



**Opening Statement of Victor Schock
on behalf of**

Advocacy Staff, North Dakota Public Service Commission

Otter Tail Power Company, 2017 Electric Rate Increase, Case No. PU-17-398

Hello Commissioners. My name is Victor Schock and I am testifying on behalf of Advocacy Staff in this proceeding. I am testifying today in support of the Settlement Agreement between Otter Tail Power Company (Otter Tail or Company), Public Service Commission Advocacy Staff, Wal-Mart Stores, Inc., and Midwest Large Energy Consumers.

This Settlement Agreement provides for total North Dakota rate base of \$364,759,818, a base rate revenue increase of \$7,364,336, a 9.77% return on equity (ROE), an equitable allocation of the revenue increase between the classes of service, increases to the customer charge, and various tariff and miscellaneous changes.

The \$364,759,818 North Dakota rate base is nearly double the rate base approved in the last rate case. The dramatic increase is primarily attributable to environmental upgrades made to the Big Stone coal generation facility in South Dakota and the Hoot Lake coal generation facility located in Minnesota and several large transmission line projects running between North Dakota, South Dakota and Minnesota. I believe this total rate base is an appropriate representation of the value of Otter Tail's property, used and useful, for the service and convenience of the public in North Dakota.

The \$7,364,336 base rate revenue increase represents a total reduction of \$5,774,036 from the Company's original request of \$13,138,372. The \$5.7M decrease is made up of:

- \$1.35M reduction due to the drop in ROE from the Company's original proposal of 10.3% to 9.77%,
- \$3M reduction in actual income tax expenses and amortization of plant excess accumulated deferred income taxes. Which is due to the Tax Cuts and Jobs Act of 2017. The \$3M is when comparing the 13.1M to the \$7.4M. It is the same as the company estimated at \$4.8M when comparing \$13.1M to \$5.6M.
- \$1.38M reduction in disputed expenses. The disputed expenses consist of stock and incentive based compensation and the amortization period used for Rate Case Expenses and non-protected excess accumulated deferred income taxes.

The 9.77% ROE ensures that customers are not paying an overinflated rate of return and recognizes the Company's historical performance. This ROE translates into an overall rate of return (ROR) of 7.64% when considered in concert with the Company's long and short term debt. I believe this ROE and ROR provide Otter Tail with a just and reasonable rate of return on its property, used and useful, for the service and convenience of the public in North Dakota.

The class revenue distribution in this case is a very fair balance between a true cost-based allocation and a certain amount of gradualism. Assigning the increase to the classes based purely on cost would result in very large increases to some classes, while resulting in decreases for others. I am pleased that we were able to employ a reasonable amount of gradualism to temper the increases to the classes, yet at the same time make significant improvements in the contribution differences between customer classes.

The customer charges are increasing for nearly every class of customer. Based upon the Company's marginal cost study. Increasing the customer charge stabilizes the Company's revenues as well as the customer's bills, thereby reducing its risk. Based on the facts of this case these rates and charges are necessary to provide a just and reasonable rate of return on Otter Tail's property, used and useful, for the service and convenience of the public in North Dakota. Furthermore, the proposed rate schedules are designed in such a manner that they result in a basis of charge to its customers that is just and reasonable without unjust discrimination.

The other miscellaneous changes included in the Settlement agreement are the tracking of the Production Tax Credit (PTC) accumulated deferred income tax regulatory asset that resulted from the Company being unable to utilize the full value of some PTCs in the year that they were earned. The provision helps ensure ratepayers will not be paying a return on the regulatory asset through the next rate case, but rather only until the Company is able to utilize the PTCs on their tax return. Finally, In accordance with a prior rate case settlement, the Company will be removing the costs of reagents and emissions from base rates and moving them into the Energy Adjustment Rider. This is consistent with how our other North Dakota investor owned utilities track such expenses.

Due to these factors, and the interest of Otter Tail's North Dakota ratepayers, I recommend the Commission adopt this Settlement Agreement. I look forward to answering any questions you may have.