

March 27, 2019

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/D-18-568

Dear Mr. Wolf:

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) 2018 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/ DALE V. LUSTI
Financial Analyst

DVL/ja
Attachment

Before the Minnesota Public Utilities Commission

Comments of the Minnesota Department of Commerce Division of Energy Resources

Docket No. E017/D-18-568

I. SUMMARY OF FILING

On August 31, 2018, Otter Tail Power Company (Otter Tail, OTP or the Company) filed its 2018 Five-Year Review of Depreciation Certification Petition (2018 Depreciation Petition or petition) in which it requested approval of changes to the lives and salvage rates of a number property accounts. If approved, the net effect of the proposed changes would be an increase in annual depreciation expense of \$643,904, or 1.21 percent. The Company requested an effective date of January 1, 2019 for its proposed depreciation parameters.

On December 31, 2018, the Minnesota Office of the Attorney General – Residential Utilities and Antitrust Division (OAG), filed Comments recommending that the Minnesota Public Utilities Commission (Commission) allow the Company to recover only costs for the customer information systems (CIS) that are used and useful, order the Company to use an appropriate amortization period for its new CIS (CISone), and prohibit the Company from using group accounting for large capital assets.

On January 29, 2019, the Minnesota Department of Commerce, Division of Energy Resources (Department) filed Comments taking exception to OTP's proposed software amortization period for its new CISone, and requesting additional information regarding group accounting for large assets like office buildings.

On February 20, 2019, Otter Tail submitted Reply Comments in this proceeding disagreeing with the OAG's recommendations, by stating the following:

- It is not necessary to reduce rate base in future rate cases for Legacy Customer Information System related software that has been fully amortized;
- The 10-year amortization period for New Cayenta Utilities CIS is reasonable and supported by the anticipated life of the asset;
- Group accounting for software as practiced by Otter Tail does not impede or make difficult regulatory review; and
- Otter Tail's use of group accounting for office buildings and production plants is cost effective and does not impede regulatory review.

The Department notes that references to the new CISone and the New Cayenta Utilities CIS are synonymous.

The February 20, 2019 Otter Tail filed Reply Comments to address the Department's Comments as follows:

- The 10-year amortization period for New Cayenta Utilities CIS is fully supported by the anticipated life of the asset; and
- The Department's concerns regarding group accounting are not justified as applied by the Company.

II. DEPARTMENT ANALYSIS

A. INTANGIBLE SOFTWARE AMORTIZATION PERIODS

In its Reply Comments, the Company acknowledged its current legacy CIS had a service life of 30 years. However, the Company qualified the 30 year life by stating:

The extraordinary service life of the legacy system is the result of its being custom built by Otter Tail employees and the dedication of those employees to support the system well beyond what was originally anticipated. That kind of service for any technology system is not likely to be replicated. The new Cayenta system is not expected to be operable for 30 years given current technology demands and advancements and customer expectations.

The Department agrees with the Company that a 10-year amortization period for CIS software assets was part of the approved depreciation filing in Minnesota Power Docket No. E015/D-17-114; however, given Otter Tail's history of using its previous CIS for 30 years, it is reasonable to assume that the useful life of the CISone software would be half of that period.

In addition, as noted in the Department's January 29, 2019 Comments, the Commission approved a 15-year useful life for MERC's customer information system (CIS) in Docket No. G011/GR-15-736.

Also, as noted in the Department's January 29, 2019 Comments, Xcel Energy witness Lisa Perkett in Docket No. E002/GR-15-826 discussed a Work and Asset Management (WAM) system as follows:

My testimony discusses the asset because we are requesting that the WAM system be assigned a 15-year amortization period, the same amortization period approved for the new general ledger system on SAP.

The Department concludes that OTP's proposal to amortize its new CIS system over 10 years is too short of a period and does not match its expected useful life. The Department recommends a more appropriate 15-year amortization period, which is similar to what the Commission approved in MERC's recent rate case as described above; and similar to the work and asset management system, and general ledger system used by Xcel. As noted above, OTP's previous CIS system was in service for over 30 years.

B. GROUP ACCOUNTING FOR LARGE ASSETS LIKE OFFICE BUILDINGS

In its January 29, 2019 Comments, the Department discussed the situation in the most recent MERC rate case in Docket No. G011/GR-17-563, where just prior to the beginning of the rate case test year, MERC moved staff out of an old office building into a new office building. The old office building was subsequently demolished. The Parties disagreed on how to adjust MERC's rate base to appropriately reflect the retirement of the building from the useful life.

In the above-mentioned Comments, the Department included the OTP January 22, 2019 Response to Information Request MN-DOC-006, which asked a hypothetical question about how OTP would respond to the Commission regarding an office building retirement situation, similar to that in the MERC rate case referenced above. The Department then included the entire OTP response.

Although the Company's response was compelling, the Department concluded that OTP did not fully justify continuing to use group accounting for large assets since the example the Company provided does not address a situation in which the asset would have been fully depreciated before it was no longer used and useful, but for the chosen accounting treatment. Therefore, the Department requested that OTP, in its Reply Comments, provide additional information about its group accounting procedures that would provide the Commission assurance that, if the MERC-type situation did arise, OTP could separately depreciate the assets.

In its February 20, 2019 Reply Comments, the Company stated:

The goal of good physical plant-in-service asset depreciation accounting is to anticipate and incorporate assets remaining lives and salvage percentages as closely as possible as to what is expected to happen. Otter Tail's response reflects this goal. Otter Tail explained how through proper physical asset accounting

methods Otter Tail would have anticipated future retirements and hypothetically adjusted them to adequately reflect the assets cost over its actual physical life.

Assuming for analysis that a MERC-type situation arose, Group Depreciation as practiced by Otter Tail would allow Otter Tail to separately identify all applicable assets along with their historic costs and accumulated depreciation balances. Any accounting treatment, whether group accounting or individual, will yield the same result if the correct remaining life is estimated, a major reason the Commission certifies the remaining lives and salvage percentages of Minnesota's regulated utilities that utilize the Remaining Life technique on an annual basis. Under the Vintage Group accounting procedure, the same retirement transaction details are available as any other depreciation procedure including the item or individual procedures.

In its Reply Comments, the Company also included an attachment that it believes:

Illustrates that the Commission would be able to ascertain full details associated with the retirement of a large asset such as an office building...The report provides asset details of all the individual assets maintained. In addition to the Vintage Group's (or individual asset if needed) the historic costs, allocated accumulated depreciation reserves are also maintained at the individual asset level. The reserve ratio and the net book values are readily available. From this Vintage Group's listing from its Continuing Property Records all asset retirement accounting record information can be ascertained. Nothing is lost by using the Vintage Group depreciation procedure. Otter Tail, which is essentially individually depreciating its Vintage Group assets, can support and supply any pertinent plant-in-service retirements both at or before those assets are fully depreciated.

The Department believes that Otter Tail has provided helpful information to support that its method of Group Accounting would provide the necessary detailed information to respond to situations and/or concerns of the Department and Commission. Thus, the Department recommends that the Commission approve Otter Tail's proposed group accounting, with the condition that the Company may not argue in a subsequent rate case that group accounting alone would prohibit the Commission from making adjustments to the Company's rates, should a situation similar to the MERC circumstances arise. In addition, the Department recommends that the Commission require Otter Tail to continue to maintain information about each of the major components (such as buildings) in the Company's group accounting.

C. EFFECTIVE DATE OF PROPOSED DEPRECIATION PARAMETERS AND RATES

As noted above, OTP requested that the depreciation parameters and rates proposed in its petition, upon certification by the Commission, become effective January 1, 2019. The proposed effective date is consistent with the Commission's Orders in OTP's previous depreciation dockets, and the Department concludes that it is reasonable.

III. CONCLUSION

The Department recommends that the Commission:

1. Approve the proposed service lives, salvage values and depreciation rates from Otter Tail's 2018 Depreciation Petition, except for the Amortization period for its legacy CIS software, which should be set at 15 years, and subject to the following as to approval of group accounting:
 - Otter Tail may not argue in a subsequent rate case that group accounting alone would prohibit the Commission from making adjustments to the Company's rates, and
 - Otter Tail must continue to maintain information about each of the major components (such as buildings) in the Company's group accounting;
2. Require Otter Tail to file its next annual depreciation study by September 1, 2019;
3. Require Otter Tail to file its next five-year depreciation study by September 1, 2023;
4. Require Otter Tail in its next five-year depreciation study to include the supporting schedules for each of its transmission, distribution, and general plant accounts in future depreciation filings; and
5. Require that Otter Tail in its first depreciation filing that includes new peaking generators, to compare the last rate case's short-term peaking capacity costs of the new generators.

/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
Response Comments**

Docket No. E017/D-18-568

Dated this 27th day of March 2019

/s/Sharon Ferguson

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_18-568_D-18-568
Ray	Choquette	rchoquette@agp.com	Ag Processing Inc.	12700 West Dodge Road PO Box 2047 Omaha, NE 68103-2047	Electronic Service	No	OFF_SL_18-568_D-18-568
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_18-568_D-18-568
Loyal	Demmer	ldemmer@otpc.com	Otter Tail Power Co.	215 South Cascade Street PO Box 496 Fergus Falls, MN 565380496	Electronic Service	No	OFF_SL_18-568_D-18-568
Ian	Dobson	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_18-568_D-18-568
James C.	Erickson	jericksonkbc@gmail.com	Kelly Bay Consulting	17 Quechee St Superior, WI 54880-4421	Electronic Service	No	OFF_SL_18-568_D-18-568
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_18-568_D-18-568
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_18-568_D-18-568
Shane	Henriksen	shane.henriksen@enbridge.com	Enbridge Energy Company, Inc.	1409 Hammond Ave FL 2 Superior, WI 54880	Electronic Service	No	OFF_SL_18-568_D-18-568
Douglas	Larson	dlarson@dakotaelectric.com	Dakota Electric Association	4300 220th St W Farmington, MN 55024	Electronic Service	No	OFF_SL_18-568_D-18-568

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
James D.	Larson	james.larson@avantenergy.com	Avant Energy Services	220 S 6th St Ste 1300 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_18-568_D-18-568
Kavita	Maini	kmairi@wi.rr.com	KM Energy Consulting LLC	961 N Lost Woods Rd Oconomowoc, WI 53066	Electronic Service	No	OFF_SL_18-568_D-18-568
Andrew	Moratzka	andrew.moratzka@stoel.com	Stoel Rives LLP	33 South Sixth St Ste 4200 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_18-568_D-18-568
Larry L.	Schedin	Larry@LLSResources.com	LLS Resources, LLC	332 Minnesota St, Ste W1390 St. Paul, MN 55101	Electronic Service	No	OFF_SL_18-568_D-18-568
Cary	Stephenson	cStephenson@otpc.com	Otter Tail Power Company	215 South Cascade Street Fergus Falls, MN 56537	Electronic Service	No	OFF_SL_18-568_D-18-568
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_18-568_D-18-568
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_18-568_D-18-568