

Memorandum

To: Commissioners Brian Kroshus, Julie Fedorchak, and Randy Christmann

From: Adam Renfandt

Date: July 1, 2019

Re: Otter Tail Power Company, 2018 Electric, Annual Report

Case No. PU-19-188

I recommend the Commission close the above-captioned case, which is Otter Tail Power Company's (OTP) North Dakota annual electric report filing for 2018. I will include a motion to close the case on the July 10, 2019 agenda.

OTP provides electric service to approximately 58,804 customers in North Dakota. Staff has reviewed OTP's annual report filing for 2018. OTP's 2018 authorized return on equity (ROE) was 9.77%. The company over-earned by approximately \$2.3 million in 2018. When normalized for weather, OTP's 2018 ROE was 10.22%, and their over-earning was approximately \$1.1 million. Shifts in allocation factors contributed to approximately \$0.6 million of over-earnings with the remaining over-earnings driven by a reduction in 2018 employee stock and other incentive compensation that were not allowed for recovery.

The Commission suspended OTP's rates with interim rates, subject to refund, effective January 1, 2018. On March 13, 2019, the Commission approved OTP's final rates effective February 1, 2019, along with their interim rate refund plan. OTP applied approximately \$3.3 million to customers' April 2019 bills to cover over-earnings from interim rates.

Given that rates for 2019 going forward should be set correctly in the latest rate case, staff sees no reason to further investigate and recommends that the Commission close the above-captioned case. Attached are staff generated summaries of OTP's ND electric earnings.

Attachment 1 – Return Calculation and Rate Base

Attachment 2 – Return on Equity Chart

Attachment 3 – Net Income

c: Stuart Tommerdahl, OTP

Otter Tail Power Company

North Dakota

Revenue Excess / Deficiency & Rate Base

(\$ in 000s)

Un-normalized for weather

Attachment 1

Revenue Excess (Deficiency) Calculation:

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Rate Base	\$200,107	\$182,550	\$189,882	\$265,903	\$295,435	\$334,736	\$356,396	\$350,542	\$351,550	\$354,656
Cost of Capital	8.67%	8.76%	8.68%	8.30%	8.15%	8.03%	8.27%	8.22%	8.13%	7.64%
Return Required	\$17,351	\$15,983	\$16,481	\$22,141	\$24,064	\$26,893	\$29,485	\$28,824	\$28,575	\$27,095
Net Income	17,850	15,684	17,052	24,007	23,317	25,603	29,821	27,340	25,472	28,863
Return Excess (Deficiency)	\$499	(\$299)	\$571	\$1,867	(\$747)	(\$1,290)	\$336	(\$1,484)	(\$3,102)	\$1,768
Income Tax Factor 1/	1.6437	1.6437	1.6220	1.6220	1.6115	1.6115	1.6078	1.6078	1.6078	1.3228
Revenue Excess (Deficiency)	\$820	(\$492)	\$925	\$3,028	(\$1,204)	(\$2,078)	\$540	(\$2,386)	(\$4,988)	\$2,339
Excess Revenue Sharing	50%	0%								
Customer Refund (Charge)	422	0								
Rev. Excess (Def.) after Sharing	\$398	(\$492)	\$925	\$3,028	(\$1,204)	(\$2,078)	\$540	(\$2,386)	(\$4,988)	\$2,339

Return on Equity



