

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



August 11, 2016

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

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**Re: In the Matter of the 2014-2015 Annual Automatic Fuel Adjustment Reports
Minnesota Docket No. E999/AA-15-611
Reply Comments of Otter Tail Power Company**

Dear Mr. Wolf:

Otter Tail Power Company (“Otter Tail”) hereby submits its Reply Comments in response to the Minnesota Department of Commerce, Division of Energy Resources Part 1 review in the above-captioned matter.

Otter Tail has electronically filed this document with the Minnesota Public Utilities Commission and is serving a copy on all persons on the Official Service List for this docket. A Certificate of Service is also enclosed.

Should you have any questions regarding this filing, please contact me at 218-739-8279 or stommerdahl@otpc.com.

Sincerely,

/s/ STUART TOMMERDAHL
Stuart Tommerdahl
Manager, Regulatory Administration

nlo
Enclosures
By electronic filing
c: Service List

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

In the Matter of 2014-2015 Annual
Automatic Adjustment Reports

Docket No. E999/AA-15-611

OTTER TAIL POWER COMPANY REPLY COMMENTS

I. INTRODUCTION

These Reply Comments are made in response to Comments submitted by the Minnesota Department of Commerce, Division of Energy Resources (“Department”) in their *Review of the 2014-2015 Annual Automatic Adjustment Reports – Report Part 1 (FYE15 AAA Part 1)* issued June 15, 2016, filed in the above-captioned docket. In these Reply Comments, Otter Tail Power Company (“Otter Tail”) acknowledges the Department’s approval of several of Otter Tail’s reporting requirements in its FYE15 AAA Report. Otter Tail also provides responses to specific questions the Department identified and requested of Otter Tail in their review. With the submission of the additional information contained in these Reply Comments, Otter Tail respectfully requests approval of the sections reviewed by the Department in FYE15 AAA Part 1.

II. ACKNOWLEDGEMENT OF RECOMMENDATIONS BY DEPARTMENT

1. The Department has acknowledged that Otter Tail has complied with the following items in the 2014-2015 Annual Automatic Adjustment Report (FYE15 AAA). Otter Tail requests Commission approval of these reporting and compliance items:
 - a. II. Filing Requirements. A. Minnesota Rule 7825.2810, subpart 1.
 - b. III. Compliances:
 - F. Offsetting Revenues and/or Compensation Received by Investor Owned Utilities

- G. Maintenance Expenses of Generating Plants
- I. Sharing Lessons Learned Regarding Forced Outages
- J. In the Matter of Otter Tail Power Company’s Petition for Approval of a Monthly Fuel Clause Adjustment True-Up
- c. V. Effects of MISO Day 1 on Minnesota Ratepayers – Compliance with MISO Day 1 Reporting.

III. OTTER TAIL POWER REPLIES TO DEPARTMENT COMMENTS

1. Audit Reports

The Department noted on page 3 of its Comments, its appreciation for the details included in Dakota Electric Association’s (“DEA”) independent accountant’s report which outlined certain agreed upon procedures which were completed by DEA’s auditor. The Department recommends that the Commission consider requiring other utilities to conduct such comprehensive audits.

Otter Tail Response:

Deloitte and Touche, LLP (“D&T”) conducts an independent examination of Otter Tail’s Schedule of Cost of Energy Adjustment Factors (“the Schedule”). As noted by D&T in their Report¹:

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the Schedule and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

While DEA’s independent accountant specifically identified certain testing procedures applied during the accountant’s review of DEA, it appears the review was limited to those agreed upon procedures only, and as the report indicates, did not go to the level necessary to render an opinion. In contrast,

¹ Pages 134-138 of Otter Tail’s Initial Filing in this Docket.

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D&T's independent examination of Otter Tail follows American Institute of Certified Public Accountants (AICPA) standards and deploys examination and testing procedures sufficient to render an opinion that the Energy Adjustment Factors have been compiled in compliance with the criteria established by the Commission through rules and orders. It is Otter Tail's understanding that the depth and breadth of work necessary to render an opinion is more comprehensive (and more costly) than a review with a scope limited to an agreed-upon set of procedures. If a comparable set of agreed-upon review procedures (as opposed to an examination opinion) would be acceptable to the Commission, Otter Tail would be receptive to that approach as an alternative to satisfy Rule 7825.2820 compliance in a more cost effective manner.

2. Reconcile FCA Forecasts

The Department stated the following in Section II, Part B. Summary of Fuel Cost Projections: *The Department Requests that OTP reconcile in Reply Comments the differences in forecasts for 2016 that are shown in: a) Part E, Section 10, Attachment H, pages 1-6 and b) Part G of OTP's filing.*

Otter Tail Response:

Attachment 1 (marked as Not Public) to these reply comments provides a reconciliation of the forecast information provided in a) Part E, Section 10, Attachment H, pages 1-6 and b) Part G of Otter Tail's filing. To summarize, the amounts in Part E Section 10 were computed based on the forecast cost divided by the Retail MWhs, while the amounts in Part G were computed based on the forecast cost divided by Total MWh.

3. Remove Trade Secret Protection

On page 5 of the Department’s Comments, the Department requested that utilities confirm in their reply comments that the information in Table 3 and Chart 2 is now public rather than trade secret.

Otter Tail Response:

Otter Tail agrees that the trade secret protection can be removed from the information presented in Table 3 and Chart 2.

4. Plant Outage Contingency Plans and Contractor Performance

The Department noted in Section III, Part H. that Ordering Paragraph 12 of the Commission’s March 15, 2010 Order required the following:

All electric utilities required to file annual automatic adjustment reports shall work with their contractors to identify and develop reasonable contingency plans to mitigate against the risk of delays or lack of performance when contractors perform poorly and increase costs during plant outages. The Commission asks the [Department] to continue monitoring this issue and to include a report on the electric utilities' plans in its next review.

On Page 17 of its Comments, the Department stated the following:

Otter Tail Power Company and Interstate Power Company did not address this requirement and thus did not comply with the Commission’s Order noted above.

Otter Tail Response:

Otter Tail acknowledges that it did not provide any specific commentary in its Initial Filing in this Docket on Ordering Point 12. Otter Tail has not understood or construed Ordering Point 12 to create an annual reporting requirement. In several prior AAA dockets the Department has inquired about what measures utilities have taken to address contractor performance and Otter Tail has responded accordingly in reply comments. If the Commission requires

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an annual update on Ordering Point 12, Otter Tail will certainly provide that information in its initial filings in subsequent AAA dockets.

As noted earlier, the Department has inquired about contractor performance in prior AAA dockets and Otter Tail has responded to those requests. Below is a current overview of Otter Tail's sourcing process used to manage contractor risk. Otter Tail provided a similar response to the Department in Additional Reply Comments filed on February 15, 2015 in Docket No. E999/AA-13-599:

Otter Tail has processes and procedures in place to select its vendors and contractors, and subsequently manage their work. Procurement and contracting processes assist in hiring the appropriate contractor and putting contractual terms in place that appropriately protect Otter Tail. Project management processes and procedures assist in proper project quality-assurance and in holding contractors accountable. Otter Tail believes its current program serves Otter Tail's needs very well and requests that the Commission not require Otter Tail to adopt Xcel's program. A summary of Otter Tail's processes and procedures specifically related to Procurement, Contracting and Quality Assurance are listed below.

Procurement and Contracting

Standardized contracts are used as much as possible, with formal legal review required of all contracts over \$250,000 and for any contracts that have material changes to template language to key risk articles. Formal legal review is also required for certain contracts regardless of contract value. Otter Tail believes that the use of competition in the contractor selection process helps Otter Tail achieve reasonable pricing and contractual terms.

Otter Tail strives to have appropriate contractual assurances in place for each transaction by using Otter Tail standardized base contracts for the purposes of warding off contractor dilution of the terms during the bid and

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negotiation process. A required step in Otter Tail's contracting process is the development of a Contract Risk Assessment ("CRA"). The CRA is a worksheet listing the main risks in the particular transaction(s) the contractor is hired for, what sections of the contract the risk is covered, and a narrative describing how each particular risk is addressed in the contract. The CRA allows for an appropriate contract to be developed as the transaction is negotiated with the contractor. The CRA documentation enhances the risk assessment of a project and is a useful tool in the discussions between Otter Tail Subject Matter Experts ("SME"), Sourcing personnel, Legal, and Insurance in developing risk mitigation strategies. The CRA helps ensure the SME is aware of the risk associated with the work being done by the contractor; the risk is addressed in the contract; and assists the SME in holding the contractor responsible.

Depending on the nature of the project, additional financial assurances are also sought when needed. These assurances can include retainage, liquidated damage clauses, performance guarantees, letters of credit, bonds, etc. For instance, retainage - the withholding of a portion of each invoice during a large construction project - is an effective way to ensure performance. The leverage that retainage provides helps ensure Otter Tail's work remains a priority for the contractor, which is especially critical if there is an issue that requires immediate attention by the contractor. Time-sensitive project contracts include a work schedule with milestone dates that are often linked to liquidated damages for delays, all of which helps Otter Tail hold contractors accountable.

The contract approval process ensures the contract is reviewed at the appropriate levels up the organizational structure. The CRA is included with the contract as the contract moves through various levels of organizational approvals, to ensure the risks are flagged up for each reader to analyze and understand key contract terms.

For major procurements on large construction projects, Otter Tail will often hold internal pre-Request For Proposal and pre-contract execution meetings between the SME, Project Management, Sourcing, Legal and Insurance

personnel. These meetings allow for robust discussion regarding the project risks and ultimately help to more efficiently acquire the best vendor and execute the best contract possible. Otter Tail also conducts contractor pre-bid meetings to answer any questions they may have prior to submitting their bid and to discuss options to mitigate risk.

Quality Assurance (“QA”) Quality Control (“QC”)/ Project Management

Each SME is responsible for reviewing the Scope of Work and ultimately for the quality of the work of the contractor. The size and nature of the project will often dictate what resources are used to ensure quality work is completed. On large projects, Otter Tail uses a separate QA SME and a QA firm. For the smaller construction projects, Otter Tail uses the SME and possibly an outside firm. Formal QAQC programs are developed for the larger projects, many times with the input of the contractor selected to complete the work. These plans are vetted by Otter Tail’s engineering staff, outside QA firms, and senior Otter Tail engineering management.

The scope of Project Management (“PM”) required depends on the size and complexity of the project / transaction. Otter Tail’s larger projects require that a Risk Register is completed by the Project Manager. The Risk Register is a worksheet or table listing the risks associated with the respective project as a whole. These are items that, if they occur, may cause the project to be delayed, cost more than expected, or to be postponed altogether. Each risk is analyzed and an estimated cost as well approximate probability of occurring is listed. The Risk Register assists Project Management in proactively managing the project and increasing the quality of work performed by all involved, including contractors. If needed, items identified in the Risk Register are incorporated into the contractual terms of the contractor. There are other requirements, all of which assist in the project being well run and the respective contractors held accountable. Contract articles clearly define the contractor’s responsibilities with

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regards to staying on schedule, working safely, and staying within the agreed upon price. Otter Tail also requires daily updates on work progress that are discussed in pre-scheduled meetings.

Given the size and nature of Otter Tail’s business and the types of projects Otter Tail is involved in, the sourcing strategies and resources outlined above help Otter Tail to prudently scale and deploy resources as needed to effectively manage contractor performance and achieve desired performance outcomes.

During the 2014/2015 AAA reporting period Otter Tail did not have any contractor performance issues causing Otter Tail to incur replacement power costs.

IV. CONCLUSION

Otter Tail appreciates the opportunity to provide these Reply Comments and to address the Department’s questions in this Docket. With the submission of the requested information provided in these Reply Comments, Otter Tail respectfully requests Commission approval of its FYE 2015 AAA Report Part 1. If further information is desired, please contact the undersigned.

Dated: August 11, 2016

Respectfully submitted,

OTTER TAIL POWER COMPANY

By /s/ STUART TOMMERDAHL
Stuart Tommerdahl
Manager, Regulatory Administration
215 South Cascade
Fergus Falls, MN 56538-0496
(218) 739-8279

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(a) Jan-16	(b) MWh	(c) Retail MWh	(d) Cost	Part E Section 10 Attachment H Avg Retail MWh (d) / (c)	Part G Avg MWh (d) / (b)
Company Generation					
Steam	312,400	280,509	\$ 6,954,141		
Hydro	1,600	1,437			
I.C.	8,800	7,902	\$ 284,100		
Wind	50,200	45,075			
Total Generation	373,000	334,922	\$ 7,238,241		
Purchases	173,700	155,968	\$ 5,603,625		
Other Charges (1)			\$ (124,630)		
Total FAC	546,700	490,890	\$ 12,717,236	25.91	23.26
Feb-16	MWh	Retail MWh	Cost		
Company Generation					
Steam	291,400	261,652	\$ 6,448,767		
Hydro	1,500	1,347			
I.C.	5,200	4,669	\$ 174,000		
Wind	34,400	30,888			
Total Generation	332,500	298,557	\$ 6,622,767		
Purchases	162,800	187,984	\$ 5,553,599		
Other Charges (1)			\$ (47,038)		
Total FAC	495,300	486,541	\$ 12,129,328	24.93	24.49

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(a)	(b)	(c)	(d)	Part E Section 10 Attachment H Avg Retail MWh (d) / (c)	Part G Avg MWh (d) / (b)
Mar-16	MWh	Retail MWh	Cost		
Company Generation					
Steam	253,200	232,198	\$ 5,744,886		
Hydro	1,600	1,467			
I.C.	4,200	3,852	\$ 141,900		
Wind	45,700	41,909			
Total Generation	304,700	279,426	\$ 5,886,786		
Purchases	176,200	161,585	\$ 5,194,075		
Other Charges (1)			\$ (47,744)		
Total FAC	480,900	441,011	\$ 11,033,117	25.02	22.94
Apr-16	MWh	Retail MWh	Cost		
Company Generation					
Steam	126,900	116,374	\$ 3,005,994		
Hydro	1,600	1,467			
I.C.	1,800	1,651	\$ 69,800		
Wind	47,400	43,468			
Total Generation	177,700	162,960	\$ 3,075,794		
Purchases	234,300	239,056	\$ 6,477,112		
Other Charges (1)			\$ (52,891)		
Total FAC	412,000	402,016	\$ 9,500,015	23.63	23.06

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(a) May-16	(b) MWh	(c) Retail MWh	(d) Cost	Part E Section 10 Attachment H Avg Retail MWh (d) / (c)	Part G Avg MWh (d) / (b)
Company Generation					
Steam	136,200	123,988	\$ 3,254,567		
Hydro	1,600	1,457			
I.C.	1,700	1,548	\$ 67,300		
Wind	45,100	41,056			
Total Generation	184,600	168,049	\$ 3,321,867		
Purchases	196,400	178,790	\$ 5,469,481		
Other Charges (1)			\$ (61,506)		
Total FAC	381,000	346,839	\$ 8,729,842	25.17	22.91
Jun-16	MWh	Retail MWh	Cost		
Company Generation					
Steam	196,400	178,790	\$ 4,517,509		
Hydro	1,600	1,457			
I.C.	2,100	1,912	\$ 76,500		
Wind	32,000	29,131			
Total Generation	232,100	211,290	\$ 4,594,009		
Purchases	138,400	125,971	\$ 3,635,612		
Other Charges (1)			\$ (43,533)		
Total FAC	370,500	337,261	\$ 8,186,088	24.27	22.09

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Part E Section 10
Attachment H
Avg Retail MWh
(d) / (c)

Part G
Avg MWh
(d) / (b)

(a) Jul-16	(b) MWh	(c) Retail MWh	(d) Cost
[PROTECTED DATA BEGINS ...			
Company Generation			
Steam			
Hydro			
I.C.			
Wind			
Total Generation			
Purchases			
Other Charges (1)			
Total FAC			

... PROTECTED DATA ENDS]

Aug-16	MWh	MWh	Retail MWh
[PROTECTED DATA BEGINS ...			
Company Generation			
Steam			
Hydro			
I.C.			
Wind			
Total Generation			
Purchases			
Other Charges (1)			
Total FAC			

... PROTECTED DATA ENDS]

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Part E Section 10

Attachment H

Avg Retail MWh

(d) / (c)

Part G

Avg MWh

(d) / (b)

(a) Sep-16	(b) MWh	(c) Retail MWh	(d) Cost
[PROTECTED DATA BEGINS ...			
Company Generation			
Steam			
Hydro			
I.C.			
Wind			
Total Generation			
Purchases			
Other Charges (1)			
Total FAC			

... PROTECTED DATA ENDS]

Oct-16	MWh	Retail MWh	Cost
[PROTECTED DATA BEGINS ...			
Company Generation			
Steam			
Hydro			
I.C.			
Wind			
Total Generation			
Purchases			
Other Charges (1)			
Total FAC			

... PROTECTED DATA ENDS]

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Part E Section 10
Attachment H
Avg Retail MWh
(d) / (c)

Part G
Avg MWh
(d) / (b)

(a) Nov-16	(b) MWh	(c) Retail MWh	(d) Cost
[PROTECTED DATA BEGINS ...			
Company Generation			
Steam			
Hydro			
I.C.			
Wind			
Total Generation			
Purchases			
Other Charges (1)			
Total FAC			

... PROTECTED DATA ENDS]

Dec-16	MWh	Retail MWh	Cost
[PROTECTED DATA BEGINS ...			
Company Generation			
Steam			
Hydro			
I.C.			
Wind			
Total Generation			
Purchases			
Other Charges (1)			
Total FAC			

... PROTECTED DATA ENDS]

CERTIFICATE OF SERVICE

**RE: In the Matter of the 2014-2015 Annual Automatic Fuel Adjustment Reports
Minnesota Docket No. E999/AA-15-611**

I, Nancy L. Olson, 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 **11th** day of **August 2016**.

/s/ NANCY L. OLSON

Nancy L. Olson, Regulatory Filing Coordinator
Otter Tail Power Company
215 South Cascade Street
Fergus Falls MN 56537
(218) 739-8376

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_15-611_AA-15-611
Julia	Anderson	Julia.Anderson@ag.state.mn.us	Office of the Attorney General-DOC	1800 BRM Tower 445 Minnesota St St. Paul, MN 551012134	Electronic Service	Yes	OFF_SL_15-611_AA-15-611
Carl	Cronin	Regulatory.records@xcelenergy.com	Xcel Energy	414 Nicollet Mall FL 7 Minneapolis, MN 554011993	Electronic Service	No	OFF_SL_15-611_AA-15-611
Marie	Doyle	marie.doyle@centerpointenergy.com	CenterPoint Energy	800 LaSalle Avenue P O Box 59038 Minneapolis, MN 554590038	Electronic Service	No	OFF_SL_15-611_AA-15-611
Sharon	Ferguson	sharon.ferguson@state.mn.us	Department of Commerce	85 7th Place E Ste 500 Saint Paul, MN 551012198	Electronic Service	No	OFF_SL_15-611_AA-15-611
Bruce	Gerhardson	bgerhardson@otpc.com	Otter Tail Power Company	PO Box 496 215 S Cascade St Fergus Falls, MN 565380496	Electronic Service	No	OFF_SL_15-611_AA-15-611
Douglas	Larson	dlarson@dakotaelectric.com	Dakota Electric Association	4300 220th St W Farmington, MN 55024	Electronic Service	No	OFF_SL_15-611_AA-15-611
Amber	Lee	ASLee@minnesotaenergyresources.com	Minnesota Energy Resources Corporation	2665 145th St W Rosemount, MN 55068	Electronic Service	No	OFF_SL_15-611_AA-15-611
John	Lindell	agorud.ecf@ag.state.mn.us	Office of the Attorney General-RUD	1400 BRM Tower 445 Minnesota St St. Paul, MN 551012130	Electronic Service	Yes	OFF_SL_15-611_AA-15-611
Samantha	Norris	samanthanorris@alliantenergy.com	Interstate Power and Light Company	200 1st Street SE PO Box 351 Cedar Rapids, IA 524060351	Electronic Service	No	OFF_SL_15-611_AA-15-611

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Leann	Oehlerking Boes	lboes@mnpower.com	Minnesota Power	30 W Superior St Duluth, MN 55802	Electronic Service	No	OFF_SL_15-611_AA-15-611
Randy	Olson	rolson@dakotaelectric.com	Dakota Electric Association	4300 220th Street W. Farmington, MN 55024-9583	Electronic Service	No	OFF_SL_15-611_AA-15-611
Stuart	Tommerdahl	stommerdahl@otpco.com	Otter Tail Power Company	215 S Cascade St PO Box 496 Fergus Falls, MN 56537	Electronic Service	No	OFF_SL_15-611_AA-15-611
Robyn	Woeste	robynwoeste@alliantenergy.com	Interstate Power and Light Company	200 First St SE Cedar Rapids, IA 52401	Electronic Service	No	OFF_SL_15-611_AA-15-611
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_15-611_AA-15-611