

Otter Tail Power Company
Current Income Tax
For the Year Ending December 31, 2017

Schedule K-4
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Line No.	Description
1	Current income tax used in the cost of service is calculated on a stand-alone
2	basis. Effective tax rates are applied to regulatory operating income calculated
3	within the Jurisdictional Cost of Service Study (JCOSS), which includes
4	adjustments to items of income or expense based on prior Commission
5	Orders or settlement stipulations, if applicable. Depending on the
6	circumstances that apply in a given year, taxes calculated for regulatory
7	purposes in the JCOSS may be higher or lower than the actual taxes
8	calculated on a consolidated basis in the tax return for any number of
9	varying reasons. For example, items of income and expense considered
10	below-the-line for regulatory purposes contribute to the overall tax calculation
11	on the consolidated tax return. Ratepayers are not exposed to the risks
12	associated with below-the-line revenue and expense activity and thus
13	shouldn't be exposed to the taxes associated with that same activity. In
14	addition, timing differences that arise, such as book versus tax depreciation
15	expense, off-set increases or decreases in current tax expense by a
16	corresponding decrease or increase in deferred tax expense. Deferred taxes
17	are calculated for book/regulatory purposes only and are not part of the
18	consolidated tax return. Deferred tax calculations are included in order to
19	recognize the fact that at some future point in time book/regulatory will incur the
20	same tax expense/liability as calculated in the tax return.
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