

June 2, 2015

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

RE: **Response Comments of the Minnesota Department of Commerce, Division of Energy Resources**  
Docket No. E017/S-15-411

Dear Mr. Wolf:

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

In the Matter of the Petition of Otter Tail Power Company (OTP or Company) for Approval of its 2015 Capital Structure and Permission to Issue Securities.

The petition was filed on May 1, 2015 by:

Brian Carlson  
Vice President, Financial Planning  
Otter Tail Corporation  
44334 18<sup>th</sup> Ave. SW  
Fargo, ND 58106-9156

The Department recommends that the Minnesota Public Utilities Commission **approve the capital structure, the issuance of securities, and the variance requested by the Company.**

Sincerely,

/s/ EILON AMIT  
Statistical Analyst

EA/lt  
Attachment

**BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION****COMMENTS OF THE  
MINNESOTA DEPARTMENT OF COMMERCE  
DIVISION OF ENERGY RESOURCES**

DOCKET No. E017/S-15-411

**I. BACKGROUND**

On May 1, 2015, Otter Tail Power Company (Otter Tail, OTP, or the Company) petitioned the Minnesota Public Utilities Commission (Commission) for approval of its proposed capital structure. The Company also requested that the Commission's approval of its capital structure remain in effect from the date of the Commission's Order in this matter until the Commission issues a subsequent capital structure Order for OTP.

The Company requested Commission approval of the following capital structure as of December 31, 2015.

	December 31, 2015	
	Thousand Dollars	%
Long-Term Debt	\$445,000	46.3%
Common Share Equity	\$500,064	52.1%
Short-Term Debt	\$15,209	1.6%
Total Capitalization	\$960,273	100.0%

On May 18, 2015, the Minnesota Department of Commerce, Division of Energy Resources (Department) filed comments recommending approval of the Company's proposed capital structure and the issuance of securities.

On May 28, 2015, OTP filed its reply comments agreeing with the Department's recommendations and also requesting variance from Minn. Rule 7825.1000 Subp. 6, which states:

“Short-term security” means any unsecured security with a date of maturity of no more than one year from the date of issuance; and containing no provisions for automatic renewal or “roll over” at the option of either the obligee or obligor.

## II. DISCUSSION

As indicated in the Company's reply comments, OTP has a five-year credit facility agreement that allows it to borrow up to \$170 million of short-term debt. This agreement expires on October 29, 2019. Based on Minn. Rule 7825.1300, the Company states that it may need a variance to this rule to allow it to treat borrowing under its credit facility as a short-term debt. The Department agrees.

Minn. Rule 7829.3200 provides the following three-part test to allow for a variance:

The commission shall grant a variance to its rules when it determines that the following requirements are met:

- A. enforcement of the rule would impose an excessive burden upon the applicant or others affected by the rule;
- B. granting the variance would not adversely affect the public interest; and
- C. granting the variance would not conflict with standards imposed by law.

OTP discussed the three requirements on pages 3 through 4 of its Reply Comments, and concluded that its request for a variance to treat borrowing from its credit facility as a short-term debt meets the above-stated three requirements. After reviewing the Company's arguments, the Department concludes that the Company's requested variance to Minn. Rule 7825.1300 meets Minn. Rule 7829.3200.

## III. DEPARTMENT RECOMMENDATIONS

Based on its review and analysis of OTP's 2015 capital structure petition and OTP's May 28, 2015 Reply Comments, the Department recommends that the Commission:

1. Approve OTP's requested capital structure; this approval to be in effect until the 2016 capital structure Order is issued. OTP shall file its next securities issuance petition no later than May, 2016.
2. Approve OTP's equity ratio of 52.1 percent and a contingency range of minus/plus 10 percent around the approved equity ratio (46.9% to 57.3%). Equity ratios outside this range may not exceed a period of 60 days without prior Commission approval.
3. Approve OTP's proposed total capitalization of \$960,273,000 with a contingency cap of 10 percent (or \$1,056,300,000). The Company may not exceed its total capitalization, including the requested contingency amount, for a period exceeding 60 days without prior Commission approval.

4. Approve OTP's request to issue short-term debt not to exceed 15 percent of OTP's total capitalization (i.e., \$144,040,950). OTP's short-term debt may not exceed 15 percent of its total capitalization for a period exceeding 60 days without prior Commission approval.
5. Approve any securities issuance during this period in which this Order is in place that would not result in an equity ratio outside the approved range. Securities issuances resulting in an equity ratio outside this range may not exceed a period of 60 days without prior Commission approval.
6. Require OTP to provide, within 20 days after each non-recurring issuance of securities, the following information:
  - a. The specific purposes for individual issuances;
  - b. The type of issuances;
  - c. The timing of issuances;
  - d. The amounts of issuances;
  - e. Issuance costs (for common equity issuances, including price per share); and
  - f. Interest rates.
7. Require OTP to provide, in its next capital structure filing, an exhibit showing a general projection of capital needs, projected expenditures, anticipated sources and anticipated timing, with the understanding that such exhibit is not intended to require dollar-for-dollar on the uses identified in the exhibit or to limit issuances to project specific financing. The exhibit need not list short-term, recurring security issuances.
8. Require OTP to provide in its next annual structure filing, a schedule comparing its actual capital investments in the past year with the capital investments projected by OTP in its previous capital structure filing.
9. Require OTP to provide in its next annual capital structure filing, the Company's investment plan not only for the next year, but for at least the next five years.
10. Approve OTP's request for a variance to allow it to treat any loan under its multi-year credit facility as a short-term debt and require OTP to report on its use of such facilities, including:
  - how often they are used;
  - the amount involved;
  - rates and financing costs; and
  - the intended uses of the financing.

## **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  
Response Comments**

**Docket No. E017/S-15-411**

**Dated this 3<sup>rd</sup> day of June 2015**

**/s/Sharon Ferguson**

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