

November 7, 2019

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

RE: **Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. E017/D-19-547

Dear Mr. Wolf:

Attached are the Comments of the Minnesota Department of Commerce, Division of Energy Resources (Department), in the following matter:

Otter Tail Power Company's (OTP's) 2019 Annual Review of Depreciation Certification.

The Petition was filed on September 1 by:

Loyal K. Demmer, CMA
Senior Depreciation Accountant
Otter Tail Power Company
215 South Cascade Street
PO Box 496
Fergus Falls, MN 56538-0496

The Department recommends that the Minnesota Public Utilities Commission (Commission) **approve OTP's request with modifications**. The Department is available to answer any questions that the Commission may have in this matter.

Sincerely,

/s/ DOROTHY MORRISSEY
Financial Analyst

DM/ja
Attachment



Before the Minnesota Public Utilities Commission

Comments of the Minnesota Department of Commerce Division of Energy Resources

Docket No. E017/M-19-547

I. INTRODUCTION

On August 30, 2019, Otter Tail Power Company (OTP or the Company) filed its 2019 Annual Review of Depreciation Certification in Docket No. E017/D-19-547 (Petition). OTP is requesting approval of changes to the lives and salvage rates of a number of property accounts based on OTP’s plant and reserve balances as of December 31, 2018.

Based on the Company’s proposed changes, the updated composite depreciation accrual rate would be 2.93 percent, compared the current composite depreciation accrual rate of 2.88 percent, or a 0.05 percentage point increase to the composite depreciation accrual rate. The net effect of the proposed changes would be an increase in annual depreciation expense of \$928,236 (Total Company) as summarized in Table 1 below. The corresponding increase in annual depreciation would be \$508,283 for the Minnesota Jurisdiction. OTP explained that “[t]he increase [in annual depreciation expense] of \$928,236 [Total Company] is largely attributable to changes in the mix of plant investments among primary accounts and changes in the age of distributions of surviving plant.”¹

Table 1

Summary of Current and Updated Rates and Accruals						
Function	Accrual Rate			2019 Annualized Accrual		
	Current	Updated	Difference	Current	Updated	Difference
A	B	C	D=C-B	E	F	G=F-E
Intangible Plant	19.90%	19.90%	0.00%	\$ 1,765,934	\$ 1,765,934	\$ -
Steam Production	3.15%	3.29%	0.14%	18,224,747	19,031,863	807,116
Hydraulic Production	9.40%	10.19%	0.79%	661,069	717,110	56,041
Other Production	4.33%	4.36%	0.03%	13,492,462	13,583,197	90,735
Transmission	1.62%	1.61%	-0.01%	7,986,460	7,960,015	(26,445)
Distribution	2.35%	2.35%	0.00%	11,785,727	11,780,141	(5,586)
General Plant	4.55%	4.56%	0.01%	2,440,542	2,446,917	6,375
Total Utility	2.88%	2.93%	0.05%	\$ 56,356,941	\$ 57,285,177	\$ 928,236

The Company requested an effective date of January 1, 2020 for its proposed depreciation changes to lives and salvage rates.

¹ Petition Attachment 1, p. 4.

II. DEPARTMENT ANALYSIS

The Minnesota Department of Commerce, Division of Energy Resources (Department) examined OTP's petition for compliance with filing requirements and previous Minnesota Public Utilities Commission (Commission) Orders, and for the reasonableness of the proposed remaining lives, salvage rates, and depreciation accruals.

A. DEPRECIATION RULES

Minnesota Statutes Section 216B.11 and Minnesota Rules, parts 7825.0500-7825.0900 require public utilities to seek Commission approval of their depreciation practices. Utilities must also file depreciation studies at least once every five years and must use straight-line depreciation unless the utility can justify a different method. When utilities use the average service life technique to depreciate group property accounts, life and salvage factors, as well as the resulting depreciation rates, remain unchanged between studies. When companies choose the remaining-life technique for depreciating group property accounts, the underlying life and salvage factors may not change, but depreciation rates are adjusted annually to reflect the passage of time on remaining lives, as well as the impact of plant additions and retirements. Annual depreciation study updates are required when the remaining-life technique is employed to allow the Commission the opportunity to approve changes in depreciation rates.

With the exception of certain selected General Plant accounts for which the Company uses amortization accounting, OTP uses a remaining-life accounting method and, as a result, must file annual depreciation study updates.

B. REASONABLENESS OF PROPOSED DEPRECIATION PARAMETERS

1. Overall Plant

a.) Remaining Lives

As shown in Attachment 1, Pages 33-39 (Statement F) of the Petition, OTP proposed to reduce the remaining lives of the relevant² plant accounts by approximately one year, as compared to its prior depreciation filing values, to account for the passage of time. The Department concludes that accounting for the passage of time by reducing the remaining life values is generally reasonable; however, for certain plant accounts the Department believes that the proposed remaining life value is not supported.

Through discovery, the Company's response to Information Request No. 4 (IR No. 4) explained that in 1993 OTP proposed and changed from a retrospective to a prospective effective date for the application of its depreciation certification petitions, and the methodology to determine annual

² Plant accounts subject to amortization treatment are not assigned a remaining life parameter.

depreciation accruals that it uses today was approved by the Commission in Docket No. E017/D-93-952 (93-952 Docket) (OTP's Annual depreciation for 1993 operating year).³

In OTP's 1993 depreciation filings when the Company implemented prospective effective dates for depreciation parameters, OTP recognized for certain plant that there was a need to adjust the remaining life measures produced by its Depreciation Study to account for the lapse in effective application of the parameter. Specifically, in the Docket E017/D-93-869, which contained the Company's 5-year Depreciation Study, OTP's supplemental commentary, titled *Adjustments to Study Proposed Depreciation Factors*, stated:

The attached 1993 Depreciation Rate Study was based on 1992 year end property balances and preceding property transactions. All of the calculations and proposals assume immediate application in the subsequent year – 1993. [...] The Company proposed that the effective date for this five-year study would be January 1, 1994 [...]. The next five-year study would be due September 1, 1998 with a prospective effective date. The Company also proposed that subsequent annual reviews required for remaining lives would also be applied prospectively.

A prospective effective date *does* change the proposed remaining lives as presented in the study. Accounts where the remaining life is based upon a forecast retirement date should be reduced by one year to reflect the passage of one year. For accounts where the remaining life is based on an average service life and Iowa Curve fit, the impact of a delayed effective date is generally minimal. The "PROPOSED REMAINING LIVES & SALVAGE FOR USE IN 1994" that follows provides the remaining lives adjusted to reflect a delay of effective date until January 1, 1994.

Consistent with OTP's 1993 commentary, in Docket E017/D-93-869, the Company adjusted the plant remaining-life values produced by its 1993 Depreciation Study that were based on a forecast retirement date, by decreasing the Study's value by one year, to resolve the plant remaining-life (RL) value to be used in the prospective year (1994).⁴

In OTP's current Petition, the Company indicated that the proposed remaining lives in the Technical Update were calculated as of December 31 of the prior calendar year (that is, December 31, 2018).⁵ The Department observed that OTP continues to have several plant accounts where the remaining life is based on a forecast retirement date.⁶ However, several of the requested remaining-life values for

³ DOC Information Request No. 4 included as DOC Attachment 1.

⁴ See Commission Order issued April 29, 1994 in Docket E017/D-93-869, specifically RL values for production plan itemized in Ordering Point 1.

⁵ Petition, p. 4.

⁶ Petition, Attachment 1, Statement F

certain plant having forecasted retirement dates do not appear to have been appropriately adjusted for the targeted use period commencing in the year 2020. Specifically, Table 2 below shows the plant and corresponding *remaining-life* measures that are in question.

Table 2

Plant with Retirement Dates that have Remaining Lives which Appear Overstated						
			Requested Remaining Life (Yrs.) 1/	If effective for 2020, implies Retirement at this point (yr): That is, depreciation would carry into (yr):		Though, the stated Retirement Date is (yr): 2/
Steam Production						
	Hoot Lake Plant - Units 2 & 3		2.49	2022.49	2023	2021
Hydraulic Production						
	All Plant		2.49	2022.49	2023	2021
Other Production						
	Jamestown Units 1 and 2		14.22	2034.22	2035	2033
	Lake Preston		14.22	2034.22	2035	2033
	Fergus Falls Control Center		11.32	2031.32	2030	2032
	Solway		19.01	2039.01	2040	2038
	Langdon		13.27	2033.27	2034	2032
	Ashtabula		14.23	2034.23	2035	2033
	Luverne		15.19	2035.19	2036	2034
General Plant						
	Fleet Service Center Buildings		16.14	2036.14	2037	2035
	1/ Source: Petition, Attachment 2 and Attachment 1, Statement F - column K					
	2/ Source: Petition, Attachment 1, Statement F - column H					

Table 2 shows that use of OTP’s proposed *remaining life* values to commence in year 2020 would cause the ending-year for depreciation accrual to stretch into the *second post-retirement year* of that plant; that is, more than a full year *after* the plant’s retirement date. For example, although OTP stated in its Petition that the Hoot Lake Plant is “forecast to retire on Otter Tail’s books as of June 2022” and that the plant would be fully depreciated at that point,⁷ if OTP’s proposed RL of 2.49 years is used, full

⁷ Petition, p. 4 and Attachment 4, p. 1.

depreciation would not be achieved until June 2023. Therefore, the Department concludes that these *remaining life* values for the plant identified in Table 2 appear to be overstated. It is plausible that depreciation may be recorded in the year following the retirement year with use of the mid-year depreciation convention; however, use of that convention does not reasonably support depreciation accruals to stretch into the second year following the retirement year.

Not all of OTP’s plant with a forecast retirement date is at issue; rather, some of OTP plant with specified retirement dates appear to have reasonable remaining lives consistent with its retirement year and the use of the mid-year depreciation convention, as shown in Table 3.

Table 3

Plant with Retirement Dates that have Reasonable Remaining Lives						
			Requested Remaining Life (Yrs.) 1/	If effective for 2020, implies Retirement at this point (in yr): That is, depreciation would carry into (yr):		Though, the stated Retirement Date is (yr): 2/
Steam Production						
	Big Stone		26.53	2046.53	2047	2046
	Coyote		21.81	2041.81	2042	2041
Other Production						
	Merricourt		25	2045	2045	2045
General Plant						
	General Office Building		20.89	2040.89	2041	2040
	Central Stores Building		25.55	2045.55	2046	2045
	1/ Source: Petition, Attachment 2 and Attachment 1, Statement F - column K					
	2/ Source: Petition, Attachment 1, Statement F - column H					

It is possible that this apparent remaining-life value mismatch of the Table 2 plant stemmed from an adjustment that was omitted years ago that OTP chose not to correct.⁸ The Department invites OTP in

⁸ For instance, according to data reported in OTP’s Statement I in Docket No. E017/D-03-1555, it appears that in 1998 OTP did not use the remaining life values approved for its Hydraulic Production Plant in Docket No. E017/D-97-1347 (as well as the values for its Other Production plant) (See note A); rather it appears that OTP inadvertently repeated use of the prior year’s (1997) approved values for this plant. This action appears to have effectively extended the calculated remaining life of this plant going forward. The Department welcomes OTP’s evaluation in its Reply Comments.(See note B below). Going forward, if OTP does not obtain extension of its hydro plant licensing, the impact of an RL overstatement could lead to its

its Reply Comments to address the remaining life mismatch concerns for the plant shown in Table 2. At this time, the Department recommends that the remaining life values be reduced by one year for all Accounts for the Plant listed in Table 2, with the exception of Account 312.1-102 (i.e., the Hoot Lake Units 2 & 3 Landfill, assigned a RL of 31.16 years, which appears reasonable and consistent with its stated 2051 retirement year).

b.) Salvage Rates

As shown in Attachment 1, Pages 7-11 (Statement A) of the Petition, OTP proposed no significant changes to its currently approved salvage rates. The Department concludes that the proposed salvage rates are reasonable.

c.) Depreciation Rates

As shown in Attachment 1, Pages 7-11 (Statement A) of the Petition, OTP's Technical Update shows updated depreciation accrual rates. The Department's review of this filing discovered that OTP does not actually implement the updated depreciation rates reported in the Company's technical update Statements. Through discovery, OTP made clear that the Company is not requesting approval of the reported updated depreciation rates to apply in 2020; rather OTP is requesting approval of the depreciation parameters: *remaining-life* values and *salvage percentages*, summarized in Attachment 2

hydro plant being retired and removed from service before it is fully depreciated, leaving an unrecovered balance. In this instance, the Department would oppose recovery of any undepreciated balance of the hydro plant from ratepayers because the misalignment likely arose from OTP's previous error and choice not to address this issue despite comments in prior years (see note B below). OTP's hydro plant investment (\$7.0 million), is a small fraction of the Company's total plant investment (\$2.0 billion), particularly since most of the plant has been depreciated (see note C below); thus, the monetary impact to OTP would be small.

(A) In Docket No. E017/D-97-1347 Petition Summary, OTP stated, "This filing proposes a one year reduction in certified remaining lives for the all steam plant, all hydraulic plant, and all other production plant except for the portable generator."

(B) The reported 1998 Annual Depreciation Accrual is not the only year in which the Department observed inconsistencies between the approved annual depreciation RL vs. the actual RL values that were used to determine annual accruals. Specifically, the Department observed some inconsistencies with other plant accounts in 2004 and in 2017 [Accounts 368 (2004), 390.00, 390.10, 390.20, 390.30 and 397.40 (2004)]. See Statement I in Docket E017/D-08-1042, compared to values approved in Docket E-017/D-03-1555; and Statement I in Docket E017/D-18-568, compared to values approved in Docket E017/D-16-729. The Department noted in prior depreciation filings such as in 2008 that "OTP will have opportunities in subsequent depreciation filings to make adjustments to the remaining lives of the affected facilities." However, OTP did not make any such adjustments.

(C) Petition, Statement C, approximately 81% of OTP's \$7.0M in hydro plant investment has been depreciated.

of its Petition.⁹ OTP seeks to use those parameters to calculate 2020 depreciation rates once 2019 year-end plant and reserve balances are finalized.

OTP explained in response to IR No. 4 that its methodology was approved by the Commission in its 1993 depreciation filing, Docket No. E017/D-93-952 (93-952), wherein OTP proposed and changed from a retrospective to a prospective effective date for the application of its depreciation certification petitions. The Department confirmed that the Commission did approve the mechanics used by OTP in Ordering Point 2 of its 93-952 Order (issued January 14, 1994), which stated:

Accruals to the depreciation reserve for each account shall be calculated by taking the original cost of depreciable plant in the account, subtracting its estimated future net salvage and its associated depreciation reserves, and dividing the difference by the estimated RL [remaining life] of the surviving plant in the account.

This order point language is consistent with the remaining life technique employed by OTP's depreciation system. OTP's response in IR No. 4 helps explain the reason why the Company's "updated" depreciation rates published in OTP's depreciation filings, calculated using prior year-end account balances, may not be the same depreciation-rate-value once the Study's parameters are applied using balances one operating year later.

However, understanding OTP's practice and considering today's available cost recovery options gives rise to the question of whether the Company provides to the Commission the necessary information to verify its depreciation accruals (or expense amounts). There have been additional cost recovery mechanisms that have become available since 1993 when OTP's depreciation technique was first approved. Specifically, there are tariffed rate riders in existence today that permit recovery of plant investments, inclusive of depreciation, that did not exist in 1993 when OTP transitioned to its prospective depreciation rate approach. Because OTP's depreciation filings do not reflect the actual rates they will apply in practice, and depreciation is one cost that may be recovered through these now-available cost recovery mechanisms, additional information should be required from OTP in order to allow for verification of the depreciation expense recovery requested in riders. Therefore, the Department recommends that the Commission require OTP to make an annual informational filing in its relevant depreciation petition docket by January 31, or the earliest reasonable date, with their calculated depreciation rates that it will be applying during that calendar year. This approach would provide a more transparent record document and ease regulatory oversight of OTP's depreciation expense recovery amounts in rider mechanisms.

⁹ DOC Attachment 1 includes DOC IR No. 4.

2. Merricourt Wind Energy Center

OTP stated that its Merricourt Wind Energy Center (MWEC) 150-megawatt (MW) facility is expected to go into commercial service in the latter part of 2020. On page 4 of the Petition, OTP requested prospective approval of an initial RL of 25 years and a net negative salvage percentage of -4.00% for the MWEC. The RL is based upon the expected 25-year service life, which was the same life expectation for OTP's three other existing wind facilities, and the net salvage value is the same as OTP's Langdon Wind facility.¹⁰ With the addition of MWEC, the Department estimates that OTP's 2020 depreciation expense may increase by approximately \$5.6 million, using a mid-year (half-year) depreciation convention, growing to approximately \$11.2 million annually in 2021 when a full year of depreciation accrual occurs.¹¹ The Department concludes that OTP's requested RL and net salvage parameters for MWEC are reasonable and recommends that the Commission approve the Company's request.

C. PLANT BALANCE, ADDITIONS, AND RETIREMENTS

Table 4 shows the changes to OTP's plant balances during 2018. The net effect of OTP's proposed additions and retirements during the year would increase total plant depreciation by approximately \$34.6 million, or about a 1.80% net increase in total plant investment; the majority of which was concentrated in the Company's distribution and transmission plant accounts.

Table 4

2018 Changes in OTP's Primary Plant Account Balances						
Primary Plant Assets	Balance 12/31/2017	Additions	Retirements	Transfers	Balance 12/31/2018	
Intangible Plant	\$ 9,905,743	\$ 3,135,454	\$ 4,211,527		\$ 8,829,670	
Steam Production	572,876,593	7,893,542	2,118,114		\$ 578,652,021	
Hydraulic Production	7,042,361	-	7,328		\$ 7,035,033	
Other Production	309,859,462	1,803,509	58,763	4,149	\$ 311,608,357	
Transmission Plant	485,868,025	8,967,393	992,864	625,912	\$ 494,468,466	
Distribution Plant	481,539,297	24,209,873	4,040,127	(636,160)	\$ 501,072,883	
General Plant	53,593,280	2,683,378	2,681,800	60,390	\$ 53,655,248	
Total Depreciable Plant	\$1,920,684,761	\$ 48,693,149	\$ 14,110,523	\$ 54,291	\$ 1,955,321,678	
Source: 2019 Depreciation Study, Statement G						

¹⁰ OTP explained that its other two wind facilities' net salvage value differ due to the atypical capital investment dollars associated with them; Ashtabula having sustained higher capital costs for generator tie-in and Luverne having lower recoverable capital cost due to receipt of a federal grant.

¹¹ The MWEC facility cost estimate is \$270 million. Using a 4.16% depreciation accrual rate for a \$270 million investment calculates to approximately \$11.2 million depreciation expense annually, or approximately \$5.6 million for the placed-in-service year when using a half-year depreciation convention.

D. FUTURE ADDITIONS AND RETIREMENTS

Minnesota Rules 7825.0700, subpart 2, B. states that each utility shall disclose a list of any major future additions or retirements to the plant accounts that the utility believes may have a material effect on the current certification results.

In Attachment 3 of its Petition, OTP's Supplemental Comments stated that it is "unaware of any major future additions or retirements that will materially affect this filing's certification results." However, the Company briefly highlighted future additions and retirements on the horizon that *may* influence *future* certification results.

Regarding future additions, OTP stated that:

- Construction began on the Merricourt Wind Energy Center, a 150-megawatt (MW) wind farm located in North Dakota, in August 2019 with targeted completion in 2020. The project is expected to cost approximately \$270 million.
- Construction began on the Astoria Station, a 245 MW simple cycle, natural gas-fired generation facility, located in South Dakota, in May 2019. This project is expected to cost approximately \$158 million and has a planned in-service date of 2021.

Regarding future retirements, OTP stated that:

- The above-mentioned new generation facilities (Merricourt and Astoria) will help offset the scheduled 2021 retirement of the Minnesota-located coal-fired Hoot Lake Plant Units 2 and 3 that have a combined output of 140 MWs.

Beginning on page 3 of its Petition, OTP stated that the Commission's March 26, 2009 Order in Docket No. E017/RP-05-968 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." OTP stated that "This filing does not include any new peaking generators so there is no cost information to report with this filing." However, the Company stated that it "anticipates having a new peaking generator after the Astoria Station" becomes operational in 2021.

Based on the above, the Department concludes that OTP complied with Minnesota Rule 7825.0700, subpart 2, B. and the Commission's Order in Docket No. E017/RP-05-968. The Department anticipates that in OTP's next depreciation filing establishing its 2021 depreciation parameters, the expected 2021 plant retirements and additions activity will foster a fuller discussion on overall annual depreciation impacts, and also may be ripe for the inclusion of peaking capacity cost comparisons.

E. COMPARISON OF RESOURCE PLAN AND REMAINING LIVES

The Commission's Order in Docket No. E017/D-16-729 (the 2016 Depreciation Docket) required OTP to include in future depreciation filings a table comparing asset lives used for the purposes of the Company's resource planning with the remaining lives proposed in the depreciation filings, explaining any differences. Attachment 4 to OTP's Petition includes the required table.

The Company noted in Attachment 4 that the remaining lives calculated for depreciation purposes are intended to be exact and are based on information known at a given point in time. In contrast, the remaining lives for resource planning purposes are less exact and subject to change in the long-term.

As shown in the Company's Attachment 4, OTP's remaining lives for resource planning purposes closely match its remaining lives for depreciation purposes for all of its facilities.

The Department concludes that it is useful to reconcile the remaining lives for resource planning purposes and the remaining lives for depreciation purposes to obtain a better understanding of future plans by the Company to maintaining production facilities. Such comparison is one of the many tools to use to help ensure that rates are reasonable and service is reliable. Thus, the Department supports continuation of the requirement for OTP to reconcile the two forecasts in the future and recommends that the Commission require Otter Tail to include a table comparing the resource planning lives and the remaining lives for purposes of depreciation and fully explain any differences.

F. EFFECTIVE DATE OF PROPOSED DEPRECIATION PARAMETERS AND RATES

As noted above, OTP requested that the depreciation parameters and rates proposed in its petition, upon certification by the Commission, become effective January 1, 2020. The proposed effective date is consistent with the Commission's Orders in OTP's previous depreciation dockets, and the Department concludes that it is reasonable.

III. CONCLUSION AND RECOMMENDATIONS

Based on our review of OTP's 2019 Depreciation Petition, the Department recommends that the Commission:

- Require the remaining life values to be reduced by one year for the Fleet Service Center Building (General Plant) and all plant accounts relevant to the Production Plant listed in Table 2 of these comments, with the exception of Account 312.1-102 (i.e., the Hoot Lake Units 2 & 3 Landfill);
- Approve OTP's proposed remaining-life parameters for the plant not otherwise identified and modified elsewhere by the Commission;
- Approve all of OTP's proposed salvage rates for its plant;
- Require OTP to file in this Petition docket E017/D-19-547 by January 31, 2020, or the earliest reasonable date, the Company's calculated depreciation rates that it will actually apply in 2020;
- Require OTP to file annually in future depreciation dockets, by January 31 of the subsequent year, or the earliest reasonable date, providing the Company's calculated depreciation rates that it will apply in the subject calendar period;
- Approve OTP's prospectively requested remaining life and net salvage parameters for the Merricourt Wind Energy Center;

- Require OTP to include in future depreciation filings a table comparing asset lives used for the purpose of the Company's resource planning with the remaining lives proposed in the depreciation filings, explaining any differences;
- Approve OTP's proposed effective date of January 1, 2020; and
- Require OTP to file its next annual depreciation study by September 1, 2020.

/ja

OTTER TAIL POWER COMPANY
Docket No: E017/D-19-547

Response to: Minnesota Department of Commerce

Analyst: Dorothy Morrissey

Date Received: 10/02/2019

Date Due: 10/14/2019

Date of Response: 10/18/2019

Responding Witness: Loyal Demmer, Senior Depreciation Accountant - 218 739-8659

Information Request:

Topic: Commission Approved 2018 Depreciation Rate

Reference(s): Commission Order issued January 11, 2018 in Docket E017/D-17-652

The Minnesota Public Utilities Commission issued its Order in Docket E017/D-17-652 on January 11, 2018 stating in ordering points 1 and 2, that the Commission,

- (1) Approved OTP's proposed service lives, proposed salvage values, and proposed depreciation rates for all facilities; and
- (2) Approved OTP's proposed effective date of January 1, 2018.

If the depreciation rates that were used to calculate the 2018 depreciation accrual amounts differed from the depreciation rates approved by the Commission in Docket E017/D-17-652,

- A. Please explain why;
- B. Please calculate and provide unallocated total 2018 depreciation accruals at the plant account levels using the depreciation rates approved in Docket E017/D-17-652.

Attachments: 1

Attachment 1 to IR MN DOC-004.xlsx

Response:

- A) Otter Tail Power (OTP) calculated the 2018 deprecation accrual amounts in the manner authorized by the Commission. Specifically, OTP calculated the 2018 depreciation rates using the remaining lives (RL) and salvage percentages approved by the Commission in Docket E017/D-17-652. This is the methodology utilized by OTP since the Commission's Order is E-017/D-93-952, where Otter Tail proposed, and the Commission approved, the move from a retrospective, to a prospective depreciation rate calculation filing practice.

Please note that the question appears to assume that OTP submitted depreciation rates for approval in Docket E017/D-17-652. That is not the case. Consistent with the prospective depreciation rate filing practice, OTP submitted Remaining Lives and Salvage Percentages for Commission approval. As noted below, depreciation rates inferred or implied from studies are not compatible in a prospective depreciation rate calculation filing.

By way of background, OTP's annual depreciation certification filings are a prospective, or forward-looking depreciation filing with the effective dates for the depreciation parameters becoming effective January 1st of the following year, rather than January 1st of the filing year as is the case in a retrospective filing scenario. As such, depreciation rates for the effective year cannot be calculated until the current year is ended and all plant in service and accumulated depreciation reserve balances are finalized for the plant accounts and available to be used in the RL depreciation rate calculation formula.

In each of its annual prospective depreciation filing's, OTP seeks approval of its newly calculated Remaining Lives and Salvage percentages (see Attachment 2 to Otter Tail's Initial Filing). Any inferred depreciation study depreciation rates are for analytical purposes only as they are valid only at the depreciation study date which is already one year old at the prospective filings' parameters effective date. While not an issue under the retrospective depreciation rate calculation method, it is an issue under the prospective method because of the 1-year lag from the book date of the depreciation study until the effective date of the depreciation certification order. Using an inferred retrospective depreciation rate in a prospective depreciation filing cannot be relied on to provide accurate depreciation calculation results and are only applicable for analytical purposes related to plant in service and reserve balances applicable on the depreciation rate study date only.

- B) Please see Attachment 1 to IR MN-DOC-004 for a pro forma representation of depreciation expense calculations for Otter Tail Power using 2017 depreciation rates against 2018 plant in services balances.

CERTIFICATE OF SERVICE

I, Sharon Ferguson, hereby certify that I have this day, served copies of the following document on the attached list of persons by electronic filing, certified mail, e-mail, or by depositing a true and correct copy thereof properly enveloped with postage paid in the United States Mail at St. Paul, Minnesota.

Minnesota Department of Commerce
Comments

Docket No. E017/D-19-547

Dated this **7th** day of **November 2019**

/s/Sharon Ferguson

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Christopher	Anderson	canderson@allete.com	Minnesota Power	30 W Superior St Duluth, MN 558022191	Electronic Service	No	OFF_SL_19-547_D-19-547
Ray	Choquette	rchoquette@agp.com	Ag Processing Inc.	12700 West Dodge Road PO Box 2047 Omaha, NE 68103-2047	Electronic Service	No	OFF_SL_19-547_D-19-547
Generic Notice	Commerce Attorneys	commerce.attorneys@ag.state.mn.us	Office of the Attorney General-DOC	445 Minnesota Street Suite 1800 St. Paul, MN 55101	Electronic Service	Yes	OFF_SL_19-547_D-19-547
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_19-547_D-19-547
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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_19-547_D-19-547
Larry L.	Schedin	Larry@LLSResources.com	LLS Resources, LLC	332 Minnesota St, Ste W1390 St. Paul, MN 55101	Electronic Service	No	OFF_SL_19-547_D-19-547
Cary	Stephenson	cStephenson@otpc.com	Otter Tail Power Company	215 South Cascade Street Fergus Falls, MN 56537	Electronic Service	No	OFF_SL_19-547_D-19-547
Stuart	Tommerdahl	stommerdahl@otpc.com	Otter Tail Power Company	215 S Cascade St PO Box 496 Fergus Falls, MN 56537	Electronic Service	No	OFF_SL_19-547_D-19-547
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_19-547_D-19-547