

December 1, 2021

Will Seuffert
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
Saint Paul, Minnesota 55101-2147

RE: **Comments of the Minnesota Department of Commerce, Division of Energy Resources
Docket No. E017/D-21-669**

Dear Mr. Seuffert:

Attached are the Comments of the Minnesota Department of Commerce, Division of Energy Resources (Department), in the following matter:

Petition of Otter Tail Power Company for Approval of its 2021 Annual Review of Depreciation Certification.

The Petition was filed on September 1, 2021 by:

Loyal K. Demmer
Senior Depreciation Accountant
Otter Tail Power Company
215 South Cascade Street, Post Office Box 496
Fergus Falls, MN 53538.

The Department recommends that the Minnesota Public Utilities Commission (Commission) **approve the petition except for the reserve rebalancing proposal**. The Department is available to answer any questions that the Commission may have in this matter.

Sincerely,

/s/ Stephen Collins
Financial Analyst

SC/ja
Attachment



Before the Minnesota Public Utilities Commission

Comments of the Minnesota Department of Commerce Division of Energy Resources

Docket No. E017/D-21-669

I. INTRODUCTION

On September 1, 2021, Otter Tail Power Company (Otter Tail, OTP, or the Company) filed its 2021 annual petition for depreciation certification. OTP requests that the Minnesota Public Utilities Commission (Commission) certify and approve the petition, including OTP's proposed remaining lives and salvage percentages, effective January 1, 2022, for 2022 depreciation expense and accumulated reserve calculation purposes. The petition is based on plant-in-service and accumulated reserve balances as of December 31, 2020.

The Minnesota Department of Commerce, Division of Energy Resources (Department) reviews the petition below.

II. BACKGROUND

A. LEGAL

Minnesota Statutes section 216B.11 states:

216B.11 DEPRECIATION RATES AND PRACTICES.

The commission shall fix proper and adequate rates and methods of depreciation, amortization, or depletion in respect of utility property, and every public utility shall conform its depreciation, amortization or depletion accounts to the rates and methods fixed by the commission.

Minnesota Administrative Rules parts 7825.0600 to 7825.0900 prescribe the rules for depreciation rates. Of note, 7825.0600 and 7825.0700 state in part as follows:

7825.0600 DEPRECIATION CERTIFICATION.

Subpart 1. **Depreciation practices applicable to all utilities.** All electric and gas utilities shall maintain, and have available for inspection by the commission upon request, adequate accounts and records related to depreciation practices as defined herein. Each utility has the prime responsibility for proposing the depreciation rates and methods that will be used. The commission shall certify by order to the utility the depreciation rates and methods which it considers reasonable and proper. Any allocation or adjustment of the depreciation reserve will require specific justification and certification by the commission.

Either the utility may submit or the commission may request a petition for depreciation certification because of unusual circumstances or unique situations.

Subp. 2. **Class A and B utilities.** Class A and B utilities, as defined by the system of accounts, shall:

- A. maintain continuing property records;
- B. record depreciation accruals and reserves by functional group of plant accounts (e.g., distribution plant) or on an optional basis, by primary plant account (e.g., meters) for corporate ledger and balance sheet supporting schedule purposes;
- C. retain data in sufficient detail to conduct depreciation certification studies for the purpose of determining depreciation accruals and reserves by primary plant account; and
- D. review their depreciation rates annually to determine if they are still generally appropriate. Depreciation certification studies shall be made so that all primary accounts shall have been analyzed at least every five years.

7825.0700 PETITION FOR DEPRECIATION CERTIFICATION.

Subpart 1. **Petition for depreciation certification.** Initially upon commission notification, and at least every five years thereafter, each public utility shall file a petition for depreciation certification and the following depreciation schedules (for each year since the last certification) in the form prescribed by the commission.

A. Plant in service (by primary account for classes A, B, C, and D): beginning and ending plant balances; additions and retirements; adjustments and transfers.

B. Analysis of depreciation reserve (based on depreciation studies by primary account for classes A and B; by functional group for classes C and D): beginning and ending reserve balances; depreciation accruals and plant retirements; cost of removal and gross salvage value; transfers, adjustments and other debits (credits).

C. Summary of annual depreciation accruals (based on depreciation studies by primary account for classes A and B; by functional group for classes C and D): plant balance; estimated net salvage; depreciation reserve; probable service life; depreciation accrual and rate.

Subp. 2. **Additional information on certification petition.** In addition, all utilities shall provide with the petition for depreciation certification:

- A. A list of accounts upon which the utility has made studies of the estimates of service life and salvage, the dollar effects and

the results of these studies, and the utility-recommended depreciation rates for the accounts.

B. 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.

C. All utilities shall furnish any additional documentation necessary to support findings of the study.

B. PRIOR DOCKETS

1. Most Recent 5-Year Study

Pursuant the requirements above, OTP files comprehensive depreciation studies every five years. OTP's most recent five-year study and petition was filed on August 31, 2018 in docket number E017/D-18-568. On July 17, 2019, the Commission issued an order approving that petition and requiring that OTP file its next five-year depreciation study by September 1, 2023. The Commission's July 17, 2019 order also required that OTP:

5. In its first depreciation filing that includes new peaking generators, the Company shall compare the last rate case's short-term peaking capacity costs to the peaking capacity costs of the new generators.

6. The Company shall include a comparison of the retirement estimates used in its most current integrated resource plan to remaining lives used in its depreciation filing and explain any differences.

The peaking capacity requirement above was previously set forth in the Commission's March 26, 2009 order in docket number E017/RP-05-968, which provided identical language in order point 2. That same order provided the following context for the requirement:

... OES [the old name for the Department] notes that new peaking generators would displace the need for Otter Tail's current power purchase contracts for peaking capacity. Consequently OES proposes that Otter Tail provide an analysis of the cost of providing its own peaking capacity compared to the cost of the short-term peaking capacity already reflected in Otter Tail's rates. OES asks the Commission to direct Otter Tail to provide this analysis in the context of its first filing proposing depreciation rates for its new peaking generators.

2. Most Recent Annual Studies

Following the approval of the most recent 5-year study, OTP filed annual depreciation studies in Docket Nos. E017/D-19-547 and E017/D-20-703.¹ The Commission approved those petitions with modifications in Orders issued on October 1, 2020 and April 21, 2021, respectively. Of note, the April 21, 2021 Order issued in Docket 20-703 requires as follows:

6. In its next annual depreciation filing, Otter Tail must provide the status of its hydro license application including the decided term granted by the Federal Energy Regulatory Commission.

Regarding the hydro license application, the Department also explained this issue in its comments filed on November 6, 2021 in docket 20-703:

For its hydraulic generation facilities, OTP's current hydro license granted in 1991 is due to expire in 2021. In 2019, OTP applied to the Federal Energy Regulatory Commission (FERC) for a hydro license renewal and reported that it is unaware of any issues that would prevent granting of its application.[footnote omitted] OTP proposed to update the remaining life of its hydro plants to match the renewal term of the pending hydro license application, using 40 years at this time. The Department conducted a limited review of OTP's application with FERC and does not oppose the Company's proposed change to the remaining life for its hydraulic production facilities; however, the Department recommends that the Company provide, in its next depreciation filing, the status of its hydro license application including the decided term granted by FERC.

III. DEPARTMENT ANALYSIS

A. COMPLIANCE WITH PRIOR ORDERS

1. Comparison to Most Current Integrated Resource Plan (IRP)

As noted above, OTP must include a comparison of the retirement estimates used in its most current IRP to remaining lives used in depreciation filings and explain any differences. The Commission approved OTP's most recent IRP in an Order issued April 26, 2016 in Docket No. E017/RP-16-386. That

¹ The instant petition describes the interaction between its annual depreciation updates and comprehensive 5-year depreciation studies as follows:

Otter Tail derives its Remaining Lives and Salvage Percentages based on 5-year Depreciation Studies and subsequently updates them annually in Technical Updates during each of the interim four years. These calculations are as of the Depreciation Study or annual Technical Update date (12/31 of the prior calendar year). These are then analyzed through the depreciation certification process and are proposed for use in the year following that year's depreciation certification filing to be used for calculating depreciation expense and accumulated reserve purposes.

Order approved OTP's proposed 2017-2031 IRP, which OTP initially filed on June 1, 2016, with modifications.

OTP provided the required information as Attachment 4 to the instant petition. The only major differences are for the Langdon Wind Energy Center, Ashtabula Wind Energy Center, and Luverne Wind Energy Center, since last year's depreciation order (order point 11) extended the service lives by 10 years.

2. Astoria Station & Short-Term Peaking Capacity Costs

As noted above, OTP must, in its first depreciation filing that includes new peaking generators, compare the last rate case's short-term peaking capacity costs to the peaking capacity costs of the new generators.

OTP states in the instant petition that since its proposed filing uses plant-in-service balances as of December 31, 2020 and Otter Tail did not place any peaking units into service until 2021 (the Astoria Station combustion turbine unit), Otter Tail will provide this information in its 2022 depreciation filing.

3. Hydro License Application

As noted above, Otter Tail must provide the status of its hydro license application including the decided term granted by FERC. The instant petition states that Otter Tail is in the process of renewing the license and expects to be granted a 40-year term when complete. OTP's proposed updated hydro plant depreciation rates reflect this assumption, which the Department does not oppose.

B. MATERIAL PROPOSALS

1. Bemidji Hydro Plant

The petition indicates that OTP retired the Bemidji Hydro plant and as such OTP is not requesting any further remaining life for the plant for use in depreciation expense and reserve calculations in 2022. While in page 10 of Attachment 1, OTP shows an updated remaining life reflecting the FERC relicensing for Bemidji, Otter Tail states that per page 2 of Attachment 2 the Company is requesting a remaining life of 0 years. The Department does not oppose this change given the retirement, but Otter Tail may wish to clarify in reply comments given Attachment 1's apparent contradiction with this proposal.

2. Astoria Station

While OTP does include Astoria Station in its proposed depreciation rates as shown in Attachment 1 to the petition, OTP requests that the Commission continue to approve, for Astoria Station, a remaining life of 34 years and a net negative salvage percentage of -1.60%, for prospective use in 2022 depreciation expense and accumulated reserve calculation purposes. Otter Tail also states that it plans to file a more formal decommissioning estimate to be initiated in its 5-year study to be filed in 2023.

As OTP's proposal is consistent with the Commission's April 21, 2012 Order (point 7) in last year's Docket (E017/D-20-703), the Department does not oppose OTP's request.

3. Reserve rebalancing

OTP requests authorization to submit its 2023, 5-year depreciation study with rebalanced depreciation reserves.

As background, on January 27, 2012, the Commission issued an order in Docket No. E017/D-11-866 stating that OTP shall discontinue redistributing its depreciation reserves. As explained in the Department comments adopted by the Commission and incorporated into that order, this is a practice in which depreciation reserve is redistributed among different accounts, with the total recorded reserve still equaling the same amount.

In the instant petition OTP asserts that its "inability to realign depreciation reserves among primary plant accounts has contributed to increased variability of annual depreciation rates, increased depreciation expense and has removed an important option for achieving capital recovery when under-accrued production plants are retired from service."

The Department continues to oppose this practice, for the reasons adopted by the January 27, 2012 order in 11-866:

In OTP's example of two plant accounts, one with an excess reserve resulting in a negative accrual rate and one with a deficient reserve resulting in a high, positive accrual rate, the Department agrees that rebalancing reserves will likely produce two positive accrual rates that are better aligned with the parameters estimated for each account. However, the size of a particular account's depreciation reserve can be informative, and rebalancing these reserves as OTP suggests would obscure the fact that events occurred in the past that caused the reserves for each account to become imbalanced relative to the accounts' theoretical reserves. For example, a retirement that yielded an unexpectedly large salvage amount could lead to an excess reserve and a negative accrual rate. OTP's practice of rebalancing would hide that salvage experience. A significant decrease in estimated remaining life, on the other hand, could lead to a deficient reserve, and redistributing would obscure that a decrease took place in the past.

As far as the Department is aware, no other utility redistributes its reserves. It is the opinion of the Department that the only clear effect of OTP's practice of redistributing reserves is to create a layer of confusion on OTP's depreciation calculations. With no clear benefits to offset the cost of losing this information, the Department recommends that OTP transition away from the practice of redistributing reserves.

IV. RECOMMENDATION

The Department recommends that the Commission approve the petition except for the reserve rebalancing proposal.

/ja

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
Comments**

Docket No. E017/D-21-669

Dated this 1st day of December 2021

/s/Sharon Ferguson

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Ray	Choquette	rchoquette@agp.com	Ag Processing Inc.	12700 West Dodge Road PO Box 2047 Omaha, NE 68103-2047	Electronic Service	No	OFF_SL_21-669_D-21-669
Generic Notice	Commerce Attorneys	commerce.attorneys@ag.state.mn.us	Office of the Attorney General-DOC	445 Minnesota Street Suite 1400 St. Paul, MN 55101	Electronic Service	Yes	OFF_SL_21-669_D-21-669
Brooke	Cooper	bcooper@allete.com	Minnesota Power	30 W Superior St Duluth, MN 558022191	Electronic Service	No	OFF_SL_21-669_D-21-669
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Matthew	Olsen	molsen@otpc.com	Otter Tail Power Company	215 South Cascade Street Fergus Falls, MN 56537	Electronic Service	No	OFF_SL_21-669_D-21-669
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_21-669_D-21-669
Will	Seuffert	Will.Seuffert@state.mn.us	Public Utilities Commission	121 7th PI E Ste 350 Saint Paul, MN 55101	Electronic Service	Yes	OFF_SL_21-669_D-21-669
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