEAR PAYROLL EXPENSES?

A. There is no need and no basis to make any additional adjustments to the 2018 Test Year payroll expenses. OTP had actual cash payroll expenses which were higher than budgeted for 2016 and 2017. OTP has also reduced payroll loadings in its Supplemental Direct Testimony, which resulted in a reduction in the revenue deficiency of \$1.0 million. There is no basis to further reduce the 2018 Test Year payroll expenses.

C. Payroll Tax Expense

Q. DID MR. SMITH ALSO MAKE A RECOMMENDATION REGARDING OTP'S 2018 TEST YEAR PAYROLL TAX EXPENSE?

A. Yes. Mr. Smith recommended a North Dakota jurisdictional adjustment to payroll expense of \$193,910. This recommended adjustment by Mr. Smith is a result of his

1 recommended adjustments to: (1) payroll expense; (2) incentive compensation expense;
2 (3) stock-based compensation expense; and (4) non-employee Director restricted stock
3 grants.
4

5 Q. IS THIS ADJUSTMENT NECESSARY?

6 A. No. Although it would make sense to adjust payroll tax expense if Mr. Smith's
7 underlying adjustments were incorporated into the 2018 Test Year, for the reasons
8 discussed above and in the Rebuttal Testimony of OTP witness Mr. Peter E. Wasberg,
9 none of Mr. Smith's recommendations causing the payroll tax adjustment is appropriate
10 meaning there is no need to adjust payroll tax expense.

11 **V. CLARIFIED ISSUES**

12 Q. WHAT TOPICS WILL YOU ADDRESS IN THIS SECTION OF YOUR TESTIMONY

13 A. In this section, I clarify OTP's position as to refunding of the impacts of the TCJA for
14 January and February 2018, CWIP projects listed in data request ND-PSC-15.34, and
15 OTP's proposal to apply the ARAM to certain issues raised by other parties.

16 **A. TCJA impacts for January and February 2018**

17 Q. DID OTHER PARTIES MAKE RECOMMENDATIONS REGARDING THE TCJA
18 SAVINGS WHICH OCCURED PRIOR TO THE LOWERED INTERIM RATES IN
19 THIS PRECEDING BECAME EFFECTIVE?

20 A. Yes. Mr. Smith's testimony stated, "a refund would probably also be the most direct way
21 of returning these revenue requirement savings to OTP's customers."
22

23 Q. WHAT IS OTP'S POSITION ON REFUNDING THE TCJA IMPACTS IN JANUARY
24 THROUGH FEBRUARY OF 2018?

25 A. Although it wasn't specifically addressed in Supplemental Direct Testimony, the
26 Company's position has been it will refund the impacts of the TCJA for January and
27 February 2018. The final compliance filing and associated calculation of the interim rate

1 refund will include the impact of the TCJA for those months and provide the refund
2 amount due to customers for that impact.

3 **B. CWIP projects listed in Data Request ND-PSC-15.34**

4 Q. PLEASE SUMMARIZE THE CWIP PROJECTS LISTED IN DATA REQUEST ND-
5 PSC-15.34?

6 A. In response to ND-PSC-15.34, OTP provided a report from our capital budgeting system
7 (PowerPlant) that reflected all capital spend projected to occur in 2018 and not what was
8 included for spend in the 2018 Test Year. Although ND-PSC-15.34 requested capital
9 expenditures included in the 2018 Test Year, we inadvertently responded in terms of all
10 spending included in our capital budget for 2018 irrespective of completion date. Our
11 response to ND-PSC-15.34 does not mean that OTP had all of those projects included in
12 the 2018 Test Year. Rather, the projects listed in the response to ND-PSC-15.34 with in-
13 service dates in 2018 would be included in the 2018 Test Year rate base. As discussed in
14 Section III above, OTP is proposing to have \$3 million of short-term CWIP included in
15 its 2018 Test Year.

16 **C. Application of ARAM**

17 Q. HAS OTP REDUCED THE 2018 TEST YEAR DEFERRED INCOME TAX EXPENSE
18 TO REFLECT OTP'S PROPOSAL TO USE ARAM FOR NON-PROTECTED (OR
19 PROTECTED) EXCESS ADIT?

20 A. Yes. OTP included the credit to deferred tax expense from the reversal of excess ADIT
21 balances using the ARAM for both protected and Non-Protected items.

22 **VI. CONCLUSION**

23 Q. PLEASE SUMMARIZE OTP'S REBUTTAL REVENUE DEFICIENCY.

24 A. OTP's Rebuttal revenue deficiency is \$10,105,973 for the 2018 Test Year. The Rebuttal
25 revenue deficiency reflects additional data gathered since OTP's Direct Testimony and
26 Initial Filing, corrections identified during the discovery process, and the acceptance of
27 some, but not all, positions proposed by other parties. No other adjustments should be
28 made to OTP's Rebuttal revenue deficiency for the 2018 Test Year.

1 Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

2 A. Yes.

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

<u>Line No.</u>	<u>Description</u>	<u>(A)</u> <u>Supplemental</u>	<u>(B)</u> <u>Rebuttal</u>	<u>(C)</u> <u>Difference</u>
1	Average Rate Base	\$360,026,156	\$364,772,202	\$4,746,046
2	Rate of Return	7.92%	7.92%	0.00%
3	Required Operating Income	28,514,072	28,889,958	375,887
4	Operating Income	21,173,697	21,250,338	76,641
5	Income Deficiency	<u>\$7,340,375</u>	<u>\$7,639,620</u>	<u>\$299,246</u>
6	Gross Revenue Conversion Factor	1.322837	1.322837	0
7	Gross Revenue Deficiency	<u>\$9,710,119</u>	<u>\$10,105,973</u>	<u>\$395,853</u>
8	Percentage Increase Needed	<u>6.64%</u>	<u>6.91%</u>	<u>0.27%</u>

North Dakota JURISDICTION RATE BASE SUMMARY TEST YEAR ENDING DECEMBER 31, 2018		
(A) (1)	(B) (2)	(C) (3)
Supplemental	Total Adjustments	Rebuttal

Line No.	Adjustment Description	(A) (1)	(B) (2)	(C) (3)
PLANT IN SERVICE				
1	Production	\$330,519,065	\$0	\$330,519,065
2	Transmission	153,826,930	0	153,826,930
3	Distribution	228,593,947	0	228,593,947
4	General	36,403,913	0	36,403,913
5	Intangible	9,051,207	1,930,964	10,982,171
6	Total Plant in Service	<u>\$758,395,062</u>	<u>\$1,930,964</u>	<u>\$760,326,026</u>
RESERVE FOR DEPRECIATION				
7	Production	(\$142,605,272)	\$0	(\$142,605,272)
8	Transmission	(48,351,302)	0	(48,351,302)
9	Distribution	(98,387,399)	0	(98,387,399)
10	General	(14,025,285)	0	(14,025,285)
11	Intangible	(1,104,466)	136,100	(968,366)
12	Total Reserve for Depreciation	<u>(\$304,473,724)</u>	<u>\$136,100</u>	<u>(\$304,337,624)</u>
NET PLANT IN SERVICE				
13	Production	\$187,913,793	\$0	\$187,913,793
14	Transmission	\$105,475,628	\$0	\$105,475,628
15	Distribution	\$130,206,548	\$0	\$130,206,548
16	General	\$22,378,628	\$0	\$22,378,628
17	Intangible	\$7,946,741	\$2,067,064	\$10,013,805
18	Total Net Plant in Service	<u>\$453,921,338</u>	<u>\$2,067,064</u>	<u>\$455,988,402</u>
OTHER RATE BASE ITEMS				
20	Utility Plant Held for Future Use	13,044	0	13,044
21	CWIP	271,747	2,722,306	2,994,053
22	Materials & Supplies	8,275,549	0	8,275,549
23	Fuel Stocks	4,430,805	0	4,430,805
24	Prepayments	(5,982,900)	(3,298)	(5,986,198)
25	Customer Advances & Deposits	(365,909)	(202)	(366,111)
26	Cash Working Capital	3,454,931	(2,747)	3,452,184
27	Accumulated Deferred Income Taxes	(103,992,449)	(37,077)	(104,029,526)
28	Total Other Rate Base Items	<u>(\$93,895,182)</u>	<u>\$2,678,982</u>	<u>(\$91,216,200)</u>
29	TOTAL AVERAGE RATE BASE	<u>\$360,026,156</u>	<u>\$4,746,046</u>	<u>\$364,772,202</u>

(1) 2018 Test Year JCOSS As Filed in Supplemental
 (2) Rebuttal Adjustments
 (3) Columns (A) + (B)

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

Line No.	Adjustment Description	(A) (1) Add Actual Short-term CWIP	(B) (2) Remove TY Short-term CWIP	(C) (3) CISOne	(D) (4) Adjustments Due to Changes in Allocation %'s	(E) Total Rebuttal Adjustments
PLANT IN SERVICE						
1	Production				\$0	\$0
2	Transmission				\$0	\$0
3	Distribution				\$0	\$0
4	General				\$0	\$0
5	Intangible			5,203,450	(\$3,272,486)	\$1,930,964
6	Total Plant in Service	\$0	\$0	\$5,203,450	(\$3,272,486)	\$1,930,964
RESERVE FOR DEPRECIATION						
7	Production				\$0	\$0
8	Transmission				\$0	\$0
9	Distribution				\$0	\$0
10	General				\$0	\$0
11	Intangible			136,100	\$0	\$136,100
12	Total Reserve for Depreciation	\$0	\$0	\$136,100	\$0	\$136,100
NET PLANT IN SERVICE						
13	Production	\$0	\$0	\$0	\$0	\$0
14	Transmission	0	0	0	0	0
15	Distribution	0	0	0	0	0
16	General	0	0	0	0	0
17	Intangible	0	0	5,339,550	(3,272,486)	2,067,064
18	Total Net Plant in Service	\$0	\$0	\$5,339,550	(\$3,272,486)	\$2,067,064
OTHER RATE BASE ITEMS						
19	Big Stone Plant Capitalized					\$0
20	Utility Plant Held for Future Use					\$0
21	CWIP	3,010,353	(271,747)		(\$16,300)	\$2,722,306
22	Materials & Supplies				\$0	\$0
23	Fuel Stocks				\$0	\$0
24	Prepayments				(\$3,298)	(\$3,298)
25	Customer Advances & Deposits				(\$202)	(\$202)
26	Cash Working Capital				(\$2,747)	(\$2,747)
27	Accumulated Deferred Income Taxes				(\$37,077)	(\$37,077)
28	Total Other Rate Base Items	\$3,010,353	(\$271,747)	\$0	(\$59,624)	\$2,678,982
29	TOTAL AVERAGE RATE BASE	\$3,010,353	(\$271,747)	\$5,339,550	(\$3,332,110)	\$4,746,046

- (1) Rebuttal Testimony of Tyler Akerman; Section III; Part A
 This adjustment reflects OTP's correction of short-term CWIP.
- (2) Rebuttal Testimony of Tyler Akerman; Section III; Part A
 This adjustment reflects OTP's correction of short-term CWIP.
- (3) Rebuttal Testimony of Tyler Akerman; Section III; Part B
 This adjustment reflects OTP's adjustment to update project costs.
- (4) This adjustment is the result of changes in allocation factor percentages between the 2018 Test Year Supplemental COSS and the 2018 Test Year Rebuttal COSS run with Rebuttal 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) (1)	(B) (2)	(C) (3)
Supplemental	Total Adjustments	Rebuttal

Line No.	Description	(A) (1)	(B) (2)	(C) (3)
	UTILITY OPERATING REVENUES			
1	Retail Revenue	146,273,726	\$0	146,273,726
2	Other Electric Operating Revenue	10,048,011	\$5,309	10,053,320
3	Total Operating Revenues	\$156,321,737	\$5,309	\$156,327,046
4				
5	UTILITY OPERATING EXPENSES			
6	Production	\$59,493,153	\$0	\$59,493,153
7	Transmission	13,389,579	\$0	13,389,579
8	Distribution	7,434,435	\$0	7,434,435
9	Customer Accounting	5,936,738	\$0	5,936,738
10	Customer Service & Information	1,373,725	\$0	1,373,725
11	Sales	222,472	\$0	222,472
12	Administrative & General	19,094,663	\$1,142	19,095,805
13	Charitable Contributions	0	\$0	0
14	Depreciation	21,070,778	(\$60,132)	21,010,646
15	General Taxes	4,906,257	\$2,705	4,908,962
16	Total Operating Expenses	\$132,921,800	(\$56,285)	\$132,865,515
17				
18	Net Operating Income Before Taxes & AFUDC	\$23,399,937	\$61,594	\$23,461,531
19				
20	TAXES			
21	Investment Tax Credit	(\$526,207)	(\$117)	(\$526,324)
22	Deferred Income Taxes	(1,365,367)	(\$4,048)	(1,369,415)
23	Federal & State Income Tax	4,117,814	(\$10,882)	4,106,932
24	Total Taxes	\$2,226,240	(\$15,047)	\$2,211,193
25				
26	Net Operating Income Before AFUDC	\$21,173,697	\$76,641	\$21,250,338
27	AFUDC	0	0	0
28				
29	TOTAL AVAILABLE FOR RETURN	\$21,173,697	\$76,641	\$21,250,338

(1) 2018 Test Year JCOSS As Filed in Supplemental
 (2) Rebuttal Adjustments
 (3) Column ND (A) + (B)

(A) (1)	(D) (2)	(E)
CISOne Update	Adjustments Due to Changes in Allocation %'s	Total PUC Proposed Adjustments

Line No.	Adjustment Description	(A) (1)	(D) (2)	(E)
UTILITY OPERATING REVENUES				
1	Retail Revenue			\$0
4	Other Electric Operating Revenue		\$5,309	\$5,309
5	Total Operating Revenues	\$0	\$5,309	\$5,309
UTILITY OPERATING EXPENSES				
6	Production		\$0	\$0
7	Transmission		\$0	\$0
8	Distribution		\$0	\$0
9	Customer Accounting		\$0	\$0
10	Customer Service & Information		\$0	\$0
11	Sales		\$0	\$0
12	Administrative & General		\$1,142	\$1,142
13	Charitable Contributions		\$0	\$0
14	Depreciation	(60,131)	(\$1)	(\$60,132)
15	General Taxes		\$2,705	\$2,705
16	Total Operating Expenses	(\$60,131)	\$3,846	(\$56,285)
17	Net Operating Income Before Taxes & AFUDC	\$60,131	\$1,463	\$61,594
TAXES				
18	Investment/Production Tax Credit		(\$117)	(\$117)
19	Deferred Income Taxes		(\$4,048)	(\$4,048)
20	Federal & State Income Tax	14,675	(\$25,557)	(\$10,882)
21	Total Taxes	\$14,675	(\$29,722)	(\$15,047)
22	Net Operating Income Before AFUDC	\$45,456	\$31,185	\$76,641
23	AFUDC			\$0
24	TOTAL AVAILABLE FOR RETURN	\$45,456	\$31,185	\$76,641

- (1) Rebuttal Testimony of Tyler Akerman; Section III; Part B
 This adjustment reflects OTP's adjustment to update project costs.
- (2) This adjustment is the result of changes in allocation factor percentages between the 2018 Test Year Supplemental COSS and the 2018 Test Year Rebuttal COSS run with Rebuttal 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
 Construction Work in Progress
 RB Adjustment - Actual Year 2017

Line No.	(A)	(B)		(C)	(D)	(E)	(F)	(G)
		2016 December	2016 January	2017 January	February	March	April	May
1	Short Term Projects:							
2	Production							
3	Actual Balance	2,360,457	2,287,447	2,287,447	2,410,427	2,764,286	3,036,135	2,757,993
4	Remove Reimbursable CWIP	0	0	0	0	0	0	0
5	Adjusted Balance	2,360,457	2,287,447	2,287,447	2,410,427	2,764,286	3,036,135	2,757,993
6								
7	Transmission							
8	Actual Balance	1,845,471	777,018	777,018	1,359,259	847,892	519,921	651,955
9	Remove Reimbursable CWIP	0	(1,017)	(1,017)	(3,287)	(7,450)	(500)	(8,208)
10	Adjusted Balance	1,845,471	778,035	778,035	1,362,547	855,342	520,421	660,163
11								
12	Distribution							
13	Actual Balance	2,156,415	3,832,398	3,832,398	3,111,602	1,258,772	1,449,415	1,792,382
14	Remove Reimbursable CWIP	142,737	50,477	50,477	68,293	74,803	75,323	144,180
15	Adjusted Balance	2,013,678	3,781,921	3,781,921	3,043,310	1,183,969	1,374,092	1,648,202
16								
17	General							
18	Actual Balance	844,920	647,117	647,117	885,589	1,155,389	1,773,405	1,637,290
19	Remove Reimbursable CWIP	0	0	0	0	0	0	0
20	Adjusted Balance	844,920	647,117	647,117	885,589	1,155,389	1,773,405	1,637,290
21								
22	Intangible							
23	Actual Balance	59,008	59,008	59,008	59,008	59,008	59,008	59,008
24	Remove Reimbursable CWIP	0	0	0	0	0	0	0
25	Adjusted Balance	59,008	59,008	59,008	59,008	59,008	59,008	59,008
26								
27	Total Short Term Projects:							
28	Actual Balance	7,266,270	7,602,988	7,602,988	7,825,885	6,085,347	6,837,883	6,898,629
29	Remove Reimbursable CWIP	142,737	49,460	49,460	65,005	67,353	74,823	135,973
30	Adjusted Balance	7,123,533	7,553,528	7,553,528	7,760,880	6,017,994	6,763,061	6,762,656

Offer Tail Power Company
 Electric Utility - State of North Dakota
 Construction Work in Progress
 RB Adjustment - Actual Year 2017

Line No.	(A)	(H)	(I)	(J)	(K)	(L)	(M)
		June	July	August	September	October	November
1	Short Term Projects:						
2	Production						
3	Actual Balance	3,250,664	3,437,382	3,653,400	3,533,174	3,689,664	3,942,226
4	Remove Reimbursable CWIP	0	0	0	0	0	0
5	Adjusted Balance	3,250,664	3,437,382	3,653,400	3,533,174	3,689,664	3,942,226
6							
7	Transmission						
8	Actual Balance	592,142	796,772	895,738	372,520	808,803	951,525
9	Remove Reimbursable CWIP	(2,939)	0	(4,834)	0	0	0
10	Adjusted Balance	595,081	796,772	900,572	372,520	808,803	951,525
11							
12	Distribution						
13	Actual Balance	9,013,582	2,246,437	2,764,839	2,681,102	2,768,866	3,198,780
14	Remove Reimbursable CWIP	250,221	195,676	224,010	192,329	212,905	211,271
15	Adjusted Balance	8,763,361	2,050,761	2,540,829	2,488,773	2,555,961	2,987,508
16							
17	General						
18	Actual Balance	3,266,810	3,862,808	3,055,251	2,986,205	3,647,692	3,932,432
19	Remove Reimbursable CWIP	0	0	0	0	0	0
20	Adjusted Balance	3,266,810	3,862,808	3,055,251	2,986,205	3,647,692	3,932,432
21							
22	Intangible						
23	Actual Balance	58,708	59,008	59,008	398,282	59,008	59,008
24	Remove Reimbursable CWIP	0	0	0	0	0	0
25	Adjusted Balance	58,708	59,008	59,008	398,282	59,008	59,008
26							
27	Total Short Term Projects:						
28	Actual Balance	16,181,906	10,402,407	10,428,236	9,971,283	10,974,033	12,083,970
29	Remove Reimbursable CWIP	247,282	195,676	219,176	192,329	212,905	211,271
30	Adjusted Balance	15,934,624	10,206,731	10,209,060	9,778,954	10,761,128	11,872,698

Otter Tail Power Company
 Electric Utility - State of North Dakota
 Construction Work in Progress
 RB Adjustment - Actual Year 2017

(A) (N)

Line No.		December	Simple Average	Allocation Factor	ND Jurisdiction
1	Short Term Projects:				
2	<i>Production</i>				
3	Actual Balance	3,755,454			
4	Remove Reimbursable CWIP	0			
5	Adjusted Balance	3,755,454	3,057,955	36.676018%	1,121,536
6					
7	<i>Transmission</i>				
8	Actual Balance	1,177,403			
9	Remove Reimbursable CWIP	0			
10	Adjusted Balance	1,177,403	1,511,437	40.137514%	606,653
11					
12	<i>Distribution</i>				
13	Actual Balance	2,669,527			
14	Remove Reimbursable CWIP	207,533			
15	Adjusted Balance	2,461,994	2,237,836	46.302846%	1,036,182
16					
17	<i>General</i>				
18	Actual Balance	224,795			
19	Remove Reimbursable CWIP	0			
20	Adjusted Balance	224,795	534,857	41.420475%	221,540
21					
18	<i>Intangible</i>				
19	Actual Balance	59,008			
20	Remove Reimbursable CWIP	0			
21	Adjusted Balance	59,008	59,008	41.420475%	24,441
22					
23	Total Short Term Projects:				
24	Actual Balance	7,886,186			
25	Remove Reimbursable CWIP	207,533			
26	Adjusted Balance	7,678,653	7,401,093		<u>3,010,353</u>

OTTER TAIL POWER COMPANY
 TEST YEAR ADJUSTMENTS
 Reference Workpaper for 2018 ND TY-01 and Supporting Information Schedule B-2

TY-01
 ND Share
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ADJUSTMENT TO ANNUALIZE PLANT-IN-SERVICE ON CURRENT AND FUTURE CAPITAL PROJECTS

Line No.		(A) System-Wide	(B) Allocation Factor	(C) Allocation Percentage	(D) ND Test-Year Amount	(E) TAA B-2 Reference
1	Plant-in-Service					
	Additions & Retirements					
2	Intangible	\$4,700,637	P90	41.078800%	\$1,930,965	Col (E); Line 5
3						
4	Total Plant-in-Service Additions	<u>\$4,700,637</u>			<u>\$1,930,965</u>	Col (E); Line 6
5	Accumulated Depreciation					
	Additions & Retirements					
6	Intangible	331,314	P90	41.078800%	136,100	Col (E); Line 10
7						
8	Total A/D Additions	<u>\$331,314</u>			<u>\$136,100</u>	Col (E); Line 12
9	L-T Construction Work-in-Progress					
	Transfers					
10	Intangible	0	P90	41.078800%	0	
11						
12	Total CWIP Transfers	<u>(\$1)</u>			<u>\$0</u>	Col (E); Line 21

OTTER TAIL POWER COMPANY
 TEST YEAR ADJUSTMENTS

TY-01
 ND Share
 Page 3 of 3

(A)	(B)	(C)	(D)	(E)	(F)	
Projects Moved from CWIP @ 12/31/17 to Capitalized Accounts During 2018						
Line No.	Project	Project Description	Function	Amount in CWIP @ 12/31/17	Additional Charges Incurred During 2018	Total Project Costs
1		Customer Information System	Intangible	11,446,138	8,049,165	19,495,303
2						
3				<u>\$11,446,138</u>	<u>\$8,049,165</u>	<u>\$19,495,303</u>

(A)	(B)	(C)	(D)	(E)	(F)	(G)
Test Year Adjustment to CWIP to Transfer Project Costs to Capitalized Accounts						
Line No.	Project	Project Description	Function	Simple Average Avg CWIP @ 12/31/18	NO CWIP to remove ND does not allow LT CWIP	NO AFUDC to Remove ND does not allow
4		Customer Information System	Intangible	13,845,679	0	0
5						
6		Total 2018 Test Year Adjustment to CWIP		<u>\$13,845,679</u>	<u>\$0</u>	<u>\$0</u>

(A)	(B)	(C)	(D)	(E)	(F)	(G)	
Test Year Adjustment to Plant in Service to Transfer Project Costs to Capitalized Accounts							
Line No.	Project	Project Description	Function	Amount Capitalized @ 12/31/18	Supplemental Balance Simple Average Plant-in-Service @ 12/31/18	Difference	2018 Test Year Plant-in-Service Adjustment
7		Customer Information System	Intangible	19,495,303	14,794,666	4,700,637	4,700,637
8							
9				<u>\$19,495,303</u>	<u>\$14,794,666</u>	<u>\$4,700,637</u>	<u>\$4,700,637</u>
10		Total 2018 Test Year Adjustment to Plant in Service					<u>\$4,700,637</u>

(A)	(B)	(C)	(D)	(E)	(F)	(G)	
Test Year Adjustment to Accumulated Depreciation to Reflect Increase in Plant in Service							
Line No.	Project	Project Description	Function	Annualized Accumulated Depreciation	Supplemental Simple Average A/D @ 12/31/18	Difference	2018 Test Year A/D Adjustment
11		Customer Information System	Intangible	(1,949,530)	(2,280,844)	331,314	331,314
12							
13				<u>(\$1,949,530)</u>	<u>(\$2,280,844)</u>	<u>\$331,314</u>	<u>\$331,314</u>
14		Total 2018 Test Year Adjustment to Accumulated Depreciation					<u>\$331,314</u>

(A)	(B)	(C)	(D)	(E)	(F)	(G)	
Test Year Adjustment Depreciation Expense to Reflect Increase in Plant in Service							
Line No.	Project	Project Description	Function	Supplemental Depreciation Expense 2018	Annual Depreciation Expense	Difference	2018 Test Year Expense Adjustment
15		Customer Information System	Intangible	2,095,911	1,949,530	(146,381)	(146,381)
16							
17				<u>\$2,095,911</u>	<u>\$1,949,530</u>	<u>(\$146,381)</u>	<u>(\$146,381)</u>
18		Total 2018 Test Year Adjustment to Depreciation Expense					<u>(\$146,381)</u>