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April 29, 2019

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

**RE: Otter Tail Power Company's Petition for Approval of its 2018 Annual Review of Depreciation Certification  
Docket No. E017/D-18-568  
Reply Comments**

Dear Mr. Wolf:

On March 14, 2019 the Commission issued its Notice of Comment Period stating that “[t]he Minnesota Department of Commerce, Division of Energy Resources (Department) may provide its final recommendations by March 27, 2019 at 4:30 p.m.” The Reply Comment period was to close on April 10, 2019.

On March 27, the Department filed Response Comments with a final recommendation that the Commission should approve Otter Tail’s Petition with conditions.

On April 10, 2019, Otter Tail Power Company (Otter Tail or Company) filed its Reply Comments agreeing with the Department’s recommendations except for the Department’s recommended 15-year amortization period for the Company’s new customer information system (CISone).

On April 10, 2019 the Minnesota The Office of the Attorney General—Residential Utilities and Antitrust Division (OAG) filed Reply Comments in response to Otter Tail’s and the Department’s prior filings. The OAG sought to clarify its position and noted ongoing concerns with OTP’s petition. Otter Tail understands that a response to the OAG’s April 10, 2019 Reply Comments is appropriate and may be helpful to frame these issues for the Commission’s consideration. Therefore, please find enclosed Otter Tail’s response to the OAG April 10, 2019 Reply Comments.

Mr. Wolf  
April 29, 2019  
Page 2

Otter Tail electronically filed this document with the Commission in compliance with Minn. R. 7829.1300, subp. 2. Otter Tail served a copy of this filing on the Minnesota Department of Commerce - Division of Energy Resources and the Office of Attorney General – Antitrust & Utilities Division. This filing is also served to all persons on Otter Tail’s official service list to the above docket. A Certificate of Service is enclosed.

Please contact me at (218) 739-8659 or [ldemmer@otpc.com](mailto:ldemmer@otpc.com) if you have any questions regarding this filing.

Sincerely,

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

mmo  
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  
2018 Five-Year Review of  
Depreciation Certification

Docket No. E017/D-18-568

**OTTER TAIL POWER COMPANY'S  
REPLY COMMENTS**

On April 10, 2019 the Minnesota Office of the Attorney General-Residential Utilities and Antitrust Division (OAG) issued Reply Comments in this docket requesting Otter Tail Power Company (Otter Tail) confirm that its group accounting practices yield satisfactory results providing regulators with the necessary information in the event a particular asset might be identified for removal from rate base, both with proper asset valuation and accumulated depreciation representations in order to protect ratepayers, and that its new Customer Information System (CIS) software amortization should be over a 15-year period.

**Group Accounting**

Otter Tail concurs with the Department of Commerce, Division of Energy Resources (Department) recommendation that "Otter Tail has provided helpful information to support that its method of Group Accounting would provide the necessary detailed information to respond to situations and/or concerns of the Department and Commission." Otter Tail believes the OAG's clarified concerns are misplaced.

Otter Tail utilizes the Remaining Life technique for most of its plant in service assets, other than a few amortized accounts, and as such, files annual Remaining Life Depreciation Certification filing such as this docket. These filings begin with a Depreciation Study that statistically observes the evolving life cycle patterns of the assets held independently within each FERC account / FERC Account – plant location combination. The result is an independent, third party's statistical observation of those accounts asset life cycle patterns and its independent professional and industry observed calculated Remaining Lives and Salvage percentages. These calculated remaining lives serve as the Company's best estimated weighted remaining life of the assets in each FERC account / FERC Account – plant location combination. Stakeholders should not see these calculations as a distortion, but rather efficient, equitable, and proven procedures

that yield cost-effective and reliable depreciation recognition calculations. The use of life-span or Average Year of Final Retirement (AYFR) categorization advocated by the OAG have their own issues, especially in the event an AYFR for a particular property is not currently estimated. A forced AYFR could simply be just an avenue to artificially manage depreciation expense to a preconceived level. Otter Tail believes the better way to estimate the assets remaining life is to base them on historic records, independently studied by a third-party professional versed in historic industry depreciation practices.

#### **Customer Information System Amortization**

Otter Tail reiterates its position stated its April 10, 2019 Reply Comments. To be clear, Otter Tail's intangible software accounts are amortized, and its associated expense transactions hit amortization expense rather than depreciation expense. As amortized accounts, depreciation rate calculations are not done. Rather, when a 5 or 10-year (60 or 120 months) software asset is placed into service, the amortization period begins, and for the next 60 or 120 months an equal amount of amortization expense is recognized for that software. If hypothetically, a new CIS function was needed in a future period and a new software module would be added to CIS as a capital expansion of the software, that new module would follow its own estimated useful life (60 or 120 months for example) and begin amortizing when placed in service independently of all other software assets, which is akin to being "independently" amortized.

Otter Tail appreciates the opportunity to supply these Comments and hopes they prove beneficial to all parties. Otter Tail is available to answer further questions in this regard.

Dated: April 29, 2019

Respectfully submitted,

OTTER TAIL POWER COMPANY

By: /s/ LOYAL K. DEMMER  
Loyal K. Demmer, CMA  
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## **CERTIFICATE OF SERVICE**

**RE: Otter Tail Power Company's Petition for Approval of its 2018 Annual Review of Depreciation Certification  
Docket No. E017/D-18-568**

I, Mikayla Osterman, 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 **29th** day of **April, 2019**.

*/s/ MIKAYLA OSTERMAN* \_\_\_\_\_

Mikayla Osterman  
Regulatory Filing Coordinator  
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