

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 ____

**MAJOR PROJECTS, TEST YEAR REVENUES, ALLOCATION
FACTORS & OTHER REGULATORY MATTERS**

Supplemental Direct Testimony and Schedules of

STUART D. TOMMERDAHL

November 1, 2018

TABLE OF CONTENTS

| | | |
|------|---|---|
| I. | INTRODUCTION | 1 |
| II. | UPDATES TO CISONE PROJECT | 1 |
| III. | WEATHER NORMALIZED SALES AND REVENUES | 2 |
| IV. | CONCLUSION..... | 5 |

ATTACHED SCHEDULES

Schedule 1 – Sales and Revenue Normalization Process Overview

Schedule 2 – Sales and Revenue Normalization Supporting Summary and Detail Data

1 **I. INTRODUCTION**

2 Q. PLEASE STATE YOUR NAME AND OCCUPATION.

3 A. My name is Stuart D. Tommerdahl. I am employed by Otter Tail Power Company (OTP)
4 as Manager, Regulatory Administration.

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. My Supplemental Direct Testimony will provide updates to the CISone project and
11 clarify the process OTP used to calculate weather normalized Test Year kWh sales and
12 associated revenues.

13 **II. UPDATES TO CISONE PROJECT**

14 Q. PLEASE SUMMARIZE YOUR DIRECT TESTIMONY CONCERNING THE CISONE
15 PROJECT.

16 A. In my Direct Testimony I described how OTP is implementing a new customer
17 information system to replace an existing legacy customer information system that OTP
18 built internally and has been using for 30 years. The new system, referred to as the
19 CISone project, provides a platform for critical technical infrastructure to address
20 changing needs of both customers and OTP employees. I noted that the then current
21 estimated cost of the system was \$15.8 million (OTP Total) / \$1.5 million (OTP SD). I
22 testified that while CISone was projected to “go-live” in the 4th quarter, 2018,
23 implementation will only occur after CISone has been fully tested to confirm that OTP’s
24 customer billings will be accurately and correctly computed and accounted for, and that
25 OTP will keep the Commission informed on the schedule during the course of this case.
26

1 Q. ARE THERE ANY UPDATES TO THE “GO LIVE” DATE OF THE NEW CISONE
2 SYSTEM?

3 A. Yes. In August 2018, OTP’s leadership decided to defer the “go live” date of CISone
4 from October 2018 to early January 2019, with new CISone system applying to bills
5 rendered on and after January 1, 2019.
6

7 Q. WHY HAS OTP DEFERRED THE IMPLENTATION DATE OF CISONE TO
8 JANUARY 2019?

9 A. As I noted in my Direct Testimony, implementation will only occur after CISone has
10 been fully tested to confirm that OTP’s customer billings will be accurately and correctly
11 computed and accounted for. OTP determined that additional time for testing was prudent
12 in view of the complexities of transitioning from a 30-year old, internally developed
13 system to a modern platform. In addition, OTP wanted to make sure that its field
14 personnel received additional training on the new system before its deployment.
15

16 Q. ARE THERE ANY UPDATES TO THE ESTIMATED PROJECT COST?

17 A. Yes. In May 2018 OTP’s Board of Directors approved an updated CISone budget
18 (before AFDUC) of \$17.85 million (OTP Total) (SD_\$1.65 million). Including AFUDC,
19 the total project cost for 2018 is approximately \$19.495 million (OTP Total) (SD_\$1.80
20 million). Mr. Tyler A. Akerman includes an updated TY-01 as Exhibit (TAA-
21 2)_Schedule 6 in his Supplemental Direct Testimony.
22

23 Q. WHY WAS THE ESTIMATED COST OF THE CISONE PROJECT INCREASED?

24 A. OTP’s Board of Directors initially set the CISone project budget in 2015. While the
25 estimate established in 2015 set a reasonable target for the project, there is a high degree
26 of complexity in designing, implementing, testing, and integrating the new system with
27 all other OTP systems to support OTP’s customer information needs across three
28 jurisdictions. The original estimate considered projects at other utilities that were
29 upgrading from systems that are typically 10-15 years old and were turn key solutions
30 when installed. The complexity of upgrading our system, which by contrast, is a 30 year

1 old internally constructed system that requires many custom solutions, became apparent
2 as the project progressed further.

3
4 Q. WHAT IS OTP'S RECOMMENDATION WITH REGARD TO THE REVISED CISONE
5 BUDGET?

6 A. OTP believes that the updated project cost amount (before AFUDC) of \$17.85 million
7 (OTP Total) is reasonable given the magnitude and scope of the CISone project. CISone
8 will bring a long-overdue overhaul to our customer information system and add additional
9 needed functionality, both internally for OTP employees and externally for OTP customers.
10 As I noted earlier, however, a project of this size and scope comes with numerous
11 complexities. Those challenges include getting the new system configured properly to
12 integrate with all other systems, to meet OTP's business and service needs in all three of
13 its jurisdictions and to provide adequate time to test all aspects of the system to ensure that
14 customer bills will be correctly and efficiently calculated, presented, and accounted for.

15
16 Q. HAS OTP SOUGHT BILLING ADMINISTRATION CHANGES TO OTP'S TARIFF
17 TO FACILITATE IMPLEMENTATION OF CISONE?

18 A. Yes. In my Direct Testimony I noted CISone will necessitate some changes to OTP's
19 tariffs and bills, as well as changes to the language in OTP's rate book. OTP has
20 proposed these changes in Docket EL18-031, which went before the Commission on
21 October 31, 2018.

22 **III. WEATHER NORMALIZED SALES AND REVENUES**

23 Q PLEASE SUMMARIZE YOUR DIRECT TESTIMONY ON WEATHER
24 NORMALIZED TEST YEAR SALES AND REVENUES.

25 A. In my Direct Testimony, I provide a brief overview of OTP's quantification of the impact
26 of normal weather on the 2017 sales and associated revenues. OTP's adjusted sales to
27 reflect normal weather increased base revenues by \$202,124 (reducing revenue
28 requirements). The weather normalization adjustment also results in increased fuel

1 expenses and associated FCA revenues of approximately \$133,229 for South Dakota.

2
3 Q. HAVE THERE BEEN ANY UPDATES TO THE WEATHER NORMALIZED SALES
4 AND REVENUES?

5 A. Yes. Subsequent to the initial filing, OTP discovered the total kWhs attributable to
6 weather normalization were understated by 91,649 kWhs. The incremental increase in
7 revenues is \$4,763. In addition, in Data Request No. SD-PUC-2.72, OTP noted that some
8 miscellaneous revenue credits of (\$743) had been inadvertently excluded. Accounting for
9 these known changes, the effective net increase in total base rate weather normalized
10 revenues is \$4,020, and the overall impact of weather is \$206,144. In addition, the
11 increased kWhs and the inclusion of fuel impact of billing adjustments inadvertently
12 excluded in the initial filing resulted in an increase in fuel expense and associated
13 revenues of \$4,358. These updates result in total fuel expense and associated revenues of
14 \$137,587. OTP witness Mr. Akerman includes the overall impact of these corrections in
15 Exhibit__(TAA-2), Schedule 5 TY Income Statement Adjustments, Column F.

16
17 Q. HAVE YOU PROVIDED ADDITIONAL INFORMATION REGARDING OTP'S
18 DETERMINATION OF THE WEATHER NORMALIZED SALES AND
19 ASSOCIATED REVENUES?

20 A. Yes. Included with this Supplemental filing is Exhibit__(SDT-2), Schedule 1 which is a
21 narrative description of the process OTP utilized to develop its test year weather
22 normalized kWh sales and associated revenues. This narrative describes the various
23 schedules included in Exhibit__(SDT-2), Schedule 2 which is inclusive of schedules
24 which summarize both original and revised test year weather normalized sales and
25 revenues for both base revenues and all test year revenues and a reconciliation schedule
26 of those changes.

27 Detail is also provided for; 2017 billed kWhs; bill adjustment kWhs and
28 associated revenues; unbilled kWhs and associated revenues; the determination of rate
29 group level kWhs attributable to weather; and a schedule which aggregates all kWhs to
30 show total test year kWhs.

1 Finally, detail supporting the calculation of the normalizing adjustment for fuel
 2 expense and associated revenue is provided, as well as an illustration of the process used
 3 to price the total kWh sales to determine test year base revenues; and the rate code level
 4 summary of the calculated total revenue amounts.

5
 6 Q. PLEASE SUMMARIZE THE PROCESS OTP UTILIZED TO DETERMINE
 7 WEATHER NORMALIZED SALES AND REVENUES.

8 A. As I noted in my Direct Testimony, OTP used a regression analysis to estimate of what
 9 OTP's total test year calendar month sales were for 2017 assuming normal weather. The
 10 total calendar year amounts were the result of the summation of monthly regression
 11 analyses completed which determine monthly weather normalized sales during the course
 12 of the year. Inclusive of the updates noted above, the modeling estimated total kWh sales
 13 of 434,650,633 kWhs for the year. This estimated assumes normal weather and
 14 calendarized (delivered) sales. OTP's billed kWhs (426,769,586), incremental unbilled
 15 kWhs (1,835,830) and known bill adjustment kWhs (91,649) totaled 428,697,065 kWhs.
 16 Comparing the difference between the total modeled kWh sales and the sum of the items
 17 above quantifies what OTP estimates the kWhs attributable to weather (5,953,568) for
 18 2017. Table 1 below summarizes what I have described above.

19
 20 Table 1
 21 Summary of kWhs Sales

| Line | Sales Component | | kWhs | kWhs |
|------|---------------------------------------|-----------------|---------------|--------------------|
| 1 | Total Modeled Weather Normalized kWhs | | | 434,650,633 |
| 2 | Billed kWhs | | 426,769,586 | |
| 3 | Incremental Unbilled kWhs | | 1,835,830 | |
| 4 | Bill Adjustment kWhs | | <u>91,649</u> | |
| 5 | Subtotal | | | <u>428,697,065</u> |
| 6 | kWhs attributable to Weather | Line 1 – Line 5 | | 5,953,568 |

22
 23 OTP did not rely on a regression analysis to determine the estimated revenues but instead
 24 utilized a revenue model to price the kWh sales identified above at a rate code level to

1 determine the actual test year base revenues. This approach is consistent with the level of
2 detail used in rate design reports for both current and proposed rates.

3
4 Q. IS OTP'S ESTIMATED IMPACT OF WEATHER ON SALES AND REVENUES
5 REASONABLE?

6 A. Yes. OTP's process determined that weather increased test year revenues (inclusive of
7 the changes noted above) by \$206,144, and increased fuel related expenses and revenues
8 by \$137,587. These estimates are reasonable. The revenues were not modeled but
9 instead determined by taking the applicable kWhs and pricing them at a rate code level to
10 provide a more accurate quantification of the weather normalized sales.

11 **IV. CONCLUSION**

12 Q. DOES THIS CONCLUDE YOUR SUPPLIMENTAL DIRECT TESTIMONY?

13 A. Yes, it does.