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September 5, 2018

Darrell Nitschke
Director of Administration/Executive Secretary
ND Public Service Commission
600 E. Boulevard Ave., Dept. 408
Bismarck, ND 58505-0480

**RE: In the Matter of the Application of Otter Tail Power Company for Authority to Increase Rates for Electric Service in North Dakota.
Case No. PU-17-398
OAH File No. 20170622
Response to Commission Request**

Dear Mr. Nitschke:

During the Commission's work session on August 21, 2018 in the above-referenced matter the Commission requested that Otter Tail Power Company (OTP) provide additional information on several topics. Ms. Jeffcoat-Sacco later requested that this information be filed as part of the record without cross examination or rebuttal. The following is OTP's response to the Commission's request. Staff and intervenors have reviewed this information and have agreed to waive cross examination and rebuttal.

1. Information Requested: Clarification of the revenue requirement changes that have occurred during the case with an explanation of why changes between initial and final base and net figures are not the same.

The following summarizes the changes in OTP's revenue requirement. Please note that this chart includes corrections to the record. Specifically, the Proposed Order on Settlement filed by OTP on July 27, 2008 stated the following on page 4:

The Settlement Agreement proposes an increase in OTP's base revenue of \$7,364,336, or approximately 5.03 percent. When OTP's rider revisions are considered, the Settlement Agreement provides OTP a net annual revenue increase of \$5.6 million, a 3.76 percent effective increase. Other adjustments to which OTP does not object described later in this Order provide OTP a net annual revenue increase of approximately \$5.4 million, a 3.62 percent effective increase.

As corrected this paragraph states as follows:

The Settlement Agreement proposes an increase in OTP’s base revenue of \$7,364,336 or approximately 5.03 percent. When OTP’s rider revisions are considered, the Settlement Agreement provides OTP a net annual revenue increase of ~~\$5.6 million~~ \$4.8 million, a ~~3.76~~ 3.22 percent effective increase. Other adjustments to which OTP does not object described later in this Order provide OTP a net annual revenue increase of approximately ~~\$5.4~~ \$4.6 million, a ~~3.62~~ 3.09 percent effective increase.

During the work sessions Commissioner Christmann had inquired why there was a \$800,000 difference between starting and ending base and net reductions.¹ That difference is attributable to an error made when OTP was comparing base and net impacts. As corrected there is no difference between base and net revenue reductions. The following chart includes the corrected figures.

Revenue Request	Base Revenue Increase	Net Revenue Increase
OTP Initial Request	\$15.7 million 10.61% increase	\$13.1 million 8.72% increase
OTP Supplemental Direct Testimony incorporating TCJA & other adjustments	\$9.7 million 6.64% increase	\$7.1 million 4.80% increase
OTP Rebuttal Testimony	\$10.1 million 6.91% increase	\$7.5 million 5.10% increase
Settlement Agreement	\$7.4 million 5.03% increase	\$4.8 million 3.22% increase
Settlement Agreement with further reductions to which OTP does not object.	\$7.2 million 4.90% increase	\$4.6 Million 3.09 % increase

The correction addressing the \$800,000 difference between final base and net revenue figures noted above also applies to the testimony OTP witness Bruce Gerhardson presented during the formal hearing on July 11, 2018. Specifically, page 3 of OTP Exhibit 49 (PowerPoint Presentation) presented by Mr. Gerhardson should be corrected as follows:

¹ The uncorrected Proposed Order on Settlement described a reduction in annual base electrical revenue of \$8.3 million from OTP’s Application to the Settlement Agreement, whereas the reduction in *net* annual electric revenue was \$7.5 million from OTP’s Application to the Settlement Agreement, a difference of \$800,000. The corrected reduction for the net annual reduction is \$8.3 million.

- Settlement results in effective ~~\$5.6~~ \$4.8 million increase
- \$7.4 million, less Rider reductions
 - ~~3.76%~~ 3.22% effective increase

Similarly, Page 9 of the PowerPoint discussing key settlement terms should be corrected as follows:

- Effective increase of ~~\$5.6~~ \$4.8 million (~~3.76~~3.22%)
- \$7.4 million (5.03%), less Rider reductions.

Please note that the Settlement Agreement does include references to any of the foregoing corrected figures and therefore no corrections are necessary.

2. Information Requested: Explanation of Section III (2) of the Settlement Agreement regarding Production Tax Credits and Accumulated Deferred Income Taxes, to include confirmation that this section does not preclude the Commission from addressing the way OTP customers receive the benefit of Production Tax Credits in future filings.

Section III (2) of the Settlement Agreement provides the following:

Production Tax Credits/Accumulated Deferred Income Taxes. The Production Tax Credit (PTC)-related portion of OTP's Accumulated Deferred Income Tax (ADIT) asset, as of the date the RRAR projects are rolled into final rates, will be tracked through the RRAR, and resulting changes to revenue requirements related to changes to the PTC related portion of OTP's ADIT asset will be updated through the RRAR on an annual basis.

This section addresses how OTP will adjust the balance of its ADIT asset in the RRAR when it uses Production Tax Credits that make up the ADIT asset. As OTP is able to utilize Production Tax Credits on its tax returns, the ADIT asset will decrease, and this decrease will be tracked and updated annually through the RRAR. The annual adjustment to the RRAR will reduce the ADIT asset upon which OTP earns a return. This issue is distinct from the issue of how OTP customers receive the benefit of Production Tax Credits. Currently, OTP passes the full benefit of Production Tax Credits it earns to customers in the year in which the credits were earned, regardless of whether OTP can utilize the credits as an offset against income tax liability. This is done by crediting the Production Tax Credits against income taxes in the RRAR, lowering the revenue requirement of the RRAR. In this way OTP customers receive the immediate benefit of OTP having earned Production Tax Credits. At the same time, to the extent there are unused production tax credits that OTP cannot utilize, these credits become a regulatory asset and earn a return. The benefit of handling the issue this way is that ratepayers will see the benefit of a smaller regulatory asset being earned on as OTP can use the credits, resulting in lower overall rates. This approach has been approved by the Commission and the Commission is not precluded from changing this approach in future proceedings for future wind projects to spread the benefit of OTP having earned Production Tax Credits over a longer time frame (i.e. the life of the project vs 10 years the project earns Production Tax Credits) for purposes of generational equity.

3. Information Requested: A brief explanation why certain customer classes are seeing significant customer charge increases as detailed in Table 3 of the Settlement Agreement.

Table 3
Proposed Customer Charges
(\$/Month)

<u>Class</u>	<u>Present</u>	<u>Proposed</u>
Residential	\$8.00	\$15.23
Residential – Demand Control	\$18.38	\$20.10
Farm Service – Single Phase	\$12.00	\$17.40
Farm Service – Three Phase	\$12.00	\$17.40
Small General Service	\$13.00	\$24.90
General Service (Secondary)	\$12.00	\$31.90
General Service – Time of Use	\$16.00	\$219.00
Large General Service (Secondary)	\$40.00	\$215.90
Large General Service – Time of Day (Primary)	\$60.00	\$282.00
Standby (Secondary)	\$199.00	\$242.24
Irrigation – Option 1	\$1.00	\$24.30
Irrigation – Option 2	\$5.00	\$24.30
Outdoor Lighting – Metered	\$2.00	\$2.00
Outdoor Lighting – Non-metered	\$0.00	\$0.00
Municipal Pumping (All)	\$4.00	\$26.50
Civil Defense	\$1.00	\$1.22
Water Heating	\$1.00	\$4.00
Real Time Pricing Rider	\$199.00	\$282.00
Controlled Service – Interruptible- Large #1	\$4.00	\$20.20
Controlled Service – Interruptible- Large #2	\$5.00	\$20.20
Controlled Service – Interruptible - Small	\$2.00	\$8.50
Deferred Load Service	\$3.00	\$8.80
Fixed Time of Service (Secondary)	\$1.00	\$6.70

Significant shifts in customer charges for certain customer classes (such as the General Service Time of Use class) reflect an effort to move each customer class closer to cost. Significant increases in OTP’s proposed customer charges occur where the current customer charge is substantially below cost. OTP’s current charges were established in OTP’s last general rate case (Docket No. PU-08-862), and many of those charges changed little from a prior rate case. Customer charges in prior rate cases were based on what was deemed equitable at that time and decisions made at that time may have placed less emphasis on moving customers closer to cost. The passage of time and changing costs are also factors in explaining why some customer classes are seeing substantial increases. In OTP’s 2018 rate case, the customer charge for the General Service Time of Use class was set similar to the costs of our larger customer accounts to better reflect the true costs of the meters required for larger and time-differentiated rate customers. Otter Tail believes the proposed changes produce a more equitable outcome for all customers. If all customers pay closer to the customer’s fixed costs, the energy and demand costs are also closer to their costs, which reduces cross subsidies between smaller and larger customers within a particular class.

4. Information Requested: A description of the shortest time necessary for OTP to make interim refunds.

To clarify, the process for completing interim rate refunds requires approximately 90 days from the date when final rates go into effect. As noted below, a key driver of this timeframe is the fact that OTP must complete one billing cycle after final rates are in effective to determine the total amount to refund customers.

Within 30 days of the Commission issuing its Order, OTP will make a compliance filing describing the way it will make interim rate refunds and an estimate of refund amount to North Dakota customers. To make interim rate refunds, OTP must know the total amount of interim rates paid by ND customers, and this will not be known until all periods subject to interim rates have been billed. Electrical consumption occurring before final rates go into effect will be billed at interim rates, while consumption after the effective date will be billed at final rates, with our customers' billing period spanning both rates. Until these bills are calculated OTP will not have the information necessary to calculate interim rate refunds. After the billing cycle is completed OTP will calculate and prepare interim rate refunds. This generally requires 30 days. Thereafter OTP will make interim rate refunds between days 60 and 90 of the 90-day period. We anticipate the following sequence of steps:

Prefinal Rates:

- Commission issues final order setting effective date for final rates
- OTP files compliance filing

Day 1 through day 60:

- Final Rates go into effect (day 1)
- OTP completes billing cycle for bills that include interim and final rates in same billing period.
- OTP processes bills, determines final interim rate refund, and prepares refunds

Day 60 through day 90:

- OTP issues refund check following billing cycle

Final Compliance Filing:

- OTP makes final compliance filing within 30 days of completion of interim rate refunds.

5. Information Requested: Information on the energy charge increase to the residential class if the customer charge is lowered to \$14.

The following is an updated chart (from OTP late filed exhibit 53) with the seasonal energy rate levels showing the energy charge associated with changing the customer charge to \$14.00.

Customer Charge/mo.	Average Monthly Bills - Various kWh/month				Summer	Winter
	600	900	1200	1800	\$/kWh	\$/kWh
\$ 15.23	\$ 52.64	\$ 71.35	\$ 90.05	\$ 127.46	\$ 0.07502	\$ 0.05602
\$ 14.00	\$ 52.36	\$ 71.54	\$ 90.72	\$ 129.07	\$ 0.07660	\$ 0.05760
\$ 13.00	\$ 52.13	\$ 71.69	\$ 91.26	\$ 130.38	\$ 0.07788	\$ 0.05888

Mr. Nitschke
September 5, 2018
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Notes:

1. Average Customer = 870 kWh/mo.
2. Average Low-Income Customer = 1184 kWh/mo.

An original and ten copies of this filing are being sent via mail. Please contact me at (218) 739-8956, or cstephenson@otpc.com should you have any questions with respect to this letter.

Very truly yours,



Cary Stephenson ^{kaw}
Associate General Counsel

kaw
Enclosures
By electronic filing
c: Service List

**STATE OF NORTH DAKOTA
BEFORE THE
NORTH DAKOTA PUBLIC SERVICE COMMISSION**

Case No. PU-17-398

In the Matter of Otter Tail Power
Company's Application for Authority
To Increase Rates for Electric Service
In North Dakota

CERTIFICATE OF SERVICE

Kimberly A. Ward certifies that on the 5th day of September 2018, she served a true and correct copy of the attached **Response to Commission Request** by email addressed to the following individuals:

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Subscribed and sworn to before me this
5th day of September, 2018



Notary Public

