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May 28, 2015

Daniel P. Wolf
Executive Secretary
Minnesota Public Utilities Commission
350 Metro Square Building
121 East Seventh Place
St. Paul, MN 55101

**RE: In the Matter of the Petition of Otter Tail Power Company for Approval of 2015
Capital Structure and Permission to Issue Securities
Docket No. E017/S-15-411
Reply Comments**

Dear Mr. Wolf:

Please find enclosed Otter Tail Power Company's Reply Comments and a Request for Variance in the above referenced matter.

If you have any questions regarding this filing, please contact me at 218-739-8956 or at cstephenson@otpco.com

Very truly yours,

/s/ CARY STEPHENSON
Cary Stephenson
Associate General Counsel

jce
Enclosures
By electronic filing
c: Service List

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

In the Matter of the Petition of Otter Tail
Power Company for Approval of 2015 Capital
Structure and Permission to Issue Securities

Docket No. E017/S-15-411

**OTTER TAIL POWER COMPANY
REPLY COMMENTS
& REQUEST FOR VARIANCE**

On May 1, 2015 Otter Tail Power Company (“Otter Tail” or the “Company”) filed its Petition for Approval of 2015 Capital Structure and Permission to Issue Securities in the above-referenced docket. The Department of Commerce, Division of Energy Resources (the “Department”) filed Comments on May 18, 2015. The following constitutes Otter Tail’s Reply Comments. Included in this Reply is a request for a variance from Minn. Rule 7825.1000 Subp. 6 to authorize Otter Tail to treat borrowings under its current multi-year credit facility as “short term debt” as the term is defined in the rule, as more fully described below.

REPLY COMMENTS

Otter Tail accepts and supports the Department’s Comments and recommendations filed on May 18, 2015. Otter Tail agrees with the Department’s footnote 2 that the correct calculation for the 10 percent range around the Company’s common equity ratio is 46.9 percent to 57.3 percent. Likewise Otter Tail agrees with the Department’s footnote 3 that the correct calculation for 15 percent of the Company’s total capitalization is \$144 million. Otter Tail appreciates the Department’s thorough and prompt review.

REQUEST FOR VARIANCE

During our review of the Department’s Comments it has come to our attention that it would be appropriate to request a variance from Minn. Rule 7825.1000, Subp. 6 for authority to allow the Company to treat direct borrowings under a multi-year credit agreement as short-term

securities. The Department has confirmed it would be appropriate for Otter Tail to request this variance. Variances to this rule have been granted for other utilities in similar circumstances.¹

Otter Tail's current line of credit was first referenced in an informational filing dated November 19, 2012 in MPUC Docket No. E017/S-12-420². This multi-year credit agreement providing the Company with a \$170 million line of credit has been amended from time to time, with the most recent amendment described in the Company's November 20, 2014 information filing in MPUC Docket No. E017/S-14-381³.

Otter Tail uses this unsecured line of credit to meet its daily short-term working capital requirements and for funding construction in progress. Otter Tail generally expects to repay borrowed amounts in less than a year. In its Petition Otter Tail asks for authority to borrow up to \$170 million under its line of credit as short-term debt during the Authorization Period, subject to the short-term contingency range based on 15 percent of the Company's total capitalization.

Otter Tail's current multi-year line of credit has by definition a date of maturity exceeding one year, whereas Minn. Rule 7825.1000 Subp. 6 limits the maturity date of such securities no more than one year:

"Short-term security" means any unsecured security with a date of maturity of no more than one year from the date of issuance; and containing no provisions for automatic renewal or "roll over" at the option of either the obligee or obligor.

While Otter Tail uses its credit line as short-term debt, and Minn. Rule 7825.1300 authorizes the Commission to allow the Company to freely issue short-term debt under its approved capital structure, a fair reading of the rules indicates a variance is appropriate for the Company to treat borrowings under its multi-year line of credit as short-term debt.

Minn. Rule 7829.3200 provides a three-part test for variances:

¹ By way of example Xcel Energy requested and received a variance in Docket No. E,G002/S-04-1794 and subsequent capital structure filings. Minnesota Power requested and received a variance in Docket No. E015/S-11-174 and subsequent capital structure filings.

² As noted in the filing, on October 29, 2012 Otter Tail Power Company entered into a Second Amended and Restated Credit Agreement with the following Banks: JP Morgan Chase Bank, N.A. and Bank of America, N.A. as Co-Syndication Agents, KeyBank National Association and Cobank, ACB as CoDr. Documentation Agents, U.S. Bank National as Administrative Agent, and U.S. Bank, Merrill Lynch, and JP Morgan Securities as Joint Lead Arrangers and Joint Book Runners. The Credit Agreement had a term of five years and provided a \$170 million revolving line of credit.

³ This amendment extended the termination date of the agreement from October 29, 2018 to October 29, 2019.

The commission shall grant a variance to its rules 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 standards imposed by law.

Based on the following Otter Tail respectfully submits that a variance is warranted.

1. Enforcement of the rule would impose an excessive burden upon the applicant or others affected by the rule.

The burden imposed by enforcement of the rule is that it would negate benefits to Otter Tail and its customers derived from direct borrowings under a multi-year credit facility for use as short-term debt. By arranging access to a revolving line of credit on a multi-year basis the Company reduces refinancing risk inherent in short-term (one year or less maturity) credit facilities. The multi-year line of credit also represents available liquidity, which is viewed favorably by rating agencies. Without the ability to use its line of credit as short-term securities an additional burden could be increased financing costs and fees resulting from unfavorable reaction by credit rating agencies. Because Otter Tail's use of its multi-year credit facility is consistent with the traditional use of short-term securities, we believe such use should be counted with the short-term debt pursuant to the 15 percent contingency limit.

2. Granting the variance would not adversely affect the public interest.

A variance from Minn. Rule 7825.1000, Subp. 6 will not negatively affect the public interest. The Commission retains broad oversight authority over Otter Tail's capital structure. Commission standards, including the 15 percent short-term debt limit, the Company's equity ratio, and the equity ratio ranges assure that Otter Tail will maintain a capital structure that meets the public interest. Rather than negatively affecting the public interest, a variance from Minn. Rule 7825.1000, Subp. 6 will assist Otter Tail in maintaining and securing favorable borrowing terms and liquidity which ultimately benefits the public interest.

3. Granting the variance would not conflict with standards imposed by law.

This variance would not conflict with law. The intended use of Otter Tail's line of credit is to meet short-term funding requirements consistent with the Commission standards. The Commission retains the ability to evaluate Otter Tail's variance in its next capital structure petition. We believe that the granting of this variance is consistent with and conforms to all applicable standards.

Based on the foregoing, Otter Tail respectfully requests that the Commission grant the requested Variance and approve the Company's Petition for Approval of 2015 Capital Structure and Permission to Issue Securities.

Dated: May 28, 2015

Respectfully Submitted,

OTTER TAIL POWER COMPANY

By: /s/ CARY STEPHENSON

Cary Stephenson
Associate General Counsel
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CERTIFICATE OF SERVICE

**RE: In the Matter of the Petition of Otter Tail Power Company for Approval of
2015 Capital Structure and Permission to Issue Securities
Docket No. E017/S-15-411**

I, Jana Emery, hereby certify that I have this day served a copy of the following, or a summary thereof, on Mr. 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 & Request for Variance**

Dated this **28th** day of **May 2015**.

/S/ JANA EMERY

Jana Emery Regulatory Filing Coordinator
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