

OTTER TAIL POWER COMPANY

Docket No: GE20-002

Response to: SD Public Utilities Commission

Analyst: SD PUC Staff

Date Received: May 08, 2020

Date Due: May 22, 2020

Date of Response: May 22, 2020

Responding Witness: Peter J. Beithon, Manager, Regulatory Recovery - (218) 739-8607

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Data Request:

- 1-2. Provide any accounting standards the utility must follow regarding deferred accounting treatment and likelihood of future cost recovery. Confirm the Company must determine cost recovery is probable and the Commission need not make a determination at this time regarding probable recovery, especially in light of the uncertainty regarding magnitude of the costs. Confirm that the Company acknowledges that the deferral accounting method and the resulting creation of a regulatory asset does not speak to the likelihood of any future cost recovery to be approved by the Commission.

Attachments: 0

Response:

As a regulated entity, OTP accounts for the financial effects of regulation in accordance with ASC 980. This accounting standard allows for the recording of a regulatory asset or liability for costs that will be collected or refunded in the future as required under regulation. Additionally, ASC 980-605-25 provides for the recognition of revenues authorized for recovery outside of a general rate case under alternative revenue programs which provide for recovery of costs and incentives or returns on investment if the following conditions are met:

- a. The program is established by an order from the utility's regulatory commission that allows for automatic adjustment of future rates.
- b. The amount of additional revenues for the period is objectively determinable and is probable of recovery.
- c. The additional revenues will be collected within 24 months following the end of the annual period in which they are recognized.

If for any reason OTP ceases to meet the criteria for application of guidance under ASC 980 for all or part of its operations, the regulatory assets and liabilities that no longer meet such criteria would be removed from OTP's balance sheet and included in its statement of income as an expense or income item in the period in which the application of guidance under ASC 980 ceases.