

October 21, 2014

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

**RE: Supplemental 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 Supplemental 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 (Account 354). 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 Account 354.

On October 14, 2014, the Department submitted its Response Comments noting some concern regarding the timing of transferring project costs from Account 106 - Completed Construction not Classified (Account 106) to Account 354, but otherwise concluded that the Company's explanations contained in its Reply Comments were reasonable.

On October 15, 2014, OTP filed a letter clarifying its understanding of the Department's recommendation regarding short term peaking capacity costs and noting that the assets placed into Account 106 are charged depreciation expense.

The Department appreciates OTP's clarifications. Confirmation that depreciation begins when the asset is placed into service alleviates the Department's concern regarding the timing for transferring project costs to Account 354. To ensure clarity of the record, the Department provides its final recommendations below.

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 compare, in its first depreciation filing that includes new peaking generators, the short-term peaking capacity costs in its last rate case to the peaking capacity costs of the new generators;
- 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 its next annual depreciation study by September 1, 2015.

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

Sincerely,

/s/ SUSAN MEDHAUG
Supervisor, Energy Regulation & Planning

SM/lt

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
Supplemental Response Comments**

Docket No. E017/D-14-732

Dated this 21st day of October 2014

/s/Sharon Ferguson

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