

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

March 19, 2018



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 a
Transfer of Property
Docket No. E017/PA-16-441
Reply Comments**

Dear Mr. Wolf:

Pursuant to Minnesota Rule § 7829.1400, subp. 4, Otter Tail Power Company files these Reply Comments in response to the March 9, 2018 Initial Comments of the Minnesota Department of Commerce Division of Energy Resources.

Thank you for your attention to this matter. Please feel free to contact me if you have any questions.

Very truly yours,

/s/KRISTIAN M. DAHL
Kristian Mark Dahl
Associate General Counsel
KMD:jch

jch
Enclosures
By electronic filing
cc: Service List

CERTIFICATE OF SERVICE

**RE: In the Matter of Otter Tail Power Company's Petition for Approval of a
Transfer of Property
Docket No. E017/PA-18-40**

I, Jana Hrdlicka, hereby certify that I have this day served a copy of the following 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 **19th** day of **March, 2018**

/s/ JANA HRDLICKA
Jana Hrdlicka
Regulatory Filings Coordinator
Otter Tail Power Company
215 South Cascade Street
Fergus Falls MN 56537
(218) 739-8879

**STATE OF MINNESOTA
BEFORE THE
MINNESOTA PUBLIC UTILITIES COMMISSION**

Nancy Lange	Chair
Dan Lipschultz	Vice-Chair
Matt Schuerger	Commissioner
John Tuma	Commissioner
Katie Sieben	Commissioner

In the Matter of
The Petition of
Otter Tail Power Company
for Approval of a Transfer
of Property

Docket No. E017/PA-18-40

**REPLY COMMENTS IN RESPONSE TO INITIAL COMMENTS OF
MINNESOTA DEPARTMENT OF COMMERCE DIVISION OF
ENERGY RESOURCES**

Applicant Otter Tail Power Company (Otter Tail) respectfully submits these reply comments (Reply Comments) in the above-captioned proceeding. Specifically, Otter Tail files its Reply Comments to address the comments, conclusions and recommendations contained in the Comments of the Minnesota Department of Commerce, Division of Energy Resources (Department), filed on March 9, 2018 in this proceeding (Department Comments).

I. BACKGROUND

On January 8, 2018, Otter Tail petitioned the Minnesota Public Utilities Commission (Commission) for all necessary Commission approvals to acquire from East River Electric Power Cooperative, Inc. (East River) certain substation facilities and substation-related assets located at East River's F.L. Blair Substation located in Deuel County, South Dakota (the Substation Assets), pursuant to Minnesota Statute § 216B.50 and Minnesota Rules §§ 7825.1700 and

7825.1800. Otter Tail submitted that the proposed acquisition of the Substation Assets (the Transfer) is consistent with the public interest, pursuant to subd. 1 of Minnesota Statute § 216B.50, for the reasons set forth in the petition. Otter Tail is acquiring the Substation Assets to enhance the safe and reliable service to its customers, including the coordination and transfer/transmission of electric power on the bulk transmission system. Otter Tail requested that the Commission give its consent and approval for the Transfer by order in writing, upon investigation without public hearing.

On March 9, 2018, the Department submitted initial comments, noting the relatively low acquisition cost and the benefits of the Transfer¹ but stating that the Department generally does not support a transfer of utility property at more than book value and that allowing transfers to occur at higher than book value could lead to, among other outcomes, ratepayers paying more than necessary for such assets.² No other timely comments were filed in the proceeding.³

Because the stated purchase price for the Substation Assets (contractually set at \$128,889) exceeds the book value of \$67,795⁴, the Department Comments recommended the Commission reject Otter Tail's petition without prejudice, or in the alternative, given the

¹ Department Comments at 3-4 (“...for a relatively low acquisition cost, the transaction would increase Otter Tail’s ability to coordinate transmission flows and has the potential to increase [obtain] credits received from [the Southwest Power Pool].”)

² Department Comments at 3.

³ On February 25, 2018, the Commission issued a Notice of Extended Comment Period, acting on a request by the Department, extending the comment period and setting a new deadline for the filing of initial comments of March 9, 2018 and a new deadline for filing reply comments of March 29, 2018.

⁴ Since it is expected that the purchase price of the Assets at \$128,889 will be above the net book value by \$61,093 – subject to possible further adjustment at the time of the closing of the transaction dependent on East River’s accounting for the proposed Transfer – it would result in an acquisition adjustment in a given amount on Otter Tail’s books, with the flexibility for differentiating rate making treatment, including that consistent with what Otter Tail proposes in these Reply Comments. The proposed Transfer will close as a single transaction, anticipated to be within thirty days after the conditions precedent under the Purchase Agreement are met (the “Closing Date”), which includes all necessary regulatory approvals, notably approval by FERC under section 203(a)(1)(B) of the Federal Power Act (FPA) and approval the Commission pursuant to Minnesota Statutes section 216B.50 and Minnesota Rule 7825.1800.

relatively low dollar value involved and other potential benefits to Otter Tail and its customers, the Commission could approve the petition including the amount above book value (the acquisition adjustment), concluding that the particular facts involved justifies approval.⁵

Pursuant to Minnesota Rules § 7829.1400, subp. 4, Otter Tail now files these Reply Comments, along with additional information responsive to the Department Comments concerning ratemaking treatment for the amount of the Substation Assets' purchase price exceeding net book value.

II. SUMMARY OF OTTER TAIL'S REPLY COMMENTS

Otter Tail believes the proposed transaction will provide positive benefits to its customers and the bulk power system, as detailed in its petition before the Commission, notably in that the Blair Substation's location and connectivity to the rest of the regional transmission system will provide Otter Tail with an ownership interest and useful operational capability on both ends of an existing transmission outlet for one of its major generating facilities, the Big Stone Plant, providing a benefit to Otter Tail's customers. By owning and operating the Substation Assets on East River's substation site, Otter Tail will have an improved ability to manage the facilities and coordinate transmission flows over its system. The proposed acquisition resulting from the Transfer is also compatible with the public interest because it minimizes cost impacts to Otter Tail's customers, and may have the added benefit in that it will add eligibility for Otter Tail to receive facility credits from the SPP which would in turn help reduce rates for Minnesota customers, explained further below.

Otter Tail also appreciates the Department's concern that the purchase price is above the net book value. While Otter Tail continues to believe the overall benefits will exceed the amount

⁵ Department Comments at 3, 6.

of the “acquisition adjustment” amount above the depreciated (net book) value of the Substation Assets, the Company is willing to agree to forego collection in rates for that acquisition adjustment amount in excess of the Substation Assets’ net book value as determined at the Closing Date. Thus, as part of its Reply Comments, Otter Tail commits not to recover this acquisition adjustment through its rates charged to Minnesota customers, and would accept a condition in a final order approving its Application to that effect.

III. THE COMMISSION CAN AND SHOULD DETERMINE THE PROPOSED TRANSFER IS IN THE PUBLIC INTEREST

A. Other Benefits and Public Interest Justifications for the Proposed Transfer

Otter Tail briefly reiterates the benefits of the Transfer of the Substation Assets proposed in the petition:

- Providing Otter Tail with an ownership interest and operational capability on both ends of an existing transmission outlet for one of its major generating facilities;
- An improved ability to manage and coordinate transmission flows over its system.
- Acquiring working assets at a reasonable price, especially given that similar assets would cost much more if they were to be installed today.
- Net benefits (minimization of cost impacts) to Otter Tail’s customers, with the added potential for benefits from the eligibility for Otter Tail to receive facility credits from the SPP which would in turn help reduce rates for Minnesota customers of Otter Tail when credited against SPP transmission service expenses currently being accumulated in its Commission-approved SPP Tracker.⁶

⁶ As noted in the Department Comments (Department Comments at 3), if Otter Tail acquires the Substation Assets, the acquisition will be offset over time through annual credits to Otter Tail’s Schedule 9 expenses in SPP for as long as those assets have a transmission revenue requirement value in SPP. Otter Tail provided the Department with additional support for those facility credits as well as further details and quantification estimates of those direct potential financial benefits, attached to the Department Comments as the Response to Information Request MN-DOC-02. That support includes estimates of approximately \$7,000 in qualifying credits from SPP on an annual basis upon acquisition or as soon as practicable thereafter, rising to approximately \$17,000 in annual credits from SPP starting in the 2019 timeframe, under Otter Tail’s current assumptions, with any additional qualifying capital expenditures Otter Tail makes to the Substation Assets further increasing the amount of any such credits. *See also* Otter Tail’s Response to Information Request MN-DOC-02 attached to the Department Comments.

- And, with the additional clarification provided in these Reply Comments, the ability to secure and leverage these notable operational and financial benefits for Otter Tail's customers with used and useful assets but without Otter Tail seeking any amount paid in excess of the depreciated net book value at closing in the rates charged to its customers.

As Otter Tail represented in its petition, the purchase of the Substation Assets would allow these beneficially-located assets to become part of Otter Tail's integrated operating unit for serving customers in three states, including Minnesota, providing a host of benefits for its customers at a reasonable cost. Consequently, Otter Tail continues to maintain the acquisition of the Substation Assets is in and consistent with the public interest.

B. Otter Tail Commitment Regarding Any Acquisition Adjustment

Otter Tail appreciates the Department's concerns regarding the portion of the purchase price exceeding the net book value. While the purchase price of the Substation Assets will be marginally above the Substation Assets' net book value to East River (resulting in that acquisition adjustment of \$61,093), Otter Tail agrees not to seek recovery of this acquisition adjustment in its rates paid by Minnesota customers. Otter Tail has made a similar commitment to the Federal Energy Regulatory Commission (FERC) regarding its FERC-jurisdictional transmission rates as part of application related to the Transfer pending in FERC Docket No. ER18-44.⁷

C. Additional Information and Variance Request

Otter Tail agrees with the Department that not all of the filing requirements of Minnesota Rules 7825.1800 are relevant in this case and would hereby, if not clear from its petition,

⁷ *Otter Tail Power Company*, Request for Approvals Pursuant to Section 203 of the Federal Power Act, FERC Docket No. ER18-44 (Pending FPA Section 203 Application, filed Dec. 29, 2017). In its FERC request (at pp. 5-6), Otter Tail agreed to not to seek recovery this acquisition adjustment through its transmission rates, and proposed accounting entries and to record its acquisition adjustment below the line in FERC Uniform System of Accounts, Account No. 114 (electric plant acquisition adjustment) and amortize it to Account No. 425 over a period not to exceed the estimated remaining life of the Substation Assets.

respectfully request any necessary rule variances to allow Otter Tail to omit the information required by items F – J.

As stated in its petition, Otter Tail believes that it has provided all relevant information called for by Minnesota Rules 7825.1400, items A to J, and hereby requests a rule variance for omitting items F, G, I and J as not relevant to the purchase. As the Department Comments note, the Commission has previously granted a variance in similar circumstances and Otter Tail agrees with the Department that the same reasoning applies in this case.⁸ As to item H, as stated in Otter Tail’s petition, at the time of this filing, Otter Tail does not know of any person who is an “affiliated interest” within the meaning of Minnesota Statutes § 216B.48, subd. 1. Furthermore, as noted in the petition, there are no securities associated with the proposed transfer of property.

To the extent the Commission has any concerns with respect to Minnesota Rule 7825.1800 item C, Otter Tail agrees with the the Department and believes the additional information provided to the Department and included in its Comments as Otter Tail’s responses to the Department’s Information Request Nos. 1 and 2 provide the necessary further information for the Commission to determine whether the proposed transaction is in the public interest.⁹

⁸ Department Comments at 5-6, citing Docket No. E002/PA-13-484, involving the transfer and exchange of transmission assets between two utilities, where the Commission determined that Minnesota Rule 7825.14500 items A through J were not applicable to the petition, reasoning that these items are related to capital structure filings and are not relevant in determining whether a property transfer is in the public interest.

⁹ Department Comments at 6, and Department Comments, attached Response to Information Request MN-DOC-02 and Response to Information Request MN-DOC-02. As to capital structure and securities issuances, Otter Tail would note it has a Commission-approved capital structure, total capitalization, equity ratio/ debt limits and limited contingencies approvals in connection with securities issuances, currently in effect until the Commission issues its 2018 capital structure order. *See, In the Matter of the Petition of Otter Tail Power Company for Approval of 2017 Capital Structure and Permission to Issue Securities*, Commission Docket No. E017/S-17-337, Order issued September 1, 2017.

IV. CONCLUSION

Otter Tail appreciates the diligence of the Department and Commission in reviewing both Otter Tail's petition and the additional information provided by Otter Tail. Otter Tail hopes that information and the additional commitments as to its treatment of the acquisition adjustment made in these Reply Comments are helpful to the Commission in making a determination on whether the proposed Transfer of the Substation Assets is consistent with the public interest.

Otter Tail respectfully requests the Commission approve the proposed transaction as consistent with the public interest for the reasons set forth in Otter Tail's January 8, 2018 petition and these Reply Comments, and for any additional rule variance(s) necessary for the Commission's approval of the transfer of the Substation Assets. Otter Tail also reiterates its request that the Commission give its consent and approval by order in writing, upon investigation without public hearing.

Dated: March 19, 2018

Respectfully Submitted,

OTTER TAIL POWER COMPANY

By: /s/ KRISTIAN M. DAHL

Kristian Mark Dahl

Associate General Counsel

Otter Tail Power Company

215 South Cascade Street

P. O. Box 496

Fergus Falls, MN 56538-0496

Phone: (218) 739-8722

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_18-40_PA-18-40
Ray	Choquette	rchoquette@agp.com	Ag Processing Inc.	12700 West Dodge Road PO Box 2047 Omaha, NE 68103-2047	Electronic Service	No	OFF_SL_18-40_PA-18-40
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_18-40_PA-18-40
Kristian	Dahl	kdahl@otpc.com	Otter Tail Power Company	215 South Cascade Street Fergus Falls, MN 56537	Electronic Service	No	OFF_SL_18-40_PA-18-40
Ian	Dobson	residential.utilities@ag.state.mn.us	Office of the Attorney General-RUD	1400 BRM Tower 445 Minnesota St St. Paul, MN 551012130	Electronic Service	Yes	OFF_SL_18-40_PA-18-40
James C.	Erickson	jericksonkbc@gmail.com	Kelly Bay Consulting	17 Quechee St Superior, WI 54880-4421	Electronic Service	No	OFF_SL_18-40_PA-18-40
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_18-40_PA-18-40
Bruce	Gerhardson	bgerhardson@otpc.com	Otter Tail Power Company	PO Box 496 215 S Cascade St Fergus Falls, MN 565380496	Electronic Service	No	OFF_SL_18-40_PA-18-40
Shane	Henriksen	shane.henriksen@enbridge.com	Enbridge Energy Company, Inc.	1409 Hammond Ave FL 2 Superior, WI 54880	Electronic Service	No	OFF_SL_18-40_PA-18-40
James D.	Larson	james.larson@avantenergy.com	Avant Energy Services	220 S 6th St Ste 1300 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_18-40_PA-18-40

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Douglas	Larson	dlarson@dakotaelectric.com	Dakota Electric Association	4300 220th St W Farmington, MN 55024	Electronic Service	No	OFF_SL_18-40_PA-18-40
Kavita	Maini	kmairi@wi.rr.com	KM Energy Consulting LLC	961 N Lost Woods Rd Oconomowoc, WI 53066	Electronic Service	No	OFF_SL_18-40_PA-18-40
Andrew	Moratzka	andrew.moratzka@stoel.com	Stoel Rives LLP	33 South Sixth St Ste 4200 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_18-40_PA-18-40
Larry L.	Schedin	Larry@LLSResources.com	LLS Resources, LLC	332 Minnesota St, Ste W1390 St. Paul, MN 55101	Electronic Service	No	OFF_SL_18-40_PA-18-40
JoAnn	Thompson	jthompson@otpc.com	Otter Tail Power Company	P.O. Box 496 215 South Cascade Street Fergus Falls, MN 565380496	Electronic Service	No	OFF_SL_18-40_PA-18-40
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_18-40_PA-18-40
Daniel P	Wolf	dan.wolf@state.mn.us	Public Utilities Commission	121 7th Place East Suite 350 St. Paul, MN 551012147	Electronic Service	Yes	OFF_SL_18-40_PA-18-40