

October 14, 2014

Burl W. Haar  
Executive Secretary  
Minnesota Public Utilities Commission  
121 7th Place East, Suite 350  
St. Paul, Minnesota 55101-2147

RE: **Response Comments of the Minnesota Department of Commerce, Division of Energy Resources**  
Docket No. E017/D-14-732

Dear Dr. Haar:

This letter serves as the Response Comments of the Minnesota Department of Commerce, Division of Energy Resources (Department) in the following matter:

Otter Tail Power Company's (OTP's) 2014 Annual Review of Depreciation Certification.

On August 29, 2014, Otter Tail Power Company (OTP or the Company) filed its *2014 Annual Review of Depreciation Certification* (2014 Depreciation Petition or Petition) with the Minnesota Public Utilities Commission (Commission). OTP requested approval of changes to the lives and salvage rates of a number of property accounts. The net effect of the proposed changes is a reduction in annual depreciation expense of \$1.9 million, or 4.71 percent. The Company also requested an effective date of January 1, 2015 for its proposed depreciation parameters.

On September 29, 2014 the Department filed Comments in which it recommended approval of OTP's proposed depreciation parameters, pending the submittal of additional information regarding how the proposed remaining life of 55.88 years was derived and what project(s) are represented in the \$7.6 million of plant additions for account 354.00 Towers and Fixtures. The Department stated that it would provide a final set of recommendations to the Commission after reviewing the information provided by OTP in its Reply Comments.

On October 9, 2014, OTP filed Reply Comments in which it agreed with the Department's recommendations and provided the information requested by the Department regarding the remaining life and plant additions for Transmission Plant Account 354.00 – Towers and Fixtures (Account 354).

In its Reply, OTP provided the following explanation for the increase in the remaining life parameter for Account 354 from 37.90 years to 55.88 years:<sup>1</sup>

...a large vintage addition (2011) was added to Otter Tail's Continuing Property Records ("CPR") during 2013 (it was moved from account 106, Completed Construction not Classified to account 354.00 during 2013).

The Company provided Attachment 1 to its Reply Comments to show how this new vintage affected the calculation of the remaining life for Account 354.

Regarding the large addition of \$7.6 million to Account 354, OTP stated that this addition was the CAPX2020 Fargo Phase 1 – Monticello to St. Cloud 345kV transmission line segment, and explained,<sup>2</sup>

When a large investment is made (new vintage) to an account that historically has had smaller, older vintage balances, the significance of the change in Remaining Life as noted in Transmission Plant Account 354.00 – Towers and Fixtures is observed.

The Department noted that the Fargo Phase 1 line segment was put into service in 2011 into Account 106, Completed Construction not Classified, but not moved into Account 354 until 2013. Due to this delay in classification, depreciation on this line segment did not begin until 2013, even though the asset was placed into service in 2011. It is not clear to the Department why it would take this extended period of time to classify the Fargo Phase 1 line segment, but the annual financial effect of depreciating this asset over 67.5 years rather than the approximate 70-year useful life is de minimis. At this time, OTP's delay in classifying new capital assets does not seem to be of material concern, but the Department will monitor future depreciation filings for any emerging patterns. The Department appreciates the additional information provided by OTP and concludes that the Company's explanations are otherwise reasonable.

The Department recommends that the Commission:

- Approve the proposed remaining lives, salvage values and depreciation rates in OTP's 2014 Depreciation Petition;
- Require OTP to provide the comparison of its last rate case's short-term peaking capacity costs to the peaking costs

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<sup>1</sup> OTP's Reply Comments, page 2.

<sup>2</sup> *Id.*

- Encourage OTP to promptly classify new capital assets;
- Require OTP to file its next annual depreciation study by September 1, 2015; and
- Require 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.

The Department is available to answer any questions the Commission may have.

Sincerely,

/s/ ANGELA BYRNE  
Financial Analyst  
651-539-1820

AB/ja

## **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  
Response Comments**

**Docket No. E017/D-14-732**

**Dated this 14<sup>th</sup> day of October 2014**

**/s/Sharon Ferguson**

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