

March 9, 2018

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

RE: **Comments of the Minnesota Department of Commerce, Division of Energy Resources**  
Docket No. E017/PA-18-40

Dear Mr. Wolf:

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

A Petition of Otter Tail Power Company for Approval of Transfer of Property.

The filing was submitted on January 8, 2018 by:

Kristian M. Dahl  
Associate General Counsel  
Otter Tail Power Company  
215 South Cascade Street  
PO Box 496  
Fergus Falls, MN 56538

The Department recommends that the Minnesota Public Utilities Commission (Commission) **deny the petition without prejudice; alternatively**, the Commission could approve the petition, concluding that the particular facts involved in this proposal support a finding that the transaction is consistent with the public interest. The Department is available to answer any questions the Minnesota Public Utilities Commission may have on this matter.

Sincerely,

/s/ CHARLES AMEVO  
Public Utilities Financial Analyst

CA/lt  
Attachment



## Before the Minnesota Public Utilities Commission

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### Comments of the Minnesota Department of Commerce Division of Energy Resources

Docket No. E017/PA-18-40

#### I. BACKGROUND AND SUMMARY OF PROPOSAL

Otter Tail Power Company (Otter Tail, OTP or the Company) is an electric utility company that provides retail electric service in the states of Minnesota, North Dakota, and South Dakota. On January 8, 2018, OTP submitted a petition seeking approval from the Minnesota Public Utilities Commission (Commission) for transfer of property. Specifically, the Company seeks to acquire a substation consisting of 230 kV breakers, switches, current transformers, potential transformers, a terminal structure, relays, system protection and controls, and associated bus work and structural material at East River Electric Cooperative, Inc.'s (East River) F.L. Blair Substation (Blair Substation Facilities) site.

The Company maintains that, "The proposed acquisition is compatible with the public interest because it minimizes cost impact to Otter Tail's customers." Further, OTP indicated that acquisition of the property would allow "operational capability on both ends of an existing transmission outlet for one of its major generating facilities, the Big Stone Plant."

On June 10, 1983, East River and OTP signed Supplement No. 2 to the Interconnection and Transmission Service Agreement (ITSA) giving the right and obligation to Otter Tail in the event of termination of the contract to purchase the "Blair Substation facilities at a purchase price of no less than 25% of the \$515,554 original price of the "Blair Substation Investment" less depreciation at the rate of 2.75% per year. OTP indicates that the agreed-upon purchase price is \$128,889, which is 25% of the undepreciated cost of the Blair Substation assets.

In its initial filing, the Company states that the original ITSA between East River and Otter Tail was signed on January 8, 1973:

The original ITSA between East River and Otter Tail was signed on January 8, 1973. Supplements 1-6 were executed in subsequent years in order to address system changes and to address further expansions of the interconnections between Otter Tail and East River over time. The final such supplement to the ITS, Supplement No. 6, was signed August 16, 2011. Otter Tail provided East River

with a notice of termination of the ITSA pursuant to the terms for such termination with an effective date of December 31, 2017, after which the Parties will continue their existing interconnections via separate interconnection agreements with transmission service over these interconnections arranged in accordance with the applicable Regional Transmission Organization's tariff.

## II. DEPARTMENT ANALYSIS

Minnesota Statutes section 216B.50 and Minnesota Rule 7825.1800 contain the considerations and filing requirements of property transfer petitions.

### A. STATUTORY REQUIREMENTS

Minnesota Statutes section 216B.50, subd. 1, states:

No public utility shall sell, acquire, lease, or rent any plant as an operating unit or system in this state for a total consideration in excess of \$100,000, or merge or consolidate with another public utility or transmission company operating in this state, without first being authorized so to do by the commission. Upon the filing of an application for the approval and consent of the commission, the commission shall investigate, with or without public hearing. The commission shall hold a public hearing, upon such notice as the commission may require. If the commission finds that the proposed action is consistent with the public interest, it shall give its consent and approval by order in writing. In reaching its determination, the commission shall take into consideration the reasonable value of the property, plant, or securities to be acquired or disposed of, or merged and consolidated.

In evaluating the reasonableness of the value of the property being transferred and whether the transaction is in the public interest, the Department calculated the net book value of the property. Department Information Request No. 1 asked the Company to provide all calculations in support of the property's net book value and to state why OTP believes \$128,889 (\$515,554 X 25%) is a reasonable price for the property being transferred.

In the Information Request 2, the Department asked the company to provide the estimate of the total credits OTP expects to receive from the Southwest Power Pool (SPP) upon Blair Substation's acquisition and to describe the rate recovery mechanism OTP will use to provide these SPP credits to the ratepayers.

According to the information provided by OTP, at an annual depreciation rate of 2.75% and an acquisition year of 1975,<sup>1</sup> the property would have been fully depreciated in the earliest months of year 2012. However, OTP's response to the Department's IR includes records from East River showing the \$515, 554 original purchase price of Blair Substation, the initial acquisition date of November 1975 and a depreciation schedule showing changes in depreciation rate over time (rather than a uniform 2.75% rate per year) resulting in a net book value of \$67,795 for the property as of December 2017.

In OTP's response to the Department IR, the Company indicates that the Blair Substation facilities remain in working condition and the purchase price of \$128,889 is reasonable and in the public interest because similar assets would cost much more if they were to be installed today.

In an attempt to fully understand the benefits of the acquisition, the Department's Information Request No. 2 asked the Company to provide the estimate of the total credits OTP expects to receive from the Southwest Power Pool (SPP) upon Blair Substation's acquisition and to describe the rate recovery mechanism OTP will use to provide these SPP credits to the ratepayers. The Company responded that if Blair Substation is acquired, the proposed purchase price will be offset over time through annual credits to Otter Tail's Schedule 9 expenses in SPP for as long as those assets have a transmission revenue requirement value in SPP.

Generally, the Department does not support a transfer of property between two utilities at more than book value. Allowing transfers to occur at higher than book value could lead to utilities transferring property amongst themselves and require ratepayers to pay more than necessary for the same assets without adding value to ratepayers. For example, if an asset had an initial cost of \$1,000 and had a current depreciated value of \$600, and the asset was sold to another utility for \$800 (\$200 more than book value) and included in rates, ratepayers would be charged again for the amount above book value (\$200). Minnesota ratepayers would pay \$1,200 for a \$1,000 asset. Because the proposed purchase price of \$128,889 is more than the book value of \$67,795, the Department recommends that the Commission reject the petition.

Alternatively, given the relatively low dollar value involved and the potential benefits of the transaction to OTP and its ratepayers, the Commission could determine that the particular facts involved in this proposal justifies approval. The Department concludes that the substation assets do have a non-zero value, and that the purchase price is consistent with the contract terms and can be seen as the result of good-faith negotiations. Further, the Department

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<sup>1</sup> In a spreadsheet attachment to the Company's response to DOC IR No. 1 dated January 30, 2018, the Company provided the acquisition year of the property being transferred.

concludes that OTP's proposal could be considered consistent with the public interest standard because, for a relatively low acquisition cost, the transaction would increase Otter Tail's ability to coordinate transmission flows and has the potential to increase credits received from SPP.

*B. FILING REQUIREMENTS*

Minnesota Rule 7825.1800 contains the filing requirements for petitions to acquire property, as follows:

- A. Petitions for approval of a merger or of a consolidation shall be accompanied by the following: the petition signed by all parties; all information, for each public utility, as required in parts 7825.1400 and 7825.1500; the detailed reasons of the petitions and each party for entering into the proposed transaction, and all facts warranting the same; the full terms and conditions of the proposed merger or consolidation.
- B. Petitions for approval of a transfer of property shall be accompanied by the following: all information as required in part 7825.1400, items A to J; the agreed upon purchase price and the terms for payment and other considerations.
- C. A description of the property involved in the transaction including any franchises, permits, or operative rights, and the original cost of such property, individually or by class, the depreciation and amortization reserves applicable to such property, individually or by class. If the original cost is unknown, an estimate shall be made of such cost. A detailed description of the method and all supporting documents used in such estimate shall be submitted.
- D. Other pertinent facts or additional information that the commission may require.

Minnesota Rule 7825.1400, items A to J are filing requirements for capital structure approval, however, as noted above, are also content requirements for property transfer proposals:

- A. A descriptive title.
- B. A table of contents.
- C. The exact name of the petitioner and address of its principal business office.

- D. Name, address, and telephone number of the person authorized to receive notices and communications with respect to the petition.
- E. A verified statement by a responsible officer of the petitioner attesting to the accuracy and completeness of the enclosed information.
- F. The purpose for which the securities are to be issued.
- G. Copies of resolutions by the directors authorizing the petition for the issue or assumption of liability in respect to which the petition is made; and if approval of stockholders has been obtained, copies of the resolution of the stockholders shall be furnished.
- H. A statement as to whether, at the time of filing of the petition, the petitioner knows of any person who is an “affiliated interest” within the meaning of Minnesota Statutes, section 216B.48, subdivision 1, who has received or is entitled to receive a fee for services in connection with the negotiations or consummation of the issuance of the securities, or for services in securing underwriters, sellers, or purchasers of the securities.
- I. A signed copy of the opinion of counsel in respect to the legality of the issue or assumption of liability.
- J. A balance sheet dated no earlier than six months prior to the date of the petition together with an income statement and statement of changes in financial position covering the 12 months then ended. When the petitions include long-term securities, such statements shall show the effects of the issuance on such balance sheet and income statement.

The Department concludes that not all of the filing requirements of Minnesota Rule 7825.1400 above are relevant in this case; items F, G, I, and J are not relevant to the purchase. While OTP did not request a rule variance to allow it to omit the information required by items F – J, the Department concludes that a variance is needed. Minnesota Rules 7829.3200 governs rule variance decisions, allowing the Commission to grant a variance when it determines that the following requirements are met:

- A. enforcement of the rule would impose an excessive burden upon the applicant or others affected by the rule;
- B. granting the variance would not adversely affect the public interest; and
- C. granting the variance would not conflict with the standards imposed by law.

The Commission has previously granted a variance in similar circumstances. In Docket No. E002/PA-13-484 involving a transfer and exchange of transmission assets between two utilities,

the Commission agreed with the Department's conclusion that Minnesota Rule 7825.1400 items A through J were not applicable to the petition, reasoning that these items are related to capital structure filings and are not relevant in determining whether a property transfer is in the public interest. The Department concludes that the same reasoning applies in this case.

Otter Tail failed to provide complete information as required by Minnesota Rule 7825.1800, item C; however, the Company's responses to Department Information Request Nos. 1 and 2 provided the minimum information necessary for the Commission to determine whether the proposed transaction is in the public interest.

### **III. CONCLUSION and RECOMMENDATION**

The Department concludes that all of the information required by Minnesota Rule 7825.1800 is not relevant to OTP's request, and that with the additional information provided in response to Department IR Nos. 1 and 2, OTP has provided sufficient information to make a determination as to whether the proposed transaction is consistent with the public interest.

The Department recommends that the Commission reject the petition, without prejudice.

Alternatively, the Commission could approve the petition, concluding that the particular facts involved in this proposal support a finding that the transaction is consistent with the public interest.

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**Blair Substation  
Ottetail Addition  
Account 353**

Date	Amount	Running Balance
Nov-75	515,554.38	515,554.38

Date	Amount	Running Balance	# of Months	Depr Rate Monthly Rate	Accum Depr
Nov-75	515,554.38	515,554.38	158	2.88% 0.2400%	195,498.22

Rate Change		Running Balance	# of Mths	Depr Rate Mthly Rate	Accum Depr
Jan-89		515,554.38	60	1.45% 0.1208%	37,377.69

Rate Change		Running Balance	# of Mths	Depr Rate Mthly Rate	Accum Depr
Jan-94		515,554.38	60	1.55% 0.1292%	39,955.46

Rate Change		Running Balance	# of Mths	Depr Rate Mthly Rate	Accum Depr
Jan-99		515,554.38	60	2.01% 0.1675%	51,813.22

Rate Change		Running Balance	# of Mths	Depr Rate Mthly Rate	Accum Depr
Jan-04		515,554.38	60	1.59% 0.1325%	40,986.57

Rate Change		Running Balance	# of Mths	Depr Rate Mthly Rate	Accum Depr
Jan-09		515,554.38	60	1.85% 0.1542%	47,688.78

Rate Change		Running Balance	# of Mths	Depr Rate Mthly Rate	Accum Depr
Jan-14		515,554.38	48	1.67% 0.1392%	34,439.03

**Totals 506 447,758.98**

<b>Site Total</b>	<b>Accum Depr</b>	<b>Net Asset Value</b>
515,554.38	447,758.98	67,795.40



**Blair Substation - Ottertail Facilities**

Facilities Capitalized November ~~1985~~ 1975

C1	230 kV OCB	72,648.96
C1	230 kV OCB	72,648.96
A8	Bus System	23,761.02
Q1	Grounding System	7,871.47
G1	Power Circuits L & D	10,087.01
	Power Circuits C	14,528.83
M2	Fence	4,590.62
N1	Foundation	55,979.25
L1	AC Panel Board	1,069.67
L2	AC Panel Board	368.15
L3	DC Panel Board	991.65
J1	Control Panels	52,014.69
J2	Relays	27,146.09
A1-8	Structure	74,566.00
B-1	Disoconnect Switches (230kV 1200 Amp with Grounding Blades)	15,593.48
B2	Disoconnect Switches (230kV 1200 Amp)	9,432.90
F5	CT - 3	19,027.04
F1	PT - 3	21,570.67
F4	Coupling Capacitor Potential Device - 6	25,392.77
F7	Coupling Capacitor	3,141.23
F6	Wave Trap	3,123.92
<b>Ottertail Total</b>		<b>515,554.38</b>

**Purchase of Blair Substation Facilities from East River Cooperative, Inc.**

Original cost of facilities	\$ 515,554.38	
Accumulated Depreciation	<u>\$ 447,758.98</u>	See Below
Net Book Value	\$ 67,795.40	
Purchase Price	<u>\$ 128,888.60</u>	
Excess over Book Value	<u><u>\$ 61,093.20</u></u>	

**Depreciation Rates provided by East River Electric Cooperative, Inc.**

Year	Original Cost	Annual Rate	Monthly Rate	months	Depreciation	Accumulated Depreciation
1975	\$ 515,554.38	2.880%	0.2400%	2	\$ 2,474.66	\$ 2,474.66
1976	\$ 515,554.38	2.880%	0.2400%	12	\$ 14,847.97	\$ 17,322.63
1977	\$ 515,554.38	2.880%	0.2400%	12	\$ 14,847.97	\$ 32,170.59
1978	\$ 515,554.38	2.880%	0.2400%	12	\$ 14,847.97	\$ 47,018.56
1979	\$ 515,554.38	2.880%	0.2400%	12	\$ 14,847.97	\$ 61,866.53
1980	\$ 515,554.38	2.880%	0.2400%	12	\$ 14,847.97	\$ 76,714.49
1981	\$ 515,554.38	2.880%	0.2400%	12	\$ 14,847.97	\$ 91,562.46
1982	\$ 515,554.38	2.880%	0.2400%	12	\$ 14,847.97	\$ 106,410.42
1983	\$ 515,554.38	2.880%	0.2400%	12	\$ 14,847.97	\$ 121,258.39
1984	\$ 515,554.38	2.880%	0.2400%	12	\$ 14,847.97	\$ 136,106.36
1985	\$ 515,554.38	2.880%	0.2400%	12	\$ 14,847.97	\$ 150,954.32
1986	\$ 515,554.38	2.880%	0.2400%	12	\$ 14,847.97	\$ 165,802.29
1987	\$ 515,554.38	2.880%	0.2400%	12	\$ 14,847.97	\$ 180,650.25
1988	\$ 515,554.38	2.880%	0.2400%	12	\$ 14,847.97	\$ 195,498.22
1989	\$ 515,554.38	1.450%	0.1208%	12	\$ 7,475.54	\$ 202,973.76
1990	\$ 515,554.38	1.450%	0.1208%	12	\$ 7,475.54	\$ 210,449.30
1991	\$ 515,554.38	1.450%	0.1208%	12	\$ 7,475.54	\$ 217,924.84
1992	\$ 515,554.38	1.450%	0.1208%	12	\$ 7,475.54	\$ 225,400.37
1993	\$ 515,554.38	1.450%	0.1208%	12	\$ 7,475.54	\$ 232,875.91
1994	\$ 515,554.38	1.550%	0.1292%	12	\$ 7,991.09	\$ 240,867.01
1995	\$ 515,554.38	1.550%	0.1292%	12	\$ 7,991.09	\$ 248,858.10
1996	\$ 515,554.38	1.550%	0.1292%	12	\$ 7,991.09	\$ 256,849.19
1997	\$ 515,554.38	1.550%	0.1292%	12	\$ 7,991.09	\$ 264,840.29
1998	\$ 515,554.38	1.550%	0.1292%	12	\$ 7,991.09	\$ 272,831.38
1999	\$ 515,554.38	2.010%	0.1675%	12	\$ 10,362.64	\$ 283,194.02

Department Note	
<b>Annual Depreciation Rates Applied by East River</b>	
1975 - 1988	2.880%
1989 - 1993	1.450%
1994 - 1998	1.550%
1999 - 2003	2.010%
2004 - 2008	1.590%
2009 - 2013	1.850%
2014 - 2017	1.670%

2000	\$	515,554.38	2.010%	0.1675%	12	\$	10,362.64	\$	293,556.66
2001	\$	515,554.38	2.010%	0.1675%	12	\$	10,362.64	\$	303,919.31
2002	\$	515,554.38	2.010%	0.1675%	12	\$	10,362.64	\$	314,281.95
2003	\$	515,554.38	2.010%	0.1675%	12	\$	10,362.64	\$	324,644.59
2004	\$	515,554.38	1.590%	0.1325%	12	\$	8,197.31	\$	332,841.91
2005	\$	515,554.38	1.590%	0.1325%	12	\$	8,197.31	\$	341,039.22
2006	\$	515,554.38	1.590%	0.1325%	12	\$	8,197.31	\$	349,236.54
2007	\$	515,554.38	1.590%	0.1325%	12	\$	8,197.31	\$	357,433.85
2008	\$	515,554.38	1.590%	0.1325%	12	\$	8,197.31	\$	365,631.17
2009	\$	515,554.38	1.850%	0.1542%	12	\$	9,537.76	\$	375,168.92
2010	\$	515,554.38	1.850%	0.1542%	12	\$	9,537.76	\$	384,706.68
2011	\$	515,554.38	1.850%	0.1542%	12	\$	9,537.76	\$	394,244.43
2012	\$	515,554.38	1.850%	0.1542%	12	\$	9,537.76	\$	403,782.19
2013	\$	515,554.38	1.850%	0.1542%	12	\$	9,537.76	\$	413,319.95
2014	\$	515,554.38	1.670%	0.1392%	12	\$	8,609.76	\$	421,929.70
2015	\$	515,554.38	1.670%	0.1392%	12	\$	8,609.76	\$	430,539.46
2016	\$	515,554.38	1.670%	0.1392%	12	\$	8,609.76	\$	439,149.22
2017	\$	515,554.38	1.670%	0.1392%	12	\$	8,609.76	\$	447,758.98

OTTER TAIL POWER COMPANY  
Docket No: E017/PA-18-40

Response to: Minnesota Department of Commerce  
Analyst: Charles Amevo  
Date Received: 01/30/2018  
Date Due: 02/06/2018  
Date of Response: 02/06/2018  
Responding Witness: Jason Weiers, Manager, Delivery Planning - (218) 739-8311

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Information Request:

Topic: Property Valuation  
Reference(s): Transfer of Property

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**Request:**

- (a) Please provide all calculations and support for the net book value of the Blair Substation as of December 31, 2017.
- (b) Please provide all support for why the 25% of \$515,554 original costs or \$128,889 is reasonable, rather than the net book value that Minnesota usually requires.

Attachments: 2

Attachment 1 to IR MN-DOC-01.pdf  
Attachment 2 to IR MN-DOC-01.xlsx

Response:

1. The calculations and support for the stated net book value of the Blair Substation (as of 12/31/2017) were provided to Otter Tail Power Company (Otter Tail) by East River Electric Power Cooperative (East River) and those calculations and that support are attached hereto. The two-page "Blair Substation, Ottertail [*sic*] addition" document is what was originally received from East River and used in developing the spreadsheet referenced herein as Attachment 1 to IR MN-DOC-01. Otter Tail believes those original calculations (Attachment 1 to IR MN-DOC-01) were performed by East River or agents acting on behalf of East River and this document was provided by East River to Otter Tail. The Excel spreadsheet calculating the depreciation was prepared by Otter Tail based on East River's supplied information and depreciation rates and is attached hereto as Attachment 2 to IR MN-DOC-01.

2. Otter Tail has a contractual right to purchase the Blair Substation Facilities upon termination of the longstanding Interconnection and Transmission Service Agreement (“ITSA”) between Otter Tail and East River<sup>1</sup>. The 25% (\$128,889) of the \$515,554 original costs for the Blair Substation Facilities is a reasonable price and, Otter Tail asserts, is prudent and in the best interests of its customers for several reasons, including:
- \$128,889 for the Blair Substation Facilities -- substation assets in working condition - is a reasonable price for what is proposed for purchase (*e.g.*, the assets being purchased would cost well over \$128,889 if they were being installed today).
  - The Blair Substation’s location and connectivity to the rest of the regional transmission system will provide Otter Tail with ownership interest and operational capability on both ends of an existing transmission outlet for one of its major generating plants (Big Stone Plant), and by owning and operating the Substation Assets on East River’s substation site, Otter Tail will have an improved ability to manage the facilities and coordinate transmission flows over its system.
  - To the extent a portion of the contractual-based price will exceed the net book (accounting depreciated) value of the Blair Substation Facilities, that is more a function of accounting practices applied by East River since such facilities’ original installation rather than their true value, especially in relation to the transmission system benefits and facility credits expected to benefit Otter Tail and its customers as the result of this transfer.<sup>2</sup>
  - If acquired by Otter Tail, the amount of the purchase price over net book value (accounted for as an acquisition adjustment) will be offset in a short period of years by the anticipated facility credits that will be received on an annual basis. After such time, the revenue requirement for the Blair Substation Facilities will continue to generate credits (financial benefits) to Otter Tail’s customers, further reducing Otter Tail’s Schedule 9 expenses in SPP, for as long as those assets have a transmission revenue requirement value in SPP (absent a fundamental regulatory change in the

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<sup>1</sup> As stated in Otter Tail’s Petition, the Transfer is the result of a contractual obligation for Otter Tail to purchase the Blair Substation Facilities pursuant to Section 10 of Supplement No. 2 of an Interconnection and Transmission Service Agreement (ITSA), dated June 10, 1983 between East River and Otter Tail. Otter Tail and East River first agreed to this transaction in 1973 through the original ITSA and then reaffirmed in 1983 through Supplement No. 2 to the ITSA.

<sup>2</sup> As stated in Otter Tail’s Petition, the Transfer may also have the added benefit of adding eligibility for Otter Tail to receive facility credits from the Southwest Power Pool, Inc., (SPP) which would in turn help reduce rates for Minnesota customers of Otter Tail when credited to rates against SPP transmission service expenses though either base rates or its Commission-approved SPP Tracker rate mechanism (*See* Otter Tail’s Response to IR MN-DOC-002).

SPP credit process). Support for those facility credits and estimated annual amounts are supplied in Otter Tail's Response to IR MN-DOC-02.

Otter Tail maintains that although the purchase price of the Blair Substation Facilities exceeds the net book value calculated by East River, the Transfer is compatible with the public interest because it minimizes cost impacts to Otter Tail's customers and provides system benefits, *e.g.*, the improved ability to manage the facilities and coordinate transmission flows over its system.

OTTER TAIL POWER COMPANY  
Docket No: E017/PA-18-40

Response to: Minnesota Department of Commerce  
Analyst: Charles Amevo  
Date Received: 01/30/2018  
Date Due: 02/06/2018  
Date of Response: 02/06/2018  
Responding Witness: Jason Weiers, Manager, Delivery Planning - (218) 739-8311

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Information Request:

Topic: SPP credits  
Reference(s): Transfer of Property

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**Request:**

- (a) Please provide the estimate of the total credits Otter Tail Power Company expects to receive from the Southwest Power Pool (SPP) upon Blair Substation acquisition and provide any necessary support or explanation to help the Department evaluate the merit of the transfer of property request.
- (b) How (what rate recovery mechanism) will OTP use to provide these SPP credits to ratepayers?

Attachments: 0

Response:

- (a) Upon acquisition of the Blair Substation assets or as soon as practicable thereafter, Otter Tail is estimating that it will receive approximately \$7,000 in qualifying credits from SPP on an annual basis. Due to compliance requirements for the reliability standards established by the North American Electric Reliability Corporation (NERC), Otter Tail also anticipates it will be building a new control house at the Blair Substation in the 2019 timeframe to separate Otter Tail's protection equipment from East River's protection equipment. Otter Tail is forecasting to spend approximately \$100,000 on constructing that new control house at the Blair Substation. With the capital expenditures forecasted for the control house plus the purchase price of the Blair Substation assets from East River, Otter Tail is estimating that it will receive approximately \$17,000 in annual credits from SPP starting in the 2019 timeframe. Going forward, any additional qualifying capital expenditures that Otter Tail would make to the Blair Substation assets will also

result in an increase in the amount of credits that are received from SPP. These credits will function as a dollar-for-dollar offset to Otter Tail's SPP Schedule 9 expenses.

The estimate of approximately \$17,000 in annual SPP credits is based on Otter Tail's 2017 MISO Attachment O template that utilizes a gross plant allocator for its network transmission facilities applied to Otter Tail's Annual Transmission Revenue Requirement (ATRR). The gross plant allocator is calculated by taking the gross plant of the Blair Substation assets divided by the gross plant of all of Otter Tail's transmission assets.

- (b) The SPP credits related to the Blair Substation assets will be applied as an offset to Otter Tail's Schedule 9 (Network Integration Transmission Service (NITS)) expenses from SPP. Since the SPP credits for the Blair Substation assets will come through as an offset to Schedule 9 expenses, the existing mechanisms currently in place to handle Schedule 9 expenses from SPP will easily translate into including the additional SPP credits expected as a result of the acquisition, if approved by the Commission.<sup>1</sup>

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<sup>1</sup> As approved in Otter Tail's last Minnesota general rate case, a portion of Otter Tail's Schedule 9 expenses from SPP are currently being recovered in base rates, with any variance in actual Schedule 9 expenses being accumulated within an "SPP Tracker" rate mechanism.



## **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  
Comments**

**Docket No. E017/PA-18-40**

**Dated this 9<sup>th</sup> day of March 2018**

**/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_18-40_PA-18-40
Ray	Choquette	rchoquette@agp.com	Ag Processing Inc.	12700 West Dodge Road PO Box 2047 Omaha, NE 68103-2047	Electronic Service	No	OFF_SL_18-40_PA-18-40
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