COMMERCE DEPARTMENT

September 28, 2017

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

RE: **Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. E017/D-17-652

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) 2017 Annual Review of Depreciation Certification.

The petition was filed on September 1, 2017 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 **approval** and is available to answer any questions the Minnesota Public Utilities Commission may have.

Sincerely,

/s/ ANGELA BYRNE
Financial Analyst

AB/ja
Attachment

Before the Minnesota Public Utilities Commission

Comments of the Minnesota Department of Commerce
Division of Energy Resources

Docket No. E017/D-17-652

I. SUMMARY OF FILING

On September 1, 2017, Otter Tail Power Company (OTP or the Company) filed its *2017 Annual Review of Depreciation Certification* in Docket No. E017/D-17-652 (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, 2016.

Based on the Company's proposed changes, the updated composite depreciation accrual rate is 2.84 percent, compared the current composite depreciation accrual rate of 2.80 percent, or a 0.04 percentage point increase to the composite depreciation accrual rate. The net effect of the proposed changes is an increase in annual depreciation expense of $571,606 (Total Company) as summarized in Table 1 below. The increase in annual depreciation is $321,163 for the Minnesota Jurisdiction. OTP explained that "[t]he increase [in annual depreciation expense] of $571,606 (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 Proposed Depreciation Rates and Resulting Accruals

	Accrual Rate			Annual Accrual		
Function	Current	Proposed	Difference	Current	Proposed	Difference
[A]	[B]	[C]	[D] = [C] - [B]	[E]	[F]	[G] = [F] - [E]
Production						
Steam	2.92%	3.02%	0.10%	$ 16,523,594	$ 17,102,615	$ 579,021
Hydraulic	8.66%	8.94%	0.28%	$ 609,377	$ 629,026	$ 19,649
Other	4.10%	4.14%	0.04%	$ 12,706,829	$ 12,816,164	$ 109,335
Transmission	1.71%	1.71%	0.00%	$ 6,778,407	$ 6,770,036	$ (8,371)
Distribution	2.48%	2.46%	-0.02%	$ 11,551,124	$ 11,421,490	$ (129,634)
General Plant	4.26%	4.26%	0.00%	$ 2,144,454	$ 2,146,060	$ 1,606
Total Utility	2.80%	2.84%	0.04%	$ 50,313,785	$ 50,885,391	$ 571,606

Source: Petition, Attachment 1, Page 4.

[1] Petition Attachment 1, page 4.

The Company requested an effective date of January 1, 2018 for its proposed depreciation changes to lives and salvage rates.

II. DEPARTMENT ANALYSIS

The Minnesota Department of Commerce, Division of Energy Resources (Department or DOC) 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 and one Distribution Plant account 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. Production Plant (Steam, Hydraulic, Other)

a) Remaining Lives

As shown in Attachment 1, Pages 36-40 (Statement F) of the Petition, OTP proposed to reduce the remaining lives for all of its production plant accounts by approximately one year to account for the passage of time. The Department concludes that these reductions are reasonable.

b) Salvage Rates

As shown in Attachment 1, Pages 7-8 of 46 (Statement A) of the Petition, OTP proposed only minimal or no changes to the salvage rates of its production plants. The Department concludes that the proposed salvage rates for all production facilities are reasonable.

2. Transmission, Distribution, and General Plant

a. Remaining Lives

As shown in Attachment 1, Pages 34-40 (Statement F) of the Petition, OTP proposed only minor changes to the remaining lives of its transmission, distribution, and general plant (TD&G) accounts. Based on our review, Department concludes that the proposed changes to the remaining lives to these accounts are reasonable.

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 TD&G salvage rates. The Department concludes that the proposed salvage rates are reasonable.

C. PLANT BALANCES, ADDITIONS, AND RETIREMENTS

Table 2 shows the changes to OTP's plant balances during 2016. The net effect of additions and retirements during the year is an increase in total plant of approximately $38 million, the majority of which was concentrated in the Company's steam production, transmission, and distribution plant accounts.

Table 2:
Changes in Primary Plant Balance Accounts

Primary Plant Assets	Balance 12/31/2015	Additions	Retirements	Transfers	Balance 12/31/2016
Steam Production	554,770,006	16,271,078	4,504,671	-	566,536,413
Hydraulic Production	7,037,658	-	-	-	7,037,658
Other Production	309,256,880	1,906,692	1,361,559	-	309,802,013
Transmission Plant	380,864,490	15,780,989	451,960	(14,959)	396,178,560
Distribution Plant	450,554,709	17,083,304	2,687,775	6,652	464,956,890
General Plant	53,957,915	1,036,135	4,636,941	-	50,357,109
Totals	1,756,441,658	52,078,198	13,642,906	(8,307)	1,794,868,643

Source: 2017 Depreciation Study, Statement G.

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 No. 3 of its Petition, OTP stated that it is "unaware of any major future additions that will materially affect this filing's certification results."

Regarding future retirements, OTP stated that it is "unaware of any major future retirements that would materially affect the current certification results."

Regarding future additions, OTP stated that:[2]

> Otter Tail is actively participating in the development and construction of two new 345 kV transmission projects and corresponding substation upgrades in the Big Stone area. We are working closely with MISO and area utilities on these projects, which are part of MISO's Multi-Value Project ("MVP") portfolio. The two 345 kV projects are under construction; Big Stone South – Brookings and Big Stone South – Ellendale. These projects are eligible for regional cost sharing under MISO's FERC-approved MVP cost allocation methodology. These projects are in the construction phase and are expected to go into service in phases from late in 2017 through the early 2019 timeframe at an estimated cost of $200M OTP share.

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." In addition, OTP stated that "This filing does not include any new peaking generators so there is no cost information to report with this filing."

Based on the above, the Department concludes that OTP has complied with Minnesota Rule 7825.0700, subpart 2, B. and the Commission's Order in Docket No. E017/RP-05-968.

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[2] Petition Attachment No. 3.

E. OTP'S REMAINING LIFE POLICY

OTP's Remaining Life Policy maintains a ten-year minimum remaining life for generating assets (unless a retirement date has been set), and a five-year window between the retirement dates of baseload plants.

In the Company's previous depreciation filings, the Commission approved continuous one-year life extensions for OTP's Jamestown and Lake Preston peaking facilities. The Department expressed concerns with OTP's Remaining Life Policy and its possible impacts on its Jamestown and Lake Preston peaking facilities. However, OTP did not propose any life extensions for its Jamestown and Lake Preston peaking facilities in the Company's 2014 and 2015 depreciation filings.

In OTP's 2016 depreciation filing,[3] the Department recommended that the Company extend the remaining lives of the Jamestown and Lake Preston peaking facilities by ten years, as reflected in OTP's most recent Integrated Resource Plan (IRP), to incorporate the completion of Control System upgrades at both plants. Since OTP completed the upgrades in the fourth quarter of 2016, the Company agreed to extend the lives by ten years at that time. As a result, the DOC concludes that OTP's Remaining Life Policy does not have a significant impact in this proceeding.

While the Department still has concerns with OTP's Remaining Life Policy, the Department does not recommend that the Commission take any specific action related to this policy at this time. The Department will continue to monitor the effects the Remaining Life Policy has on OTP's depreciation expense in light of decisions made through the Commission's IRP process.

F. 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 No. 4 to OTP's Petition includes the required table.

The Company notes in Attachment No. 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. For example, when the horizon of the resource plan does not extend

[3] Docket No. E017/D-16-729.

to the anticipated retirement dates of certain facilities, no retirement dates for these facilities are discussed in the resource plan.

As shown in the Company's Attachment No. 4, OTP's remaining lives for resource planning purposes closely match its remaining lives for depreciation purposes for all of its facilities.

The DOC 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 DOC 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.

G. 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, 2018. 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. SUMMARY AND RECOMMENDATIONS

Based on our review of OTP's 2017 Depreciation Petition, the Department recommends that the Commission:

- approve OTP's proposed service lives, proposed salvage values, and proposed depreciation rates for all facilities;
- approve OTP's proposed effective date of January 1, 2018;
- 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; and
- require OTP to file a five-year depreciation study by September 1, 2018.

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