

January 13, 2016

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/M-15-874

Dear Mr. Wolf:

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

Otter Tail Power Company's Petition for Approval of its Transmission Cost Recovery Rider Annual Adjustment.

Supplemental Comments were filed on December 21, 2015 by:

Bryce C. Haugen
Rates Analyst
Otter Tail Power Company
215 South Cascade Street
Fergus Falls, Minnesota 56538

The Department recommends that the Commission approve OTP's TCR Rider Petition as updated in the Company's December 21, 2015 Supplemental Comments. The Department is available to answer any questions the Commission may have.

Sincerely,

/s/ MICHAEL N. ZAJICEK
Rates Analyst

MNZ/lt
Attachment

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

RESPONSE COMMENTS OF THE
MINNESOTA DEPARTMENT OF COMMERCE
DIVISION OF ENERGY RESOURCES

DOCKET No. E017/M-15-874

I. BACKGROUND

On September 30, 2015, Otter Tail Power Company (OTP or the Company) filed a petition for approval of the Company's Transmission Cost Recovery Rider (TCR Rider) annual adjustment with the Minnesota Public Utilities Commission (Commission). On October 28, 2015 the Minnesota Department of Commerce (Department) filed comments requesting that OTP file further information to explain: 1) whether any of the Company's projects included the TCR Rider were over their respective cost cap, and 2) to explain the calculations resulting in the difference in value between Total Schedule 26 Revenue (Line 1 of OTP Attachment 12) and Schedule 26 Revenue (Line 8 of OTP Attachment 12).

On November 9, 2015, OTP submitted reply comments to provide the Department's requested information. The Company stated that the costs of projects in OTP's TCR Rider have not exceeded OTP's portion of the cost cap for the projects.

On December 21, 2015, OTP submitted supplemental comments to correct a calculation error in Attachment 12 of the initial filing and to address the impact of pro-rating its Accumulated Deferred Income Taxes (ADIT) in compliance with recent Private Letter Rulings issued by the Internal Revenue Service (IRS). OTP states that these adjustments have the following effects (a positive/negative number indicates an increase/decrease in costs to ratepayers):

Category	Effect on Rider
IRS Private Letter Ruling for forecasted period	\$50,039
IRS Private Letter Ruling for prior period	\$7,562
Correction of error in forecasted period	(\$483,535)
Correction of error in prior periods	(\$123,080)
Total	(\$549,014)

II. DOC ANALYSIS

The Department addresses OTP's Reply and Supplemental comments separately below.

A. OTP'S REPLY COMMENTS

In its reply comments the Company provided Table 1, reproduced below, to demonstrate that the costs of the projects included in OTP's TCR Rider (Column F) have not exceeded OTP's portion of the cost cap (Column E).¹ The Department concludes that this information is reasonable.

TABLE 1

A	B	C	D	E	F
Project	CON/TCR Eligibility Docket #	Estimated Cost in Approved CON/TCR Eligibility Docket (millions)	Otter Tail Ownership Percentage	Otter Tail's Share of Total Estimated Costs (millions)	Otter Tail's Current Estimated Cost at Completion (millions)
Fargo-Monticello	CN-06-1115 (CON)	\$640.0	13.2%	\$84.5	\$80.2
Brookings-Hampton	CN-06-1115 (CON)	\$669.6	4.1%	\$27.5	\$26.0
Ramsey	M-12-514 (TCR Eligibility)	\$0.9	100.0%	\$0.9	\$0.4

OTP also provided comments explaining that Line 1 of Attachment 12 contains Schedule 26 Revenue from all projects subject to a MISO tariff, including those that are not included in the TCR Rider, while Line 8 of Attachment 12 includes only revenues from projects that are included in the TCR Rider. The Department appreciates the Company's clarification.

B. OTP'S SUPPLEMENTAL COMMENTS

1. Proration of Accumulated Deferred Income Taxes

In its supplemental comments OTP addressed two issues. First the Company addressed an issue that came to OTP's attention after the initial filing in this docket that emerged due to an IRS rule interpretation related to the normalization of ADIT in a forward-looking test year used for ratemaking purposes. OTP stated that many utilities, including OTP, were made aware of the rule through a series of Private Letter Rulings issued by the IRS to a number of other utilities.

The Company stated that according to the Private Letter Rulings under IRS Regulation Section 1.167(1)(h)(6) ratemaking procedure and adjustments must be consistent with normalization accounting. OTP stated that IRS Section 1.167(l)(h)(6) defines the procedures a company must use to normalize the impact on rate making if a company elects to use accelerated depreciation methods. According to OTP, this section stipulates that the

¹ The Bemidji project is not listed in the table because, as noted in the Department's comments at page 7, the Commission has already required that OTP limit TCR Rider recovery of the Bemidji project to the amount of the initial cost estimate.

monthly changes to the deferred taxes balance, as calculated by the company, must be prorated prior to computing the average of beginning and ending balances for ADIT. OTP stated that it would risk losing its ability to take accelerated depreciation if it fails to comply with this rule. OTP stated that accelerated depreciation is a significant benefit to ratepayers as ADIT amounts are credited against rate base amounts when establishing rates making adherence to this rule important to Minnesota customers.

OTP stated that it recently completed its analysis and application of the proration methodology to its ADIT balances and has included revised attachments in its supplemental filing that reflect the new ADIT calculation. OTP stated that in its next update to its TCR Rider actual ADIT balances will replace the prorated forecast ADIT balances included in this filing, with the difference between the actuals and prorated forecast amounts incorporated into the true-up applicable to the next collection period. According to OTP, the Company's adherence to this rule results in an increase of \$57,601 to the forecasted revenue requirement in this docket due to the lower ADIT balance as a result of the proration and due to undercollection depicted in the True-up.

OTP proposes to implement this change to the revenue requirement in the current TCR Rider.

The Department notes that, in rider petitions, this approach essentially shifts when the ADIT balances are included in the TCR Rider.² That is, riders have subsequent true-up calculations which replace pro-rated ADIT balances with actual ADIT balances. Thus, the Department concludes that this approach is reasonable in riders as long as the balances are trued-up with interest for the customers on the tracker balance to make ratepayers whole for the time value of money during that period.

Minnesota Statute section 216B.16, subd. 7b merely states that riders allow for "timely" recovery of costs net of revenues. Thus, the burden of proof will be on OTP in next year's TCR Rider to ensure that rate payers are not harmed by this shift due to OTP's choice of using a forecasted rather than historical test period for this rider.

2. Change to Attachment 12 of Initial Filing

The Company also stated that after filing its reply comments the Company identified a formula error in Attachment 12 of its filing. Attachment 12 of its initial filing, which includes Midcontinent Independent System Operator (MISO) Schedule 26 Revenue, failed to include revenues for the Cass Lake – Bemidji for 2016 from Line 6 in its Line 8 totals. Correcting this error resulted in a \$483,535 decrease in the revenue requirement because it increases the Schedule 26 Revenue credit in the overall revenue requirement. Further this correction also led to a \$123,080 decrease in undercollection included in the prior period's true-up balance. In total this correction results in a \$606,615 decrease in the overall revenue requirement for the proposed period.

² The Department notes there is a significant difference between pro-rating ADIT balances in riders as opposed to rate cases, since rate cases do not have a subsequent true-up calculation. As a result, the DOC is more concerned with pro-rated ADIT balances in the context of a rate case.

The Department reviewed this correction and concludes that it is reasonable.

3. Rate Impact

The Company calculated a corrected TCR Rider rate for each class based on the proposed revenue requirement after including the changed proposed for the proration of ADIT and the correction to attachment 12. Table 2 below shows the proposed TCR Rider rates and compares them with the current rates and those initially proposed in this docket.

Table 2: Proposed TCR Rider Rates by Class

Class	Current Rates	Initial Filing Proposed 4/1/16 - 3/31/17 Rates	Supplemental Filing Proposed 4/1/16 - 3/31/17 Rates
Large General Service (per kW)	\$2.058	\$1.444	\$1.342
Controlled Service (per kwh)	\$0.00122	\$0.00072	\$0.00067
Lighting (per kwh)	\$0.00420	\$0.00319	\$0.00296
All Other Service (per kwh)	\$0.00643	\$0.00464	\$0.00431

The proposed rates in OTP's supplemental filing represent a substantial decrease from the previous rates for OTP customers. The Department concludes that the proposed rates are reasonable.

C. RECOMMENDATIONS

Therefore the Department recommends that the Commission approve OTP's TCR Rider Petition as updated by the Company in its supplemental filing. The Department is available to answer any questions the Commission may have.

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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/M-15-874

Dated this **13th** day of **January 2016**

/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_15-874_M-15-874
Julia	Anderson	Julia.Anderson@ag.state.mn.us	Office of the Attorney General-DOC	1800 BRM Tower 445 Minnesota St St. Paul, MN 551012134	Electronic Service	Yes	OFF_SL_15-874_M-15-874
Ray	Choquette	rchoquette@agp.com	Ag Processing Inc.	12700 West Dodge Road PO Box 2047 Omaha, NE 68103-2047	Electronic Service	No	OFF_SL_15-874_M-15-874
James C.	Erickson	jericksonkbc@gmail.com	Kelly Bay Consulting	17 Quechee St Superior, WI 54880-4421	Electronic Service	No	OFF_SL_15-874_M-15-874
Sharon	Ferguson	sharon.ferguson@state.mn.us	Department of Commerce	85 7th Place E Ste 500 Saint Paul, MN 551012198	Electronic Service	No	OFF_SL_15-874_M-15-874
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_15-874_M-15-874
Bryce	Haugen	bhaugen@otpo.com	Otter Tail Power Company	215 S Cascade St Fergus Falls, MN 56538	Electronic Service	No	OFF_SL_15-874_M-15-874
Shane	Henriksen	shane.henriksen@enbridge.com	Enbridge Energy Company, Inc.	1409 Hammond Ave FL 2 Superior, WI 54880	Electronic Service	No	OFF_SL_15-874_M-15-874
Richard	Johnson	Rick.Johnson@lawmoss.com	Moss & Barnett	150 S. 5th Street Suite 1200 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_15-874_M-15-874
James D.	Larson	james.larson@avantenergy.com	Avant Energy Services	220 S 6th St Ste 1300 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_15-874_M-15-874
Douglas	Larson	dlarson@dakotaelectric.com	Dakota Electric Association	4300 220th St W Farmington, MN 55024	Electronic Service	No	OFF_SL_15-874_M-15-874

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
John	Lindell	agorud.ecf@ag.state.mn.us	Office of the Attorney General-RUD	1400 BRM Tower 445 Minnesota St St. Paul, MN 551012130	Electronic Service	Yes	OFF_SL_15-874_M-15-874
Kavita	Maini	kmairi@wi.rr.com	KM Energy Consulting LLC	961 N Lost Woods Rd Oconomowoc, WI 53066	Electronic Service	No	OFF_SL_15-874_M-15-874
Andrew	Moratzka	apmoratzka@stoel.com	Stoel Rives LLP	33 South Sixth Street Suite 4200 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_15-874_M-15-874
Gary	Oetken	goetken@agp.com	Ag Processing, Inc.	12700 West Dodge Road P.O. Box 2047 Omaha, NE 681032047	Electronic Service	No	OFF_SL_15-874_M-15-874
David G.	Prazak	dprazak@otpc.com	Otter Tail Power Company	P.O. Box 496 215 South Cascade Street Fergus Falls, MN 565380496	Electronic Service	No	OFF_SL_15-874_M-15-874
Larry L.	Schedin	Larry@LLSResources.com	LLS Resources, LLC	12 S 6th St Ste 1137 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_15-874_M-15-874
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_15-874_M-15-874
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_15-874_M-15-874