

Memorandum

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

From: Adam Renfandt

Date: July 5, 2020

Re: Otter Tail Power Company (OTP), 2019 Electric, Annual Report

Case No. PU-20-218

Staff has reviewed OTP's annual report filing for 2019. OTP provides electric service to approximately 59,181 customers in North Dakota. OTP's 2019 return on equity (ROE) was 8.44%, and their under-earnings was approximately \$3.5 million. When normalized for weather, OTP's 2019 ROE was 7.99%, representing an under-earnings of approximately \$4.7 million. The ROE authorized by the Commission is weather normalized, and the authorized ROE was 9.77% (Case No. PU-17-398).

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

Other Trail Power Company

Attachment 1

North Dakota

Revenue Excess / Deficiency & Rate Base

(\$ in 000s)

Un-normalized for weather

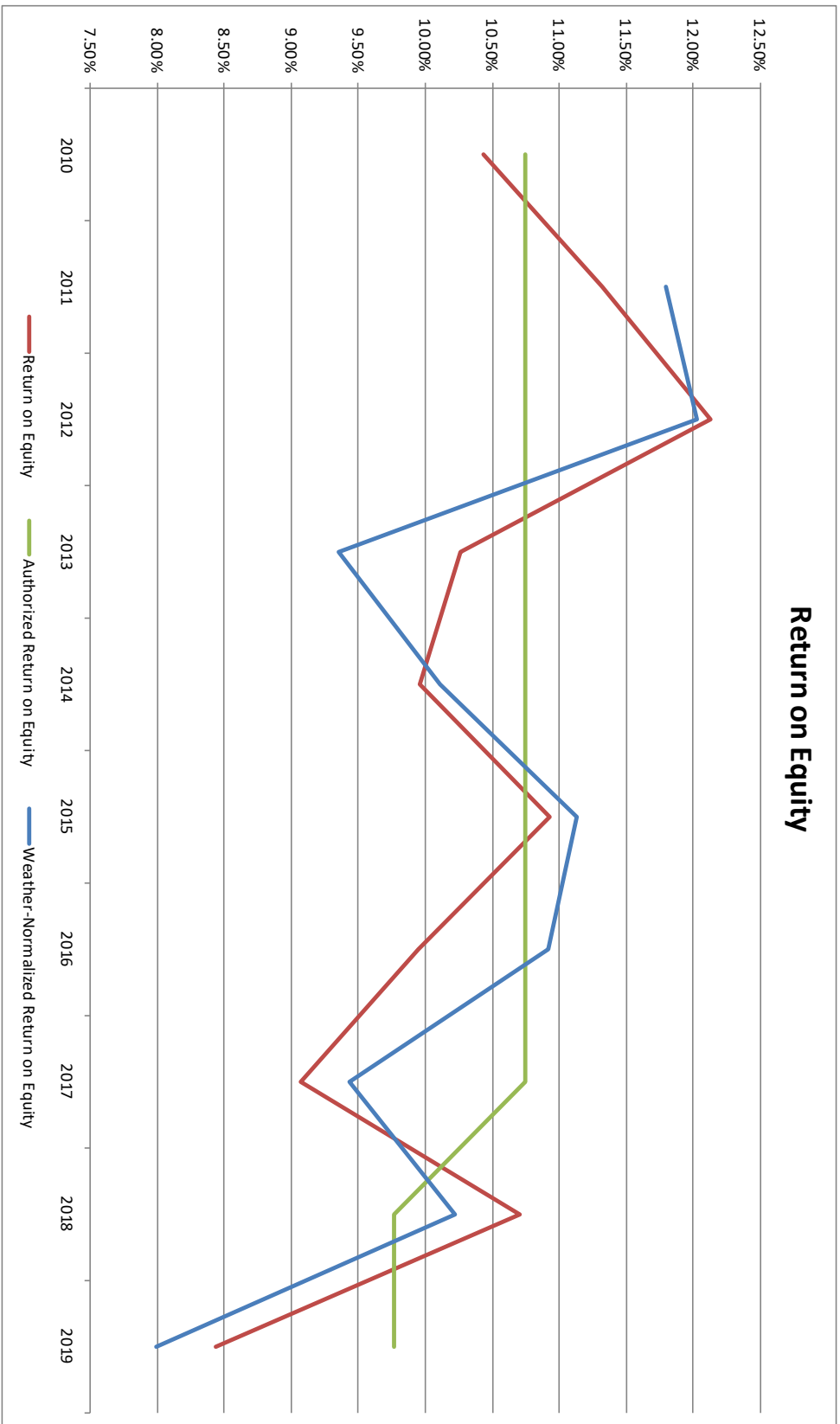
Revenue Excess (Deficiency) Calculation:

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Rate Base	\$182,550	\$189,882	\$266,903	\$295,435	\$334,736	\$356,396	\$350,542	\$351,550	\$354,656	\$372,733
Cost of Capital	8.76%	8.68%	8.30%	8.15%	8.03%	8.27%	8.22%	8.13%	7.64%	7.63%
Return Required	\$15,983	\$16,481	\$22,141	\$24,064	\$26,893	\$29,485	\$28,824	\$28,575	\$27,095	\$28,428
Net Income	15,684	17,052	24,007	23,317	25,603	29,821	27,340	25,472	28,863	25,790
Return Excess (Deficiency)	(\$299)	\$571	\$1,867	(\$747)	(\$1,290)	\$336	(\$1,484)	(\$3,102)	\$1,768	(\$2,638.07)
Income Tax Factor 1/	1.6437	1.6220	1.6220	1.6115	1.6115	1.6078	1.6078	1.6078	1.3228	1.3228
Revenue Excess (Deficiency)	(\$492)	\$925	\$3,028	(\$1,204)	(\$2,078)	\$540	(\$2,386)	(\$4,988)	\$2,339	(\$3,490)

Rate Base:

Plant in Service	\$443,442	\$460,915	\$591,999	\$615,001	\$638,267	\$684,776	\$713,875	\$735,002	\$749,678	\$765,746
Net Capitalized - Big Stone	4	0	0	0	0	0	0	0	0	0
Accumulated Depreciation	(210,461)	(221,424)	(244,360)	(260,249)	(275,334)	(277,583)	(275,834)	(292,314)	(304,826)	(315,174)
Net Plant	\$232,985	\$239,491	\$347,639	\$354,752	\$362,933	\$407,193	\$438,041	\$442,688	\$444,852	\$450,572
Plant Held for Future Use	13	13	13	13	13	13	13	13	13	13
Construction Work in Progress	1,595	3,899	10,014	38,551	70,458	42,713	5,735	4,548	3,806	3,512
Material and Supplies	6,530	6,514	7,066	7,518	7,910	8,066	7,832	7,860	8,420	9,076
Fuel Stocks	3,233	4,388	4,513	4,110	3,787	4,203	4,030	3,391	3,077	3,119
Prepayments	(12,355)	(11,918)	(14,174)	(14,129)	(10,707)	(6,655)	(6,646)	(10,523)	(10,241)	(4,365)
Customer Advances	(185)	(218)	(209)	(252)	(357)	(407)	(397)	(362)	(368)	(687)
Cash Working Capital	1,382	1,999	2,974	3,484	3,439	2,912	2,847	4,818	3,246	9,415
Accum. Deferred Income Taxes	(50,648)	(54,286)	(90,932)	(98,612)	(102,741)	(101,642)	(100,914)	(100,884)	(98,148)	(97,923)
Total Rate Base	\$182,550	\$189,882	\$266,903	\$295,435	\$334,736	\$356,396	\$350,542	\$351,550	\$354,656	\$372,733

Return on Equity



Otter Tail Power Company
North Dakota Electric Operations
Return Calculation
(\$ in 000s)

Description	With all Riders									
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Operating Revenues	\$121,305	\$125,008	\$138,315	\$148,488	\$160,126	\$156,793	\$154,590	\$155,380	\$160,707	\$158,808
Production	51,680	53,506	54,798	59,589	66,743	58,885	54,725	57,049	61,605	59,733
Gross Margins	\$69,625	\$71,502	\$83,517	\$88,900	\$93,384	\$97,908	\$99,865	\$98,331	\$99,102	\$99,075
Change in Margins from Prior Yr	\$992	\$1,877	\$12,015	\$5,383	\$4,484	\$4,524	\$1,957	(\$1,534)	\$771	(\$26)
Transmission	4,838	5,496	7,117	8,884	10,807	11,668	12,458	12,883	12,259	12,199
Distribution	7,056	6,773	7,129	7,545	7,556	7,131	7,668	8,137	8,354	8,367
Customer Accounting	5,101	5,078	5,432	5,848	5,820	5,594	5,456	5,641	5,716	5,815
Cust. Service and Info. Exp.	998	1,102	1,193	1,156	1,107	1,064	1,178	1,017	871	868
Sales Expense	542	167	140	158	119	18	16	55	47	18
Admin. and General	13,388	13,090	13,142	16,195	17,012	16,331	15,985	16,878	15,427	14,894
Depreciation Expense	11,893	13,547	18,601	19,204	18,339	17,734	20,190	20,040	20,549	21,516
General Taxes	3,586	3,991	4,544	4,674	5,086	5,148	4,931	5,020	4,863	4,769
Sub-total (Lines 4-12)	\$47,402	\$49,244	\$57,299	\$63,665	\$65,845	\$64,688	\$67,883	\$69,671	\$68,086	\$68,448
NOI Before Int. & Income Taxes	\$22,223	\$22,258	\$26,217	\$25,235	\$27,539	\$33,220	\$31,981	\$28,659	\$31,015	\$30,627
Income Tax	6,539	5,206	2,210	1,918	1,936	3,399	4,641	3,187	2,153	4,837
Net Income	\$15,684	\$17,052	\$24,007	\$23,317	\$25,603	\$29,821	\$27,340	\$25,472	\$28,863	\$25,790