MINNESOTA
PUBLIC UTILITIES COMMISSION

Staff Briefing Papers

Meeting Date	February 17, 2022		Agenda Item 4*
Company	Otter Tail Power		
Docket No.	**E-017/D-21-669**		
	In the Matter of the Petition by Otter Tail Power Company for Approval of its 2021 Annual Review of Depreciation Certification		
Issues	Should the Commission approve the proposed depreciation parameters and the resulting rates for Otter Tail Power Company's annual depreciation update?		
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✓ **Relevant Documents**	**Date**
Otter Tail Power – Petition	September 1, 2021
Minnesota Department of Commerce – Comments	December 1, 2021
Otter Tail Power – Reply Comments	December 10, 2021

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The attached materials are work papers of the Commission Staff. They are intended for use by the Public Utilities Commission and are based upon information already in the record unless noted otherwise.

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I. Statement of the Issues

Should the Commission approve the proposed depreciation parameters and the resulting rates for Otter Tail Power Company's annual depreciation update?

II. Introduction

Public utilities in Minnesota must receive Commission approval for their depreciation practices pursuant to Minn. Stat. §216B.11 and Minn. Rules, parts 7825.0500-7825.0900. Utilities must also file depreciation studies at least every five years and unless they can justify a different method, must use straight-line depreciation.

Because Otter Tail Power uses the remaining life method for depreciating group property accounts, the underlying life and salvage factors may not change, but depreciation rates are adjusted annually to reflect the passage of time on remaining lives, as well as the impact of plant additions, retirements, and other activities. Annual depreciation study updates are required when the remaining-life method is used to allow the Commission the opportunity to approve changes in depreciation rates.

The Commission approved the proposed service lives, salvage values, and depreciation rates contained in Otter Tail's 2018 Five-Year Review of Depreciation Certification in its July 17, 2019 ORDER APPROVING PETITION AND SETTING ADDITIONAL REQUIREMENTS, in Docket No. E-017/D-18-568. In this docket, Otter Tail is asking the Commission to approve its 2021 annual depreciation study.

III. Background

On September 1, 2021, Otter Tail Power Company (OTP, Otter Tail, or Company) filed its 2021 Annual Review of Depreciation Certification. Otter Tail's proposal is to adjust depreciation rates to reflect one year's passage of time. Additionally, OTP requested that the Commission reconsider its directive in Docket No. E–017/D–11-886, issued nearly a decade ago, in which the Commission prohibited OTP from redistributing accumulated depreciation reserve imbalances. In total, the proposed changes result in an increase of $4,297,161 or 2.67 percent to annual total Company depreciation expense. Otter Tail is requesting an effective date of January 1, 2022.

On December 1, 2021, the Department of Commerce, Division of Energy Resources (DOC or the Department) submitted its comments and recommended that the Commission approve OTP's petition, except for the reserve rebalancing proposal.

On December 10, 2021, Otter Tail filed its Reply Comments in response to (1) the Department's questions concerning the Bemidji Hydro Plant's remaining life, and (2) the Department's opposition to Otter Tail's request to submit a proposed Accumulated Depreciation Reserve Redistribution adjustment with its 2023 5-year Depreciation Filing. Additionally, OTP requested that the Commission consider whether the 2009 IRP Order, peaking plant reporting

requirement remains relevant and useful in light of Otter Tail's rate case proceeding[1] and Otter Tail's recently filed 2021 Integrated Resource Plan[2].

IV. Otter Tail Power – Initial Petition

On September 1, 2021, Otter Tail Power Company filed its 2021 Annual Review of Depreciation Certification (Petition). Otter Tail Power's Petition is requesting an effective date of January 1, 2022 and, with the exception of General Plant amortizable accounts, is seeking approval to adjust depreciation rates to reflect one year's passage of time for the remaining lives of all facilities. The net impact of the adjustments results in an updated composite rate of 2.67 percent, which is a 0.18 percent increase over the current composite rate of 2.49 percent. The updated total Company annualized depreciation accrual is $65,434,513 versus a current depreciation accrual of $61,137,352.

The resulting depreciation expense accrual increase of $4,297,161 (total Company) is largely due to the Merricourt Wind Energy Center that became operational in December, 2020. Additionally, changes in the mix of plant investments among primary accounts and changes in the age distributions of surviving plant also contribute to the total utility increase. The Minnesota jurisdictional increase of the $4,297,161 depreciation accrual is $2,332,186.

Table 1 shows a summary of OTP's proposed (Company total) changes in annual depreciation rates and accruals for each primary account (excluding amortization accounts) that are the result of one year's passage of time, including authorized allowances for net salvage.

Table 1: Current and Updated Rates and Accruals[1]

	Accrual Rate			Accrual Amount – 2021 Annualized		
Function	Current	Updated	Difference	Current	Updated	Difference
A	B	C	D=C-B	E	F	G=F-E
Intangible Plant	12.23%	12.23%	0.00%	$ 3,187,638	$ 3,187,638	$ -
Steam Production	3.73%	3.34%	-0.39%	21,595,798	19,344,411	(2,251 ,387)
Hydraulic Production	12.44%	0.93%	-11.51%	1,275,943	94,798	(1,181,145)
Other Production	3.14%	3.14%	0.00%	1,281,002	1,283,725	2,723
Wind Production	1.43%	2.93%	1.50%	7,422,651	15,192,055	7,769,404
Solar Production	4.04%	4.24%	0.20%	12,663	13,307	644
Transmission	1.62%	1.61%	-0.01%	10,865,688	10,813,536	(52, 152)
Distribution	2.35%	2.36%	0.01%	12,829,416	12,846,829	17,413
General Plant	4.65%	4.64%	-0.01%	2,666,553	2,658,214	(8,339)
Total Utility	2.49%	2.67%	0.18%	$ 61,137,352	$ 65,434,513	$4,297,161

[1] In the Matter of the Application of Otter Tail Power Company for Authority to Increase Rates for Electric Service in Minnesota, Docket No. E017/GR-20-719.

[2] In the Matter of Otter Tail Power Company's 2022-2036 Integrated Resource Plan, Docket No. E017/RP-21-339.

A. Peaking Capacity Cost Information

The Commission's Order Accepting Resource Plan Change in Docket No. E-017/RP-05-968, required that "In its first depreciation filing that includes new peaking generators, Otter Tail shall compare the last rate case's short-term peaking capacity costs to the peaking capacity costs of the new generators." According to Otter Tail, this instant petition with plant in service balances as of December 31, 2020 does not include any new peaking generators in service. Hence, there is no cost information to report with this filing.[3] The Company stated that its new Astoria Station peaking generator for commercial operation was placed in service in Q1 2021[4]; therefore, it will apply those 2021 plant-in-service peaking costs in its 2022 depreciation filing, in order to comply with the 2009 IRP Order requirement for peaking plants.

B. Remaining Lives and Salvage Percentages

Otter Tail derives its Remaining Lives and Salvage Percentages based on 5-year Depreciation Rate Studies and subsequently updates them annually in Technical Updates during each of the interim four years. (This filing, in this docket, is an example of an annual "technical update".) These calculations are as of the Depreciation Study or annual Technical Update date (12/31 of the prior calendar year) and are proposed for use in the year following that year's depreciation expense and accumulated reserve calculations. This results in a systematic and consecutive one-year lag, which when applied consistently over time yields uniform depreciation expense recognition in a rate regulated environment. Otter Tail stated that in this filing, it is reducing its Remaining Life for all average year of final retirement (AYFR) properties by one year to account for the passage of time from the depreciation study date to the effective date when the depreciation parameters will actually be applied for depreciation expense and reserve calculation purposes.

1. Hoot Lake Plant Decommissioning

The Company said that, on December 31, 2020, the book date of this filing, the Hoot Lake Plant (HLP) reserve ratio was at 110.4 percent (without the ash landfill which has a longer remaining life). The salvage percentage proposed and approved in Otter Tail's last Depreciation filing for Hoot Lake Plant was -18.9 percent (Docket No. E-017/D-20-703) for use in 2021 depreciation expense calculation purposes. This reflected a target reserve ratio for end of plant life of 118.9 percent, which nets to an 8.5 percent (118.9 percent - 110.4 percent) 2021 depreciation expense. That amount was realized through June 2021 bringing the applicable plant accounts to being fully depreciated in 2021.

[3] Otter Tail Power Petition, Docket No. E-017/D-21-669; p. 3

[4] Ibid

2. Hydro Re-licensing

According to Otter Tail, its current Federal Energy Regulatory Commission (FERC) hydro license expires in 2021. Otter Tail is in the process of license renewal (a multi-year endeavor). The renewed license, when granted, is expected to be for a forty-year term per FERC's standard licensing terms. Otter Tail has to date completed all the necessary hydro licensing filing obligations, and the process is under the review of the FERC. Otter Tail is not aware of any issues that would hinder relicensing. Since this license is required to be able to operate the electrical generation units, Otter Tail is linking the productive remaining lives of its hydro facilities to the term of this forty-year hydro license.

3. Bemidji Hydro Plant

Otter Tail stated that it experienced a major mechanical failure at the Bemidji Hydro plant. Given the plant's age, location, and the challenge of staffing the facility with maintenance personnel experienced in hydro applications, the Company concluded that it was not prudent to continue electrical generation at the facility. Otter Tail reviewed accounting options for the treatment of this facility, which included writing off the value of the facility in 2021, and it is therefore not requesting any further remaining life for this facility.[5] According to Otter Tail, the Bemidji Hydro facility which operates on the Mississippi river at Bemidji, Minnesota, does not operate under the FERC jurisdiction[6], and is not part of the FERC hydro relicensing process.

4. Astoria Station

Otter Tail pointed out that construction of the Astoria Station, a 245-MW simple-cycle natural gas combustion turbine in east central South Dakota, began in May of 2019. The facility went into commercial service in Q1 2021, trailing the plant in service book date of December 31, 2020 for this filing. Since this current depreciation certification is requesting remaining lives and salvage percentages for use in calculating depreciation rates for calendar year 2022, Otter Tail, consistent with agreements reached in last year's depreciation filing, requested approval of a Remaining Life of thirty-four-years (35-1 (for the passage of time)), and a net negative salvage percentage of -1.60 percent for use in 2022 depreciation expense and accumulated reserve calculation purposes. The Company noted that it plans for a formal decommissioning estimate to be initiated for their next comprehensive depreciation study in 2022 for use in the 2023 five-year depreciation filing.

5. Marricourt Wind Energy Center

The Company noted that the 75 turbines at the Merricourt Wind Energy Center became fully commercially available for service in December 2020. With plant in service and accumulated

[5] Attachment 2, Proposed Remaining Lives and Salvage Percentages.

[6] Otter Tail Power Petition, Docket No. E-017/D-21-669 at 5

depreciation reserve postings, the Company stated that it included this facility in this depreciation study.

6. Hoot Lake Solar Project

Otter Tail stated that it is in the planning and procurement stages for the Hoot Lake Solar farm. As procurement commitment and construction schedules firm up, Otter Tail will, in future depreciation filings, be requesting remaining life and salvage percentages for this facility.

C. Request to rebalance Reserves in the 2023 5-year Depreciation Filing

Otter Tail pointed out that it has been approximately a decade since the Commission issued its Order in Docket E–017/D–11-886 prohibiting Otter Tail from redistributing accumulated depreciation reserve imbalances. It requested that the Commission reconsider this order. The Company asserted that their inability to realign depreciation reserves among primary plant accounts has contributed to increased variability of annual depreciation rates, increased depreciation expense and has removed an important option for achieving capital recovery when under–accrued production plants are retired from service. Therefore, Otter Tail requested authorization in the current depreciation filing to submit a 2023, 5–year depreciation study with rebalanced depreciation reserves.

D. Otter Tail Power's Conclusion

Otter Tail requested that, effective January 1, 2022, the Commission approve this annual petition for depreciation certification.

V. Department of Commerce – Comments

On December 1, 2021, the Department submitted comments recommending that, except for the reserve rebalancing proposal, the Commission approve Otter Tail Power's petition.

The Department stated that OTP is requesting approval of the proposed lives and salvage rates, based on OTP's plant-in-service and accumulated reserve balances as of December 31, 2020 for the calculation of its 2022 depreciation effective January 1, 2022.

A. Prior Dockets

Pursuant to the requirements of Minnesota Administrative Rules parts 7825.0700 (Petition for Depreciation Certification), OTP files comprehensive depreciation studies every five years. OTP's most recent five-year study and petition was filed on August 31, 2018 in docket number E017/D-18-568. On July 17, 2019, the Commission issued an order approving that petition and requiring that OTP file its next five-year depreciation study by September 1, 2023.

Following the approval of the most recent 5-year study, the Department noted that OTP filed annual depreciation studies in Docket Nos. E017/D-19-547 and E017/D-20-703.[7] The Commission approved those petitions with modifications in Orders issued on October 1, 2020 and April 21, 2021, respectively. The April 21, 2021 Order issued in Docket 20-703 required as follows:

> 6. In its next annual depreciation filing, Otter Tail must provide the status of its hydro license application including the decided term granted by the Federal Energy Regulatory Commission.

The Department also explained the hydro license application in its comments filed on November 6, 2021 in docket 20-703:

> For its hydraulic generation facilities, OTP's current hydro license granted in 1991 is due to expire in 2021. In 2019, OTP applied to the Federal Energy Regulatory Commission (FERC) for a hydro license renewal and reported that it is unaware of any issues that would prevent granting of its application. [footnote omitted] OTP proposed to update the remaining life of its hydro plants to match the renewal term of the pending hydro license application, using 40 years at this time. The Department conducted a limited review of OTP's application with FERC and does not oppose the Company's proposed change to the remaining life for its hydraulic production facilities; however, the Department recommends that the Company provide, in its next depreciation filing, the status of its hydro license application including the decided term granted by FERC.

B. Compliance with Prior Orders

1. Comparison to Most Current Integrated Resource Plan (IRP)

The Department noted that the Commission approved OTP's most recent IRP in an Order issued April 26, 2017 in Docket No. E-017/RP-16-386[8]. That Order approved OTP's proposed 2017-2031 IRP, which OTP initially filed on June 1, 2016, with modifications. Based on that Order, OTP must include a comparison of the retirement estimates used in its most current IRP to remaining lives used in depreciation filings and explain any differences.

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[7] The instant petition describes the interaction between its annual depreciation updates and comprehensive 5-year depreciation studies as follows:

> Otter Tail derives its Remaining Lives and Salvage Percentages based on 5-year Depreciation Studies and subsequently updates them annually in Technical Updates during each of the interim four years. These calculations are as of the Depreciation Study or annual Technical Update date (12/31 of the prior calendar year). These are then analyzed through the depreciation certification process and are proposed for use in the year following that year's depreciation certification filing to be used for calculating depreciation expense and accumulated reserve purposes.

[8] Department of Commerce Comments, Docket No. E017/D-21-669; p. 4

Per the Department, OTP provided the required information in Attachment 4 of its Petition. The only major differences are for the Langdon Wind Energy Center, Ashtabula Wind Energy Center, and Luverne Wind Energy Center, since last year's depreciation order (order point 11) extended the service lives by 10 years.

2. Astoria Station & Short-Term Peaking Capacity Costs

In its first depreciation filing that includes new peaking generators, as the Department cited, OTP must compare the last rate case's short-term peaking capacity costs to the peaking capacity costs of the new generators. According to the Department, OTP stated that, since its proposed filing uses plant-in-service balances as of December 31, 2020 and Otter Tail did not place any peaking units into service until 2021 (the Astoria Station combustion turbine unit), Otter Tail will provide this information in its 2022 depreciation filing[9].

3. Hydro License Application

The Department stated that in the Commission's Order issued in Docket 20-703, Otter Tail must provide the status of its hydro license application, including the decided term granted by FERC. Otter Tail's Petition stated that it is in the process of renewing the license and expects to be granted a 40-year term when complete. OTP's proposed updated hydro plant depreciation rates reflect this assumption, which the Department does not oppose.

C. Material Proposals

1. Bemidji Hydro Plant

The Department noted that that OTP's Petition retired the Bemidji Hydro plant; and is not requesting any further remaining life for the plant for use in depreciation expense and reserve calculations in 2022. While on page 10 of Attachment 1[10], OTP presented an updated remaining life reflecting the FERC relicensing for Bemidji, Otter Tail stated that per page 2 of Attachment 2, the Company is requesting a remaining life of 0 years. The Department asserted that, given the retirement, it does not oppose this change, but Otter Tail may wish to clarify in reply comments given Attachment 1's apparent contradiction with this proposal.

2. Astoria Station

The Department observed that OTP included the Astoria Station in its proposed depreciation rates as shown in Attachment 1 to the Petition, and requested that the Commission continue to approve, for Astoria Station, a remaining life of 34 years and a net negative salvage percentage

[9] Department of Commerce Comments, Docket No. E017/D-21-669; p. 5

[10] Ibid

of -1.60%, for prospective use in 2022 depreciation expense and accumulated reserve calculation purposes. The Company also stated that it plans to file a more formal decommissioning estimate to be initiated in its 5-year study to be filed in 2023. According to the Department, OTP's proposal is consistent with the Commission's April 21, 2012 Order (point 7) in last year's Docket (E017/D-20-703), the Department does not oppose OTP's request.

3. Reserve rebalancing

The Department noted that OTP requested authorization to submit its 2023, 5-year depreciation study with rebalanced depreciation reserves. As background, on January 27, 2012, the Commission issued an order in Docket No. E017/D-11-866 stating that OTP shall discontinue redistributing its depreciation reserves.

In its Petition, OTP asserted that its "inability to realign depreciation reserves among primary plant accounts has contributed to increased variability of annual depreciation rates, increased depreciation expense and has removed an important option for achieving capital recovery when under–accrued production plants are retired from service."

The Department stated that it continues to oppose this practice, for the reasons adopted by the January 27, 2012 Order in docket 11-866:

> In OTP's example of two plant accounts, one with an excess reserve resulting in a negative accrual rate and one with a deficient reserve resulting in a high, positive accrual rate, the Department agrees that rebalancing reserves will likely produce two positive accrual rates that are better aligned with the parameters estimated for each account. However, the size of a particular account's depreciation reserve can be informative and rebalancing these reserves as OTP suggests would obscure the fact that events occurred in the past that caused the reserves for each account to become imbalanced relative to the accounts' theoretical reserves. For example, a retirement that yielded an unexpectedly large salvage amount could lead to an excess reserve and a negative accrual rate. OTP's practice of rebalancing would hide that salvage experience. A significant decrease in estimated remaining life, on the other hand, could lead to a deficient reserve, and redistributing would obscure that a decrease took place in the past.
>
> As far as the Department is aware, no other utility redistributes its reserves. It is the opinion of the Department that the only clear effect of OTP's practice of redistributing reserves is to create a layer of confusion on OTP's depreciation calculations. With no clear benefits to offset the cost of losing this information, the Department recommends that OTP transition away from the practice of redistributing reserves.

VI. Department's Recommendation

The Department recommended that, except for the reserve rebalancing proposal, the Commission approve the Petition.

VII. Otter Tail Power - Reply Comments

Otter Tail Power filed Reply Comments in response to the Department's comments on December 10, 2021. The Reply Comments responded to (1) the Department's questions concerning the Bemidji Hydro Plant's remaining life, and (2) the Department's opposition to Otter Tail's request to submit a proposed Accumulated Depreciation Reserve Redistribution adjustment with its 2023 5-year Depreciation Filing.

The Reply Comments also requested that the Commission consider whether the 2009 IRP Order, peaking plant reporting requirement remains relevant and useful in light of Otter Tail's rate proceeding[11] and Otter Tail's recently filed 2021 Integrated Resource Plan[12].

A. Bemidji Hydro Remaining Life Differences

Regarding the apparent Attachment 1 contradiction, Otter Tail submitted the following:

> A more thorough review of the timeline of events may better explain the remaining life change for the Bemidji hydro facility during calendar year 2021. Otter Tail's external consulting firm Foster Associates completed analytics work and prepared and distributed its depreciation report to Otter Tail in early Q3 2021. The Foster Associates 2021 Technical Update report (Attachment 1) reflects the Bemidji Hydro Plant's in-service and accumulated depreciation reserve balances and the expected remaining life status as of December 31, 2020*[Footnote]*. Otter Tail made the determination to write off the Bemidji Hydro generation asset later in Q3 2021 (after completion of the Foster Associates 2021 Technical Update report). Otter Tail determined that it was appropriate to leave the Technical Update report as originally published rather than seek revisions. Otter Tail would then address the Bemidji Hydro Plant remaining life issue through the depreciation certification initial filing process with an updated request for a 0-year remaining life for use in 2022. This requested change was necessary because Otter Tail files a prospective remaining life and salvage percentage annual depreciation filing. Otter Tail made this subsequent event modification in its Petition

[11] In the Matter of the Application of Otter Tail Power Company for Authority to Increase Rates for Electric Service in Minnesota, Docket No. E017/GR-20-719.

[12] In the Matter of Otter Tail Power Company's 2022-2036 Integrated Resource Plan, Docket No. E017/RP-21-339.

[Footnote], but left the Technical Update unchanged, as it reflected the historic balances and expectations effective at its study date.

Finally, Otter Tail notes that the full write-off of the Bemidji Hydro facility that took place later in Q3, 2021 will be reflected with a $0.00 Net Book Value, and 0-year expected remaining life when capturing the transactional data for use in Otter Tail's 2022 annual depreciation certification filing.

B. Otter Tail's Request to submit a proposed Reserve Redistribution Adjustment

Otter Tail continued to request approval of its redistribution proposal.

Under OTP's format[13], the proposed redistribution reserve adjustment is not made until after the Commission approves the depreciation filing. This was the format and practice used prior to the Commission's January 27, 2012, order in Docket No. E017/D-11-886 (2012 Order).[14] The Company stated that it is requesting to only include the calculated Reserve Redistribution for Commission consideration, rather than a report of the current Reserve Imbalance. The actual reserve redistribution adjustment would be completed after Commission approval.

Otter Tail noted that the Department was concerned that rebalancing the reserve removes insights into past reserve transactions within an account. The Company however pointed out that the insight and information the Department seeks to preserve is of little value in the long-term management or evaluation of a systematic depreciation system for a utility. This is because utilities utilize long lived assets in the production and distribution of the electrical energy provided to their customers. Thirty to seventy years of service is not uncommon for a large majority of plant in-service assets at an electrical utility. The impact of an outlying reserve transaction reportedly diminishes over time, as the calculation of the depreciation accrual rate tends to compensate and overcorrect for its impact on the reserve.

The Company further stated that utilities and regulators typically view depreciation by systems, or groups of like accounts, and not on an individual account basis. Transmission or distribution systems will likely utilize assets in several accounts all working together as a unit in the operation of the overall system rather than by individual accounts. Keeping these groupings of accounts closely related to their combined overarching depreciation parameters yields more sensible and meaningful outputs for all parties.

Otter Tail proposed an alternative approach to address the Department's concerns while accounting for the foregoing practical considerations: to allow the depreciation reserve balances to reflect postings in the near term (while they are still recognizable), then during every five-year comprehensive depreciation filing allowing for the true up to more of the overarching parameters through reserve redistribution adjustments. Otter Tail requested for

[13] Otter Tail Power's Reply Comments at 3, Docket No. E017/D-21-669;

[14] In the Matter of Otter Tail Power Company's 2011 Annual Review of Depreciation Certification, Docket No. E017/D-11-886, January 27, 2012

the Commission to consider this approach if it is not inclined to adopt Otter Tail's initial proposal.

C. The 2009 IRP Order Peaking Plant Reporting Requirement

Otter Tail observed that the Commission's 2009 Order in Docket No. E-017/RP-05 (2009 IRP Order) required that: "In its first depreciation filing that includes new peaking generators, Otter Tail shall compare the last rate case's short-term peaking capacity costs to the peaking capacity costs of the new generators." The Company reported that its Petition with plant in service balances as of December 31, 2020, does not include any new peaking generators in service and therefore there is no cost information to report.

Otter Tail reportedly placed into service its new Astoria Station peaking generator for commercial operation in Q1 2021. As a result, the Company stated that it will be able to apply those 2021 plant-in-service peaking costs in its 2022 depreciation filing, to comply with the 2009 IRP Order requirement for peaking plants. The Company therefore requested that the Commission consider relieving Otter Tail of this obligation in view of the 12-year passage of time since the 2009 IRP Order and intervening rate cases and IRP filings.

VIII. Staff Comment

Staff concurs with the Department's recommendation to approve Otter Tail's proposed remaining life and salvage rates.

Otter Tail's requested for the Commission to adopt its proposal to reinstate reserve redistribution in the Company's 2023 5-year depreciation filing. The Company stated that its inability to realign depreciation reserves among primary plant accounts removed an important option for achieving capital recovery when under-accrued production plants are retired from service. The Department however continues to oppose this practice for the reasons adopted by the January 27, 2012 order in 11-866.

Among reasons provided to justify the Department's opposition includes the fact that the size of a particular account's depreciation reserve can be informative, and rebalancing these reserves as OTP suggests would obscure the fact that events occurred in the past that caused the reserves for each account to become imbalanced relative to the accounts' theoretical reserves. Additionally, the Department pointed out that. as far as it is aware, no other utility redistributes its reserves. Further, OTP has not provided any evidence to contradict the Department's position that there no clear benefits to offset the cost of losing this information.

Finally, Staff pointed out that its hydro license was expiring in 2021. Since that date has now lapsed, then, at the agenda meeting rather than in its next filing, the Commission may want to ask Otter Tail to confirm that, as anticipated, the forty-year renewal was approved.

IX. Decision Options

Remaining Lives and Salvage Percentages

1. Approve all of OTP's proposed remaining life and salvage rates. (OTP, DOC)

2. Approve OTP's proposed effective date of January 1, 2022. (OTP, DOC)

3. Require OTP to file its next annual depreciation study by September 1, 2022 (DOC, OTP)

Peaking Capacity Cost Information

4. Require OTP, in its next depreciation filing, to include peaking capacity cost information ordered by Commission's decision in Docket No. E-017/RP-05-968, comparing its new in-service Astoria Station peaking capacity costs to the short-term peaking capacity costs approved in the general rate case Docket No. E017/GR-15-1033. (DOC, OTP)

Hydro Re-licensing

5. Require OTP to provide in its next depreciation filing, the status of its hydro license application including the decided term granted by the FERC. (DOC, OTP does not object)

Bemidji Hydro Plant

6. Approve OTP's proposed remaining life of 0 years for the Bemidji plant for use in depreciation expense and reserve calculations in 2022 (OTP, DOC does not oppose)

Astoria Station

7. Approve OTP's proposed 34-year remaining life for Astoria Station and require OTP to set Astoria Station's net salvage rate to negative 1.60 percent for prospective use in 2022 depreciation expense and accumulated reserve calculation purposes (OTP, DOC does not object)

Reserve rebalancing

8. Approve OTP's proposal to submit its 2023 5-year depreciation study with rebalanced depreciation reserves (OTP)

Or

9. Do not approve OTP's proposal to submit its 2023 5-year depreciation study with rebalanced depreciation reserves (DOC)