

Volume 2A

Direct Testimony and Supporting Schedules

Tyler A. Akerman

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-___

Exhibit ___

**RATE BASE,
REVENUE REQUIREMENT AND ADJUSTMENTS**

Direct Testimony and Schedules of

TYLER A. AKERMAN

April 20, 2018

Docket No. EL18-___
Akerman Direct

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ATTACHED SCHEDULES

- Schedule 1 – Akerman Qualifications and Responsibilities
- Schedule 2 – Summary of 2017 Test Year Revenue Deficiency
- Schedule 3 – Jurisdictional Financial Summary (2016-2017)
- Schedule 4 – JCOSS, COSS and Rate Design Process Overview Manual
- Schedule 5 – Tax Cut and Jobs Act Impacts
- Schedule 6 – Test Year Rate Base
- Schedule 7 – Traditional Adjustments to Rate Base
- Schedule 8 – Test Year Rate Base Adjustments
- Schedule 9 – Test Year Income Statement
- Schedule 10 – Test Year O&M by Function
- Schedule 11 – Traditional Adjustments to Income Statement
- Schedule 12 – Test Year Income Statement Adjustments
- Schedule 13 – Big Stone II Amortization
- Schedule 14– Merricourt Step Rate Base Adjustments
- Schedule 15 – Merricourt Step Income Statement Adjustments

1 **I. INTRODUCTION AND QUALIFICATIONS**

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. PLEASE SUMMARIZE YOUR QUALIFICATIONS AND EXPERIENCE.

7 A. I graduated from Minnesota State University Moorhead with a Bachelor of Science
8 degree with majors in finance and accounting. I started my current position as Manager,
9 Business Planning/Regulatory Accounting in October 2015. My primary responsibilities
10 include being accountable for all budgeting, financial planning, and forecasting as
11 required by OTP and Otter Tail Corporation for use in strategic planning and decision
12 making. In addition, I am responsible for managing the production of official company
13 budgets and monthly forecasts, for leading the work group that prepares the jurisdictional
14 cost of service studies for the three jurisdictions in which OTP provides service (South
15 Dakota, Minnesota and North Dakota) and providing other regulatory and financial
16 analysis on an as needed basis. I have been employed by OTP since October 2012. Prior
17 to beginning my current position in October 2015, I was a Financial Analyst in the
18 Business Planning/Regulatory Accounting Department. A copy of my resume is included
19 as Exhibit___(TAA-1), Schedule 1.

20 **II. PURPOSE AND OVERVIEW OF DIRECT TESTIMONY**

21 Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

22 A. My Direct Testimony supports OTP's financial schedules and the determination of a
23 revenue deficiency for the 2017 Test Year, including known and measurable changes.
24 More specifically, I have determined that OTP has a revenue deficiency of \$5,978,109 for
25 the 2017 Test Year, as shown in Exhibit___(TAA-1), Schedule 2, which includes current
26 rider revenues that are being transitioned into base rates, as I note later in my Direct
27 Testimony. I support the additional financial data provided as part of this Application. I
28 will also discuss the development of the Rate Base and Income Statement which is being

1 proposed for use in setting rates in this proceeding, including explaining the financial
2 impact of all Test Year adjustments and providing support for some of the Test Year
3 adjustments.
4

5 Q. PLEASE PROVIDE A BRIEF OVERVIEW OF YOUR DIRECT TESTIMONY.

6 A. I explain the Jurisdictional Cost of Service Study (JCOSS), Test Year Revenue
7 Deficiency, Financial Data Provided, Tax Cuts and Jobs Act, Rate Base, Adjustments to
8 Rate Base, Income Statement, and Adjustments to the Income Statement.
9

10 Q. HOW IS YOUR DIRECT TESTIMONY ORGANIZED?

11 A. In Section III, I discuss the Test Year and identify the Financial Schedules being
12 provided. Section IV provides a discussion of the 2017 Test Year revenue deficiency,
13 and Section V includes a discussion of the JCOSS. Section VI includes a discussion of
14 the Tax Cuts and Jobs Act. Section VII includes a discussion of Rate Base, and Section
15 VIII includes a discussion of adjustments to Rate Base. In Section IX, I discuss the
16 Income Statement and Section X includes a discussion of adjustments to the Income
17 Statement. Section XI provides a discussion of the proposed Merricourt Step Increase.
18 Section XII presents my conclusions.
19

20 Q. DID YOU USE ANY LABELING CONVENTIONS IN YOUR DIRECT
21 TESTIMONY?

22 A. Yes. There are certain power plant and transmission projects where OTP is only a part
23 owner. I distinguish among total project costs, OTP's share of the total and the South
24 Dakota Jurisdictional share as follows: total project costs, labeled as (Total Plant or Total
25 Project), the OTP ownership allocation of the project amounts, labeled as (OTP Total),
26 and the South Dakota Jurisdictional share, labeled as (OTP SD).
27

1 **III. TEST YEAR AND SCHEDULES PROVIDED**

2 Q. WHAT TEST YEAR IS USED IN THE COST OF SERVICE STUDY?

3 A. The test year period is based on the 2017 calendar year with Traditional and Test Year
4 Adjustments, including known and measurable changes.

5

6 Q. FOR WHAT PERIODS IS FINANCIAL INFORMATION BEING PROVIDED?

7 A. Following the Commission’s rules, financial data is provided for the most recent fiscal
8 year (2017 Actual Year) and the 2017 Test Year.

9

10 Q. IN ADDITION TO THE SCHEDULES INCLUDED WITH THIS TESTIMONY, ARE
11 THERE ADDITIONAL SCHEDULES YOU ARE SPONSORING?

12 A. Yes. I am sponsoring the following Statements and supporting Schedules, which are
13 required by South Dakota Public Utilities Commission (“Commission”) Rules (Sections
14 20:10:13:51 through 20:10:13:102. These Statements and Schedules are in Volume 4 of
15 the Application:

16 A. Balance sheet

17 B. Income statement

18 C. Earned surplus statements

19 D. Cost of plant

20 D-1. Detailed plant accounts

21 D-2. Plant addition and retirement for test period

22 D-3. Working papers showing plant accounts on average basis for test period

23 D-4. Plant account working papers for previous years

24 D-5. Working papers on capitalizing interest and other overheads during
25 construction

26 D-6. Changes in intangible plant working papers

27 D-7. Working papers on plant in service not used and useful

28 D-8. Property records working papers

29 D-9. Working papers for plant acquired for which regulatory approval has not
30 been obtained

- 1 E. Accumulated depreciation
- 2 E-1. Working papers on record changes to accumulated depreciation
- 3 E-2. Working papers on depreciation and amortization method
- 4 E-3. Working papers on allocation of overall accounts
- 5 F. Working capital
- 6 F-1. Monthly balances for materials, supplies, fuel stocks, and prepayments
- 7 F-2. Monthly balances for two years immediately preceding pro forma year
- 8 F-3. Data used in computing working capital
- 9 H. Operating and maintenance expenses
- 10 H-1. Adjustments to operating and maintenance expenses
- 11 H-2. Cost of power and gas
- 12 H-3. Working papers for listed expense accounts
- 13 H-4. Working papers for Interdepartmental Transactions
- 14 I. Operating revenue
- 15 J. Depreciation expense
- 16 J-1. Expense charged other than prescribed depreciation
- 17 K. Income taxes
- 18 K-1. Working papers for federal income taxes
- 19 K-2. Differences in book and tax depreciation
- 20 K-3. Working papers for consolidated federal income tax
- 21 K-4. Working papers for an allowance for current tax greater than tax
- 22 calculated at consolidated rate
- 23 K-5. Working papers for claimed allowances for state income taxes
- 24 L. Other taxes
- 25 L-1. Working papers for adjusted taxes
- 26 M. Overall cost of service
- 27 N. Allocated cost of service
- 28 O. Comparison of cost of service
- 29 P. Fuel cost adjustment factor
- 30 R. Purchases from affiliated companies

1 Any discussion of the content of a Schedule that is required under the Commission’s Rules
2 is provided with the required Schedule. OTP witness Mr. Bruce Gerhardson provides the
3 information regarding utility operations for required Schedule Q in his Direct Testimony.
4 OTP witness Mr. Kevin G. Moug sponsors the information regarding cost of capital and
5 related topics for required Schedules G through G-4.

6 **IV. TEST YEAR REVENUE DEFICIENCY**

7 Q. WHAT IS THE BASIS OF OTP’S 2017 TEST YEAR JURISDICTIONAL REVENUE
8 REQUIREMENT AND REVENUE DEFICIENCY?

9 A. OTP’s 2017 Test Year jurisdictional revenue requirement and revenue deficiency are
10 based on OTP’s 2017 Actual Year results, with Traditional and Test Year Adjustments,
11 including known and measurable changes.

12
13 Q. ARE KNOWN AND MEASUREABLE CHANGES DESCRIBED IN THE
14 COMMISSION’S RULES?

15 A. Yes. Commission Rule 20:10:13:44 provides in part that “[N]o adjustments shall be
16 permitted unless they are based on changes in facilities, operations, or costs which are
17 known with reasonable certainty and measurable with reasonable accuracy at the time of
18 the filing”

19
20 Q. WHAT IS THE 2017 TEST YEAR JURISDICTIONAL REVENUE REQUIREMENT
21 AND REVENUE DEFICIENCY?

22 A. OTP’s overall jurisdictional revenue requirement for the 2017 Test Year is \$36,628,124
23 (including \$1,598,410 of revenue requirements that will be left in the Transmission Cost
24 Recovery Rider (TCRR), and the 2017 Test Year revenue deficiency is \$5,978,109. The
25 2017 Test Year revenue deficiency represents a 19.5 percent overall increase in retail
26 revenues compared to 2017 retail revenues at current rates, including the transition of
27 cost recovery from riders to base rates. The transition of costs from riders to base rates
28 does not increase customer bills, however. It merely moves recovery from the rider
29 mechanisms to the base rate mechanism. The actual increase for customers, excluding

1 the effect of the rider-to-base-rate transition, is an increase in non-fuel base revenue of
2 \$3,358,574, or 10.10 percent.

3
4 Q. HAVE YOU PREPARED A SUMMARY OF THE 2017 REVENUE DEFICIENCY?

5 A. Yes. Exhibit__(TAA-1), Schedule 2 is a summary of the 2017 Test Year revenue
6 deficiency. Line 1 shows average total Rate Base of \$84.9 million. Line 4 shows the
7 total amount available for return of \$2.0 million, which is determined at present rate
8 levels. Line 5 shows the 2.41 percent overall rate of return (ROR) earned before any rate
9 increase. Line 6 shows the 7.96 percent required ROR, which is the basis for the
10 requested rate increase. Line 7 shows the required operating income of \$6.8 million,
11 which was determined by multiplying the 7.96 percent required ROR by the \$84.9
12 million Rate Base. Line 8 shows the \$4.7 million income deficiency which is the
13 difference between the required operating income of \$6.8 million (on Line 7) less the
14 \$2.0 million of available return (on Line 4). The \$5.98 million revenue deficiency on
15 Line 10 is determined by multiplying the \$4.7 million income deficiency (on Line 8) by
16 the 1.2677244 gross-revenue conversion factor that reflects the effects of the TCJA. The
17 calculation of the gross revenue conversion factor is provided in Volume 4A, Schedule F-
18 2.

19
20 Q. HAVE YOU COMPARED OTP'S EARNED OVERALL ROR TO ITS REQUIRED
21 OVERALL ROR SINCE 2016?

22 A. Yes. OTP's earned ROR was lower than OTP's required ROR in 2016 and lower than
23 OTP's required ROR in 2017 at current rates. Exhibit__(TAA-1), Schedule 3 is a
24 Jurisdictional Financial Summary for 2017 Actual Year and the 2017 Test Year.
25 Exhibit__(TAA-1), Schedule 3 shows: (1) the overall ROR for 2017 Actual Year was
26 5.78 percent and the required ROR (reflecting actual 2017 cost of debt and the return on
27 equity granted in OTP's last rate case) was 7.74 percent; (2) the overall ROR for the 2017
28 Test Year is 2.41 percent and the required ROR is 7.96 percent; and (3) the overall ROR
29 for the Merricourt Step Increase (labeled 2017 Test Year Step on Schedule 3) is 7.50
30 percent and the required ROR is 7.96 percent.

1 **V. JURISDICTIONAL COST OF SERVICE STUDY**

2 Q WHAT IS THE PURPOSE OF THIS SECTION OF YOUR DIRECT TESTIMONY?

3 A. The purpose of this section of my Direct Testimony is to explain OTP's JCOSS.

4

5 Q. WHAT IS THE PURPOSE OF A JCOSS?

6 A. A JCOSS determines the portion of a multijurisdictional utility's total company costs and
7 revenues that should be recognized in a specific jurisdiction. In this case, the JCOSS
8 determined the portion of OTP's total company costs and revenues that should be
9 recognized in the South Dakota jurisdiction in the 2017 Test Year.

10

11 Q. WHY IS A JCOSS NECESSARY FOR OTP?

12 A. OTP serves retail customers in South Dakota, Minnesota, and North Dakota. In addition,
13 OTP provides wholesale transmission services to load serving entities and provides
14 wholesale transmission and wheeling service to some municipal utilities, and those
15 services are regulated by the Federal Energy Regulatory Commission (FERC). Costs that
16 are incurred to meet the requirements of a particular jurisdiction are directly assigned to
17 that jurisdiction. Costs that cannot be directly assigned to a specific jurisdiction are
18 allocated to jurisdictions based upon allocation factors included in the JCOSS. In this
19 way, the JCOSS is used to determine what portion of the total costs incurred by OTP
20 should be recovered from our South Dakota customers.

21

22 Q. IS IT IMPORTANT THAT ALL OF A UTILITY'S STATE JURISDICTIONS USE
23 THE SAME JURISDICTIONAL ALLOCATION PROCEDURES FOR THE JCOSS?

24 A. Yes. By having uniform jurisdictional allocation procedures in all its state jurisdictions,
25 OTP is able to recover its cost of providing retail service across its entire service territory,
26 no more, and no less. The allocation procedures used by OTP were approved by the
27 Commission in OTP's last South Dakota rate case, Docket No. EL10-011.

28

1 Q. DO ALL OTP'S JURISDICTIONS USE THE SAME JURISDICTIONAL
2 ALLOCATION PROCEDURES FOR OTP'S JCOSS?

3 A. Yes. The Commission, the Minnesota Public Utilities Commission (MPUC), and North
4 Dakota Public Service Commission (ND PSC) have approved the same jurisdictional
5 allocation procedures for OTP's JCOSS that the Commission has approved for OTP's
6 JCOSS.

7
8 Q. HOW WAS OTP'S JCOSS DEVELOPED?

9 A. The JCOSS was developed using procedures contained in the OTP Jurisdictional and
10 Class Cost of Service Study and Rate Design Process Overview Manual, a copy of which
11 is attached as Exhibit __ (TAA-1), Schedule 4.

12
13 Q. WHAT ARE THE GENERAL STEPS FOR PREPARING OTP'S JCOSS?

14 A. The JCOSS involves the following steps: functionalization, classification and allocation.
15 Functionalization is the process by which costs are arranged according to the utility
16 function they serve, such as production, transmission, distribution, etc. Classification is
17 the arrangement of costs within a function by the service characteristic to which they
18 most closely apply or relate, in order to facilitate their allocation based on these service
19 characteristics. Allocation, in the JCOSS, is the process of distributing costs to each
20 jurisdiction. I discuss the functionalization and classification steps in more detail below.

21
22 Q. IS FUNCTIONALIZATION OF COSTS REQUIRED?

23 A. Yes. The assignment of costs to each function: Production, Transmission, Distribution,
24 Customer Service, Administrative and General generally follow the accounting categories
25 defined in the FERC Uniform System of Accounts (USOA). At times, however, there are
26 exceptions. When there are exceptions, the purpose of functionalization, not the
27 accounting treatment, determines the distribution of the functional costs for the cost of
28 service study. For example, lines and substations can fulfill production, transmission or
29 distribution functions. Additional details regarding OTP's functionalization procedures

1 are included in the Cost Allocations Procedure Manual (CAPM) explained by OTP
2 witness Mr. Stuart Tommerdahl in his Direct Testimony.

3
4 Q. HOW WERE COSTS CLASSIFIED IN THE JCOSS?

5 A. Classification approaches differ across different functional categories. For example,
6 fixed production plant is classified into energy-related and demand-related subcategories
7 using the equivalent peaker method. OTP has used the equivalent peaker method to
8 classify fixed production plant costs since 1980. Additional details regarding
9 classification procedures are available in the CAPM.

10
11 Q. WHAT IS YOUR CONCLUSION RELATED TO OTP'S JCOSS?

12 A. The results of the JCOSS are appropriate for determining the 2017 Test Year revenue
13 requirement.

14 **VI. IMPACTS OF TAX CUTS AND JOBS ACT ON OTP'S FILING**

15 Q. WHAT TOPICS WILL YOU DISCUSS IN THIS SECTION?

16 A. This section addresses the impacts of the federal Tax Cuts and Jobs Act (TCJA), which
17 was signed into law on December 22, 2017, on the Company's revenue deficiency for
18 OTP's proposed 2017 Test Year. I first provide an overview of the TCJA. I then address
19 both the broader impacts of the TCJA on OTP and the aspects we know now that can be
20 addressed as part of this rate case. I will also explain OTP's reasoning behind, and
21 proposed mechanism for, addressing some of those TCJA impacts on customer rates in
22 this rate case. Finally, I discuss the impacts of the TCJA in terms of appropriate
23 regulatory accounting treatment.

24
25 Q. PLEASE PROVIDE AN OVERVIEW OF THE TCJA?

26 A. The TCJA made several significant changes, including a reduction in the maximum U.S.
27 federal corporate income tax rate from 35 percent to a flat 21 percent tax rate, effective
28 January 1, 2018. This means that all public utilities subject to federal corporate income
29 taxes will compute those taxes based on a 21 percent tax rate. The TCJA also contains

1 certain provisions specific to public utilities, including the continuation of certain interest
2 expense deductibility and relief from 100 percent expensing of capital investments.

3
4 Q. DOES THE TCJA HAVE IMPACTS ON OTP'S 2017 TEST YEAR COST OF
5 SERVICE?

6 A. Yes. The TCJA will have three primary impacts on cost of service: (1) current income
7 tax expense will be reduced; (2) bonus depreciation is eliminated for utilities such as
8 OTP; and (3) there will be an amortization of "excess" Accumulated Deferred Income
9 Tax (ADIT). In addition, the tax gross up factor will be reduced for OTP, with the tax
10 gross-up factor of 1.540773 times the short fall being reduced to 1.267724.

11
12 Q. ARE THE EFFECTS OF THE TCJA SUFFICIENTLY KNOWN TO MAKE
13 ADJUSTMENTS IN THIS RATE CASE?

14 A. Yes. Although OTP is still evaluating the impacts of the TCJA, OTP believes the major
15 impacts are sufficiently known and we can provide some further information on the
16 effects of the TCJA on the Company's cost of service in this rate case proceeding. Any
17 additional impacts of the TCJA will be evaluated and addressed in the process for setting
18 final rates and subsequent rider true-ups.

19
20 Q. PLEASE SUMMARIZE THE EFFECTS OF THE TCJA ON CURRENT ADIT
21 BALANCES.

22 A. The TCJA requires the revaluation of federal ADIT assets and liabilities balances using
23 the new lower tax rate. The changes result in the recording of regulatory assets and
24 liabilities for the excess portion of ADIT, with no estimated income statement impact.
25 The ADIT due to excess tax over book depreciation is "protected" under the TCJA,
26 which means the amount is to be amortized over the remaining life of the property that
27 created the ADIT in order to avoid a violation of normalization tax requirements.

28

1 Q WHAT IS THE IMPACT OF “UNPROTECTED” ADIT ON OTP?

2 A. For OTP, only a small net amount of ADIT (less than one half of a percent) is not
3 “protected” under the new tax law, which means the amount is to be amortized over the
4 remaining life of the property that created the ADIT. The changes are expected to result
5 in the recording of regulatory assets and liabilities for the non-protected portion of ADIT,
6 with no estimated income statement impact.

7

8 Q. PLEASE FURTHER EXPLAIN THE EFFECTS OF NORMALIZATION
9 REQUIREMENTS ON OTP’S DEFERRED ADIT ASSETS AND LIABILITIES.

10 A. OTP is required to revalue its deferred tax assets and liabilities, including federal income
11 tax net operating losses, as of the enactment date of the TCJA. Most of OTP’s ADIT
12 assets and liabilities are subject to a normalization method of accounting. As a result, the
13 revaluation of most of OTP’s net ADIT is expected to result in the establishment of
14 regulatory liabilities, which would then be creditable to the cost of service over the
15 remaining lives of the related assets.

16

17 Q. PLEASE FURTHER EXPLAIN THE EFFECTS OF THE TAX RATE REDUCTION IN
18 THE TCJA ON OTP’S ADIT.

19 A. Due to the reduction of the tax rate in the TCJA, the current balance of ADIT on OTP’s
20 regulatory books does not accurately reflect the current (post-TCJA) tax liability. As a
21 result, OTP needs to re-measure ADIT balances at the 21% rate. OTP’s ADIT due to the
22 lower tax rate (causing an increase to rate base) will be offset with a regulatory liability in
23 ADIT. Pre-2018 ADIT will amortize (deferred tax expense) at the rates upon which the
24 ADIT was created. Since rates were set with the higher tax rate, ratepayers will continue
25 to receive the benefit of the ADIT offset through calculating pre-2018 ADIT reversals at
26 a 35 percent rate.

27

28 Q. PLEASE FURTHER EXPLAIN THE EFFECTS OF THE TCJA ON FUTURE ADIT.

29 A. The elimination of bonus depreciation and the reduction in the federal tax rate in the
30 TCJA will lead to utilities having lower ADIT liabilities going forward (but including

1 past ADIT net of regulatory liabilities). The reduction in future deferred taxes will, in
2 turn, increase rate base growth for the same level of expected capital expenditures due to
3 lower forecasted deferred tax liabilities.
4

5 Q. PLEASE FURTHER EXPLAIN HOW THE TCJA IMPACTS BONUS
6 DEPRECIATION.

7 A. "Bonus depreciation" is a form of tax incentive given to companies to encourage certain
8 types of investment, whereby a company that purchases a qualified business property and
9 places it into service within a taxable year can take a first-year deduction in addition to
10 any depreciation deduction available. Beginning in 2018, the TCJA prohibits the use of
11 bonus depreciation for assets acquired in the trade or business of the furnishing or sale of
12 electrical energy. As a result, going forward, OTP will be adding less ADIT, as the
13 difference between book depreciation and tax depreciation in future periods will be less
14 in the early years of a project even though both total tax and book depreciation will
15 remain unchanged over the asset's life. OTP continues to assess the effect of the bonus
16 depreciation change under the TCJA.
17

18 Q. HAS THE COMMISSION BEGUN ADDRESSING THE TCJA?

19 A. Yes. On December 27, 2017, following a request by South Dakota Public Utilities Staff
20 (Staff), the Commission issued its Order initiating an investigation of the impacts of the
21 TCJA on South Dakota rate regulated utilities (Order) and requiring OTP and other
22 utilities to file initial comments on the TCJA's impacts on or before February 1, 2018
23 (Order).¹ OTP filing initial comments as required by the Order (OTP's Initial
24 Comments). The Commission's Order sought initial comments from rate-regulated
25 utilities regarding the general effects of the TCJA on each utility's cost of service in
26 South Dakota as well as potential possible regulatory mechanisms for adjusting rates. In

¹ *In the Matter of Staff's Request To Investigate the Tax Cuts and Jobs Act on South Dakota Utilities*, Commission Docket No. GE17-003, Order dated December 27, 2017.

1 OTP's instance, those impacts include revaluation of ADIT assets and liabilities, which
2 OTP briefly addressed in its Initial Comments.

3 In its Order, the Commission also required the utilities to work with Staff to
4 determine a deadline for additional comments to address proposals and impacts, and
5 including: (1) an estimate of the Company's determination of the TCJA's effects on its
6 South Dakota cost of service, inclusive of all elements; (2) an explanation of these
7 effects, and (3) proposals for procedures for changing rates to reflect these impacts. The
8 Commission also required the utilities to provide information on any FERC proceedings
9 addressing how federal income taxes will be adjusted for FERC transmission tariff rates.
10 In addition to this rate case proceeding, OTP also looks forward to working with the
11 Commission and Staff to determine the next steps for additional comments in Docket
12 GE17-003.

13
14 Q. ARE THERE OTHER POSSIBLE IMPACTS OF THE TCJA ON UTILITIES,
15 INCLUDING OTP?

16 A. There are other areas of impact or potential impact as well, which regulators and utilities
17 alike continue to study and sort out. For instance, although the TCJA contains many
18 provisions that have broad applicability to energy sector companies, it is intentionally
19 silent on the disposition of many energy-related tax incentives. There are also changes to
20 the expensing of certain capital investments, limitations on deductions for interest
21 expense and modification to the capital contribution rules and net operating loss
22 deductions, to name just a few examples.

23
24 Q. DOES OTP SUPPORT MAKING ADJUSTMENTS TO REFLECT THE TCJA IN THIS
25 RATE CASE PROCEEDING?

26 A. Yes, as indicated in its February 1, 2018 Initial Comments in Docket GE17-003, OTP
27 believes this rate case proceeding is the most efficient mechanism for identifying and
28 passing on the known beneficial financial impacts of the TCJA to our customers.

29

1 Q. HAVE YOU PREPARED A SCHEDULE WHICH REFLECTS CHANGES TO THE
2 2017 TEST YEAR RESULTING FROM THE TCJA?

3 A. Yes. As shown in Exhibit__(TAA-1), Schedule 5, page 1 of 3, for the South Dakota
4 jurisdiction: (1) rate base increased by \$263,985; (2) total available for return decreased
5 by \$32,096; (3) the gross revenue conversion factor decreased by 0.273 (reflecting the
6 lower income tax rate); and (4) the 2017 Test Year revenue deficiency decreased by
7 \$1,205,765. The impacts on the ADIT is shown on Exhibit__(TAA-1), Schedule 5, page
8 2 of 3, and the impacts on the components of the Income Statement are shown on
9 Exhibit__(TAA-1), Schedule 5, page 3 of 3.

10
11 Q. WILL THE TCJA HAVE IMPACTS ON THE UTILIZATION OF PRODUCTION TAX
12 CREDITS?

13 A. Yes. The TCJA decreases income tax expense for 2018 (resulting in lower rates for
14 OTP's South Dakota customers as shown in Exhibit__(TAA-1), Schedule 5). The lower
15 income tax rate and associated income tax expense will delay the time when OTP can use
16 the PTCs on future tax returns and will result in an increase in rate base through the
17 creation of a deferred tax asset.

18
19 Q. IS OTP PLANNING TO TAKE THE SAME OR SIMILAR APPROACH IN ITS
20 OTHER STATE JURISDICTIONS?

21 A. Not necessarily. It is correct that OTP is assessing our current cost of providing service
22 in each of the three states where it has retail customers, North Dakota, Minnesota and
23 South Dakota. In Minnesota, the Company's rates are based on our cost of providing
24 service in 2016. In this proceeding, OTP's rates are based primarily on an historical test
25 year cost of service (i.e., the 2017 calendar year) with Traditional and Test Year
26 Adjustments and with known and measurable changes. In North Dakota, the rates are
27 being set based on a 2018 forecasted test year. Because of these different fundamental
28 approaches to ratemaking, especially in terms of test years being used, a different
29 approach will be needed in each of these three states in order to best assess and properly

1 account for the impact of the TCJA and address those impacts in terms of our current and
2 going-forward cost of providing service.

3
4 Q. DOES OTP ALSO ANTICIPATE REFLECTING THE IMPACTS OF THE TCJA IN
5 OTHER DOCKETS IN SOUTH DAKOTA?

6 A. Yes. OTP would propose addressing other relevant Commission dockets where TCJA
7 impacts may manifest themselves at appropriate times to those specific cases, other
8 proceedings, or as otherwise directed by the Commission. OTP has already noted in its
9 February TCJA Submission that it will continue to make appropriate filings in that
10 investigation proceeding as required by the Commission. Those forthcoming filings in
11 the investigation docket, however, would be largely derived from calculations made and
12 filed in this general rate case proceeding.

13
14 Q. SHOULD THE COMMISSION ALSO CONTINUE TO ALLOW FLEXIBILITY AS
15 ADDITIONAL ISSUES RELATED TO THE TCJA BECOME CLEARER?

16 A. Yes, such flexibility would help ensure all the benefits to customers are properly
17 addressed. At a minimum, utilities should be permitted to evaluate their change in rates in
18 six months and make any corrections to the calculations of reduced rates for any issues
19 discovered in the calculations as more becomes known about the specific impacts of the
20 TCJA.

21 **VII. RATE BASE**

22 Q. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR DIRECT TESTIMONY?

23 A. In this section of my Direct Testimony, I will discuss the components of Rate Base for
24 the 2017 Actual Year and the 2017 Test Year. I will also address the Rate Base effects of
25 transferring recovery of certain environmental, renewable, and transmission project costs
26 from riders into base rates, as further discussed by OTP witness Mr. Bryce Haugen in his
27 Direct Testimony.

28

1 Q. WHAT IS THE SOURCE OF THE 2017 ACTUAL YEAR RATE BASE
2 INFORMATION CONTAINED IN THE FINANCIAL SCHEDULES?

3 A. The 2017 Actual Year is based on OTP's 2017 actual data and reflects Traditional
4 Adjustments described in Section VIII.

5

6 Q. WHAT IS THE AMOUNT OF THE 2017 ACTUAL YEAR RATE BASE AND 2017
7 TEST YEAR RATE BASE?

8 A. As shown in Exhibit__(TAA-1), Schedule 6, the 2017 Actual Year South Dakota
9 Jurisdictional Rate Base is \$83.3 million, and the 2017 Test Year Rate Base is \$84.9
10 million. I will explain the differences between the 2017 Base South Dakota Jurisdictional
11 Rate Base and the 2017 Test Year Rate Base in Section VIII of my Direct Testimony.

12

13 Q. PLEASE BRIEFLY DESCRIBE THE COMPONENTS OF THE RATE BASE.

14 A. Rate Base consists primarily of the capital expenditures made by a utility to obtain or
15 construct plant, equipment, materials, supplies and other assets necessary for the
16 provision of utility service, reduced by amounts recovered from depreciation expense and
17 non-investor sources of capital, such as ADIT.

18

19 Q. HOW WERE THE 2017 ACTUAL YEAR AND 2017 TEST YEAR RATE BASE
20 AMOUNTS DEVELOPED?

21 A. OTP developed the 2017 Actual Year and 2017 Test Year based on 13-month averages,
22 with the only exception being ADIT which is calculated based on a simple beginning-of-
23 year and end-of-year average. OTP made "Traditional" regulatory adjustments to arrive
24 at the 2017 Actual Year. These adjustments were made to reflect recognized regulatory
25 requirements and to "normalize" the financial information for one-time events that will
26 not be recurring on an on-going basis. Other Rate Case Adjustments were made to
27 develop the 2017 Test Year. I will discuss those adjustments in Section VIII of my
28 Direct Testimony.

29

1 Q. WHAT ARE THE MAJOR COMPONENTS OF THE 2017 TEST YEAR RATE BASE?

2 A. The 2017 Test Year Rate Base is generally comprised of the following major items:

- 3 • Net utility plant in service (which reflects accumulated depreciation);
- 4 • Cash working capital items; and
- 5 • ADIT.

6 **A. NET UTILITY PLANT IN SERVICE**

7 Q. WHAT DOES EXHIBIT ____(TAA-1), SCHEDULE 6 INCLUDE?

8 A. Exhibit ____(TAA-1), Schedule 6 provides a summary showing Electric Plant In Service,
9 Accumulated Depreciation, and Net Electric Utility Plant In Service for OTP South
10 Dakota Jurisdiction for the 2017 Actual Year, the 2017 Test Year, and the Merricourt
11 Step Increase. I will explain the proposed increase in 2019 to reflect the in-service date of
12 the Merricourt Wind Generation Facility in Section XI of this Direct Testimony.
13 Exhibit ____(TAA-1), Schedule 6 shows OTP’s South Dakota Jurisdictional Net Electric
14 Plant in Service is \$92.4 million for the 2017 Actual Year, \$93.7 million for the 2017
15 Test Year and \$117.3 million for the proposed Merricourt Step Increase. Exhibit
16 ____(TAA-1), Schedule 6 reflects Traditional Adjustments to Rate Base included in
17 Exhibit ____(TAA-1), Schedule 7 (which I will explain in Section VIII of my Direct
18 Testimony) and Rate Case adjustments to Rate Base included in Exhibit ____(TAA-1),
19 Schedule 8 (which I will also in Section VIII of my Direct Testimony).

20

21 Q. WHAT DOES “ELECTRIC PLANT IN SERVICE” REPRESENT?

22 A. Electric Plant in Service is based upon the original cost of property from the books and
23 records of OTP, subject to adjustments.

24

25 Q. WHAT DOES “NET ELECTRIC PLANT IN SERVICE” REPRESENT?

26 A. Net Electric Plant in Service represents OTP’s investment in plant and equipment that is
27 used and useful in providing retail electric service to its customers, net of accumulated
28 depreciation.

29

1 Q. PLEASE EXPLAIN THE METHOD USED TO CALCULATE NET ELECTRIC
2 PLANT IN SERVICE IN THIS CASE.

3 A. The Net Electric Plant in Service is included in Rate Base at depreciated original cost,
4 reflecting a 13-month average based on monthly balances from December 2016 through
5 December 2017.

6

7 Q. DOES EXHIBIT__(TAA-1), SCHEDULE 6 INCLUDE ALL COMPONENTS OF NET
8 UTILITY PLANT?

9 A. Yes. Exhibit__(TAA-1), Schedule 6 include all components of Utility Plant in Service
10 (Production, Transmission, Distribution, General, and Intangible) and related
11 Accumulated Depreciation. The net of Electric Plant in Service and Accumulated
12 Depreciation is the Net Electric Plant in Service.

13

14 Q. DOES EXHIBIT__(TAA-1), SCHEDULE 6 REFLECT THE RATE BASE
15 COMPONENTS DISCUSSED BY OTHER OTP WITNESSES?

16 A. Yes. Exhibit__(TAA-1), Schedule 6 includes all the Rate Base components discussed
17 by the other OTP witnesses, including the Big Stone AQCS and Hoot Lake MATS
18 projects discussed in the Direct Testimony of OTP witness Mr. Kirk A. Phinney, and the
19 investments currently recovered in riders that are being rolled into base rates discussed in
20 the Direct Testimony of Mr. Haugen.

21

22 Q. PLEASE BRIEFLY DESCRIBE ACCUMULATED DEPRECIATION.

23 A. Exhibit__(TAA-1), Schedule 6 includes Accumulated Depreciation for all the Electric
24 Plant in Service components. The sum of the 2017 Actual Year South Dakota
25 Jurisdiction Accumulated Depreciation for these components is negative (\$69.0 million),
26 negative (\$69.2 million) for the 2017 Test Year, and negative (\$70.2 million) for the
27 Merricourt Step Increase.

1 **B. CONSTRUCTION WORK IN PROGRESS**

2 Q. WHAT IS THE AMOUNT OF CONSTRUCTION WORK IN PROGRESS (CWIP)
3 INCLUDED IN EXHIBIT ___(TAA-1), SCHEDULE 6?

4 A. Exhibit___(TAA-1), Schedule 6 shows that OTP’s South Dakota Jurisdictional CWIP is
5 \$0 for the 2017 Actual Year, for the 2017 Test Year, and for the Merricourt Step
6 Increase.

7 **C. WORKING CAPITAL**

8 Q. PLEASE EXPLAIN THE WORKING CAPITAL INCLUDED IN EXHIBIT ___(TAA-
9 1), SCHEDULE 6.

10 A. Exhibit___(TAA-1), Schedule 6 shows all the working capital elements, including
11 materials and supplies, fuel stocks, prepayments and customer advances/deposits, and
12 cash working capital, including OTP’s South Dakota Jurisdictional amounts for the 2017
13 Actual Year and 2017 Test Year.

14
15 Q. PLEASE EXPLAIN MATERIALS AND SUPPLIES.

16 A. Exhibit___(TAA-1), Schedule 6 shows OTP’s South Dakota Jurisdictional Materials and
17 Supplies for the 2017 Actual Year, the 2017 Test Year, and the Merricourt Step Increase
18 (referred to as the 2017 Test Year Step on Schedule 6) are each \$1.8 million and are
19 based on a 13-month average.

20
21 Q. PLEASE EXPLAIN FUEL STOCKS.

22 A. Exhibit___(TAA-1), Schedule 6 shows OTP’s South Dakota Jurisdictional Fuel Stocks
23 for the 2017 Actual Year is \$845,834 and for 2017 Test Year and Merricourt Step
24 Increase is \$849,126. Fuel Stocks is based on the 13-month average.

25
26 Q. PLEASE DESCRIBE THE PREPAYMENTS.

27 A. Exhibit___(TAA-1), Schedule 6 shows OTP’s South Dakota Jurisdictional Prepayments
28 for the 2017 Actual Year are negative (\$1.9 million), 2017 Test Year are negative (\$1.9
29 million), and the Merricourt Step Increase are negative (\$2.0 million). Four separate
30 items are grouped together under the line item of Prepayments. The four items are: 1)

1 pre-paid insurance; 2) pre-paid pension; 3) post-retirement benefits liability; and 4) post-
2 employment benefits liability. The amounts for each item are developed using simple
3 averages.

4
5 Q. PLEASE DESCRIBE CASH WORKING CAPITAL.

6 A. Exhibit___(TAA-1), Schedule 6 show OTP's South Dakota Jurisdictional Cash Working
7 Capital for the 2017 Actual Year is \$2.8 million, the 2017 Test Year is \$2.5 million, and
8 the Merricourt Step Increase is \$2.2 million. Cash Working Capital represents a
9 determination of cash working capital requirements for operation, maintenance, and other
10 expenses. I will explain the adjustment to Cash Working Capital in Section VIII of my
11 Direct Testimony.

12
13 Q. HOW WERE CASH WORKING CAPITAL REQUIREMENTS DETERMINED?

14 A. The cash working capital requirements included in Rate Base is based on a Lead Lag
15 Study prepared by OTP using calendar year 2014 financial data. This study analyzes the
16 lapse of time between the average day on which OTP incurs expenses to serve its
17 customers and the average day on which cash is received from customers in payment of
18 that service. Mr. Tommerdahl discusses the Lead Lag Study in his Direct Testimony.

19 **D. ACCUMULATED DEFERRED INCOME TAXES**

20 Q. WHAT IS THE AMOUNT OF ADIT INCLUDED IN EXHIBIT___(TAA-1),
21 SCHEDULE 6?

22 A. Exhibit___(TAA-1), Schedule 6 shows OTP's South Dakota Jurisdictional ADIT for the
23 2017 Actual Year is (\$12.6 million), (\$12.4 million) for the 2017 Test Year, and (\$12.8)
24 for the Merricourt Step Increase. These amounts reflect a simple average of the
25 beginning-of-year and end-of-year ADIT balances.

1 **E. RIDER ROLL-IN**

2 Q. IS OTP PROPOSING TO MOVE ANY PROJECTS FROM RIDER RECOVERY TO
3 BASE RATE RECOVERY IN THIS FILING?

4 A. Yes. OTP proposes to transfer recovery of certain costs presently recovered in the
5 Environmental Cost Recovery Rider (ECRR) and in the TCRR to base rates in this case.
6 The Direct Testimony of Mr. Haugen provides additional information regarding OTP’s
7 proposal to roll the ECRR and TCRR projects into base rates.

8
9 Q. WHAT IS THE AMOUNT OF THE 2017 TEST YEAR PLANT IN SERVICE
10 INCLUDED IN RATE BASE CURRENTLY RECOVERED IN THE ECRR?

11 A. The 2017 Test Year Utility Plant in Service included in Rate Base for the environmental
12 projects currently recovered in the ECRR is \$19.7 million (OTP SD).

13
14 Q. WHAT IS THE 2017 TEST YEAR PLANT IN SERVICE INCLUDED IN RATE BASE
15 CURRENTLY RECOVERED IN THE TCRR?

16 A. The 2017 Test Year Utility Plant in Service included in Rate Base for the transmission
17 projects currently recovered in the TCRR is \$2.3 million (OTP SD).

18 **VIII. ADJUSTMENTS TO RATE BASE**

19 Q. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR DIRECT TESTIMONY?

20 A. In this section of my Direct Testimony, I will identify and explain the Traditional
21 Adjustments (necessary to arrive at the 2017 Actual Year Rate Base) and Rate Base
22 Adjustments that are made to the 2017 Actual Year Rate Base to arrive at the 2017 Test
23 Year Rate Base.

24
25 Q. HAVE YOU PREPARED A LIST OF THE ADJUSTMENTS TO RATE BASE?

26 A. Yes. The Traditional Adjustments to Rate Base reflected in Exhibit___(TAA-1),
27 Schedule 7. The Rate Case Adjustments to Rate Base are reflected in Exhibit___(TAA-
28 1), Schedule 8. The following is a list of the adjustments to Rate Base:

1 Traditional Adjustments to Rate Base

- 2 1. Allowance for Funds Used During Construction (AFUDC) on Short-Term CWIP
3 2. Big Stone Phase II (BSP II) Generation Recovery
4 3. Rider CWIP
5 4. Transmission Recovery
6

7 Test Year Adjustments to Rate Base

- 8 1. Normalize CISone Project
9 2. New Depreciation Rates
10 3. Rate Case Expense Amortization
11 4. Adjust Deferred Tax for Tax Reform
12 5. Effect of Test Year Adjustments on Allocations
13

14 Q. HOW IS THE INFORMATION IN EXHIBIT__(TAA-1), SCHEDULES 7 AND 8
15 AND IN THIS SECTION OF YOUR DIRECT TESTIMONY PRESENTED?

16 A. All the information in Exhibit__(TAA-1), Schedules 7 and 8 and in this section of my
17 Direct Testimony is presented in terms of South Dakota jurisdictional amounts.

18 **A. TRADITIONAL ADJUSTMENTS TO RATE BASE**

19 **1. AFUDC on Short-Term CWIP**

20 Q. PLEASE SUMMARIZE THE ADJUSTMENT FOR AFUDC FOR SHORT TERM
21 CWIP.

22 A. The capitalization of AFUDC on Short-term CWIP is the result of previous South Dakota
23 Commission orders which did not allow Short Term CWIP to be included in rate base
24 and which were upheld in the South Dakota Supreme Court. However, since Short-term
25 CWIP is not included in Rate Base, OTP has added AFUDC attributable to Short-term
26 CWIP to rate base since January 1, 1976. Because OTP does not include AFUDC on
27 Short Term CWIP for book purposes, and adjustment for AFUDC is needed, which is
28 depreciated and affects Depreciation Expense and Accumulated Depreciation in addition
29 to Plant in Service. This treatment of AFUDC for Short-term CWIP: (1) increases Total

1 Plant in Service by \$2,038,412; (2) increases Accumulated Depreciation by \$1,799,027;
2 and (3) increases Total Average Rate Base by \$239,386, as shown on Exhibit ___(TAA-
3 1), Schedule 7.

4 **2. BSP II Generation Recovery**

5 Q. PLEASE SUMMARIZE THE ADJUSTMENT FOR BIG STONE PHASE II
6 RECOVERY.

7 A. The Commission allowed unamortized Big Stone II costs to be fixed in rates for the
8 entire 10-year recovery period ending February 16, 2021 per order in Docket No. EL 10-
9 011. This treatment of Big Stone Phase II cost recovery: (1) increases Total Plant in
10 Service by \$501,662; (2) increases Total Average Rate Base by \$501,662, as shown on
11 Exhibit ___(TAA-1), Schedule 7.

12 **3. Rider CWIP**

13 Q. PLEASE SUMMARIZE THE ADJUSTMENT FOR RIDER CWIP.

14 A. The adjustment for Rider CWIP conforms to the ratemaking approach approved by the
15 Commission in Docket EL-13-029 with respect OTP's investments in FERC-approved
16 Multi Value Projects (MVP) transmission projects. There is no impact to South Dakota
17 jurisdictional rate base or revenue requirements because these OTP investments in MVP
18 projects are included in the FERC jurisdiction (and are not included in South Dakota rate
19 base) and because these adjustments pertain solely to OTP Total Company balances,
20 which include FERC jurisdictional balances. This treatment of Rider CWIP: (1)
21 decreases CWIP by \$10,754,628; and (2) decreases Total Average Rate Base by
22 \$10,754,628, as shown on Exhibit ___(TAA-1), Schedule 7.

23 **4. Transmission Recovery**

24 Q. PLEASE SUMMARIZE THE ADJUSTMENT FOR TRANSMISSION RECOVERY.

25 A. This adjustment also conforms to the ratemaking approach approved by the Commission
26 in Docket EL-13-029 with respect to OTP's investments in FERC-approved MVP
27 transmission projects. This adjustment: (1) decreases Total Plant in Service by
28 \$17,402,180; (2) decreases Accumulated Depreciation by \$582,545 (3) decreases ADIT

1 by \$2,248,323; and (4) decreases Total Average Rate Base by \$14,571,312, as shown on
2 Exhibit___(TAA-1), Schedule 7.

3 **B. TEST YEAR ADJUSTMENTS TO RATE BASE**

4 **1. Normalize CISone Project**

5 Q. DID YOU NORMALIZE 2017 TEST YEAR PLANT IN SERVICE FOR THE CISONE
6 PROJECT?

7 A. Yes. Exhibit___(TAA-1), Schedule 8 shows the adjustment to Plant in Service for OTP's
8 CISone project that will go into service in 2018. Mr. Tommerdahl explains the basis for
9 the adjustment for the CISone project in his Direct Testimony.

10
11 Q. PLEASE SUMMARIZE THE ADJUSTMENTS FOR THE CISONE PROJECT.

12 A. The adjustments for the CISone project are set forth in Exhibit___(TAA-1), Schedule 8
13 and include: (1) a \$1,118,659 increase to Intangible Plant in Service; (2) a \$66,654
14 increase to Intangible Accumulated Depreciation; (3) a \$1,052,006 increase to Intangible
15 Net Plant in Service; and (4) a \$1,052,006 increase to Total Average Rate Base. The
16 corresponding impacts on the 2017 Test Year Income Statement are explained in Section
17 IX of my Direct Testimony.

18 **2. New Depreciation Rates.**

19 Q. PLEASE BRIEFLY EXPLAIN THE BASIS FOR THE ADJUSTMENT FOR NEW
20 DEPRECIATION RATES.

21 A. OTP's electric generating, and delivery system is fully integrated and has similar
22 characteristics throughout its service territory. OTP conducts its annual depreciation
23 reviews and the five-year depreciation studies, required by Minnesota Rules,² on the
24 property and equipment in its entire system. Therefore, it is reasonable, and in fact

² Minnesota Statutes § 216B.11 and Minnesota Rules 7825.0600 through 7825.0900 give authority to the MPUC to review and approve proper and adequate rates and methods for depreciation used by regulated electric utilities in that state. These Rules require utilities to review their depreciable rates annually and conduct depreciation studies at least every five years.

1 desirable, to use consistent depreciation parameters and methods in all three states
2 covered by OTP's service territory. By using a single set of depreciation parameters for
3 our contiguous, fully integrated system, OTP's regulatory and accounting costs are lower,
4 and the Commission and its Staff may consider depreciation issues on an as needed basis.
5 The adjustment to the 2017 Test Year depreciation expense and accumulated depreciation
6 to reflects the MPUC's approval of the depreciation parameters and rates for use in 2018
7 in MPUC Docket No. E017/D-17-652. Those parameters are used to calculate
8 depreciation rates for Minnesota, South Dakota, and North Dakota.

9
10 Q. PLEASE SUMMARIZE THE ADJUSTMENT FOR NEW DEPRECIATION RATES.

11 A. The new depreciation rates: (1) reduces Net Utility Plant in Service by \$22,111; and (2)
12 reduces Total Average Rate Base by \$22,111, as shown on Exhibit ____(TAA-1), Schedule
13 8.

14 **3. Rate Case Expense Amortization**

15 Q. PLEASE SUMMARIZE THE ADJUSTMENT FOR RATE CASE EXPENSE
16 AMORTIZATION.

17 A. Mr. Tommerdahl explains the basis for the Rate Case expense adjustment in his Direct
18 Testimony. The adjustment for Rate Case expense amortization: (1) increases
19 Unamortized Rate Case expense by \$458,334; and (2) increases Total Average Rate Base
20 by \$458,334, as shown on Exhibit ____(TAA-1), Schedule 8.

21 **4. Adjustment to ADIT for TCJA**

22 Q. PLEASE SUMMARIZE THE ADJUSTMENT TO ADIT RESULTING FROM THE
23 TCJA.

24 A. I discussed the need for an adjustment to ADIT that results from the TCJA earlier in my
25 Direct Testimony. The necessary adjustment: (1) decreases ADIT by \$482,272; and (2)
26 increases Rate Base by \$482,272.

1 **5. Effect of Test Year Adjustments on Allocations**

2 Q. DO THE 2017 TEST YEAR ADJUSTMENTS CAUSE IMPACTS TO
3 ALLOCATIONS?

4 A. Yes. The impacts are due to changes in the allocators that result from the other financial
5 adjustments made to the 2017 Test Year. They are the result of calculations within the
6 Cost of Service model itself. For example, any adjustment to Net Plant in Service will
7 have a direct impact on the Net Electric Plant in Service (NEPIS) allocation factor
8 calculated as a percentage of total system Net Plant. The allocation percentage is
9 simultaneously recalculated each time an adjustment to Net Plant in Service occurs,
10 thereby providing the most up-to-date factor possible. As a result, anything that is
11 allocated on NEPIS is simultaneously re-calculated on a jurisdictional basis as well.

12
13 Q. PLEASE SUMMARIZE THE IMPACTS FROM THE CHANGES IN ALLOCATIONS.

14 A. The impacts from changes in allocations include: (1) several changes to Utility Plant in
15 Service accounts (resulting in a net increase of \$339,141 to Total Utility Plant in
16 Service); (2) several changes to Accumulated Depreciation accounts (resulting in a net
17 increase of \$143,008 Total Accumulated Depreciation); and (3) several changes to Net
18 Utility Plant in Service accounts (resulting in a net increase of \$196,133 to Net Utility
19 Plant in Service); and (4) several changes to Average Rate Base accounts. The net effect
20 is a \$360,393 decrease to Total Average Rate Base, as shown in Exhibit__(TAA-1),
21 Schedule 8.

22
23 Q. DOES EXHIBIT__(TAA-1), SCHEDULE 8 ALSO REFLECT ADJUSTMENTS FOR
24 THE MERRICOURT STEP INCREASE?

25 A. Yes. I explain those adjustments in Section XI of my Direct Testimony.

26 **IX. INCOME STATEMENT**

27 Q. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR DIRECT TESTIMONY?

28 A. In this section of my Direct Testimony, I will discuss the Income Statement and explain
29 the Income Statement schedules for the 2017 Actual Year and the 2017 Test Year. I will

1 also address the Income Statement effects of rolling certain ECRR and TCRR costs into
2 base rates. Mr. Haugen discusses the substance of this proposal in his Direct Testimony.

3
4 Q. HOW IS THE INFORMATION IN EXHIBIT__(TAA-1), SCHEDULES 9 AND 10
5 AND IN THIS SECTION OF YOUR DIRECT TESTIMONY PRESENTED?

6 A. All the information in Exhibit__(TAA-1), Schedules 9 and 10 and in this section of my
7 Direct Testimony is presented in terms of South Dakota jurisdictional amounts.

8 **A. SUMMARY OF FINANCIAL SCHEDULES**

9 Q. WHAT TIME PERIODS ARE SHOWN ON THESE SCHEDULES?

10 A. Those Income Statement schedules show information for: (1) the 2017 Actual Year; and
11 (2) the 2017 Test Year.

12
13 Q. WHAT IS THE SOURCE OF THE 2017 ACTUAL YEAR INCOME STATEMENT
14 INFORMATION?

15 A. The source of the 2017 Actual Year Income Statement information is OTP's South
16 Dakota JCOSS, which is the basis for reporting the earned ROR and Return on Equity
17 included in the 2017 South Dakota Jurisdictional Report which will be filed with the
18 Commission.

19 **B. SUMMARY OF TEST YEAR INCOME STATEMENT**

20 Q. WHAT ARE THE 2017 ACTUAL YEAR AND 2017 TEST YEAR TOTALS
21 AVAILABLE FOR RETURN?

22 A. As shown in Exhibit__(TAA-1), Schedule 3, the 2017 Actual Year Total Available for
23 Return (Net Income) for South Dakota is \$4.8 million and the 2017 Test Year Total
24 Available for Return for South Dakota is \$2.0 million.

25
26 Q. PLEASE BRIEFLY DESCRIBE WHAT IS INCLUDED IN THE INCOME
27 STATEMENT.

28 A. The Income Statement is composed primarily of: (1) Operating Revenues (which
29 includes both retail revenues and other operating revenues); (2) Operating Expenses

1 (which includes Operating and Maintenance (O&M) expenses for the various operating
2 segments, Administrative and General expenses, depreciation expense, and general taxes,
3 including property taxes); (3) Income Tax Expense; and (4) Total Available for Return.
4

5 Q. HOW WAS THE 2017 ACTUAL YEAR INCOME STATEMENT DEVELOPED?

6 A. The 2017 Actual Year Income Statement was adjusted by removing revenues and
7 expenses that are part of “Traditional” regulatory adjustments. These adjustments reflect
8 recognized regulatory requirements and to “normalize” the 2017 Actual Year financial
9 information for one-time events that will not be recurring on an on-going basis. Other
10 Rate Case Adjustments were made to develop the 2017 Test Year. I will discuss those
11 adjustments in Section X of my Direct Testimony.
12

13 Q. WHAT ARE THE MAJOR COMPONENTS OF THE INCOME STATEMENT THAT
14 YOU WILL DISCUSS?

15 A. The major components of the Income Statement I will discuss are:

- 16 • Revenues;
- 17 • O&M Expenses;
- 18 • Depreciation Expense;
- 19 • Taxes; and
- 20 • Net Income.

21 I will provide the primary explanation of the Revenues, O&M Expenses, Depreciation
22 Expense included in the 2017 Test Year.

23 C. TEST YEAR REVENUES

24 Q. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR DIRECT TESTIMONY?

25 A. This section describes how revenues were determined for purposes of calculating the
26 2017 Test Year base rate revenue requirement. The major components of Revenues are
27 Retail Revenues and Other Revenues.

1 **1. Retail Revenues**

2 Q. WHAT IS THE AMOUNT OF RETAIL REVENUE INCLUDED IN
3 EXHIBIT__(TAA-1), SCHEDULE 9?

4 A. Exhibit__(TAA-1), Schedule 9 shows that OTP’s South Dakota Jurisdictional Retail
5 Revenue is \$32.9 million for the 2017 Actual Year, and \$30.7 million for the 2017 Test
6 Year, and \$36.6 million for the Merricourt Step Increase. 2017 Test Year revenues are
7 also detailed in pages 1 and 2 of Statement I.

8
9 Q. HOW WAS RETAIL REVENUE DETERMINED?

10 A. Retail revenue in the 2017 Test Year was determined on a calendar month basis using the
11 actual sales (as described in the Direct Testimony of Mr. Tommerdahl) applied to current
12 tariffs. The same revenue calculation was used to determine the revenue requirement
13 deficiency filed in the JCOSS for this rate case filing.

14 **2. Other Electric Operating Revenue**

15 Q. WHAT IS THE AMOUNT OF OTHER ELECTRIC OPERATING REVENUE
16 INCLUDED IN EXHIBIT__(TAA-1), SCHEDULE 9?

17 A. Exhibit__(TAA-1), Schedule 9 shows that OTP’s South Dakota Jurisdictional Other
18 Electric Operating Revenue Retail Revenue is \$1.7 million for 2017 Actual Year, \$1.7
19 million for 2017 Test Year, and \$1.8 million for the Merricourt Step Increase.

20
21 Q. WHAT ARE THE COMPONENTS OF OTHER ELECTRIC OPERATING REVENUE?

22 A. Other Electric Operating Revenue includes items such as: 1) Midcontinent Independent
23 System Operator (MISO) transmission related revenues; 2) revenue from Integrated
24 Transmission Agreements; 3) revenues from plant operations and steam sales; 4) Asset
25 Based Revenues; and 5) other miscellaneous revenues.

26 **a) MISO Revenues**

27 Q. ARE MISO REVENUES INCLUDED IN THE 2017 TEST YEAR?

28 A. Yes. Pursuant to MISO’s Transmission and Energy Market Tariff and the MISO
29 Transmission Owners Agreement, OTP receives revenues from several sources for use of

1 its transmission system and related services that it provides. These sources of revenue
 2 include, but are not limited to, the following: (1) Schedule 1 - Scheduling, System
 3 Control & Dispatch; (2) Schedule 2 - Reactive Supply & Voltage Control; (3) Schedule 7
 4 - Firm Transmission Service; (4) Schedule 8 - Non-Firm Transmission Service; (5)
 5 Schedule 9 - Network Integrated Transmission Service; and (6) Schedule 11 - Pass-
 6 Through Revenue.

7
 8 Q. IS THE REVENUE FROM THESE MISO SCHEDULES INCLUDED IN THE 2017
 9 TEST YEAR?

10 A. Yes. Revenue from these MISO services in the amount of \$522,521 is included in the
 11 2017 Test Year. Table 1 below provides a breakdown by each MISO Schedule.

12 **Table 1**
 13 2017 Test Year MISO Revenues by Schedule
 14 (OTP SD)

MISO Schedule	Revenue Amount
Schedule 1	\$71,664
Schedule 2	70,749
Schedule 7	121,923
Schedule 8	(2,175)
Schedule 9	190,591
Schedule 11	(1,662)
Schedule 24	47,567
Schedule 26	116,083
Schedule 26A	(92,219)
Total MISO Schedule Revenue	\$522,521

1 **b) Integrated Transmission Agreement Revenues**

2 Q. WHAT IS AN INTEGRATED TRANSMISSION AGREEMENT (ITA)?

3 A. An ITA is an agreement to jointly plan and construct a common transmission system with
4 discrete ownership of individual facilities with reciprocal usage rights granted to each
5 party. OTP has ITAs with the following entities: Minnkota Power Cooperative
6 (Minnkota), Great River Energy (Great River), and East River Electric Power
7 Cooperative (East River). Each of these agreements has been approved by FERC.

8
9 Q. PLEASE DESCRIBE THE ITA REVENUES THAT OTP RECEIVES.

10 A. OTP receives transmission revenue from other utilities through ITAs for joint use of
11 defined transmission systems. Revenues received from Minnkota, Great River and East
12 River for the scheduling and dispatch services provided by OTP under the ITAs are based
13 on OTP's costs associated with system control and dispatching, including operating,
14 maintenance, and fixed costs. Minnkota, Great River, and East River each pay their pro
15 rata share of the system control and dispatching, operating, and maintenance expenses
16 based on the respective joint use facilities owned by each party and OTP.

17
18 Q. ARE COSTS AND USAGE BALANCED UNDER THE ITAS?

19 A. Yes. One of the objectives of each ITA is to make sure each utility shares in the costs of
20 the transmission system proportionate to usage. The proportion of investment to usage of
21 the joint transmission system is determined each year for each of the ITAs. If a utility is
22 deficient in its investment relative to the investment by the other party, it makes
23 deficiency payments until the investment is equalized. The deficiency payments are
24 payments by the underinvested utility of the carrying cost of the utility that is more than
25 fully invested.

26
27 Q. IS THE REVENUE FROM THESE ITAS INCLUDED IN THE 2017 TEST YEAR?

28 A. Yes. Revenue from ITAs in the amount of \$111,730 is included in the 2017 Test Year.

1 **c) Plant Operator and Steam Revenues**

2 Q. DOES OTP RECEIVE COMPENSATION FOR LOAD DISPATCH EXPENSES FOR
3 BIG STONE AND COYOTE?

4 A. Yes. OTP operates the Big Stone Plant and Coyote Station on behalf of itself and its
5 ownership partners (Minnkota, Northwestern, and Montana-Dakota Utilities for Big
6 Stone and Minnkota, Northwestern, Montana-Dakota Utilities, and Northwestern
7 Municipal Power Agency for Coyote Station). As the plant operator, OTP provides
8 services for which it is compensated by its partners. The services include: (1) scheduling
9 and operations of the plants for both the day-ahead and real-time market; (2) acting as the
10 meter data management agent for all partners of the plants; (3) settlement reconciliation
11 of unit dispatches and actual generation; (4) providing accounting reports and records to
12 the partners; scheduling generator outages; (5) communicating directly with the MISO
13 generator dispatch desk; and (6) providing and maintaining reliable communications
14 between MISO, the plants, and the OTP control center.

15
16 Q. IS LOAD DISPATCH REVENUE INCLUDED IN THE 2017 TEST YEAR?

17 A. Yes. Plant operation revenue in the amount of \$31,124 is included in the 2017 Test Year.
18

19 Q. DOES OTP RECEIVE REVENUE FROM THE SALE OF STEAM?

20 A. Yes. Big Stone supplies steam to an ethanol plant near the Big Stone Plant.
21

22 Q. IS REVENUE FROM STEAM SALES INCLUDED IN THE 2017 TEST YEAR?

23 A. Yes. Steam sales revenue in the amount of \$158,774 is included in the 2017 Test Year.

24 **d) Asset Based Revenues**

25 Q. DOES OTP RECEIVE REVENUE FROM ASSET BASE REVENUES?

26 A. Yes. Asset based Revenue is included in the 2017 Test Year, as required in our last
27 South Dakota rate case. The corresponding expenses are also included, and any margins
28 are credited to customers through the fuel clause.
29

1 Q. ARE ASSET BASED REVENUE INCLUDED IN THE 2017 TEST YEAR?
2 A. Asset Based Revenues in the amount of \$448,767 are included in the 2017 Test Year.

3 **e) Other Revenues**

4 Q. ARE ALL OTHER SOURCES OF OTHER ELECTRIC OPERATING REVENUES
5 ALSO INCLUDED IN THE 2017 TEST YEAR?

6 A. Yes. Other sources of Other Electric Operating Revenues, they are summarized below in
7 Table 2 and included in the 2017 Test Year in the amount of \$458,432.

8 **Table 2**
9 **2017 Test Year Other Revenues**
10 **(OTP SD)**

Other Revenue	Revenue Amount
Generator Interconnection	\$91,802
Load Control and Dispatch	71,002
Late Fees direct assign to SD	95,929
Other Misc. Revenues	\$199,699
Total Other Revenues	\$458,432

11 **D. O&M EXPENSES**

12 Q. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR DIRECT TESTIMONY?

13 A. In this section of my Direct Testimony, I will briefly describe the components in the
14 Schedule of OTP's O&M expenses for the 2017 Test Year, including unadjusted and
15 adjusted amounts. I will identify each category of O&M Expense and briefly list the
16 types of expenses included in each category. Also, I will explain the difference between
17 the unadjusted and adjusted amounts in Section X of my Direct Testimony.

18
19 Q. HAVE YOU ALSO PROVIDED A SCHEULE WHICH INCLUDES ALL O&M
20 EXPENSES?

21 A. Yes. Exhibit__(TAA-1), Schedule 10, the Schedule of O&M Expenses, includes all
22 O&M expenses, including the O&M expenses levels from OTP's last South Dakota rate
23 case (Docket No. EL 10-011), for the 2017 Actual Year, and for the 2017 Test Year.

1 **1. Production Expenses**

2 Q WHAT IS THE AMOUNT OF PRODUCTION EXPENSE INCLUDED IN
3 Exhibit__(TAA-1), SCHEDULE 10?

4 A. Exhibit__(TAA-1), Schedule 10 shows that OTP’s South Dakota Jurisdictional
5 Production Expense is \$14.2 million for the 2017 Actual Year before adjustments and
6 \$14.5 million for the 2017 Test Year after adjustments.

7
8 Q. WHAT IS INCLUDED IN PRODUCTION EXPENSE?

9 A. The most significant Production Expense is Fuel and Purchased Power. Production
10 Expense also includes maintenance costs of OTP’s generation plants.

11 **2. Transmission Expenses**

12 Q. WHAT IS THE AMOUNT OF TRANSMISSION EXPENSE INCLUDED IN
13 EXHIBIT__(TAA-1), SCHEDULE 10?

14 A. Exhibit__(TAA-1), Schedule 10 shows that OTP’s South Dakota Jurisdictional
15 Transmission Expense is \$2.94 million for the 2017 Actual Year before adjustment and
16 \$2.95 million for the 2017 Test Year after adjustments.

17
18 Q. WHAT IS INCLUDED IN TRANSMISSION EXPENSE?

19 A. Transmission expense includes: (1) Load dispatching; (2) Substation expense; (3)
20 Maintenance of transmission lines and substations; (4) Transmission of electricity by
21 others; (5) Rents for transmission property; (6) Engineering; (7) Computer Hardware and
22 Software for operation of the transmission system; and (8) Transmission Market Costs.

23 **3. Distribution Expenses**

24 Q. WHAT IS THE AMOUNT OF DISTRIBUTION EXPENSE INCLUDED IN
25 EXHIBIT__(TAA-1), SCHEDULE 10?

26 A. Exhibit__(TAA-1), Schedule 10 shows that OTP’s South Dakota Jurisdictional
27 Distribution Expense is \$1.7 million for the 2017 Actual Year before adjustments and
28 \$1.7 million for the 2017 Test Year after adjustments.

1 Q. WHAT IS INCLUDED IN DISTRIBUTION EXPENSE?

2 A. Distribution Expense includes: expenses for operation and maintenance of the
3 distribution system, including substations, wires, transformers, meters and lighting.

4 **4. Customer Accounting Expenses**

5 Q. WHAT IS THE AMOUNT OF CUSTOMER ACCOUNTING EXPENSE INCLUDED
6 IN EXHIBIT __ (TAA-1), SCHEDULE 10?

7 A. Exhibit __ (TAA-1), Schedule 10 shows that OTP's South Dakota Jurisdictional
8 Customer Accounting Expense is \$1.14 million before and \$1.15 million for the 2017
9 Test Year after adjustments.

10

11 Q. WHAT IS INCLUDED IN CUSTOMER ACCOUNTING EXPENSE?

12 A. Customer Accounting Expense includes: Meter Reading, billing and maintenance of
13 customer records (customer information systems).

14 **5. Customer Service and Information Expenses**

15 Q. WHAT IS THE AMOUNT OF CUSTOMER SERVICE AND INFORMATION
16 EXPENSE INCLUDED IN EXHIBIT __ (TAA-1), SCHEDULE 10?

17 A. Exhibit __ (TAA-1), Schedule 10 shows that OTP's South Dakota Jurisdictional
18 Customer Accounting Expense is \$663,000 for the 2017 Actual Year before and
19 \$664,000 for the 2017 Test Year after adjustments.

20

21 Q. WHAT IS INCLUDED IN CUSTOMER SERVICE AND INFORMATION EXPENSE?

22 A. Customer Service and Information Expense includes customer assistance expenses.

23 **6. Sales Expense**

24 Q. WHAT IS THE AMOUNT OF SALES EXPENSE INCLUDED IN EXHIBIT __ (TAA-
25 1), SCHEDULE 10?

26 A. Exhibit __ (TAA-1), Schedule 10 shows that OTP's South Dakota Jurisdictional Sales
27 Expense is \$11,000 for the 2017 Actual Year before adjustments and \$20,000 for the
28 2017 Test Year after adjustments.

1 Q. WHAT IS INCLUDED IN SALES EXPENSE?

2 A. Sales Expense include Selling and Advertising Expenses, as well as Economic
3 Development Costs.

4 **7. Administrative and General Expenses**

5 Q. WHAT IS THE AMOUNT OF ADMINISTRATIVE AND GENERAL EXPENSE
6 INCLUDED IN EXHIBIT__(TAA-1), SCHEDULE 10?

7 A. Exhibit__(TAA-1), Schedule 10 shows that OTP's South Dakota Jurisdictional
8 Administrative and General Expense is \$3.7 million for the 2017 Actual Year before
9 adjustments and \$4.0 million for the 2017 Test Year after adjustments.

10

11 Q. WHAT IS INCLUDED IN ADMINISTRATIVE AND GENERAL EXPENSE?

12 A. Administrative and General Expense includes: (1) Salaries; (2) Office Supplies &
13 Expenses; (3) Various Admin & General Expenses; (4) Outside Services Employed; (5),
14 Property Insurance; (6) Injuries & Damage; (7) Employee Pensions & Benefits; (8)
15 Regulatory Commission Expenses; (9) Miscellaneous General Expenses; (10)
16 Informational Advertising; (11) Rents; and (12) Building Maintenance Expenses.

17 **E. DEPRECIATION EXPENSE**

18 Q. WHAT IS THE AMOUNT OF DEPRECIATION EXPENSE INCLUDED IN
19 EXHIBIT__(TAA-1), SCHEDULE 9?

20 A. Exhibit__(TAA-1), Schedule 9 shows OTP's South Dakota Jurisdictional Depreciation
21 Expense is \$4.7 million for the 2017 Actual Year, \$5.0 million for the 2017 Test Year,
22 and \$6.0 million for the Merricourt Step Increase (referred to as the 2017 Test Year Step
23 on Schedule 9).

24

25 Q. HOW WERE TEST YEAR DEPRECIATION EXPENSES DETERMINED?

26 A. As I explained earlier in my Direct Testimony, the depreciation expense in the 2017 Test
27 Year reflects the remaining lives and salvage percentage parameters as determined in our
28 2016 depreciation study and approved by the MPUC.

1 **F. INCOME TAXES**

2 Q. WHAT IS THE AMOUNT OF INCOME TAX EXPENSE INCLUDED IN
3 EXHIBIT__(TAA-1), SCHEDULE 9?

4 A. Exhibit__(TAA-1), Schedule 9 shows OTP’s South Dakota Jurisdictional Income Tax
5 Expense is \$0 for the 2017 Actual Year, (\$1,021,346) for the 2017 Test Year, and
6 \$46,847 for the Merricourt Step Increase.

7
8 Q. HOW WERE OTP’S INCOME TAX EXPENSES CALCULATED?

9 A. OTP’s Federal and South Dakota income tax expenses are based solely on the regulated
10 income and expense items included in the revenue requirement calculation using the
11 “stand-alone” method. The stand-alone method determines the jurisdictional regulated
12 income tax expense based solely on allowable regulated income and expense items. The
13 current income tax expense calculation utilizes straight-line depreciation rates to
14 determine depreciation expense as part of the current income tax expense calculation.

15 **X. ADJUSTMENTS TO INCOME STATEMENT**

16 Q. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR TESTIMONY?

17 A. In this section of my Direct Testimony, I will describe the Traditional Adjustments and
18 Rate Case Adjustments that have been made to determine the 2017 Actual Year Income
19 Statement and the 2017 Test Year Income Statement.

20
21 Q. HAVE YOU PREPARED A LIST OF THE ADJUSTMENTS TO THE INCOME
22 STATEMENT MADE FOR THE 2017 TEST YEAR?

23 A. Yes. The following is a list of Traditional Adjustments (necessary to arrive at the 2017
24 Actual Year) and Rate Case Adjustments (necessary to arrive at the 2017 Test Year):

25
26 Traditional Adjustments to Income Statement:

- 27 1. Advertising Expense
28 2. AFUDC on Short-Term CWIP
29 3. BSP II Generation Recovery

- 1 4. Emission Allowances
- 2 5. Incentive Compensation
- 3 6. Renewable Energy Credit (REC) Sales
- 4 7. Transmission Recovery

5

6 Test Year Adjustments to Income Statement

- 7 1. Normalize CISOne Project
- 8 2. BSP II Transmission Amortization
- 9 3. New Depreciation Rates
- 10 4. Weather Normalization
- 11 5. Revenue Normalization
- 12 6. Wages, KPA, and Management Incentive
- 13 7. Medical/Dental, FAS 87, 106, 112
- 14 8. Rate Case Expense Amortization
- 15 9. Storm Damage
- 16 10. Removal of Production Tax Credits
- 17 11. Plant Outage Normalization
- 18 12. Removal of TCRR Revenues
- 19 13. Removal of ECRR Revenues
- 20 14. Adjust Deferred Tax for Tax Reform
- 21 15. Allocation Changes due to Test Year Adjustments

22

23 Q. HAVE YOU PREPARED A SCHEDULE SHOWING ALL TRADITIONAL
24 ADJUSTMENTS TO REACH THE 2017 ACTUAL YEAR INCOME STATEMENT?

25 A. Yes. All Traditional Adjustments to the 2017 Actual Year Income Statement are
26 reflected in Exhibit___(TAA-1), Schedule 11 attached to my Direct Testimony.

27

1 Q. HAVE YOU PREPARED A SCHEDULE SHOWING ALL TEST YEAR
2 ADJUSTMENTS TO REACH THE 2017 TEST YEAR INCOME STATEMENT?

3 A. Yes. All Test Year Adjustments to the Income Statement are reflected in
4 Exhibit__(TAA-1), Schedule 12 attached to my Direct Testimony.

5

6 Q. HOW HAVE YOU PRESENTED THE INFORMATION IN EXHIBIT__(TAA-1),
7 SCHEDULES 11 AND 12?

8 A. All the information in Exhibit__(TAA-1), Schedules 11 and 12 and in this section of my
9 Direct Testimony is presented in terms of South Dakota jurisdictional amounts.

10 **A. TRADITIONAL ADJUSTMENTS TO INCOME STATEMENT**

11 **1. Advertising Expense**

12 Q. PLEASE DESCRIBE ADVERTISING EXPENSE.

13 A. Advertising expenditures that are reasonable in amount and purpose are included as
14 operating expenses in the cost of service determination for ratemaking purposes. The
15 types of advertising included are those designed to encourage energy conservation,
16 promote safety, inform and educate consumers on the utility's financial services,
17 disseminate information on a utility's corporate affairs to its owners.

18

19 Q. PLEASE SUMMARIZE THE ADJUSTMENT WITH RESPECT TO ADVERTISING
20 EXPENSES.

21 A. The adjustment for Advertising Expenses: (1) decreases Total O&M Expenses by
22 \$32,306; (2) increases Total Income Taxes by \$6,808; and (3) increases Net Operating
23 Income by \$25,612, as shown on Exhibit__(TAA-1), Schedule 11. Mr. Haugen
24 discusses the basis for this adjustment in his Direct Testimony.

25 **2. AFUDC on Short-Term CWIP**

26 Q. PLEASE SUMMARIZE THE ADJUSTMENT WITH RESPECT TO AFUDC ON
27 SHORT-TERM CWIP.

28 A. I explained the basis for an adjustment for AFUDC on Short-Term CWIP earlier in my
29 Direct Testimony. The adjustment for AFUDC on Short-Term CWIP: (1) increases Total

1 Depreciation Expense by \$62,939; (2) decreases Total Income Tax by \$13,217; and (3)
2 decreases Net Operating Income by \$49,721, as shown on Exhibit ___(TAA-1), Schedule
3 11.

4 **3. BSP II Generation Recovery**

5 Q. PLEASE SUMMARIZE THE ADJUSTMENT WITH RESPECT TO BSP II
6 AMORTIZATION.

7 A. I explained the basis for this adjustment earlier in my Direct Testimony. The adjustment
8 for BSP II generation recovery: (1) increases Depreciation Expense by \$100,332; (2)
9 decreases OTP Total Income Tax by \$21,070; and (3) decreases OTP Net Operating
10 Income by \$79,262 as shown on Exhibit ___(TAA-1), Schedule 11.

11 **4. Emission Allowances**

12 Q. PLEASE SUMMARIZE THE ADJUSTMENT FOR EMISSIONS ALLOWANCES.

13 A. The adjustment for emissions allowances has virtually no effect, increasing Net
14 Operating Income by \$1, as shown on Exhibit ___(TAA-1), Schedule 11.

15 **5. Incentive Compensation**

16 Q. PLEASE SUMMARIZE THE ADJUSTMENT WITH RESPECT TO INCENTIVE
17 COMPENSATION.

18 A. The adjustments with respect to Incentive Compensation reflect the cap of 25 percent of
19 salary for each employee and are described in the Direct Testimony of OTP witness Mr.
20 Peter E. Wasberg. The adjustment for incentive compensation: (1) decreases Total O&M
21 Expenses by \$82,059; (2), increases Total Income Taxes by \$17,232; and (3) increases
22 Net Operating Income by \$64,826, as shown on Exhibit ___(TAA-1), Schedule 11.

23 **6. REC Sales**

24 Q. PLEASE SUMMARIZE THE ADJUSTMENT WITH RESPECT TO REC SALES.

25 A. An adjustment for REC sales shares 90 percent of the SD REC revenue to SD customers
26 per Commission Decision EL09-029. The adjustment for REC sales: (1) increases Total
27 Operating Revenue by \$575; (2) increases Total Income Tax by \$121; (3) increases Net
28 Operating Income by \$455, as shown on Exhibit ___(TAA-1), Schedule 11.

1 **7. Transmission Recovery**

2 Q. PLEASE SUMMARIZE THE ADJUSTMENT WITH RESPECT TO TRANSMISSION
3 RECOVERY.

4 A. The adjustment for Transmission recovery conforms to the ratemaking approach
5 approved by the Commission in Docket EL-16-035 with respect to OTP’s investments in
6 FERC-approved MVPs. The adjustment: (1) decreases Total Operating Revenues by
7 \$2,993,155 (2) decreases Total O&M Expenses by \$8,540; (3) decreases Total
8 Depreciation Expense by \$209,891; (4) decreases Total Income Taxes by \$536,224; and
9 (5) decreases Net Operating Income by \$2,017,224, as shown on Exhibit__(TAA-1),
10 Schedule 11.

11 **B. TEST YEAR ADJUSTMENTS TO THE INCOME STATEMENT**

12 **1. Normalize CISone Project**

13 Q. PLEASE SUMMARIZE THE ADJUSTMENTS TO THE INCOME STATEMENT
14 ADJUSTMENT FOR THE CISONE PROJECT.

15 A. Yes. Mr. Tommerdahl has explained the basis for the adjustments for the CISone Project
16 in his Direct Testimony. The adjustment to the Income Statement for the CISone Project:
17 (1) increases Depreciation Expense by \$121,188; (2) decreases Total Income Taxes by
18 \$25,490; and (3) decreases Total Available for Return by \$95,698, as shown in
19 Exhibit__(TAA-1), Schedule 12.

20 **2. BSP II Transmission Amortization**

21 Q. PLEASE SUMMARIZE THE ADJUSTMENT WITH RESPECT TO BSP II
22 TRANSMISSION AMORTIZATION.

23 A. The Commission authorized recovery through amortization of Big Stone II project costs
24 in the 2010 OTP rate case, Docket No. EL10-011.³ Exhibit__(TAA-1), Schedule 13
25 provides the amortization schedule. The adjustment for BSP II transmission

³ Docket No. EL10-001 Page 3 provides for amortization of cancelled Big Stone II generating plant costs over ten years.

1 amortization: (1) increases Depreciation Expense by \$164,538; (2) decreases Total
2 Income Tax Expense by \$34,553, and (3) decreases Total Available for Return by
3 \$129,985 as shown in Exhibit ___(TAA-1), Schedule 12.
4

5 **3. New Depreciation Rates**

6 Q. PLEASE SUMMARIZE THE ADJUSTMENT WITH RESPECT TO NEW
7 DEPRECIATION RATES.

8 A. I explained the basis for an adjustment for new depreciation rates earlier in my Direct
9 Testimony. The adjustment for the new depreciation rates: (1) increases Depreciation
10 Expense by \$22,111; (2) decreases Total Income Taxes by \$4,635; and (2) decreases
11 Total Available for Return by \$17,476, as shown in Exhibit ___(TAA-1), Schedule 12.

12 **4. Weather Normalization**

13 Q. PLEASE SUMMARIZE THE ADJUSTMENT WITH RESPECT TO WEATHER
14 NORMALIZATION.

15 A. The basis for OTP's weather normalization adjustment is explained in Mr. Tommerdahl's
16 Direct Testimony. The adjustment for weather normalization: (1) increases Total
17 Operating Revenues by \$335,353; (2) increases Total O&M Expenses by \$133,229; (3)
18 increases Total Income Taxes by \$42,446; and (4) increases Net Operating Income by
19 \$159,679, as shown on Exhibit ___(TAA-1), Schedule 12.

20 **5. Revenue Normalization**

21 Q. PLEASE SUMMARIZE THE ADJUSTMENT WITH RESPECT TO REVENUE
22 NORMALIZATION.

23 A. The basis for OTP's revenue normalization adjustment is explained in the Direct
24 Testimony of Mr. Tommerdahl. The adjustment for revenue normalization: (1) increases
25 Total Operating Revenues by \$4,325; (2) increases Total O&M Expenses by \$2,179; (3)
26 increases Total Income Taxes by \$451; and (4) increases Net Operating Income by
27 \$1,695, as shown on Exhibit ___(TAA-1), Schedule 12.

1 **6. Wages, KPA, and Management Incentive**

2 Q. PLEASE SUMMARIZE THE ADJUSTMENT WITH RESPECT TO WAGES, KPA,
3 AND MANAGEMENT INCENTIVE.

4 A. Mr. Wasberg explains the basis for OTP’s adjustment for wages, KPA, and management
5 incentive. Wages is based on a 3% growth factor increase. KPA and management
6 incentive are based on a five-year average. The adjustment for wages, KPA, and
7 management incentive: (1) increases Total O&M Expenses by \$4,781; (2) decreases
8 Total Income Taxes by \$1,004; and (3) decreases Net Operating Income by \$3,777, as
9 shown on Exhibit___(TAA-1), Schedule 12.

10 **7. Medical / Dental, FAS 87, 106, 112**

11 Q. HAVE YOU MADE ADJUSTMENTS ASSOCIATED WITH MEDICAL, POST
12 RETIREMENT MEDICAL AND PENSION COSTS?

13 A. Yes. Table 3 provides the differences between the 2017 costs and the 2018 costs
14 explained by Mr. Wasberg.

15
16 **Table 3**
17 **(OTP Total)**
18 **(\$ millions)**

Costs	2017	2018	Percent Change
Medical & Dental	\$ 11,683	\$11,267	(3.56%)
FAS 112 Post Employment Medical	164	753	360.27%
FAS 106 Post-Retirement Medical	4,970	5,654	13.77%
FAS 87 Pension	5,736	5,895	2.78%
Total	\$22,552	\$23,569	4.5%

19
20 Q. WHAT ARE THE OTP SD 2017 TEST YEAR PORTIONS OF THESE COSTS?

21 A. The 2017 Test Year FAS 112 cost is \$68,992 (OTP SD EST). The 2017 Test Year FAS
22 106 cost is \$518,292 (OTP SD EST). The 2017 Test Year Pension cost is \$540,416 (OTP
23 SD EST).
24

- 1 Q. PLEASE SUMMARIZE THE ADJUSTMENT WITH RESPECT TO MEDICAL /
2 DENTAL AND FAS 87, 106, AND 112.
- 3 A. The adjustment for Medical / Dental and FAS 87, 106, and 112 expenses: (1) increases
4 Total O&M Expenses by \$72,109; (2) decreases Total Income Taxes by \$15,143; and (3)
5 decreases Net Operating Income by \$56,966, as shown on Exhibit ___ (TAA-1), Schedule
6 12.
7
- 8 Q. DOES OTP HAVE BOTH A PREPAID FAS 87 PENSION ASSET AND PREPAID
9 FAS 106 AND 112 LIABILITIES?
- 10 A. Yes. OTP has paid more into its pension trust than has been reflected in FAS 87
11 expenses, leading to a prepaid pension asset, and has reflected more FAS 106 and FAS
12 112 expenses than it has paid out for the related benefits, leading to prepaid liabilities.
13
- 14 Q. HAS OTP BEEN CONSISTENT IN ITS TREATMENT OF THE RATE BASE
15 IMPACTS OF BOTH ITS PREPAID FAS 106 AND FAS 112 LIABILITIES AND
16 PREPAID PENSION ASSET?
- 17 A. Yes. OTP has been consistent in reflecting the prepaid pension asset as an increase to
18 rate base (net of associated ADIT) and has reflected the prepaid FAS 106 and 112
19 liabilities as decreases to rate base (net of associated ADIT).
20
- 21 Q. WHAT IS THE 2017 TEST YEAR NET RATE BASE IMPACT OF INCLUDING THE
22 PREPAID PENSION ASSET AND 106 AND FAS 112 LIABILITIES?
- 23 A. Table 4 below shows the net rate base impact of including the 2017 Test Year prepaid
24 pension asset, FAS 106 and FAS 112 balances is a \$20.8 million (OTP Total)/\$1.6
25 million (OTP SD) decrease to OTP's 2017 Test Year rate base.

Table 4
2017 Test Year Rate Base Impact of
Prepaid Pension Asset, FAS 106 and FAS 112 Liabilities
(OTP SD)
(\$millions)

Component	Non-Plant Rate Base Asset/ (Liability)	Associated ADIT Asset/(Liability)	Net Rate Base Impact Asset/(Liability)
Prepaid Pension Asset	\$2,875	(\$984)	\$ 1,891
FAS 106 Liability	(4,882)	1,434	(3,448)
FAS 112 Liability	(114)	27	(87)
Total Net Impact	(\$2,121)	\$ 477	(\$1,644)

Q. WHAT IS THE SIGNIFICANCE OF THE NET IMPACT BEING A REDUCTION TO RATE BASE?

A. The \$1.6 million Net Impact reduction in rate base will reduce the 2017 Test Year revenue requirement by approximately \$66,000 (OTP SD), as shown on Table 5.

Table 5
2017 Test Year Revenue Requirement Impact of
Prepaid Pension Asset, FAS 106 and FAS 112 Liabilities
(OTP SD)
(\$millions)

	Net Rate Base Impact Asset/(Liability)
Total Net Impact	(\$1,644)
Revenue Requirement 7.96% ROR	(55)
Tax Impact	(11)
Total Net Impact	(\$66)

1 **8. Rate Case Expenses**

2 Q. WHAT IS THE AMOUNT OF RATE CASE EXPENSE INCLUDED IN THE 2017
3 TEST YEAR?

4 A. The total amount of rate case expense is \$550,000 amortized over three years for a 2017
5 Test Year 13-month average amount of \$458,334. The basis for that expense is
6 explained in Mr. Tommerdahl's Direct Testimony.

7
8 Q. PLEASE SUMMARIZE THE ADJUSTMENT FOR THE RATE CASE EXPENSES?

9 A. The adjustment for rate case expense: (1) increases Total Operating Expenses by
10 \$183,333; (2) decreases Total Income Taxes by \$38,500; and (3) decreases Total
11 Available for Return by \$144,833, as shown in Exhibit___(TAA-1), Schedule 12.

12 **9. Storm Damage**

13 Q. HAVE YOU MADE ANY ADJUSTMENTS TO STORM REPAIR EXPENSE?

14 A. Yes. This adjustment brings this expense up to the five-year average amount. The 2017
15 Actual Year storm repair expense was much lower than average, and therefore not
16 representative of the normal cost of this activity.

17
18 Q. PLEASE SUMMARIZE THE ADJUSTMENT WITH RESPECT TO STORM
19 DAMAGE.

20 A. The adjustment for Storm Damage expenses: (1) increases Total O&M Expenses by
21 \$45,266; (2) decreases Total Income Taxes by \$9,251; and (3) decreases Net Operating
22 Income by \$36,015, as shown on Exhibit___(TAA-1), Schedule 12.

23 **10. Removal of Production Tax Credits**

24 Q. PLEASE SUMMARIZE THE ADJUSTMENT TO THE INCOME STATEMENT TO
25 REFLECT THE REMOVAL OF PRODUCTION TAX CREDITS (PTC)?

26 A. The adjustment for PTC removal: (1) increases Total Income Taxes by \$638,677; and (2)
27 decreases Total Available for Return by \$638,677, as shown in Exhibit___(TAA-1),
28 Schedule 12. This adjustment is explained in the Direct Testimony of Mr. Haugen.

1 **11. Plant Outage Normalization**

2 Q. DESCRIBE HOW OTP PLANS FOR O&M EXPENSES RESULTING FROM MAJOR
3 PLANT OUTAGES AT ITS GENERATION FACILITIES?

4 A. OTP has two generating facilities (Big Stone Plant and Coyote Station) that are on three-
5 year schedules for major plant outages. These outages facilitate larger repairs and allow
6 for other maintenance. Having a three-year schedule for larger repairs and maintenance
7 is necessary to maintain a reliable system.

8
9 Q. WAS AN ADJUSTMENT MADE RELATED TO THE PLANT OUTAGE O&M
10 EXPENSES?

11 A. Yes. An adjustment was made because O&M expenses would be understated for a
12 normal year if left unadjusted. The adjustment considers the actual 2016 Coyote Station
13 plant outage expenses as well the budgeted 2018 Big Stone Plant outage expenses. One
14 third of the total for the two plant outages is compared to 2017 plant outage expense. The
15 adjustment normalizes the 2017 plant outage expense to the level it would be if the plant
16 outage costs were expensed each year.

17
18 Q. PLEASE SUMMARIZE THE ADJUSTMENT TO NORMALIZE PLANT OUTAGE
19 EXPENSE.

20 A. The adjustment for plant outage expense: (1) increases Total Operating Expenses by
21 \$145,434; (2) decreases Total Income Taxes by \$30,541; and (3) decreases Total
22 Available for Return by \$114,893, as shown in Exhibit___(TAA-1), Schedule 12.

23 **12. Removal of TCRR Revenues**

24 Q. PLEASE SUMMARIZE THE ADJUSTMENT TO REFLECT THE REMOVAL OF
25 TCRR REVENUES?

26 A. The adjustment for the removal of TCRR revenues: (1) decreases Total Operating
27 Revenue by \$245,070; (2) decreases Total Income Tax by \$51,465; and (3) decreases
28 Total Available for Return by \$193,605. Mr. Haugen discusses this adjustment in his
29 Direct Testimony.

1 **13. Removal of ECRR Revenues**

2 Q. PLEASE SUMMARIZE THE ADJUSTMENT TO REFLECT THE REMOVAL OF
3 ECRR REVNUES?

4 A. The adjustment for the removal of ECRR revenues: (1) decreases Total Operating
5 Revenue by \$2,374,465; (2) decreases Total Income Tax by \$498,638; and (3) decreases
6 Total Available for Return by \$1,875,827. Mr. Haugen discusses the ECRR revenues in
7 his Direct Testimony.

8 **14. Adjust Deferred Tax Expense for TCJA**

9 Q. PLEASE SUMMARIZE THE ADJUSTMENT TO DEFERRED INCOME TAX
10 EXPENSE RESULTING FROM THE TCJA

11 A. I explained the basis for an adjustment to the deferred income tax expense earlier in my
12 Direct Testimony. The necessary adjustment: (1) decreases Total Income Tax by
13 \$664,300; and (2) increases Total Available for Return by \$664,300.

14 **15. Allocation of Changes due to Test Year Allocation**

15 Q. PLEASE SUMMARIZE THE ADJUSTMENT TO REFLECT THE EFFECT OF TEST
16 YEAR ADJUSTMENTS ON ALLOCATIONS?

17 A. The adjustment for the effects of Test Year adjustments on allocations include: (1)
18 increases Other Electric Operating Revenue (resulting in an increase in Total Operating
19 Revenue of \$5,653; (2) several increases in operating expenses (resulting in an increase
20 in Total Operating Expenses of \$79,969; (3) increases Total Income Tax expense of
21 \$214,979; and (4) decreases Total Available for Return of \$289,296, as shown in
22 Exhibit ____(TAA-1), Schedule 12.

23 **XI. MERRICOURT STEP**

24 Q. WHAT WILL YOU ADDRESS IN THIS SECTION OF YOUR DIRECT
25 TESTIMONY?

26 A. In this section of my Direct Testimony, I address the rate base and income statement
27 impacts of OTP’s Merricourt project step-in rate proposal. OTP witness Mr. Bradley E.

1 Tollerson, Mr. Gerhardson, and Mr. Tommerdahl provide additional detail supporting the
2 Merricourt Step Increase in their Direct Testimonies.

3 **A. Rate Base Impact**

4 Q. DID YOU NORMALIZE 2017 TEST YEAR PLANT IN SERVICE FOR THE
5 MERRICOURT STEP?

6 A. Yes. Exhibit ___(TAA-1), Schedule 14 shows the adjustments to Plant in Service for the
7 Merricourt Step Increase. The adjustments to Plant in Service for the Merricourt Step
8 Increase are also shown on Exhibit ___(TAA-1), Schedule 8.

9
10 Q. PLEASE SUMMARIZE THE CUMULATIVE ADJUSTMENTS MADE FOR THE
11 MERRICOURT STEP INCREASE.

12 A. The adjustments made for the Merricourt Step Increase are set forth in Exhibit ___(TAA-
13 1), Schedule 14 and Exhibit ___(TAA-1), Schedule 8 and include: (1) a \$24,590,337
14 increase to Utility Plant in Service; (2) a \$983,613 increase to Accumulated Depreciation;
15 (3) a \$23,606,724 increase to Net Utility Plant in Service; (4) a \$68,730 increase to
16 ADIT; and (5) a \$23,537,994 increase to Total Average Rate Base. The corresponding
17 impacts on the 2017 Test Year Income Statement are explained below.

18
19 **B. INCOME STATEMENT IMPACT**

20 Q. DID OTP ASSUME FULL RECOVERY OF REVENUES AT THE END OF THE
21 CASE FOR THE MERRICOURT STEP INCREASE COST OF SERVICE STUDY?

22 A. Yes. OTP assumed that at the end of the case we would receive all proposed Test Year
23 revenues and then applied the Test Year Adjustment for the Merricourt Wind Project.

24
25 Q. PLEASE SUMMARIZE THE ADJUSTMENTS TO REVENUES FOR THE
26 MERRICOURT STEP INCREASE.

27 A. The adjustment for revenue for the Merricourt Step Increase: (1) increases Retail
28 Revenue by \$5,978,110; (2) increases tax expense by \$1,255,403 and (3) increases Total

1 Available for Return by \$4,722,707, as shown in Exhibit ____(TAA-1), Schedule 15 and
2 Exhibit ____(TAA-1), Schedule 12.

3 Q. PLEASE SUMMARIZE THE ADJUSTMENTS TO EXPENSES FOR THE
4 MERRICOURT STEP INCREASE.

5 A. The adjustment to the Income Statement for the Merricourt Step Increase: (1) decreases
6 Production Expense by \$854,834; (2) increases Administrative and General Expenses by
7 \$30,258; (3) increases Depreciation Expense by \$983,613; (4) increases General Tax
8 Expense by \$57,288; (5) increases Production Tax Credits by \$1,356,702 (6) decreases
9 current Income Tax by \$45,429 and (7) increases Total Available for Return by
10 \$1,185,804, as shown in Exhibit ____(TAA-1), Schedule 15 and Exhibit ____(TAA-1),
11 Schedule 12.

13 XII. CONCLUSION.

14 Q. WHAT ARE YOUR CONCLUSIONS?

15 A. OTP has demonstrated the 2017 Test Year revenue deficiency of \$5,978,109 has been
16 appropriately determined and all necessary adjustments have been made. Similarly, the
17 basis for the Merricourt Step Increase has been appropriately determined and all
18 necessary adjustments have been made. As a result, the 2017 Test Year revenue
19 deficiency of \$5,978,109 and the Merricourt Step Increase should be recovered in base
20 rates.

21
22 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

23 A. Yes, it does.