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December 2, 2019



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 Comments**

Dear Mr. Wolf:

Otter Tail Power Company (Otter Tail) hereby submits Reply Comments to the Minnesota Department of Commerce's November 7, 2019 Comments in Otter Tails 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

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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 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. The Minnesota Department of Commerce, Division of Energy Resources (Department) filed Comments on November 7, 2019.

These Reply Comments respond to the Department's recommendation for a one-year reduction in remaining lives for several key plant in-service accounts as noted in Table 2 of the Department's Comments. Otter Tail disagrees with the Department's recommendation for a one-year reduction in remaining lives for the following reasons:

- 1) The Department misconstrued Otter Tail's Petition when it calculated the ending year for depreciation of these assets (i.e. the Department appears to have omitted the 2020 year from its calculation), and therefore the ending year for depreciation of these assets will occur on the schedule recommended by the Department in its Comments;
- 2) Otter Tail's current treatment of the depreciation of these assets is what was used to set depreciation expense in its most recent rate case (and all its rate cases) and therefore the current treatment is reflected in current rates;
- 3) Because of the very short remaining life for Hoot Lake Plant, reducing its remaining life by one-year would dramatically increase its annual depreciation expense. Given that Otter Tail is not currently in a rate case, Otter Tail would not have an opportunity to recover that increased expense. Otter Tail's decommissioning of Hoot Lake Plant

and how it is accounted for is expected to be a matter of significant consideration in Otter Tail's next rate case. To the extent any changes are to be considered relating to the accounting for that facility, they should be done in that context.

Additionally, in these Reply Comments Otter Tail confirms its support for the Department's recommendations for the filing of additional information.

II. The Department's recommendation to reduce by one year the remaining lives of certain plant accounts identified in the Department's Table 2 misconstrues Otter Tail's Petition; the ending year for depreciation of these assets will in fact occur on the schedule recommended by the Department without any further adjustment.

The Department recommends the Commission "[r]equire the remaining life values to be reduced by one year for the Fleet Service Center Building (General Plant) and all plant accounts relevant to the Production Plant listed in Table 2 of these comments...."¹ The Department's recommendation is based on its understanding that "several of the requested remaining-life values for certain plant having forecasted retirement dates do not appear to have been appropriately adjusted for the targeted use period commencing in the year 2020." Specifically the Department's recommendation stems from its concern that the proposed remaining life values "would cause the ending year for depreciation accrual to stretch into the second post retirement year of that plant...."² According to the Department "it is plausible that depreciation may be recorded in the year following the retirement year with the use of the mid-year depreciation convention; however, use of that convention does not reasonably support depreciation accruals to stretch into the second year following the retirement year."³

As an example, the Department notes that if Otter Tail's proposed remaining life of 2.49 years for Hoot Lake Plant Units 2 & 3 (collectively "Hoot Lake Plant"), it will result in full depreciation not being achieved until June 2023 – two full years after the units' retirement date of June 2021.⁴

¹ Department Comments p. 10. The Plant Accounts to which the Department's recommendations apply per the Department's Table 2 on page 4 of the Department's Comments include Otter Tail's Hoot Lake Plant (Units 2 & 3) which is scheduled to retire in June 2021, Hydraulic Plant, Otter Tail's wind generation facilities and peaker units, and the Fergus Falls Control Center Backup Generator and Fleet Center facilities. The Department's recommendation excludes the Hoot Lake Units 2 & 3 Landfill (Account 312.1).

² Department Comments p. 4.

³ Department Comments p. 5.

⁴ Department Comments pp. 4-5.

Otter Tail respectfully disagrees. In no instance will depreciation carry two years beyond a plant retirement date. It appears that in constructing its Table 2, the Department inadvertently did not count the year 2020 when calculating the number of years for which depreciation will accrue. The following simple timeline illustrates this point:

Otter Tail Table 1

Otter Tail Power Company			
Demonstration of Plant in Service Remaining Lives			
Remaining Live Demonstration			
	January 1st	~June 30th	December 31st
2020	2.49	→ 1.49	
2021	1.49	→ 0.49	
2022	0.49	→ 0	
Table 1			

The following Table 2 reflects a correction of the data presented in the Department's tables 2 and 3.

Otter Tail Table 2

Plant Remaining Lives and Retirement Dates					
Requested Effective Date:	1/1/2020				
	Requested Remaining Life	Retirement Point	Average Year of Final Retirement	Variance in Months	DOC Table
<u>Steam Production:</u>					
Hoot Lake Plant - Units 2 & 3	2.49	Jun-2022	2021	6	2
Big Stone	26.53	Jul-2046	2046	0	3
Coyote	21.83	Oct-2041	2041	0	3
<u>Hydraulic Production:</u>					
All Plant	2.49	Jun-2022	2021	6	2
<u>Other Production:</u>					
Jamestown Units 1 & 2	14.22	Mar-2034	2033	3	2
Lake Preston	14.22	Mar-2034	2033	3	2
Fergus Falls Control Center	11.32	Apr-2031	2030	4	2
Solway	19.01	Jan-2039	2038	1	2
Langdon	13.27	Apr-2033	2032	4	2
Ashtabula	14.23	Mar-2034	2033	3	2
Luverne	15.19	Mar-2035	2034	3	2
Merricourt	25.00	Dec-2044	2045	(1)	3
<u>General Plant:</u>					
Fleet Service Center Buildings	16.14	Feb-2036	2035	2	2
General Office Building	20.89	Nov-2040	2040	0	3
Central Stores Building	25.55	Jul-2045	2045	0	3

The assets in bold text appear in the Department’s Table 2. The variance column reflects the number of months between the end of the average year of final retirement and the retirement point based on Otter Tail’s proposed remaining lives. With respect to Hoot Lake Plant, if the Commission approves Otter Tail’s proposed remaining life of 2.49 years, depreciation expense will end in June of 2022, one year after the scheduled retirement date of the plant. A similar analysis applies to the other facilities identified in Table 2. If the remaining lives Otter Tail has proposed are approved, depreciation expense for Hoot Lake Plant and the other assets will be complete the year following retirement, which is the same schedule the Department recommends in its Comments. No further adjustments are necessary.

III. Otter Tail’s current treatment of the depreciation of these assets was used to set depreciation expense for inclusion in rates, and if any change to this methodology were to be considered, it should be done in a rate case proceeding.

Otter Tail’s treatment of the depreciation of these assets is what was used to establish the annual depreciation expense for setting rates, and therefore if any change to the accounting methodology were to be made, it should be done in a rate case proceeding.⁵

The pending retirement of Otter Tail’s Hoot Lake Plant in June 2021 illustrates why any adjustments to remaining lives should occur in a rate case proceeding and not in this docket. Because of the very short remaining life for Hoot Lake Plant, reducing its life for depreciation by one-year would dramatically increase the annual depreciation expense for the facility. Otter Tail forecasts for 2020 that reducing the remaining life for Hoot Lake Plant by one year would result in an increase in depreciation expense of \$2.5 million dollars annually, or 63.5% over the current forecast level. If Otter Tail were to reduce all plant assets remaining lives listed in the Department’s Table 2 by one year, the overall depreciation expense increase forecasted for 2020 would be approximately \$4.5 million dollars. This is an abrupt and material change in expense, and because Otter Tail is not currently in a rate case, Otter Tail would not have an opportunity to recover this increased expense through rates.⁶

Otter Tail’s decommissioning of Hoot Lake Plant and how it is accounted for is expected to be a matter of significant consideration in Otter Tail’s next rate case. To the extent any changes are to be considered relating to the accounting for the end of that facility’s life, it should occur in that context and not in this proceeding.

IV. Department recommendation for additional information.

The Department has made several recommendations it believes will increase the transparency of Otter Tail’s depreciation practices and filings:

⁵ Otter Tail’s most recent rate case was filed in 2015, with the Commission issuing its findings and order in May 2017. *In the Matter of the Application of Otter Tail Power Company for Authority to Increase Rates for Electric Service in Minnesota*, Finding of Fact, Conclusions, and Order, May 1, 2017. Otter Tail’s other general rate cases were filed in Docket No. E-017-GR-07-1178 and Docket No. E-017/GR-10-239.

⁶ Such an abrupt and material increase in depreciation expense would likely compel Otter Tail to file a general rate case in early 2020.

- Require OTP to file in this Petition docket E017/D-19-547 by January 31, 2020, or the earliest reasonable date, the Company’s calculated depreciation rates that it will actually apply in 2020;
- Require OTP to file annually in future depreciation dockets, by January 31 of the subsequent year, or the earliest reasonable date, providing the Company’s calculated depreciation rates that it will apply in the subject calendar period;
- Require OTP to include in future depreciation filings a table comparing asset lives used for the purpose of the Company’s resource planning with the remaining lives proposed in the depreciation filings, explaining any differences;⁷

Otter Tail supports these recommendations. Note however that while Otter Tail can provide the calculated depreciation rates that it proposes to use in 2020 by January 31, 2020, changes may occur that are dependent on the Commission’s approval of Otter Tail’s proposed remaining lives and salvage percentages. Accordingly, Otter Tail proposes to submit an annual Informational Filing by January 31st or within 30 days after receiving the Commission Order approving the Company’s annual depreciation filing (should the Order be received after the petition’s stated effective date of January 1st).

V. Response to information requested in the Department’s footnote 8.

The Department invited Otter Tail to address an issue concerning Hydraulic Production Plant in Docket No. E017/D-97-1347.⁸ The Department notes “it appears that in 1998 OTP did not use the remaining life values approved for its Hydraulic Production Plant in Docket No. E017/D-97-1347 (as well as the values for its Other Production plant) (See note A); rather it appears that OTP inadvertently repeated use of the prior year’s (1997) approved values for this plant. This action appears to have effectively extended the calculated remaining life of this plant going forward.”

Otter Tail respectfully disagrees with the Department’s conclusion. Otter Tail reduced the certified remaining lives of its hydraulic and other production plant by one year in recognition of the passage of one year from 1997 to 1998. The Department references the 1998 Statement I, Summary of Annual Depreciation Accruals for 1998⁹ which provides a January 1 view of projected depreciation accruals for the upcoming year, utilizing updated remaining lives and

⁷ Department Comments pp.10-11.

⁸ Department Comments pp. 5-6. The Department notes this may be a situation of “an adjustment that was omitted years ago that OTP chose not to correct.” Department Comments p. 5.

⁹ Docket No. E017/D-03-1555 (five-year study).

salvage percentages for the year. Statement I is prepared for analytical purposes only and assumes that all other depreciation expense variables for that year are held constant. This means that no plant in service additions, retirements, transfers or adjustments are contemplated for that upcoming year.¹⁰ A better report for the review of actual historic depreciation reserve transactions posted for a given year is found in Statement H, which is a December 31st reflective view of actual depreciation reserve postings. While Statement I shows a projected depreciation expense for 1998 of \$23,112 for Hydraulic Production, and \$269,876 for Other Production, Statement H (for 1998 in the same 5-year depreciation filing) shows \$24,246 and \$284,504 of actual depreciation accruals for Hydraulic Production and Other Production; the differences between schedules are driven by intermittent plant in service additions and/or retirements posted on the Company's book throughout 1998. The 1998 Statement H depreciation expense was calculated through depreciation rates utilizing the remaining life of on average 22.55 years. Account 333's depreciation expense calculated with a 22.57 year remaining life assumption reconciles to Statement H actuals of \$12,277, while the hypothetical calculation assuming an extra year of remaining life would be off by over \$500 ($((1-.3716)/22.57)*440,900) = \$12,277$, vs. $((1-.3716)/23.57)*440,900) = \$11,775$. Otter Tail notes that this analysis regarding Hydro Depreciation expense for 1998 holds true to the Other Production class of production plant assets as well.¹¹

VI. Conclusion.

Based on the foregoing, Otter Tail respectfully requests the Commission to issue an order approving Otter Tail's 2019 depreciation certification as submitted. To the extent the Commission deems any adjustments are necessary to the remaining lives of plant identified in the Department's Table 2, Otter Tail requests deferring potential remaining life adjustments to Otter Tail's next general rate case.

¹⁰ Stated differently, Statement I is a January 1st projected view which is useful for upcoming projected cost comparative analysis, assuming all other things are held constant.

¹¹ As stated previously and in reference to footnote 8, point B, Statement I is not intended to depict actual depreciation expense posted to the general ledger in that year, but it is a prospective "look ahead" to what depreciation expense might be in the year to come, if no other changes are made to the plant in service accounts. If the Department still has further questions regarding accounts 368 (2004), 390.00, 390.10, 390.20, 390.30 and 397.40 (2004), in light of comparing depreciation expense for a stated year against that's years Statement H, rather than Statement I, Otter Tail can provide that information.

Dated: December 2, 2019

Respectfully submitted,

OTTER TAIL POWER COMPANY

/s/ LOYAL K. DEMMER

Loyal K. Demmer, CMA

Senior Depreciation Accountant

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/s/ CARY STEPHENSON

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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 Comments**

Dated this **2nd** day of **December 2019**.

/s/ Rebecca Hasse
Rebecca Hasse
Regulatory Filing Coordinator
Otter Tail Power Company
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