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August 10, 2018



Daniel P. Wolf
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, MN 55101-2147

**RE: In the Matter of Otter Tail Power Company's Petition for Approval of the Annual Rate Update to its Environmental Upgrades Cost Recovery Rider Rate, Rate Schedule 13.08
Docket No. E017/M-18-464
Reply Comments**

Dear Mr. Wolf:

Otter Tail Power Company hereby submits to the Minnesota Public Utilities Commission its Reply Comments in the above described matter.

If you have any questions regarding this filing, please contact me at 218-739-8385 or at bhaugen@otpc.com. A Certificate of Service is enclosed.

Sincerely,

/s/ BRYCE C. HAUGEN
Bryce C. Haugen, Senior Rates Analyst
Regulatory Administration

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Enclosures
By electronic filing
c: Service List

**STATE OF MINNESOTA
BEFORE THE
MINNESOTA PUBLIC UTILITIES COMMISSION**

In the Matter of Otter Tail Power Company's
Petition for Approval of the Annual Rate
Update to its Environmental Upgrades Cost
Recovery Rider Rate, Rate Schedule 13.08

Docket No. E017/M-18-464

**OTTER TAIL POWER COMPANY
REPLY COMMENTS**

I. INTRODUCTION

On August 1, 2018, the Minnesota Department of Commerce, Division of Energy Resources (Department) filed Comments in the above captioned docket. In these Reply Comments, Otter Tail Power Company (OTP or Otter Tail) responds to the Department's request for further information, which primarily focuses on providing additional Environmental Cost Recovery Rider (ECRR) tracker information reflecting Otter Tail's current cost of capital and actual data for the months of August 2017 to October 2017. Otter Tail also includes a correction to Attachment 1 from the Initial Filing to adjust the annual carrying cost from 8.61 percent to 7.5056 percent. Otter Tail also responds to the Department's request for an explanation regarding any revenues received attributable to projects recovered through the ECRR, and if they have been included in the ECRR. Finally, Otter Tail responds to the Department's recommendation for handling the estimated remaining balance of the ECRR at the end of the current collection period.

II. OTTER TAIL RESPONSES

Otter Tail provides responses to the following comments or requests for information raised by the Department in its Comments filed on August 1, 2018:

A. An updated ECRR tracker reflecting OTP's current cost of capital of 7.5056 percent and containing actuals from the months of August to October of 2017;

Resulting from the Commission's Order in Otter Tail's general rate case, Docket No. E017/GR-15-1033, Otter Tail reflected the cost of capital of 7.5056 percent in its ECRR effective April 16, 2016. Otter Tail provides Attachment A to these Reply Comments that shows the calculation of the Big Stone Air Quality Control System revenue requirements for 2016 and

2017. The rate of return of 7.5056 percent is effective in the tracker as of April 16, 2016 and is shown on Pages 2 and 4 of Attachment A on Lines 50 through 57.

While compiling this response to the Department's comments, Otter Tail identified the need to correct the carrying cost rate to reflect the Commission's Order in the general rate case. Otter Tail provides Revised Attachment 1 to these Reply Comments that includes this update to correctly reflect the Commission's ruling for Otter Tail's rate of return and aligning that with the carrying cost for the ECRR. This correction results in an expected tracker balance of \$72,198 at the end of November 2018, an increase of \$33,297 from the \$38,901 November 2018 balance forecasted at the time of Otter Tail's Initial Filing.

B. An explanation regarding any revenues received attributable to projects recovered through the ECRR, such as those related to emission allowances or revenues or credits (such as tax credits), and whether these revenues have been included in the ECRR;

To date, Otter Tail has not received any offsetting revenues, such as those related to emission allowances or revenues or credits, such as tax credits related to the Big Stone Air Quality Control System project.

C. Department's recommendation of treatment of the estimated remaining balance of the ECRR at the end of the current collection period;

In Otter Tail's Initial Filing, Otter Tail proposed that the collection period end November 30, 2018. Based on current projections, this end date, incorporating the changes discussed above, results in an over-refund to customers (under-collection) of \$72,198. Ending the collection period on October 31, 2018 would result in a balance still owed to customers of (\$85,675). It has been Otter Tail's intention to end the collection period at a time that brought the balance closest to zero and have any remaining over- or under-collected balance handled in a subsequent one-time refund, charge, or deferral to another proceeding. Otter Tail provided two alternatives to handle the remaining ECRR tracker balance at the end of the current recovery period; (a) defer the balance to Otter Tail's next rate case, or (b) transfer the balance to another rider. Of the two alternatives, Otter Tail prefers that the balance be addressed in its next general rate case,

consistent with the approach approved by the Commission in Docket No. E017/M-12-708¹ for Otter Tail's Renewable Resource Cost Recovery Rider when all projects under that rider rolled into base rates in conjunction with Otter Tail's general rate case in Docket No. E017/GR-10-239.

The Department recommends that the Commission deny Otter Tail's request for deferred accounting. And, if the Commission decides to allow Otter Tail to collect or refund the remaining balance, the Department offers that it be handled as a one-time charge or credit to customers. Otter Tail believes that the method of a one-time charge or credit to customers offered by the Department and deferral to Otter Tail's next rate case are both reasonable approaches, and therefore Otter Tail supports whichever of these methods the Commission prefers. Otter Tail disagrees with the Department that the remaining tracker balance, whether positive or negative, ought to be denied cost recovery. Such balances were part of a prudently undertaken and qualifying emissions-reduction project, successfully executed with demonstrated benefits to customers. Otter Tail also disputes the Department's characterization of the amount as "*de minimis*," or that as a general principle a remaining balance resulting from approved expenses should not be addressed because of its value – whether it be a matter of recovery or credit to customers – when there is an administratively simple, reasonable and fair way to address such balances in rates, as there is here.

III. CONCLUSION

Otter Tail appreciates the opportunity to provide these Reply Comments in this Docket in response to the Comments of the Department regarding Otter Tail's 2018 Annual Rate Adjustment to its Environmental Cost Recovery Rider Rate and requests Commission approval of the following:

- Set the ECR Rider rate to 0% effective December 1, 2018.
- Approve recovery of the remaining balance through a one-time charge; or, Defer recovery until Otter Tail's next rate case.

¹ At the end of Otter Tail's Renewable Resource Cost Recovery Rider collection period ending April 2013, OTP's ending balance was an under-collection of \$68,360.90. The Commission deferred recovery of that balance and allowed Otter Tail to recover this amount during the interim rate period in Otter Tail's most recent general rate case, Docket No. E017/GR-15-1033.

Dated: August 10, 2018

Respectfully submitted,

OTTER TAIL POWER COMPANY

By: /s/ BRYCE C. HAUGEN

Bryce C. Haugen
Senior Rates Analyst
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OTTER TAIL POWER COMPANY
ENVIRONMENTAL COST RECOVERY RIDER
AUGUST 10, 2018 REPLY COMMENT ATTACHMENTS

<i>Revised</i> Attachment 1	Environmental Cost Recovery Rider Tracker Report
Attachment A	Revenue Requirements Calculations

Otter Tail Power Company
Environmental Cost Recovery Rider Tracker
Docket No. E0177M-18-464

Line No.	TRACKER SUMMARY Requirements Compared to Billed:	2016													YE Actual	2017							
		January Actual	February Actual	March Actual	April** Actual	May Actual	June Actual	July Actual	August Actual	Collection Period	September Actual	October Actual	November Actual	December Actual		January Actual	February Actual	March Actual	April Actual	May Actual	June Actual	July Actual	
1	Revenue Requirements																						
2	Air Quality Control System*	1,030,140	1,030,280	1,030,496	1,007,342	981,524	981,516	981,888	985,295	10,597,953	985,573	982,166	982,679	982,695	11,961,594	883,074	883,077	883,116	883,116	883,116	883,259	883,259	
3	Billed (forecast kWh x adj factor)	1,113,282	1,118,829	1,055,376	983,413	924,273	906,919	910,558	983,335	10,760,361	958,839	870,846	934,639	1,044,129	11,804,439	1,190,394	1,111,719	1,013,881	987,760	909,763	927,529	900,821	
4																							
5	Difference	(83,142)	(88,549)	(24,880)	23,929	57,251	74,597	71,329	1,960		26,734	111,320	48,040	(61,435)	157,155	(307,320)	(228,642)	(130,765)	(104,643)	(26,647)	(44,270)	(17,562)	
6	Carrying Charge	(5,553)	(6,190)	(6,870)	(7,097)	(6,529)	(5,764)	(5,334)	(4,921)	(61,379)	(4,939)	(4,803)	(4,137)	(3,862)		(4,271)	(6,219)	(7,688)	(8,554)	(9,262)	(9,487)	(9,823)	
7	Cummulative Difference	(862,625)	(957,364)	(989,114)	(972,282)	(921,560)	(852,727)	(786,731)	(789,692)		(767,897)	(661,380)	(617,477)	(682,774)		(994,364)	(1,229,225)	(1,367,678)	(1,480,876)	(1,516,786)	(1,570,543)	(1,597,928)	
8																							
9	Carrying Charge Calculation	(6,190)	(6,870)	(7,097)	(6,529)	(5,764)	(5,334)	(4,921)	(4,939)		(4,803)	(4,137)	(3,862)	(4,271)		(6,219)	(7,688)	(8,554)	(9,262)	(9,487)	(9,823)	(9,995)	
10	Cumulative Carrying Charge	(31,386)	(38,256)	(45,354)	(51,883)	(57,647)	(62,980)	(67,901)	(72,840)		(77,643)	(81,780)	(85,642)	(89,913)		(10,490)	(18,178)	(26,733)	(35,995)	(45,482)	(55,305)	(65,300)	
11	Carrying cost	8.61%	8.61%	8.61%	8.06%	7.5056%	7.5056%	7.5056%	7.5056%		7.5056%	7.5056%	7.5056%	7.5056%		7.5056%	7.5056%	7.5056%	7.5056%	7.5056%	7.5056%	7.5056%	
12																							
13																							
14	Forecasted Sales (MWh)																						

*Project moved in to Base Rates effective November 1, 2017
 ** $(15/30 \times 8.61\%) + (15/30 \times 7.5056\%) = 8.06\%$

Otter Tail Power Company
Environmental Cost Recovery Rider Tracker
Docket No. E017/M-16-464

Line No.	TRACKER SUMMARY Requirements Compared to Billed:	2017					YE Projected	2018													
		August Actual	September Actual	October Actual	November* Actual	December Actual		January Actual	February Actual	March Actual	April Actual	May Actual	June Projected	July Projected	August Projected	September Projected	October Projected	November Projected			
1	Revenue Requirements						8,831,795														
2	Air Quality Control System*	883,259	883,259	883,259																	
3	Billed (forecast kWh x adj factor)	936,086	910,150	840,484	110,460	(162,796)	9,676,252	(188,601)	(182,738)	(165,850)	(156,559)	(146,513)	(145,861)	(156,098)	(159,920)	(155,350)	(149,320)	(158,409)			
4	Difference	(52,827)	(26,891)	42,775	(110,460)	162,796	(844,457)	188,601	182,738	165,850	156,559	146,513	145,861	156,098	159,920	155,350	149,320	158,409			
5	Carrying Charge	(9,995)	(10,387)	(10,621)	(10,420)	(11,176)		(10,227)	(9,112)	(8,026)	(7,038)	(6,103)	(5,225)	(4,345)	(3,396)	(2,417)	(1,461)	(536)			
6	Cumulative Difference	(1,660,750)	(1,698,028)	(1,665,874)	(1,786,754)	(1,635,134)		(1,456,760)	(1,283,134)	(1,125,309)	(975,789)	(835,379)	(694,742)	(542,990)	(386,467)	(233,534)	(85,675)	72,198			
7																					
8	Carrying Charge Calculation	(10,387)	(10,621)	(10,420)	(11,176)	(10,227)		(9,112)	(8,026)	(7,038)	(6,103)	(5,225)	(4,345)	(3,396)	(2,417)	(1,461)	(536)	452			
9	Cumulative Carrying Charge	(75,687)	(86,308)	(96,728)	(107,903)	(118,130)		(19,339)	(27,364)	(34,403)	(40,506)	(45,731)	(50,077)	(53,473)	(55,890)	(57,351)	(57,887)	(57,435)			
10	Carrying cost	7.5056%	7.5056%	7.5056%	7.5056%	7.5056%		7.5056%	7.5056%	7.5056%	7.5056%	7.5056%	7.5056%	7.5056%	7.5056%	7.5056%	7.5056%	7.5056%			
11																					
12																					
13																					
14	Forecasted Sales (MWh)												197,933	211,824	217,010	210,809	202,626	214,961			

*Project moved in to Base Rates effective November 1, 2017
 ** $(15/30 \times 8.61\%) + (15/30 \times 7.5056\%) = 8.06\%$

Approved on July 05, 2016 in Docket E017/M-16-373
 Rate Effective September 1, 2016

Revenue Requirements	\$12,487,422
Carrying Charge	(27,494)
2015 - 2016 True Up	(576,215)
Total Revenue Requirements	\$11,883,713
Sept 2016-Aug 2017 projected sales (mWh)	2,615,366
Average Rate	\$0.00454

Approved on Oct 30, 2017 in Docket E017/GR-15-1033
 Rate Effective November 1, 2017

SUMMARY	Nov 2017 - Oct 2018
Revenue Requirements	\$0
Carrying Charge	(85,376)
True Up	(1,857,668)
Total Revenue Requirements	(\$1,943,044)
Projected sales in mWh	2,636,702
Average Rate	(\$0.00074)

Otter Tail Power Company
Environmental Cost Recovery Rider Revenue Requirement Calc
Docket No. E017/M-18-464

Line No.	SUPPORTING INFORMATION / DATA													
50	MN Cap Structure with allowed ROE per order:						MN Cap Structure Ordered Effective April 16, 2016 [Docket No. E017/GR-15-1033]							
51	Capital Structure	Ratio	Cost	WA Cost	Ratio	Cost	WA Cost	Ratio	Cost	WA Cost	Property tax	0.00%		
52	Debt	48.28%	6.33%	3.06%	47.50%	5.40%	2.57%							
53	Preferred equity	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%							
54	Common equity	51.72%	10.74%	5.55%	52.50%	9.41%	4.94%							
55	Total	100.00%		8.61%	100.00%		7.5056%							
56				Overall Return			Overall Return							
57				Book										
58				Tax										
59	Project life (years)	30		7-year MACRS										
60				Federal										
61				State										
62	Statutory Tax Rate	41.37%		31.57%		9.80%								
63	Tax conversion factor	1.70561												
64	Base Demand Factor	75.29%												
65	Peak Demand Factor	24.71%												
66	MN share - E1 factor	51.54009%												
67	MN share - D1 factor	46.3009%												
68														
69	Income Tax Calculation													
70	Book Operating Income	1,203,405	1,203,405	1,203,405	1,136,884	1,070,363	1,070,363	1,070,363	1,070,363	1,070,363	1,070,363	1,070,363	13,310,005	
71	Tax Rate	41.37%	41.37%	41.37%	41.37%	41.37%	41.37%	41.37%	41.37%	41.37%	41.37%	41.37%		
72	Income Tax Expense	497,848	497,848	497,848	470,329	442,809	442,809	442,809	442,809	442,809	442,809	442,809	5,506,349	
73	Net Income (Book)	705,556	705,556	705,556	666,555	627,554	627,554	627,554	627,554	627,554	627,554	627,554	7,803,656	
74	Federal Tax Calculation													
75	Timing Difference													
76	Book Income	1,203,405	1,203,405	1,203,405	1,136,884	1,070,363	1,070,363	1,070,363	1,070,363	1,070,363	1,070,363	1,070,363	13,310,005	
77	+Book Depreciation	438,592	438,868	439,295	438,921	439,050	439,034	439,730	446,101	446,621	440,251	441,209	5,288,911	
78	-Tax Depreciation Federal	(859,622)	(859,622)	(859,622)	(859,622)	(859,622)	(859,622)	(859,622)	(859,622)	(859,622)	(859,622)	(859,622)	(10,315,468)	
79	Taxable Income	782,375	782,650	783,077	716,183	649,791	649,775	650,471	656,842	657,362	650,992	651,950	8,283,447	
80	Tax Rate	31.57%	31.57%	31.57%	31.57%	31.57%	31.57%	31.57%	31.57%	31.57%	31.57%	31.57%		
81	Income Tax - Current	246,996	247,083	247,217	226,099	205,139	205,134	205,354	207,365	207,529	205,518	205,821	2,615,084	
82	Income Tax - Deferred	(132,919)	(132,832)	(132,698)	(132,815)	(132,775)	(132,780)	(132,560)	(130,549)	(130,384)	(132,396)	(132,093)	(1,586,884)	
83	Net Income (Tax)	114,077	114,251	114,520	93,284	72,364	72,354	72,794	76,816	77,145	73,122	73,728	1,028,200	
84	State Tax Calculation													
85	Timing Difference													
86	Book Income	1,203,405	1,203,405	1,203,405	1,136,884	1,070,363	1,070,363	1,070,363	1,070,363	1,070,363	1,070,363	1,070,363	13,310,005	
87	+Book Depreciation	438,592	438,868	439,295	438,921	439,050	439,034	439,730	446,101	446,621	440,251	441,209	5,288,911	
88	-Tax Depreciation State	(1,990,070)	(1,990,070)	(1,990,070)	(1,990,070)	(1,990,070)	(1,990,070)	(1,990,070)	(1,990,070)	(1,990,070)	(1,990,070)	(1,990,070)	(23,890,844)	
89	Taxable Income	(348,073)	(347,798)	(347,371)	(414,265)	(480,657)	(480,673)	(479,977)	(473,606)	(473,086)	(479,456)	(478,496)	(5,281,929)	
90	Tax Rate	9.80%	9.80%	9.80%	9.80%	9.80%	9.80%	9.80%	9.80%	9.80%	9.80%	9.80%		
91	Income Tax - Current	(34,111)	(34,084)	(34,042)	(40,598)	(47,104)	(47,106)	(47,038)	(46,413)	(46,362)	(46,987)	(46,893)	(517,629)	
92	Income Tax - Deferred	(152,045)	(152,018)	(151,976)	(152,013)	(152,000)	(152,002)	(151,933)	(151,309)	(151,258)	(151,882)	(151,788)	(1,822,009)	
93	Net Income (Tax)	(186,156)	(186,102)	(186,018)	(192,611)	(199,104)	(199,108)	(198,971)	(197,722)	(197,620)	(198,869)	(198,681)	(2,339,638)	
94	Net of State and Federal													
95	Tax Expense													
96	Book Tax Expense	497,848	497,848	497,848	470,329	442,809	442,809	442,809	442,809	442,809	442,809	442,809	5,506,349	
97	Deferred Tax Expense	(284,964)	(284,850)	(284,674)	(284,828)	(284,775)	(284,781)	(284,493)	(281,858)	(281,642)	(284,278)	(283,881)	(3,408,894)	
98	Current Tax Expense	212,884	212,999	213,175	185,501	158,035	158,028	158,316	160,951	161,167	158,531	158,928	2,097,455	
99														
100	Federal ADIT Balance (Prorated where applicable)	(132,919)	(132,832)	(132,698)	(132,815)	(132,775)	(132,780)	(132,560)	(130,549)	(130,384)	(132,396)	(132,093)	(1,586,884)	
101	State ADIT Balance	(152,045)	(152,018)	(151,976)	(152,013)	(152,000)	(152,002)	(151,933)	(151,309)	(151,258)	(151,882)	(151,788)	(1,822,009)	
102	Monthly ADIT Balance (Prorated where applicable)	(284,964)	(284,850)	(284,674)	(284,828)	(284,775)	(284,781)	(284,493)	(281,858)	(281,642)	(284,278)	(283,881)	(3,408,894)	
103	Cummulative ADIT Balance	(30,988,224)	(31,273,074)	(31,557,748)	(31,842,576)	(32,127,350)	(32,412,132)	(32,696,625)	(32,978,483)	(33,260,125)	(33,544,403)	(33,828,285)	(34,112,154)	
104	Deferred Tax													
105	Book depreciation	438,592	438,868	439,295	438,921	439,050	439,034	439,730	446,101	446,621	440,251	441,209	5,288,911	
106	Tax depreciation-Federal	859,622	859,622	859,622	859,622	859,622	859,622	859,622	859,622	859,622	859,622	859,622	10,315,468	
107	Tax depreciation-State	1,990,070	1,990,070	1,990,070	1,990,070	1,990,070	1,990,070	1,990,070	1,990,070	1,990,070	1,990,070	1,990,070	23,890,844	
108	Federal deferred income taxes	35.00%	(132,919)	(132,832)	(132,698)	(132,815)	(132,775)	(132,780)	(132,560)	(130,549)	(130,384)	(132,396)	(132,093)	(1,586,884)
109	State deferred income taxes		(152,045)	(152,018)	(151,976)	(152,013)	(152,000)	(152,002)	(151,933)	(151,309)	(151,258)	(151,882)	(151,788)	(1,822,009)

Otter Tail Power Company
Environmental Cost Recovery Rider Revenue Requirement Calc
Docket No. E017/M-18-464

Line No.	Year>>	2017 Actual January	2017 Actual February	2017 Actual March	2017 Actual April	2017 Actual May	2017 Actual June	2017 Actual July	2017 Actual August	2017 Actual September	2017 Actual October	2017* Actual November	2017* Actual December	2017 Projected Total
RATE BASE														
1	Plant Balance	176,137,379	176,168,635	176,168,704	176,168,633	176,282,985	176,282,911	176,282,912	176,282,912	176,282,912	176,363,561	176,363,561	176,363,561	176,363,561
2	Accumulated Depreciation	(5,700,024)	(6,111,143)	(6,222,336)	(6,333,528)	(7,344,720)	(7,756,180)	(8,167,639)	(8,579,098)	(8,990,557)	(9,402,016)	(9,813,463)	(10,225,310)	(10,225,310)
3	Net Plant in Service	170,437,355	170,057,492	169,946,368	169,235,105	168,938,264	168,526,731	168,115,273	167,703,814	167,292,355	166,961,545	166,549,898	166,138,251	166,138,251
CPWIP Calculation														
4	Additional CPWIP													
6	Deferred Tax Asset	17,769,693	17,769,693	17,769,693	17,769,693	17,769,693	17,769,693	17,769,693	17,769,693	17,769,693	17,769,693	17,769,693	17,769,693	17,769,693
7	Reversal of Deferred Tax Asset	(12,856,689)	(13,303,326)	(13,749,962)	(14,196,599)	(14,643,236)	(15,089,873)	(15,536,509)	(15,983,146)	(16,429,783)	(16,876,420)	(17,323,056)	(17,769,693)	(17,769,693)
8	Pro-rated Reversal of Deferred Tax Asset	(12,856,689)	(13,303,326)	(13,749,962)	(14,196,599)	(14,643,236)	(15,089,873)	(15,536,509)	(15,983,146)	(16,429,783)	(16,876,420)	(17,323,056)	(17,769,693)	(17,769,693)
9	Non-pro-rated ADIT	(34,392,105)	(34,672,052)	(34,951,970)	(35,231,888)	(35,511,806)	(35,791,613)	(36,071,420)	(36,351,228)	(36,631,035)	(36,910,842)	(37,190,672)	(37,470,301)	(37,470,301)
10	ADIT Pro-Rated	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
11	Accumulated Deferred Income Taxes Federal & State	(34,392,105)	(34,672,052)	(34,951,970)	(35,231,888)	(35,511,806)	(35,791,613)	(36,071,420)	(36,351,228)	(36,631,035)	(36,910,842)	(37,190,672)	(37,470,301)	(37,470,301)
12	Ending Rate Base	140,958,255	139,851,807	138,714,129	137,576,311	136,552,916	135,414,939	134,277,037	133,139,134	132,001,230	130,943,976	129,805,963	128,667,949	128,667,949
13														
14	Average Rate Base	11,282,032	11,282,032	11,282,032	11,282,032	11,282,032	11,282,032	11,282,032	11,282,032	11,282,032	11,282,032	11,282,032	11,282,032	135,384,389
15														
16	Return on Rate Base	846,787	846,787	846,787	846,787	846,787	846,787	846,787	846,787	846,787	846,787	846,787	846,787	10,161,441
17														
18	Available for Return (equity portion of rate base)	557,371	557,371	557,371	557,371	557,371	557,371	557,371	557,371	557,371	557,371	557,371	557,371	6,688,455
19														
EXPENSES														
O&M and Depreciation														
22	Operating Costs	0	0	0	0	0	0	0	0	0	0	0	0	0
23	Property Tax	0	0	0	0	0	0	0	0	0	0	0	0	0
24	Book Depreciation	411,113	411,119	411,192	411,192	411,192	411,459	411,459	411,459	411,459	411,459	411,647	411,647	4,936,399
25	Total O&M and Depreciation Expense	411,113	411,119	411,192	411,192	411,192	411,459	411,459	411,459	411,459	411,459	411,647	411,647	4,936,399
26														
27	Income before Taxes													
28	Available for Return (from above)	557,371	557,371	557,371	557,371	557,371	557,371	557,371	557,371	557,371	557,371	557,371	557,371	6,688,455
29	Taxable Income (grossed up)	1,7056 950,659	950,659	950,659	950,659	950,659	950,659	950,659	950,659	950,659	950,659	950,659	950,659	11,407,905
30														
31	Income Taxes													
32	Current Income Tax	113,337	113,340	113,370	113,370	113,370	113,480	113,480	113,480	113,480	113,480	113,558	113,558	1,361,303
33	Def Income Tax	279,950	279,948	279,918	279,918	279,918	279,807	279,807	279,807	279,807	279,807	279,730	279,730	3,358,147
34	Total Income Tax Expense	393,288	393,288	393,288	393,288	393,288	393,288	393,288	393,288	393,288	393,288	393,288	393,288	4,719,450
35														
REVENUE REQUIREMENTS														
36	Expenses	804,401	804,407	804,480	804,480	804,480	804,747	804,747	804,747	804,747	804,747	804,935	804,935	9,655,850
37	Return on Rate Base	846,787	846,787	846,787	846,787	846,787	846,787	846,787	846,787	846,787	846,787	846,787	846,787	10,161,441
38														
39	Subtotal Revenue Requirements	1,651,188	1,651,194	1,651,267	1,651,267	1,651,267	1,651,533	1,651,533	1,651,533	1,651,533	1,651,533	1,651,722	1,651,722	19,817,291
40	Adjustments													
41	Total Revenue Requirements	1,651,188	1,651,194	1,651,267	1,651,267	1,651,267	1,651,533	1,651,533	1,651,533	1,651,533	1,651,533	1,651,722	1,651,722	19,817,291
42														
43	Base Demand Factor	75.29% 1,183,902	1,183,906	1,183,958	1,183,958	1,183,958	1,184,150	1,184,149	1,184,149	1,184,149	1,184,149	1,184,284	1,184,284	14,208,998
44	Peak Demand Factor	24.71% 467,286	467,288	467,308	467,308	467,308	467,384	467,384	467,384	467,384	467,384	467,437	467,437	5,608,293
45														
46	Minnesota share - E1 factor	51.54008% 646,380	646,383	646,411	646,411	646,411	646,516	646,516	646,516	646,516	646,516	646,589	646,589	7,757,754
47	Minnesota share - D1 factor	48.30009% 236,694	236,695	236,705	236,705	236,705	236,743	236,743	236,743	236,743	236,743	236,770	236,770	2,840,760
48														
49	Minnesota Revenue Requirements	883,074	883,077	883,116	883,116	883,116	883,259	883,259	883,259	883,259	883,259	883,360	883,360	10,598,514

*Project moved in to Base Rates effective November 1, 2017

Otter Tail Power Company
Environmental Cost Recovery Rider Revenue Requirement Calc
Docket No. E017/M-18-464

Line No.	SUPPORTING INFORMATION / DATA												
50	MN Cap Structure Ordered												
51	Effective April 16, 2016 [Docket No. E017/GR-15-1033]												
52	Capital Structure	Ratio		Cost		WA Cost		Property tax				0.00%	
53	Debt	47.50%	5.40%	2.57%	2017 composite rate							0.00%	
54	Preferred equity	0.00%	0.00%	0.00%									
55	Common equity	52.50%	9.41%	4.94%									
56	Total	100.00%		7.5056%	Overall Return								
57		Book		Tax									
58	Project life (years)	30	7-year MACRS										
59				Federal	State								
60	Statutory Tax Rate	41.37%	31.57%	9.80%									
61	Tax conversion factor	1.70561											
62	Base Demand Factor	71.70%											
63	Peak Demand Factor	28.30%											
64	MN share - E1 factor	54.5975%											
65	MN share - D1 factor	50.6528%											
66													
67													
68													
69	Income Tax Calculation												
70	Book Operating Income	950,659	950,659	950,659	950,659	950,659	950,659	950,659	950,659	950,659	950,659	950,659	11,407,905
71	Tax Rate	41.37%	41.37%	41.37%	41.37%	41.37%	41.37%	41.37%	41.37%	41.37%	41.37%	41.37%	
72	Income Tax Expense	393,288	393,288	393,288	393,288	393,288	393,288	393,288	393,288	393,288	393,288	393,288	4,719,450
73	Net Income (Book)	557,371	557,371	557,371	557,371	557,371	557,371	557,371	557,371	557,371	557,371	557,371	6,688,455
74	Federal Tax Calculation												
75	Timing Difference												
76	Book Income	950,659	950,659	950,659	950,659	950,659	950,659	950,659	950,659	950,659	950,659	950,659	11,407,905
77	+Book Depreciation	411,113	411,119	411,192	411,192	411,192	411,459	411,459	411,459	411,459	411,459	411,647	4,936,399
78	-Tax Depreciation Federal	(811,458)	(811,458)	(811,458)	(811,458)	(811,458)	(811,458)	(811,458)	(811,458)	(811,458)	(811,458)	(811,458)	(9,737,501)
79	Taxable Income	550,314	550,320	550,393	550,393	550,393	550,659	550,659	550,659	550,659	550,848	550,848	6,606,803
80	Tax Rate	31.57%	31.57%	31.57%	31.57%	31.57%	31.57%	31.57%	31.57%	31.57%	31.57%	31.57%	
81	Income Tax - Current	173,734	173,736	173,759	173,759	173,759	173,843	173,843	173,843	173,843	173,903	173,903	2,085,768
82	Income Tax - Deferred	(126,389)	(126,387)	(126,364)	(126,364)	(126,364)	(126,280)	(126,280)	(126,280)	(126,280)	(126,220)	(126,220)	(1,515,708)
83	Net Income (Tax)	47,345	47,349	47,395	47,395	47,395	47,563	47,563	47,563	47,563	47,682	47,682	570,060
84	State Tax Calculation												
85	Timing Difference												
86	Book Income	950,659	950,659	950,659	950,659	950,659	950,659	950,659	950,659	950,659	950,659	950,659	11,407,905
87	+Book Depreciation	411,113	411,119	411,192	411,192	411,192	411,459	411,459	411,459	411,459	411,459	411,647	4,936,399
88	-Tax Depreciation State	(1,978,067)	(1,978,067)	(1,978,067)	(1,978,067)	(1,978,067)	(1,978,067)	(1,978,067)	(1,978,067)	(1,978,067)	(1,978,067)	(1,978,067)	(23,736,801)
89	Taxable Income	(616,295)	(616,289)	(616,216)	(616,216)	(616,216)	(615,949)	(615,949)	(615,949)	(615,949)	(615,761)	(615,761)	(7,392,497)
90	Tax Rate	9.80%	9.80%	9.80%	9.80%	9.80%	9.80%	9.80%	9.80%	9.80%	9.80%	9.80%	
91	Income Tax - Current	(60,397)	(60,396)	(60,389)	(60,389)	(60,389)	(60,363)	(60,363)	(60,363)	(60,363)	(60,345)	(60,345)	(724,465)
92	Income Tax - Deferred	(153,561)	(153,561)	(153,554)	(153,554)	(153,554)	(153,528)	(153,528)	(153,528)	(153,528)	(153,509)	(153,509)	(1,842,439)
93	Net Income (Tax)	(213,958)	(213,957)	(213,943)	(213,943)	(213,943)	(213,891)	(213,891)	(213,891)	(213,891)	(213,854)	(213,854)	(2,566,904)
94	Net of State and Federal												
95	Tax Expense												
96	Book Tax Expense	393,288	393,288	393,288	393,288	393,288	393,288	393,288	393,288	393,288	393,288	393,288	4,719,450
97	Deferred Tax Expense	(279,950)	(279,948)	(279,918)	(279,918)	(279,918)	(279,807)	(279,807)	(279,807)	(279,807)	(279,730)	(279,730)	(3,358,147)
98	Current Tax Expense	113,337	113,340	113,370	113,370	113,370	113,480	113,480	113,480	113,480	113,558	113,558	1,361,303
99													
100	Federal ADIT Balance (Prorated where applicable)	(126,389)	(126,387)	(126,364)	(126,364)	(126,364)	(126,280)	(126,280)	(126,280)	(126,280)	(126,220)	(126,220)	(1,515,708)
101	State ADIT Balance	(153,561)	(153,561)	(153,554)	(153,554)	(153,554)	(153,528)	(153,528)	(153,528)	(153,528)	(153,509)	(153,509)	(1,842,439)
102	Monthly ADIT Balance (Prorated where applicable)	(279,950)	(279,948)	(279,918)	(279,918)	(279,918)	(279,807)	(279,807)	(279,807)	(279,807)	(279,730)	(279,730)	(3,358,147)
103	Cummulative ADIT Balance	(37,800,998)	(38,080,946)	(38,360,864)	(38,640,782)	(38,920,699)	(39,200,507)	(39,480,314)	(39,760,121)	(40,039,929)	(40,319,736)	(40,599,466)	(44,237,342)
104	Deferred Tax												
105	Book depreciation	411,113	411,119	411,192	411,192	411,192	411,459	411,459	411,459	411,459	411,647	411,647	4,936,399
106	Tax depreciation-Federal	811,458	811,458	811,458	811,458	811,458	811,458	811,458	811,458	811,458	811,458	811,458	9,737,501
107	Tax depreciation-State	1,978,067	1,978,067	1,978,067	1,978,067	1,978,067	1,978,067	1,978,067	1,978,067	1,978,067	1,978,067	1,978,067	23,736,801
108	Federal deferred income taxes	35.00%	(126,389)	(126,387)	(126,364)	(126,364)	(126,364)	(126,280)	(126,280)	(126,280)	(126,280)	(126,220)	(1,515,708)
109	State deferred income taxes	(153,561)	(153,561)	(153,554)	(153,554)	(153,554)	(153,528)	(153,528)	(153,528)	(153,528)	(153,509)	(153,509)	(1,842,439)

CERTIFICATE OF SERVICE

**RE: In the Matter of Otter Tail Power Company's Petition for Approval of the Annual Rate Update to its Environmental Upgrades Cost Recovery Rider Rate, Rate Schedule 13.08
Docket No. E017/M-18-464**

I, Jana Hrdlicka, hereby certify that I have this day served a copy of the following, or a summary thereof, on Daniel P. Wolf and Sharon Ferguson by e-filing, and to all other persons on the attached service list by electronic service or by First Class mail.

**Otter Tail Power Company
Reply Comments**

Dated this **10th** day of **August, 2018**

/S/ JANA HRDLICKA

Jana Hrdlicka, Regulatory Filing Coordinator
Otter Tail Power Company
215 South Cascade Street
Fergus Falls MN 56537
(218) 739-8879

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Ray	Choquette	rchoquette@agp.com	Ag Processing Inc.	12700 West Dodge Road PO Box 2047 Omaha, NE 68103-2047	Electronic Service	No	OFF_SL_18-464_M-18-464
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Daniel P	Wolf	dan.wolf@state.mn.us	Public Utilities Commission	121 7th Place East Suite 350 St. Paul, MN 551012147	Electronic Service	Yes	OFF_SL_18-464_M-18-464