

July 31, 2018

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

RE: **Response Comments of the Minn. Dept. of Commerce, Division of Energy Resources**
Docket No. E017/S-18-313

Dear Mr. Wolf:

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

Petition of Otter Tail Power Company for Approval of 2018 Capital Structure and Permission to Issue Securities.

The petition was filed on May 1, 2018 by:

Kevin Moug
Treasurer
Otter Tail Power Company
215 South Cascade Street
Fergus Falls, Minnesota 56538.

The Department continues to recommend **approval with additional reporting requirements** and is available to respond to any questions the Minnesota Public Utilities Commission may have.

Sincerely,

/s/ STEPHEN COLLINS
Rates Analyst

SC/ja
Attachment



Before the Minnesota Public Utilities Commission

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

Docket No. E017/S-18-313

I. INTRODUCTION & DEPARTMENT ANALYSIS

On May 1, 2018, Otter Tail Power Company (OTP or the Company) filed its 2018 capital-structure petition.

On June 15, 2018, the Minnesota Department of Commerce, Division of Energy Resources (Department) filed comments recommending approval with additional permanent reporting requirements. Specifically, the Department recommended that, to avoid needless repetition, the Commission make permanent the following reporting requirements, which until now have been issued anew in each Order regarding OTP's capital structure, and OTP has provided each year:

- In all future capital structure filings, OTP must provide a schedule comparing its actual capital investments in the past year with the capital investments projected by OTP in the preceding year's capital structure filing.
- In all future capital structure filings, OTP must provide the Company's investment plan for at least the next five years.
- In all future capital structure filings, OTP must report on its use of its multi-year credit facility, including how often the facility was used, the amount involved in any usage, rates and financing costs, and the intended uses of the financing.

The Department also recommended that the Commission approve an additional reporting requirement to help ensure that OTP is minimizing the cost of serving customers:

- In all future capital structure filings, OTP must provide, to the extent practicable, evidence to demonstrate that any bond issuances since the date of OTP's last annual capital structure filing were cost competitive, with the analysis including, at a minimum, a detailed comparison of OTP's bond issuances to all other utility bond issuances over the same period.

On July 9, 2018, OTP filed reply comments responding to the Department's recommendations. OTP's reply comments agreed to continue providing the information specified in the first three

additional permanent reporting requirements recommended by the Department. Regarding the fourth additional permanent reporting requirement, OTP stated as follows:

Finally, OTP does not object to providing information in future filings reasonably demonstrating the cost competitiveness of any bond issuances since the date of OTP's last annual capital structure filing. We are however concerned that that [*sic*] the scope of the Department's requested analysis may be too broad in seeking a comparison to *all* [OTP's emphasis] other utility bond issuances. We believe a more helpful approach would be an analysis based on a representative sample of comparable peer issuances, subject to data availability.

The Department concludes that OTP's proposal to use "a representative sample" would allow OTP to alter the comparison to the Company's benefit. The Department therefore opposes this alternative.

However, the Department agrees that a more targeted comparison would be useful, relative to the Department's original recommendation of including all other utility bond issuances. The Department therefore recommends that the Commission instead require OTP to provide a detailed comparison of OTP's bond issuances to all bond issuances over the same period by other U.S. electric utilities with an investment-grade long-term issuer credit rating from Standard & Poor's (BBB- or higher). The Department believes this updated recommendation will narrow the scope of the comparison to a reasonable degree, while also providing a broad enough sample to give the Commission an adequate sense of the cost of other comparable bond issuances. In addition, these sample criteria would be the same criteria the Department used to assess the reasonableness of OTP's proposed equity-ratio midpoint, as shown in Figure 1 of the Department's June 15, 2018 comments.

II. DEPARTMENT RECOMMENDATION

The Department continues to recommend that the Commission take the actions requested by OTP, specifically:

- approve a common-equity range of 47.9% to 58.5%, not to be exceeded for more than 60 days without Commission approval;
- approve a short-term debt range up to 15%, not to be exceeded for more than 60 days without Commission approval;
- approve a total maximum capitalization of \$1,204,416,000, not to be exceeded for more than 60 days without Commission approval;

- continue to vary Minnesota Rules 7825.1000, subpart 6, to allow OTP to treat borrowings under its multi-year credit agreement as short-term debt for approved capital-structure purposes;
- within the approved capital structure, allow OTP to issue debt and receive equity contributions from its parent company, Otter Tail Corporation; and
- make the above approvals effective until the Commission issues its next capital structure Order.

The Department also continues to recommend that the Commission require OTP to provide the following information in all future annual capital structure filings, with the modification to the last requirement as explained earlier in these comments shown in bold:

- a schedule comparing its actual capital investments in the past year with the capital investments projected by OTP in the preceding year's capital structure filing;
- OTP's investment plan for at least the next five years;
- a report on the OTP's use of its multi-year credit facility, including how often the facility was used, the amount involved in any usage, rates and financing costs, and the intended uses of the financing; and
- to the extent practicable, evidence to demonstrate that any bond issuances since the date of OTP's last annual capital structure filing were cost competitive, with the analysis including, at a minimum, a detailed comparison of OTP's bond issuances to all bond issuances over the same period **by other U.S. electric utilities with an investment-grade long-term issuer credit rating from Standard & Poor's (BBB- or higher).**

/ja