

December 13, 2016

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

RE: **Comments of the Minnesota Department of Commerce, Division of Energy Resources**  
Docket No. E017/D-16-729

Dear Mr. Wolf:

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

Otter Tail Power Company's (OTP's) 2016 Annual Review of Depreciation  
Certification.

The petition was filed on September 1, 2016 by:

Loyal K. Demmer, CMA  
Senior Depreciation Accountant  
Otter Tail Power Company  
215 South Cascade Street  
PO Box 496  
Fergus Falls, MN 56538-0496

The Department recommends **limited approval** and is available to answer any questions the Minnesota Public Utilities Commission (Commission) may have.

Sincerely,

/s/ MARK A. JOHNSON  
Financial Analyst

MAJ/lt  
Attachment

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

COMMENTS OF THE  
MINNESOTA DEPARTMENT OF COMMERCE  
DIVISION OF ENERGY RESOURCES

DOCKET No. E017/D-16-729

**I. SUMMARY OF FILING**

On September 1, 2016, Otter Tail Power Company (OTP or the Company) filed its 2016 *Annual Review of Depreciation Certification* in Docket No. E017/D-16-729 (Petition). OTP is requesting approval of changes to the lives and salvage rates of a number of property accounts based on OTP's plant and reserve balances as of December 31, 2015.

On September 14, 2016, OTP filed errata to its Petition (Errata). OTP stated that it found an error in Attachment 1 (2016 Technical Update) of its Petition. As a result, OTP provided the corrected page in Attachment 1 of its Errata and the corrected 2016 Technical Update in Attachment 2 of its Errata. Based on the Company's proposed changes the updated composite depreciation accrual rate is 2.83 percent, compared the current composite depreciation accrual rate of 2.57 percent, or a 0.26 percent increase to the composite depreciation accrual rate. The net effect of the proposed changes is an increase in annual depreciation expense of \$4,600,695 (Total Company) as summarized in Table 1 below. The increase in annual depreciation is \$2,375,771 for the Minnesota Jurisdiction.<sup>1</sup>

<sup>1</sup> OTP's September 14, 2016 Errata Filing in Docket No. E017/D-16-729, Attachment 1.

**Table 1:**  
**Summary of Proposed Depreciation Rates and Resulting Accruals<sup>2</sup>**

Function	Accrual Rate			2016 Annualized Accrual		
	Current	Updated	Difference	Current	Updated	Difference
A	B	C	D=C-B	E	F	G=F-E
Production						
Steam	2.14%	2.94%	0.80%	\$ 11,847,476	\$ 16,314,315	\$ 4,466,839
Hydraulic	8.46%	8.66%	0.20%	595,098	609,377	14,279
Other	4.14%	4.16%	0.02%	12,803,834	12,861,053	57,219
Transmission	1.69%	1.71%	0.02%	6,451,080	6,511,672	60,592
Distribution	2.49%	2.50%	0.01%	11,237,506	11,241,540	4,034
General Plant	3.95%	3.94%	-0.01%	2,128,793	2,126,525	(2,268)
Total Utility	2.57%	2.83%	0.26%	\$ 45,063,787	\$49,664,482	\$4,600,695

**Table 1. Current and Updated Rates and Accruals**

The Company requested an effective date of January 1, 2017 for its proposed depreciation changes to lives and salvage rates.

## II. DEPARTMENT ANALYSIS

The Minnesota Department of Commerce, Division of Energy Resources (Department or DOC) examined OTP's petition for compliance with filing requirements and previous Minnesota Public Utilities Commission (Commission) Orders, and for the reasonableness of the proposed remaining lives, salvage rates, and depreciation accruals.

### A. DEPRECIATION RULES

Minnesota Statutes Section 216B.11 and Minnesota Rules, parts 7825.0500-7825.0900 require public utilities to seek Commission approval of their depreciation practices. Utilities must also file depreciation studies at least once every five years and must use straight-line depreciation unless the utility can justify a different method. When utilities use the average service life technique to depreciate group property accounts, life and salvage factors, as well as the resulting depreciation rates, remain unchanged between studies. When companies choose the remaining-life technique 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 and retirements. Annual depreciation study updates are required when the remaining-life technique is employed to allow the Commission the opportunity to approve changes in depreciation rates.

With the exception of certain selected General Plant accounts and one Distribution Plant account for which the Company uses amortization accounting, OTP uses a remaining-life accounting method and, as a result, must file annual depreciation study updates.

<sup>2</sup> *Id.*

**B. REASONABLENESS OF PROPOSED DEPRECIATION PARAMETERS**

**1. Production Plant (Steam, Hydraulic, Other)**

OTP explained that “[t]he increase in annual depreciation expense of \$4,600,695 (Total Company) is largely attributable to adjustments to the estimated cost to dismantle Big Stone. Changes in the mix of plant investments among primary accounts and changes in the age of distributions of surviving plant also contributed to the increase in accruals.”<sup>3</sup>

The Department notes on Table 1 above that plant function for Production-Steam, which includes OTP’s coal plants Big Stone, Hoot Lake Units 2 and 3, and Coyote, increased from a current composite depreciation accrual rate of 2.14 percent to an updated composite depreciation accrual rate of 2.94 percent, or a 0.80 percent increase in the Production-Steam composite depreciation accrual rate. The Department also notes that the net effect of the proposed changes for the Production-Steam plant function is an increase in annual depreciation expense of \$4,466,839 (Total Company), which is 97.1 percent<sup>4</sup> or the majority of the total depreciation expense increase of \$4,600,695 (Total Company). As a result, the Department focused its review on the Production-Steam plant function.

**a) Remaining Lives**

As shown in Attachment 2, Pages 36-40 (Statement F) of the Errata, OTP proposed to reduce the remaining lives for most of its production plant accounts by approximately one year to account for the passage of time. However, the Department notes that OTP proposed to increase the remaining life for Account 312.1 (Boiler Plant Equipment – Ash Ponds) for Hoot Lake Units 2 and 3 from 6.45 years to 33.91 years.

Beginning on page 3 of its Petition, OTP addressed its remaining life change for Account 312.1 for Hoot Lake Units 2 and 3. OTP stated in part that: <sup>5</sup>

On December 19, 2014 the Federal Environmental Protection Agency (EPA) released its Coal Combustion Residuals (CCR) rule. According to the rule, CCR will be regulated as a solid waste. This ruling impacts our ash handling and management practices. The final disposal destination for the VIC [Voluntary Investigation and Cleanup] area ash is our lined, permitted landfill located on the HLP [Hoot Lake Plant] property. This permitted facility is subject to the CCR rule, and as a result, additional environmental monitoring equipment had to be installed. Otter Tail will be required to monitor our on-site lined permitted ash disposal facility at HLP for 30 years past the final ash landfill capping which we expect to be sometime after the plant is retired in 2021.

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<sup>3</sup> *Id.*

<sup>4</sup>  $\$4,466,839 / \$4,600,695 = 97.1\%$

<sup>5</sup> OTP’s September 1, 2016 Initial Filing in Docket No. E017/D-16-729, Pages 3-5.

...

To appropriately reflect that the ash disposal facility will have an existence that continues beyond the decommissioning of Hoot Lake Plant and the facility will have a 30-year monitoring requirement as set forth by the EPA in its CCR rules, Otter Tail requests that it be authorized to:

- Set up a new 312.1 sub account at HLP under FERC account 312 and transfer the facilities existing lined permitted ash disposal facility into this sub account. As of December 31, 2015, the Gross Plant and Accumulated Depreciation totaled \$6,980,676 and \$2,331,763 respectively resulting in a Net Plant balance for this site of \$4,648,913. Otter Tail is requesting the Average Year of Final Retirement (AYFR) for this sub account reflecting the existing lined permitted ash disposal facility to be 2051, which is 30 years past the current plants AYFR of 2021. The remaining life for these assets in sub account 312.1 is 33.91 years with this filing and reflects the EPA's 30 year monitoring window requirement promulgated through their CCR rules, which Otter Tail is now required to meet. [Footnotes omitted].

The Department notes that, normally, clean-up related plant costs are allocated over the life of the plant (2021) so that ratepayers that benefited from the energy/capacity of the plant also pay the related costs. As a result, the Department asked OTP, in DOC Information Request No. 2, to justify its departure from this practice. OTP replied that:

Otter Tail is not departing from the referenced practice. Otter Tail is still allocating the Future Net Negative Salvage (clean-up related plant costs) over the plant's Remaining Life, so that the ratepayers that benefit from the output from this plant pay for its cost of removal through the future net negative salvage rate as applied at the plants FERC account level. Note in Attachment 1, Statement E, on page 31 of 46 for Hoot Lake Plant that Otter Tail is not requesting any Future Net Salvage for HLP FERC account 312.1. This is because at the end of the plant's operating life in 2021, decommissioning activities will commence and will be completed sometime later. No further decommissioning activities will be required at the end of the 30 year monitoring period, so no Future Net Salvage rate is applied to that account. Future customers that will benefit from Otter Tail's current risk mitigation practice of placing ash from formerly unlined ash pits into HLP's permitted and lined ash disposal facility that must now function and be monitored for an

additional 30 years will bear that cost. The accounting principle of matching costs to those periods (ratepayers) that benefit from the use of an asset and the regulatory concept of ratepayer inter-generational equality are met in this manner.<sup>6</sup>

The Department agrees that the Company has a 30-year monitoring requirement as set forth by the EPA in its CCR rules. In addition, the Department agrees that future ratepayers may benefit indirectly from this facility through Otter Tail's current risk mitigation practice of placing ash from formerly unlined ash pits into HLP's permitted and lined ash disposal facility. As a result, the Department recommends that the Commission approve OTP's proposal to set up a new 312.1 sub account at HLP under FERC account 312 and transfer the facility's existing lined permitted ash disposal facility into this sub account to be depreciated over 33.1 years.

*b) Salvage Rates*

As shown in Attachment 2, Page 7 of 46 (Statement A) of the Errata, OTP proposed to change the current net salvage rates for its Steam Production Plant which ranged from -10.2 percent to -10.8 percent to its updated or proposed net salvage rates which range from -7.0 percent to -8.0 percent. The DOC asked OTP, in DOC Information Request No. 7(a), to provide support for these changes and to explain why the net salvage rates were decreasing when the costs of removal and clean-up for Steam Production Plant appeared to be increasing. OTP replied that:

The 2016 Technical Update's Future Net Salvage amount for Steam Production is (\$40,638,669) (see Attachment 1, Statement D, column H on Page 25 of 46). This amount is (\$2,066,286) or 5.4% more than last years (\$38,572,383) (see Docket E017/D-15-804, Attachment 1, Statement D, column H on Page 25 of 45). This increased negative salvage amount is driven primarily by changes to the BSP [Big Stone Plant] AQCS [Advanced Air Quality Control System] decommissioning cost as discussed in OTP's response to IR MN-DOC-6. Meanwhile, the Steam Production Plants' plant in service balances as illustrated in the 2016 Technical Update, Statement G, (Attachment 1, page 41 of 46) shows an increase of \$189M or 52% in 2015 (also driven primarily by BSP AQCS). It is this increase in Steam Production Plant, plant in service balances that is primarily driving the change in the salvage percentage from -10.5% to -7.3% on an overall composite basis. A minimal increase in the Future Net Negative Salvage amount (relatively speaking) divided by a significant increase in the plant in service balance (relatively speaking) yields a reduced net negative future salvage percentage as illustrated below:...

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<sup>6</sup> Per OTP's Response to DOC Information Request No. 2; See DOC Attachment 1 to these comments.

<sup>7</sup> Per OTP's Response to DOC Information Request No. 7(a); See DOC Attachment 2 to these comments.

The Department appreciates OTP response to our question and agrees that the overall increase in the plant-in-service balances outweighs the overall increase in future net salvage amounts, which results in reduced net negative future salvage percentages. Since OTP proposed only minimal or no changes to the salvage rates of its remaining production plants, the Department concludes that the proposed salvage rates for all production facilities are reasonable.

## 2. *Transmission, Distribution, and General Plant*

### a. *Remaining Lives*

As shown in Attachment 2, Pages 34-40 (Statement F) of the Errata, OTP proposed only minor changes to the remaining lives of its transmission, distribution, and general plant (TD&G) accounts. Based on our review, Department concludes that the proposed changes to the remaining lives to these accounts are reasonable.

### b. *Salvage Rates*

As shown in Attachment 2, Pages 7-11 (Statement A) of the Errata, OTP proposed no significant changes to its currently approved TD&G salvage rates. The Department concludes that the proposed salvage rates are reasonable.

## C. *PLANT BALANCES, ADDITIONS, AND RETIREMENTS*

Table 2 shows the changes to OTP's plant balances during 2015. The net effect of additions and retirements during the year is an increase in total plant of approximately \$268 million, the majority of which was concentrated in the Company's steam production and transmission plant accounts.

**Table 2:**  
**Changes in Primary Plant Balance Accounts<sup>8</sup>**

<b>Primary Plant Assets</b>	<b>Beginning Plant Balance 12/31/15</b>	<b>Additions</b>	<b>Retirements</b>	<b>Transfers</b>	<b>Ending Plant Balance 12/31/15</b>
Steam Production	\$366,048,815	214,873,581	26,152,390		\$554,770,006
Hydraulic Production	\$7,024,664	12,994			\$7,037,658
Other Production	\$308,861,206	1,173,439	783,765		\$309,256,880
Transmission Plant	\$315,762,090	66,629,813	1,223,832	(303,581)	\$380,864,490
Distribution Plant	\$437,373,015	16,729,564	3,840,521	292,560	\$450,554,709
General Plant	\$52,880,507	1,657,450	591,834	11,792	\$53,957,915
<b>TOTALS</b>	<b>\$1,487,953,298</b>	<b>301,079,931</b>	<b>32,592,342</b>	<b>770</b>	<b>\$1,756,441,657</b>

<sup>8</sup> Per OTP's September 14, 2016 Errata Filing in Docket No. E017/D-16-729, Attachment 2, Pages 41-42 (Statement G).

*D. FUTURE ADDITIONS AND RETIREMENTS*

Minnesota Rules 7825.0700, subpart 2, B. states that each utility shall disclose a list of any major future additions or retirements to the plant accounts that the utility believes may have a material effect on the current certification results.

In Attachment No. 3 of its Petition, OTP stated that its Air Quality Control System (AQCS) at its Big Stone plant was placed into service in 2015. In addition, OTP stated that its investments in CapX2020 transmission lines went into service from 2012 through 2015.

Regarding future retirements, OTP stated that it is “unaware of any major future retirements that would materially affect the current certification results.”

Regarding future additions, OTP stated that:

Otter Tail is actively participating in the development of two new 345 kV transmission projects and corresponding substation upgrades in the Big Stone area. We are working closely with MISO and area utilities on these projects, which are part of MISO’s Multi-Value Project (“MVP”) portfolio. The two 345 kV projects are under construction; Big Stone South – Brookings and Big Stone South – Ellendale. These projects are eligible for regional cost sharing under MISO’s FERC-approved MVP cost allocation methodology. These projects are in the construction phase and are expected to go into service in phases from 2016 through the early 2019 timeframe at an estimated cost of \$255M OTP share.<sup>9</sup>

Beginning on page 6 of its Petition, OTP stated that the Commission’s March 26, 2009 Order in Docket No. E017/RP-05-968 requires 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.” In addition, OTP stated that “This filing does not include any new peaking generators so there is no cost information to report at this time.”

Based on the above, the Department concludes that OTP has complied with Minnesota Rule 7825.0700, subpart 2, B. and the Commission’s Order in Docket No. E017/RP-05-968.

*E. OTP’S REMAINING LIFE POLICY*

OTP’s Remaining Life Policy maintains a ten-year minimum remaining life for generating assets (unless a retirement date has been set), and a five-year window between the retirement dates of baseload plants.

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<sup>9</sup> OTP’s September 1, 2016 Initial Filing in Docket No. E017/D-16-729, Attachment No. 3.



In our November 2, 2015 Comments regarding OTP's 2015 depreciation filing in Docket No. E017/D-15-804, the Department expressed concerns with OTP's Remaining Life Policy and its possible impacts on its Jamestown and Lake Preston peaking facilities. The Department noted that the Commission had approved continuous one-year life extensions for its Jamestown and Lake Preston peaking facilities in the Company's previous depreciation filings. However, the Department noted that OTP did not propose any life extensions for its Jamestown and Lake Preston peaking facilities in the Company's most recent 2014 and 2015 depreciation filings. Likewise, OTP did not propose any life extensions for its Jamestown and Lake Preston peaking facilities in the instant Petition. As a result, the DOC concludes that OTP's Remaining Life Policy does not have a significant impact in this proceeding.

While the Department still has concerns with OTP's Remaining Life Policy, the Department does not recommend that the Commission take any specific action related to this policy at this time. However, the Department will continue to monitor the effects the Remaining Life Policy has on OTP's depreciation expense in light of decisions made through the Commission's Integrated Resource Plan (IRP) process.

#### *F. COMPARISON OF RESOURCE PLAN AND REMAINING LIVES*

The Commission's Order in Docket No. E017/D-15-804 (the 2015 Depreciation Docket) required OTP to include in future depreciation filings a table comparing asset lives used for the purposes of the Company's resource planning with the remaining lives proposed in the depreciation filings, explaining any differences. Attachment No. 4 to OTP's Petition includes the required table.

The Company notes in Attachment No. 4 that the remaining lives calculated for depreciation purposes are intended to be exact and are based on information known at a given point in time. In contrast, the remaining lives for resource planning purposes are less exact and subject to change in the long-term. For example, when the horizon of the resource plan does not extend to the anticipated retirement dates of certain facilities, no retirement dates for these facilities are discussed in the resource plan.

As shown in the Company's Attachment No. 4, OTP's remaining lives for resource planning purposes closely match its remaining lives for depreciation purposes for most facilities, with the exception of its Jamestown and Lake Preston peaking facilities. OTP's Jamestown and Lake Preston peaking facilities have an estimated retirement date of 2029 for resource planning purposes and an estimated retirement date of 2023 for depreciation purposes. The DOC asked OTP, in DOC Information Request Nos. 9 and 10, to explain why the 2023 depreciation lives continue to be reasonable. In addition, the DOC asked OTP to provide information, such as engineering studies, on the life of the facilities and any expected plant additions or retirements. OTP replied that:

Otter Tail has 2023 as its Average Year of Final Retirement (AYFR) for the Jamestown Peaking plant. The IRP now before the Commission has June 2033 as its expected retirement date

for the unit (please see Docket E017/RO-16-386, Initial Filing, dated June 1, 2016, Appendix F; Figure 15, Retirement Date). Depreciation filings reflect plant conditions and plant investments as they exist at the time of the filing. The IRP can make assumptions as to future expected plant conditions and investments and reflect those in the IRP assumptions. In this instance the IRP before the Commission now assumes that needed Control System upgrades have taken place at the Jamestown Peaking Units that support the IRP retirement year of 2033.

As of December 31, 2015, the book date for Otter Tail's current depreciation filing, the Control System upgrades, while in progress, have not yet been placed into service. At this time Otter Tail expects to place into service sometime in the 4th quarter the Control System upgrades at the Jamestown of around \$500k. Otter Tail expects these Control System upgrades will warrant a Remaining Life extension in future depreciation filings.<sup>10</sup>

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Otter Tail has 2023 as its Average Year of Final Retirement (AYFR) for the Lake Preston Peaking plant. The IRP now before the Commission has June 2033 as its expected retirement date for the unit (please see Docket E017/RO-16-386, Initial Filing, dated June 1, 2016, Appendix F; Figure 15, Retirement Date). Depreciation filings reflect plant conditions and plant investments as they exist at the time of the filing. The IRP can make assumptions as to future expected plant conditions and investments and reflect those in the IRP assumptions. In this instance the IRP before the Commission now, assumes that needed Control System upgrades have taken place at the Lake Preston Peaking plant which support the IRP retirement year of 2033.

As of December 31, 2015, the book date for Otter Tail's current depreciation filing, the Control System upgrades, while in progress, had not yet been placed into service. At this time Otter Tail expects to place into service sometime in the 4th quarter the Control System upgrades at Lake Preston of around \$274k. Otter Tail expects these Control System upgrades will warrant a Remaining Life extension in future depreciation filings.<sup>11</sup>

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<sup>10</sup> Per OTP's Response to DOC Information Request No. 9; See DOC Attachment 3 to these comments.

<sup>11</sup> Per OTP's Response to DOC Information Request No. 10; See DOC Attachment 4 to these comments.

Since the upgrades to these facilities are expected in the 4<sup>th</sup> quarter of 2016, and the depreciation rates in this proceeding will be in effect in 2017, the DOC recommends that OTP explain in reply comments why it should not extend the lives of these facilities in the instant proceeding. In addition, the Department recommends that OTP provide in reply comments the depreciation expense impact of extending the remaining lives of the Jamestown and Lake Preston facilities to 2033. The Department will make our recommendations regarding these facilities after it has reviewed the Company's reply comments.

The DOC concludes that it is useful to reconcile the remaining lives for resource planning purposes and the remaining lives for depreciation purposes to obtain a better understanding of future plans by the Company to maintaining production facilities. Such comparison is one of the many tools to use to help ensure that rates are reasonable and service is reliable. Thus, the DOC supports continuation of the requirement for OTP to reconcile the two forecasts in the future and recommends that the Commission require Otter Tail to include a table comparing the resource planning lives and remaining lives for purposes of depreciation and fully explain any differences.

**G. *EFFECTIVE DATE OF PROPOSED DEPRECIATION PARAMETERS AND RATES***

As noted above, OTP requested that the depreciation parameters and rates proposed in its petition, upon certification by the Commission, become effective January 1, 2017. The proposed effective date is consistent with the Commission's Orders in OTP's previous depreciation dockets, and the Department concludes that it is reasonable.

**III. SUMMARY AND RECOMMENDATIONS**

Based on our review of OTP's 2016 Depreciation Petition, the Department recommends that:

- The Commission approve OTP's proposed service lives, proposed salvage values, and proposed depreciation rates for all facilities, except the Jamestown and Lake Preston peaking facilities;
- OTP explain in reply comments why it should not extend the lives of the Jamestown and Lake Preston peaking facilities to 2033 in the instant petition;
- OTP provide in reply comments the depreciation expense impact of extending the remaining lives of the Jamestown and Lake Preston peaking facilities to 2033;
- The Commission approve OTP's proposed effective date of January 1, 2017;
- The Commission require OTP to include in future depreciation filings a table comparing asset lives used for the purpose of the Company's resource planning with the remaining lives proposed in the depreciation filings, explaining any differences; and
- Require OTP to file its next annual depreciation study by September 1, 2017.

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Response to Information Request MN-DOC-02  
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OTTER TAIL POWER COMPANY  
Docket No: E017/D-16-729

Response to: Minnesota Department of Commerce  
Analyst: Nancy Campbell and Angela Byrne  
Date Received: 10/05/2016  
Date Due: 10/19/2016  
Date of Response: 10/19/2016  
Responding Witness: Loyal Demmer, Depreciation Accountant - 218 739-8659

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Information Request:

Reference: Cover Letter on page 5

Subject: Hoot Lake Plant (HLP) ash disposal clean-up

For sub account 312.1, HLP's ash disposal facility, the Company is extending the life of these facilities by 30 years (from 6.45 to 33.91). The Company states that this is needed to reflect the EPA's 30 year monitoring window requirement promulgated through their Coal Combustion Residuals rule. Normally, clean-up related plant costs are allocated over the life of the plant (2021 retirement date) so that ratepayers that benefited from the energy/capacity of this plant also pay the related costs. Please justify OTP's departure from this practice.

Attachments: 0

Response:

Otter Tail is not departing from the referenced practice. Otter Tail is still allocating the Future Net Negative Salvage (clean-up related plant costs) over the plant's Remaining Life, so that the ratepayers that benefit from the output from this plant pay for its cost of removal through the future net negative salvage rate as applied at the plants FERC account level. Note in Attachment 1, Statement E, on page 31 of 46 for Hoot Lake Plant that Otter Tail is not requesting any Future Net Salvage for HLP FERC account 312.1. This is because at the end of the plant's operating life in 2021, decommissioning activities will commence and will be completed sometime later. No further decommissioning activities will be required at the end of the 30 year monitoring period, so no Future Net Salvage rate is applied to that account. Future customers that will benefit from Otter Tail's current risk mitigation practice of placing ash from formerly unlined ash pits into HLP's permitted and lined ash disposal facility that must now function and be monitored for an additional 30 years will bear that cost. The accounting principle of matching costs to those periods (ratepayers) that benefit from the use of an asset and the regulatory concept of ratepayer inter-generational equality are met in this manner.

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Response to Information Request MN-DOC-07  
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OTTER TAIL POWER COMPANY  
Docket No: E017/D-16-729

Response to: Minnesota Department of Commerce  
Analyst: Nancy Campbell and Angela Byrne  
Date Received: 10/05/2016  
Date Due: 10/19/2016  
Date of Response: 10/19/2016  
Responding Witness: Loyal Demmer, Depreciation Accountant - 218 739-8659

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Information Request:

Reference: Attachment 1, page 7 of 46

Subject: Changes to Depreciation Rates for Steam Production Plant

- (a) On page 7 the current net salvage rates for Steam Production Plant range from (-10.2% to -10.8%) and the updated or proposed net salvage rates range from (-7.0% to -8.0%), please provide support for net salvage rates being decreased when the cost of removal and clean-up for Steam Production Plant appears to be increasing (including increased costs for dismantling Big Stone).
- (b) On page 7 the current remaining lives for Steam Production Plant are being changed to the updated or proposed remaining lives shown below by account. Please provide support for these changes.

	Current	Updated/Proposed
• Account 311	24.22	27.2
• Account 312	18.11	22.18
• Account 312.1	18.11	33.91
• Account 314	22.0	21.2
• Account 315	23.31	25.49
• Account 316	19.58	18.8

- (c) For Steam Production Plant, if negative salvages rates are reduced causing depreciation expense to decrease, and remaining lives are mostly being extended causing depreciation expense to decrease, why is there an overall increase in depreciation expense for the Steam Production Plant and an increase in the accrual rate from 2.14% (current) to 2.94% (updated).

Attachments: 0

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Response to Information Request MN-DOC-07  
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Response:

- (a) The 2016 Technical Update's Future Net Salvage amount for Steam Production is (\$40,638,669) (see Attachment 1, Statement D, column H on Page 25 of 46). This amount is (\$2,066,286) or 5.4% more than last years (\$38,572,383) (see Docket E017/D-15-804, Attachment 1, Statement D, column H on Page 25 of 45). This increased negative salvage amount is driven primarily by changes to the BSP AQCS decommissioning cost as discussed in OTP's response to IR MN-DOC-6. Meanwhile, the Steam Production Plants' plant in service balances as illustrated in the 2016 Technical Update, Statement G, (Attachment 1, page 41 of 46) shows an increase of \$189M or 52% in 2015 (also driven primarily by BSP AQCS). It is this increase in Steam Production Plant, plant in service balances that is primarily driving the change in the salvage percentage from -10.5% to -7.3% on an overall composite basis. A minimal increase in the Future Net Negative Salvage amount (relatively speaking) divided by a significant increase in the plant in service balance (relatively speaking) yields a reduced net negative future salvage percentage as illustrated below:

	2015 Technical Update	2016 Technical Update	Notes
Future Net Negative Salvage - Steam Production	\$(38,572,383)	\$(40,638,669)	Attachment 1, Statement D, Steam Production, Column H
Plant in Service - Steam Production	\$366,048,815	\$554,770,006	Attachment 1, Statement G, Steam Production, Column G
Future Net Negative Salvage % - Steam Production	-10.5%	-7.3%	

- (b) Plant Remaining Life calculations start with the Average Year of Final Retirement (AYFR) for each plant.<sup>1</sup> The calculation anticipated interim retirements and the book date of the depreciation study (12/31/2015 in this case). Please see Attachment 1, Statement A, page 8 of 46, for each plant's calculated Remaining Life, by FERC account, with the plants' Composite Remaining Lives noted in the table below:

<sup>1</sup> The mid-year convention is adopted where all plant additions and retirements (including the final plant retirement) are assumed to take place on June 30<sup>th</sup>, or mid-year.

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Response to Information Request MN-DOC-07  
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	AYFR	2015 Technical Update (12/31/2014)	2016 Technical Update (12/31/2015)	
Big Stone Plant Hoot Lake Unit 2 & 3 Coyote Station	2046	30.19	29.32	Attachment 1, Statement A, Steam Production, Column A & E Total
	2021	6.45	6.88	Attachment 1, Statement A, Steam Production, Column A & E Total
	2041	25.56	24.63	Attachment 1, Statement A, Steam Production, Column A & E Total

From this table please note that each plant's composite remaining life (driven by each individual FERC account remaining lives) calculations decrease by close to one year (due to the passage of time) from last year's study results. HLP's RL increases slightly due to the inclusion of account 312.1 this year with its extended AYFR. The individual plant FERC account and plant composite remaining life calculations taken from each plant's calculations on Attachment 1, page 8, do not appear to support the overall Steam Production Remaining Life asserted on page 7, which appears to indicate an actual remaining life increase for nearly all Steam Production FERC accounts. The reason for this anomaly is that each Remaining Life calculation on page 7 is a composite of all three steam plants' individual FERC accounts. In 2015 with the large AQCS addition at BSP, this composite calculation is moving the results closer to BSP RL's than it was last year. For Steam Production, the Remaining Lives are not increasing 3.54 years as suggested on page 7, but rather decreasing for all accounts (except the new 312.1 account for HLP) by the results as reflected on page 8.

- (c) The primary reason for the increase in steam depreciation expense from the 2015 Technical Update to the 2016 Technical Update is recovering an additional amount of negative salvage and recovering the additional plant investment primarily driven from the large plant in service addition at the BSP for the AQCS project.

Public  
Response to Information Request MN-DOC-09  
Page 1 of 1

OTTER TAIL POWER COMPANY  
Docket No: E017/D-16-729

Response to: Minnesota Department of Commerce  
Analyst: Nancy Campbell and Angela Byrne  
Date Received: 10/05/2016  
Date Due: 10/19/2016  
Date of Response: 10/19/2016  
Responding Witness: Loyal Demmer, Depreciation Accountant - 218 739-8659

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Information Request:

Reference: Attachment 4

Subject: Jamestown Peaking Plant Depreciation Lives vs. Integrated Resource Planning (IRP) Lives

The Company shows Jamestown Peaking Plant with a June 2023 depreciation life, however, the IRP life is December 2029 (based on last IRP) and December 2031 (based on current IRP before the Commission), please explain why the June 2023 depreciation life continues to be reasonable. Information such as engineering study on life of facilities and expected plant additions/major upgrades should be addressed in your response.

Attachments: 0

Response:

Otter Tail has 2023 as its Average Year of Final Retirement (AYFR) for the Jamestown Peaking plant. The IRP now before the Commission has June 2033 as its expected retirement date for the unit (please see Docket E017/RO-16-386, Initial Filing, dated June 1, 2016, Appendix F; Figure 15, Retirement Date). Depreciation filings reflect plant conditions and plant investments as they exist at the time of the filing. The IRP can make assumptions as to future expected plant conditions and investments and reflect those in the IRP assumptions. In this instance the IRP before the Commission now assumes that needed Control System upgrades have taken place at the Jamestown Peaking Units that support the IRP retirement year of 2033.

As of December 31, 2015, the book date for Otter Tail's current depreciation filing, the Control System upgrades, while in progress, have not yet been placed into service. At this time Otter Tail expects to place into service sometime in the 4<sup>th</sup> quarter the Control System upgrades at the Jamestown of around \$500k. Otter Tail expects these Control System upgrades will warrant a Remaining Life extension in future depreciation filings.



Public  
Response to Information Request MN-DOC-10  
Page 1 of 1

OTTER TAIL POWER COMPANY  
Docket No: E017/D-16-729

Response to: Minnesota Department of Commerce  
Analyst: Nancy Campbell and Angela Byrne  
Date Received: 10/05/2016  
Date Due: 10/19/2016  
Date of Response: 10/19/2016  
Responding Witness: Loyal Demmer, Depreciation Accountant - 218 739-8659

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Information Request:

Reference: Attachment 4

Subject: Lake Preston Peaking Plant Depreciation Lives vs. Integrated Resource Planning (IRP) Lives

The Company shows Lake Preston Peaking Plant with a June 2023 depreciation life, however, the IRP life is December 2029 (based on last IRP) and December 2031 (based on current IRP before the Commission), please explain why the June 2023 depreciation life continues to be reasonable. Information such as engineering study on life of facilities and expected plant additions/major upgrades should be addressed in your response.

Attachments: 0

Response:

Otter Tail has 2023 as its Average Year of Final Retirement (AYFR) for the Lake Preston Peaking plant. The IRP now before the Commission has June 2033 as its expected retirement date for the unit (please see Docket E017/RO-16-386, Initial Filing, dated June 1, 2016, Appendix F; Figure 15, Retirement Date). Depreciation filings reflect plant conditions and plant investments as they exist at the time of the filing. The IRP can make assumptions as to future expected plant conditions and investments and reflect those in the IRP assumptions. In this instance the IRP before the Commission now, assumes that needed Control System upgrades have taken place at the Lake Preston Peaking plant which support the IRP retirement year of 2033.

As of December 31, 2015, the book date for Otter Tail's current depreciation filing, the Control System upgrades, while in progress, had not yet been placed into service. At this time Otter Tail expects to place into service sometime in the 4<sup>th</sup> quarter the Control System upgrades at Lake Preston of around \$274k. Otter Tail expects these Control System upgrades will warrant a Remaining Life extension in future depreciation filings.

## **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/D-16-729**

**Dated this 13<sup>th</sup> day of December 2016**

**/s/Sharon Ferguson**

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