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March 3, 2014

Burl W. Haar
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/D-13-795

Dear Dr. Haar:

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

 Otter Tail Power Company's (OTP's) 2013 Five-Year Review of Depreciation Certification.

The Department recommends **approval, with modifications**, and is available to answer any questions the Minnesota Public Utilities Commission may have.

Sincerely,

/s/ CRAIG ADDONIZIO
Financial Analyst

CA/lt
Attachment



BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

COMMENTS OF THE
MINNESOTA DEPARTMENT OF COMMERCE
DIVISION OF ENERGY RESOURCES

DOCKET No. E017/D-13-795

I. SUMMARY OF FILING

On September 3, 2013, Otter Tail Power Company (Otter Tail or the Company) filed its 2013 Five-Year Review of Depreciation Certification Petition (2013 Depreciation Petition) in which it proposed numerous changes to the remaining lives and salvage rates of its production facilities, as well as changes to the depreciation parameters and rates of many of its transmission, distribution, and general plant accounts. If approved, the net effect of the changes proposed in the 2013 Depreciation Petition would be a reduction in annual depreciation expense of \$3.0 million, or 7.46 percent.

On January 17, 2014, the Minnesota Department of Commerce, Division of Energy Resources (the Department) filed Comments in which it recommended approval of most of the proposed changes, but recommended that the Company delay a proposed life extension for its Big Stone plant, and requested additional information regarding the proposed salvage rates for three general plant accounts.

On February 18, 2014, Otter Tail filed Reply Comments in which it accepted the Department's recommendation regarding Big Stone's remaining life, and provided the information requested by the Department regarding the proposed salvage rates for the three general plant accounts.

II. DEPARTMENT ANALYSIS

A. REMAINING LIFE OF BIG STONE

In the 2013 Depreciation Petition, Otter Tail proposed to extend the remaining life of its Big Stone plant by 17.8 years, from 14.2 to 32.0, pursuant to the installation of an Air Quality Control System (AQCS), which is expected to be placed in service in late 2015. As stated in its Comments, the Department prefers that life extensions resulting from capital projects be delayed until the projects are placed in service, and recommended that the Minnesota Public Utilities Commission (Commission) require the Company to retain its current anticipated year of final retirement of 2027, which would result in a remaining life of approximately 14.2 years. The Department stated that Otter Tail can propose a life extension for Big Stone in its next depreciation study, at which time the Department and the Commission can reevaluate the progress of the AQCS project and its expected in-service date.

In its Reply Comments, Otter Tail stated that it accepts the Department's recommendation.

As explained in the Department's Comments, the change in Big Stone's remaining life also impacts its salvage rates. Attachment A to Otter Tail's Reply Comments contains Big Stone's salvage rates recalculated using the Department's recommended remaining life. The Department reviewed the new salvage rates and concludes that they are reasonable.

B. SALVAGE RATES OF ACCOUNTS 390.10, 390.20, AND 390.30

In the 2013 Depreciation Petition, Otter Tail proposed significant changes to the salvage rates of General Plant Accounts 390.10, 390.20, and 390.30, summarized in the table below.

Table 1
Proposed Salvage Rate Changes

Account No.	Description	Salvage Rate		Depreciation Expense (Total Company)		
		Current	Proposed	Current	Proposed	Difference
390.10	General Office Buildings	-5.00%	51.20%	\$ 204,846	\$ 24,360	\$ (180,486)
390.20	Fleet Service Center Building	-5.00%	38.60%	29,753	1,875	(27,878)
390.30	Central Stores Building	-5.00%	95.50%	96,433	(83,549)	(179,982)
Total				\$ 331,032	\$ (57,314)	\$ (388,346)

Source: 2013 Depreciation Petition

As described in the Department's Comments, the salvage rates for Accounts 390.10, 390.20, and 390.30, are developed using a method similar to the method used to develop the salvage rates for Company's production plants. In short, the property in each of these three accounts is comprised of a single facility, and Otter Tail derives an estimate of the costs it would incur if it retired each facility today. Otter Tail then inflates those cost estimates at a rate of two percent per year to the anticipated year of final retirement (AYFR). The resulting inflated cost estimate, with a small adjustment for interim retirements, is then divided by the account's plant balance, yielding the salvage rate.

As described in the Department's Comments, Otter Tail assumed in its 2013 Depreciation Petition that the most likely terminal scenario for these facilities is that they will be sold as working units, rather than retired and demolished. The Company therefore used each property's assessed property tax valuation as the cost it would incur if it retired and sold the facilities today (which in this case is a negative cost, or a benefit), and inflated those property tax valuations to each facility's AYFR.

In its Comments, the Department stated that it was unable to determine exactly what changes to Otter Tail's policies or assumptions caused the large changes in the proposed salvage rates, and requested that the Company provide additional information in Reply Comments.

In its Reply Comments, Otter Tail stated that, historically, the salvage rates for these accounts have reflected only interim retirements, but did not reflect any expected salvage at final retirement. While preparing the 2013 Depreciation Petition, Otter Tail determined that this practice was no longer accurate and reassessed the final retirement scenarios for these facilities, as described above, ultimately resulting in the changes shown in Table 1.

The Department notes that while the proposed change negatively impacts ratepayers, a five-year depreciation study is an appropriate time for the Company to reassess its assumptions regarding the final retirement scenarios of these facilities. Based on the information provided in the Company's Reply Comments, the Department concludes that the proposed salvage rates represent the Company's best predictions regarding the future of these facilities, and that they are reasonable.

III. CONCLUSION

The Department recommends that the Commission:

- 1.) Approve the proposed service lives, salvage values and depreciation rates from Otter Tail's 2013 Depreciation Petition, except for the lives and salvage rates proposed for the Big Stone plant;
- 2.) Approve the lives and salvage rates proposed for the Big Stone plant contained in Attachment A to the Company's Reply Comments;

- 3.) Require Otter Tail to provide a comparison of its last rate case's short-term peaking capacity costs to the peaking capacity costs of the new generators once Otter Tail decides on the peaking option it will pursue;
- 4.) Require Otter Tail to file its next annual depreciation study by September 1, 2014;
- 5.) Require OTP to file its next five-year depreciation study by September 1, 2018; and
- 6.) Require OTP to include in future depreciation filings a table comparing asset lives used for the purposes of the Company's resource planning with the remaining lives proposed in the depreciation filings, explaining any differences.

/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
Reply Comments**

Docket No. E017/D-13-795

Dated this 3rd day of March 2014

/s/Sharon Ferguson

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