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October 10, 2017



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

**RE: In the Matter of Otter Tail Power Company's Petition for Approval of the Annual Rate Update to its Environmental Upgrades Cost Recovery Rider Rate, Rate Schedule 13.08  
Docket No. E017/M-16-373  
Reply Comments to Department's Response Comments**

Dear Mr. Wolf:

Otter Tail Power Company (Otter Tail) hereby submits to the Minnesota Public Utilities Commission its Reply Comments in the above described matter.

Otter Tail electronically filed this document with the Commission which, in compliance with Minn. Rule 7829.1300, Subp. 2, also constitutes service on the Department of Commerce, Division of Energy Resources and the Office of Attorney General-Antitrust & Utilities Division.

If you have any questions regarding this filing, please contact me at 218-739-8385 or at [bhaugen@otpc.com](mailto:bhaugen@otpc.com). A Certificate of Service is enclosed.

Sincerely,

*/s/ BRYCE C. HAUGEN*  
Bryce C. Haugen, Senior Rates Analyst  
Regulatory Administration

kaw  
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 the Annual Rate  
Update to its Environmental Upgrades Cost  
Recovery Rider Rate, Rate Schedule 13.08

Docket No. E017/M-16-373

**OTTER TAIL POWER COMPANY  
REPLY COMMENTS TO THE  
DEPARTMENT'S RESPONSE  
COMMENTS**

**I. INTRODUCTION**

On October 3, 2017, the Minnesota Department of Commerce, Division of Energy Resources (Department) submitted Comments regarding Otter Tail Power Company's (Otter Tail) Supplemental filing to the Minnesota Public Utilities Commission (Commission) on August 28, 2017 in the above referenced Docket.

In the Department's Comments, the Department recommends approval of the filing which includes implementing the updated Environmental Cost Recovery Rider (ECRR) rate effective November 1, 2017. Otter Tail appreciates the Department's recommendation for approval and notes that implementing this updated reduced rate effective November 1, 2017 corresponds with updates resulting from its general rate case<sup>1</sup>. Otter Tail understands that the updated reduced ECRR rate may be approved by the Commission at the same time final rates are approved in the general rate case. Any delay in implementing this updated reduced rate beyond November 1, 2017 will result in further over-collections within the ECRR.

The Department also recommends that Otter Tail utilize a 'hybrid approach' when calculating its project-related Deferred Tax Asset (DTA) related to a Net Operating Loss (NOL) within future ECRR filings. Otter Tail notes that as of November 1, 2017, there will be no projects remaining in the ECRR as the only project<sup>2</sup> in the ECRR is being rolled into base rates. Therefore, no Commission action on the Department's request is necessary in the current Docket.

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<sup>1</sup> Otter Tail's General Rate Case Docket No. E017-GR-15-1033

<sup>2</sup> Big Stone Plant Air Quality Control System (AQCS) project

The hybrid approach, as explained by the Department<sup>3</sup>, is to utilize either the Stand-Alone Method or Total-Company method, whichever results in the lowest annual revenue requirements for ratepayers. If the Commission determines a need to address the Department's request, Otter Tail offers the following arguments against taking this approach.

1. Otter Tail applies the tax treatment of its actual NOL DTA using the Total-Company Method. This method allocates the company's actual tax losses per the tax return, when they occur. Otter Tail provided extensive analysis in its February 21, 2017 Reply Comments showing the differences between the two methods. In those Comments, Otter Tail demonstrated and explained that the Total-Company Method results in both a lower NOL DTA being allocated to the ECRR as well as facilitates a much faster utilization of NOL's under the Total-Company Method vs. the Stand-Alone Method.
2. Switching methods from one year to the next based on each year's outcome will create inconsistencies in recovery. Otter Tail recommends using the Total-Company Method for any future projects that may be requested for inclusion in the ECRR as the Total-Company Method best represents what actually occurs and Otter Tail showed that it results in a lower revenue requirement. The Department did not offer an example of an instance where the Stand-Alone Method may result in lower revenue requirements.

Otter Tail appreciates the opportunity to provide these Reply Comments in response to the Department's October 3, 2017 Response to Otter Tail's August 28, 2017 Supplemental Filing in the instant Docket and requests that:

1. The Commission approve the proposed revenue requirements and ECRR rate update to be effective November 1, 2017.
2. The Commission not require Otter Tail to provide both Total-Company and Stand-Alone Methods in future ECRR filings.

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<sup>3</sup> Section F, Page 8 of October 3, 2017 Response Comments of the Minnesota Department of Commerce, Division of Energy Resources to Otter Tail's Reply Comments.

Dated: October 10, 2017

Respectfully submitted,

OTTER TAIL POWER COMPANY

By: /s/ BRYCE C. HAUGEN

Bryce C. Haugen

Senior Rates Analyst, Regulatory Administration

Otter Tail Power Company

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## **CERTIFICATE OF SERVICE**

**RE: In the Matter of the Petition of Otter Tail Power Company for Approval of an Environmental Cost Recovery Rider Annual Adjustment  
Docket No. E017/M-16-373**

I, Kim Ward, 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 to Department's Response Comments**

Dated this **10th** day of **October, 2017**.

*/S/ KIM WARD*

Kim Ward, Regulatory Filing Coordinator  
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