

215 South Cascade Street
PO Box 496
Fergus Falls, Minnesota 56538-0496
218 739-8200
www.otpc.com (web site)

December 10, 2021



Will Seuffert
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 its
2021 Annual Review of Depreciation Certification
Docket No. E017/D-21-669
Reply Comments**

Dear Mr. Seuffert:

Otter Tail Power Company (OTP) hereby submits Reply Comments to the Minnesota Department of Commerce's December 1, 2021, Comments in OTP's 2021 Annual Review of Depreciation Certification.

Otter Tail electronically filed this document with the Commission, in compliance with Minn. Rule 7829.1300, subp. 2, which also constitutes service on the Department of Commerce, Division of Energy Resources, and the Office of Attorney General-Residential Utilities Division. A Certificate of Service is also enclosed.

Please contact me at (218) 739-8659 or ldemmer@otpc.com if you have any questions.

Sincerely,

/s/ LOYAL K. DEMMER
Loyal K. Demmer, CMA
Senior Depreciation Accountant

kaw
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 its
2021 Annual Review of Depreciation
Certification**

Docket No. E017/D-21-669

REPLY COMMENTS

I. BACKGROUND

Otter Tail Power Company (Otter Tail or Company) filed its 2021 Annual Review of Depreciation Certification in Docket No. E017/D-21-669 (Petition) on September 1, 2021, requesting approval of its proposed remaining lives and salvage percentages based on Otter Tail's plant in service and accumulated depreciation reserve balances as of December 31, 2020. The Minnesota Department of Commerce, Division of Energy Resources (Department) filed their Comments on Otter Tail's petition on December 1, 2021.

These Reply Comments respond to (1) the Department's questions concerning the Bemidji Hydro Plant's remaining life, and (2) the Department's opposition to Otter Tail's request to submit a proposed Accumulated Depreciation Reserve Redistribution adjustment with its 2023 5-year Depreciation Filing.

Otter Tail also respectfully requests that the Commission consider whether the 2009 IRP Order, peaking plant reporting requirement remains relevant and useful in light of Otter Tail's rate proceeding¹ and Otter Tail's recently filed 2021 Integrated Resource Plan.² As noted in Otter Tail's Petition, these dockets and the passage of time call into question whether it is necessary to include the peaking plant reporting requirement in next year's depreciation filing.

¹ *In the Matter of the Application of Otter Tail Power Company for Authority to Increase Rates for Electric Service in Minnesota*, Docket No. E017/GR-20-719.

² *In the Matter of Otter Tail Power Company's 2022-2036 Integrated Resource Plan*, Docket No. E017/RP-21-339.

II. BEMIDJI HYDRO REMAINING LIFE DIFFERENCES

The Department noted the following in its Comments concerning Otter Tail's Bemidji Hydro Plant:

The petition indicates that OTP retired the Bemidji Hydro plant and as such OTP is not requesting any further remaining life for the plant for use in depreciation expense and reserve calculations in 2022. While in page 10 of Attachment 1, OTP shows an updated remaining life reflecting the FERC relicensing for Bemidji, Otter Tail states that per page 2 of Attachment 2 the Company is requesting a remaining life of 0 years. The Department does not oppose this change given the retirement, but Otter Tail may wish to clarify in reply comments given Attachment 1's apparent contradiction with this proposal.

A more thorough review of the timeline of events may better explain the remaining life change for the Bemidji hydro facility during calendar year 2021. Otter Tail's external consulting firm Foster Associates completed analytics work and prepared and distributed its depreciation report to Otter Tail in early Q3 2021. The Foster Associates 2021 Technical Update report (Attachment 1) reflects the Bemidji Hydro Plant's in-service and accumulated depreciation reserve balances and the expected remaining life status as of December 31, 2020.³ Otter Tail made the determination to write off the Bemidji Hydro generation asset later in Q3 2021 (after completion of the Foster Associates 2021 Technical Update report). Otter Tail determined that it was appropriate to leave the Technical Update report as originally published rather than seek revisions. Otter Tail would then address the Bemidji Hydro Plant remaining life issue through the depreciation certification initial filing process with an updated request for a 0-year remaining life for use in 2022. This requested change was necessary because Otter Tail files a prospective remaining life and salvage percentage annual depreciation filing. Otter Tail made this subsequent event modification in its Petition,⁴ but left the Technical Update unchanged, as it reflected the historic balances and expectations effective at its study date.

Finally, Otter Tail notes that the full write-off of the Bemidji Hydro facility that took place later in Q3, 2021 will be reflected with a \$0.00 Net Book Value, and 0-year expected remaining life when capturing the transactional data for use in Otter Tail's 2022 annual depreciation certification filing.

³ As of this date the correct remaining life for the Bemidji Hydro Plant was the FERC relicensing period.

⁴ Please see Attachment 2 and Attachment 4 narratives.

III. OTTER TAIL'S REQUEST TO SUBMIT A PROPOSED RESERVE REDISTRIBUTION ADJUSTMENT WITH ITS 2023 5-YEAR COMPREHENSIVE DEPRECIATION FILING PETITION

The Department opposes Otter Tail's proposal to reinstate reserve redistribution in the Company's 2023 5-year depreciation filing. Otter Tail respectfully requests the Commission to adopt the Company's proposal for the reasons noted herein.

To be clear, Otter Tail seeks to submit a 2023, 5-year depreciation study with rebalanced depreciation reserves. This means submitting in Attachment 1 - Statement C, Depreciation Reserve Summary, a statement containing the Company's then current comparison of each accounts Recorded Reserve, its Computed Reserve, and the calculated proposed Redistributed Reserve. Under this format the proposed redistribution reserve adjustment is not made until after the Commission approves the depreciation filing. This was the format and practice used prior to the Commission's January 27, 2012, order in Docket No. E017/D-11-886 (2012 Order).⁵ Since then, Attachment 1 - Statement C provides the Recorded Reserve, the Computed Reserve, and the subsequent current cumulative Reserve Imbalance, with the Reserve Imbalance reported rather than the proposed Redistributed Reserve. Otter Tail is requesting to only include the calculated Reserve Redistribution for Commission consideration, rather than a report of the then current Reserve Imbalance. The actual reserve redistribution adjustment would be completed after Commission approval.

The Department opposes rebalancing as proposed by Otter Tail for the reasons it stated in its comments in Docket No. E017/D-11-886.⁶ There the Department acknowledged that redistributed reserves can produce accrual rates that are better aligned with the parameters established for each account.⁷ The Department however was concerned that rebalancing the reserve removes insights into past reserve transactions within an account. Otter Tail acknowledges the Department's theoretical concern. From a practical standpoint, however, the insight and

⁵ *In the Matter of Otter Tail Power Company's 2011 Annual Review of Depreciation Certification*, Docket No. E017/D-11-886, January 27, 2012.

⁶ Department Comments at 6. The Commission's 2012 Order adopted the Department's Comments.

⁷ "In OTP's example of two plant accounts, one with an excess reserve resulting in a negative accrual rate and one with a deficient reserve resulting in a high, positive accrual rate, the Department agrees that rebalancing reserves will likely produce two positive accrual rates that are better aligned with the parameters estimated for each account." Department Comments at 6 (citing Department Comments in Docket No. E017/D-11-886).

information the Department seeks to preserve is of little value in the long-term management or evaluation of a systematic depreciation system for a utility.

This is primarily because utilities utilize long lived assets in the production and distribution of the electrical energy provided to their customers. Thirty to seventy years of service is not uncommon for a large majority of plant in-service assets at an electrical utility. Any outlying reserve transaction would not be remembered to even the midpoints of these service lives. The impact of an outlying reserve transaction also diminishes over time as the calculation of the depreciation accrual rate tends to compensate and overcorrect for its impact on the reserve. The depreciation parameters themselves have typically taken outlier reserve transactions into consideration and are themselves an expected lifetime average. A reserve outlier transaction one way could be offset by a reserve outlier transaction offset the other way. In the long term this leaves little information to glean from the reserve accounts balance.

Moreover, utilities and regulators typically view depreciation by systems, or groups of like accounts, and not on an individual account basis. A production plant with five or more individual depreciation accounts, each with like assets, is largely viewed, analyzed, maintained, and managed as a group, not as a collection of multiple independent accounts. Likewise, transmission or distribution systems will likely utilize assets in several accounts all working together as a unit in the operation of the overall system rather than by individual accounts. Keeping these groupings of accounts closely related to their combined overarching depreciation parameters yields more sensible and meaningful outputs for all parties.

An alternative approach that addresses the Department's concerns while accounting for the foregoing practical considerations is to allow the depreciation reserve balances to reflect postings in the near term (while they are still recognizable), then during every five-year comprehensive depreciation filing allowing for the true up to more of the overarching parameters through reserve redistribution adjustments. Otter Tail respectfully requests the Commission to consider this approach if it is not inclined to adopt Otter Tail's initial proposal.

IV. THE 2009 IRP ORDER PEAKING PLANT REPORTING REQUIREMENT

The Commission’s 2009 Order in Docket No. E017/RP-05 (2009 IRP Order) requires that: “In its first depreciation filing that includes new peaking generators, Otter Tail shall compare the last rate case’s short-term peaking capacity costs to the peaking capacity costs of the new generators.” Otter Tail’s Petition with plant in service balances as of December 31st, 2020, does not include any new peaking generators in service and therefore there is no cost information to report. Otter Tail did place into service its new Astoria Station peaking generator for commercial operation in Q1 2021; therefore, Otter Tail will be able to apply those 2021 plant-in-service peaking costs in its 2022 depreciation filing, to comply with the 2009 IRP Order requirement for peaking plants. Otter Tail respectfully requests that the Commission consider relieving Otter Tail of this obligation in view of the 12-year passage of time since the 2009 IRP Order and intervening rate cases and IRP filings.

V. CONCLUSION

Based on the foregoing, Otter Tail respectfully requests the Commission to issue an order approving Otter Tail’s 2021 depreciation certification as submitted and as outlined in these Reply Comments.

Dated: December 10, 2021.

Respectfully submitted,

OTTER TAIL POWER COMPANY

/s/ LOYAL K. DEMMER

Loyal K. Demmer, CMA

Senior Depreciation Accountant

ldemmer@otpc.com

(218) 739-8659

/s/ CARY STEPHENSON

Cary Stephenson

Associate General Counsel

cstephenson@otpc.com

218-739-8956

CERTIFICATE OF SERVICE

**RE: In the Matter of Otter Tail Power Company's Petition for Approval of its
2021 Annual Review of Depreciation Certification
Docket No. E017/D-21-669**

I, Kim Ward, hereby certify that I have this day served a copy of the following, or a summary thereof, on Will Seuffert 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 **December 2021**.

/s/ KIM WARD
Kim Ward
Regulatory Filing Coordinator
Otter Tail Power Company
215 South Cascade Street
Fergus Falls MN 56537
(218) 739-8268

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Ray	Choquette	rchoquette@agp.com	Ag Processing Inc.	12700 West Dodge Road PO Box 2047 Omaha, NE 68103-2047	Electronic Service	No	OFF_SL_21-669_D-21-669
Generic Notice	Commerce Attorneys	commerce.attorneys@ag.state.mn.us	Office of the Attorney General-DOC	445 Minnesota Street Suite 1400 St. Paul, MN 55101	Electronic Service	Yes	OFF_SL_21-669_D-21-669
Brooke	Cooper	bcooper@allete.com	Minnesota Power	30 W Superior St Duluth, MN 558022191	Electronic Service	No	OFF_SL_21-669_D-21-669
Loyal	Demmer	ldemmer@otpc.com	Otter Tail Power Co.	215 South Cascade Street PO Box 496 Fergus Falls, MN 565380496	Electronic Service	No	OFF_SL_21-669_D-21-669
James C.	Erickson	jericksonkbc@gmail.com	Kelly Bay Consulting	17 Quechee St Superior, WI 54880-4421	Electronic Service	No	OFF_SL_21-669_D-21-669
Sharon	Ferguson	sharon.ferguson@state.mn.us	Department of Commerce	85 7th Place E Ste 280 Saint Paul, MN 551012198	Electronic Service	No	OFF_SL_21-669_D-21-669
Jessica	Fyhrie	jfyhrie@otpc.com	Otter Tail Power Company	PO Box 496 Fergus Falls, MN 56538-0496	Electronic Service	Yes	OFF_SL_21-669_D-21-669
Adam	Heinen	aheinen@dakotaelectric.com	Dakota Electric Association	4300 220th St W Farmington, MN 55024	Electronic Service	No	OFF_SL_21-669_D-21-669
Shane	Henriksen	shane.henriksen@enbridge.com	Enbridge Energy Company, Inc.	1409 Hammond Ave FL 2 Superior, WI 54880	Electronic Service	No	OFF_SL_21-669_D-21-669
James D.	Larson	james.larson@avantenergy.com	Avant Energy Services	220 S 6th St Ste 1300 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_21-669_D-21-669

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Kavita	Maini	kmaini@wi.rr.com	KM Energy Consulting, LLC	961 N Lost Woods Rd Oconomowoc, WI 53066	Electronic Service	No	OFF_SL_21-669_D-21-669
Andrew	Moratzka	andrew.moratzka@stoel.com	Stoel Rives LLP	33 South Sixth St Ste 4200 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_21-669_D-21-669
Matthew	Olsen	molsen@otpc.com	Otter Tail Power Company	215 South Cascade Street Fergus Falls, MN 56537	Electronic Service	No	OFF_SL_21-669_D-21-669
Generic Notice	Residential Utilities Division	residential.utilities@ag.state.mn.us	Office of the Attorney General-RUD	1400 BRM Tower 445 Minnesota St St. Paul, MN 551012131	Electronic Service	Yes	OFF_SL_21-669_D-21-669
Will	Seuffert	Will.Seuffert@state.mn.us	Public Utilities Commission	121 7th PI E Ste 350 Saint Paul, MN 55101	Electronic Service	Yes	OFF_SL_21-669_D-21-669
Cary	Stephenson	cStephenson@otpc.com	Otter Tail Power Company	215 South Cascade Street Fergus Falls, MN 56537	Electronic Service	Yes	OFF_SL_21-669_D-21-669
Stuart	Tommerdahl	stommerdahl@otpc.com	Otter Tail Power Company	215 S Cascade St PO Box 496 Fergus Falls, MN 56537	Electronic Service	Yes	OFF_SL_21-669_D-21-669