

215 South Cascade Street
PO Box 496
Fergus Falls, Minnesota 56538-0496
218 739-8200
www.otpc.com (web site)



April 10, 2019

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

**RE: Otter Tail Power Company's Petition for Approval of its 2018 Annual Review of Depreciation Certification
Docket No. E017/D-18-568
Reply Comments**

Dear Mr. Wolf:

Otter Tail Power Company (Otter Tail) hereby submits its Reply Comments in the above-referenced matter.

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 Certificate of Service is enclosed.

Please contact me at (218) 739-8659 or ldemmer@otpc.com if you have any questions regarding this filing.

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
2018 Five-Year Review of
Depreciation Certification

Docket No. E017/D-18-568

**OTTER TAIL POWER COMPANY'S
REPLY COMMENTS**

On March 14, 2019 the Minnesota Public Utilities Commission issued its Notice of Comment Period in this matter allowing the Minnesota Department of Commerce, Division of Energy Resources (Department) to provide its final recommendations by March 27, 2019 and all others to provide Reply Comments by April 10, 2019.

On March 27, 2019 the Department filed its final comments requesting 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:
 - i. Otter Tail may not argue in a subsequent rate case that group accounting alone would prohibit the Commission from adjusting the Company's rates, and
 - ii. 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.

Otter Tail Power Company (Otter Tail or Company) appreciates the Department's review and concurs with the Department's recommendations except for the Department's recommended 15-year amortization period for the Company's new customer information system, often referred to as CISone.¹ Otter Tail continues to believe a 10-year amortization period for this asset is more appropriate than a 15-year period.

The Department's position rests in part on the 30-year life of the Company's legacy customer information system. The Department notes the following on page 2 of its Response:

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.* (emphasis supplied).

The extraordinary long-life of the recently retired legacy customer information system is not a suitable benchmark for projecting the useful life of the new CISone system. The 30-year life of the legacy system was the product of unique and unusual circumstances. The legacy system was an internally developed system that operated primarily as a billing engine. Otter Tail maintained the legacy system with internal resources without excessive regard for changing technologies. The new customer information system is different. It is a commercial product with customized features that will operate during a time of fast changing technology and increased customer expectations. The new system is also supported by a maintenance and support agreement with a term of seven years, which more closely supports a 10-year amortization period.

By authorizing a 10-year amortization period the Commission will align the accounting for the new CISone with the amortization periods approved for the system in the Company's other jurisdictions, which will save Otter Tail and its customers the considerable expense of administering different amortization schedules among its jurisdictions.

Finally, the Commission can take note of recent precedent for a 10-year amortization period for a new customer information system. The Commission approved Minnesota Power's

¹The Department's recommendation references Otter Tail's "legacy CIS software" which has been fully amortized. Therefore, Otter Tail understands the Department's recommendation for a 15-year amortization period to apply to the Company's new CISone system rather than the legacy customer information system.

2017 General Plant Depreciation Petition, which included a 10-year amortization period for Minnesota Power's recently implemented, \$17.2 million customer information system.²

Based on the foregoing Otter Tail respectfully requests the Commission to approve its 2018 Depreciation Petition with the conditions recommended by the Department, excluding the Department's recommendation for a 15-year amortization period for the Company's new CISone system.

Dated: April 10, 2019

Respectfully submitted,

OTTER TAIL POWER COMPANY

By: /s/ LOYAL K. DEMMER
Loyal K. Demmer, CMA
Senior Depreciation Accountant
Otter Tail Power Company
215 S. Cascade Street
Fergus Falls, MN 56537
(218) 739-8659
ldemmer@otpc.com

² In the Matter of Minnesota Power's General Plant Depreciation Petition, Docket No. E015/D-17-114.

CERTIFICATE OF SERVICE

**RE: Otter Tail Power Company's Petition for Approval of its 2018 Annual Review of Depreciation Certification
Docket No. E017/D-18-568**

I, Jana Hrdlicka, 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 **10th** day of **April, 2019**.

/s/ JANA HRDLICKA _____

Jana Hrdlicka
Regulatory Filing Coordinator
Otter Tail Power Company
215 South Cascade Street
Fergus Falls MN 56537
(218) 739-8879

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
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

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
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
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