

Before the South Dakota Public Utilities Commission  
State of South Dakota

In the Matter of the Application of Otter Tail Power Company  
For Authority to Increase Rates for Electric Utility  
Service in South Dakota

Docket No. EL18-021

Exhibit \_\_\_\_

**RATE BASE,  
REVENUE REQUIREMENT AND ADJUSTMENTS**

Supplemental Direct Testimony and Schedules of

**TYLER A. AKERMAN**

November 1, 2018

**TABLE OF CONTENTS**

I. INTRODUCTION ..... 1

II. ERRATA AND SUPPLEMENTAL RATE BASE ADJUSTMENTS ..... 2

    A. CISONE ERRATA CORRECTION & UPDATED COSTS ..... 2

    B. ADIT ADJUSTMENT ERRATA CORRECTION ..... 3

    C. TRANSMISSION RECOVERY ERRATA ADJUSTMENT ..... 4

    D. TRUE UP 2017 TAX RETURN BONUS DEPRECIATION ..... 4

III. ERRATA AND SUPPLEMENTAL INCOME STATEMENT ADJUSTMENTS ..... 5

    A. CISONE CORRECTION AND UPDATE ..... 5

    B. CHARITABLE ADMINISTRATION REMOVAL ..... 6

    C. UPDATED WEATHER NORMALIZATION ..... 7

    D. REMOVE KPA & MANAGEMENT INCENTIVE ..... 7

    E. KPA & MANAGEMENT INCENTIVE TO O&M EXPENSE ..... 8

    F. REMOVE LIME COSTS FROM BASE RATES AND ADD LIME COSTS TO  
        COST OF ENERGY ..... 8

IV. CONCLUSION ..... 9

## **ATTACHED SCHEDULES**

- Schedule 1 – Jurisdictional Financial Summary, Supplemental
- Schedule 2 – Test Year Rate Base, Supplemental
- Schedule 3 – Test Year Rate Base Adjustments, Supplemental
- Schedule 4 – Test Year Income Statement, Supplemental
- Schedule 5 – Test Year Income Statement Adjustments, Supplemental
- Schedule 6 – Plant Normalization TY-01 Adjustment, Supplemental

1 **I. INTRODUCTION**

2 Q. PLEASE STATE YOUR NAME AND OCCUPATION.

3 A. My name is Tyler Akerman. I am employed by Otter Tail Power Company (OTP) as  
4 Manager of the Business Planning/Regulatory Accounting Department.

5

6 Q. DID YOU PREVIOUSLY FILE DIRECT TESTIMONY IN THIS PROCEEDING?

7 A. Yes. I filed Direct Testimony on behalf of Otter Tail Power Company (OTP).

8

9 Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL DIRECT TESTIMONY?

10 A. I will address an update of the revenue requirement to reflect impacts of updates  
11 explained in the Supplemental Direct Testimony of OTP witness Mr. Stuart Tommerdahl  
12 regarding changes to the CISone project, true-up of 2017 tax return for bonus  
13 depreciation, removal of charitable administrative costs, and correcting the allocation of  
14 expense for OTP's KPA and Management Incentives. I also explain several errata  
15 adjustments and the impact of those adjustment to Rate Base and the Income Statement.

16

17 Q. HOW IS YOUR SUPPLEMENTAL DIRECT TESTIMONY ORGANIZED?

18 A. In Section II, I address the supplemental rate base adjustments. In Section III, I address  
19 the supplemental income statement adjustments. Section IV includes my conclusion.

20

21 Q. HAVE YOU INCLUDED ANY SCHEDULES OR EXHIBITS WITH YOUR  
22 SUPPLEMENTAL DIRECT TESTIMONY?

23 A. Yes. I have included schedules to support my Supplemental Direct Testimony. Schedules  
24 1 through 5 provide initial Test Year and Supplemental amounts.

1 **II. ERRATA AND SUPPLEMENTAL RATE BASE ADJUSTMENTS**

2 Q. IS OTP MAKING ANY ERRATA AND SUPPLEMENTAL RATE BASE  
3 ADJUSTMENTS?

4 A. Yes. OTP is making errata adjustments to correct misstated items in our initial filing.  
5 Specifically, OTP is proposing the following errata adjustments to rate base: 1) CISone  
6 Test Year Adjustment 2) update ADIT from Test Year Adjustment and 3) updating the  
7 Transmission Recovery Adjustment. We are also providing supplemental adjustments to  
8 account for developments that have occurred since our initial filing. OTP's Supplemental  
9 adjustments to rate base address: 1) CISone customer information system project and 2)  
10 true up for 2017 tax return bonus depreciation.

11 **A. CISone Errata Correction & Updated Costs**

12 Q. HAS OTP MADE ANY ERRATA ADJUSTMENTS TO THE CISONE PROJECT  
13 COSTS?

14 A. Yes. OTP has made an errata adjustment to correct rate base in the 2017 Test Year to  
15 reflect changes made in the TY-01 adjustment. The original adjustment included a 13-  
16 month average amount for Plant in Service and Accumulated Depreciation already in the  
17 2017 Actual Year which reduced the normalized amounts. In 2017, OTP had the CISone  
18 costs in CWIP which, in South Dakota, are not eligible for recovery so there should not  
19 have been a depreciation reduction in the 13-month average in the original test year  
20 adjustment. The corrected TY-01 is supplied in the errata portion of this filing.

21  
22 Q. WHAT IS THE IMPACT OF THE ERRATA ADJUSTMENT OF TY-01 ON THE  
23 TEST YEAR?

24 A. The adjustment made for the CISone project to Supplemental Rate Base set forth in  
25 Exhibit \_\_ (TAA-2), Schedule 3 Column (A) is a \$336,130 increase to Intangible Plant in  
26 Service and a \$78,897 increase to Intangible Accumulated Depreciation.

27

1 Q. HAS OTP MADE ANY SUPPLEMENTAL ADJUSTMENTS TO THE CISONE  
2 PROJECT COSTS?

3 A. Yes. OTP has made an adjustment to increase rate base in the 2017 Test Year to reflect  
4 increases in the total costs for the CISone Project, which OTP witness Mr. Tommerdahl  
5 explains in his Supplemental Direct Testimony.

6

7 Q. WHAT IS THE IMPACT OF THE CHANGE IN THE PROJECT COSTS ON THE  
8 TEST YEAR?

9 A. The adjustment made for the CISone project to Supplemental Rate Base set forth in  
10 Exhibit \_\_ (TAA-2), Schedule 3 Column (D) is a \$341,736 increase to Intangible Plant in  
11 Service and a \$34,174 increase to Intangible Accumulated Depreciation.

12 **B. ADIT Adjustment Errata Correction**

13 Q. HAS OTP MADE AN ERRATA ADJUSTMENT TO CORRECT AN ADJUSTMENT  
14 MADE TO ADIT?

15 A. Yes. OTP has made an adjustment to correct the rate base in the 2017 Test Year to  
16 reflect changes to Test Year adjustment TY-15. The corrected TY-15 is supplied in the  
17 errata portion of this filing. OTP inadvertently doubled up ADIT adjustments in the Test  
18 Year in the amount of \$263,985.

19

20 Q. WHAT IS THE IMPACT OF THE ERRATA CORRECTION TO ADIT ON THE TEST  
21 YEAR?

22 A. The adjustment made for the ADIT adjustment to Supplemental Rate Base set forth in  
23 Exhibit \_\_ (TAA-2), Schedule 3 Column (B) is a \$263,985 decrease to Accumulated  
24 Deferred Income Tax (ADIT).

1           **C.   Transmission Recovery Errata Adjustment**

2   Q.   HAS OTP MADE AN ERRATA ADJUSTMENT TO CORRECT AN ADJUSTMENT  
3       MADE FOR TRANSMISSION RECOVERY ADJUSTMENT?

4   A.   Yes.  OTP has made an errata adjustment to decrease the rate base in the 2017 Test Year  
5       to reflect changes on our workpaper SD-12 found in Volume 4A section 2, Workpapers  
6       A-D, SD.  The corrected SD-12 is supplied in the errata portion of this filing.  The  
7       adjustment was explained on page 9 in the Direct Testimony of Mr. Bryce C. Haugen.

8  
9   Q.   WHAT IS THE IMPACT OF THE TRANSMISSION RECOVERY ADJUSTMENT ON  
10       THE TEST YEAR?

11  A.   The errata adjustment made for the Transmission Recovery adjustment to Supplemental  
12       Rate Base set forth in Exhibit \_\_\_(TAA-2), Schedule 3 Column (C) is a \$4,481 decrease  
13       to Plant in Service-Transmission.

14           **D.   True Up 2017 Tax Return Bonus Depreciation**

15  Q.   HAS OTP MADE A SUPPLEMENTAL ADJUSTMENT TO TRUE UP BONUS  
16       DEPRECIATION BASED ON THE FILED 2017 TAX RETURN?

17  A.   Yes.  OTP has made a supplemental adjustment to increase the rate base in the 2017 Test  
18       Year to reflect changes in bonus depreciation while completing our 2017 tax return.  The  
19       excess deferred income tax balance included in the initial rate case filing was the known  
20       and measurable amount based upon 2017 year-end accumulated deferred income tax  
21       balances.  Due to the accelerated closing schedule used by OTP, these amounts were  
22       calculated using estimated activity for December 2017.  Final amounts were calculated  
23       when OTP finalized its 2017 tax return, which was submitted in October 2018.

24  
25  Q.   WHAT IS THE IMPACT OF THE TRUE UP OF 2017 TAX RETURN ON THE TEST  
26       YEAR?

27  A.   The adjustment made for the 2017 Tax return true up to Supplemental Rate Base set forth  
28       in Exhibit \_\_\_(TAA-2), Schedule 3 Column (E) is a \$2,571 increase to Accumulated  
29       Deferred Income Tax.

1 **III. ERRATA AND SUPPLEMENTAL INCOME STATEMENT**  
2 **ADJUSTMENTS**

3 Q. IS OTP PROPOSING ANY ERRATA AND SUPPLEMENTAL INCOME  
4 STATEMENT ADJUSTMENTS?

5 A. Yes. OTP is proposing the following errata adjustments to the income statement: 1)  
6 CISone Test Year Adjustment 2) remove Charitable Administrative charges 3) update the  
7 weather normalization from test year amounts and 4) correct KPA and Management  
8 incentive costs. Supplemental adjustments to the income statement are: 1) CISone  
9 customer information system project costs and 2) remove costs for lime at OTP's Coyote  
10 plant and move them to the Cost of Energy calculation.

11 **A. CISone Correction and Update**

12 Q. HAS OTP MADE ANY ERRATA ADJUSTMENTS TO THE CISONE PROJECT  
13 COSTS?

14 A. Yes. OTP has made an adjustment to correct depreciation expense in the 2017 Test Year  
15 to reflect changes made in the TY-01 adjustment. The original adjustment included an  
16 amount for Depreciation expense already in the 2017 Actual Year which reduced the  
17 normalized amounts. In 2017, OTP had the CISone costs in CWIP which in South Dakota  
18 OTP is not allowed recovery so there should not have been a reduction in the original test  
19 year adjustment. The corrected TY-01 is supplied in the errata portion of this filing.

20  
21 Q. WHAT IS THE IMPACT OF THE ERRATA ADJUSTMENT OF TY-01 ON THE  
22 TEST YEAR?

23 A. The adjustment made for the CISone project to supplemental income statement set forth  
24 in Exhibit \_\_ (TAA-2), Schedule 5 column (A) is a \$24,276 increase to intangible  
25 depreciation expense. This adjustment decreases Total Income Taxes by \$5,098 and  
26 decreases Total Available for Return by \$19,178.

27

1 Q. HAS OTP MADE AN ADJUSTMENT TO THE CISONE PROJECT COSTS?  
2 A. Yes. OTP has made an adjustment to the 2017 Test Year to reflect changes in the total  
3 costs for the CISone Project, which OTP witness Mr. Tommerdahl explains in his  
4 Supplemental Direct Testimony.

5  
6 Q. WHAT IS THE IMPACT OF THE CHANGE IN THE PROJECT COSTS ON THE  
7 TEST YEAR?

8 A. The corresponding impacts on the Supplemental Income Statement are an increase in  
9 Depreciation Expense of \$34,174 as shown in Exhibit\_\_\_(TAA-2), Schedule 5 Column  
10 (F). This adjustment decreases Total Income Taxes by \$7,177 and decreases Total  
11 Available for Return by \$26,997.

12 **B. Charitable Administration Removal**

13 Q. HAS OTP MADE AN ADJUSTMENT TO THE CHARITABLE ADMINISTRATION  
14 COSTS?

15 A. Yes. As noted in OTP's response to DR SD-PUC-02.54, OTP has determined  
16 approximately \$6,800 (OTP SD) of charitable contribution administration expenses are in  
17 the 2017 Test Year cost of service. These administrative expenses fall in to the  
18 Administrative and General Expenses and in Customer Service and Information  
19 Expenses.

20  
21 Q. WHAT IS THE IMPACT OF THE CHANGE IN THE CHARITABLE  
22 ADMINISTRATION COSTS ON THE TEST YEAR?

23 A. The corresponding impact on the Supplemental Income Statement are a decrease in  
24 Administration and General Expenses of \$6,800 as shown in Exhibit\_\_\_(TAA-2),  
25 Schedule 5 Column (B). This adjustment increases Total Income Taxes by \$1,428 and  
26 increases Total Available for Return by \$5,372.

1 **C. Updated Weather Normalization**

2 Q. HAS OTP MADE AN ADJUSTMENT TO UPDATE WEATHER NORMALIZATION?

3 A. Yes. OTP has made an adjustment to the 2017 Test Year to reflect changes in the weather  
4 normalized revenues, which OTP witness Mr. Tommerdahl explains in his Supplemental  
5 Direct Testimony.

6  
7 Q. WHAT IS THE IMPACT OF THE UPDATE TO WEATHER NORMALIZATION ON  
8 THE TEST YEAR?

9 A. The impact on the Supplemental Income Statement are an increase in Operating  
10 Revenues of \$8,378, an increase in Operating Expenses of \$4,358 as shown in  
11 Exhibit\_\_\_(TAA-2), Schedule 5 Column (C). This adjustment increases Total Income  
12 Taxes by \$844 and increases Total Available for Return by \$3,176.

13 **D. Remove KPA & Management Incentive**

14 Q. HAS OTP MADE AN ADJUSTMENT TO KPA AND MANAGEMENT INCENTIVE  
15 COSTS?

16 A. Yes. In discussions with Staff it came to our attention that the full amount of OTP's KPA  
17 and Management Incentive was not correctly adjusted from O&M expense. It was  
18 erroneously functionalized to all labor FERC accounts including capital and below the  
19 line. This adjustment reverses the original Test Year adjustment TY-07. The adjustment  
20 below in part E correctly adjusts the KPA and Management Incentive to O&M expense.

21  
22 Q. WHAT IS THE IMPACT OF THE ADJUSTMENT TO KPA AND MANAGEMENT  
23 INCENTIVE COSTS ON THE TEST YEAR?

24 A. The impact on the Supplemental Income Statement are an increase in Operating Expenses  
25 of \$25,613 as shown in Exhibit\_\_\_(TAA-2), Schedule 5 Column (D). This adjustment  
26 decreases Total Income Taxes by \$5,379 and decreases Total Available for Return by  
27 \$20,234.

1           **E.   KPA & Management Incentive to O&M Expense**

2   Q.   HAS OTP MADE AN ADJUSTMENT TO KPA AND MANAGEMENT INCENTIVE  
3       COSTS FROM CAPITAL TO O&M EXPENSE?

4   A.   Yes. This adjustment reflects the correction of the KPA & Management Incentive shown  
5       in part D above. The corrected TY-07 is supplied in the errata portion of this filing.

6  
7   Q.   WHAT IS THE IMPACT OF THE ADJUSTMENT TO KPA AND MANAGEMENT  
8       INCENTIVE COSTS ON THE TEST YEAR?

9   A.   The impact on the Supplemental Income Statement are a decrease in Operating Expenses  
10       of \$33,398 as shown in Exhibit \_\_\_ (TAA-2), Schedule 5 Column (E). This adjustment  
11       increases Total Income Taxes by \$7,014 and increases Total Available for Return by  
12       \$26,384.

13           **F.   Remove Lime Costs from Base Rates and Add Lime Costs to Cost of Energy**

14   Q.   HAS OTP MADE ANY ADJUSTMENTS TO THE REVENUES RELATED TO THE  
15       LIME COSTS IN BASE RATES?

16   A.   Yes. OTP is proposing to move the lime reagents cost recovery from base rate revenues  
17       to cost of energy revenues. Therefore, two adjustments are reflected in Exhibit \_\_\_ (TAA-  
18       2), Schedule 5 Columns (G) and (H).

19  
20   Q.   WHAT IS THE IMPACT OF THE CHANGE IN LIME REAGENT COST  
21       RECOVERY?

22   A.   There is no impact on the Test Year as a result of changing the recovery mechanism for  
23       the lime reagent costs. Exhibit \_\_\_ (TAA-2), Schedule 5 Column (G) reflects the removal  
24       of the current recovery mechanism. Exhibit \_\_\_ (TAA-2), Schedule 5 Column (H) reflects  
25       the implementation of the cost of energy recovery of the lime reagent costs.

1 **IV. CONCLUSION**

2 Q. WHAT ARE YOUR CONCLUSIONS?

3 A. OTP has made several errata and supplemental adjustments to Rate Base and the Income  
4 Statement as I have described. These adjustments correct errors in our initial filing and  
5 account for developments that have occurred since our initial filing.

6

7 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

8 A. Yes, it does.