

**STATE OF MINNESOTA  
BEFORE THE PUBLIC UTILITIES COMMISSION**

Dan Lipschultz	Vice Chair
Matthew Schuerger	Commissioner
Katie Sieben	Commissioner
John Tuma	Commissioner

*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**

**REPLY COMMENTS OF THE OFFICE  
OF THE ATTORNEY GENERAL**

**I. INTRODUCTION**

The Office of the Attorney General—Residential Utilities and Antitrust Division (“OAG”) respectfully submits the following Reply Comments in response to Otter Tail Power Company’s (“Otter Tail” or “Company”) Reply Comments (“Otter Tail Comments”), and the Response Comments filed by the Department of Commerce (“Department”). The purpose of these comments is to clarify the OAG’s December 31, 2018 Comments (“Comments”) and to ask the Company to confirm certain features of its use of group accounting for its production plants and buildings. If the Company cannot make those confirmations, these Reply Comments demonstrate that the Commission should order changes to Otter Tail’s group depreciation practices in order to protect ratepayers. Furthermore, the OAG continues to advocate for a 15-year amortization period for Otter Tail’s new CIS for the reasons articulated in its Comments and is satisfied by Otter Tail’s response that ratepayers are no longer paying for its legacy CIS software.

**II. BACKGROUND**

On December 31, 2018, the OAG filed Comments arguing that (1) the Company should not use group accounting for its CIS software, production plants, or office buildings, (2) that the Commission should order the Company to use a 15-year life to depreciate its new CIS software,

and (3) that Otter Tail's ratepayers should not continue to pay for the legacy CIS system. The Company responded to these concerns in the Otter Tail Comments filed on February 20, 2019, arguing that (1) its use of group accounting for large assets will not preclude regulatory review and disallowance of those assets in rate cases, (2) that the use of a 10-year life was appropriate for its new CIS software, and (3) that ratepayers would not be paying for any more of its legacy CIS software. While the Department originally supported the use of group accounting for large assets and the 15-year amortization period for the new CIS software, it abandoned its support for the group accounting prohibition on March 27, 2019.

### **III. ANALYSIS**

The Otter Tail Comments suggest that the dispute between the OAG and Otter Tail regarding group accounting for large buildings, such as office buildings and production plants, hinges on a discrepancy in how the parties understand and refer to "group accounting." The OAG does not, as Otter Tail suggests, seek a Commission order requiring the Company to individually and separately account for several hundred (or even thousand) sub-accounts within its various large buildings. Rather, the OAG seeks only to ensure that the buildings are accounted for in a manner that not only allows the Company to perform the mechanical act of removing that asset from rates if and when ordered to do so, but also guarantees that the remaining life of that asset is independent of the remaining lives of other assets.

When read in conjunction with the Petition in this proceeding, the Otter Tail Comments suggest that, for most of Otter Tail's large assets, the accounting methodology is consistent with the OAG's recommendation. The Company's application of group accounting, for most of these

assets, includes the use of its life-span category method.<sup>1</sup> This method, as shown in the Petition, does meet the objectives of the OAG's recommendation. That said, it appears that the new CIS software, as well as the buildings in account 390.00 (Structures and Improvements), are not subject to the life-span category method.<sup>2</sup> With respect to account 390.00, the OAG is specifically concerned with three large assets:

- Fergus Falls CSC Bldg – 1
- Fergus Falls Hi-Tech Bldg – 404
- Fergus Falls Print & Mail Services Bldg – 405

If those three buildings and the new CIS software are depreciated such that the remaining useful lives of those assets are determined by unit and completely independent of the remaining lives of any other asset (other than components that are entirely included within those individual larger assets), the Company should so confirm. Furthermore, the Company should provide the unique depreciation rates and remaining useful lives of the three aforementioned buildings in account 390.00. If, on the other hand, that is not the case, then the Commission should order Otter Tail to account for those buildings using its life-span category method to address the concerns raised in the OAG's Comments.

Additionally, the Company should, in its next remaining lives filing, provide additional details describing how it calculates the depreciation rates for the plant accounts classified in Steam, Hydro, and Other Production, as well as the three structures accounts (390.10, 390.20, 390.30) that use the life-span category methodology

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<sup>1</sup> Petition, Attachment 1 at 17.

<sup>2</sup> *Id.*

Notwithstanding the Otter Tail Comments, the Commission should also require Otter Tail to account for its new \$17.8 million (\$8.8 million Minnesota jurisdiction) CIS software individually, and not through group accounting. While the Company confirms that it would be able to perform the mechanical adjustment to remove assets from rates if ordered to do so, even when using group accounting, this does not resolve all of the problems created by the use of group accounting. The use of group accounting distorts the depreciation rate for assets contained within the group because the depreciation rate is a composite rate. Improvements to any of those assets can skew the depreciation rate for assets contained in that group, whether or not the improvement was made to that asset. Even if the Company's PowerPlan system is able to mathematically remove the costs associated with an asset in the event the Commission ordered it to do so, this could still result in inequitable results based on the mismatch of the distorted group accounting depreciation rate and the useful life of the asset. The Company's new CIS software should be depreciated individually so that its depreciation rate is not skewed or distorted by the differences in the estimated useful lives for the Company's other software.<sup>3</sup>

Furthermore, the OAG continues to advocate for a 15-year useful life for Otter Tail's new CIS software for the same reasons articulated in its earlier Comments. Finally, as the Company has confirmed that the legacy CIS software has been fully amortized, the OAG is satisfied that no adjustment is necessary.

#### **IV. CONCLUSION**

In order to allow regulators to appropriately address concerns with large, out-of-service assets, the Company should confirm that its accounting for the four assets identified in these Reply Comments satisfies the conditions described by the OAG. If it does not, the Commission

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<sup>3</sup> The Company is proposing 5-year or 10-year amortization periods for its other software.

should order the Company to alter its group depreciation practices consistent with the recommendations in the OAG's Comments and Reply Comments. Furthermore, the Commission should order Otter Tail to use a 15-year useful life for its new CIS software.

Dated: April 10, 2019

Respectfully submitted,

KEITH ELLISON  
Attorney General  
State of Minnesota

s/ Joseph C. Meyer

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OFFICE OF THE ATTORNEY GENERAL –  
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# STATE OF MINNESOTA

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April 10, 2019

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

**RE:** *In the Matter of Otter Tail Power Company's Petition for Approval of its 2018  
Five-Year Review of Depreciation Certification*  
**MPUC DOCKET NO. E017/D-18-568**

Dear Mr. Wolf:

Enclosed and e-filed in the above-referenced matter please find Reply Comments of the Minnesota Office of the Attorney General—Residential Utilities and Antitrust Division.

By copy of this letter all parties have been served. An Affidavit of Service is also enclosed.

Sincerely,

s/ **Joseph C. Meyer**

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JOSEPH C. MEYER

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Enclosures

cc: Service List



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