

215 South Cascade Street
PO Box 496
Fergus Falls, Minnesota 56538-0496
218 739-8200
www.otpc.com (web site)



February 17, 2014

Dr. Burl W. Haar
Executive Secretary
Minnesota Public Utilities Commission
121 Seventh Place East, Suite 350
St. Paul, MN 55101-2147

**Re: Otter Tail Power Company
2013 Five-Year Review of Depreciation Certification
Docket No. E017/D-13-795
REPLY COMMENTS**

Dear Dr. Haar:

Otter Tail Power Company ("Otter Tail") hereby submits Reply Comments in Docket No. E017/D-13-795. Also enclosed is a Certificate of Service.

Please contact me at (218) 739-8659 or ldemmer@otpc.com if you have any questions regarding this filing.

Sincerely,

/s/ LOYAL K. DEMMER
Loyal K. Demmer, CMA
Depreciation Accountant

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's
2013 Five-Year Review of
Depreciation Certification

Docket No. E017/D-13-795

**OTTER TAIL POWER COMPANY'S
REPLY COMMENTS**

I. INTRODUCTION AND BACKGROUND

These Reply Comments respond to the January 17, 2014 Comments filed by Minnesota Department of Commerce, Division of Energy Resources ("Department") in the above-captioned matter. In these Reply Comments Otter Tail Power Company ("Otter Tail") accepts the Department's recommendation to delay extending the remaining life for the Big Stone Plant until the air quality control system ("AQCS") project, which is currently under construction, goes into service or is close to being in service. These Reply Comments also provide an explanation of the change in salvage rates for three buildings--Otter Tail's General Office, Fleet Service Center and Central Stores warehouse—as requested by the Department.

The Department and Otter Tail appear to be in agreement on the other aspects of this 5-year depreciation study, with the possible exception of Otter Tail's Generating Assets Remaining Life Policy, which has been the subject of discussion in Otter Tail's last several depreciation-related dockets. However, while the parties may not be in full agreement on this issue, Otter Tail agrees with the Department's recommendation that the Commission need not take any specific action related to the Policy at this time due to the small impact it is expected to have for the next several years. Otter Tail will continue to discuss the Policy with the Department to see if common ground can be reached, and the Department can continue to monitor the policy and its effects as they indicates in their Comments.

**II. OTTER TAIL ACCEPTS THE DEPARTMENT'S RECOMMENDATION TO
RETAIN THE CURRENT REMAINING LIFE FOR THE BIG STONE PLANT
UNTIL THE AIR QUALITY CONTROL SYSTEM CURRENTLY UNDER
CONSTRUCTION IS IN SERVICE OR CLOSE TO BEING IN SERVICE.**

In its Comments, the Department recommends that Otter Tail retain its current remaining life for Big Stone Plant until the Air Quality Control System currently under construction goes into service or is close to being in service. The current expected in-service date for the AQCS project is in 2015, which falls within the period that will be covered by Otter Tail's next annual depreciation filing. Therefore, Otter Tail will plan to include its remaining life extension for the plant in its next depreciation filing, at which time the Department and the Commission can reevaluate the progress of the AQCS project and its expected in-service date. The Department also recommends that Otter Tail should recalculate the Big Stone plant's salvage rate using the current remaining life assumption. As earlier indicated, Otter Tail accepts these recommendations. Attachment A to these Reply Comments replaces page 1 of the original Attachment No. 2 and is revised to reflect the current remaining life and recalculated salvage percentages for Big Stone Plant as requested by the Department.

III. EXPLANATION OF THE CHANGE IN SALVAGE RATES FOR FERC ACCOUNTS 390.10 – GENERAL OFFICE BUILDINGS, 390.20 – FLEET SERVICE CENTER BUILDINGS AND 390.30 – CENTRAL STORES BUILDING

As indicated above, the Department requested in its Comments that Otter Tail explain how the salvage rates were derived and any specific changes to its depreciation policies or assumptions that caused the large changes in the proposed salvage rates, and the reasons why those changes are reasonable for FERC accounts 390.10 – General Office Buildings, 390.20 – Fleet Service Center Buildings and 390.30 – Central Stores Building.

As is further explained in detail below, the salvage rates for these General Plant building properties were derived in coordination with Otter Tail's Building and Facilities Department and based upon the buildings' assessed values for property taxes. Otter Tail believes this is a reasonable method of determining the salvage rates for these assets. The reason for the large change in the salvage rates for these building assets is that historically Otter Tail had only allotted for interim retirements within these General Plant Average Year of Final Retirement (AYFR) accounts and had not included their final retirements in the salvage component. After discussions with Otter Tail's consultant in the course of preparing this 5-year depreciation study, Otter Tail determined that it would not be accurate to continue without establishing salvage values that include these buildings' final retirements. The following narrative provides a more

detailed explanation of how Otter Tail became aware of the need to establish these final retirement assumptions and how the salvage rates were derived.

In conjunction with this Five-Year Comprehensive Depreciation Study, Otter Tail contracted for the completion of Decommissioning Studies for its Production facilities which are AYFR properties. During the analysis phase of these studies, Otter Tail's consultant inquired about the final retirement plans for Otter Tail's other AFYR property outside of the Production function. These properties consist of three large primary support real property buildings: Otter Tail's General Office, its Fleet Service Center and its Central Stores warehouse. The accounting treatment for these buildings is different from Otter Tail's other smaller General Plant building facilities, which are accounted for as mass assets. These three primary support buildings are differentiated due to their size and centralized functions relative to other General Plant buildings.

Including appropriate salvage amounts results in more accurate depreciation rates. The formula for calculating depreciation rates generally includes three account-specific elements: the ratio of the depreciation reserve to gross plant; the remaining life of the particular assets in that account; and their expected salvage. The salvage element nets a cost of removal component against any anticipated salvage proceeds and is commonly referred to as net salvage. This results in the possibility of having either a negative salvage (cost of removal is greater than salvage proceeds) or a positive salvage (salvage proceeds are greater than cost of removal). Salvage can include sale proceeds for working assets no longer used and useful, salvage proceeds for items retired and scrapped, or they may be in the form of returned good units of property from plant in service back into inventory until they can be used again. Further salvage delineations include the fact that the salvage percentage contemplates both interim and final salvage influences. The final salvage component relates primarily to AYFR property because mass asset accounts should never be fully retired at one time without replacement and therefore mass property typically records only interim retirements. For example, typically all poles in the Transmission function would never be retired at one time without replacement. AYFR property on the other hand anticipates its terminal retirement. Therefore, Otter Tail has historically incorporated plant decommissioning studies for its generation facilities to help determine the appropriate salvage percentage to include in its annual depreciation rates. These studies have typically been conducted in conjunction with our comprehensive five-year depreciation studies such as this one.

During the analysis stages of this current five-year study, Otter Tail's consultant noted that while it had terminal decommissioning analysis for its production generation AYFR

facilities, Otter Tail did not have an assessment for the three General Plant building AYFR properties. That is, Otter Tail had historically only allotted for interim retirements within these General Plant AYFR accounts and had not considered their final retirements. After discussions with the consultant, Otter Tail determined that the current practice was not an accurate approach to use for these buildings and therefore should be corrected.

Otter Tail then contacted its Buildings and Facilities Department to determine what would be the most likely terminal disposition of the General Office, Fleet Service Center and Central Stores Warehouse building. Building and Facilities personnel determined that the most likely scenario for these buildings' terminal retirement would be to sell them as working buildings (See OTP Response to IR MN-DOC-016, attached to the Department's Comments). Otter Tail then utilized the property tax assessed values for the buildings to establish a reasonable fair market value approximation for salvage percentage calculation purposes. (See Attachment B to these Reply Comments, originally filed as the Attachment to IR MN-DOC-019, which illustrates how the actual salvage percentages were derived for these facilities).

IV. CONCLUSION

For the reasons explained in these Reply Comments, Otter Tail requests an Order from the Commission authorizing its proposed remaining lives and salvage percentages for 2014, with the noted adjustments reflecting the current remaining life and updated salvage percentage for the Big Stone Plant which will be retained until the AQCS project is in service or close to being in service.

Dated: February 17, 2014

Respectfully submitted,

OTTER TAIL POWER COMPANY

By: /s/ LOYAL K. DEMMER, CMA.
Loyal K. Demmer, CMA
Depreciation Accountant
Otter Tail Power Company
215 S. Cascade Street
Fergus Falls, MN 56537
(218) 739-8659
ldemmer@otpc.com

**OTTER TAIL POWER COMPANY
 2013 FIVE-YEAR REVIEW OF DEPRECIATION CERTIFICATION
 PROPOSED REMAINING LIVES & SALVAGE FOR USE IN 2014**

<u>Account Number</u>	<u>Class of Utility Plant</u>	<u>Remaining Life (Yrs)</u>	<u>Net Salvage (%)</u>	<u>Amortization Period (Yrs)</u>
STEAM PRODUCTION				
<u>Big Stone Plant</u>				
311-101	Structures & Improvements	31.98 14.22	-11.9% -8.1%	
312-101	Boiler Plant Equipment	32.02 14.23	-12.0% -8.1%	
314-101	Turbogenerator Units	32.04 14.23	-12.0% -8.1%	
315-101	Accessory Electric Equipment	32.01 14.22	-12.0% -8.1%	
316-101	Misc. Power Plant Equipment	32.02 14.23	-11.5% -7.9%	
<u>Hoot Lake Plant - Units 2 & 3</u>				
311-102	Structures & Improvements	7.42	-14.3%	
312-102	Boiler Plant Equipment	7.43	-14.3%	
314-102	Turbogenerator Units	7.43	-14.3%	
315-102	Accessory Electric Equipment	7.42	-14.3%	
316-102	Misc. Power Plant Equipment	7.43	-14.2%	
<u>Coyote Station</u>				
311-103	Structures & Improvements	27.41	-8.7%	
312-103	Boiler Plant Equipment	27.42	-8.7%	
314-103	Turbogenerator Units	27.44	-8.7%	
315-103	Accessory Electric Equipment	27.42	-8.7%	
316-103	Misc. Power Plant Equipment	27.44	-8.3%	
HYDRAULIC PRODUCTION				
<u>Hoot Lake Hydro Unit</u>				
331-131	Structures & Improvements	8.40	0.0%	
332-131	Reservoirs, Dams & Waterways	8.40	0.0%	
333-131	Water Wheels, Turbines & Gen.	8.40	0.0%	
334-131	Accessory Electric Equipment	8.40	0.0%	
335-131	Misc. Power Plant Equipment	8.41	0.0%	
<u>Wright Hydro Unit</u>				
331-132	Structures & Improvements	8.40	0.0%	
332-132	Reservoirs, Dams & Waterways	8.41	0.0%	
333-132	Water Wheels, Turbines & Gen.	8.41	0.0%	
334-132	Accessory Electric Equipment	8.41	0.0%	
335-132	Misc. Power Plant Equipment	8.41	0.0%	
<u>Pisgah Hydro Unit</u>				
331-133	Structures & Improvements	8.40	0.0%	
332-133	Reservoirs, Dams & Waterways	8.41	0.0%	
333-133	Water Wheels, Turbines & Gen.	8.41	0.0%	
334-133	Accessory Electric Equipment	8.41	0.0%	
335-133	Misc. Power Plant Equipment	8.41	0.0%	
<u>Dayton Hollow Hydro Unit</u>				
331-134	Structures & Improvements	8.41	0.0%	
332-134	Reservoirs, Dams & Waterways	8.41	0.0%	
333-134	Water Wheels, Turbines & Gen.	8.41	0.0%	
334-134	Accessory Electric Equipment	8.41	0.0%	
335-134	Misc. Power Plant Equipment	8.41	0.0%	
<u>Taplin Gorge Hydro Unit</u>				
331-135	Structures & Improvements	8.39	0.0%	
332-135	Reservoirs, Dams & Waterways	8.41	0.0%	

CERTIFICATE OF SERVICE

**RE: In the Matter of Otter Tail Power Company's 2013 Five-Year Review of Depreciation Certification
Docket No. E017/D-13-795**

I, Jana C. Emery, hereby certify that I have this day served a copy of the following, or a summary thereof, on Dr. Burl W. Haar 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**

Dated this **17th** day of **February, 2014**

/s/ JANA C. EMERY
Jana C. Emery
Regulatory Filings Coordinator
Otter Tail Power Company
215 South Cascade Street
Fergus Falls MN 56537
(218) 739-8879

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_13-795_D-13-795
Julia	Anderson	Julia.Anderson@ag.state.mn.us	Office of the Attorney General-DOC	1800 BRM Tower 445 Minnesota St St. Paul, MN 551012134	Electronic Service	Yes	OFF_SL_13-795_D-13-795
Michael	Bradley	mike.bradley@lawmoss.com	Moss & Barnett	Suite 4800 90 S 7th St Minneapolis, MN 55402-4129	Electronic Service	No	OFF_SL_13-795_D-13-795
Gary	Chesnut	gchesnut@agp.com	AG Processing Inc. a cooperative	12700 West Dodge Road PO Box 2047 Omaha, NE 681032047	Electronic Service	No	OFF_SL_13-795_D-13-795
Loyal	Demmer	ldemmer@otpco.com	Otter Tail Power Co.	215 South Cascade Street PO Box 496 Fergus Falls, MN 565380496	Electronic Service	Yes	OFF_SL_13-795_D-13-795
James C.	Erickson	jericksonkbc@gmail.com	Kelly Bay Consulting	17 Quechee St Superior, WI 54880-4421	Electronic Service	No	OFF_SL_13-795_D-13-795
Sharon	Ferguson	sharon.ferguson@state.mn.us	Department of Commerce	85 7th Place E Ste 500 Saint Paul, MN 551012198	Electronic Service	No	OFF_SL_13-795_D-13-795
Bruce	Gerhardson	bgerhardson@otpco.com	Otter Tail Power Company	PO Box 496 215 S Cascade St Fergus Falls, MN 565380496	Electronic Service	Yes	OFF_SL_13-795_D-13-795
Burt W.	Haar	burl.haar@state.mn.us	Public Utilities Commission	Suite 350 121 7th Place East St. Paul, MN 551012147	Electronic Service	Yes	OFF_SL_13-795_D-13-795
Shane	Henrikson	shane.henrikson@enbridge.com	Enbridge Energy Company, Inc.	1409 Hammond Ave FL 2 Superior, WI 54880	Electronic Service	No	OFF_SL_13-795_D-13-795
James D.	Larson	james.larson@avantenergy.com	Avant Energy Services	220 S 6th St Ste 1300 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_13-795_D-13-795

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Douglas	Larson	dlarson@dakotaelectric.com	Dakota Electric Association	4300 220th St W Farmington, MN 55024	Electronic Service	No	OFF_SL_13-795_D-13-795
John	Lindell	agorud.ecf@ag.state.mn.us	Office of the Attorney General-RUD	1400 BRM Tower 445 Minnesota St St. Paul, MN 551012130	Electronic Service	Yes	OFF_SL_13-795_D-13-795
Kavita	Maini	kmairi@wi.rr.com	KM Energy Consulting LLC	961 N Lost Woods Rd Oconomowoc, WI 53066	Electronic Service	No	OFF_SL_13-795_D-13-795
Andrew	Moratzka	apmoratzka@steel.com	Steel Rives LLP	33 South Sixth Street Suite 4200 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_13-795_D-13-795
Larry L.	Schedin	Larry@LLSResources.com	LLS Resources, LLC	12 S 6th St Ste 1137 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_13-795_D-13-795
Stuart	Tommerdahl	stommerdahl@otpc.com	Otter Tail Power Company	215 S Cascade St PO Box 496 Fergus Falls, MN 56537	Electronic Service	No	OFF_SL_13-795_D-13-795