Volume 2A

Direct Testimony and Supporting Schedules

Bryce C. Haugen

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___

TRANSITION OF CAPITAL PROJECTS FROM RIDERS TO BASE RATES, PRODUCTION TAX CREDITS, MISCELLANEOUS TEST YEAR ITEMS, CLASS COST OF SERVICE STUDY AND CLASS REVENUE RESPONSIBILITIES

Direct Testimony and Schedules of

BRYCE C. HAUGEN

April 20, 2018

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ATTACHED SCHEDULES

I. INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME AND OCCUPATION.

A. My name is Bryce C. Haugen. I am employed by Otter Tail Power Company (OTP) as Senior Rates Analyst, Regulatory Administration.

Q. PLEASE SUMMARIZE YOUR QUALIFICATIONS AND EXPERIENCE.

A. I graduated from Minnesota State Community and Technical College, Fergus Falls, Minnesota in 2003 with an A.A. degree. I graduated from Moorhead State University, now Minnesota State University, Moorhead, Minnesota, in 2005 with a B.S. degree in Finance. I graduated from National University, La Jolla, California, in 2014 with a Master of Science in Organizational Leadership. I started my career as the Operations Manager for the Theodore Roosevelt Medora Foundation in 2005 in Medora, North Dakota. In 2009, I joined Baker Boy Bake Shop in Dickinson, North Dakota as a cost accountant and became a production supervisor in 2010. In 2012, I joined OTP as Business Coordinator in the Project Management department. I subsequently worked as Credit Risk Analyst in the Risk Management department and joined the Regulatory Administration department in 2013 as Rates Analyst. I accepted my current position as Senior Rates Analyst in November 2015. My primary responsibilities in this position are to lead the work team responsible for the preparation and financial analysis used to determine revenue requirements associated with various state and federal cost recovery mechanisms and to lead development of regulatory filings associated with these cost recovery mechanisms. A copy of my resume is included as Exhibit___(BCH-1), Schedule 1.

II. PURPOSE AND OVERVIEW OF DIRECT TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. My Direct Testimony describes: moving investments currently being recovered in the Environmental Cost Recovery Rider (ECRR) and Transmission Cost Recovery Rider (TCRR) into base rates (Section III); treatment of wind investment-related production tax credits (PTCs) (Section IV); advertising expenses (Section V); charitable contributions

(Section VI); and Class Cost of Service Study (CCOSS) and class revenue responsibilities (Section VII).

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

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

III. MOVING CAPITAL PROJECTS FROM RIDERS INTO RATE BASE

Q. PLEASE DESCRIBE THE PURPOSE OF THIS SECTION OF YOUR DIRECT TESTIMONY.

A. OTP proposes to transfer recovery of certain costs presently recovered in the ECRR and the TCRR to base rates at the time Interim Rates go into effect. This section of my Direct Testimony explains the mechanics of this proposal. OTP witness Mr. Tyler A. Akerman quantifies the impact of this proposal on the 2017 Test Year revenue requirement.

A. ECRR

Q. WHAT IS THE ECRR?

A. SDCL §§ 49-34A-97 through 49-34A-100 authorize the Commission to approve a tariff mechanism for the automatic annual adjustment of charges to recover the costs incurred for environmental improvements to existing generation facilities. Eligible environmental improvements include any environmental improvements required under the Clean Air Act, the Clean Water Act, or any other federal law or rule, or any state law or rule implementing a federal law or rule, or voluntary environmental measures designed to protect the environment.

OTP's ECRR was established in Docket No. EL14-082, with initial rates going into effect December 1, 2014.

Q. PLEASE IDENTIFY OTP'S RELEVANT ECRR FILINGS.

A. OTP's prior ECRR filings are shown in Table 1 below:

Table 1

ECRR – History

ECRR History	Docket Number	Commission Approved	Effective Date
Original ECRR Charge and Mechanism	EL14-082	December 10, 2014	December 1, 2014
First Update	EL15-029	October 15, 2015	November 1, 2015
Second Update	EL16-030	October 31, 2016	November 1, 2016
Third Update	EL17-035	October 13, 2017	November 1, 2017

Q. WHAT IS OTP'S PROPOSAL WITH REGARD TO THE ECRR IN THIS CASE?

A. OTP requests that the projects included in the ECRR as of December 31, 2017, be rolled into base rates. OTP proposes that this occur at the time Interim Rates go into effect.

Q. WHAT TYPES OF INVESTMENTS ARE CURRENTLY INCLUDED IN THE ECRR?

A. Two projects are recovered in the ECRR (ECRR Projects): The Big Stone Plant Air Quality Control System (AQCS) project and the Hoot Lake Plant Mercury and Air Toxics Standards (HLP MATS) project. OTP witness Mr. Kirk A. Phinney discusses these projects in detail in his Direct Testimony.

Q. WHEN WERE THE PROJECTS PLACED INTO SERVICE?

A. The HLP MATS project was placed in service in August 2014. The AQCS project was placed in service in December 2015.

1. Base Rates

Q. HOW HAVE COSTS CURRENTLY BEING RECOVERED IN THE ECRR BEEN HANDLED IN THE 2017 TEST YEAR FOR THIS RATE CASE?

A. The ECRR Projects' costs currently being recovered in the ECRR are part of the rate base used to determine the 2017 Test Year revenue requirement. This includes all gross plant in service, accumulated depreciation, and associated deferred income tax balances.

Q. WHAT IS THE IMPACT TO CUSTOMERS?

A. Moving these projects from the ECRR into base rates is merely a change to how the costs of the projects are recovered. If approved, OTP's South Dakota customers will no longer pay for the ECRR Projects through the ECRR. Instead, customers will pay for the ECRR Projects through base rates.

Q. WHAT ARE THE PRIMARY TEST YEAR COST COMPONENTS THAT ARE AFFECTED BY INCLUDING THESE PROJECTS IN BASE RATES?

A. The primary rate base components are: (i) gross plant in service; (ii) accumulated depreciation; and (iii) accumulated deferred income taxes. The primary operating expense components that are impacted include: (i) depreciation and (ii) general tax expenses.

Q. WHAT ARE THE 2017 TEST YEAR PLANT IN SERVICE BALANCES FOR THE ECRR PROJECTS?

A. The 2017 Test Year reflects the December 31, 2017, 13-month average gross plant in service balance of approximately $204.2 million (OTP Total) and $19.1 million (OTP SD) for the AQCS project and approximately $6.5 million (Total Plant and OTP Total) and $0.6 million (OTP SD) for the HLP MATS project. A summary of the 13-month average gross plant in-service amounts rolling in to base rates is included as Exhibit___(BCH-1), Schedule 2.

Q. ARE THESE THE FINAL COSTS OF THESE INVESTMENTS?

A. Yes. In his Direct Testimony, OTP witness Mr. Phinney explains that the final cost of the AQCS project was $365.5 million (Total Plant) and that the final cost of the HLP MATS project was $7.145 million (Total Plant and OTP Total).[1] It is these final project costs that drive the 13-month average plant balances included in the 2017 Test Year.

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[1] During the course of the AQCS and HLP MATS projects, there were costs of removal for facilities removed from the plants due to the scope of the projects. While the final, total costs of the projects include removal costs (which are collected in depreciation rates), the project investments reflected in the ECRR do not contain the costs of

Q. WHEN WILL OTP TRANSFER THESE PROJECT COSTS OUT OF THE ECRR AND INTO RATE BASE?

A. OTP proposes to transfer these project costs out of the ECRR and into rate base at the time OTP's proposed Interim Rates go into effect. A corresponding adjustment to the ECRR charge is included with this filing to reflect the transfer of the net plant in-service value of the ECRR Projects out of the ECRR. From that point forward, recovery of the ECRR Projects will be in base rates. I provide additional discussion below of the adjustment to the ECRR charge being made as part of this case.

Q. WHAT WILL HAPPEN TO THE ECRR CHARGE AT THE CONCLUSION OF THIS CASE?

A. At the conclusion of the case, OTP proposes that the ECRR charge be adjusted to zero as of the implementation of final rates. OTP proposes that any over or under collection balance in the ECRR at the time final rates go into effect be included as part of the Interim Rate refund.

Q. WHY DOES OTP PROPOSE TO RECOVER OR RETURN THE TRACKER BALANCE TO CUSTOMERS THROUGH THE INTERIM RATE REFUND?

A. The ECRR tracker account balance is expected to be at or near zero at the end of the Interim Rate period. The approach proposed by OTP allows for timely and accurate collection for the ECRR tracker and for zeroing out the ECRR tracker with no over or under recovery of the tracker balance.

Q. ARE THERE ANY TEST YEAR ADJUSTMENTS ASSOCIATED WITH OTP'S PROPOSAL TO MOVE THE ECRR PROJECTS INTO BASE RATES?

A. Yes. The TY-14 adjustment removes $2,374,465 of 2017 actual revenues (as collected through the ECRR) associated with the ECRR Projects from the 2017 Actual Year in arriving at the 2017 Test Year, resulting in a corresponding decrease to the 2017 Test

removal, resulting in lower investment amounts reflected in the ECRR. The plant balance amounts in the ECRR include AFUDC.

Year net operating income. This results in a decrease to the total available for return and an increase to the deficiency in the 2017 Test Year. The calculation of the 2017 actual ECRR revenues is shown in Exhibit___(BCH-1), Schedule 3.

Q. WHY IS THIS ADJUSTMENT NECESSARY?

A. This adjustment is necessary to calculate the total available for return from *base rates* in the 2017 Test Year. While the TY-14 adjustment increases the 2017 Test Year *base rate* deficiency, as explained above, the adjustment (and OTP's proposal to roll the ECRR Projects into base rates) does not result in a significant change to customers' overall bills.

2. ECRR Adjustment

Q. PLEASE DESCRIBE OTP'S PROPOSED ADJUSTMENT TO THE ECRR CHARGE.

A. OTP's current ECRR charge was approved in Docket No. EL17-035.[2] The current ECRR charge is based on the rate of return and South Dakota allocation factors approved in OTP's last general rate case[3] and in the absence of an update, would remain in place through October 2018.

OTP proposes to adjust the ECRR charge by: (1) removing the ECRR Projects from the ECRR; and (2) returning the ECRR tracker balance to customers over the Interim Rate period, which is anticipated to begin May 21, 2018 and continue through the implementation of final rates. OTP forecasts the ECRR tracker balance to be a credit to customers of $189,296 as of May 20, 2018. The adjusted ECRR charge passes the tracker balance back to customers over the Interim Rate period through an ECRR credit of $0.00075 per kWh. Exhibit___(BCH-1), Schedule 4 provides the adjusted ECRR charge calculation. OTP provides Tariff Schedule 13.08 in Volume 3, Section 1, of this filing detailing the ECRR charge to be implemented on May 21, 2018.

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[2] *In the Matter of the Petition of Otter Tail Power Company For Approval of the Environmental Cost Recovery Charge,* Docket No. EL17-035, Order Approving Environmental Cost Recovery Rider Charge, October 13, 2017.

[3] *In the Matter of the Application by Otter Tail Power Company for Authority to Increase Rates for Electric Service in South Dakota,* Docket No. EL10-011, Order Approving the Joint Motion for Approval of the Settlement Stipulation, March 14, 2011.

Q. HOW LONG WILL THE UPDATED ECRR CHARGE REMAIN IN EFFECT?

A. OTP proposes the updated ECRR charge remain in place until the implementation of final rates in this case. OTP anticipates final rates will be implemented on January 1, 2019.

B. TCRR

Q. WHAT IS THE TCRR?

A. SDCL §§ 49-34A-25.1 through 49-34A-25.4 authorize the Commission to approve a rider to recover capital costs related to certain transmission investments and for the recovery of regional transmission organization (RTO) projects that are subject to cost sharing. OTP's TCRR is such a rider. OTP's TCRR was established in Docket No. EL10-015.

Q. PLEASE IDENTIFY OTP'S PAST TCRR FILINGS.

A. OTP's prior TCRR filings are shown in Table 2 below:

Table 2

TCRR – History

TCRR History	Docket Number	Commission Approved	Effective Date
Initial TCRR Charge and Mechanism	EL10-015	November 30, 2011	December 1, 2011
First Revision*	EL12-017	April 24, 2013	March 27, 2012
Second Revision	EL12-054	April 24, 2013	May 1, 2013
Third Revision	EL13-029	February 21, 2014	March 1, 2014
Fourth Revision	EL14-090	February 24, 2015	March 1, 2015
Fifth Revision	EL15-045	February 22, 2016	March 1, 2016
Sixth Revision	EL16-035	February 17, 2017	March 1, 2017
Seventh Revision	EL17-048	February 28, 2018	March 1, 2018

*Administrative change for consistency in header and footers with other tariff sheets.

Q. WHAT IS OTP'S PROPOSAL REGARDING THE TCRR IN THIS CASE?

A. OTP proposes to move all projects included in the TCRR as of December 31, 2017 into base rates. OTP proposes this occur at the time Interim Rates go into effect. OTP proposes the South Dakota retail portion of MISO and SPP revenues and expenses remain in the TCRR during the interim period and at the conclusion of the case.

Q. WHAT PROJECTS ARE CURRENTLY BEING RECOVERED IN THE TCRR?

A. Costs associated with the projects listed in Table 3 below (collectively, the TCRR Projects) are currently being recovered in OTP's TCRR:

Table 3
TCRR Projects

Project	Approved for Rider Recovery	In Service Date	Proposed Recovery
Fargo to Monticello CAPX 2020	EL10-015	April 2015	Base Rates
Bemidji to Grand Rapids CAPX 2020	EL10-015	August 2012	Base Rates
Bemidji to Cass Lake CAPX 2020	EL10-015	August 2012	Base Rates
Rugby Wind Interconnection	EL10-015	August 2011	Base Rates
Casselton – Buffalo 115 kV	EL12-054	November 2017	Base Rates
Brookings to Hampton CAPX2020	EL14-090	March 2015	Base Rates
Big Stone Area Transmission to Brookings	EL16-035	September 2017	Base Rates
Oakes Area Transmission Improvements	EL13-029	October 2015	Base Rates

1. Base Rates

Q. HOW HAVE THE TCRR PROJECTS BEEN HANDLED IN THE 2017 TEST YEAR FOR THIS RATE CASE?

A. The TCRR Projects' costs currently being recovered in the TCRR are part of the rate base used to determine the 2017 Test Year revenue requirement. This includes all gross plant in service, accumulated depreciation, and associated deferred income tax balances.

Q. DOES THIS PROPOSAL INCREASE COSTS TO CUSTOMERS?

A. No. Moving these projects from the TCRR into base rates is merely a change to how the costs of the projects are recovered. If approved, OTP's South Dakota customers will no longer pay for the TCRR Projects through the TCRR. Instead, customers will pay for the TCRR Projects through base rates.

Q. WHAT ARE THE PRIMARY TEST YEAR COST COMPONENTS THAT ARE AFFECTED BY INCLUDING THE TCRR PROJECTS IN BASE RATES?

A. The primary rate base components are: (i) gross plant in service; (ii) accumulated depreciation; and (iii) accumulated deferred income taxes. The primary operating expense components that are impacted include: (i) depreciation and (ii) general tax expenses.

Q. WHAT IS THE 2017 TEST YEAR PLANT IN SERVICE BALANCE FOR THE TCRR PROJECTS?

A. The 2017 Test Year reflects the December 31, 2017, 13-month average gross plant in service for the TCRR Projects being moved into rate base of $169.3 million (OTP Total) and $2.3 million (OTP SD). A detail of all the 13-month average gross plant in service amounts moving into base rates is included as Exhibit___(BCH-1), Schedule 2. [4]

Q. WHEN WILL OTP TRANSFER THE TCRR PROJECTS OUT OF THE TCRR AND INTO RATE BASE?

A. OTP proposes to transfer the TCRR Projects into rate base at the time Interim Rates go into effect. A corresponding adjustment to the TCRR charge is included with this filing to reflect the transfer of the net plant in-service value of these projects out of the TCRR. From that point forward, recovery of the TCRR Projects will be in base rates. I provide additional discussion below of the adjustments to the TCRR charge being made as part of this case.

Q. WILL THE TCRR BE ADJUSTED AT THE CONCLUSION OF THIS CASE?

A. No. As discussed in more detail below, the adjusted TCRR charge being proposed by OTP as part of this case would remain in effect until February 28, 2019. OTP files its annual TCRR updates on or before November 1 of each year, with rates going into effect

[4] The 13-month average gross plant in-service amounts provided in Exhibit __ (BCH-1) Schedule 2 differ from those provided in Volume 4A, Section 2, Part 4, Workpaper SD-12. Schedule 2 to this testimony includes the correct 13-month average gross plant in-service amounts. OTP will update Workpaper SD-12 to reflect Schedule 2 at the earliest opportunity. OTP estimates this impact to be less than 0.07 percent of the total revenue requirement requested in this case.

the following March 1. OTP will make a TCRR update filing on or before November 1, 2018 detailing a new TCRR charge to be effective March 1, 2019.

Q. ARE THERE ANY TEST YEAR ADJUSTMENTS RELATED TO OTP'S PROPOSAL TO MOVE THE TCRR PROJECTS INTO BASE RATES?

A. Yes. The TY-13 adjustment removes $245,070 of 2017 actual revenues (as collected through the TCRR) associated with the TCRR Projects from the 2017 Actual Year in arriving at the 2017 Test Year, resulting in a corresponding decrease to the 2017 Test Year net operating income. This results in a decrease to the total available for return and an increase to the deficiency in the 2017 Test Year. The calculation of the 2017 actual TCRR revenues is shown in Exhibit___(BCH-1), Schedule 5.

Q. WHY IS THIS ADJUSTMENT NECESSARY?

A. This adjustment is necessary to calculate the total available for return from *base rates* in the 2017 Test Year. While the TY-13 increases the 2017 Test Year *base rate* deficiency, as explained above, the adjustment (and OTP's proposal to roll the TCRR Projects into base rates) does not result in a significant change to customers' overall bills.

2. TCRR Adjustment

Q. PLEASE DESCRIBE OTP'S PROPOSED ADJUSTMENT TO THE TCRR CHARGES.

A. OTP's current TCRR charges were approved in Docket No. EL17-048.[5] The TCRR charge updates in that case took effect March 1, 2018. These charges are based on the rate of return and South Dakota allocation factors approved in OTP's last general rate case and in the absence of an update, would remain in effect through February 2019.

OTP proposes to adjust the TCRR charges by: (1) removing the TCRR Project investments from the TCRR; (2) recalculating the TCRR charges based on the true-up amount forecasted in the rider at the time Interim Rates go in to effect and the projected RTO revenues and expenses for May 2018 through February 2019. OTP forecasts the

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[5] *In the Matter of the Petition of Otter Tail Power Company for Approval of the Transmission Cost Recovery Rider Rate,* Docket No. EL 17-048, Order Approving 2018 Transmission Cost Recovery Rate Adjustment, February 28, 2018.

TCRR balance to be $1,170,601 for the May 21, 2018 through February 28, 2019 recovery period. The adjusted TCRR residential charge is equal to $0.421 per kWh. Exhibit___(BCH-1), Schedule 6 provides the adjusted TCRR charge calculation. OTP provides Tariff Schedule 13.05 in Volume 3, Section 1, of this filing detailing the TCRR charges to be implemented on May 21, 2018.

Q. WHY IS IT APPROPRIATE TO ADJUST THE TCRR CHARGES AS OF MAY 21, 2018?

A. OTP's proposed Interim Rates include the TCRR Projects investments. Allowing the current TCRR to remain in effect without adjustment would result in OTP collecting more revenues than required.

Q. WHY DID OTP SELECT A MAY 2018 THROUGH FEBRUARY 2019 RECOVERY PERIOD FOR TCRR CHARGES?

A. OTP's annual TCRR updates are filed on or by November 1 each year. Updating the TCRR charges within this proceeding to be in effect through a typical TCRR recovery period allows for OTP's 2018 annual update filing to be made November 1, 2018 with proposed charge updates to be effective March 1, 2019.

OTP proposes to continue annual update filings to the TCRR in compliance with prior TCRR dockets, most notably Docket No. EL12-054.[6] The initial filing for future annual updates will continue to be made on or before November 1 each year with proposed updates expected to be implemented March 1 of the following year.

Q. WILL THE SOUTH DAKOTA RETAIL PORTION OF MISO AND SPP REVENUES AND EXPENSES REMAIN IN THE TCRR?

A. Yes. OTP proposes these revenues and expenses stay in the TCRR.

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[6] As agreed upon in the Parties' April 17, 2013 Settlement Stipulation, *In the Matter of the Petition of Otter Tail Power Company for Approval of its 2013 Transmission Cost Recovery Eligibility and Rate Adjustment*, Docket. No. EL12-054.

Q. WHAT IS THE PRIMARY REASON FOR LEAVING THE SOUTH DAKOTA RETAIL PORTION OF THESE RTO REVENUES AND EXPENSES IN THE TCRR?

A. OTP expects the amounts of RTO revenues and RTO expenses will continue to fluctuate from year to year due in part to the continued growth and investment in regional cost shared projects. RTO revenues and RTO expenses also continue to fluctuate as a result of proceedings before the Federal Energy Regulatory Commission (FERC).[7] OTP proposes that any impacts of FERC's rulings on past and future RTO revenues and expenses be trued-up within the TCRR. Finally, there will be adjustments to RTO revenues and RTO expenses associated with the 2017 Tax Reform and Jobs Act. Given the likelihood of ongoing adjustments to RTO revenues and RTO expenses, the TCRR is an appropriate recovery mechanism.

Q. PLEASE PROVIDE A SUMMARY OF THE RECENT FERC PROCEEDINGS REGARDING MISO REVENUES AND EXPENSES.

A. On November 12, 2013 and February 12, 2015, two groups of industrial customers and other stakeholders filed complaints at FERC seeking to reduce the ROE component of the transmission rates that MISO Transmission Owners, including OTP, may collect under the MISO Tariff. FERC issued its Final Decision on the first complaint on September 28, 2016 reducing the base ROE applicable to investments under FERC's jurisdiction. The second complaint is still pending before FERC.

Q. WHAT WAS THE RESULT OF THE FERC DECISION IN THE FIRST COMPLAINT?

A. The MISO Transmission Owners, including OTP, were required to refund to customers the difference between: (i) actual revenues collected for the period November 12, 2013 to February 12, 2016 and (ii) revenues over that same period calculated using the ROE ordered in the September 28, 2016 Final Decision. OTP uses a forward-looking rate

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[7] FERC Docket No. EL 14-12-002. A final decision in this docket was issued on September 28, 2016. FERC Docket No. EL 14-12-002, 153 FERC ¶ 63,027, Final Decision (Sept. 28, 2016); FERC Docket No. EL 15-45-000. A preliminary decision in this docket was issued on June 30, 2016. FERC Docket No. EL 15-45-000, 155 FERC ¶ 63,030, Initial Decision (June 30, 2016).

formula in MISO and makes an annual true-up filing with MISO. OTP's refund obligation was processed by MISO in two parts: the refund obligation associated with the forecasted rate was processed in February 2017 and the refund associated with the true-up was processed in June 2017. OTP included the impacts of the refund within its 2017 Annual Update filing to its TCRR, in Docket No. EL17-048, resulting in an $137,000 credit for South Dakota customers.

Q. WILL OTP APPLY THE RESULTS OF THE SECOND COMPLAINT IN A SIMILAR FASHION TO THE FIRST?

A. Yes. OTP expects MISO to process the second complaint related settlements in the same fashion as the first complaint related settlements. OTP proposes to include any second complaint related settlements in the TCRR as it did with the first complaint related settlements. OTP will include any such settlements in the first Annual Update to its TCRR following the FERC decision and MISO settlements.

IV. PRODUCTION TAX CREDITS

Q. WHAT ARE PRODUCTION TAX CREDITS?

A. Production Tax Credits (PTCs) are tax credits authorized by the Internal Revenue Code 26 USC § 45. Owners of PTC-eligible wind turbines can claim a credit against taxable income based on the amount of energy produced from those turbines. PTCs are available for ten years after production commences.

Q. DOES OTP CURRENTLY RECEIVE PTCS EARNED FOR THE ENERGY PRODUCTION FROM ITS WIND PROJECTS?

A. Yes. OTP has three major wind projects: the Langdon wind project, the Ashtabula wind project and the Luverne wind project. OTP currently receives PTCs for its Ashtabula wind project. OTP received PTCs for its Langdon wind project until November 2017 – the date PTCs ended due to the 10-year sunset provisions – though customers have continued to receive credits associated with the now expired Langdon PTCs and will continue to do so until interim rates go into effect.

OTP's Luverne wind project does not receive PTCs, as OTP elected to take a one-time Federal Grant payment which reduced the overall plant in service balance of the project in lieu of PTCs.

Q. WHEN WILL OTP STOP RECEIVING PTCS FOR THE ASHTABULA WIND PROJECT?

A. Due to the 10-year sunset on PTCs based on original in-service dates, OTP will stop receiving PTCs for Ashtabula in October 2018.

Q. HOW DID OTP TREAT PTCS IN ITS 2017 TEST YEAR?

A. OTP made an adjustment to remove the Langdon and Ashtabula wind project PTCs from the 2017 Test Year so that these PTCs are not included in the final rate determination.[8]

Q. WILL CUSTOMERS RECEIVE CREDIT FOR ALL PTCS RELATED TO THESE WIND PROJECTS?

A. Yes. PTCs are currently credited to customers in base rates. This will continue during Interim Rates for Ashtabula PTCs, which expire in October 2018. OTP made an adjustment to Interim Rates to remove the PTCs related to the Langdon wind project because OTP stopped receiving those PTCs in November 2017. Final rates are expected to go into effect after the expiration of the Ashtabula PTCs (in October 2018), and final rates in this case do not include PTCs for these wind projects.

Q. WHAT IS THE TOTAL EFFECT OF INCLUDING ASHTABULA PTCS IN INTERIM RATES?

A. As shown in Volume 4a 2017 SD YT-11, the 2017 Actual Year includes a $3,935,633 (OTP Total) or $330,682 (OTP SD) credit to customers for Ashtabula PTCs, or $27,557 (OTP SD) on a monthly basis. While these amounts have been removed from the 2017 Test Year, they remain in Interim Rates.[9]

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[8] Exhibit___(TAA-1), Schedule 10 and Volume 4a 2017 SD TY-11.
[9] Volume 4A_D.02.b NOI Interim Input Summary.

Q. WHAT IS OTP'S PROPOSAL TO ADDRESS THE LOSS OF THE PRODUCTION TAX CREDITS WHEN THEY EXPIRE FOR THE ASHTABULA WIND PROJECT?

A. The PTCs for OTP's Ashtabula wind farm expire in October 2018. If Interim Rates remain in effect beyond October 2018, OTP proposes that the Interim Rate refund be reduced by the amount of PTCs credited to customers after October 2018.

Q. PLEASE PROVIDE EXAMPLES OF OTP'S PROPOSAL.

A. Interim Rates are calculated with a credit of $27,557 per month related to Ashtabula PTCs. OTP will stop receiving these PTCs in October 2018. If final rates for this case go in to effect November 1, 2018, no adjustment for PTCs will be necessary. If, however, final rates are implemented on January 1, 2019, OTP proposes that the Interim Rate refund be reduced by $55,114, which is the PTCs credited to customers in November and December, during Interim Rates, but that OTP did not actually realize.

Q. EXPLAIN WHY THIS APPROACH IS APPROPRIATE.

A. This method for handling the Ashtabula PTCs ensures that customers receive the appropriate amount of credits while also ensuring that OTP is not passing back PTCs that it does not earn. The reduction to the Interim Rate refund would be $27,557 per month for each month after October 2018 that final rates go into effect.

V. ADVERTISING EXPENSE

Q. PLEASE DESCRIBE OTP'S TREATMENT OF ADVERTISING EXPENSE IN THE 2017 TEST YEAR.

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

OTP excluded $370,933 (OTP Total) / $32,420 (OTP SD) from the 2017 Test Year.[10] The 2017 Test Year includes $52,595 (OTP Total) / $4,597 (OTP SD) of allowable advertising expenses.

VI. CHARITABLE CONTRIBUTIONS

Q. PLEASE DESCRIBE OTP'S TREATMENT OF CHARITABLE CONTRIBUTIONS IN THE 2017 TEST YEAR.

A. OTP does not include any charitable contributions in the 2017 Test Year expenses as shown on in Volume 4A Workpaper B-6, page 1.

VII. CCOSS AND CLASS REVENUE RESPONSIBILITIES

Q. PLEASE DESCRIBE THE PURPOSE OF THIS SECTION OF YOUR DIRECT TESTIMONY.

A. In this section of Direct Testimony, I explain OTP's 2017 Test Year embedded CCOSS and proposed class revenue responsibilities. I also discuss the embedded CCOSS and proposed class revenue responsibilities for the step-in rate proposal described by OTP witness Mr. Stuart D. Tommerdahl.

A. 2017 Test Year

1. CCOSS

Q. HAS OTP PREPARED A CCOSS FOR THE 2017 TEST YEAR?

A. Yes. OTP prepared an embedded CCOSS that is included in Volume 4a, Section 1, Part 2.

Q. DID OTP ALSO PREPARE A MARGINAL COST STUDY?

A. Yes. OTP witness Mr. David G. Prazak discusses the elements and use of the marginal cost study in his Direct Testimony.

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[10] OTP Initial Filing, Volume 4a, Workpaper B-14, page 1 of 1.

Q. ARE THE CCOSS AND THE MARGINAL COST STUDY USED FOR DIFFERENT PURPOSES?

A. Yes. An embedded cost study, modified to consider disproportionate rate impacts, is used to assign class revenue responsibility. The marginal cost study is then used to develop rates within each class. Marginal costs do not impact class revenue responsibility. Mr. Prazak explains in more detail the use of marginal costs for rate design in his Direct Testimony.

Q. WHAT COSTS DOES THE CCOSS MEASURE?

A. OTP's CCOSS is an embedded cost study, meaning it measures the 2017 Test Year cost of the OTP system and all costs are fully distributed to classes.

Q. IS OTP USING THE SAME GENERAL CCOSS METHODOLOGY AS IT USED IN ITS LAST SOUTH DAKOTA RATE CASE?

A. Generally, yes. We added a separate Base Energy (Wind) classification of production plant, as wind production plant has different operating characteristics from other base load or peaking generation. We also incorporated the E8760 allocator. Mr. Tommerdahl discusses the development of the CCOSS allocation factors used in his Direct Testimony.

Q. WHAT DOES OTP'S 2017 TEST YEAR CCOSS SHOW REGARDING CLASS COST RESPONSIBILITIES?

A. Table 4 below compares the present revenue responsibilities and cost responsibilities of OTP's customer classes as a percent of overall revenues. OTP's 2017 Test Year CCOSS shows that the revenue responsibility of the Residential class is currently below its cost responsibility (as measured in the CCOSS). Conversely, the present revenue responsibility of the General Service class is greater than its cost responsibility.

Table 4

Comparison of Present Revenue Responsibility and Cost Responsibility

(A) Class	(B) Present Revenue Responsibility	(C) Cost Responsibility	(D) Difference between Present and CCOSS (B) - (C)
Residential	29.94%	30.37%	-0.43%
Farms	2.18%	2.13%	0.06%
General Service	20.81%	19.15%	1.66%
Large General Service	39.05%	39.55%	-0.51%
Irrigation	0.07%	0.11%	-0.05%
Lighting	1.93%	1.95%	-0.02%
OPA	0.86%	0.92%	-0.06%
Controlled Service Water Heating	1.12%	1.44%	-0.33%
Controlled Service Interruptible	2.93%	3.26%	-0.33%
Controlled Service Deferred	1.11%	1.11%	0.00%

2. Class Revenue Responsibilities

Q. PLEASE SUMMARIZE HOW OTP USED THE CCOSS TO DISTRIBUTE TOTAL REVENUES AMONG THE CLASSES OF SERVICE.

A. The CCOSS is the primary guide for setting the class revenue responsibilities. However, determining the appropriate class revenue responsibilities is not as simple as setting them to equal the results of the CCOSS. It is necessary to consider other objectives, particularly the objective of maintaining reasonable rate continuity, and mitigating disproportionate or abrupt rate impacts. A more complete discussion of the rate design considerations applied by OTP is contained in OTP witness Mr. Prazak's Direct Testimony.

Q. HOW DOES OTP PROPOSE TOTAL REVENUES BE ALLOCATED TO CUSTOMER CLASSES?

A. Absent a rate case, OTP estimates 2017 normalized class revenues (including riders) are $33,269,550, as shown in Column D of Table 5 below. OTP's proposed 2017 Test Year revenues are $36,628,125, as shown in Column E of Table 5. The total net dollar increase for OTP's South Dakota customers is $3,358,575 (Column F), or 10.10 percent (Column G).

Based on a consideration of all of OTP's rate design objectives, OTP proposes the distribution of revenue responsibilities contained in Table 5. This distribution of revenue responsibilities results in a reasonable movement of each class's revenue responsibility towards class cost responsibility without producing unreasonable bill impacts.

Table 5

Recommended Revenue Allocation

Proposed Net Revenue Impact

(A)	(B)	(C)	(D)	(E)	(F)	(G)
	Class Responsibility					
Class	2017 Normalized Base Revenues without a rate case	2017 Normalized Rider Revenues without a rate case	2017 Normalized Revenues (Base + Riders)	Proposed 2017 Test Year Revenues	Net Dollar Increase	Net Impact
Residential	$6,164,530	$3,626,296	$9,790,826	$11,001,905	$1,211,079	12.37%
Farms	430,815	287,784	718,599	796,731	78,132	10.87%
General Service	4,139,061	2,700,056	6,839,117	7,516,542	677,425	9.91%
Large General Service	6,484,885	6,743,201	13,228,086	14,349,607	1,121,521	8.48%
Irrigation	14,107	7,432	21,540	25,337	3,798	17.63%
Lighting	470,527	148,514	619,042	711,639	92,597	14.96%
OPA	140,786	147,985	288,771	329,388	40,617	14.07%
Controlled Service Water Heating	209,783	160,611	370,394	410,196	39,802	10.75%
Controlled Service Interruptible	353,269	659,600	1,012,869	1,077,920	65,051	6.42%
Controlled Service Deferred	148,874	231,433	380,307	408,860	28,553	7.51%
	$18,556,637	$14,712,913	$33,269,550	$36,628,125	$3,358,575	10.10%

Q. PLEASE EXPLAIN HOW YOU ARRIVED AT THE TOTAL NET DOLLAR INCREASE IDENTIFIED IN TABLE 5.

A. OTP currently receives a certain amount of base rate and rider revenue from its South Dakota customers that it would continue to receive without a rate case. These amounts are identified in Column B and Column C of Table 5. As discussed above, OTP proposes to move certain projects currently being recovered in riders into base rates. This is a shift in the recovery mechanism and does not result in a change to a customer's overall bill. Therefore, Column D, which is the sum of the base and rider revenues, provides the appropriate base from which to measure the rate increase being proposed in this case. Column E identifies the 2017 Test Year proposed revenues, which includes the rider projects rolling into base rates. The overall bill impact that a customer will experience under OTP's proposal is shown by comparing Column E to Column D.

Q. IF OTP'S RECOMMENDED REVENUE DISTRIBUTION IS ACCEPTED, WILL THERE STILL BE DIFFERENCES BETWEEN CLASS REVENUE RESPONSIBILITY AND COST RESPONSIBILITY?

A. Yes. OTP does not propose an unmoderated adherence to the results of the CCOSS. For this reason, differences remain between OTP's proposed class revenue responsibility and cost responsibilities identified by the CCOSS.

Q. PLEASE COMPARE THE PRESENT, PROPOSED, AND CCOSS REVENUE RESPONSIBILITIES.

A. Table 6 below provides the revenue responsibilities under present rates (Column B), CCOSS (Column C), and proposed revenues (Column D). The difference between proposed revenues and CCOSS (Column F) is less for all classes than the difference between present rates and CCOSS (Column E), which shows that OTP's revenue apportionment proposal moves all classes closer to cost.

Table 6

Comparison of Proposed Revenue Responsibility to CCOSS

(A)	(B)	(C)	(D)	(E)	(F)
Class	Present Revenue Responsibility	Revenue Responsibility from CCOSS	Proposed Revenue Responsibility	Difference between Present and CCOSS (B) - (C)	Difference between Proposed and CCOSS (D) - (C)
Residential	29.94%	30.37%	30.04%	-0.43%	-0.33%
Farms	2.18%	2.13%	2.18%	0.06%	0.05%
General Service	20.81%	19.15%	20.52%	1.66%	1.37%
Large General Service	39.05%	39.55%	39.18%	-0.51%	-0.38%
Irrigation	0.07%	0.11%	0.07%	-0.05%	-0.04%
Lighting	1.93%	1.95%	1.94%	-0.02%	-0.01%
OPA	0.86%	0.92%	0.90%	-0.06%	-0.03%
Controlled Service Water Heating	1.12%	1.44%	1.12%	-0.33%	-0.32%
Controlled Service Interruptible	2.93%	3.26%	2.94%	-0.33%	-0.32%
Controlled Service Deferred	1.11%	1.11%	1.12%	0.00%	0.0%

B. Step Increase Rate Proposal

Q. HAS OTP PREPARED A CCOSS FOR THE STEP INCREASE RATE PROPOSAL?

A. Yes. OTP prepared an embedded CCOSS that is included in Volume 4a, Section 5, Part 2.

Q. IS OTP PROPOSING TO CHANGE ITS RECOMMENDED CLASS REVENUE RESPONSIBILITIES WHEN THE STEP INCREASE GOES INTO EFFECT?

A. No. We recommend that each class maintain the same revenue responsibility (as a percentage of total revenues) between the 2017 Test Year and the step increase. As explained by OTP witnesses Mr. Bruce G. Gerhardson and Mr. Tommerdahl, the step increase proposal is a targeted approach to avoid the cost and expense of a full rate case. Mr. Gerhardson and Mr. Tommerdahl also explain that OTP anticipates filing a rate case in the 2021 timeframe to coincide with the Astoria Station project coming online. We therefore believe it is not administratively efficient to develop and implement a new revenue allocation addressing the step increase.

Table 7 below identifies the allocation of overall revenues reflecting the step increase rate proposal to customer classes.

Table 7

Step Increase Rate Proposal Class Revenue Responsibilities

(A) Class	(B) 2017 Test Year Proposed Revenue Responsibility	(C) 2017 Test Year Proposed Revenues	(D) 2017 Test Year Step Revenues [a] (B)*Total Step-In Revenue	(E) 2017 Test Year Step Proposed Revenues (C) + (D)
Residential	30.04%	$11,001,905	$188,964	$11,190,869
Farms	2.18%	796,731	13,684	810,416
General Service	20.52%	7,516,542	129,101	7,645,643
Large General Service	39.18%	14,349,607	246,462	14,596,069
Irrigation	0.0692%	25,337	435	25,772
Lighting	1.9429%	711,639	12,223	723,862
OPA	0.90%	329,388	5,657	335,045
Controlled Service Water Heating	1.12%	410,196	7,045	417,241
Controlled Service Interruptible	2.94%	1,077,920	18,514	1,096,434
Controlled Service Deferred	1.12%	408,860	7,022	415,882
Total	100.00%	$36,628,125	$629,108	$37,257,233

[a] OTP Initial Filing, 2017 Step COSS, Volume 4a, Section 5, Part 1

VIII. CONCLUSION

Q. WHAT ARE YOUR CONCLUSIONS?

A. OTP's proposal to move capital projects from riders to base rates is reasonable and appropriate. OTP has correctly adjusted the 2017 Test Year for PTCs and advertising expenses. The 2017 Test Year does not include any charitable contributions. OTP's CCOSS is a reasonable basis for designing rates, and OTP's recommended class revenue allocation is reasonable and should be adopted.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.