

**BEFORE THE
NORTH DAKOTA PUBLIC SERVICE COMMISSION**

**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

PUBLIC DIRECT TESTIMONY

OF

RALPH C. SMITH

ON BEHALF OF THE

NORTH DAKOTA PUBLIC SERVICE COMMISSION

ADVOCACY Staff

May 18, 2018

Table of Contents

I.	INTRODUCTION	1
II.	SCOPE AND PURPOSE OF TESTIMONY	4
III.	SUMMARY OF FINDINGS AND CONCLUSIONS	8
IV.	ORGANIZATION OF ACCOUNTING SCHEDULES FOR BASE RATE REVENUE REQUIREMENT	10
V.	RATE BASE.....	14
	B-1, Construction Work in Progress	14
	B-2, Cash Working Capital	16
VI.	ADJUSTMENTS TO OPERATING INCOME	18
	C-1, Employee Gifts and Recognition Expense	18
	C-2, Investor Relations Expense	20
	C-3, Corporate Aircraft Expense	22
	C-4, Payroll Expense.....	31
	C-5, Incentive Compensation	35
	A. OTP Management Plan.....	36
	B. OTC Executive Annual Plan.....	37
	C-6, Stock-Based Compensation Expense	41
	C-7, Non-Employee Director Restricted Stock Grants	45
	C-8, Payroll Tax Expense.....	48
	C-9, Executive Survivor and Supplemental Retirement Plan ("ESSRP").....	49
	C-10, Rate Case Expense.....	52
	C-11, Interest Synchronization.....	55
VII.	TAX CUTS AND JOBS ACT.....	56
	C-12, Amortization of Excess Accumulated Deferred Income Taxes (ADIT)	57
	C-13, 2018 TCJA-Based Income Tax Savings Occurring Prior to Reflection in Rates.....	68
VIII.	RIDER ROLL-INS TO BASE RATES	72
	A. Environmental Cost Recovery Rider	72
	B. Transmission Cost Recovery Rider.....	79
	C. Renewable Resource Adjustment Rider	86
IX.	CUSTOMER INFORMATION SYSTEM	93
X.	ISSUES CARRIED OVER FROM LAST RATE CASE	99

A. Renewable Energy Credits.....	100
B. Separating Energy Costs from Base Rates	103
C. Wind Farm Cost Recovery	108
XI. CAPITAL EXPENDITURES.....	108

ATTACHMENTS:

Appendix A, Background and Qualifications

EXHIBITS:

Exhibit RCS-1, Accounting and Revenue Requirement Schedules

Exhibit RCS-2, Selected non-confidential responses to discovery

Exhibit RCS-3, Selected confidential responses to discovery

1

2 **I. INTRODUCTION**

3 **Q. Please state your name, position, and business address.**

4 A. Ralph C. Smith. I am a Senior Regulatory Consultant at Larkin & Associates,
5 PLLC, 15728 Farmington Road, Livonia, Michigan 48154.

6

7 **Q. Please describe Larkin & Associates.**

8 A. Larkin & Associates is a Certified Public Accounting and Regulatory Consulting
9 firm. The firm performs independent regulatory consulting primarily for public
10 service/utility commission staffs and consumer interest groups (public counsels,
11 public advocates, consumer counsels, attorneys general, etc.). Larkin &
12 Associates has extensive experience in the utility regulatory field as expert
13 witnesses in over 400 regulatory proceedings including numerous telephone,
14 water and sewer, gas, and electric matters.

15

16 **Q. Please summarize your educational background.**

17 A. I received a Bachelor of Science degree in Business Administration (Accounting
18 Major) with distinction from the University of Michigan - Dearborn, in April 1979. I
19 passed all parts of the C.P.A. examination in my first sitting in 1979, received my
20 CPA license in 1981, and received a certified financial planning certificate in
21 1983. I also have a Master of Science in Taxation from Walsh College, 1981,
22 and a law degree (J.D.) cum laude from Wayne State University, 1986. In
23 addition, I have attended a variety of continuing education courses in conjunction

1 with maintaining my accountancy license. I am a licensed Certified Public
2 Accountant and attorney in the State of Michigan. I am also a Certified Financial
3 Planner™ professional and a Certified Rate of Return Analyst (“CRRRA”). Since
4 1981, I have been a member of the Michigan Association of Certified Public
5 Accountants. I am also a member of the Michigan Bar Association and the
6 Society of Utility and Regulatory Financial Analysts (“SURFA”). I have also been
7 a member of the American Bar Association (“ABA”), and the ABA sections on
8 Public Utility Law and Taxation.

9
10 **Q. Please summarize your professional experience.**

11 A. Subsequent to graduation from the University of Michigan, and after a short
12 period of installing a computerized accounting system for a Southfield, Michigan
13 realty management firm, I accepted a position as an auditor with the predecessor
14 CPA firm to Larkin & Associates in July 1979. Before becoming involved in utility
15 regulation, where the majority of my time for the past 38 years has been spent, I
16 performed audit, accounting, and tax work for a wide variety of businesses that
17 were clients of the firm.

18
19 During my service in the regulatory section of our firm, I have been involved in
20 rate cases and other regulatory matters concerning numerous electric, gas,
21 telephone, water, and sewer utility companies. My present work consists
22 primarily of analyzing rate case and regulatory filings of public utility companies
23 before various regulatory commissions and where appropriate, preparing

1 testimony and schedules relating to the issues for presentation before these
2 regulatory agencies.

3

4 I have performed work in the field of utility regulation on behalf of industry, state
5 attorneys general, consumer groups, municipalities, and public service
6 commission staffs concerning regulatory matters before regulatory agencies in
7 Alabama, Alaska, Arizona, Arkansas, California, Connecticut, Delaware, Florida,
8 Georgia, Hawaii, Illinois, Indiana, Kansas, Kentucky, Louisiana, Maine, Maryland,
9 Michigan, Minnesota, Mississippi, Missouri, Montana, New Jersey, New Mexico,
10 New York, Nevada, North Carolina, North Dakota, Ohio, Pennsylvania, Puerto
11 Rico, Rhode Island, South Carolina, South Dakota, Tennessee, Texas, Utah,
12 Vermont, Virginia, Washington, Washington D.C., West Virginia, and Canada as
13 well as the Federal Energy Regulatory Commission and various state and federal
14 courts of law. My prior testimonies have included evaluations of numerous utility
15 rate case filings and revenue requirement determinations.

16

17 **Q. Have you previously testified before the North Dakota Public Service**
18 **Commission?**

19 **A.** Yes. For example, I testified before the Commission in the following dockets:
20 Application for Transfer of Local Exchanges, Case No. PU-314-94-688; US West
21 Communications, Inc. Cost Studies, Case No. PU-314-97-12; US West Universal
22 Service Cost Model, Case No. PU-314-97-465; and US West, Inc. Toll and
23 Access Rebalancing, Case No. 99-419/420.

1

2 **Q. Have you previously testified before other state public utility regulatory**
3 **commissions?**

4 A. Yes, I have testified before other state public utility regulatory commissions on
5 many occasions.

6

7 **Q. Have you prepared an attachment summarizing your educational**
8 **background and regulatory experience?**

9 A. Yes. Appendix A provides details concerning my experience and qualifications.

10

11 **Q. Have you prepared any exhibits to accompany your testimony?**

12 A. Yes. I have prepared Exhibit RCS-1, which presents the Staff's Accounting and
13 Revenue Requirement Schedules. Exhibit RCS-2 presents selected non-
14 confidential material, such as responses to discovery, which is referenced in my
15 testimony and schedules. Exhibit RCS-3 presents selected confidential material,
16 such as responses to discovery, which is referenced in my testimony and
17 schedules.

18

19 **II. SCOPE AND PURPOSE OF TESTIMONY**

20 **Q. On whose behalf are you appearing?**

21 A. Larkin & Associates, PLLC, was retained by the North Dakota Public Service
22 Commission Advocacy Staff ("Staff") to review the revenue increase request of

1 Otter Tail Power Company ("OTP" or "Company"). Accordingly, I am appearing
2 on behalf of Staff.

3

4 **Q. What amount of revenue increase is the Company requesting?**

5 A. On November 2, 2017, OTP filed testimony, in which it requested an increase in
6 its base rates for electric utility service in North Dakota of
7 \$15,715,320. Specifically, as discussed on page 2 of the Direct Testimony of
8 Company witness Gerhardson, the Company is proposing to revise its
9 Environmental Cost Recovery Rider ("ECRR"), Transmission Cost Recovery
10 Rider ("TCRR") and Renewable Resource Adjustment Rider ("RRAR") to (1)
11 incorporate OTP's proposed rate of return, (2) incorporate changes in allocation
12 factors, and (3) transfer the recoveries for each rider to base rates at the end of
13 this proceeding. Mr. Gerhardson goes on to state that the Company's proposed
14 increase and revisions results in an annual increase of non-fuel base electric
15 revenues of \$13,138,372, or 8.72 percent. However, Mr. Gerhardson also states
16 that if the rate of return and allocation factor revisions to the ECRR, TCRR, and
17 RRAR are not made, then the increase to non-fuel base revenue would be
18 \$15,715,320, or 10.61 percent.

19

20 **Q. What is the Company proposing for fuel and purchased power costs?**

21 A. As discussed on page 2 of Mr. Gerhardson's direct testimony, the Company is
22 also proposing to transfer \$50,727,914 of fuel and purchased power costs,
23 currently being recovered in base rates, to the Energy Adjustment Rider, which is

1 also referred to as the Fuel Clause Agreement ("FCA"). This Company proposal
2 is made pursuant to being in compliance with the Stipulation that was approved
3 by the Commission's Order on Settlement in Case Nos. PU-08-862 and PU-08-
4 742. Specifically, on page 8 of the Stipulation at Section II, subsection B, it
5 states:

6 Energy Costs Separate from Base Rates - The Parties agree that in
7 its next rate case OTP will separate its energy costs from base
8 rates. It is understood that this will give the appearance of much
9 larger rate increases in future rate cases than is reflected in the
10 overall change in customer bills.
11

12 **Q. Did the Company make a supplemental filing to address the impacts of the**
13 **Tax Cuts and Jobs Act that was signed into law on December 22, 2017?**

14 **A.** Yes. In order to address the impacts of the Tax Cuts and Jobs Act ("TCJA") that
15 was signed into law on December 22, 2017, on March 23, 2018, the Company
16 filed a supplemental filing, which reflects (1) the impacts of tax reform, and (2)
17 corrections and/or updates to information identified by OTP subsequent to its
18 original filing that was made on November 2, 2017. As discussed on page 1 of
19 the supplemental direct testimony of Company witness Gerhardson, the overall
20 impacts of the updates to the Company's original request is a reduction to the
21 Company's requested revenue deficiency of \$6,005,205. Mr. Gerhardson states
22 that of this amount, \$4,772,552 relates to tax reform while the remaining
23 \$1,232,653 relates to other updates made in the Company's supplemental filing.
24 In other words, OTP's original requested increase of \$15,715,320 has been
25 reduced to \$9,710,119 in the Company's March 23, 2018 supplemental filing.
26

1 **Q. What is the purpose of your testimony?**

2 A. The purpose of my testimony is to present to the Commission an appropriate test
3 period rate base, overall rate of return and utility operating income, as well as an
4 overall revenue requirement.

5

6 **Q. Are you relying upon the testimony and recommendations of other Staff
7 witnesses?**

8 A. Yes. In the determination of the Staff's recommended overall revenue
9 requirement and revenue increase, I have relied on and incorporated the
10 recommendations of Mr. Aaron Rothschild concerning cost of capital and rate of
11 return.

12

13 **Q. Are other witnesses submitting testimony on behalf of Staff?**

14 A. Yes. Dr. David Dismukes is filing testimony concerning the class cost of service
15 study, jurisdictional allocation, revenue allocation to the classes, and rate design.

16

17 **Q. What tasks did you perform in preparing your testimony in this matter?**

18 A. In developing this testimony, I have reviewed and analyzed the Company's
19 November 2, 2017 filing, March 23, 2018 supplemental filing, supporting
20 testimonies, exhibits, filing requirements, and workpapers; the Company's
21 responses to data requests issued by the PSC Staff, and other intervenors; and
22 other relevant financial documents and data. I also reviewed prior case material
23 and prior Commission Orders.

1

2 **III. SUMMARY OF FINDINGS AND CONCLUSIONS**

3 **Q. Please summarize your findings and conclusions in this case.**

4 A. I have reached the following findings and conclusions in this case, which is
5 based on Staff's adjustments to the Company's supplemental filing dated March
6 23, 2018. This reflects the impact of the lower 21% corporate federal income tax
7 rate that is in effect beginning in 2018 pursuant to the TCJA:

8 1. The appropriate jurisdictional test year rate base amounts to
9 approximately \$359.77 million, which is \$253,865 lower than the
10 Company's proposed test year rate base of \$360.03 million, as shown
11 on Exhibit RCS-1, Schedule B, line 14.

12 2. The Staff's expert rate of return witness, Mr. Rothschild, has
13 recommended a return on equity of 8.31%, and an overall rate of
14 return of 6.88% for OTP's North Dakota electric operations. In
15 contrast, OTP has requested an overall rate of return of 7.92%,
16 including a return on equity of 10.30%, as shown on Exhibit RCS-1,
17 Schedule A, line 2 and on Schedule D.

18 3. The appropriate test year utility operating income for OTP's North
19 Dakota electric operations amounts to approximately \$24.08 million,
20 which is approximately \$2.90 million higher than the Company's
21 proposed test year utility operating income of \$21.17 million, as shown
22 on Exhibit RCS-1, Schedule A, line 4 and on Schedule C.

- 1 4. To calculate the base rate revenue increase, I used a gross revenue
2 conversion factor ("GRCF") of 1.322837, as shown on Exhibit RCS-1,
3 Schedule A-1. This is the same GRCF used by OTP in its March 23,
4 2018 supplemental filing and reflects the new 21% federal income tax
5 rate.
- 6 5. The application of the recommended overall rate of return of 6.88% to
7 the recommended jurisdictional rate base of approximately \$359.77
8 million produces a required return of approximately \$24.75 million, as
9 shown on Exhibit RCS-1, Schedule A, column C, line 3. Compared to
10 the adjusted net operating income of approximately \$24.08 million, this
11 represents a deficiency of \$675,391, as shown on Exhibit RCS-1,
12 Schedule A, column C, line 5. Applying the GRCF of 1.322837
13 indicates that the Company has an annual base rate revenue
14 requirement deficiency of \$893,432, as shown on Exhibit RCS-1,
15 Schedule A, column C, line 7. As shown on Exhibit RCS-1, Schedule
16 A, column D, line 7, this represents a difference of approximately \$8.82
17 million versus the Company's proposed annual base rate revenue
18 deficiency of \$9.71 million that was presented in the Company's March
19 23, 2018 supplemental filing.
- 20 6. The total base rate revenue increase of \$893,432 is an overall
21 increase of 0.61 percent over adjusted revenue at current rates of
22 approximately \$146.27 million, as shown on Exhibit RCS-1, Schedule
23 A, line 11.

1

2 **IV. ORGANIZATION OF ACCOUNTING SCHEDULES FOR BASE RATE**

3 **REVENUE REQUIREMENT**

4 **Q. How are Staff's accounting schedules organized?**

5 A. The Staff's accounting schedules used to determine OTP's base rate revenue
6 requirement are presented in Exhibit RCS-1. They are organized into summary
7 schedules and adjustment schedules. The summary schedules consist of
8 Schedules A, A-1, B, B.1, C, C.1 and D. Exhibit RCS-1 also contains rate base
9 adjustment Schedules B-1 and B-2 and net operating income adjustment
10 Schedules C-1 through C-13.

11

12 **Q. What is shown on Schedule A, page 1, of Exhibit RCS-1?**

13 A. As noted above, Exhibit RCS-1 presents the Staff's Accounting Schedules and
14 Revenue Requirement determination. Schedule A, page 1, presents the overall
15 financial summary, giving effect to all of Staff's adjustments and Mr. Rothschild's
16 recommended rate of return. Schedule A, page 1, presents the change in the
17 Company's gross revenue requirement needed for the Company to have the
18 opportunity to earn Staff's recommended rate of return on the adjusted rate base.
19 The rate base and operating income amounts are taken from Schedules B and
20 C, respectively. The overall rate of return on rate base, as presented in the direct
21 testimony of Staff witness Aaron Rothschild, is shown on Exhibit RCS-1,
22 Schedule D, page 1, for convenience.

23

1 Exhibit RCS-1, Schedule A, page 1, column A, replicates OTP's proposed
2 calculations of its overall revenue deficiency, consisting of (1) the base rate
3 revenue deficiency; and (2) the revenue requirement for each of the Company's
4 proposed surcharges. Schedule A, page 1, column B, presents OTP's updated
5 revenue requirement as presented in the Company's March 23, 2018
6 supplemental filing. Staff used the OTP updated revenue requirement as the
7 starting point for making adjustments. Column C of Schedule A presents Staff's
8 determination of the base rate revenue deficiency. Column D shows the
9 differences between OTP's updated request and Staff's recommendation.

10
11 The operating income deficiency shown on line 5 of Schedule A, page 1, is
12 obtained by subtracting the adjusted operating income on line 4 (operating
13 income as adjusted) from the required operating income on line 3. Line 7
14 represents the gross revenue deficiency, which is obtained by multiplying the
15 operating income deficiency by the GRCF.

16
17 **Q. What is shown on Exhibit RCS-1, Schedule A, page 2?**

18 A. Exhibit RCS-1, Schedule A, page 2, presents a reconciliation of the base rate
19 revenue requirement and shows the approximate impact of each Staff
20 adjustment, incorporating the adjustment of income taxes using the new 21%
21 federal income tax rate.

22
23 **Q. What is shown on Schedule A-1 of Exhibit RCS-1?**

1 A. Schedule A-1 shows the GRCF that OTP used to convert the net operating
2 income deficiency into a revenue deficiency amount under both the 35 percent
3 federal income tax rate and the new 21 percent rate, which produced GRCFs of
4 1.607756 and 1.322837, respectively. For purposes of this case, I used the
5 GRCF of 1.322837, which includes components for state and federal income
6 taxes as shown on Exhibit RCS-1, Schedule A-1, column D.

7

8 **Q. What is shown on Exhibit RCS-1, Schedule B, page 1?**

9 A. Schedule B presents OTP's proposed adjusted test year rate base and Staff's
10 proposed adjusted test year rate base. The beginning rate base amounts
11 presented on Schedule B are taken from the Company's filing for the test year,
12 specifically Exhibit__(TAA-2), Schedule 3 from OTP's March 23, 2018
13 supplemental filing. My recommended adjustments to rate base are summarized
14 on Schedule B.1, and shown on Schedule B, column E. My adjusted rate base
15 for OTP is shown on Schedule B in column F.

16

17 **Q. What is shown on Schedule B.1 and Schedules B-1 and B-2?**

18 A. Exhibit RCS-1, Schedule B.1 presents a summary of my recommended rate base
19 adjustments. Schedules B-1 and B-2 provide further support and calculations for
20 the rate base adjustments that I am recommending.

21

22 **Q. What is shown on Exhibit RCS-1, Schedule C?**

1 A. The starting point on Schedule C is OTP's adjusted test year net operating
2 income, as provided on Schedule C-1 from the Company's Exhibit__(TAA-1)
3 from its original filing. I then reflect the adjustments and tax reform impacts
4 proposed by OTP to arrive at the Company's revised net operating income that is
5 reflected in OTP's supplemental filing dated March 23, 2018, which is the starting
6 point for my recommended adjustments to net operating income. My
7 recommended adjustments to OTP's adjusted test year revenues and expenses
8 are summarized on Schedule C.1.
9 Schedules C-1 through C-13 provide further support and calculations for the net
10 operating income adjustments that I am recommending. Each of the adjustments
11 is discussed in my testimony.

12

13 **Q. What is shown on Exhibit RCS-1, Schedule D?**

14 A. Schedule D summarizes the capital structure and cost of capital that is being
15 proposed by OTP and the capital structure and cost of capital that is
16 recommended by Staff witness Aaron Rothschild. Using Mr. Rothschild's
17 recommended return on equity of 8.31%, and the other capital structure
18 components and cost rates he recommends, produces an overall cost of capital
19 of 6.88%, which is 1.04% lower than OTP's proposed cost of capital of 7.92%
20 from its supplemental filing dated March 23, 2018.

21

22 **Q. What is shown on Exhibit RCS-1, adjustment Schedules B-1 and B-2 and C-**
23 **1 through C-13?**

1 A. Those schedules present calculations of each rate base and operating income
2 adjustment that I am recommending.
3

4 **V. RATE BASE**

5 **Q. What adjustments are you recommending to OTP's requested rate base?**

6 A. I am recommending three adjustments to OTP's rate base, as discussed below.
7

8 **B-1, Construction Work in Progress**

9 **Q. Did the Company include Construction Work in Progress ("CWIP") in its**
10 **North Dakota jurisdictional rate base?**

11 A. Yes. As shown on Exhibit__(TAA-2), Schedule 2, which was filed in conjunction
12 with the supplemental direct testimony of Company witness Akerman in the
13 Company's supplemental filing dated March 23, 2018, OTP included CWIP
14 totaling \$271,747 in its North Dakota jurisdictional rate base.¹
15

16 **Q. What capital projects are included in the \$271,747 of CWIP?**

17 A. According to the response to data request ND-PSC-15.37, the \$271,747 of CWIP
18 relates to one project, which OTP identified as Project No. 105245 - Winger Thief
19 River Falls 230kV Line ("Winger Thief River Falls"), which the Company stated
20 has an in-service date of December 2023.
21

22 **Q. Does any portion of the \$271,747 of CWIP accrue AFUDC?**

¹ OTP also included the \$271,747 of CWIP in rate base in its original filing dated November 2, 2017.

1 A. No. In its response to data request ND-PSC-15.37, OTP stated that no AFUDC
2 was taken on the Winger Thief River Falls project due to uncertainty related to
3 this project going forward. In addition, the Company stated that long-term CWIP
4 and AFUDC are recorded on a total Company level and are not allocated to
5 North Dakota jurisdictional operations.

6

7 **Q. Since the \$271,747 of CWIP related to the Winger Thief River Falls project is**
8 **included in OTP's North Dakota jurisdictional rate base, does OTP consider**
9 **this project to be short-term CWIP?**

10 A. Apparently not. In its response to data request ND-PSC-15.37, the Company
11 stated:

12 In completing this Data Request, we inadvertently found that OTP's
13 short-term CWIP should not have included the above Project
14 105245-Winger Thief River. Short-term CWIP will be corrected in
15 the final compliance filing.
16

17 Based on the passage above, the Winger Thief River Falls is a long-term CWIP
18 project and, as noted above, OTP does not allocate long-term CWIP to North
19 Dakota jurisdictional operations. In addition, the expected in-service date for this
20 project is not until December 2023, which would appear to support the contention
21 that this is a long-term CWIP project. Therefore, the \$271,747 should be
22 removed from the Company's North Dakota jurisdictional rate base.

23

24 **Q. Please explain your adjustment.**

1 A. As shown on Exhibit RCS-1, Schedule B-1, I have removed the \$271,747 of
2 CWIP from OTP's North Dakota jurisdictional rate base as the Winger Thief River
3 Falls project is a long-term CWIP project.
4

5 **B-2, Cash Working Capital**

6 **Q. What is Cash Working Capital?**

7 A. Cash working capital ("CWC") is the cash needed by the Company to cover its
8 day-to-day operations. If the Company's cash expenditures, on an aggregate
9 basis, precede the cash recovery of expenses, investors must provide cash
10 working capital. In that situation, a positive cash working capital requirement
11 exists. On the other hand, if revenues are typically received prior to when
12 expenditures are made, on average, then ratepayers provide the cash working
13 capital to the utility, and the negative cash working capital allowance is reflected
14 as a reduction to rate base. In this case, the cash working capital requirement is
15 an increase to rate base as investors are essentially supplying these funds.
16

17 **Q. Does OTP's supplemental filing reflect a positive or negative cash working
18 capital requirement?**

19 A. OTP's Exhibit__(TAA-2), Schedule 2, which was filed with its supplemental filing
20 dated March 23, 2018, shows a net positive cash working capital requirement of
21 approximately \$3.455 million.
22

1 **Q. What is indicated by a positive or negative cash working capital**
2 **requirement?**

3 A. A negative CWC requirement occurs when the results of a lead-lag study indicate
4 that ratepayers are supplying the funds used for the day-to-day operations of the
5 Company. On average, revenues from ratepayers are received prior to the time
6 when the utility pays the associated expenditures. Conversely, a positive CWC
7 requirement indicates that utility investors have supplied funds used for the day-
8 to-day operations of the Company.

9

10 **Q. Did OTP present a lead/lag study in support of its cash working capital**
11 **requirement?**

12 A. Yes, as discussed in the direct testimony of Company witness Gina OTP
13 performed a lead/lag study to calculate the cash working capital requirement in
14 this case. The Company has provided its lead/lag study calculations with its
15 work papers.

16

17 **Q. Are you recommending any revisions to OTP's cash working capital**
18 **request?**

19 A. Yes. I have reflected the impact of my adjustments to OTP's cash working
20 capital request on Exhibit RCS-1, Schedule B-2. As shown on Schedule B-2, my
21 recommended adjustments to expense increase OTP's claim for CWC by
22 \$17,882.

23

1 **VI. ADJUSTMENTS TO OPERATING INCOME**

2 **Q. Please describe how you have summarized Staff's proposed adjustments**
3 **to operating income.**

4 A. Exhibit RCS-1, Schedule C summarizes Staff's recommended net operating
5 income. As shown on Exhibit RCS-1, Schedule C, page 1, column A, OTP's
6 proposed adjusted test year net operating income at current rates is \$21.17
7 million, whereas Staff's recommended adjusted net operating income at current
8 rates is \$24.08 million.

9
10 Schedule C.1 presents Staff's recommended adjustments to test year revenues
11 and expenses. The impact on state and federal income taxes associated with
12 each of the recommended adjustments to operating income is also reflected on
13 Schedule C.1. The recommended adjustments to operating income are
14 discussed below in the same order as they appear on Schedule C.1.

15
16 **C-1, Employee Gifts and Recognition Expense**

17 **Q. Please explain your adjustment on Schedule C-1.**

18 A. My adjustment on Schedule C-1 removes the costs associated with employee
19 gifts and recognition. In its response to data request ND-PSC-06.28, the
20 Company stated that it has reflected employee gift expense of \$12,346 and
21 employee recognition expense of \$19,349 (both on a North Dakota jurisdictional
22 basis) in its 2018 test year cost of service.

23

1 **Q. Did OTP explain its rationale for including these costs in its 2018 test year**
2 **cost of service?**

3 A. Yes. In its response to data request ND-PSC-06.29, the Company stated that
4 the items given for employee recognition are modest, reasonable, and prudent,
5 and should therefore be eligible for recovery insofar as they help build employee
6 morale and promote retention.

7

8 **Q. Do you agree with the Company's rationale for including these costs in**
9 **2018 test year cost of service?**

10 A. No, I do not. While these types of costs may build employee morale and/or
11 promote retention, they are not necessary for the provision of safe and reliable
12 electric utility service. Therefore, ratepayers should not be responsible for paying
13 for these types of costs.

14

15 **Q. Were costs related to employee gifts and recognition disallowed for**
16 **recovery in OTP's recent Minnesota base rate case?**

17 A. Yes. OTP's employee gifts and recognition expenses were disallowed for
18 recovery in OTP's recent Minnesota base rate case. Specifically, in its Findings
19 of Facts, Conclusions and Order dated May 1, 2017 in Docket No. E-017/GR-15-
20 1033 at page 48, the Minnesota Commission stated in part:

21

22

23

24

25

26

The Commission concurs with the Administrative Law Judge and will disallow recovery of the Company's proposed employee gift and recognition expenses...The ALJ reasoned that the hearing record in this matter, and the legal arguments for approving the proposed expenses, are akin to those in the Company's last rate case, in which the Commission denied recovery. Therefore, absent a

1 willingness by the Commission to revisit its decision in the 2010
2 case, Otter Tail's proposed employee recognition and employee gift
3 expenses should be denied.
4

5 The Commission finds that the evidence adduced and the
6 arguments presented in this rate case are similar to those of the
7 last rate case. The Commission finds that the proposed employee
8 gift and recognition expenses are not reasonable and necessary for
9 the provision of utility services. The Commission will deny recovery
10 for these items.
11

12 **Q. Is your recommended adjustment consistent with the Minnesota**
13 **Commission's ruling as it relates to employee gift and recognition**
14 **expenses in OTP's recent Minnesota base rate case?**

15 A. Yes.

16
17 **Q. What is the impact of this adjustment?**

18 A. As shown on Exhibit RCS-1, Schedule C-1, my adjustment to remove employee
19 gift and recognition expenses reduces O&M expense by \$31,695 on a North
20 Dakota jurisdictional basis
21

22 **C-2, Investor Relations Expense**

23 **Q. Has the Company requested recovery of investor relations expense in its**
24 **2018 test year cost of service?**

25 A. Yes. In its response to data request ND-PSC-06.27, the Company indicated that
26 it is requesting recovery of forecasted investor relations expense in its 2018 test
27 year cost of service in the amount of \$167,148 on a North Dakota jurisdictional
28 basis.

1

2 **Q. What are investor relations?**

3 A. Investor relations is a term which describes the division of a company that is
4 devoted to responding to inquiries from shareholders and investors (or others)
5 who may be interested in a company's stock price or financial stability. In the
6 case of OTP, investor relations are a means by which the Company's
7 shareholders can receive and review information about the Company for things
8 such as capital spending and OTP's ability to access debt and/or equity markets
9 to finance such capital spending. As such, a significant portion of OTP's investor
10 relations expenses are for the benefit of the Company's shareholders.

11

12 **Q. What is your recommendation with regard to investor relations expense?**

13 A. I recommend that 50 percent of the Company's forecasted investor relations
14 expense be removed from 2018 test year cost of service. The removal of 50
15 percent of the investor relations expense, in essence, provides an equal sharing
16 of such costs, and therefore provides an appropriate balance between the
17 benefits attained by both shareholders and ratepayers.

18

19 **Q. Was a 50/50 sharing of investor relations expense ordered by the**
20 **Minnesota Commission in OTP's recent Minnesota base rate case?**

21 A. Yes. Fifty percent of OTP's proposed investor relations expense was disallowed
22 for recovery in OTP's recent Minnesota base rate case. Specifically, in its

1 Findings of Facts, Conclusions and Order dated May 1, 2017 in Docket No. E-
2 017/GR-15-1033 at page 43, the Minnesota Commission stated in part:

3 The Commission agrees with the Department that a significant
4 portion of the investor relations costs identified by the Company
5 appear principally to benefit shareholders. The Company has not
6 met its burden to show that 100% of these costs benefit ratepayers.
7 Accordingly, to resolve doubt in favor of ratepayers and reasonably
8 and equitably share such expenses between shareholders and
9 ratepayers, the Commission will disallow half of the proposed test
10 year investor relations expenses.
11

12 **Q. What is the impact of this adjustment?**

13 A. As shown on Exhibit RCS-1, Schedule C-2, my recommended adjustment to
14 exclude 50 percent of the Company's forecasted investor relations expense from
15 2018 test year cost of service reduces OTP's requested O&M expense by
16 \$83,574 on a North Dakota jurisdictional basis.
17

18 **C-3, Corporate Aircraft Expense**

19 **Q. Does OTP own its own aircraft?**

20 A. Yes. According to the response to data request ND-PSC-06.06, the Company
21 owns a 1987 322 King Air turboprop aircraft. Despite being owned by OTP, the
22 pilots who fly the plane are employees of Otter Tail Corporation and use of the
23 plane is scheduled by Otter Tail Corporation's administrative staff. In addition,
24 the response to ND-PSC-06.06 states that the plane is used by both OTP and
25 Otter Tail Corporation for business purposes. At the end of each year, the
26 associated fixed costs of using the plane are divided between OTP and Otter Tail
27 Corporation on a pro-rata share.

1

2 **Q. How were the aircraft costs charged to OTP in 2017?**

3 A. According to the response to data request ND-PSC-06.07, the entity using the
4 plane (i.e., OTP or Otter Tail Corporation) was charged a variable cost that was
5 based on the distance of the trip. At year's end, aircraft costs that were not
6 specifically invoiced were allocated between OTP and Otter Tail Corporation on a
7 pro rata basis, based on the number of flights. Specifically, for 2017, OTP was
8 allocated fixed costs totaling \$246,945 on a total Company basis based on 71
9 flights. The Company then removes flight costs associated with capital projects
10 and below-the-line lobbying activities, to derive the amount of corporate aircraft
11 costs reflected in test year O&M expense. After removing the capitalized and
12 below-the-line costs, the amount included in 2017 cost of service was \$329,240
13 on a total Company basis and \$133,374 on a North Dakota jurisdictional basis.
14 This amount includes the North Dakota jurisdictional portion of the \$246,945 as
15 shown in the following table:

FERC Account	Description	Amount
1070	Construction Work in Progress	\$ 57,107
4264	Expenditures for Civil & Political	\$ 6,026
5000	Steam Power Generation - Operations	\$ 3,405
5060	Steam Power Generation - Miscellaneous	\$ 3,855
5570	Other Power Supply Expenses	\$ 202
5880	Distribution Expenses	\$ 1,337
9080	Customer Service and Information	\$ 4,978
9210	Office Supplies and Expenses	\$ 54,672
9280	Regulatory Commission Expenses	\$ 12,269
9302	Miscellaneous General Expenses	\$ 1,577
	Subtotal	\$ 145,429
1070	Less: Construction Work in Progress	\$ (57,107)
4264	Less: Expenditures for Civil & Political	\$ (6,026)
	O&M Related Aircraft Expense	\$ 82,296
	Allocation from Corporate	\$ 246,945
	Total Aircraft Expense Included in Cost of Service	\$ 329,240
	North Dakota Jurisdictional Allocation Factor	40.5096%
	Total North Dakota Jurisdictional Aircraft Expense	\$ 133,374
Source: ND-PSC-06.07		

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Q. How was the "Allocation from "Corporate amount of \$246,945 that was charged to OTP calculated?

A. According to the response to data request ND-PSC-16.05, the total costs are determined at the corporate (Otter Tail Corporation) level with a direct bill being created (per flight) for the party using the plane (Otter Tail Corporation or OTP). The remaining unbilled costs at year-end are then assigned to each entity based on the percentage of each entity's total flights for the year. The Company provided the following breakout showing how the \$246,945 of costs that were allocated to OTP in 2017 was derived:

Description	Amount
Pilot Salaries	\$ 301,868
Plane Repairs	\$ 74,238
Fuel	\$ 106,889
Rental of Hanger	\$ 10,800
Pilot Education	\$ 24,710
Miscellaneous	\$ 7,834
Subtotal	\$ 526,339
Less: Billings for Direct Usage of Plane	\$ (174,224)
Total Costs of Plane	\$ 352,115
Less: Non-Utility Usage	\$ (105,170)
Billed to OTP	\$ 246,945
Source: ND-PSC-16.05	

1

2

3 **Q. What amount of corporate aircraft expense has OTP included in 2018 test**
4 **year cost of service?**

5 A. OTP has not identified a specific amount of corporate aircraft expense that is
6 included in 2018 test year cost of service. Specifically, Staff requested this
7 information in two separate data requests, including ND-PSC-06.07 and ND-
8 PSC-16.05. In each response, OTP stated the following:

9 The 2018 allocation is included in the general allocator from Otter
10 Tail Corporation and is expected to be similar to actual 2017 results.

11

12 The response to ND-PSC-16.05 also states that the 2018 budgeted amount is
13 not itemized to the level of actual results.

14

15 **Q. Did OTP prepare a cost-benefit analysis which compared aircraft costs to**
16 **other transportation alternatives?**

17 A. Yes. In its response to data request ND-PSC-06.08, the Company provided an
18 attachment, which the Company stated was a cost-benefit analysis that was

1 based on 2017 flight data and which compared the total 2017 flight costs against
2 the costs associated with driving to those same destinations. The Company
3 stated that this analysis excludes flights for which the costs were recorded below-
4 the-line, or for costs related to capital projects.

5
6 **Q. What does OTP's cost-benefit analysis purport to show?**

7 A. According to the Company's attachment to ND-PSC-06.08, the cost-benefit
8 analysis shows that the equivalent driving costs for the 71 flights in 2017 would
9 have totaled \$417,470 and the total flight costs in 2017 for the 71 flights totaled
10 \$400,872. This amount includes the aforementioned amount of \$246,945, which
11 the Company described as being a corporate allocation. The Company's claims
12 that its cost-benefit analysis shows that flying versus driving resulted in a savings
13 of \$16,598 based on the 71 flights from 2017.

14
15 **Q. Do you agree with the results of the Company's cost-benefit analysis?**

16 A. Not necessarily. There are certain aspects of the Company's cost-benefit
17 analysis which are questionable. The study itself appears to be conceptually
18 flawed. For example, in its response to data request ND-PSC-19.01, OTP stated
19 that for salaried employees, the difference in the time it takes to drive to a
20 destination versus flying does not result in savings of any incremental costs. Yet,
21 the estimated labor costs for both salaried and hourly travelers is the primary
22 basis for the "driving cost" and "flying cost" comparisons upon which the study is
23 based. Removing the costs for salaried employees in the OTP study could

1 potentially produce a much different result. The fact that the study assumed cost
2 savings for salaried employees when there are no incremental costs or
3 incremental payroll cost savings for salaried employees appears to be a severe
4 conceptual flaw with the design of the study, and one that could have skewed the
5 results significantly to show a higher cost of driving versus flying. In addition,
6 Staff requested that OTP explain whether any comparison is made between the
7 costs of flying the Company plane versus the cost of commercial flights, and if
8 so, to identify and provide supporting documentation. In its response to ND-
9 PSC-19.01, OTP stated that whenever a commercial flight is available, an
10 analysis is performed similar to that of comparing the costs of driving, but without
11 the use of a model and that such analysis is performed within cost centers but
12 not retained in a central repository. Failure to include a comparison of the cost of
13 commercial flights available at the time versus using the corporate aircraft is
14 another serious concern with OTP's cost-benefit analysis.

15
16 **Q. Does it appear that using commercial flights would be more economical**
17 **than using the Company plane on some long distance trips?**

18 **A.** Yes. Staff had requested supporting documentation for the costs of several long
19 distance flights that were identified in Attachment 1 to the response to data
20 request ND-PSC-06.08. For example, one such flight from OTP's headquarters
21 in Fergus Falls, Minnesota to Vancouver, British Columbia reflected an "invoiced
22 flight amount" of \$10,176.43. Upon reviewing the supporting documentation for
23 this flight, which was provided in response to data request ND-PSC-16.06, of the

1 \$10,176.43, \$6,375 was related to the cost of the flight crew, which bills at the
2 rate of \$750 per hour, and in this instance billed for an 8.5 hour flight ($\$750 \times 8.5$
3 = \$6,375). In addition, an additional \$3,258.11 was for "crew expense." So, in
4 summary, of the invoiced amount of \$10,176.43 for this particular flight, \$9,633 of
5 that amount was related to the flight crew with the balance of the invoiced
6 amount (\$543) being related to catering, parking and for a landing fee at the
7 Vancouver airport. In contrast, a commercial flight would tend to be at a price per
8 round trip ticket per passenger. If purchased in advance and by price shopping
9 (e.g., using airline sites and travel sites such as Expedia) sometimes very
10 economic commercial flight arrangements can be obtained. Yet OTP provided
11 no comparable documentation of advanced-purchased commercial flights.

12

13 **Q. Were the costs of using the Company plane for long distance trips charged**
14 **to OTP?**

15 A. Yes. Attachment 1 to the response to ND-PSC-06.08 indicated that during 2017,
16 there were various long distance trips to destinations including (1) Denver,
17 Colorado; (2) Marshall Texas; (3) Vancouver, British Columbia (two trips); (4)
18 Greenville, South Carolina; and (5) Shreveport, Louisiana. The table below
19 identifies the invoiced amounts for these flights as well as the cost of the crew
20 associated with these flights:

Date	Destination	Total Invoiced Amount	Flight Crew Expense	Percentage of Flight Crew Expense
1/16/2017	Denver, CO	\$ 4,068	\$ 3,958	97.29%
3/27/2017	Marshall, TX	\$ 5,787	\$ 5,640	97.47%
4/3/2017	Vancouver, BC	\$ 8,740	\$ 8,038	91.97%
5/2/2017	Greenville, SC	\$ 6,585	\$ 6,489	98.55%
8/21/2017	Vancouver, BC	\$ 10,176	\$ 9,633	94.66%
11/15/2017	Shreveport, LA	\$ 5,783	\$ 5,694	98.46%
		\$ 41,139	\$ 39,452	95.90%

Source: ND-PSC-06.08

1

2

As shown in the table above, of these six illustrative flights in 2017, in each instance, over 90% of the costs relate to the expense of the crew flying the plane.

3

4

By comparison, and using the August 21, 2017 trip to Vancouver, British Columbia as an example, I checked to see how much a similar trip would cost

5

6

using commercial airlines. Specifically, I checked airfares for five passengers

7

(the number of passengers on the August 21, 2017 flight to Vancouver,) from the

8

four closest airports to Fergus Falls, Minnesota and using Vancouver, BC as the

9

destination.² The results are summarized in the table below:

Departing Airport	Airfare to Vancouver, BC	No. of Passengers	Total Airfare	Cost of OTP's 8/21/2017 Trip to Vancouver	Difference
Bemidji, MN	\$ 1,325	5	\$ 6,627	\$ 10,176	\$ (3,549)
Brainerd, MN	\$ 789	5	\$ 3,947	\$ 10,176	\$ (6,229)
Deluth, MN	\$ 604	5	\$ 3,022	\$ 10,176	\$ (7,155)
Hibbing, MN	\$ 935	5	\$ 4,676	\$ 10,176	\$ (5,500)

10

11

As shown in the table, the cost of flying to Vancouver, BC using commercial

12

airlines for five passengers could be substantially less than using the corporate

13

aircraft and incurring the flight crew expenses associated with traveling on the

14

Company's plane.

² This analysis was done using the Delta Airlines website and current pricing.

1

2 **Q. What is the total amount from which the corporate allocation of \$246,945**
3 **was derived and how was it allocated between OTP and Otter Tail**
4 **Corporation?**

5 A. It is not clear what the total amount from which the corporate allocation of
6 \$246,945 is nor how it was allocated between OTP and Otter Tail Corporation.

7 In its response to data request ND-PSC-19.01, the Company merely stated:

8 The allocation from corporate of \$246,945 is the amount of the
9 fixed costs allocated to OTP based on a percentage of flights taken
10 by OTP compared to other subsidiaries.
11

12 **Q. Are you recommending that an adjustment be made to the corporate**
13 **aircraft expense included in 2018 test year cost of service?**

14 A. Yes. As previously noted, OTP has not identified a specific amount of corporate
15 aircraft expense that is included in 2018 test year cost of service, except to say
16 that such costs are expected to be similar to actual 2017 results. In addition, as
17 explained above, OTP's cost-benefit analysis of using the Company plane versus
18 driving is highly flawed and the results extremely questionable, especially as it
19 relates to long distance trips, and to OTP assumed labor cost savings from
20 salaried employees. OTP conceded in its response to DR ND-PSC-19.01 that
21 there are no incremental labor cost savings from salaried employees driving
22 versus flying, yet that comparison was a major component of OTP's cost-benefit
23 study. Moreover, OTP has not sufficiently explained nor provided the source
24 amount from which the 2017 corporate allocation to OTP of \$246,945 was
25 derived. Furthermore, some of the corporate aircraft travel costs could be

1 excessive compared with commercial air travel. An adjustment to reduce the
2 amount of corporate aircraft expense being requested by OTP is therefore
3 needed. To calculate such an adjustment, I removed the North Dakota
4 jurisdictional portion of the \$246,945 that was allocated from Otter Tail
5 Corporation in 2017 from the 2018 test year cost of service. As shown on Exhibit
6 RCS-1, Schedule C-3, this adjustment reduces OTP's requested O&M expense
7 by \$100,037 on a North Dakota jurisdictional basis.

8
9 **C-4, Payroll Expense**

10 **Q. How was the budgeted amount of payroll expense that OTP is requesting**
11 **for the 2018 test year determined?**

12 A. As discussed on page 4 of the direct testimony of Company witness Christine
13 Petersen, OTP's budgeted payroll costs were developed based on individual
14 employees within each department within each business area and then
15 culminated at the business area level. The Business Planning Department
16 provided Full-Time Equivalent ("FTE") employee projections to each
17 department's manager during the second quarter of the year prior to the budget
18 year. Ms. Petersen stated that the 2018 O&M budget was based primarily on
19 2016 employee levels.

20
21 **Q. How many FTE's did OTP include for its 2018 budgeted payroll expense?**

22 A. According to the response to data request ND-PSC-15.02, Attachment 2, OTP
23 budgeted for a total of 767.1 FTE's.

1

2 **Q. How does that compare to OTP's actual FTE count for 2016?**

3 A. According to the response to data request ND-PSC-15.02, Attachment 1, OTP
4 had 779.1 actual FTE's in 2016 or 12 more FTE's than OPT has budgeted for
5 2018.

6

7 **Q. Please continue describing how the Company developed its budgeted
8 payroll costs for the 2018 test year.**

9 A. As further discussed in Ms. Petersen's direct testimony, a composite labor rate is
10 determined for each business area, which is based on total employee salaries in
11 each department within the business area. The Company then determines an
12 inflation rate based on existing contracts and estimated costs increases, which
13 are applied in order to increase basic labor costs to the budget year level. In
14 addition, overtime projections are factored and a labor loading rate is applied to
15 basic labor costs.

16

17 **Q. What amount of payroll cost is the Company requesting for the 2018 test
18 year?**

19 A. As shown in the response to data request ND-PSC-15.03, the Company is
20 requesting payroll expense, which is broken out by FERC account, totaling
21 \$70.503 million on a total Company basis and \$28.1 million on a North Dakota
22 jurisdictional basis.

23

1 **Q. Did you review historical data which compares the Company's budgeted to**
2 **actual payroll costs?**

3 A. Yes. I reviewed historical data which compares the Company's budgeted to
4 actual payroll costs. Specifically, I initially reviewed the Company's budgeted
5 and actual payroll costs for 2016 and 2017, which is summarized in the table
6 below.

Description	Actual Payroll Expense	Budgeted Payroll Expense	Variance	Percentage Difference
OTP Total Company 2016 Payroll Expense	\$ 63,329,041	\$ 65,897,249	\$ (2,568,208)	-3.90%
OTP Total Company 2017 Payroll Expense	\$ 65,265,663	\$ 69,119,559	\$ (3,853,896)	-5.58%
Average Variance Percentage				-4.74%

7 Source: ND-PSC-15.02 and ND-PSC-15.04

8 As shown in the table above, for both 2016 and 2017, OTP's actual payroll costs
9 were less than OTP had budgeted for by the amounts and percentages shown
10 and results in an average variance percentage of -4.74% for the two-year period.

11
12 **Q. Did you also review budgeted to actual payroll costs for 2018?**

13 A. Yes. The Company provided this data in its response to data request ND-PSC-
14 15.07, which is summarized in the following table: In reviewing this data, I noted
15 that, similar to 2016 and 2017, OTP's actual payroll costs in each month of the
16 first quarter of 2018 were less than OTP's budgeted amounts:

Description	Actual Payroll Expense	Budgeted Payroll Expense	Variance	Percentage Difference
OTP Total Company Payroll Expense - January 2018	\$ 5,211,656	\$ 5,391,402	\$ (179,746)	-3.33%
OTP Total Company Payroll Expense - February 2018	\$ 5,689,745	\$ 6,227,437	\$ (537,692)	-8.63%
OTP Total Company Payroll Expense - March 2018	\$ 5,939,477	\$ 6,077,170	\$ (137,693)	-2.27%
Total 2018 First Quarter	\$ 16,840,878	\$ 17,696,009	\$ (855,131)	-4.83%

Source: ND-PSC-15.07

1
2 As shown in the table above, similar to 2016 and 2017, OTP's actual payroll
3 costs in each month of the first quarter of 2018 were less than budgeted amounts
4 by the amounts and percentage shown. It is notable that the average variance
5 percentage between budgeted actual payroll costs for the first three months of
6 2018 is also -4.74%, which is similar to the average budget variance percentage
7 for 2016 and 2017.

8
9 **Q. What did you conclude from your review of the Company's historical**
10 **payroll cost data?**

11 A. Based on my review of the Company's historical payroll cost data for 2016, 2017
12 and the first quarter of 2018, I concluded that OTP has a recent history of over-
13 budgeting payroll expense. The Company's 2018 test year payroll expense
14 should be adjusted to address the over-budgeting tendency and thus accurately
15 reflect the Company's actual 2018 test year payroll expense.

16
17 **Q. Please explain your recommended adjustment to payroll expense.**

18 A. As shown on Exhibit RCS-1, Schedule C-4, I applied the -4.74% variance
19 percentage discussed above to each component (i.e., by FERC account) of the
20 Company's projected payroll expense. This reduced OTP's 2018 test year

1 payroll expense by \$3.339 million on a total Company basis. After applying the
2 North Dakota jurisdictional allocator factors on a FERC account basis, my
3 recommended adjustment reduces 2018 test year payroll expense by \$1.332
4 million on a North Dakota jurisdictional basis.

5

6 **Q. Is there a related adjustment to payroll tax expense?**

7 A. Yes. As discussed below, my recommended adjustment to payroll expense
8 results in a related adjustment to payroll tax expense as shown on Exhibit RCS-
9 1, Schedule C-8.

10

11 **C-5, Incentive Compensation**

12 **Q. Does the Company have incentive compensation plans available to its**
13 **employees?**

14 A. Yes. As discussed in the direct testimony of Company witness Peter Wasberg,
15 the Company has an annual incentive plan ("AIP") which is available to its non-
16 union employees. Specifically, the AIP consists of two separate plans, including
17 (1) the OTP Key Performance Award Plan ("OTP KPA Plan"), which is available
18 to non-union employees, and (2) the Utility Management Incentive Plan ("OTP
19 Management Plan"), which is available to key management employees. In
20 addition, as discussed on page 5 of his direct testimony, Mr. Wasberg states that
21 OTP's President is under the Otter Tail Corporation Executive Annual Incentive
22 Plan ("OTC Executive Annual Plan"). The Company provided copies of all three
23 plans in its confidential response to data request ND-PSC-15.17. The focus of

1 my discussion will be on (1) the OTP Management Plan, and (2) the OTC
2 Executive Annual Plan.

3

4 **A. OTP Management Plan**

5 **Q. What are the OTP Management Incentive Plan's key objectives?**

6 A. As discussed in the Background section, the OTP Management Plan states:

7 **[BEGIN CONFIDENTIAL]**

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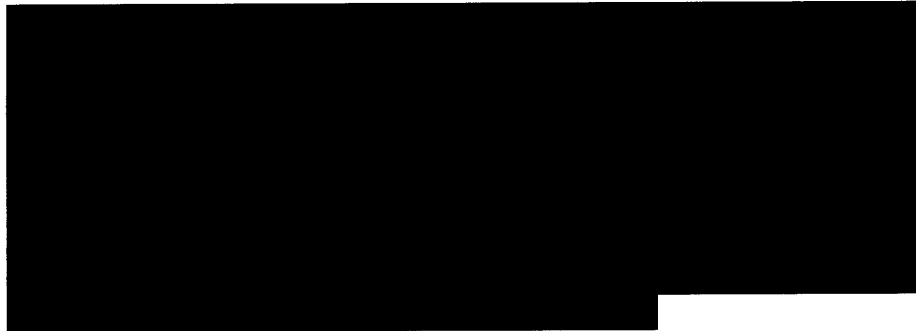
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[END CONFIDENTIAL]

20

21 **Q. Please briefly describe the OTP Management Incentive Plan.**

22 A. As discussed on page 4 of Mr. Wasberg's direct testimony, the OTP
23 Management Plan covers 19 OTP management employees (not including the
24 President as noted above). In addition, the OTP Management Plan is comprised
25 of the following criteria: (1) safety; (2) a number of individual criteria that vary by
26 employees' job and responsibilities; and (3) two overall financial criteria, including
27 OTP's earnings and ROE. Mr. Wasberg states that the safety and individual
28 criteria have a cumulative weighting of 50% and the two financial criteria also

1 have a weighting of 50%. A table on page 2 of the OTP Management Plan
2 indicates that [BEGIN CONFIDENTIAL] [REDACTED]
3 [REDACTED] [END CONFIDENTIAL] totaling the 50% referenced by Mr.
4 Wasberg in his testimony.
5

6 **Q. Has OTP included incentive compensation expense related to the OTP
7 Management Plan in its 2018 test year cost of service?**

8 A. Yes. The confidential response to data request ND-PSC-15.18 states that the
9 Company included incentive compensation expense related to the OTP
10 Management Plan of [BEGIN CONFIDENTIAL] [REDACTED]

11 [REDACTED]
12 [REDACTED]
13 [REDACTED] [END CONFIDENTIAL]

14
15 **Q. Are you recommending an adjustment to the level of incentive
16 compensation related to the OTP Management Plan that is included in the
17 2018 test year cost of service?**

18 A. Yes. I recommend that 50% of the incentive compensation related to the OTP
19 Management Plan that is included in the 2018 test year be borne by
20 shareholders.
21

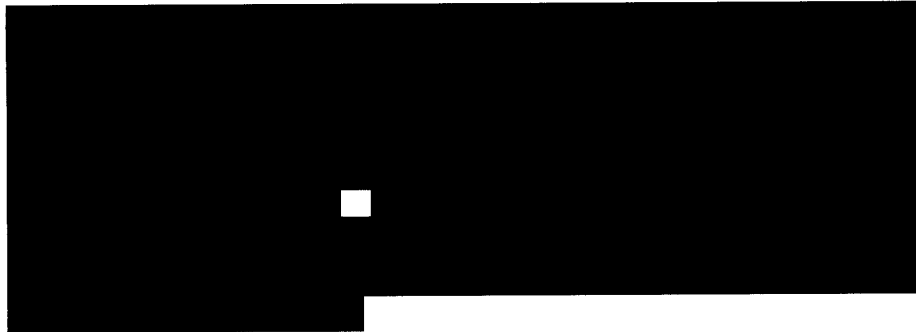
22 **B. OTC Executive Annual Plan**

23 **Q. What are the OTC Executive Annual Plan's key objectives?**

1 A. As discussed in the Background section, the OTC Executive Annual Plan states:

2 **[BEGIN CONFIDENTIAL]**

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13 **[END CONFIDENTIAL]**

14

15 **Q. Please briefly describe the OTC Executive Annual Plan.**

16 A. As discussed on page 5 of Mr. Wasberg's direct testimony, the criteria and target
17 incentives of the OTC Executive Annual Plan are determined by the
18 Compensation Committee of the Otter Tail Corporation Board of Directors. In
19 addition, the criteria under the OTC Executive Annual Plan includes the following:
20 (1) OTP net income; (2) OTP return on equity; (3) Otter Tail Corporation's
21 earnings per share; (4) individual performance; and (5) OTP OSHA safety case
22 rate.

23

24 **Q. What is the component weighting of the foregoing criteria under the OTC**
25 **Executive Annual Plan?**

26 A. Page E-1 of the OTC Executive Annual Plan, which was provided in the
27 confidential response to data request ND-PSC-15.17 contains a chart with the
28 heading "Otter Tail Corporation Executive Annual Incentive Plan 2018

1 Performance Objectives and Targets", which indicates that **[BEGIN**
2 **CONFIDENTIAL]** [REDACTED]
3 [REDACTED]
4 [REDACTED] [REDACTED] [REDACTED]
5 [REDACTED]
6 [REDACTED]
7 **[END CONFIDENTIAL]**

8

9 **Q. Has OTP included incentive compensation expense related to the OTC**
10 **Executive Annual Plan in its 2018 test year cost of service?**

11 A. Yes. The response to data request ND-PSC-15.19 states that the 2018 test year
12 cost of service includes budgeted incentive compensation expense allocated
13 from Otter Tail Corporation in the amount of \$834,429. In an email to Staff dated
14 May 10, 2018, OTP stated that the OTC Executive Annual Plan is the plan that
15 relates to incentive compensation allocated to OTP from Otter Tail Corporation.

16

17 **Q. Are you also recommending an adjustment to the level of incentive**
18 **compensation related to the OTC Executive Annual Plan that is allocated to**
19 **OTP and included in the 2018 test year cost of service?**

³Varistar Corporation, which is a wholly owned subsidiary of Otter Tail Corporation, owns the Company's manufacturing and plastic pipe businesses.

⁴ Page 17 of Otter Tail Corporation's 2018 Proxy Statement indicates that the measure for workplace safety is the OTC Executive Annual Plan's non-financial related measure.

1 A. Yes. I recommend that 90% of the incentive compensation related to the OTC
2 Executive Annual Plan that is allocated to OTP and included in the 2018 test year
3 be borne by shareholders.

4

5 **Q. What is the basis for your recommendations to (1) remove 50% of incentive**
6 **compensation related to the OTP Management Plan, and (2) 90% of**
7 **incentive compensation related to the OTC Executive Annual Plan?**

8 A. The basis for my recommendations is that incentive compensation expense that
9 is tied to a utility's financial performance should not be borne by ratepayers.
10 Specifically, the portion of incentive compensation expense that is directly
11 attributable to meeting financial performance goals is not properly recoverable
12 from ratepayers for several reasons. First, if the financial goals are set properly,
13 achieving the necessary performance should be self-supporting. That is,
14 measures that achieve additional cost savings, improve sales, or otherwise
15 improve the financial results of the Company should provide the income
16 necessary to fund the awards. Second, the payouts for financial goal
17 achievement can be distinguished from incentive compensation that is measured
18 for improving the quality of service, efficiency, or safety goals. Finally, the
19 incentive to improve financial performance is not necessarily consistent with
20 ratepayers' interests.

21

22 **Q. Please explain your recommended adjustment for Incentive Compensation**
23 **expense related to the OTP Management Plan.**

1 A. As shown on Exhibit RCS-1, Schedule C-5, this adjustment reduces 2018 test
2 year expense by \$437,805 on a North Dakota jurisdictional basis to reflect the
3 removal of (1) 50% of directly charged incentive compensation expense that
4 relates to the OTP Management Plan pursuant to the earnings and ROE related
5 financial criteria discussed above, and (2) 90% of incentive compensation
6 expense allocated to OTP from Otter Tail Corporation that relates to the financial
7 goals associated with the OTC Executive Annual Plan.

8

9 **Q. Is there a related adjustment to payroll tax expense?**

10 A. Yes. As discussed below, my recommended adjustment to incentive
11 compensation expense results in a related adjustment to payroll tax expense as
12 shown on Exhibit RCS-1, Schedule C-8.

13

14 **C-6, Stock-Based Compensation Expense**

15 **Q. Please explain your adjustment to stock-based compensation expense.**

16 A. As shown on Exhibit RCS-1, Schedule C-7, I have removed all stock-based
17 compensation expense. This adjustment reduces OTP's 2018 test year cost of
18 service by \$1.297 million on a total Company basis and by \$525,567 on a North
19 Dakota jurisdictional basis for stock-based compensation directly charged to
20 OTP. In addition, my recommended adjustment reduces 2018 test year cost of
21 service by an additional \$299,282 on a total Company basis and \$121,481 on a

1 North Dakota jurisdictional basis for stock-based compensation allocated to OTP
2 from Otter Tail Corporation.⁵

3

4 **Q. What types of stock-based compensation costs did OTP include in its 2018**
5 **test year cost of service?**

6 A. In its response to data request ND-PSC-15.20, the Company stated:

7 Both Restricted Stock Units and Performance Share Awards were
8 included in the charges to OTP for test year ending December 31,
9 2018.

10

11 **Q. Did the Company provide a copy of its stock-based compensation plan**
12 **documents?**

13 A. Yes. In its response to data request ND-PSC-15.20, the Company provided a
14 copy of the Otter Tail Corporation 2014 Stock Incentive Plan ("2014 Stock
15 Incentive Plan").

16

17 **Q. What is the stated purpose of the 2014 Stock Incentive Plan?**

18 A. The purpose of the 2014 Stock Incentive Plan is to provide stock-based
19 compensation to benefit Otter Tail Corporation's shareholders by aligning the
20 interests of the participants with those of the shareholders. Specifically, page 1
21 of the 2014 Stock Incentive Plan under "Purpose" states as follows:

22 The purpose of the Plan is to **promote the interests of the**
23 **Company and its shareholders** by aiding the Company in
24 attracting and retaining employees, officers, consultants,
25 independent contractors, advisors and non-employee Directors
26 capable of assuring the future success of the Company, to offer

⁵ The total Company amounts of stock-based compensation included in 2018 cost of service were provided in response to data request ND-PSC-15.20.

1 such persons incentives to put forth maximum efforts for the
2 success of the Company's business and to compensate such
3 persons through various stock-based arrangements and provide
4 them with opportunities for stock ownership in the Company,
5 **thereby aligning the interests of such persons with the**
6 **Company's shareholders.**

7
8 (Emphasis supplied)

9
10 **Q. Has OTP provided any studies that demonstrate a quantitative benefit to**
11 **ratepayers from the provision of stock-based compensation to OTP and**
12 **Otter Tail Corporation executives?**

13 A. No.

14
15 **Q. Please discuss the reasons for removing stock-based compensation from**
16 **OTP's 2018 test year cost of service.**

17 A. Ratepayers should not be required to pay executive or management
18 compensation that is based on the performance of the Company's (or its parent
19 company's) stock price, or that has the primary purpose of benefitting the parent
20 company's shareholders and aligning the interests of participants with those of
21 such shareholders.

22
23 Charging a shareholder-oriented expense to OTP's revenue requirement would
24 not be good regulatory policy.

25

1 OTP has failed to provide any studies that demonstrate a quantitative benefit to
2 OTP ratepayers from the provision of stock-based compensation directly charged
3 to OTP and/or allocated to OTP from Otter Tail Corporation.

4 Additionally, prior to being required to expense stock options for financial
5 reporting purposes under Statement of Financial Accounting Standards No. 123
6 Revised (SFAS 123R)⁶, the cost of stock-option based compensation was
7 typically treated as a dilution of shareholders' investments, i.e., it was a cost
8 borne by shareholders. While SFAS 123R now requires stock-option based
9 compensation cost to be expensed on a company's financial statements, this
10 does not provide a reason for shifting the cost responsibility for stock-based
11 compensation from shareholders to utility ratepayers.

12
13 **Q. Please explain your recommended adjustment for Stock-Based**
14 **Compensation expense.**

15 A. As shown on Exhibit RCS-1, Schedule C-6, OTP's 2018 test year cost of service
16 is reduced by \$525,567 on a North Dakota jurisdictional basis to remove all
17 identified stock-based compensation directly charged to OPT and by \$121,481
18 on a North Dakota jurisdictional basis for charges allocated to OTP from Otter
19 Tail Corporation for stock-based compensation. The total reduction to expense
20 to remove stock-based compensation is \$647,048 on a North Dakota
21 jurisdictional basis.

22
23 **Q. Is there a related adjustment to payroll tax expense?**

⁶ This is now known as Accounting Standards Codification (ASC) 718.

1 A. Yes. As discussed below, my recommended adjustment to stock-based
2 compensation expense results in a related adjustment to payroll tax expense as
3 shown on Exhibit RCS-1, Schedule C-8.
4

5 **C-7, Non-Employee Director Restricted Stock Grants**

6 **Q. Do the non-employee members of the Company's Board of Directors**
7 **receive stock-based compensation?**

8 A. Yes. In its response to data request ND-PSC-06.23, the Company stated that
9 the Board of Directors is comprised of officers from Otter Tail Corporation. As
10 members of Otter Tail Corporation's Board of Directors, each non-employee
11 member receives combination of an annual retainer and annual grants of
12 restricted stock. With regard to the grants of restricted stock, the response to
13 ND-PSC-06.23 states:

14 Each non-employee Director receives an annual grant of restricted
15 stock with an approximate value of \$80,000 granted under the
16 terms of the 2014 Stock Incentive Plan on the date of the Annual
17 Meeting. The amount is fixed and is not defined as incentive
18 compensation as it is not tied to individual performance or Otter Tail
19 Corporation's financial performance. The shares of restricted stock
20 vest over a period of four years at the rate of 25% per year and are
21 eligible for full dividend and voting rights. Starting in April 2018, on
22 the date of the Annual Meeting, each non-employee Director will
23 receive an additional grant of restricted stock with an approximate
24 value of \$10,000 for each committee on which they serve, and the
25 Board Chair will receive an additional grant of restricted stock with
26 an approximate value of \$25,000. All shares of restricted stock
27 awarded to non-employee Directors will vest over a period of three
28 years at the rate of 33.3% per year and will be eligible for full
29 dividend and voting rights.
30

1 **Q. Does the Company's 2018 test year include costs associated with grants of**
2 **restricted stock issued to OTP's Board of Directors?**

3 A. Yes. In its response to data request ND-PSC-18.01, the Company included an
4 attachment which provided a breakout of the 2018 allocation of non-employee
5 Director compensation to OTP on a total Company and North Dakota
6 jurisdictional basis. Specifically, this breakout included the costs associated with
7 (1) the retainers per Director, Board Chair, and Committee Chairs, and (2)
8 restricted stock grants per Director and Board Chair.

9

10 **Q. Do the costs that are included in the breakout of non-employee Director**
11 **retainers and restricted stock grants reflect what is included in the 2018**
12 **test year?**

13 A. No. With regard to what is included in the 2018 test year, the response to ND-
14 PSC-18.01 states in part:

15 At the time OTP's Test Year was developed, the estimated allocation
16 of Director Compensation was \$710,704 (OTP Total) / \$287,903
17 (OTP ND), as shown on line 21.⁷ These estimates were based on
18 previous assumptions associated with Director Compensation. No
19 adjustments were made to the Test Year amounts in the
20 Supplemental Filing.

21

22 **Q. Has the Company explained the purpose of the annual grants of restricted**
23 **stock to the non-employee Directors?**

24 A. Yes. In its response to ND-PSC-18.01(f), OTP stated in part:

⁷ The reference to "line 21" refers to Attachment 1 to the response to ND-PSC-18.01.

1 The use of stock grants is based on a combination of competitive
2 practice and a desire to align the interests of the Directors with the
3 long-term performance and success of the organization.
4

5 **Q. What are you recommending with regard to non-employee Director**
6 **compensation?**

7 A. For the reasons discussed above as it relates to my recommendation to remove
8 stock-based compensation, I am recommending that the cost of the non-
9 employee Director restricted stock grants be removed from 2018 test year cost of
10 service. Specifically, and as stated above with regard to stock-based
11 compensation, ratepayers should not be required to pay executive or
12 management compensation that is based on the performance of Otter Tail
13 Corporation's stock price, or that has the primary purpose of benefitting the
14 parent company's shareholders and aligning the interests of participants with
15 those of such shareholders
16

17 **Q. Please explain your adjustment.**

18 A. The attachment to the response to ND-PSC-18.01 did not provide a breakout of
19 the categories of non-employee Director compensation that are included in the
20 2018 test year filing, the totals of which are summarized in the following table:

Total Per Plan Per 2018 Test Year Filing	OTP Total Per 2018 Test Year Filing	North Dakota Jurisdictional Portion Per 2018 Test Year Filing
\$ 1,184,507	\$ 710,704	\$ 287,903
Source: ND-PSC-18.01		

21

1 However, in an email dated May 14, 2018, OTP stated that of the total amount of
2 \$1.185 million, \$485,856 was related to restricted stock grants and that the OTP
3 portion of the restricted stock grants totaled \$291,514. Therefore, as shown on
4 Exhibit RCS-1, Schedule C-7, I have removed the North Dakota jurisdictional
5 portion of the restricted stock grants included in the Company's 2018 test year by
6 applying the blended North Dakota jurisdictional allocator to the \$291,514 of
7 restricted stock grants that was allocated to OTP. Applying this allocator to
8 remove the non-employee Director restricted stock grants reduces 2018 test year
9 cost of service by \$118,091 on a North Dakota jurisdictional basis.

10
11 **Q. Is there a related adjustment to payroll tax expense?**

12 A. Yes. As discussed below, my recommended adjustment to remove non-
13 employee Director restricted stock grants results in a related adjustment to
14 payroll tax expense as shown on Exhibit RCS-1, Schedule C-8.

15
16 **C-8, Payroll Tax Expense**

17 **Q. Please explain your adjustment to OTP's payroll tax expense.**

18 A. My recommended adjustment to OTP's payroll tax expense is made in
19 conjunction with the adjustments that I am recommending related to (1) payroll
20 expense; (2) incentive compensation expense; (3) stock-based compensation
21 expense; and (4) non-employee Director restricted stock grants. Based upon
22 those recommended adjustments, as shown on Exhibit RCS-1, Schedule C-8, I

1 have reduced OTP's payroll tax expense by \$193,910 on a North Dakota
2 jurisdictional basis.

3

4 **Q. Did the Social Security Administration update the threshold on the wage**
5 **levels that are subject to the 6.20% Social Security Taxes?**

6 A. Yes. On November 27, 2017, the Social Security Administration increased the
7 maximum amount of wages in 2018 that are subject to the 6.20% Social Security
8 Tax (i.e., FICA tax) to \$128,400. Staff acknowledges that to the extent that the
9 salaries of certain individuals are included in the adjustments to which my
10 adjustment to payroll tax expense applies are above the threshold of \$128,400, it
11 will be necessary to modify my recommended adjustment to payroll tax expense.

12

13 **C-9, Executive Survivor and Supplemental Retirement Plan ("ESSRP")**

14 **Q. What is the Company's ESSRP?**

15 A. The Company referred to the ESSRP as being the equivalent of a Supplemental
16 Executive Retirement Plan ("SERP").⁸ A SERP, or in OTP's case, an ESSRP,
17 provides supplemental retirement benefits for highly compensated executives.
18 Generally, SERPs are implemented for executives to provide retirement benefits
19 that exceed amounts limited by qualified plans by Internal Revenue Service
20 ("IRS") limitations. Companies usually maintain that providing such
21 supplemental retirement benefits to executives is necessary in order to ensure
22 attraction and retention of qualified employees. Typically, SERPs provide for
23 retirement benefits in excess of limits placed by IRS regulations on pension plan

⁸ See the confidential response to data request ND-PSC-15.21, which inquired about OTP's SERP expense.

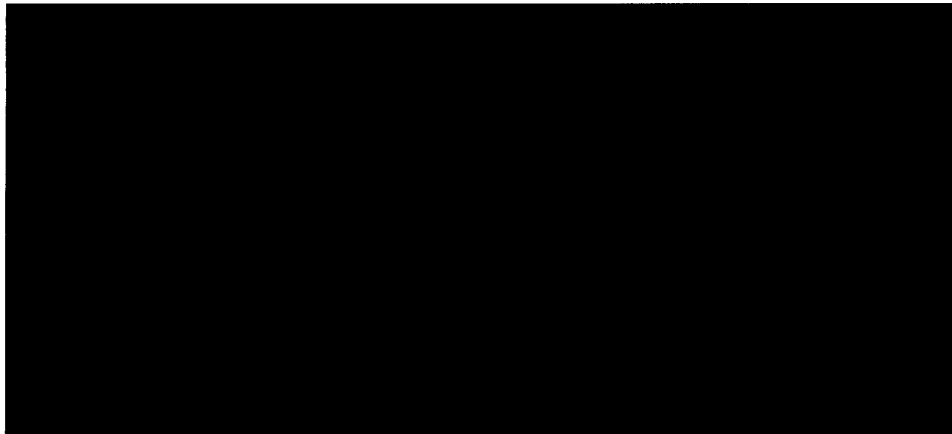
1 calculations for salaries in excess of specified amounts. IRS restrictions can also
2 limit the Company 401(k) contributions such that the Company 401(k)
3 contribution as a percent of salary may be smaller for a highly paid executive
4 than for other employees.

5

6 **Q. Does OTP's ESSRP include any current OTP or Otter Tail Corporation**
7 **employees and executives?**

8 A. Yes. In its confidential response to data request ND-PSC-15.21, the Company
9 provided Attachment 5, which listed ten active employees and executives with
10 the job titles summarized in the following table:

11 **[BEGIN CONFIDENTIAL]**



12

13 **[END CONFIDENTIAL]**

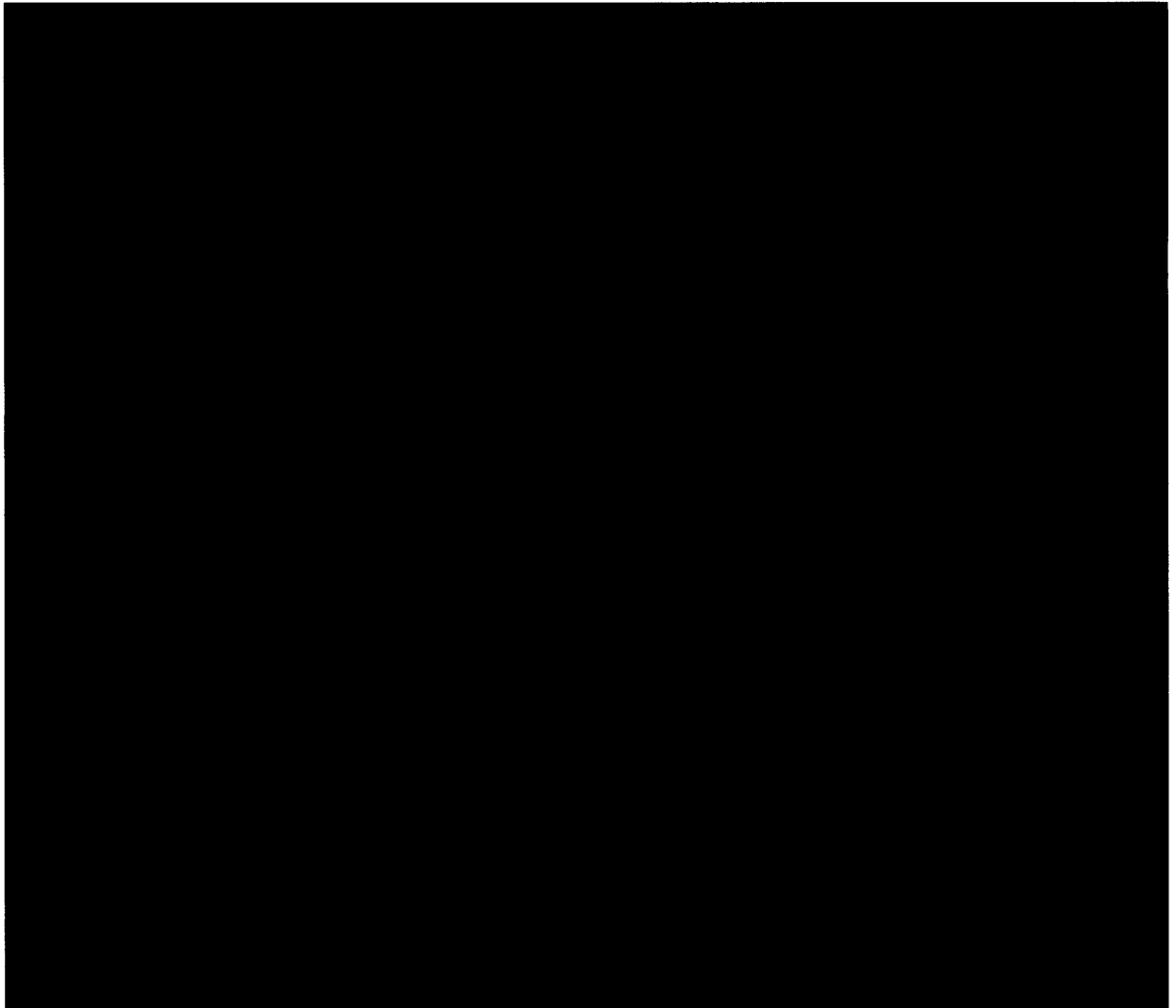
14

15 **Q. Does OTP's ESSRP include any retired OTP or Otter Tail Corporation**
16 **employees and executives?**

1 A. Yes. In its confidential response to data request ND-PSC-15.21, the Company
2 provided Attachment 6, which listed 31 retired and/or vested employees and
3 executives with the job titles summarized in the following table:

4 **[BEGIN CONFIDENTIAL]**

5



6

7 **[END CONFIDENTIAL]**

8

9 **Q. Should ratepayers be responsible for OTP's ESSRP expense?**

1 A. No. The provision of additional retirement compensation to the Company's
2 current and former highest paid executives is not a reasonable expense that
3 should be recovered in rates.
4

5 **Q. Please explain your adjustment for ESSRP expense.**

6 A. This adjustment removes 100% of the expense for ESSRP expense included in
7 the Company's 2018 test year cost of service. As shown on Exhibit RCS-1,
8 Schedule C-9, my adjustment reduces 2018 test year cost of service by \$1.426
9 million on a total Company basis and by \$577,665 on a North Dakota
10 jurisdictional basis.
11

12 **C-10, Rate Case Expense**

13 **Q. What is the Company requesting for rate case expense?**

14 A. As discussed on pages 45-46 of the direct testimony of Company witness
15 Tommerdahl, the Company has estimated rate case expense totaling \$775,000,
16 which is comprised of external legal fees, administrative costs, costs of
17 consultants and PSC filing costs, which is summarized in the table below:

Description	Per OTP
External Attorney Fees	\$ 400,000
Administrative Costs, Consultants, etc.	\$ 200,000
PSC Costs	\$ 175,000
Estimated Rate Case Expense	\$ 775,000

18

19 After allocating a portion of its estimated rate case expense to unregulated
20 activities based on the ratio of OTP's unregulated revenues to regulated
21 revenues, the Company proposes to amortize the regulated portion of rate case
22 expense over a three-year period. As shown on Company workpaper TY-02

1 from Volume 4a of its filing, the Company's proposed 2018 test year rate case
2 expense is \$257,871 on a North Dakota jurisdictional basis.
3

4 **Q. Do you agree with the Company's requested level of rate case expense?**

5 A. No. I do not agree with the Company's requested level of rate case expense.
6 First of all, on its face, the estimate for external legal fees of \$400,000 seems
7 excessive. OTP's confidential response to data request ND-PSC-15.26 indicates
8 that **[BEGIN CONFIDENTIAL]** [REDACTED]
9 [REDACTED] **[END CONFIDENTIAL]** It is my understanding from Staff that the
10 attorney representing the Company in this proceeding is an OTP employee, not
11 an external law firm, thus there should be no need for external legal counsel. In
12 addition, the amount of \$200,000 that the Company has estimated for
13 administrative and consulting fees also appears to be excessive.
14

15 **Q. How many outside consultants has OTP engaged for this proceeding?**

16 A. OTP has engaged only one outside consultant in this proceeding and that relates
17 to issues associated with the Company's proposed rate of return and ROE.
18

19 **Q. Who is the outside consultant engaged by OTP in this proceeding?**

20 A. OTP's outside consultant in this proceeding is Robert Hevert, a partner in the firm
21 ScottMadden, Inc.
22

1 **Q. Did Mr. Hevert address OTP's rate of return and ROE in its last rate case in**
2 **Case No. PU-08-862?**

3 A. Yes. It is my understanding that Mr. Hevert, who was with the firm Concentric
4 Energy Advisors at the time, addressed OTP's rate of return and ROE issues in
5 OTP's last rate case in Case No. PU-08-862. In its response to data request ND-
6 PSC-01.16, OTP stated that Mr. Hevert's fees are included in its rate case
7 expense request at a set amount along with other consultants, such as for the
8 Marginal Cost Study and other administrative expenses.

9

10 **Q. Did the Company hire an outside consultant to perform its class cost of**
11 **service study in this proceeding?**

12 A. No. The Company's class cost of service study in this proceeding was performed
13 by Company witness Gina Ice, who is an employee of OTP. As noted above, Mr.
14 Hevert is the only outside consultant hired by OTP for this proceeding. The
15 response to ND-PSC-01.16 states that the amount of administrative costs and
16 consulting fees included in this proceeding are the same amount that was
17 included in OTP's last North Dakota rate case in Case No. PU-08-862.

18

19 **Q. What amount of expense did OTP incur in its last rate case for Mr. Hevert's**
20 **rate of return and ROE analysis?**

21 A. According to the confidential response to data request ND-PSC-15.26, Mr.
22 Hevert's fees while with Concentric Energy Advisors totaled **[BEGIN**

1 **CONFIDENTIAL]** [REDACTED]

2 [REDACTED] **[END CONFIDENTIAL]**

3
4 **Q. Based on the foregoing, are you recommending an adjustment to rate case**
5 **expense?**

6 A. Yes. I have removed the external legal fees of \$400,000 and reduced the
7 estimate for administrative costs and consulting fees to \$75,000, which results in
8 estimated rate case expense of \$250,000. After allocating a portion of the
9 recommended rate case expense to unregulated activities based on the ratio of
10 OTP's unregulated revenues to regulated revenues, similar to OTP, I amortized
11 the regulated portion of my recommended rate case expense over a three-year
12 period. As shown on Exhibit RCS-1, Schedule C-10, my recommended
13 adjustment reduces OTP's requested O&M expense by \$174,687 on a North
14 Dakota jurisdictional basis.

15
16 **C-11, Interest Synchronization**

17 **Q. Please explain the adjustment to Interest Synchronization.**

18 A. This adjustment modifies the Company's interest synchronization adjustment to
19 reflect my recommended rate base and the weighted cost of debt recommended
20 by Staff witness Rothschild. As shown on Exhibit RCS-1, Schedule C-14, state
21 and federal income tax expense is increased by \$2,890 for interest
22 synchronization.

23

1 **VII. TAX CUTS AND JOBS ACT**

2 **Q. Has OTP identified the impact of the TCJA on its requested revenue**
3 **requirement?**

4 A. Yes, to some extent. On March 23, 2018, OTP filed the Supplemental Direct
5 Testimony of Mr. Akerman, which utilized the new 21 percent federal corporate
6 income tax rate to compute income tax expense. Additionally, in response to
7 discovery, OTP has indicated that its original filing had included in its calculation
8 of federal income tax expense the impact of the Domestic Production Activities
9 Deduction ("DPAD") which was discontinued by the TCJA, and the Company
10 removed that impact in its supplemental filing and for purposes of interim rates.
11 Additionally, the Company's supplemental filing included updated amounts for
12 2017 bonus tax depreciation. The Company's supplemental filing also reflected a
13 recalculation of the Gross Revenue Conversion Factor ("GRCF") to reflect the
14 new 21 percent federal corporate income tax rate.

15
16 However, it does not appear that the Company has reflected the amortization of
17 excess federal ADIT as an adjustment to 2018 deferred federal income tax
18 expense. Nor does it appear that the Company has reflected the return to
19 customers of TCJA-based revenue requirement savings that occurred in 2018 in
20 the months before OTP's interim rates and rider-based rates were reset, which
21 apparently occurred on March 1, 2018. I address these two aspects of the TCJA
22 in the following sections of my testimony.

23

1 **C-12, Amortization of Excess Accumulated Deferred Income Taxes (ADIT)**

2 **Q. Has the Company identified the amount of Accumulated Deferred Income**
3 **Taxes ("ADIT") that it had recorded as of December 31, 2017?**

4 A. Yes. The Company's response to Staff data requests ND-PSC-03.04 and ND-
5 PSC-03.06 indicate that as of December 31, 2017, OTP had ADIT of \$321.359
6 million, consisting of federal ADIT of \$271.829 million, Minnesota ADIT of
7 \$33.865 million, and North Dakota ADIT of \$15.664 million. The Company's
8 response to Staff data request ND-PSC-03.06 indicates that the amount of
9 excess federal ADIT at December 31, 2017 is \$108.732 million.

10

11 **Q. What is your current understanding of how excess federal ADIT for**
12 **regulated public utilities can be addressed?**

13 A. My current understanding is that regulated public utilities will be required to
14 identify the portions of their ADIT balances that represent "excess" ADIT based
15 on recalculations using the difference between the old federal income tax rate
16 ("FIT") (typically 35%) under which the ADIT was accumulated and the new
17 federal corporate rate of 21%. Basically, utility ADIT must be revalued at the new
18 FIT rate. All *non-plant* related ADIT (FERC account 190 and 283 for electric
19 utilities) will be reduced. To ensure that these benefits are passed to customers,
20 the regulator should require that the reduction be deferred in a net regulatory
21 liability. *Plant* related ADIT (FERC accounts 281 and 282 for electric utilities) will
22 also need to be revalued at the new FIT rate. IRS normalization requirements
23 will apply to the portion of the property related ADIT that relates to the use of

1 accelerated tax depreciation (including federal bonus tax depreciation).
2 Regulated public utilities (as do other business taxpayers) typically compute tax
3 depreciation using the Modified Accelerated Cost Recovery System ("MACRS"),
4 which is the current tax depreciation system in the United States. Under this
5 system, the capitalized cost (basis) of tangible property is recovered over a
6 specified life by annual deductions for depreciation. The differences between the
7 use of accelerated tax depreciation to produce depreciation deductions for
8 federal income tax purposes and the use of book depreciation (typically some
9 form of straight-line depreciation) are accounted for, and the tax impacts are
10 accumulated as ADIT for accounting and ratemaking purposes. It is expected
11 that the excess ADIT related to the use of accelerated tax depreciation will result
12 in "protected" excess ADIT balances for at least a portion of the utility's property
13 related ADIT, e.g., the ADIT recorded in account 282. That "protected" ADIT will
14 be subject to normalization requirements which will govern how it can be flowed
15 back to ratepayers. The TCJA specifically provides that the average rate
16 assumption method ("ARAM") must be used for the protected portion of excess
17 ADIT, although an alternative method is permitted if adequate records are not
18 available to compute the ARAM.

19
20 In contrast, the flow back of the "unprotected" portion of the excess ADIT will be
21 up to the discretion of the regulatory authority. Unprotected ADIT is not subject
22 to normalization requirements and will be revalued at the lower 21% FIT rate. A

1 regulatory liability may need to be established to ensure that the un-protected
2 excess ADITs are captured and can be passed back to customers.

3
4 **Q. Please elaborate on the normalization requirement for protected excess
5 ADIT.**

6 A. As described above, the TCJA reduced the federal corporate income tax rate to a
7 flat 21%. Public utilities are required, as a condition of using MACRS
8 (accelerated tax depreciation) to use normalization accounting under which
9 depreciation for ratemaking purposes does not reflect the accelerated tax
10 depreciation under MACRS. The normalization requirements address how the
11 "excess" ADIT balances related to the use of accelerated tax depreciation on
12 utility property can be flowed back. Generally, the flow-back of such "protected"
13 excess ADIT balances must occur over the remaining life of the related utility
14 property. The TCJA provides for a specific method, the ARAM, for assuring
15 compliance with the normalization requirements as they relate to protected
16 excess ADIT.

17
18 Specifically, the TCJA provides that public utilities subject to the normalization
19 method of accounting are not treated as applying the normalization method for
20 any public utility property for purposes of Code Sec. 167 or Code Sec. 168 if they
21 reduce their excess tax reserves resulting from the lower tax rate in computing
22 their cost of service for ratemaking purposes and for purposes of reflecting
23 operating results in their regulated books of account, more rapidly or to a greater

1 extent than the amount the reserve would be reduced under the ARAM. (See
2 TCJA §13001(d)(1)). For this purpose, the excess tax reserve is the reserve for
3 deferred taxes, described in Code Sec. 168(i)(9)(A)(ii) as in effect on the day
4 before the FIT rate reductions take effect (TCJA §13001(d)(3)(A)(i)), minus the
5 amount that would be the balance in the reserve if the amount of the reserve
6 were determined by assuming that the TCJA corporate rate reductions were in
7 effect for all prior periods. (See TCJA §13001(d)(3)(A)(ii)).

8
9 **Q. Has OTP identified the amount of "protected" excess federal ADIT that it**
10 **has as of December 31, 2017?**

11 A. Yes. The Company's response to Staff data request ND-PSC-03.06 indicates
12 that out of a total excess federal ADIT as of December 31, 2017 of \$108.732
13 million, two items relate to excess ADIT balances which were created due to the
14 Company using accelerated tax depreciation. The two items are:

- 15 1. Excess tax over book depreciation (in FERC account 282), for which OTP
16 shows an excess ADIT amount of \$106.178 million, and
- 17 2. Excess tax over book depreciation - AQCS AL7 (in FERC account 281),
18 for which OTP shows an excess ADIT amount of \$1.624 million.

19 The Company's response to DR ND-PSC-18.02(e) explains that:

20 In FERC account 282, the only protected timing difference is "Excess
21 Tax over Book Depreciation", all others are unprotected. OTP also
22 has ADIT in FERC account 281 which is based on the timing
23 differences between book and tax depreciation which we've
24 (meaning OTP) labeled as being protected, similar to FERC 282."

25

1 The Company's response to DR ND-PSC-16.02 shows a similar breakout of the
 2 excess ADIT, and includes an additional column showing OTP's North Dakota
 3 allocated amounts of excess ADIT.

4
 5 The following table uses that OTP-provided information to summarize the
 6 Company's excess ADIT balance as of December 31, 2017 into the "protected"
 7 and "non-protected" portions:

8

Otter Tail Power Company			
Excess Federal Accumulated Deferred Income Taxes			
As of December 31, 2017			
Description	FERC Account	Total OTP Amount (A)	North Dakota OTP Allocated Amount (B)
Protected Excess ADIT			
Excess Tax Over Book Depreciation	282	\$ (106,177,537)	\$ (38,312,502)
Excess Tax Over Book Depreciation - AQCS SL 7	281	\$ (1,623,952)	\$ (585,977)
Subtotal - Protected Excess ADIT		\$ (107,801,489)	\$ (38,898,479)
Non-Protected Excess ADIT			
	190	\$ 13,835,519	\$ 4,992,331
	282	\$ (6,480,550)	\$ (2,338,405)
	283	\$ (8,285,172)	\$ (2,989,575)
Subtotal - Non-Protected Excess ADIT		\$ (930,203)	\$ (335,649)
Total Excess Federal ADIT at December 31, 2017		\$ (108,731,692)	\$ (39,234,128)
Source: OTP's response to DR ND-PSC-03.06, Attachment 1 and ND-PSC-16.02, Attachment 1			

9

10

11 **Q. Did the Company record a journal entry to reflect the transfer of its excess**
 12 **federal ADIT at December 31, 2017 into a regulatory liability account?**

13 A. Yes. The Company's response to DR ND-PSC-18-11 includes an attachment
 14 which provides a detailed summary workpaper of the Company's calculation of

1 excess ADIT performed at year-end 2017 and the related journal entries made to
2 adjust the ADIT balances. As shown on Attachment 1 to that response, the
3 Company transferred the \$108,731,692 amount of excess federal ADIT, grossed-
4 up for income taxes using a factor of 1.3556 (for a gross-up amount of
5 \$38,785,895), out of the ADIT accounts and into a regulatory liability account
6 (FERC account 254) in the net amount of \$147,857,589, of which \$39,356,813 is
7 allocable to OTP North Dakota.

8
9 **Q. Has OTP stated how it proposes to amortize the Protected portion of its**
10 **excess ADIT?**

11 A. Yes. OTP's response to DR ND-PSC-05.02 indicates that to be in compliance
12 with the normalization requirements of the Internal Revenue Service, the
13 Company will be applying the ARAM to the protected portions of its excess
14 federal ADIT balances that relate to the use of accelerated tax depreciation for
15 federal income tax purposes.

16
17 **Q. Please explain your current understanding of the ARAM that is specified in**
18 **the TCJA for compliance with normalization requirements on the**
19 **"protected" excess ADIT.**

20 A. The ARAM is the method under which the "protected" excess in the reserve for
21 deferred taxes is reduced over the remaining lives of the property as recorded in
22 the utility's regulated books of account which gave rise to the reserve for deferred
23 taxes. Under this method, if timing differences for the property reverse, the

1 amount of the adjustment to the reserve for the deferred taxes is calculated by
2 multiplying (1) the ratio of the aggregate deferred taxes for the property to the
3 aggregate timing differences for the property as of the beginning of the period in
4 question (TCJA §13001(d)(3)(B)(i)) by (2) the amount of the timing differences
5 that reverse during the period. (See, TCJA §13001(d)(3)(B)(ii)).

6
7 The reversal of timing differences generally occurs when the cumulative amount
8 of the tax depreciation taken on the asset is less than the cumulative amount of
9 the regulatory (book) depreciation taken on the asset. To ensure that the
10 deferred tax reserve, including the excess tax reserve, is reduced to zero at the
11 end of the regulatory life of the asset that generated the reserve, the amount of
12 the timing difference which reverses during a tax year is multiplied by the ratio of
13 (1) the aggregate deferred taxes as of the beginning of the period in question to
14 (2) the aggregate timing differences for the property as of the beginning of the
15 period in question.

16
17 **Q. Has OTP stated how it will apply the ARAM to the Protected portion of its**
18 **excess federal ADIT?**

19 **A.** Yes. OTP's response to DR ND-PSC-05.02 states that the Company uses the
20 software PowerTax to track and calculate the obligation and reversal of ADIT
21 balances, and provided an illustrative example from the PowerTax system of how
22 the system tracks each jurisdiction, vintage, and tax class and computes an
23 ARAM for each. Additional explanation of the ARAM was provided by OTP in

1 response to DR ND-PSC-05.05. The Company's response to DR ND-PSC-18.03
2 and DR ND-PSC-18.04 contain additional explanations of how the PowerTax
3 modules of the PowerPlan software is used to track tax depreciation and
4 compute the ARAM and how the PowerPlan module tracks the Company's book
5 plant activity. The systems maintain the information by tax account per each
6 vintage year. The Company's response to DR ND-PSC-18.04 explains that the
7 PowerPlan system fixed asset software tracks the utility plant in service assets
8 by plant account and at their book cost and in-service vintage, and indicates that
9 the associated accumulated book depreciation for these assets is allocated to the
10 individual plant assets within that plant account by vintage. OTP's response to
11 DR ND-PSC-18.07 similarly explains that the Company will be using the
12 PowerTax module of the PowerPlan software system to calculate the reversal of
13 the protected portion of the excess federal ADIT balance that related to the use
14 of accelerated tax depreciation for federal income tax purposes.

15
16 **Q. Do you agree with OTP's proposal to apply the ARAM to the Protected**
17 **portion of its excess federal ADIT?**

18 **A.** Yes. The TCJA requires that the ARAM be applied to the Protected portion of a
19 utility's excess federal ADIT. I therefore agree with OTP's proposal to apply the
20 ARAM to the Protected portion of its excess federal ADIT.

21
22 **Q. How has OTP identified and reflected the 2018 ARAM based amortization of**
23 **the protected excess federal ADIT?**

1 A. It appears that OTP has not yet identified, or reflected the 2018 ARAM-based
2 amortization of the protected excess federal ADIT.

3

4 **Q. How should the 2018 test year impact of the ARAM-based amortization of**
5 **the protected excess federal ADIT be reflected in OTP's rate case?**

6 A. The 2018 test year impact of the ARAM-based amortization of the protected
7 excess federal ADIT at December 2017 should be reflected as an adjustment to
8 deferred federal income tax expense; however, it does not appear that OTP
9 included this impact in their supplemental filing or specifically identified the 2018
10 ARAM-based amount. I have not been able to compute the 2018 ARAM-based
11 amount using information provided by the Company. I recommend that OTP
12 provide the impact of the 2018 ARAM-based amortization of protected excess
13 federal ADIT in its rebuttal filing, so that impact on deferred federal income tax
14 expense can be reflected in calculating OTP's North Dakota jurisdictional
15 revenue requirement in this rate case.

16

17 **Q. Has OTP stated how it intends to amortize the Non-Protected portion of its**
18 **excess federal ADIT?**

19 A. Yes. OTP's response to DR ND-MLEC-141 states that, due to the non-protected
20 items total of only \$930,203 out of total excess ADIT of \$108,731,692, OTP
21 suggests that the non-protected items be treated the same as the protected
22 balances, with the same amortization schedule, to be reversed using ARAM.
23 OTP's response to DR ND-MLEC-141 estimates that this would approximate a

1 25-year amortization period, which if done on a straight-line basis, would produce
2 an annual amortization of the non-protected excess ADIT of approximately
3 \$37,208 annually (\$930,203 divided by 25 years).

4
5 OTP's response to DR ND-MLEC-141 states further that the revenue
6 requirement for the non-protected excess ADIT amortization would include a
7 gross-up amount. OTP indicates that the gross-up factor subsequent to tax
8 reform equals 1.32284 resulting in a total revenue requirement impact of
9 \$1,203,510, or \$49,220 annually (1,230,510 divided by 25 years).

10
11 OTP's response to DR ND-MLEC-141 also identifies the North Dakota portion of
12 the non-protected balance of \$930,203 to be \$335,674, based on OTP's current
13 North Dakota allocation factor of 0.36086122.

14
15 **Q. Do you agree with OTP's proposal to apply the ARAM to the Non-Protected**
16 **excess federal ADIT balances?**

17 **A.** No. The "non-protected" excess federal ADIT liability balance for OTP should be
18 amortized on a straight-line basis over a relatively short period, rather than being
19 subject to the Average Rate Assumption Method ("ARAM"). The "non-protected"
20 excess ADIT balances are not subject to normalization requirements, and the
21 amortization of such balances is up to the regulatory commission. A three-year
22 straight-line amortization period approximates the period being recommended for
23 amortization of the Company's rate case expense. A straight-line method

1 produces a consistent amount of amortization each year. This contrasts with the
2 ARAM, which would produce a different amount of amortization each year.
3 Because OTP has relatively small amounts of "non-protected" excess ADIT net
4 liability balances, the annual amortization would modestly decrease deferred
5 income tax expense. There is benefit to utility customers during the amortization
6 period from reduced deferred federal income tax expense from amortizing those
7 "non-protected" excess ADIT liability balances over a relatively shorter period, as
8 is the case with some other utilities, who also, like OTP, have excess ADIT
9 liabilities. For OTP, my recommendation is to amortize their "non-protected"
10 excess ADIT asset balances on a straight-line basis over a three-year period,
11 coinciding with the estimated rate case filing cycle, as reflected in the
12 amortization period being used for rate case expense.

13
14 **Q. What adjustment does that produce?**

15 A. As shown on Exhibit RCS-1, Schedule C-12, amortizing the December 31, 2017
16 non-protected excess ADIT over a three-year period on a straight-line basis
17 reduces 2018 test year deferred income tax expense by \$111,883.

18
19 **Q. Have you identified an amount of reduction to 2018 test year deferred**
20 **income tax expense in OTP's filing that was associated with the Company's**
21 **proposal to apply the ARAM to either the Protected or the Non-Protected**
22 **excess ADIT balances?**

1 A. No. I have not identified an amount of reduction to 2018 test year deferred
2 income tax expense in OTP's filing that was associated with the Company's
3 proposal to apply the ARAM to both the Protected and Non-Protected excess
4 ADIT balances, and it appears that there is none. If the Company had reduced
5 2018 test year deferred income tax expense related to its proposal to apply the
6 ARAM to the Non-Protected excess ADIT balances, that amount of deferred
7 income tax expense reduction would need to be netted against the \$111,883
8 reduction to deferred income tax expense. However, as noted, it does not
9 appear that any reduction to 2018 test year deferred income tax expense related
10 to OTP's proposal to apply the ARAM to Non-Protected (or Protected) excess
11 ADIT was reflected in the Company's supplemental filing.

12

13 **C-13, 2018 TCJA-Based Income Tax Savings Occurring Prior to Reflection in**
14 **Rates**

15 **Q. Has OTP experienced savings in income tax expense associated with the**
16 **TCJA in the early months of 2018 before its interim rates and riders were**
17 **adjusted for TCJA-related impacts?**

18 A. Yes. OTP's response to DR ND-PSC-19.03 indicates that the Company
19 experienced the impacts of the TCJA effective January 1, 2018, and the
20 Company has been provisioning an estimated amount of interim rate refund for
21 January and February 2018. During those months the Company had interim
22 rates in effect which did not yet include the impacts of the TCJA.

23

1 **Q. Has OTP suggested how the TCJA savings in January and February 2018**
2 **could be calculated?**

3 A. Yes. OTP's response to DR ND-PSC-19.03(b) states that:

4 The estimated impact of the TCJA on January and February could
5 be calculated using method noted of allocating the \$4.5 million
6 annual income tax reduction equally by month for the year. Given the
7 Cost of Service Study (COSS) used to calculate the impact on the
8 TCJA is based on a 2018 annual Test Year, it seems to be
9 appropriate to use this approach. The Company does not calculate
10 COSS results on a monthly basis but rather on a calendar year.

11

12 OTP witness Akerman's Supplemental Direct Testimony states at page 2, lines 6-

13 10 states that:

14 Effective March 1, 2018, OTP's revenue requirement for interim rates
15 were reduced from \$12.8 million to \$8.3 million, a total reduction in
16 interim rates of approximately \$4.5 million. This decrease is the
17 result of OTP's preliminary assessment of the tax rate reduction
18 components of the TCJA. OTP's revenue requirement for its
19 Transmission, Renewable and Environmental riders will be reduced
20 by approximately \$1.7 million.

21

22 OTP's response to DR ND-PSC-19.03(c) state that:

23 The table below identifies the amount of revenue requirement from
24 the Transmission, Renewable, and Environmental riders. The
25 amounts in the supplemental filing were modeled in Utilities
26 International. The modeling in the supplemental filing reflects the
27 lower federal income tax rate and lower tax gross-up factor for each
28 of the three riders. The total difference amount below is also shown
29 in Exhibit__(TAA-2), Schedule 7.

30

Rider Revenue Requirements	Supplemental Filing	Initial Filing	Difference
Transmission	\$ 7,391,542	\$ 7,913,280	\$ (521,738)
Renewable	\$ 8,868,053	\$ 9,211,881	\$ (343,828)
Environmental	\$ 7,581,594	\$ 8,357,519	\$ (775,925)
Total	\$ 23,841,189	\$ 25,482,680	\$ (1,641,491)

Source: ND-PSC-19.03

1

2

As shown in the above table, the difference is a total revenue requirement reduction of \$1,641,491 for the three riders.

3

4

OTP's response to ND-PSC-19.03(d) states that:

5

The effective rate change date for the Transmission, Renewable, and Environmental riders was March 1, 2018.

6

7

8

9

Q. Using the information provided by OTP, have you calculated the estimated revenue requirement savings for January and February of 2018 from the TCJA?

10

11

12

A. Yes. This is shown on Exhibit RCS-1, Schedule C-13. To compute the estimated January and February 2018 revenue requirement savings from the TCJA, I used 2/12ths (i.e., two months of the 12 months) of the \$4.5 million interim rate reduction and 2/12ths of the \$1,641,491 amount of revenue requirement reduction for the three riders. That produced a combined annual revenue requirement reduction of approximately \$6.14 million, and a two-month revenue requirement savings amount of approximately \$1.024 million.

13

14

15

16

17

18

19

20

Q. What is your recommendation for handling that January and February 2018 revenue requirement savings from the TCJA for ratemaking purposes?

21

1 A. As noted above, OTP's response to DR ND-PSC-19.03(a) has indicated that the
2 Company has been provisioning an estimated amount of interim rate refund.
3 Having a refund, or a one-time customer bill credit, would therefore be one way
4 of passing the January and February 2018 revenue requirement savings from the
5 TCJA onto customers. A refund would probably also be the most direct way of
6 returning these revenue requirement savings to OTP's customers. Having a
7 refund of the January and February 2018 TCJA related revenue requirement
8 savings would be acceptable to Staff.

9

10 **Q. Have you also seen this issue of 2018 TCJA related revenue requirement**
11 **savings handled in a different manner?**

12 A. Yes. An alternative would be to have the estimated TCJA related revenue
13 requirement savings that occurred in 2018 before being reflected in rates (for
14 OTP that would be for January and February, since interim rates and the three
15 riders were apparently adjusted on March 1, 2018), be quantified and recorded
16 as a regulatory liability and amortized back as a reduction to the utility's revenue
17 requirement over an appropriate period, such as the period being used for the
18 amortization of rate case expense. As shown on Exhibit RCS-1, Schedule C-13
19 amortizing the estimated January and February 2018 revenue requirement
20 savings from the TCJA over a three-year period would reduce OTP's North
21 Dakota jurisdictional revenue requirement by approximately \$341,000 per year.

22

1 **VIII. RIDER ROLL-INS TO BASE RATES**

2 **Q. Is the Company proposing to transfer certain capital costs currently**
3 **recovered in various riders to base rates at the conclusion of this case?**

4 A. Yes. As discussed in the direct testimony of Company witness Haugen, OTP
5 proposes to transfer into base rates the recovery of certain capital costs currently
6 recovered in the Environmental Cost Recovery Rider ("ECRR"), Transmission
7 Cost Recovery Rider ("TCRR"), and the Renewable Resource Adjustment Rider
8 ("RRAR"). I discuss each Company proposal below.

9
10 **A. Environmental Cost Recovery Rider**

11 **Q. When was the ECRR established?**

12 A. The ECRR was established in Case Nos. PU-13-79 and PU-13-84 and went into
13 effect on January 1, 2014. The basis for the ECRR is N.D.C.C. § 49-05-04.2,
14 which allows electric utilities to recover jurisdictional capital costs and related
15 operating expenses in order to be in compliance with federal environmental
16 requirements on existing electric generating stations.

17
18 **Q. What capital projects is OTP proposing to transfer to base rates from the**
19 **ECRR?**

20 A. OTP is proposing to transfer two projects currently being recovered through the
21 ECRR into base rates: (1) the Big Stone Plant Air Quality Control System
22 ("AQCS") project, and (2) the Hoot Lake Plant Mercury and Air Toxics Standards
23 ("HLP MATS") project.

1

2 **Q. Are the AQCS and HLP MATS projects currently in service?**

3 A. Yes. The AQCS project was placed into service in December 2015, and the HLP
4 MATS project was placed into service in August 2014.

5

6 **Q. Did the Company include projected ECRR revenues in the 2018 test year?**

7 A. Yes. On page 4 of his testimony, Mr. Haugen states that the 2018 test year
8 present revenue includes the projected 2018 ECRR revenues. Mr. Haugen
9 stated that transferring the projects from the ECRR to base rates is merely a
10 change in how the costs of the projects are recovered and that including the
11 ECRR revenue in 2018 test year present revenues provides a more accurate
12 measurement of the overall impact on ratepayers.

13

14 **Q. Does the Company's 2018 test year rate base include the AQCS and HLP
15 MATS projects?**

16 A. Yes. On page 4 of his testimony, Mr. Haugen states that these investments are
17 part of the rate base that OTP used to determine the 2018 test year revenue
18 requirement in this proceeding.

19

20 **Q. What amounts associated with the AQCS and HLP MATS projects are
21 reflected in the 2018 test year rate base?**

22 A.. As discussed on page 5 of Mr. Haugen's testimony, for the AQCS project, the
23 2018 test year rate base reflects a 13-month average balance of \$193.0 million

1 on a total Company basis and \$70.3 million on a North Dakota jurisdictional
2 basis. For the HLP MATS project, the 2018 test year rate base reflects a 13-
3 month average balance of \$6.5 million on a total Company basis and \$2.4 million
4 on a North Dakota jurisdictional basis. Both of these projects are summarized in
5 the table below:

Description	Total Company Amount	North Dakota Jurisdictional Amount
ECRR Projects		
Big Stone Plant AQCS	\$ 192,985,866	\$ 70,290,056
HLP MATS	\$ 6,460,514	\$ 2,353,073
Total	\$ 199,446,380	\$ 72,643,129

6 Source: Exhibit (BCH-1), Schedule 2

7
8 **Q. When does OTP propose to transfer the projects out of the ECRR and into**
9 **base rates?**

10 A. OTP is proposing to transfer the two projects out of the ECRR and into base
11 rates when the final rates determined at the end of this case go into effect, and
12 that such rates reflect the net plant-in-service balances of both projects at that
13 time. In its response to data request ND-MLEC-214, OTP stated that it is
14 proposing that any over/under collection remaining in the ECRR at the time the
15 two projects are rolled into base rates be recovered through the ECRR over the
16 subsequent 12 months.

17
18 **Q. Has the Company provided information regarding its actual and projected**
19 **over/under recovered ECRR balances as well as actual and projected ECRR**
20 **revenue?**

1 A. Yes. In its response to data request ND-PSC-15.39, the Company provided
2 information regarding its actual and projected over/under recovered ECRR
3 balances as well as actual and projected ECRR revenue. Specifically, the table
4 below summarizes (1) the Company's actual monthly over/under recovered
5 ECRR balances and ECRR revenue for the period January 2016 through March
6 2018, and (2) the Company's actual monthly over/under recovered ECRR
7 balances and ECRR revenue for the period April 2018 through September 2018.
8 The Company did not provide projected ECRR costs for the period October
9 through December 2018 as OTP anticipates final rates in the current proceeding
10 will be effective as of October 1, 2018.

Date	Net Revenue Requirement*	Actual Billed Revenue	(Over)/Under
Actuals			
January 2016	\$ 905,592	\$ 1,166,949	\$ (261,357)
February 2016	\$ 914,655	\$ 1,096,483	\$ (181,828)
March 2016	\$ 915,115	\$ 1,013,479	\$ (98,364)
April 2016	\$ 906,725	\$ 928,957	\$ (22,232)
May 2016	\$ 907,344	\$ 799,999	\$ 107,345
June 2016	\$ 910,009	\$ 864,022	\$ 45,987
July 2016	\$ 909,344	\$ 775,660	\$ 133,684
August 2016	\$ 914,579	\$ 815,428	\$ 99,151
September 2016	\$ 915,568	\$ 818,015	\$ 97,553
October 2016	\$ 908,135	\$ 697,332	\$ 210,803
November 2016	\$ 907,716	\$ 791,732	\$ 115,984
December 2016	\$ 914,977	\$ 887,681	\$ 27,296
January 2017	\$ 839,194	\$ 1,046,843	\$ (207,649)
February 2017	\$ 837,353	\$ 977,658	\$ (140,305)
March 2017	\$ 838,631	\$ 875,488	\$ (36,857)
April 2017	\$ 844,605	\$ 818,150	\$ 26,455
May 2017	\$ 838,090	\$ 692,819	\$ 145,271
June 2017	\$ 838,558	\$ 745,184	\$ 93,374
July 2017	\$ 837,617	\$ 754,671	\$ 82,946
August 2017	\$ 842,045	\$ 762,314	\$ 79,731
September 2017	\$ 840,624	\$ 755,308	\$ 85,316
October 2017	\$ 834,381	\$ 635,599	\$ 198,782
November 2017	\$ 833,904	\$ 818,528	\$ 15,376
December 2017	\$ 846,084	\$ 860,255	\$ (14,171)
January 2018	\$ 623,417	\$ 852,776	\$ (229,359)
February 2018	\$ 626,329	\$ 806,825	\$ (180,496)
March 2018	\$ 622,317	\$ 664,037	\$ (41,720)
Forecast			
April 2018	\$ 624,999	\$ 647,823	\$ (22,824)
May 2018	\$ 624,999	\$ 553,488	\$ 71,511
June 2018	\$ 624,999	\$ 571,204	\$ 53,795
July 2018	\$ 624,999	\$ 592,253	\$ 32,746
August 2018	\$ 624,999	\$ 614,465	\$ 10,534
September 2018	\$ 624,999	\$ 608,968	\$ 16,031
October 2018**	-	-	-
November 2018**	-	-	-
December 2018**	-	-	-

* Revenue requirement does not include carrying charge/credit.

** Implementation of final rates. Any amounts (over)/under remaining at completion of rate case are expected to flow through the rider.

Source: ND-PSC-15.39

1 **Q. Has the Company provided information regarding its actual and projected**
2 **ECRR costs?**

3 A. Yes. In its response to data request ND-PSC-15.39, the Company provided
4 information regarding its actual and projected ECRR costs. Specifically, the table
5 below summarizes (1) the Company's actual monthly ECRR costs for the period
6 January 2016 through March 2018, and (2) the Company's projected monthly
7 ECRR costs for the period April 2018 through September 2018. Similar to the
8 ECRR over/under recovered balances and ECRR revenue, the Company did not
9 provide projected ECRR costs for the period October through December 2018 as
10 OTP anticipates final rates in the current proceeding will be effective as of
11 October 1, 2018.

1

Date	Return on Rate Base	O&M Costs	Property Taxes	Depreciation	Interest	Income Taxes	Net Revenue Requirement*
Actuals							
January 2016	\$ 323,708	\$ 9,249	\$ 3,430	\$ 229,178	\$ 148,990	\$ 191,038	\$ 905,593
February 2016	\$ 323,708	\$ 18,188	\$ 3,430	\$ 229,302	\$ 148,990	\$ 191,038	\$ 914,656
March 2016	\$ 323,708	\$ 18,455	\$ 3,430	\$ 229,494	\$ 148,990	\$ 191,038	\$ 915,115
April 2016	\$ 323,708	\$ 10,234	\$ 3,430	\$ 229,326	\$ 148,990	\$ 191,038	\$ 906,726
May 2016	\$ 323,708	\$ 10,794	\$ 3,430	\$ 229,384	\$ 148,990	\$ 191,038	\$ 907,344
June 2016	\$ 323,708	\$ 13,466	\$ 3,430	\$ 229,376	\$ 148,990	\$ 191,038	\$ 910,008
July 2016	\$ 323,708	\$ 12,487	\$ 3,430	\$ 229,690	\$ 148,990	\$ 191,038	\$ 909,343
August 2016	\$ 323,708	\$ 14,852	\$ 3,430	\$ 232,560	\$ 148,990	\$ 191,038	\$ 914,578
September 2016	\$ 323,708	\$ 15,607	\$ 3,430	\$ 232,795	\$ 148,990	\$ 191,038	\$ 915,568
October 2016	\$ 323,708	\$ 11,087	\$ 3,430	\$ 229,882	\$ 148,990	\$ 191,038	\$ 908,135
November 2016	\$ 323,708	\$ 10,236	\$ 3,430	\$ 230,314	\$ 148,990	\$ 191,038	\$ 907,716
December 2016	\$ 323,708	\$ 17,483	\$ 3,430	\$ 230,327	\$ 148,990	\$ 191,038	\$ 914,976
January 2017	\$ 293,210	\$ 16,949	\$ 4,022	\$ 217,020	\$ 134,953	\$ 173,040	\$ 839,194
February 2017	\$ 293,210	\$ 15,105	\$ 4,022	\$ 217,023	\$ 134,953	\$ 173,040	\$ 837,353
March 2017	\$ 293,210	\$ 16,350	\$ 4,022	\$ 217,056	\$ 134,953	\$ 173,040	\$ 838,631
April 2017	\$ 293,210	\$ 23,867	\$ 4,022	\$ 215,513	\$ 134,953	\$ 173,040	\$ 844,605
May 2017	\$ 293,210	\$ 17,352	\$ 4,022	\$ 215,513	\$ 134,953	\$ 173,040	\$ 838,090
June 2017	\$ 293,210	\$ 17,700	\$ 4,022	\$ 215,634	\$ 134,953	\$ 173,040	\$ 838,559
July 2017	\$ 293,210	\$ 16,758	\$ 4,022	\$ 215,634	\$ 134,953	\$ 173,040	\$ 837,617
August 2017	\$ 293,210	\$ 21,186	\$ 4,022	\$ 215,634	\$ 134,953	\$ 173,040	\$ 842,045
September 2017	\$ 293,210	\$ 19,766	\$ 4,022	\$ 215,634	\$ 134,953	\$ 173,040	\$ 840,625
October 2017	\$ 293,210	\$ 13,522	\$ 4,022	\$ 215,634	\$ 134,953	\$ 173,040	\$ 834,381
November 2017	\$ 293,210	\$ 12,960	\$ 4,022	\$ 215,718	\$ 134,953	\$ 173,040	\$ 833,903
December 2017	\$ 293,210	\$ 25,140	\$ 4,022	\$ 215,718	\$ 134,953	\$ 173,040	\$ 846,083
January 2018	\$ 226,836	\$ 17,311	\$ 3,667	\$ 194,973	\$ 107,399	\$ 73,231	\$ 623,417
February 2018	\$ 226,836	\$ 20,224	\$ 3,667	\$ 194,973	\$ 107,399	\$ 73,231	\$ 626,330
March 2018	\$ 226,836	\$ 16,211	\$ 3,667	\$ 194,973	\$ 107,399	\$ 73,231	\$ 622,317
Forecast							
April 2018	\$ 226,836	\$ 18,393	\$ 3,667	\$ 194,973	\$ 107,399	\$ 73,231	\$ 624,499
May 2018	\$ 226,836	\$ 18,393	\$ 3,667	\$ 194,973	\$ 107,399	\$ 73,231	\$ 624,499
June 2018	\$ 226,836	\$ 18,393	\$ 3,667	\$ 194,973	\$ 107,399	\$ 73,231	\$ 624,499
July 2018	\$ 226,836	\$ 18,393	\$ 3,667	\$ 194,973	\$ 107,399	\$ 73,231	\$ 624,499
August 2018	\$ 226,836	\$ 18,393	\$ 3,667	\$ 194,973	\$ 107,399	\$ 73,231	\$ 624,499
September 2018	\$ 226,836	\$ 18,393	\$ 3,667	\$ 194,973	\$ 107,399	\$ 73,231	\$ 624,499
October 2018**	-	-	-	-	-	-	-
November 2018**	-	-	-	-	-	-	-
December 2018**	-	-	-	-	-	-	-

* Revenue requirement does not include carrying charge/credit.

** Implementation of final rates. Any amounts (over)/under remaining at completion of rate case are expected to flow through the rider.

Source: ND-PSC-15.39

2

3

4

1 **Q. Do you agree with the Company's proposal to transfer the costs of these**
2 **two projects out of the ECRR and into base rates?**

3 A. Conceptually, I agree with the Company's proposal to transfer the costs of the
4 two projects out of the ECRR and into base rates at the conclusion of this rate
5 case, provided that when the two projects are transferred into base rates from
6 the ECRR at the conclusion of this proceeding, the amounts are updated to
7 reflect current plant balances at that time so as to minimize the impacts of the
8 true-up that will occur when the two projects are transferred from the ECRR into
9 base rates and that OTP demonstrates this by filing a compliance filing.

10

11 **B. Transmission Cost Recovery Rider**

12 **Q. When was the TCRR established?**

13 A. The TCRR was established in Case Nos. PU-11-153 and PU-11-682 and went
14 into effect on May 1, 2012. The basis for the TCRR is N.D.C.C. § 49-05-04.3,
15 which allows OTP to recover transmission related capital costs and to recover
16 costs assigned by regional transmission organizations ("RTOs") for projects that
17 are subject to cost sharing.

18

19 **Q. What capital projects is OTP proposing to transfer to base rates from the**
20 **TCRR?**

21 A. OTP is proposing to transfer the 16 projects listed in the table below, which are
22 currently being recovered through the TCRR, to base rates at the conclusion of
23 this proceeding.

Line No.	TCRR Projects Proposed for Transfer to Base Rates	In Service Date
1	CAPX 2020: Fargo	April 2015
2	CAPX 2020: Bemidji	August 2012
3	Cass Lake-Nary-Helga-Bemidji	August 2012
4	Rugby Wind Interconnection	August 2011
5	Casselton – Buffalo 115 kV Project	October 2017
6	CAPX 2020: Brookings - Hampton	March 2015
7	MVP: Big Stone Area Transmission	September 2017
8	Ramsey 230/115 kW Transformer Upgrade	December 2013
9	Karlstad, MN Capacitor Bank Project	December 2012
10	Oakes Area Transmission Improvements	October 2015
11	Hankinson Transformer Addition	December 2012
12	NERC Compliance	September 2016
13	Summit Transformer	May 2016
14	Spiritwood Station Interconnection	August 2015
15	Rugby Breaker Station	July 2017
16	Granville Jct Breaker Station	July 2017

1

2

3 **Q. Did the Company include projected TCRR revenues in the 2018 test year?**

4 A. Yes. On page 19 of his testimony, Mr. Haugen states that the 2018 test year
5 present revenue includes the projected 2018 TCRR revenues. Mr. Haugen
6 stated that, similar to the proposed treatment of the projects in the ECRR,
7 transferring the projects from the TCRR to base rates is merely a change in how
8 the costs of the projects are recovered and that including the TCRR revenue in
9 2018 test year present revenues provides a more accurate measurement of the
10 overall impact on ratepayers.

11

12 **Q. Does the Company's 2018 test year rate base include the 16 TCRR projects**
13 **listed above?**

14 A. Yes. On page 19 of his testimony, Mr. Haugen states that these investments are
15 part of the rate base used to determine the 2018 test year revenue requirement
16 in this proceeding.

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Q. What amounts associated with the 16 TCRR projects are reflected in the 2018 test year rate base?

A. As discussed on page 20 of Mr. Haugen's testimony, the 2018 test year rate base reflects a 13-month average balances totaling \$246.5 million on a total Company basis and \$47.2 million on a North Dakota jurisdictional basis for the 16 projects that OTP proposes be transferred from the TCRR and into base rates at the conclusion of this proceeding. A breakout of the amounts by project is summarized in the table below:

Line No.	Description	Total Company Amount	North Dakota Jurisdictional Amount
	TCRR Projects		
1	CAPX 2020: Fargo	\$81,428,592	\$23,856,947
2	CAPX 2020: Bemidji	16,331,201	\$5,885,328
3	Cass Lake-Nary-Helga-Bemidji	7,039,948	\$975,736
4	Rugby Wind Interconnection	394,399	\$26,613
5	Casselton – Buffalo 115 kV Project	13,509,407	\$2,743,099
6	CAPX 2020: Brookings - Hampton	26,322,129	\$2,114,671
7	MVP: Big Stone Area Transmission	73,597,018	\$565,385
8	Ramsey 230/115 kW Transformer Upgrade	416,398	\$164,889
9	Karlstad, MN Capacitor Bank Project	1,103,974	\$437,161
10	Oakes Area Transmission Improvements	7,010,020	\$2,775,887
11	Hankinson Transformer Addition	828,844	\$328,213
12	NERC Compliance	14,078,440	\$5,574,900
13	Summit Transformer	853,991	\$338,171
14	Spiritwood Station Interconnection	720,137	\$285,166
15	Rugby Breaker Station	1,824,862	\$722,624
16	Granville Jct Breaker Station	1,015,655	\$402,188
17	Total Plant In Service	\$246,475,014	\$47,196,977
Source: Exhibit (BCH-1), Schedule 2			

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12

1 **Q. When does OTP propose to transfer the 16 projects out of the TCRR and**
2 **into base rates?**

3 A. OTP is proposing to transfer the 16 projects out of the TCRR and into base rates
4 when the final rates determined at the end of this case go into effect. In its
5 response to data request ND-MLEC-214, OTP stated that it is proposing that any
6 over/under collection remaining in the TCRR at the time the two projects are
7 rolled into base rates be recovered through the TCRR over the subsequent 12
8 months.

9

10 **Q. Has the Company provided information regarding its actual and projected**
11 **over/under recovered TCRR balances as well as actual and projected TCRR**
12 **revenue?**

13 A. Yes. In its response to data request ND-PSC-15.40, the Company provided
14 information regarding its actual and projected over/under recovered TCRR
15 balances as well as actual and projected TCRR revenue. Specifically, the table
16 below summarizes (1) the Company's actual monthly over/under recovered
17 TCRR balances and TCRR revenue for the period January 2016 through March
18 2018, and (2) the Company's actual monthly over/under recovered TCRR
19 balances and TCRR revenue for the period April 2018 through December 2018.
20 The Company anticipates that final rates in the current proceeding will be
21 effective as of October 1, 2018.

Date	Net Revenue Requirement*	Actual Billed Revenue	(Over)/Under
Actuals			
January 2016	\$ 699,540	\$ 973,403	\$ (273,863)
February 2016	\$ 646,344	\$ 912,173	\$ (265,829)
March 2016	\$ 612,028	\$ 845,906	\$ (233,878)
April 2016	\$ 580,292	\$ 769,063	\$ (188,771)
May 2016	\$ 866,078	\$ 674,565	\$ 191,513
June 2016	\$ 473,260	\$ 678,025	\$ (204,765)
July 2016	\$ 513,692	\$ 706,896	\$ (193,204)
August 2016	\$ 579,524	\$ 744,122	\$ (164,598)
September 2016	\$ 490,732	\$ 746,452	\$ (255,720)
October 2016	\$ 630,113	\$ 695,897	\$ (65,784)
November 2016	\$ 662,720	\$ 776,811	\$ (114,091)
December 2016	\$ 799,076	\$ 878,623	\$ (79,547)
January 2017	\$ 947,052	\$ 713,189	\$ 233,863
February 2017	\$ 971,246	\$ 663,351	\$ 307,895
March 2017	\$ 476,327	\$ 598,526	\$ (122,199)
April 2017	\$ 700,027	\$ 551,200	\$ 148,827
May 2017	\$ 604,594	\$ 476,867	\$ 127,727
June 2017	\$ 571,546	\$ 474,824	\$ 96,722
July 2017	\$ 630,097	\$ 481,209	\$ 148,888
August 2017	\$ 646,559	\$ 502,412	\$ 144,147
September 2017	\$ 630,060	\$ 498,794	\$ 131,266
October 2017	\$ 666,308	\$ 459,887	\$ 206,421
November 2017	\$ 897,306	\$ 580,165	\$ 317,141
December 2017	\$ 799,840	\$ 609,614	\$ 190,226
January 2018	\$ 655,061	\$ 865,720	\$ (210,659)
February 2018	\$ 1,579,695	\$ 806,154	\$ 773,541
March 2018	\$ 670,787	\$ 693,188	\$ (22,401)
Forecast			
April 2018	\$ 620,670	\$ 784,698	\$ (164,028)
May 2018	\$ 478,787	\$ 636,902	\$ (158,115)
June 2018	\$ 450,091	\$ 602,064	\$ (151,973)
July 2018	\$ 478,301	\$ 625,933	\$ (147,632)
August 2018	\$ 480,730	\$ 647,468	\$ (166,738)
September 2018	\$ 484,761	\$ 645,353	\$ (160,592)
October 2018**	\$ 219,994	\$ 625,380	\$ (405,386)
November 2018**	\$ 248,604	\$ 742,485	\$ (493,881)
December 2018**	\$ 324,662	\$ 836,546	\$ (511,884)

* Revenue requirement includes projects and RTO revenue and expenses.
 Does not include carrying charge/credit.

** Implementation of final rates. Any amounts (over)/under remaining
 at completion of rate case are expected to flow through the rider.

Source: ND-PSC-15.40

1

2 **Q. Has the Company provided information regarding its actual and projected**
3 **TCRR costs?**

4 A. Yes. In its response to data request ND-PSC-15.40, the Company provided
5 information regarding its actual and projected TCRR costs. Specifically, the table
6 below summarizes (1) the Company's actual monthly TCRR costs for the period
7 January 2016 through March 2018, and (2) the Company's projected monthly
8 TCRR costs for the period April 2018 through December 2018. The Company
9 anticipates that final rates in the current proceeding will be effective as of
10 October 1, 2018.

Date	Return on Rate Base	O&M Costs	Property Taxes	Depreciation	Interest	Income Taxes	Net MISO & SPP Rev/Exp	Wholesale Revenue Credit	Net Revenue Requirement*
Actuals									
January 2016	\$ 180,031	\$ 14,933	\$ 58,873	\$ 59,328	\$ 82,862	\$ 106,247	\$ 208,057	\$ (10,791)	\$ 699,540
February 2016	\$ 180,031	\$ 26,884	\$ 58,888	\$ 60,791	\$ 82,862	\$ 106,247	\$ 141,573	\$ (10,932)	\$ 646,344
March 2016	\$ 180,031	\$ 148	\$ 58,888	\$ 61,143	\$ 82,862	\$ 106,247	\$ 133,674	\$ (10,965)	\$ 612,028
April 2016	\$ 180,031	\$ 291	\$ 58,887	\$ 61,371	\$ 82,862	\$ 106,247	\$ 101,391	\$ (10,988)	\$ 580,092
May 2016	\$ 180,031	\$ 22,430	\$ 58,879	\$ 61,355	\$ 82,862	\$ 99,305	\$ 365,277	\$ (11,003)	\$ 859,136
June 2016	\$ 180,031	\$ 90	\$ 58,878	\$ 62,061	\$ 82,862	\$ 99,460	\$ (5,840)	\$ (11,068)	\$ 466,474
July 2016	\$ 180,031	\$ 7,829	\$ 58,878	\$ 62,184	\$ 82,862	\$ 106,427	\$ 26,745	\$ (11,084)	\$ 513,872
August 2016	\$ 180,031	\$ 603	\$ 58,878	\$ 62,282	\$ 82,862	\$ 106,427	\$ 99,716	\$ (11,095)	\$ 579,704
September 2016	\$ 180,031	\$ 14,131	\$ 58,878	\$ 62,401	\$ 82,862	\$ 106,427	\$ (2,714)	\$ (11,104)	\$ 490,912
October 2016	\$ 180,031	\$ 75	\$ 58,878	\$ 63,785	\$ 82,862	\$ 106,427	\$ 149,499	\$ (11,254)	\$ 630,303
November 2016	\$ 180,031	\$ 4,665	\$ 58,931	\$ 63,915	\$ 82,862	\$ 106,427	\$ 177,344	\$ (11,275)	\$ 662,900
December 2016	\$ 180,031	\$ 75	\$ 58,931	\$ 63,889	\$ 82,862	\$ 106,427	\$ 318,320	\$ (11,279)	\$ 799,256
January 2017	\$ 184,545	\$ 76	\$ 60,316	\$ 64,144	\$ 84,939	\$ 108,910	\$ 452,943	\$ (8,821)	\$ 947,052
February 2017	\$ 184,545	\$ 10,577	\$ 60,316	\$ 64,133	\$ 84,939	\$ 108,910	\$ 464,268	\$ (6,442)	\$ 971,246
March 2017	\$ 184,545	\$ 76	\$ 60,316	\$ 64,227	\$ 84,939	\$ 108,910	\$ (17,856)	\$ (8,830)	\$ 476,327
April 2017	\$ 184,545	\$ 75	\$ 60,316	\$ 64,229	\$ 84,939	\$ 108,910	\$ 205,849	\$ (8,836)	\$ 700,027
May 2017	\$ 184,545	\$ 2,155	\$ 60,316	\$ 64,263	\$ 84,939	\$ 108,920	\$ 110,645	\$ (11,179)	\$ 604,604
June 2017	\$ 184,545	\$ 75	\$ 60,316	\$ 64,259	\$ 84,939	\$ 108,916	\$ 77,341	\$ (8,839)	\$ 571,552
July 2017	\$ 184,545	\$ 863	\$ 60,316	\$ 64,274	\$ 84,939	\$ 108,910	\$ 135,090	\$ (8,840)	\$ 630,097
August 2017	\$ 184,545	\$ 1,612	\$ 60,316	\$ 65,793	\$ 84,939	\$ 108,910	\$ 149,397	\$ (8,953)	\$ 646,559
September 2017	\$ 184,545	\$ 75	\$ 60,316	\$ 65,816	\$ 84,939	\$ 108,910	\$ 134,411	\$ (8,952)	\$ 630,060
October 2017	\$ 184,545	\$ 75	\$ 60,317	\$ 66,480	\$ 84,939	\$ 108,910	\$ 169,995	\$ (8,953)	\$ 666,308
November 2017	\$ 184,545	\$ 633	\$ 60,317	\$ 66,492	\$ 84,939	\$ 108,910	\$ 400,425	\$ (8,955)	\$ 897,306
December 2017	\$ 184,545	\$ 215	\$ 60,317	\$ 68,420	\$ 84,939	\$ 108,910	\$ 301,469	\$ (8,975)	\$ 799,840
January 2018	\$ 162,196	\$ 1,328	\$ 59,551	\$ 65,646	\$ 76,794	\$ 52,363	\$ 256,049	\$ (18,866)	\$ 655,061
February 2018	\$ 162,196	\$ 1,675	\$ 59,551	\$ 65,643	\$ 76,794	\$ 52,363	\$ 1,180,338	\$ (18,865)	\$ 1,579,695
March 2018	\$ 162,196	\$ 202	\$ 59,551	\$ 65,649	\$ 76,794	\$ 52,363	\$ 272,897	\$ (18,865)	\$ 670,787
Forecast									
April 2018	\$ 162,196	\$ 88	\$ 59,551	\$ 65,640	\$ 76,794	\$ 52,363	\$ 222,904	\$ (18,866)	\$ 620,670
May 2018	\$ 162,196	\$ 88	\$ 59,551	\$ 65,682	\$ 76,794	\$ 52,363	\$ 80,986	\$ (18,873)	\$ 478,787
June 2018	\$ 162,196	\$ 5,688	\$ 59,551	\$ 65,723	\$ 76,794	\$ 52,363	\$ 46,658	\$ (18,882)	\$ 450,091
July 2018	\$ 162,196	\$ 88	\$ 59,551	\$ 65,763	\$ 76,794	\$ 52,363	\$ 80,434	\$ (18,888)	\$ 478,301
August 2018	\$ 162,196	\$ 88	\$ 59,551	\$ 65,804	\$ 76,794	\$ 52,363	\$ 82,829	\$ (18,895)	\$ 480,730
September 2018	\$ 162,196	\$ 5,688	\$ 59,551	\$ 65,845	\$ 76,794	\$ 52,363	\$ 81,228	\$ (18,904)	\$ 484,761
October 2018**	\$ 9,705	-	\$ 570	\$ 1,037	\$ 4,595	\$ 3,133	\$ 203,324	\$ (2,370)	\$ 219,994
November 2018**	\$ 9,705	-	\$ 570	\$ 2,505	\$ 4,595	\$ 3,133	\$ 230,740	\$ (2,644)	\$ 248,604
December 2018**	\$ 9,705	-	\$ 570	\$ 2,546	\$ 4,595	\$ 3,133	\$ 306,765	\$ (2,652)	\$ 324,662
* Revenue requirement includes projects and RTO revenue and expenses Does not include carrying charge/credit									
** Implementation of final rates Any amounts (over)/under remaining at completion of rate case are expected to flow through the rider									
Source: ND-PSC-15 40									

1

2

3 **Q. Do you agree with the Company's proposal to transfer the costs of these 16**
 4 **projects out of the TCRR and into base rates?**

5 **A. Conceptually, I agree with the Company's proposal to transfer the costs of the 16**
 6 **projects out of the TCRR and into base rates at the conclusion of this rate case**
 7 **provided that when the two projects are transferred into base rates from the**

1 TCRR at the conclusion of this proceeding, the amounts are updated to reflect
2 current plant balances at that time so as to minimize the impacts of the true-up
3 that will occur when the two projects are transferred from the TCRR into base
4 rates and that OTP demonstrates this by filing a compliance filing.

5
6 **C. Renewable Resource Adjustment Rider**

7 **Q. When was the RRAR established?**

8 A. The RRAR was established in Case No. PU-06-466 and went into effect on May
9 21, 2008. The RRAR allows public utilities to recover jurisdictional capital costs
10 and related operating expenses of certain renewable resource additions outside
11 of rate cases.

12
13 **Q. What capital projects is OTP proposing to transfer to base rates from the
14 RRAR?**

15 A. OTP is proposing to transfer three projects currently being recovered through the
16 RRAR to base rates, including (1) the Ashtabula Wind Project ("Ashtabula"), (2)
17 the Langdon Wind Project ("Langdon"), and (3) the Luverne Wind Project
18 ("Luverne").

19
20 **Q. Were any of these three wind projects to be included in base rates
21 pursuant to the Stipulation from the Company's last rate case in Case Nos.
22 PU-08-742 and PU-08-862?**

1 A. Yes. The Stipulation in OTP's last rate case, identified four issues that the
2 Company was to address in the current proceeding. As it relates to the RRAR,
3 page 8 of the Stipulation at Section II, subsection D states:

4 Wind Farm Cost Recovery - the Parties agree that in its next rate
5 case OTP shall propose including the Ashtabula and Langdon wind
6 farm costs in base rates.
7

8 **Q. Did the Company include projected RRAR revenues in the 2018 test year?**

9 A. Yes. On page 11 of his testimony, Mr. Haugen states that the 2018 test year
10 present revenue includes the projected 2018 RRAR revenues. Mr. Haugen
11 stated that, similar to the proposed treatment of the projects in the ECRR and
12 TCRR, transferring the projects from the RRAR to base rates is merely a change
13 in how the costs of the projects are recovered and that including the RRAR
14 revenue in 2018 test year present revenues provides a more accurate
15 measurement of the overall impact on ratepayers.
16

17 **Q. Does the Company's 2018 test year rate base include the three RRAR**
18 **projects listed above?**

19 A. Yes. On page 11 of his testimony, Mr. Haugen states that these investments are
20 part of the rate base used to determine the 2018 test year revenue requirement
21 in this proceeding.
22

23 **Q. What amounts associated with the three RRAR projects are reflected in the**
24 **2018 test year rate base?**

1 A. As discussed on page 11 of Mr. Haugen's testimony, the 2018 test year rate base
2 reflects a 13-month average balances totaling \$268.7 million on a total Company
3 basis and \$101.0 million on a North Dakota jurisdictional basis for the three
4 projects that OTP proposes be transferred from the RRAR and into base rates at
5 the conclusion of this proceeding. A breakout of the amounts by project is
6 summarized in the table below:

Description	Total Company Amount	North Dakota Jurisdictional Amount
RRAR Projects		
Langdon Wind Project	\$79,417,900	\$29,843,126
Ashtabula Wind Project	\$116,261,976	\$43,688,146
Luverne Wind Project	72,996,881	\$27,430,280
Total	\$268,676,757	\$100,961,553

7 Source: Exhibit (BCH-1), Schedule 2

8 **Q. When does OTP propose to transfer the three projects out of the RRAR and**
9 **into base rates?**

10 A. OTP is proposing to transfer the three projects out of the RRAR and into base
11 rates when the final rates determined at the end of this case go into effect. In its
12 response to data request ND-MLEC-214, OTP stated that it is proposing that any
13 over/under collection remaining in the RRAR at the time the two projects are
14 rolled into base rates be recovered through the RRAR over the subsequent 12
15 months.

16
17 **Q. Has the Company provided information regarding its actual and projected**
18 **over/under recovered RRAR balances as well as actual and projected**
19 **RRAR revenue?**

1 A. Yes. In its response to data request ND-PSC-15.41, the Company provided
2 information regarding its actual and projected over/under recovered RRAR
3 balances as well as actual and projected RRAR revenue. Specifically, the table
4 below summarizes (1) the Company's actual monthly over/under recovered
5 RRAR balances and RRAR revenue for the period January 2016 through March
6 2018, and (2) the Company's projected monthly over/under recovered RRAR
7 balances and RRAR revenue for the period April 2018 through September 2018.
8 The Company did not provide projected RRAR costs for the period October
9 through December 2018 as OTP anticipates final rates in the current proceeding
10 will be effective as of October 1, 2018.

Date	Net Revenue Requirement*	Actual Billed Revenue	REC Sales	(Over)/Under
Actuals				
January 2016	\$ 744,774	\$ 516,648		\$ 228,126
February 2016	\$ 745,499	\$ 485,484		\$ 260,015
March 2016	\$ 674,947	\$ 449,057		\$ 225,890
April 2016	\$ 563,269	\$ 411,857		\$ 151,412
May 2016	\$ 620,627	\$ 354,330	\$ 60,333	\$ 205,964
June 2016	\$ 665,848	\$ 383,086		\$ 282,762
July 2016	\$ 758,056	\$ 745,371		\$ 12,685
August 2016	\$ 766,873	\$ 782,917		\$ (16,044)
September 2016	\$ 650,634	\$ 785,386		\$ (134,752)
October 2016	\$ 554,432	\$ 669,901		\$ (115,469)
November 2016	\$ 605,070	\$ 760,163	\$ 105,957	\$ (261,050)
December 2016	\$ 532,204	\$ 851,869		\$ (319,665)
January 2017	\$ 574,125	\$ 1,004,180		\$ (430,055)
February 2017	\$ 626,273	\$ 938,383		\$ (312,110)
March 2017	\$ 586,659	\$ 839,470		\$ (252,811)
April 2017	\$ 593,223	\$ 726,454		\$ (133,231)
May 2017	\$ 578,772	\$ 615,527	\$ 34,800	\$ (71,555)
June 2017	\$ 647,587	\$ 661,159		\$ (13,572)
July 2017	\$ 792,202	\$ 669,828		\$ 122,374
August 2017	\$ 820,720	\$ 700,559		\$ 120,161
September 2017	\$ 609,242	\$ 694,255		\$ (85,013)
October 2017	\$ 455,878	\$ 585,016		\$ (129,138)
November 2017	\$ 525,111	\$ 752,888		\$ (227,777)
December 2017	\$ 780,587	\$ 791,465		\$ (10,878)
January 2018	\$ 672,030	\$ 999,685		\$ (327,655)
February 2018	\$ 667,566	\$ 948,576		\$ (281,010)
March 2018	\$ 691,490	\$ 832,161		\$ (140,671)
Forecast				
April 2018	\$ 757,792	\$ 753,624		\$ 4,168
May 2018	\$ 681,705	\$ 685,258		\$ (3,553)
June 2018	\$ 739,787	\$ 732,116		\$ 7,671
July 2018	\$ 766,676	\$ 800,440		\$ (33,764)
August 2018	\$ 782,345	\$ 798,582		\$ (16,237)
September 2018	\$ 739,257	\$ 775,339		\$ (36,082)
October 2018**	-	-	-	-
November 2018**	-	-	-	-
December 2018**	-	-	-	-
* Revenue requirement does not include carrying charge/credit or REC sales ** Implementation of final rates. Any amounts (over)/under remaining at completion of rate case are expected to flow through the rider.				
Source: ND-PSC-15.41				

1 **Q. Has the Company provided information regarding its actual and projected**
2 **RRAR costs?**

3 A. Yes. In its response to data request ND-PSC-15.41, the Company provided
4 information regarding its actual and projected RRAR costs. Specifically, the table
5 below summarizes (1) the Company's actual monthly RRAR costs for the period
6 January 2016 through March 2018, and (2) the Company's projected monthly
7 RRAR costs for the period April 2018 through September 2018. The Company
8 did not provide projected RRAR costs for the period October through December
9 2018 as OTP anticipates final rates in the current proceeding will be effective as
10 of October 1, 2018.

Date	Net Income	O&M Costs	Depreciation	Property Taxes	Interest Expense	Income Taxes	PTCs	ITCs	Net Revenue Requirement*
Actuals									
January 2016	\$ 303,945	\$ 117,686	\$ 378,447	\$ 14,243	\$ 139,864	\$ 32,406	\$ (212,781)	\$ (29,035)	\$ 744,775
February 2016	\$ 303,945	\$ 109,097	\$ 378,447	\$ 14,243	\$ 139,864	\$ 35,927	\$ (206,988)	\$ (29,035)	\$ 745,500
March 2016	\$ 303,945	\$ 96,534	\$ 378,447	\$ 14,243	\$ 139,864	\$ 14,006	\$ (243,056)	\$ (29,035)	\$ 674,948
April 2016	\$ 303,945	\$ 116,402	\$ 378,447	\$ 14,243	\$ 139,864	\$ (35,721)	\$ (324,876)	\$ (29,035)	\$ 563,269
May 2016	\$ 283,981	\$ 90,871	\$ 361,760	\$ 13,615	\$ 133,697	\$ 4,636	\$ (240,178)	\$ (27,755)	\$ 620,627
June 2016	\$ 283,981	\$ 97,104	\$ 361,744	\$ 13,615	\$ 133,697	\$ 19,380	\$ (215,919)	\$ (27,755)	\$ 665,847
July 2016	\$ 283,981	\$ 105,970	\$ 361,715	\$ 13,615	\$ 133,697	\$ 50,896	\$ (164,062)	\$ (27,755)	\$ 758,057
August 2016	\$ 283,981	\$ 111,285	\$ 361,715	\$ 13,615	\$ 133,697	\$ 52,220	\$ (161,884)	\$ (27,755)	\$ 766,874
September 2016	\$ 283,981	\$ 107,773	\$ 361,715	\$ 13,615	\$ 133,697	\$ 9,607	\$ (231,999)	\$ (27,755)	\$ 650,634
October 2016	\$ 283,981	\$ 80,866	\$ 361,324	\$ 13,615	\$ 133,697	\$ (16,439)	\$ (274,856)	\$ (27,755)	\$ 554,433
November 2016	\$ 283,981	\$ 136,026	\$ 361,326	\$ 13,615	\$ 133,697	\$ (18,149)	\$ (277,670)	\$ (27,755)	\$ 605,071
December 2016	\$ 283,981	\$ 102,628	\$ 361,844	\$ 13,615	\$ 133,697	\$ (33,265)	\$ (302,541)	\$ (27,755)	\$ 532,204
January 2017	\$ 286,907	\$ 94,123	\$ 362,525	\$ 13,615	\$ 135,074	\$ (15,014)	\$ (275,350)	\$ (27,755)	\$ 574,125
February 2017	\$ 286,907	\$ 132,720	\$ 362,525	\$ 13,615	\$ 135,074	\$ (9,891)	\$ (266,921)	\$ (27,755)	\$ 626,274
March 2017	\$ 286,907	\$ 85,922	\$ 362,525	\$ 13,615	\$ 135,074	\$ (7,176)	\$ (262,454)	\$ (27,755)	\$ 586,658
April 2017	\$ 286,907	\$ 123,984	\$ 362,525	\$ 13,615	\$ 135,074	\$ (19,083)	\$ (282,044)	\$ (27,755)	\$ 593,223
May 2017	\$ 286,907	\$ 97,173	\$ 362,525	\$ 13,615	\$ 135,074	\$ (14,410)	\$ (274,357)	\$ (27,755)	\$ 578,772
June 2017	\$ 286,907	\$ 97,313	\$ 362,269	\$ 13,615	\$ 135,074	\$ 11,647	\$ (231,483)	\$ (27,755)	\$ 647,587
July 2017	\$ 286,907	\$ 116,846	\$ 362,269	\$ 13,615	\$ 135,074	\$ 58,930	\$ (153,683)	\$ (27,755)	\$ 792,203
August 2017	\$ 286,907	\$ 86,885	\$ 362,268	\$ 13,615	\$ 135,074	\$ 81,036	\$ (117,310)	\$ (27,755)	\$ 820,720
September 2017	\$ 286,907	\$ 101,665	\$ 362,273	\$ 13,615	\$ 135,074	\$ (4,495)	\$ (258,042)	\$ (27,755)	\$ 609,242
October 2017	\$ 286,907	\$ 102,554	\$ 362,273	\$ 13,615	\$ 135,074	\$ (62,805)	\$ (353,985)	\$ (27,755)	\$ 455,878
November 2017	\$ 286,907	\$ 108,744	\$ 362,165	\$ 13,615	\$ 135,074	\$ (38,933)	\$ (314,706)	\$ (27,755)	\$ 525,111
December 2017	\$ 286,907	\$ 116,718	\$ 362,345	\$ 13,615	\$ 135,074	\$ 54,558	\$ (160,876)	\$ (27,755)	\$ 780,586
January 2018	\$ 248,401	\$ 98,438	\$ 347,499	\$ 13,048	\$ 117,609	\$ 23,291	\$ (149,657)	\$ (26,600)	\$ 672,029
February 2018	\$ 248,401	\$ 90,109	\$ 347,499	\$ 13,048	\$ 117,609	\$ 24,234	\$ (146,735)	\$ (26,600)	\$ 667,565
March 2018	\$ 248,401	\$ 84,544	\$ 347,499	\$ 13,048	\$ 117,609	\$ 31,431	\$ (124,442)	\$ (26,600)	\$ 691,490
Forecast									
April 2018	\$ 248,401	\$ 162,928	\$ 347,499	\$ 13,048	\$ 117,609	\$ 28,482	\$ (130,769)	\$ (29,406)	\$ 757,792
May 2018	\$ 248,401	\$ 104,663	\$ 347,573	\$ 13,048	\$ 117,609	\$ 24,115	\$ (144,297)	\$ (29,406)	\$ 681,706
June 2018	\$ 248,401	\$ 101,901	\$ 347,573	\$ 13,048	\$ 117,609	\$ 38,964	\$ (98,302)	\$ (29,406)	\$ 739,788
July 2018	\$ 248,401	\$ 102,396	\$ 347,721	\$ 13,048	\$ 117,609	\$ 45,369	\$ (78,461)	\$ (29,406)	\$ 766,677
August 2018	\$ 248,401	\$ 112,100	\$ 347,721	\$ 13,048	\$ 117,609	\$ 46,825	\$ (73,952)	\$ (29,406)	\$ 782,346
September 2018	\$ 248,401	\$ 120,311	\$ 347,721	\$ 13,048	\$ 117,609	\$ 34,306	\$ (112,732)	\$ (29,406)	\$ 739,258
October 2018**	-	-	-	-	-	-	-	-	-
November 2018**	-	-	-	-	-	-	-	-	-
December 2018**	-	-	-	-	-	-	-	-	-
* Revenue requirement does not include carrying charge/credit or REC sales									
** Implementation of final rates Any amounts (over)/under remaining at completion of rate case are expected to flow through the rider									
Source: ND-PSC-15 41									

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Q. Do you agree with the Company's proposal to transfer the costs of these three projects out of the RRAR and into base rates?

A. Conceptually, I agree with the Company's proposal to transfer the costs of the three projects out of the RRAR and into base rates at the conclusion of this rate case provided that when the three projects are transferred into base rates from the RRAR at the conclusion of this proceeding, the amounts are updated to

1 reflect current plant balances at that time so as to minimize the impacts of the
2 true-up that will occur when the two projects are transferred from the RRAR into
3 base rates and that OTP demonstrates this by filing a compliance filing. As
4 noted above, the Stipulation in OTP's last rate case included the provision that
5 OTP shall propose including the Ashtabula and Langdon wind farm costs in base
6 rates in its next rate case, which it has done in the current proceeding.
7

8 **IX. CUSTOMER INFORMATION SYSTEM**

9 **Q. Is OTP replacing its existing customer information system?**

10 A. Yes. As discussed on page 14 of the direct testimony of Company witness
11 Gerhardson, the Company is in the process of replacing its internally built
12 customer information system, which has been in service for over 30 years. Mr.
13 Gerhardson states that the capabilities of its existing system have limited OTP's
14 ability to implement complex rates and provide services expected from its
15 customers. As a result, the Company selected Cayenta Utilities as the vendor for
16 a new customer information system.
17

18 **Q. Please describe the new customer information system that OTP is in the**
19 **process of implementing.**

20 A. As discussed on pages 17-18 of the direct testimony of Company witness
21 Tommerdahl, the new customer information system, which the Company refers
22 to as "CISone", will provide many benefits once fully implemented. including the
23 ability to allow data to flow in real time as opposed to overnight batches and file

1 transfers, which is the process being used for the existing system. In addition,
2 Mr. Tommerdahl lists benefits that OTP believes that CISone will be able to
3 provide, which I have summarized below:

- 4 • Ease of new or updated rate implementation
- 5 • Customer Self Service ("CSS")
- 6 • Mobile Work Management ("MWM")
- 7 • A new system will be able to support future initiatives
- 8 • Less reliance on CIS programmers and technicians
- 9 • Improved Automation
- 10 • Elimination of reusing data fields
- 11 • Easier detection and correction of billing issues
- 12 • Advanced ad-hoc reporting
- 13 • More advanced "Checkout and Lock" features
- 14 • A more robust primary/secondary failover system
- 15 • Better ability to drive consistent business processes across all jurisdictions

16
17 **Q. Was the CISone project approved by OTP's Board of Directors?**

18 **A.** Yes. In response to ND-PSC-19.04, The Company provided OTP's Board of
19 Directors meeting minutes dated August 17, 2015 in which the CISone project
20 was discussed and approved.

21
22 **Q. When does OTP anticipate CISone will be placed into service?**

1 A. According to the response to data request ND-PSC-19.04, the current project
2 schedule indicates CISone being placed into service (i.e., "go live") at the end of
3 September 2018 with operations commencing on October 1, 2018. On page 19
4 of his direct testimony, Mr. Tommerdahl states that implementing CISone will
5 only occur after it has been thoroughly tested to ensure that customer billings
6 "will be accurately and correctly computed and accounted for."
7

8 **Q. What was the original approved budget for the CISone project?**

9 A. According to the response to ND-PSC-19.04, the original budget for the CISone
10 project was approximately \$16 million (in 2015 dollars). The components of the
11 project that comprise this amount are discussed in the aforementioned OTP
12 Board of Directors meeting minutes dated August 17, 2015 and summarized in
13 the table below:

Description	Amount
CISone Project Development Costs	\$ 620,000
CISone Project Development Costs - Forecasted Additional Spend	\$ 350,000
Conversion, Installation and Implementation of CISone Project (through 2018)	\$ 14,900,000
Total CISone Project Budget Per OTP Board of Directors Meeting Minutes	\$ 15,870,000

14 Source: ND-PSC-19.04, Attachment 2

15

16 **Q. Is the total amount indicated in the table above the amount that is reflected**
17 **in the 2018 test year?**

18 A. No. On page 17 of his direct testimony, Company witness Tommerdahl initially
19 stated that OTP's current estimated cost of the CISone system was \$15.8 million
20 on a total Company basis and \$6.5 million on a North Dakota jurisdictional basis.
21 However, on page 5 of his supplemental testimony, Mr. Tommerdahl states that

1 the amounts indicated in his direct testimony were incorrect and that the actual
2 total cost of the CISone project included in the 2018 test year is \$14.8 million on
3 a total Company basis and \$6.1 million on a North Dakota jurisdictional basis.
4 The \$14.8 million total Company amount is reflected on Company workpaper TY-
5 01 from the workpapers contained in Volume 4A from OTP's original filing.

6
7 **Q. Has OTP experienced any cost overruns on the CISone project?**

8 A. Not through March 2018. However, OTP indicated that the project could go over
9 budget for costs related to integration and testing. Specifically, the Company's
10 response to DR ND-PSC-19.04 states in part:

11 Through March 2018, \$11.851 million has been spent on the project.
12 The total amount spent on the project will depend on the duration
13 required to complete the integration of the Cayenta system with
14 OTP's original estimate associated with the time needed to complete
15 integration and testing. This is largely due to the archaic architecture
16 of the 30-year old legacy customer information system that is being
17 replaced. The current estimated cost to complete integration, testing
18 and post-go-live activities is an amount up to \$17,850,000. The
19 amount could be less depending on integration testing outcomes.

20
21 **Q. Has OTP included the CISone system in its 2018 test year rate base?**

22 A. Yes. OTP has included an adjustment to annualize the costs associated with the
23 CISone project in the 2018 test year rate base. Specifically, as discussed on
24 page 26 of Company witness Akerman's direct testimony, the Company's
25 adjustment to annualize the CISone project included: (1) an increase to
26 intangible plant in service in the amount of \$3,272,488; (2) an increase to
27 intangible accumulated depreciation in the amount of \$557,102, which results in

1 an increase to intangible net plant in service in the amount of \$2,715,386. These
2 adjustments are shown on Exhibit__(TAA-1), Schedules 5B and 7.

3

4 **Q. Has OTP reflected the corresponding impacts of the CISone project to its**
5 **2018 test year operating income?**

6 A. Yes. OTP has reflected the corresponding impacts of the CISone project to its
7 2018 test year operating income. Specifically, as discussed on page 39 of Mr.
8 Akerman's direct testimony, the Company adjustment to operating income
9 increases depreciation expense by \$709,039 and decreases income tax expense
10 by \$268,027 resulting in net decrease to operating income of \$441,012. This
11 adjustment is shown on Exhibit__(TAA-1), Schedule 10.

12

13 **Q. Do the Company's adjustments to annualize the costs associated with the**
14 **CISone project tie back to the \$14.8 million amount discussed on page 5 of**
15 **Mr. Tommerdahl's supplemental testimony?**

16 A. Yes. OTP workpaper TY-01 from Volume 4A (pages 55-57) from the Company's
17 original filing shows that the Company's adjustments to annualize the costs
18 associated with the CISone project were derived from the \$14.8 million total
19 Company amount discussed on page 5 of Mr. Tommerdahl's supplemental
20 testimony.

21

22 **Q. Does the Company anticipate any cost savings associated with the CISone**
23 **project, and if so, are such savings reflected in the 2018 test year?**

1 A. OTP has not reflected any anticipated cost savings associated with the CISone
2 project in the 2018 test year. In its response to ND-PSC-19.04, OTP stated in
3 part:

4 OTP does not anticipate immediate cost savings from the system. In
5 the future we anticipate that the automation of many of the functions
6 by the new system will result in time savings over manual processes
7 that exist today. However, the system will add tasks for functions
8 that the current 30-year old legacy system cannot perform today.
9 Rather than drive cost savings, the CISone project is intended to
10 provide a modern platform for services and conveniences that
11 customers have grown to expect from their service providers. For
12 example, in the future, customers will realize more options with rates,
13 as the system is capable of interfacing with future automated meter
14 infrastructure (AMI). The system will also provide a platform for an
15 outage management system (OMS) to assist with outage information
16 and restoration times.

17 OTP has not yet seen the impacts of any cost changes with the
18 implementation of Cayenta Utilities. As described above, it is
19 expected that future technology projects, that are made possible by
20 adding the CISone platform, will give OTP the ability to drive
21 organizational change and subsequently provide efficiencies that
22 don't exist today.

23

24 **Q. What is the anticipated useful life of the CISone project?**

25 A. According to the response to ND-PSC-19.04, the anticipated useful life for the
26 CISone project is 10 years.

27

28 **Q. Are you recommending any adjustments related to the CISone project?**

29 A. No. I am not recommending any adjustments related to the CISone project at
30 this time.

31

1 **Q. Are you recommending any reporting requirements related to the CISone**
2 **project going into service, which is currently projected by OTP to be by the**
3 **end of September 2018?**

4 A. Yes. I recommend that OTP be required to report to Staff and the Commission
5 on the actual cost of the CISone project when it is placed into service, and to
6 explain the reasons for any actual costs that are different than the \$14.8 million
7 amount (on a total Company basis) that OTP has used as the basis for its 2018
8 rate base and operating expenses related to CISone.

9

10 **X. ISSUES CARRIED OVER FROM LAST RATE CASE**

11 **Q. Were there certain issues identified in the Settlement reached between the**
12 **parties in OTP's last rate case in Case Nos. PU-08-742 and PU-08-862 that**
13 **are to be addressed by the Company in the current proceeding?**

14 A. Yes. There were certain issues identified in the Settlement reached between the
15 parties in OTP's last rate case in Case Nos. PU-08-742 and PU-08-862 that are
16 to be addressed by the Company in the current proceeding. Specifically, page 8
17 of the Stipulation in OTP's last rate case, identified the following four issues that
18 the Company is addressing in the current proceeding:

19 • **Benefits from Renewable Energy Credits** - The Parties agree that in
20 future rate cases OTP will credit the North Dakota jurisdiction with its
21 proportionate share of the value from Renewable Energy Credits (RECs)
22 based on the North Dakota allocated share of the costs of the assets used
23 to produce the RECs.

24

25 • **Energy Costs Separate from Base Rates** - The Parties agree that in its
26 next rate case OTP will separate its energy costs from base rates. It is
27 understood that this will give the appearance of much larger rate

1 increases in future rate cases than is reflected in the overall change in
2 customer bills.
3

- 4 • **Use of an E8760 Allocator** - The Parties agree that OTP should use an
5 E8760 allocator in its next rate case for class cost of service study
6 development purposes, and for the purpose of allocating fuel costs
7 between classes.
8

- 9 • **Wind Farm Cost Recovery** - The Parties agree that in its next rate case
10 OTP shall propose including the Ashtabula and Langdon wind farm costs
11 in base rates.
12

13 **Q. Are you addressing these issues in your testimony?**

14 A. I am addressing the first, second and fourth bullet points noted above in my
15 testimony. Staff witness Dismukes addresses the use of an E8760 Allocator in
16 the class cost of service.
17

18 **A. Renewable Energy Credits**

19 **Q. Does OTP maintain an inventory of Renewable Energy Credits ("RECs")?**

20 A. Yes. In its response to data request ND-PSC-15.45, OTP stated that it primarily
21 generates wind RECs which are tracked through the Midwest Renewable Energy
22 Tracking System ("M-RETS") and that it allocates RECs to each of its
23 jurisdictions (Minnesota, North Dakota and South Dakota) based on a monthly
24 load-ratio calculation. In addition, the Company maintains its North Dakota
25 allocated RECs through the Renewable Resource Adjustment Rider.
26

27 **Q. Has OTP been crediting its North Dakota jurisdiction with its proportionate**
28 **share of the value of RECs based on the North Dakota share of the costs of**

1 **the assets pursuant to the Stipulation from Case Nos. PU-08-862 and PU-**
2 **08-742?**

3 A. Yes, but apparently only from April 2016 and forward. Specifically, in its
4 response to data request ND-PSC-15.46, which asked OTP whether it retired
5 any RECs between January 2015 and March 2018, the Company stated:

6 In April 2016, Otter Tail retired 176,948 RECs in the Midwest
7 Renewable Energy Tracking System to demonstrate compliance with
8 the ND Renewable Energy Objective for the year 2015 (10% of ND
9 retail load). The retired RECs were wind RECs generated in the
10 year 2014 and prior. Upon the direction of the ND PSC, Otter Tail
11 has not retired any ND allocated RECs since April 2016. Rather,
12 Otter Tail has sold ND allocated RECs and returned the proceeds to
13 ND customers.

14

15 In addition, in its response to data request ND-PSC-15.45, the Company stated
16 that it sells its North Dakota allocated RECs and returns the proceeds to its North
17 Dakota customers in accordance with the expectations of the Commission and
18 that it sells RECs once or twice a year.

19

20 **Q. Does OTP purchase RECs?**

21 A. No. According to the response to ND-PSC-15.45, OTP does not purchase
22 RECs, but rather it generates them, but that it does not allocate any costs to the
23 RECs it generates nor does it allocate costs to RECs sold.

24

25 **Q. Has OTP provided a schedule which shows the North Dakota allocated**
26 **RECs it has sold and the proceeds it has credited to its North Dakota**
27 **customers?**

1 A. Yes. In its response to data request ND-PSC-15.45, OTP provided a schedule,
 2 which I have replicated below, that shows the North Dakota allocated RECs it
 3 has sold and the proceeds it has credited to its North Dakota customers.

Date	REC Inventory North Dakota Allocation	RECs Generated North Dakota Allocation	RECs Sold North Dakota Allocation	REC Proceeds North Dakota Allocation
January 2015	0	35,994		
February 2015	35,994	28,307		
March 2015	64,301	37,608		
April 2015	101,909	33,377		
May 2015	135,286	27,661		
June 2015	162,947	16,454		
July 2015	179,401	20,220		
August 2015	199,621	17,536		
September 2015	217,157	22,127		
October 2015	239,284	29,977		
November 2015	269,261	27,017		
December 2015	296,278	24,133		
January 2016	320,411	25,302		
February 2016	345,713	23,064		
March 2016	368,777	27,242		
April 2016	396,019	35,049		
May 2016	431,068	23,774	320,381	\$ 104,957
June 2016	134,461	23,319		
July 2016	157,780	17,571		
August 2016	175,351	17,147		
September 2016	192,498	25,491		
October 2016	217,989	29,038		
November 2016	247,027	31,386	197,926	\$ 166,372
December 2016	80,487	34,837		
January 2017	115,324	32,832		
February 2017	148,156	31,345		
March 2017	179,501	29,219		
April 2017	208,720	25,307		
May 2017	234,027	26,975	115,296	\$ 69,178
June 2017	145,706	22,242		
July 2017	167,948	15,269		
August 2017	183,217	12,533		
September 2017	195,750	25,034		
October 2017	220,784	34,659		
November 2017	255,443	32,840		
December 2017	288,283	33,863		
Total RECs Sold and Related Proceeds			633,603	\$ 340,507
Source: ND-PSC-15.45				

4

1 As shown in the table, OTP sold 633,603 RECs in May and November of 2016
2 and in May 2017 with proceeds credited to North Dakota customers totaling
3 \$340,507.

4

5 **Q. What is your conclusion regarding whether OTP is crediting its North**
6 **Dakota customers with its proportionate share of the value of the RECs it**
7 **sells pursuant the Stipulation from OTP's last rate case in Case Nos. PU-08-**
8 **862 and PU-08-742?**

9 A. Based on the information I reviewed, it appears that OTP is crediting its North
10 Dakota customers with its proportionate share of the value of the RECs it sells
11 pursuant to the Stipulation from OTP's last rate case in Case Nos. PU-08-862
12 and PU-08-742.

13

14 **B. Separating Energy Costs from Base Rates**

15 **Q. Pursuant to the Stipulation from Case Nos. PU-08-862 and PU-08-742, has**
16 **OTP addressed separating its energy costs from base rates in the current**
17 **proceeding?**

18 A. Yes. As discussed on page 2 of his direct testimony, Company witness
19 Gerhardson states that in compliance with the Commission's Order in Case Nos.
20 PU-08-862 and PU-08-742, the Company is proposing to transfer fuel and
21 purchase power costs totaling \$50.728 million on a North Dakota jurisdictional
22 basis that is currently being recovered in base rates to the Energy Adjustment

1 Rider⁹ ("EAR"), which while reducing the base rate revenue, requirement will
2 increase the EAR revenue requirement by a like amount. On page 2 of his
3 testimony, Mr. Gerhardson states that: "This transition to fuel revenue recovery is
4 merely a change to how these fuel costs are recovered, and OTP's overall
5 revenues will not change as a result of this proposal."
6

7 **Q. How does OTP propose to transfer recovery of its fuel and purchase power**
8 **costs into the EAR?**

9 A. As discussed on pages 24-25 of the direct testimony of Company witness
10 Tommerdahl, the Company's current base rates include a base cost of fuel that
11 was established at the conclusion of its last rate case in Case Nos. PU-08-862
12 and PU-08-742. The Company is proposing that at the conclusion of the current
13 proceeding, that base fuel cost be removed from the new base rates and all
14 eligible costs be recovered through the EAR. The current base cost of fuel is
15 \$0.02803 per kWh and is part of current base rates and which amounts to the
16 \$50.728 million amount referenced above. Mr. Tommerdahl states that under the
17 Company's proposed rates, base rates would decrease by the \$50.728 million
18 and recovery under the EAR would increase by the same amount.
19

20 **Q. Did the Company calculate a new base cost of energy for the interim rate**
21 **period?**

22 A. Yes. As discussed on page 25 of Mr. Tommerdahl's direct testimony, the
23 Company calculated a base cost of energy of \$0.024327 per kWh that is based

⁹ OTP also refers to the Energy Adjustment Rider as the Fuel Clause Adjustment ("FCA").

1 on energy costs totaling \$118.245 million and energy retail sales of 4.861 billion
2 kWh.¹⁰OTP proposes that the \$0.024327 per kWh base cost of energy would be
3 used when interim rates go into effect and the monthly fuel clause will be based
4 on this rate during the interim period.

5

6 **Q. Is OTP proposing that the \$0.024327 per kWh base cost of energy that was**
7 **developed for the interim period be used when all of the Company's fuel**
8 **and purchase power costs are transferred to the EAR at the conclusion of**
9 **this proceeding?**

10 A. No. On page 25 of his testimony, Mr. Tommerdahl states that OTP anticipates
11 calculating a new base cost of energy, which will be incorporated into the new
12 monthly EAR rates at the conclusion of this case and that the EAR will include
13 the base cost of energy as well as any amounts needed to true-up actual fuel
14 costs to the base cost of energy. In addition, the Company proposes to continue
15 calculating the monthly fuel clause based on a trailing four-month average as it
16 has it as done previously. Mr. Tommerdahl states that the only difference going
17 forward will be that the entire cost of fuel will be included in the EAR. Historically,
18 the base cost of fuel has been included in base rates and the difference between
19 the current month's rate and the base cost of fuel has been included in the fuel
20 clause adjustor.

21

22 **Q. What fuel and purchase power costs does OTP propose to transfer into the**
23 **EAR?**

¹⁰ See Volume 1, Part E, Schedule 1 from OTP's Interim Rate Petition.

- 1 A. The Company provided this information in Attachment 1 to its corrected response
 2 to data request ND-PSC-15.42, which I have replicated in the following table:

Components of Company's Base Cost of Energy - 2018 Interim Test Year						
FERC Acct.	Description	Purchased Power	Generation Costs	MISO Schedules 16 & 17	Reagent & Emissions Allowances	Total
447	Net Ancillary Services Market Revenue/Expenses	\$ 98,147				
501	Steam Power Generation - Fuel - Coyote-Lignite		\$ 21,745,748			
501	Steam Power Generation - Fuel - Coyote-Oil		\$ 294,766			
501	Steam Power Generation - Fuel - Big Stone-Subbituminous		\$ 24,654,643			
501	Steam Power Generation - Fuel -Big Stone-oil		\$ 257,985			
501	Steam Power Generation - Fuel - Hoot Lake-Subbituminous		\$ 6,786,500			
501	Steam Power Generation - Hoot Lake-Oil		\$ 30,590			
502	Steam Power Generation - Steam Expenses				\$ -	
509	Steam Power Generation - Allowances				\$ -	
547	Other Power Generation - Fuel - Jamestown CT					
547	Other Power Generation - Fuel - Lake Preston CT					
547	Other Power Generation - Fuel - Solway CT -LM6000		\$ 301,429			
501 or 547	Fuel Costs for Intersystem Sales		\$ (103,690)			
555	Purchased Power for System Use	\$ 46,732,600				
555	Other Energy Purchaes	\$ 16,589,327				
555	Schedule 16			\$ 21,830		
555	Schedule 17			\$ 627,783		
	TOTALS	\$ 63,420,074	\$ 53,967,971	\$ 649,613	\$ -	\$ 118,037,658

3 Source: OTP response to DR ND-PSC-15.42

4 As shown in the table above, in addition to its fuel and purchase power costs,
 5 OTP also proposes to include Net Ancillary Services Market Revenue/Expenses
 6 and Fuel Costs for Intersystem Sales, which are shown as a credit against
 7 Generation Costs in the EAR.

8
 9 **Q. Does OTP propose to include the costs associated with environmental
 10 reagents and emission allowances in the EAR?**

11 A. Yes. OTP proposes to include the costs associated with environmental reagents
 12 and emission allowances in the EAR. Specifically, in its response to data
 13 request ND-PSC-15.42, the Company stated in part:

14 For administrative efficiency, OTP proposes to include the cost of
 15 reagents and emission allowances, which are currently being
 16 recovered under the separate Reagents and Emissions Allowance
 17 Adjustment (REAA) Rider as detailed in Electric Rate Schedule

1 13.08, into the Energy Adjustment Rider. The REAA is computed
2 using the exact same mechanism as the Energy Adjustment Rider
3 and so the consolidation of these costs from two identical recovery
4 mechanisms to one will have no bill impact.

5
6 In addition, as discussed on pages 5-6 of Mr. Tommerdahl's supplemental direct
7 testimony, OTP is also proposing that the pebble lime reagent costs at the
8 Coyote Station also be transferred out of base rates and recovered through the
9 EAR.

10
11 **Q. Based on the foregoing, in your opinion, does OTP's proposed**
12 **methodology for transferring all of its fuel and purchase power costs from**
13 **base rates in to the EAR comply with the provision stated Section II,**
14 **subsection B, page 8 of the Stipulation in Case Nos. PU-08-862 and PU-08-**
15 **742 whereby OTP is to separate energy costs from base rates?**

16 **A.** Yes. The Company's proposed methodology for transferring all of its fuel and
17 purchase power costs from base rates to the EAR appears to be reasonable and
18 complies with the provision in Section II, subsection B of the Stipulation in Case
19 Nos. PU-08-862 and PU-08-742. In addition, Staff is agreeable to OTP
20 transferring the recovery of costs associated with environmental reagents and
21 emission allowances out of base rates (and out of the REAA Rider) and into the
22 EAR at the conclusion of this case.

23

1 **C. Wind Farm Cost Recovery**

2 **Q. Pursuant to the Stipulation from Case Nos. PU-08-862 and PU-08-742, has**
3 **OTP addressed including the Ashtabula and Langdon wind farm costs in**
4 **base rates?**

5 **A. Yes. As discussed in more detail in Section VIII - C of my testimony, OTP is**
6 **proposing to move the Ashtabula and Langdon wind farms from the RRAR and**
7 **into base rates at the conclusion of this case.¹¹**

8
9 **Q. In your opinion, does OTP's proposal for transferring the Astabula and**
10 **Langdon Wind Farms from the RRAR and into base rates comply with the**
11 **provision stated in Section II, subsection D, page 8 of the Stipulation in**
12 **Case Nos. PU-08-862 and PU-08-742?**

13 **A. Yes. The Company's proposal for transferring the Astabula and Langdon Wind**
14 **Farms from the RRAR and into base rates complies with the provision in Section**
15 **II, subsection D of the Stipulation in Case Nos. PU-08-862 and PU-08-742.**

16
17 **XI. CAPITAL EXPENDITURES**

18 **Q. Is there a potential issue with the level of capital expenditures included in OTP's**
19 **2018 test year rate base. A. Yes. There is a potential issue with the level of**
20 **capital expenditures included as plant additions in OTP's 2018 test year rate**
21 **base. Specifically, on page 6 of his direct testimony, Company witness**
22 **Gerhardson states that the Company expects to invest an additional \$821 million**

¹¹ OTP is also proposing moving the Luverne Wind Project out of the RRAR and into base rates at the conclusion of this case.

1 on a total Company basis between 2017 and 2021. Pursuant to Mr.
2 Gerhardson's statement, data request ND-PSC-15.34 asked the following:

3 Capital Additions. Refer to the direct testimony of Company witness
4 Bruce Gerhardson. On page 6 of his testimony, Mr. Gerhardson
5 states that OTP expects to have capital expenditures of \$821 million
6 on a total Company basis between 2017 and 2021.

- 7 a. Of the \$821 million of expected capital expenditures between
8 2017-2021, please quantify and explain the amount of capital
9 expenditures included in the Company's 2018 test year filing.
- 10 b. Provide a breakout by plant account, amount, and expected
11 in-service date of the capital expenditures included in the
12 Company's 2018 test year filing.

13
14 In its response to DR ND-PSC-15.34, OTP provided Attachment 1, which listed
15 numerous capital additions by functional classification that totaled \$172.72 million
16 on a total Company basis.

17
18 **Q. Do all of the estimated in-service dates for the capital expenditures listed**
19 **on Attachment 1 fall within the 2018 test year?**

20 A. No. Upon reviewing Attachment 1, I noted that nearly three dozen of the capital
21 projects listed have an in-service date that is beyond the 2018 test year. In fact,
22 some of the capital projects have estimated in-service dates as far out as 2023.

23
24 **Q. Are the capital projects with estimated in-service dates that are beyond the**
25 **2018 test year included in OTP's 2018 test year rate base?**

26 A. It is unclear from the response to DR ND-PSC-15.34 whether the capital projects
27 with estimated in-service dates that are beyond the 2018 test year are included in
28 OTP's 2018 test year rate base. Staff informally requested that OTP clarify its

1 response to DR ND-PSC-15.34 to indicate whether the capital projects with
2 estimated in-service dates beyond 2018 are included in its 2018 test year rate
3 base. As of the morning of May 17, 2018, the day before my direct testimony is
4 being filed, Staff had not received a response from the Company regarding this
5 issue. Depending on the Company's response to Staff's informal inquiry, it may
6 be necessary to make an adjustment to remove some of the listed capital
7 projects with in-service dates beyond 2018 from OTP's 2018 test year rate base.

8

9 **Q. Does this conclude your testimony?**

10 **A. Yes, it does.**

STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION

Otter Tail Power Company
2017 Electric Rate Increase
Application

Case No. PU-17-398

VERIFICATION

STATE OF MICHIGAN)
) ss.
COUNTY OF WAYNE)

RALPH C. SMITH, being first duly sworn on oath, deposes and states that he has read the testimony and exhibits submitted in the above captioned matter under his name, that they prepared by him or under his direction, that he knows the contents thereof, and that the same are true and correct to the best of his knowledge and belief.



Ralph C. Smith, CPA

Subscribed and sworn to before me this 18th day of May, 2018.



Notary Public
My Commission Expires 11/8/2021

CHRISTINE MILLER
NOTARY PUBLIC, STATE OF MI
COUNTY OF WAYNE
MY COMMISSION EXPIRES Nov 8, 2021
ACTING IN COUNTY OF Wayne

