

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

January 14, 2020



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

**RE: In the Matter of Otter Tail Power Company's Petition for Approval of its
2019 Annual Review of Depreciation Certification
Docket No. E017/D-19-547
Reply to Response Comments**

Dear Mr. Wolf:

Otter Tail Power Company (Otter Tail) hereby submits Reply Comments to the Minnesota Department of Commerce's December 26, 2019 Comments in Otter Tail's 2019 Annual Review of Depreciation Certification.

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. A Summary of the filing has been served on all persons on Otter Tail's general service list. A Certificate of Service is also enclosed.

Please contact me at (218) 739-8659 or ldemmer@otpc.com if you have any questions.

Sincerely,

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

rah
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
2019 Annual Review of Depreciation
Certification**

Docket No. E017/D-19-547

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

I. Background

Otter Tail Power Company (Otter Tail or Company) filed its 2019 Annual Review of Depreciation Certification in Docket No. E017/D-19-547 (Petition) on August 30, 2019, requesting approval of its proposed remaining lives and salvage percentages based on Otter Tail's plant in service and accumulated depreciation reserve balances as of December 31, 2018. Otter Tail requested that the Commission approve the petition for depreciation certification to be effective January 1, 2020.

The Minnesota Department of Commerce, Division of Energy Resources (Department) filed Comments on November 7, 2019, recommending that the Commission reduce remaining lives of certain plant by one year, most notably Otter Tail's Hoot Lake Plant Units 2 & 3 (Hoot Lake Plant), which is scheduled to cease production in June 2021. Otter Tail filed Reply Comments on December 2, 2019 noting that the Department's Comments did not correctly construe the time frame for depreciation accruals of certain plant, including Hoot Lake Plant, and that Otter Tail's proposed remaining lives were in fact in line with the Department's recommendations, therefore no further adjustments were necessary.

The Department filed Response Comments on December 26, 2019, acknowledging the error in their calculation but insisting that further adjustments to remaining lives for Hoot Lake Plant and Hydroelectric Plant are necessary. Otter Tail disagrees with the Department's recommendations for the reasons stated herein.

II. It Is Not Reasonable to Adjust Remaining Lives as Recommended by the Department So Close to the Retirement of Hoot Lake Plant.

As noted in its Response Comments, the “Department continues to recommend a one-year reduction to correct the remaining lives of certain plant, specifically: “the *Hoot Lake Steam Production Units 2 & 3 Plant* accounts (except Account 312.1-102 Landfill) and the *Hydraulic Production Plant* accounts.”¹ The Department’s recommendation for Hoot Lake Plant is premised on the view that a correction is necessary to align the projected retirement date of June 2021 and depreciation accrual period which continues through June 2022.

Otter Tail believes that an adjustment such as the Department proposes in neither prudent nor warranted within this proceeding. Otter Tail has applied the Commission-approved remaining lives and salvages values each year to its accounting records as demonstrated by the Department’s table 3-RC², which covers the period of 2008 through 2019. As reflected by that table, the Commission has reviewed and approved the remaining lives which have consistently carried depreciation past 2021. These approved remaining lives result in expense through June 2022 and are reflected in the annual depreciation expense that is part of Otter Tail’s current retail rates. The Department’s recommendation to alter these remaining lives is at odds with these prior depreciation decisions and the depreciation expense recovery established in two interceding rates cases.³

The fact that depreciation accruals continue beyond the Hoot Lake Plant retirement date is not an anomaly requiring correction. The projected retirement date of Hoot Lake Plant (June 30, 2021) reflects the anticipated date that Hoot Lake Plant will cease production. Retirement of a major generation facility, however, is not an operational bright line. Work to prepare the facility for decommissioning and then decommissioning efforts will extend beyond the retirement date. Hoot Lake Plant will not be decommissioned until June 2022 at the earliest. In this context the difference in the retirement date and depreciation accrual is appropriate, especially when those portions of the accruals will be effectively for the Cost of Removal (COR) component of the depreciation accrual while those COR activities are taking place. Again, this

¹ Department Response Comments, December 26, 2019, p. 1. The Department no longer recommends a one-year reduction to remaining lives values for Otter Tail’s Other Production Plant and General Plant.

² Id. at p. 5.

³ Docket No. E-017/GR-15-1033; Docket No. E-017/GR-10-239.

difference has been reviewed and approved in prior depreciation filings.⁴ The Department has previously acknowledged that “there may be instances where depreciation may be recorded in the year following the retirement year with use of the mid-year depreciation convention. . . .”⁵ This is absolutely one of those instances.

A similar analysis applies to Otter Tail’s Hydroelectric Plant. The issue of Hoot Lake Plant, however, is the most concerning because of its very short remaining life. Reducing Hoot Lake Plant’s remaining life by one-year, as recommended by the Department significantly increases its annual 2020 depreciation expense.⁶ The Department’s proposal would cause this significant increase beginning January 1, 2020. Given that Otter Tail is not currently in a rate case, and that Otter Tail could not reasonably prepare a case filing and implement interim rates without a large part of 2020 passing, the Department’s proposal would leave Otter Tail without an opportunity to recover that increased expense. The Department acknowledges the increase in depreciation expense, but argues that Otter Tail can recover the increased expense through a rate case using a historic test year.

Filing a rate case in 2020 using a historic test-year does not mitigate the impact of the Department’s recommendation. Otter Tail is required under accounting standards to recognize the Commission-approved depreciation expense for the year approved. A historic test year could not be filed until sometime in 2021, after the 2020 year is over, and the \$1.39 million (MN Share) for 2020 is recognized on Otter Tail’s books. It isn’t the test year that creates the inability to recover these expenses. It is the fact that the majority of the affected period will have passed by the time a filing could be made and interim rates could be implemented, and therefore a rate case filing could not be used to prevent the significant impact from regulatory lag associated with the Department’s proposal.⁷

⁴ That depreciation accrual extends to June 2022 is consistent with the principles of intergenerational equity. Hoot Lake Plant will continue to be an Otter Tail asset while it transitions to full decommissioning and actually incurs those decommissioning costs. Customers who have benefit from the Hoot Lake Plant will bear the costs associated with its closure.

⁵ Department Comments, November 7, 2019, p. 5.

⁶ Reducing remaining life values as recommended by the Department would result in Hoot Lake Plant’s annual 2020 depreciation to increase by over 67 percent. This is a \$2.5 million depreciation expense increase for Hoot Lake Plant. Minnesota’s jurisdictional share is approximately \$1.39 million, which is not reflected in Otter Tail’s current customer rates.

⁷ Given the time necessary to prepare a rate case and the fact that interim rates do not go into effect until 60 days after filing Otter Tail would be foreclosed from recovering most of the \$1.39 million dollars.

All of the foregoing is to say that under the circumstances it is not reasonable to change remaining lives as recommended by the Department in this proceeding. The imminent closure of Hoot Lake Plant, a complex undertaking, is a priority for Otter Tail, and Otter Tail believes it has done a very good job minimizing the negative consequences of the closure to the greatest extent possible. Making significant, unanticipated changes to the depreciation accrual for Hoot Lake Plant on the eve of its retirement is akin to removing half of the runway as an aircraft makes its final approach for landing. A more prudent approach that does not foreclose the Commission from any later determination is to approve Otter Tail's proposed remaining lives and to address these concerns in Otter Tail's next general rate case, where Hoot Lake Plant's decommissioning and how it is accounted for is expected to be a matter of significant consideration. Any changes relating to the accounting for the end of the facility's life can and should occur in that proceeding.

III. There Is No Clear Basis for Reducing Remaining Lives in This Proceeding.

The Department's recommendation is based in part on the perception that Otter Tail should have reduced remaining lives sometime after 1993 when the Commission approved a change in depreciation methodology for Otter Tail.⁸ Otter Tail questions the reasonableness of changing remaining lives based on a hypothesis first raised on the eve of a major plant retirement that certain adjustments for that plant should have been made decades ago.⁹ This is especially the case given the Department's annual review of Otter Tail's remaining lives schedules and the Commission approval of the same, Otter Tail's subsequent rate cases, and the fact that a change in remaining lives creates significant negative impacts that cannot be reasonably mitigated.

The Department also references Otter Tail's Petition in E017/D-15-804 as support for reducing Hoot Lake Plant's remaining lives balance. In that filing Otter Tail explained that it was necessary to extend the retirement date of Hoot Lake Plant because of the Midcontinent

⁸ The Commission approved Otter Tail's transition to a prospective depreciation calculation methodology in E-017/D-93-952.

⁹ In footnote 9 of its Response Comments, the Department references an increase in remaining life in 1998-1998 that over time has led to an "overstated RL of one year." The remaining life adjustment to which the Department appears to refer to was part of the five-year depreciation study in Docket E017/D-98-1658. That study notes adjustments to remaining lives as calculated, set and approved and that account for interim plants retirements. Those subsequent adjustments, which reduced remaining lives by a something just short of one year (.97 year, for example, contemplating interim retirements) were judged appropriate and approved by the Commission. There is no basis to conclude those adjustments were inappropriate or now require correction decades later.

Independent System Operator, Inc. (MISO) planning year, specifically that the expected retirement date resulting from the MISO planning year is effectively May 31, 2021. The Department correctly notes that Otter Tail stated that “utilizing the AYFR of 2021 rather than 2020 will cause the plant to be fully depreciated on June 30th, 2021, a much closer match to its expected end of life of May 31, 2021.”¹⁰ This is at worst a mis-phrasing of a statement, the intent of which was to convey that it was necessary to adjust Hoot Lake Plant’s retirement date to account for the MISO planning year. The schedules provided by Otter Tail in that filing and this one (and all those in between) clearly reflect the depreciation accrual for Hoot Lake Plant through June 2022.¹¹ The Department reviewed the 2015 schedules and subsequent schedules per its normal practice, and the Commission approved the same.¹² This misstatement is not a basis to adjust remaining lives.

IV. An Alternative Approach is Appropriate if the Commission Concludes Remaining Lives Should be Reduced.

It is important to emphasize that the issue at hand is a timing issue. The Department’s recommendation would result in Otter Tail recognizing Hoot Lake Plant depreciation expense in a more condensed time frame. The Department has not disputed the amount of depreciation expense Otter Tail should be able to recognize and recover for Hoot Lake Plant in this proceeding. The question is when and how that recovery should occur. Unfortunately, the Department’s recommendation on timing (shortening remaining lives) has the unavoidable effect of precluding all or a material portion of that recovery.

If the Commission were to conclude remaining lives should be reduced, it should do so in a way that does not preclude Otter Tail from recovery of depreciation expenses, the amount of which is not disputed. This could be accomplished by authorizing the unrecovered depreciation expense to be treated as a regulatory asset for inclusion in Otter Tail’s next general case. Under GAAP, Otter Tail is required to deem Hoot Lake Plant an impaired asset if the Commission

¹⁰ Docket No. E017/D-15-804, *In the Matter of Otter Tail Power Company’s Petition for Approval of its 2015 Annual Review of Depreciation Certification*, Initial Petition, September 15, 2015, p. 4.

¹¹ Page 1 of Attachment 2 of Otter Tail’s Petition in Docket No. E017/D-15-804 makes clear that depreciation accrual for Hoot Lake Plant carries through 2022.

¹² The Department reviewed the depreciation rates in detail as shown in Department Attachment 1 to the Department’s comments in Docket No. E017/D-15-804. Department Attachment 1 is Otter Tail’s response to Information Request MN-DOC-01, which stated: “Please discuss the drivers behind the Company’s proposal to decrease the salvage rate from 14.1 percent to 12.7 percent for Hoot Lake Units 2 and 3.”

reduced the plant's remaining life by one year, but permitting the impairment to be recorded as a regulatory asset until the next rate case is a reasonable approach in the event the Commission deems it necessary to require an adjustment to remaining lives. This alternative is faithful to the Department's stated desire to set remaining lives at a level it believes the record requires without unwinding depreciation expense recovery, the amount of which is not in dispute, in this proceeding. Such an approach would result in neither over-recovery nor under-recovery.

V. Conclusion

For the reasons stated above Otter Tail respectfully requests the Commission to issue an order approving Otter Tail's proposed remaining lives and salvage percentages. Should the Commission conclude it is appropriate to adjust remaining lives recommended by the Department, Otter Tail requests that the Commission approve Otter Tail treating any unrecovered depreciation expense balance for Hoot Lake Plant as a regulatory asset in the Company's next general rate case as described above. As noted in its Reply Comments of December 2, 2019 Otter Tail supports the Department's recommendations for additional information.

Dated: January 14, 2020

Respectfully submitted,

OTTER TAIL POWER COMPANY

/s/ LOYAL K. DEMMER

Loyal K. Demmer, CMA
Senior Depreciation Accountant
Otter Tail Power Company
215 S. Cascade Street
Fergus Falls, MN 56537
(218) 739-8659
ldemmer@otpc.com

/s/ CARY STEPHENSON

Cary Stephenson
Associate General Counsel
Otter Tail Power Company
215 S. Cascade Street
Fergus Falls, MN 56537
218-739-8956
cstephenson@otpc.com

CERTIFICATE OF SERVICE

**RE: In the Matter of Otter Tail Power Company's Petition for Approval of its
2019 Annual Review of Depreciation Certification
Docket No. E017/D-19-547**

I, Rebecca Hasse, 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 To Response Comments**

Dated this **14th** day of **January 2020**.

/s/ Rebecca Hasse
Rebecca Hasse
Regulatory Filing Coordinator
Otter Tail Power Company
215 South Cascade Street
Fergus Falls MN 56537
(218) 739-8817

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_19-547_D-19-547
Ryan	Barlow	ryan.barlow@state.mn.us	Public Utilities Commission	121 7th Place East Suite 350 St. Paul, MN 55101214	Electronic Service	Yes	OFF_SL_19-547_D-19-547
Ray	Choquette	rchoquette@agp.com	Ag Processing Inc.	12700 West Dodge Road PO Box 2047 Omaha, NE 68103-2047	Electronic Service	No	OFF_SL_19-547_D-19-547
Generic Notice	Commerce Attorneys	commerce.attorneys@ag.state.mn.us	Office of the Attorney General-DOC	445 Minnesota Street Suite 1800 St. Paul, MN 55101	Electronic Service	Yes	OFF_SL_19-547_D-19-547
Loyal	Demmer	ldemmer@otpc.com	Otter Tail Power Co.	215 South Cascade Street PO Box 496 Fergus Falls, MN 565380496	Electronic Service	No	OFF_SL_19-547_D-19-547
James C.	Erickson	jericksonkbc@gmail.com	Kelly Bay Consulting	17 Quechee St Superior, WI 54880-4421	Electronic Service	No	OFF_SL_19-547_D-19-547
Sharon	Ferguson	sharon.ferguson@state.mn.us	Department of Commerce	85 7th Place E Ste 280 Saint Paul, MN 551012198	Electronic Service	No	OFF_SL_19-547_D-19-547
Shane	Henriksen	shane.henriksen@enbridge.com	Enbridge Energy Company, Inc.	1409 Hammond Ave FL 2 Superior, WI 54880	Electronic Service	No	OFF_SL_19-547_D-19-547
Douglas	Larson	dlarson@dakotaelectric.com	Dakota Electric Association	4300 220th St W Farmington, MN 55024	Electronic Service	No	OFF_SL_19-547_D-19-547
James D.	Larson	james.larson@avantenergy.com	Avant Energy Services	220 S 6th St Ste 1300 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_19-547_D-19-547

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Kavita	Maini	kmaini@wi.rr.com	KM Energy Consulting, LLC	961 N Lost Woods Rd Oconomowoc, WI 53066	Electronic Service	No	OFF_SL_19-547_D-19-547
Andrew	Moratzka	andrew.moratzka@stoel.com	Stoel Rives LLP	33 South Sixth St Ste 4200 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_19-547_D-19-547
Generic Notice	Residential Utilities Division	residential.utilities@ag.state.mn.us	Office of the Attorney General-RUD	1400 BRM Tower 445 Minnesota St St. Paul, MN 551012131	Electronic Service	Yes	OFF_SL_19-547_D-19-547
Larry L.	Schedin	Larry@LLSResources.com	LLS Resources, LLC	332 Minnesota St, Ste W1390 St. Paul, MN 55101	Electronic Service	No	OFF_SL_19-547_D-19-547
Cary	Stephenson	cStephenson@otpc.com	Otter Tail Power Company	215 South Cascade Street Fergus Falls, MN 56537	Electronic Service	No	OFF_SL_19-547_D-19-547
Stuart	Tommerdahl	stommerdahl@otpc.com	Otter Tail Power Company	215 S Cascade St PO Box 496 Fergus Falls, MN 56537	Electronic Service	No	OFF_SL_19-547_D-19-547