

# Memorandum

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

From: Adam Renfandt

Date: September 13, 2021

Re: Otter Tail Power Company (OTP), 2020 Electric, Annual Report

Case No. PU-21-215

In Case No. PU-17-398, the Commission authorized a return on equity (ROE) of 9.77%.

Staff has reviewed OTP's North Dakota annual report filing for 2020. OTP reports an ROE of approximately 7.9% for 2020, and their under-earnings was approximately \$5.5 million.

OTP's ROE was driven by a combination of an increase to rate base from a late 2020 in-service date for the Merricourt wind facility, an increase in pension contribution prepayments, and a decline in MWh sales. Given the level of under-earnings, Staff recommends the Commission close the 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

c: Amber Stalboerger, OTP

Otter Tail Power Company  
 North Dakota  
 Revenue Excess / Deficiency & Rate Base  
 (\$ in 000s)

Attachment 1

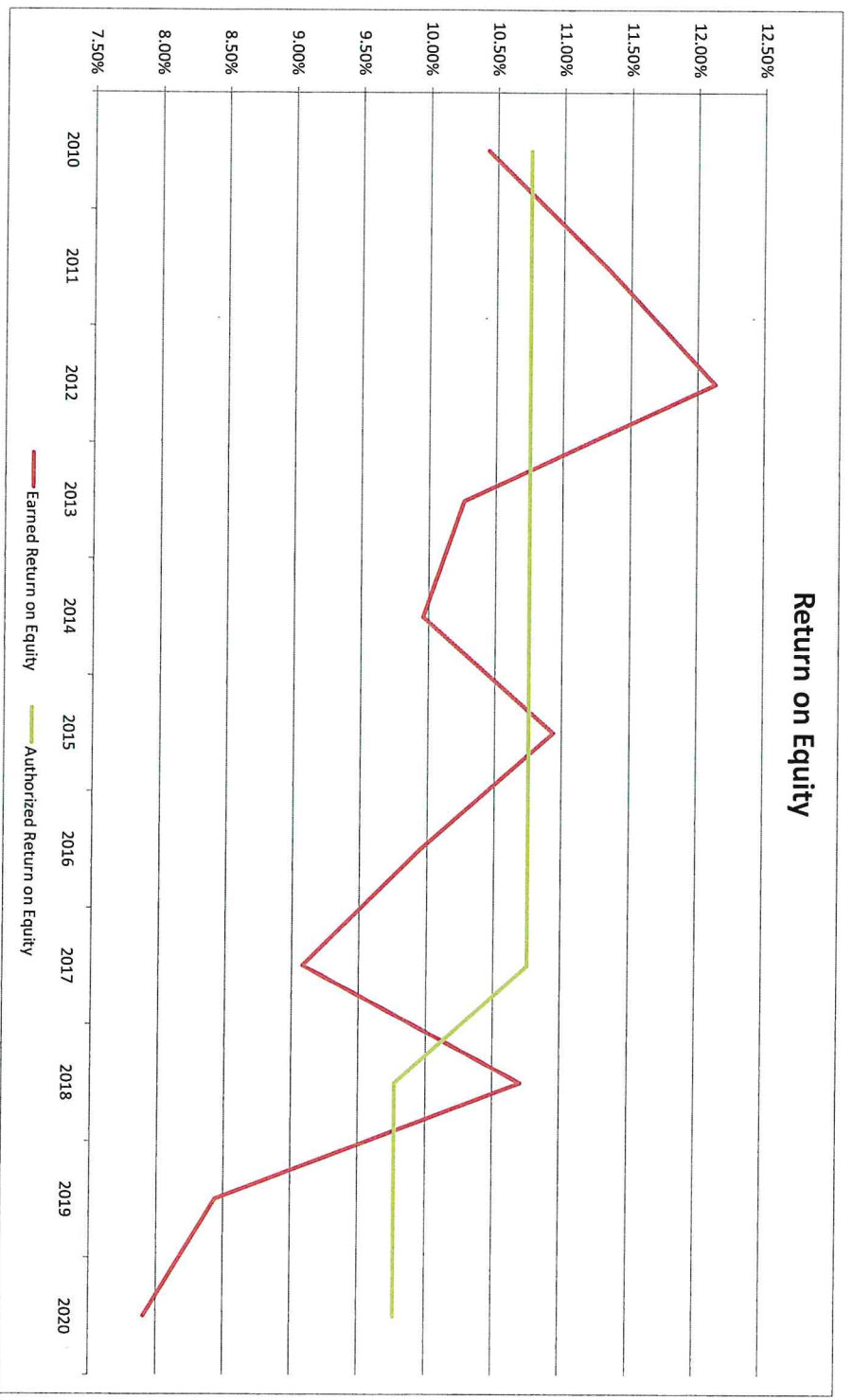
Revenue Excess (Deficiency) Calculation:

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Rate Base	\$182,550	\$189,882	\$266,903	\$295,435	\$334,736	\$356,396	\$350,542	\$351,550	\$354,656	\$372,733	\$422,631
Cost of Capital	8.76%	8.68%	8.30%	8.15%	8.03%	8.27%	8.22%	8.13%	7.64%	7.63%	7.46%
Return Required	\$15,983	\$16,481	\$22,141	\$24,064	\$26,893	\$29,485	\$28,824	\$28,575	\$27,095	\$28,428	\$31,517
Net Income	15,684	17,052	24,007	23,317	25,603	29,821	27,340	25,472	28,863	25,790	27,367
Return Excess (Deficiency)	(\$299)	\$571	\$1,867	(\$747)	(\$1,290)	\$336	(\$1,484)	(\$3,102)	\$1,768	(\$2,638)	(\$4,150)
Income Tax Factor	1.6437	1.6220	1.6220	1.6115	1.6115	1.6078	1.6078	1.6078	1.3228	1.3228	1.3228
Revenue Excess (Deficiency)	(\$492)	\$925	\$3,028	(\$1,204)	(\$2,078)	\$540	(\$2,386)	(\$4,988)	\$2,339	(\$3,490)	(\$5,490)

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	\$834,800
Net Capitalized - Big Stone	4	0	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)	(328,763)
Net Plant	\$232,985	\$239,491	\$347,639	\$354,752	\$362,933	\$407,193	\$438,041	\$442,688	\$444,852	\$450,572	\$506,037
Plant Held for Future Use	13	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	7,483
Material and Supplies	6,530	6,514	7,066	7,518	7,910	8,066	7,832	7,860	8,420	9,076	9,386
Fuel Stocks	3,233	4,388	4,513	4,110	3,787	4,203	4,030	3,391	3,077	3,119	2,972
Prepayments	(12,355)	(11,918)	(14,174)	(14,129)	(10,707)	(6,655)	(6,646)	(10,523)	(10,241)	(4,365)	67
Customer Advances	(185)	(218)	(209)	(252)	(357)	(407)	(397)	(362)	(368)	(687)	(777)
Cash Working Capital	1,382	1,999	2,974	3,484	3,439	2,912	2,847	4,818	3,246	9,415	7,583
Accum. Deferred Income Taxes	(50,648)	(54,286)	(90,932)	(98,612)	(102,741)	(101,642)	(100,914)	(100,884)	(98,148)	(97,923)	(110,134)
<b>Total Rate Base</b>	<b>\$182,550</b>	<b>\$189,882</b>	<b>\$266,903</b>	<b>\$295,435</b>	<b>\$334,736</b>	<b>\$356,396</b>	<b>\$350,542</b>	<b>\$351,550</b>	<b>\$354,656</b>	<b>\$372,733</b>	<b>\$422,631</b>

### Return on Equity



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

Attachment 3

Description	With all Riders										
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Operating Revenues	\$121,305	\$125,008	\$138,315	\$148,488	\$160,126	\$156,793	\$154,590	\$155,380	\$160,707	\$158,808	\$148,271
Production	51,680	53,506	54,798	59,589	66,743	58,885	54,725	57,049	61,605	59,733	48,691
Gross Margins	\$69,625	\$71,502	\$83,517	\$88,900	\$93,384	\$97,908	\$99,865	\$98,331	\$99,102	\$99,075	\$99,579
Change in Margins from Prior Yr	\$992	\$1,877	\$12,015	\$5,383	\$4,484	\$4,524	\$1,957	(\$1,534)	\$771	(\$26)	\$504
Transmission	4,838	5,496	7,117	8,884	10,807	11,668	12,458	12,883	12,259	12,199	11,159
Distribution	7,056	6,773	7,129	7,545	7,556	7,131	7,668	8,137	8,354	8,367	7,709
Customer Accounting	5,101	5,078	5,432	5,848	5,820	5,594	5,456	5,641	5,716	5,815	6,657
Cust. Service and Info. Exp.	998	1,102	1,193	1,156	1,107	1,064	1,178	1,017	871	868	936
Sales Expense	542	167	140	158	119	18	16	55	47	18	10
Admin. and General	13,388	13,090	13,142	16,195	17,012	16,331	15,985	16,878	15,427	14,894	15,420
Depreciation Expense	11,893	13,547	18,601	19,204	18,339	17,734	20,190	20,040	20,549	21,516	23,274
General Taxes	3,586	3,991	4,544	4,674	5,086	5,148	4,931	5,020	4,863	4,769	5,861
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	\$71,026
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	\$28,553
Income Tax	6,539	5,206	2,210	1,918	1,936	3,399	4,641	3,187	2,153	4,837	1,186
Net Income	\$15,684	\$17,052	\$24,007	\$23,317	\$25,603	\$29,821	\$27,340	\$25,472	\$28,863	\$25,790	\$27,367