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June 1, 2018

Ms. Patricia Van Gerpen
Executive Director
South Dakota Public Utilities Commission
Capitol Building, 1st floor
500 East Capitol Avenue
Pierre, SD 57501-5070

**PUBLIC – NOT PUBLIC DATA HAS
BEEN EXCISED**

**Re: In the Matter of Otter Tail Power Company's 2017 South Dakota Jurisdictional Report to the
South Dakota Public Utilities Commission
Docket No. EL17-048**

Dear Ms. Van Gerpen:

Enclosed you will find the 2017 Annual Report for Otter Tail Power Company (Otter Tail) which is being submitted pursuant to the Settlement Stipulations approved by the Commission in Otter Tail's 2017 Transmission Cost Recovery Rider, Docket No. EL17-048. The report provides the regulated returns for Otter Tail for calendar year 2017 on an actual and normalized basis with 2016 actual year regulated results also being provided for comparative purposes.

Key contributors to the decrease in Otter Tail's return on equity for 2017 include an increase in overall expenses in South Dakota, as well as a decrease to the Average Regulated Rate Base.

Also enclosed is a Request for Confidential Treatment of Exhibits 5 and 6, and Addendum 4.

If you have any questions regarding this filing, please contact me at 218-739-8275 or gice@otpc.com.

Sincerely,

/s/ GINA S. ICE
Gina S. Ice
Rates Analyst
Regulatory Administration

ljh
Enclosures
By electronic filing

ANNUAL REPORT
OF
JURISDICTIONAL EARNINGS
BY
OTTER TAIL POWER COMPANY
A MINNESOTA CORPORATION
TO THE
SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

FOR THE YEAR ENDING
DECEMBER 31, 2017

South Dakota Jurisdiction
Electric Utility



2017

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**Otter Tail Power Company
South Dakota Retail Jurisdiction**

I. Return on Equity

<u>Actual Return on Equity (ROE)</u>	<u>2017</u>	<u>2016</u>
(In Thousands)		
1 Operating Income from Electric Operations (Exhibit 2)	\$4,813	\$5,940
2 Average Regulated Rate Base (Exhibit 3)	\$83,873	\$89,086
3 Rate of Return on Rate Base (Line 1/Line 2)	5.74%	6.67%
4 Weighted Cost of Debt (Exhibit 4)	5.20%	5.41%
5 Weighted Cost of Preferred Stock (Exhibit 4)	0.00%	0.00%
6 Percent of Equity in Capital Structure	52.76%	52.67%
7 Return on Equity (ROE)	6.22%	7.80%

Normalization Impact

8 Operating Income from Electric Operations	\$4,948	\$6,241
9 Impact of weather on mWh Sales	5,862	(6,280)
10 Impact of Weather on Electric Operating Income	\$135	(\$301)
11 Weather Normalized Operating Income	\$4,948	\$6,241
12 Average Regulated Rate Base	\$83,877	\$89,067
13 Weather Normalized Rate of Return on Rate Base	5.90%	7.01%
14 Weather Normalized Return on Equity (ROE)	6.52%	8.45%

Otter Tail Power Company
South Dakota Retail Jurisdiction

II. OPERATING INCOME

Line	2017 Total OTP	2017 SD Juris	2016 SD Juris	Annual Change
<u>Operating Revenues</u>				
1 Residential	\$115,781,564	\$10,686,835	\$10,358,796	3.17%
2 Commercial	62,129,329	21,562,432	21,399,488	0.76%
3 Industrial	187,502,413			
4 Streetlighting	3,707,559	392,555	391,082	0.38%
5 OPA	3,055,420	288,050	278,904	3.28%
6 Total Retail	\$372,176,287	\$32,929,872	\$32,428,270	1.55%
7 Other Operating Revenue	58,386,685	1,729,993	2,548,788	-32.12%
8 Total Revenue	\$430,562,972	\$34,659,865	\$34,977,059	-0.91%
<u>Operating Expenses</u>				
9 Production	\$156,639,966	\$14,201,172	\$13,587,787	4.51%
10 Transmission	32,135,395	2,936,416	2,932,897	0.12%
11 Distribution	17,761,845	1,686,406	1,597,231	5.58%
12 Customer Accounting	12,912,128	1,144,837	1,105,480	3.56%
13 Customer Service and Information	9,358,287	663,245	231,978	185.91%
14 Sales	337,682	20,751	6,309	228.90%
15 Admin & General	43,609,630	3,743,775	3,655,474	2.42%
16 Charitable Contributions	0	0	0	0.00%
17 Depreciation & Amortization	50,900,724	4,720,403	4,709,563	0.23%
18 Amortization of Big Stone Plant Capitalized Costs	0	0	0	0.00%
23 Spiritwood Amortization	0	0	0	0.00%
24 Other General Taxes	15,045,286	972,750	972,267	0.05%
25 Income Tax	14,852,134	(242,943)	237,773	-202.17%
25 Total Expenses	\$353,553,076	29,846,813	29,036,759	2.79%
26 Allowance for Funds Used During Construction	\$1,726,880	0	0	0
27 Regulated Operating Income	\$78,736,776	\$4,813,053	\$5,940,299	-18.98%

Otter Tail Power Company
South Dakota Retail Jurisdiction

III. Average Rate Base

Line	2017 Total OTP	2017 SD Juris	2016 SD Juris	Annual Change
1 Plant in Service	\$1,926,147,002	\$162,094,264	\$161,592,210	0.31%
2 Accumulated Depreciation	(747,632,742)	(68,968,547)	(64,125,553)	7.55%
3 Net Plant in Service	\$1,178,514,260	\$93,125,716	\$97,466,657	-4.45%
4 Plant Held for Future Use	\$29,657	\$2,786	\$2,802	-0.59%
5 Construction Work in Progress	158,432,233	0	0	
6 Materials and Supplies	19,658,295	1,835,941	1,806,696	1.62%
7 Fuel Stocks	9,089,677	845,834	974,985	-13.25%
8 Prepayments	(24,727,324)	(1,953,943)	(539,634)	262.09%
9 Customer Advances	(934,625)	(73,854)	(91,295)	-19.10%
10 Cash Working Capital	16,686,738	2,821,653	2,373,772	18.87%
11 Accum. Deferred Taxes	(260,006,587)	(12,730,694)	(12,907,556)	-1.37%
12 Unamortized Holding Company Formation Expense	0	0	0	
Unamortized Rate Case Expense	0	0	0	
13 Total Other Rate Base	(\$81,771,936)	(\$9,252,277)	(\$8,380,230)	10.41%
14 Total Average Rate Base	\$1,096,742,324	\$83,873,439	\$89,086,428	-5.85%

**Otter Tail Power Company
South Dakota Retail Jurisdiction**

IV. Cost of Capital ¹

2017 Actual

Line		<u>Amount</u>	<u>% of Total</u>	<u>Cost</u>	<u>Weighted Cost</u>
1	Long-Term Debt	\$495,981,657	47.24%	5.20%	2.46%
2	Short-Term Debt	-	0.00%		0.00%
3	Total Debt	<u>\$495,981,657</u>	<u>47.24%</u>		
4	Preferred Stock	-	0.00%	0.00%	0.00%
5	Common Equity	<u>\$553,908,834</u>	<u>52.76%</u>	6.22%	3.28%
6	Total Equity	<u>\$553,908,834</u>	<u>52.76%</u>		
7	Total Capital	\$1,049,890,491	100.00%		5.74%

2017 Normalized

Line		<u>Amount</u>	<u>% of Total</u>	<u>Cost</u>	<u>Weighted Cost</u>
8	Long-Term Debt	\$495,981,657	47.24%	5.20%	2.46%
9	Short-Term Debt	-	0.00%	0.00%	0.00%
10	Total Debt	<u>\$495,981,657</u>	<u>47.24%</u>		
11	Preferred Stock	-	0.00%	0.00%	0.00%
12	Common Equity	<u>\$553,908,834</u>	<u>52.76%</u>	6.52%	3.44%
13	Total Equity	<u>\$553,908,834</u>	<u>52.76%</u>		
14	Total Capital	\$1,049,890,491	100.00%		5.90%

¹ Based on 13 month averages, consistent with methodology approved in last rate case,
Docket No. EL10-011

Otter Tail Power Company
South Dakota Retail Jurisdiction

V. Required Rate of Return

¹

2017 Based on Authorized ROE

Line	<u>Amount</u>	<u>% of Total</u>	<u>Cost</u>	<u>Weighted Cost</u>
	[PROTECTED DATA BEGINS...			
1	Long-Term Debt			
2	Short-Term Debt			
3	Total Debt			
4	Preferred Stock			
5	Common Equity			
6	Total Equity			
7	Total Capital			

...PROTECTED DATA ENDS]

¹ Based on 13 month averages, consistent with methodology approved in last rate case,
Docket No. EL10-011

Otter Tail Power Company
South Dakota Retail Jurisdiction

VI. Revenue Deficiency

2017 Based on Authorized ROE

	Actual 2017 SD Jurisdiction	Weather Normalized 2017 SD Jurisdiction
Line	[PROTECTED DATA BEGINS...	
1		
2		
3		
4		
5	_____	_____
6		
7	_____	_____
		...PROTECTED DATA ENDS]

Otter Tail Power Company (SD)
Electric Utility - South Dakota Retail Jurisdiction
Cost of Service Study
2017 Actuals

Rate Base Summary ¹

	<u>Total Company</u> 13 Month Average Balance	<u>South Dakota</u> 13 Month Average Balance	<u>All Others</u> 13 Month Average Balance
1 Plant Investment	\$1,926,147,002	\$162,094,264	\$1,764,052,739
2 Depreciation Reserve	(747,632,742)	(68,968,547)	(678,664,195)
3 Net Utility	1,178,514,260	93,125,716	1,085,388,544
4 Plant Held for Future Use	29,657	2,786	26,871
5 CWIP	158,432,233	0	158,432,233
6 Accumulated Deferred Taxes	(260,006,587)	(12,730,694)	(247,275,893)
Other Rate Base:			0
7 Cash Working Capital	16,686,738	2,821,653	13,865,085
8 Materials & Supplies	19,658,295	1,835,941	17,822,354
9 Fuel Inventory	9,089,677	845,834	8,243,842
10 Non-Plant Assets & Liab	0	0	0
11 Prepays & Other	(25,661,949)	(2,027,797)	(23,634,152)
12 Total Rate Base	\$1,096,742,324	\$83,873,439	\$1,012,868,885

¹ Based on 13 month averages, consistent with methodology approved in last rate case,
Docket No. EL10-011

Otter Tail Power Company (SD)
Electric Utility - South Dakota Retail Jurisdiction
Cost of Service Study
2017 Actuals

Income Statement Summary

	Total Company Electric	SD Retail Electric	All Others
Operating Revenues			
Retail	\$372,176,287	\$32,929,872	\$339,246,414
Other Operating	58,386,685	1,729,993	56,656,693
Total Operating revenues	\$430,562,972	\$34,659,865	\$395,903,107
Expenses			
Operating Expenses:			
Fuel & Purchased Energy	\$91,832,748	8,343,131	\$83,489,617
Power Production	64,807,218	5,858,042	58,949,176
Transmission	32,135,395	2,936,416	29,198,979
Distribution	17,761,845	1,686,406	16,075,438
Customer Accounting	12,912,128	1,144,837	11,767,291
Customer Service & Information	9,358,287	663,245	8,695,042
Sales, Econ Dvp & Other	337,682	20,751	316,931
Administrative & General	43,609,630	3,743,775	39,865,856
General Taxes	15,045,286	972,750	14,072,536
Charitable Contributions	0	0	0
Total Operating Expenses	\$287,800,218	\$25,369,352	\$262,430,866
Depreciation	\$50,900,724	\$4,720,403	\$46,180,320
Amortization	0	0	0
Taxes			
Investment Tax Credit	(\$8,997,380)	(\$757,172)	(\$8,240,208)
Deferred Income Taxes	15,878,036	514,229	15,363,807
Current Income Taxes (Addendum 3)	7,971,478	(0)	7,971,478
Total Taxes	\$14,852,134	(\$242,943)	\$15,095,077
Total Expenses	\$353,553,076	\$29,846,813	\$323,706,263
AFUDC	1,726,880	0	1,726,880
Total Operating Income	\$78,736,776	\$4,813,053	\$73,923,723

Otter Tail Power Company (SD)
Electric Utility - South Dakota Retail Jurisdiction
Cost of Service Study
2017 Actuals

Current Income Tax Summary

	Total Company Electric	SD Retail Electric	All Others
Income Before Taxes			
Total Operating Revenues	\$430,562,972	\$34,659,865	\$395,903,107
less: Total Operating Expenses	(272,754,933)	(24,396,602)	(248,358,330)
Book Depreciation & Amortization	(50,900,724)	(4,720,403)	(46,180,320)
Taxes (Other Than Current Income)	(15,045,286)	(972,750)	(14,072,536)
Total Before Tax Book Income	\$91,862,030	\$4,570,110	\$87,291,920
less: Interest Cost	26,915,740	2,421,910	24,493,830
Net Income Before Tax	\$64,946,291	\$2,148,200	\$62,798,091
Federal Schedule M Adjustments			
Additional Tax Depreciation	\$34,438,568	\$2,721,322	\$31,717,246
Cost to Remove	3,006,569	237,578	2,768,991
Directly Assigned Schedule M Items	0	0	0
Accrued Vacation Pay	(26,010)	(2,055)	(23,955)
Charges - Operating Reserves	6,708,805	530,127	6,178,678
Provisions - Operating Reserves	(8,726,396)	(689,556)	(8,036,840)
Unbilled Revenues	0	0	0
Preferred Dividends Paid Credits	0	0	0
Other Schedule M Items	12,656,217	1,000,089	11,656,128
Total Schedule M Adjustments	\$48,057,753	\$3,797,504	\$44,260,249
Federal Adjusted Income Before Income Taxes	16,888,537	(1,649,304)	18,537,842
Less:			
Minnesota State Income Tax	1,733,420	0	1,733,420
North Dakota State Income Tax	65,158	0	65,158
Federal Taxable Income	15,089,959	(1,649,304)	16,739,264
Federal Tax Rate	35%	35%	35%
Federal Income Tax Before Credits	5,281,486	(577,257)	5,858,742
Investment Tax Credit - Debits Utilized	0	0	0
less: Current Federal Income Taxes transferred to Deferred Taxes due to Net Operating Loss	891,414	577,256	314,158
Federal Income Taxes	\$6,172,900	(\$0)	\$6,172,900
State Income Taxes			
Minnesota State Income Tax	1,733,420	0	1,733,420
North Dakota State Income Tax	65,158	0	65,158
Total Current Income Taxes	\$7,971,478	(\$0)	\$7,971,478

Otter Tail Power Company (SD)
 Electric Utility - South Dakota Retail Jurisdiction
 Cost of Service Study
 2017 Actuals

Revenue Requirement & Return Summary

[PROTECTED DATA BEGINS...]

Capital Structure	Rate	Ratio	Weighted Cost	Composite Income Tax Rates
1 Long Term Debt				State of South Dakota Tax Rate
2 Short Term Debt				Federal Statutory Tax Rate
3 Preferred Stock				Federal Effective Tax Rate (1-State Rate x Fed Rate)
4 Common Equity				Total South Dakota Composite Tax Rate
5 Required Earned Rate of Return				Total Corporate Composite Tax Rate

	Total Company Electric	SD Retail Electric	All Others
Rate of Return (ROR)			
6 Total Operating Income			
7 Total Average Rate Base			
8 ROR (Operating Income/Rate Base)			
Return on Equity (ROE)			
9 Total Operating Income			
10 Debt Interest (Rate Base x Weighted Debt Cost)			
11 Preferred Stock (Rate Base x Weighted Preferred Cost)			
12 Earnings Available for Common			
13 Equity Rate Base (Rate Base x Equity Ratio)			
14 ROE (Earnings for Common / Equity Rate Base)			
Revenue Deficiency			
15 Require Operating Income (Rate Base x Required Return)			
16 Operating Income			
17 Operating Income Deficiency			
18 Incremental Taxes			
19 Revenue Deficiency			
Total Retail Revenue Requirements			
20 Retail Related Revenues			
21 Revenue Deficiency			
22 Total Retail Revenue Requirements			
23 Percentage Increase (Decrease)			

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