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April 7, 2014

Dr. Burl Haar
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, MN 55101-2147

Re: In the Matter of a Commission Inquiry into Decommissioning Policies Related to Depreciation
Docket No. E,G-999/CI-13-626
COMMENTS

Dear Dr. Haar:

Enclosed for filing in the above-referenced matter are Otter Tail Power Company's ("Otter Tail's") Comments on Decommissioning Policies Related to Depreciation. Otter Tail has electronically filed this document with the Commission and is serving a copy on all persons on the official service list for this docket. A Certificate of Service is also enclosed.

Please add myself to the official service list for this docket as follows:

Loyal Demmer, CMA
Depreciation Accountant
Otter Tail Power Company
215 South Cascade Street
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ldemmer@otpco.com

Also, please remove Ron Spangler, Jr., from the service list.

Thank you for the opportunity to comment on this commission inquiry docket. If you have any questions regarding this filing, please contact me at (218) 739-8659 or at ldemmer@otpco.com.

Sincerely,

/s/ LOYAL DEMMER
Loyal Demmer, CMA
Depreciation Accountant

Enclosures
By electronic filing
c: Service List

STATE OF MINNESOTA
BEFORE THE
MINNESOTA PUBLIC UTILITIES COMMISSION

In the Matter of a Commission Inquiry into Decommissioning Policies Related to Depreciation	Docket No. E,G-9999/CI-13-626 **OTTER TAIL POWER COMPANY'S COMMENTS**

I. INTRODUCTION AND BACKGROUND

These Comments respond to the March 6, 2014 "Notice of Comment Period on Decommissioning Cost Investigation" filed by the State of Minnesota Public Utilities Commission ("Commission") in the above-captioned matter. In this filing, Otter Tail Power Company ("Otter Tail") provides Comments on its Decommissioning Polices related to Depreciation by responding to specific questions asked by the Commission in the aforementioned Notice.

II. INFORMATION REQUESTED IN NOTICE

a. Provide an explanation of your company's plant decommissioning policies including the relationship of the policy to your company's depreciation expense and the calculation of the salvage portion of the depreciation expense.

Otter Tail conducts comprehensive depreciation studies on all of its applicable plant accounts every five years (five-year depreciation studies). In conjunction with these five-year depreciation studies, Otter Tail is in the practice of authorizing decommissioning studies of its electric production facilities. The results from these decommissioning studies serve to provide the estimated final decommissioning cost (net of salvage) which, when incorporated along with expected interim cost of removal (less expected interim salvage proceeds) yield the resulting salvage percentage included for depreciation certification filing purposes for each plant account.

It is not uncommon for the anticipated cost of removal to exceed anticipated salvage proceeds, which results in a negative salvage rate. Because expected salvage is subtracted when calculating depreciation rates, negative salvage outcomes increase depreciation rates and thus depreciation expense (subtraction of a negative number results in an increase). Conversely, when anticipated salvage proceeds are larger than anticipated cost of removal, a positive salvage rate results. This later scenario results in decreased depreciation rates and thus decreased depreciation expense because of the subtraction of the positive salvage result from the depreciation rate.

b. Provide an explanation of how your company's decommissioning probabilities are determined.

Otter Tail's approach to decommissioning probabilities assumes that at the time each annual salvage rate is applied to the depreciation rate calculation, the probability is 100 percent that decommissioning would take place at the end of the plants' current remaining life. Conceivably, this approach could be considered too simplistic considering electrical generation facilities are rarely decommissioned immediately upon retirement. Arguably, a greater utilization of probabilities by Otter Tail could deliver more likely decommissioning scenario results. For example, upon further study, Otter Tail could conclude that there is a 50 percent chance that plant decommissioning will take place at the plant's current retirement date. Then, say a 35 percent chance it would be decommissioned five years later, and still further, a 15 percent chance it would be decommissioned ten years later, for example. The extended use of decommissioning probabilities may provide utilities with more accurate decommissioning cost accruals reducing overall risk to all stakeholders.

c. Explain the relationship between the decommissioning probability and the established life for the plant.

Currently, Otter Tail assumes that the decommissioning probability of the current average year of final retirement ("AYFR") for its production facilities to be 100 percent. When new analytical criteria determine a change in AYFR is appropriate, Otter Tail then assumes the decommissioning probability for the new plant life to be 100 percent.

d. Does your company use decommissioning probability in any jurisdiction in which you operate?

Otter Tail currently assumes the decommissioning probability to be 100 percent at the AYFR for each property in all of our operating jurisdictions.

e. Provide any documentation on depreciation practices that provides support for the use of decommissioning probabilities.

The FASB in FAS143 – Accounting for Asset Retirement Obligations, June, 2001 utilized probabilities in its example calculations in Appendix C: Illustrative Examples – Recognition and Measurement Provisions.

III. TOPICS OPEN FOR COMMENT

a. Minnesota Rule 7825.0800 prescribes the straight-line method for calculating depreciation. Is the practice of a utility periodically adjusting its decommissioning cost accruals based on the probability of decommissioning occurring at the end of projected life consistent with this rule?

Yes. In the estimation of depreciation expense the longer the life of the asset, the more uncertainty in depreciation parameters exists, especially in the initial years of the asset. As new information becomes available, updates to these parameters and thus the current estimation of depreciation expense needs to take place in order to return the current depreciation accruals back to the realities of the current operating environment. At each point when these corrections are incorporated into the depreciation parameters a change in the current depreciation accrual will occur. While the old accrual utilized the straight-line method, the new accrual, utilizing new parameter information also utilizes the straight-line method. The method is the same, with differences in the result due to the incorporation of the new information.

This concept is best illustrated with the current practice of the Minnesota Public Utilities Commission. Annually the Commission requires and reviews utility depreciation parameters with comprehensive reviews every five years. In each of these reviews new information typically cause updates to the depreciation accruals. These updates do utilize the straight-line method. The straight-line method will yield the same result each period on a particular utility account, only

when there are no parameter changes over the life of the asset, a very rare event in the capital intensive utility business model.

b. Is there a dichotomy between setting a proposed life for plant and then determining there is only some percentage (such as 50%) chance of the plant being retired at the end of that life?

The use of probabilities in estimations is an acceptable practice. See discussion in II. b. above.

c. Is it appropriate to adjust the amortization of decommissioning costs to reflect this uncertainty in remaining life calculations?

Yes. Care should be exercised to ensure that all relative probabilities are included for the point in time that the estimate is being calculated.

d. If so, is the frequency or size of the adjustment relevant to the determination of whether the adjustments are appropriate?

If care is exercised to ensure that all relative probabilities are included for the point in time that the estimate is being calculated, then the relevancy of the analysis should resolve the appropriateness of the spread of probabilities and their magnitude.

e. Are the reasons for using a probability of decommissioning still valid today?

Yes. The use of probabilities in decommissioning studies is still valid today, just as probabilities are still valid in a multitude of estimation calculations. The use of probabilities is widely supported and subscribed in a wide range of various accounting guidance and best practices.

IV. ADDITIONAL TOPICS OTTER TAIL OFFERS FOR COMMISSION CONSIDERATION REGARDING DECOMMISSIONING COSTS POLICIES RELATED TO DEPRECIATION

a. Cyclical difficulties in obtaining contractors willing to conduct decommissioning studies can occur.

Otter Tail wishes to note for the Commission in this generic docket that it has experienced difficulty obtaining interest to even respond to requests for proposal ("RFP") for decommissioning studies from the majority of the limited number of qualified Minnesota demolition contractors. For its 2013 five-year depreciation certification filing, Otter Tail struggled to find qualified Minnesota demolition contractors willing to respond to our RFP, much less, willing to conduct the needed decommissioning studies. The correlation as noted by Otter Tail seems to be that during periods of higher economic opportunities, eligible contractors are more focused on their core business models of providing demolition and construction services and cannot dedicate the necessary resources to responds to our RFP's, much less dedicate them to actually conduct such a study. Otter Tail wishes to make the Commission aware of these developments in the event they prove to be problematic for utilities in the future. Procuring these resources outside of Minnesota or the tri-state region where Otter Tail operates would likely increase the cost of these studies significantly.

b. FERC's Critical Energy Infrastructure Information standards require heightened confidentiality from decommissioning study contractors.

FERC's Critical Energy Infrastructure Information ("CEII") standards require a higher standard of confidentiality between utilities and demolition contractors providing decommissioning study services due to the criticality of the electric grid. CEII standards are designed to limit the exposure of specific engineering, vulnerability, or detailed design information relating to critical energy infrastructure that may be useful to a person planning an attack on the electric grid. CEII standards require a specific non-disclosure agreement and confidential treatment of relevant information. Because decommissioning studies potentially require exchange of CEII, additional administrative steps are necessary when coordinating with contractors to maintain appropriate protection of this information. When decommissioning

resources are already constrained as mentioned above, these additional administrative steps add time and cost that may deter contractors from offering their services. Otter Tail wishes to keep the Commission informed of these higher standards as they may impact utilities' ability to find qualified decommissioning study contractors willing to participate in decommissioning studies in the future.

V. CONCLUSION

For the reasons explained in these Comments, Otter Tail supports the use of probabilities in decommissioning study practices as they apply to the development of salvage percentages. Probabilities are utilized in a variety of estimations and need to be applied correctly. Additionally, obtaining locally sourced economical decommissioning studies can be challenging due to factors beyond utilities' control. Also, FERC's CEII standards require additional efforts from decommissioning study contractors.

Dated: April 7, 2014

Respectfully submitted,

OTTER TAIL POWER COMPANY

By: */s/ LOYAL K. DEMMER*

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CERTIFICATE OF SERVICE

Re: In the Matter of a Commission Inquiry into Decommissioning Policies Related to Depreciation
Docket No. E,G-999/CI-13-626

I, Wendi A. Olson, 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
COMMENTS

Dated this **7th** day of **April 2014**.

/s/ WENDI A. OLSON
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