MINNESOTA DEPARTMENT OF COMMERCE

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January 17, 2014 **PUBLIC DOCUMENT**

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

RE: **PUBLIC Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. E017/D-13-795

Dear Dr. Haar:

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

> Otter Tail Power Company's (OTP's) 2013 Five-Year Review of Depreciation Certification.

The petition was filed on September 3, 2013 by:

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

The Department requests that OTP provide additional information in reply comments.

Sincerely,

/s/ CRAIG ADDONIZIO
Financial Analyst

CA/lt
Attachment

PUBLIC DOCUMENT

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

PUBLIC COMMENTS OF THE MINNESOTA DEPARTMENT OF COMMERCE

DOCKET NO. E017/D-13-795

I. SUMMARY OF FILING

On September 3, 2013, Otter Tail Power Company (OTP or the Company) filed its 2013 Five-Year Review of Depreciation Certification Petition (2013 Depreciation Petition or petition). OTP is requesting approval of changes to the lives and salvage rates of a number property accounts. The net effect of the proposed changes is a reduction in annual depreciation expense of $3.0 million, or 7.46 percent, as summarized in Table 1.

Table 1
Summary of Proposed Depreciation Rates and Resulting Accruals

	Accrual Rate			Annual Accrual		
Function	Current	Proposed	Difference	Current	Proposed	Difference
[A]	[B]	[C]	[D] = [C] - [B]	[E]	[F]	[G] = [F] - [E]
Production						
Steam	2.81%	2.23%	-0.58%	$9,953,462	$7,886,925	($2,066,537)
Hydraulic	5.12%	7.21%	2.09%	283,711	399,857	116,146
Other	3.91%	4.09%	0.18%	11,998,703	12,546,381	547,678
Transmission	1.96%	1.74%	-0.22%	5,076,438	4,494,628	(581,810)
Distribution	2.69%	2.53%	-0.16%	10,896,710	10,215,847	(680,863)
General Plant	5.24%	4.48%	-0.76%	2,584,578	2,207,131	(377,447)
Total Utility	2.96%	2.74%	-0.22%	$40,793,602	$37,750,769	($3,042,833)

Source: Petition, Attachment 1, Page 3

The Company requested an effective date of January 1, 2014 for its proposed depreciation parameters.

II. DEPARTMENT ANALYSIS

The Minnesota Department of Commerce, Division of Energy Resources (Department) 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 used amortization accounting, OTP uses a remaining-life accounting method and, as a result, must file annual depreciation study updates.

B. REASONABLENESS OF PROPOSED DEPRECIATION PARAMETERS

1. Production Plant

a. Remaining Lives

i. Big Stone

In its petition, OTP proposed to extend the remaining life of its Big Stone plant by 17.8 years, from 14.2 to 32.0, with an anticipated year of final retirement (AYFR) of 2046. The proposed life extension will lower OTP's overall depreciation expense by approximately $2.2 million per year.[1] The co-owners of Big Stone are currently installing an Air Quality Control System

[1] See Petition, Attachment 1, Statement B

(AQCS) in order to reduce emissions of sulfur dioxide and nitrogen oxide and bring the plant into compliance with the U.S. Environmental Protection Agency's Regional Haze Rule. The project received an Advanced Determination of Prudence from the Commission in an Order dated January 23, 2012 in Docket No. E017/M-10-1082. On December 18, 2013, the Commission issued an Order in Docket No. E017/M-13-648 approving OTP's Environmental Cost Recovery (ECR) rider, through which OTP has started to recover a significant portion of the costs of the AQCS project.[2] In its petition in that Docket, OTP stated that the total cost estimate of the project is $405 million (OTP's share of the project is estimated to be $221.5 million and the Minnesota jurisdictional share is estimated to be $112 million), and OTP expects the project to be placed in service in late 2015.

In its response to Department Information Request (IR) No. 5, OTP stated that it is appropriate to extend Big Stone's life now, because even though the AQCS project is not yet in service, the decision to install it has current effects on the existing plant balance, which is now being managed under the expectation that it will operate under the new remaining life.[3] OTP stated, "The expectation that the balance of plant will operate under the new remaining life timeline commences at the time the Owners commit to construct the AQCS (*i.e.*, upon issuing the Full Notice to Proceed on the AQCS project) and not at the time the AQCS asset is commissioned into service. The balance of plant remaining life reflects what we know its remaining life to be at the time of filing." OTP also stated that as of September 30, 2013, Big Stone's owners had invested 27 percent of the total cost of the AQCS project.

The Department agrees that the AQCS project will result in a life extension for Big Stone, but questions whether that extension should take place now or in the future. Generally, the Department prefers that life extensions resulting from capital projects be delayed until the projects are placed in service, or are close to being placed in service. In this case, the depreciation parameters the Commission eventually approves in this Docket will take effect January 1, 2014, nearly two years before the AQCS project is expected to be placed in service, and therefore nearly two years before OTP's ratepayers will receive any operational benefits from the project. If the Commission were to approve the requested life extension for Big Stone in this Docket, OTP would enjoy the benefits of lower depreciation expense without a corresponding decrease in rates beginning January 1, 2014, and OTP's ratepayers would not receive any of the financial benefits of the life extension unless and until the Company files a rate case which reflects the new, longer life. Further, as noted above, OTP is beginning to recover the costs of the AQCS project through its ECR rider. Therefore, if the Commission were to approve the requested life extension, the Company would accrue all of the benefits of the lower depreciation expense while at the same time recovering some of the costs of the project. The Department acknowledges that this simultaneous allocation of benefits to the Company and costs to its customers is somewhat unavoidable, but notes that the negative impacts on ratepayers can be minimized by timing Big Stone's life extension

[2] See Docket No. E017/M-13-648
[3] See Department Attachment No. 1

appropriately. Therefore, the Department concludes that the life extension for Big Stone should be delayed until the AQCS project is in service, or close to being in service.

The Department recommends that the Commission require OTP to retain its current AFYR of 2027, which would result in a remaining life of approximately 14.2 years. OTP can propose a life extension for Big Stone in its next depreciation study, at which time the Department and the Commission can reevaluate the progress of the AQCS project and its expected in-service date.

ii. Coyote Station

In its petition, OTP proposed to extend the remaining life of Coyote Station by 8.4 years, from 19.0 years to 27.4 years, with an AYFR of 2041. The proposed extension would lower OTP's depreciation expense by approximately $0.7 million per year. In its response to IR No. 4, OTP stated that the proposed remaining life extension was prompted by the execution of a new, 25-year coal contract, signed in 2012, which commences in 2016 and expires in 2041.[4] OTP stated in its response to IR No. 11, part c, that the decision to pursue a 25-year coal contract was based on several factors, including expected life durations of plants similar to Coyote, the condition of the major components of Coyote, and the operational performance of the facility. [5]

In its response to IR No. 11, OTP described its maintenance and capital investment program considered to be "normal operations" for Coyote, including routine items that occur frequently and at regular intervals during a plant's life and non-routine items that are expected but occur infrequently, perhaps only once during a plant's life. In its response to IR No. 4, OTP explained that, beyond normal levels of maintenance and replacement, OTP anticipates that two capital investments will be necessary for Coyote to achieve the proposed remaining life, both related to new environmental regulations. First, OTP is planning a capital project in 2014 to bring Coyote Station into compliance with the Mercury and Air Toxics Standards (MATS) at a total cost of **[TRADE SECRET DATA HAS BEEN EXCISED]**.[6] Second, OTP is planning a capital project to be completed by mid-2018 pursuant to North Dakota's State Implementation Plan for the EPA's Regional Haze Rule. OTP stated that detailed cost estimates are not yet available, but the project's budgetary estimated total cost is **[TRADE SECRET DATA HAS BEEN EXCISED]**.

Based on these IR responses, the Department agrees that it is reasonable to expect Coyote to operate beyond its currently assumed retirement year of 2032, but similar to Big Stone, questions the timing of the proposed life extension. As noted in the Department's discussion of Big Stone's remaining life, the Department generally prefers to wait until life-extending capital projects are placed into service to extend plant lives, and Coyote has two planned future projects, the larger of which will not be completed for at least four years. Based on this logic, the

[4] See Department Attachment No. 2
[5] See Department Attachment No. 3
[6] OTP has a 35 percent ownership share of Coyote Station.

Department would prefer to wait until the second project is placed in service, or is close to being placed in service, before extending Coyote's life. The Department notes, however, the significant difference between the cost of Big Stone's AQCS project and the cost of Coyote's two planned projects. The cost of the AQCS project is greater than original cost of Big Stone, whereas the two planned Coyote projects represent only a small percentage of the original cost of Coyote. Projects the size of the AQCS project are rarer and more significant than projects the size of Coyote's planned projects, and thus require a higher level of scrutiny with respect to the plant's remaining life. Capital projects the size of Coyote's planned projects are more frequent and much closer to a normal level of investment and maintenance expense, and thus arguably deserve a lesser role in determining a plant's remaining life than an engineering assessment.

Ultimately, because of the small size of the two planned capital projects and the fact that the Company's engineering assessment of the Coyote Station indicates a longer life for the plant, the Department concludes that it is reasonable to extend Coyote's life in this Docket.

iii. Hoot Lake Plant Unit 2 and 3

In its petition, OTP proposed to shorten the remaining life of the Hoot Lake Plant, Units 2 and 3 from 10.4 years to 7.4 years, with an AYFR of 2020.

In the Company's most recent Integrated Resource Plan (the 2010 IRP) Docket, (Docket No. E015/RP-10-623), the Company conducted a Baseload Diversification Study with a specific focus on evaluating retirement and repower options for the Hoot Lake Plant.[7] The Company proposed a plan to retrofit Hoot Lake units 2 and 3 in 2015 to comply with MATS, and then retire both units in 2020. The Commission's March 25, 2013 Order in the 2010 IRP Docket approved OTP's proposed plan. The Company's proposed AFYR (and the corresponding remaining life) for Hoot Lake units 2 and 3 is consistent with the Commission's Order; therefore, the Department concludes that it is reasonable.

iv. Other Production Plant

For its hydraulic production units, OTP proposed remaining life reductions of one year to reflect the passage of time.

The Department notes that OTP proposed a change in the depreciation method for its wind units. Briefly, OTP currently calculates depreciation expense for its wind facilities in a manner similar to the manner in which it calculates depreciation expense for its transmission, distribution, and general plant. Property is assumed to have a certain average service life beginning at its in-service date, and the overall remaining life of each wind facility is, essentially, calculated as a weighted average of the remaining lives of the property installed at the facility, grouped by vintage.

[7] The Company's Baseload Diversification Study was filed on October 3, 2012.

In its petition, the Company proposed to begin calculating depreciation expense for its wind facilities in a manner similar to the manner in which it calculates depreciation expense for its other production plant. Now that OTP has several years of experience operating wind farms and has collected several years of retirement data, OTP proposed to utilize an anticipated year of final retirement (AFYR), along with an adjustment for expected interim retirements, to calculate the remaining life of its wind facilities.

For the Company's Ashtabula Wind facility, for example, the Company is no longer assuming that associated property will last, on average, 25 years from its installation date, as it has in past depreciation filings. Rather, OTP is now assuming that the facility as a whole will be taken out of service in 2033, and that a small amount of property will be retired and replaced prior to 2033. The remaining life of each property account associated with the Ashtabula Wind facility is calculated as the amount of time from the date of the depreciation study (12/31/2012) to the AFYR (6/30/2033), with a small downward adjustment to reflect anticipated interim retirements. The Department notes that the effects of this change in methodology are minor and concludes that the proposed remaining lives for OTP's wind facilities are reasonable.

Additionally, OTP proposed to extend the lives of its Jamestown and Lake Preston units by one year, pursuant to the Generating Assets Remaining Life Policy. The Department recommends that the Commission approve OTP's proposed remaining lives for these two plants. The Department discusses the Company's Generating Assets Remaining Life Policy in greater detail below.

v. Comparison of 2013 Depreciation Study and OTP's Resource Plan

The Commission's Order in Docket No. E017/D-12-933 (the 2012 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 4 to OTP's petition includes the required table. The Department considers this filing requirement to be a useful tool in evaluating utilities' depreciation filings, and recommends that the Commission continue to require OTP to include these comparisons in its future depreciation filings.

b. Salvage Rates

OTP proposed small decreases to the salvage rates of most of its production plants (i.e. the salvage rates are more negative, which has the effect of increasing depreciation expense). The proposed salvage rates are based on a demolition study commissioned by the Company in 2013. The Department notes that the demolition study provides estimates of the decommissioning costs of OTP's plants measured in present day dollars. OTP inflated those estimates to each plant's AYFR using an assumed two percent inflation rate, and the inflated amounts served as the basis for the Company's proposed salvage rates. Thus, the Department's recommendation regarding the AFYR of Big Stone has an impact on the plant's salvage rate. The Department recommends

that the Commission require OTP to recalculate Big Stone's salvage rate using the Department's recommended AFYR. The Department concludes that the proposed salvage rates for all other production facilities are reasonable.

2. Transmission, Distribution, and General Plant

OTP proposed a number of changes to the lives and salvage rates of its transmission, distribution, and general plant (TD&G) accounts, summarized in Statement A of Attachment 1 to its petition. Pages 91 through 108 of Attachment 1 to OTP's petition contain the supporting schedules for the life and salvage analyses of Account 368.00 – Line Transformers. In its response to IR No. 9, OTP produced the supporting schedules for all of its transmission, distribution, and general plant accounts. The Department does not include OTP's response to IR No. 9 as an attachment to these comments due to its size, but the Department recommends that OTP include these supporting schedules with its five-year depreciation filings in the future in order to provide support for the proposed depreciation parameters.

a. Remaining Lives

After review, the Department concludes that all of the proposed changes to the remaining lives of OTP's TD&G accounts are reasonable.

b. Salvage Rates

OTP proposed changes to the salvage rates of only four of its TD&G accounts, summarized in the table below.

Table 2
Proposed Salvage Rate Changes
(%)

Account No.	Description	Salvage Rate Current	Salvage Rate Proposed	Increase
390.10	General Office Buildings	-5.00	51.20	56.20
390.20	Fleet Service Center Building	-5.00	38.60	43.60
390.30	Central Stores Building	-5.00	95.50	100.50
396.00	Power Operated Equipment	5.00	20.00	15.00

Source: Petition, Statement F

After reviewing the workpapers provided in response to IR No. 9, described above, the Department concludes that the proposed salvage rate for Account 396.00, Power Operated Equipment, is reasonable.

The Department notes that the salvage rates for Account 396.00 and most of OTP's other TD&G accounts are developed using statistical analyses of each account's past salvage experience, and adjusted based on the judgment of the Company or its consultant where appropriate. The salvage rates for Accounts 390.10, 390.20, and 390.30, however, are developed using a method similar to the method used to develop the salvage rates for Company's production plants, described in OTP's response to IR No. 16.[8] In short, the property in each of these three accounts is comprised of a single facility, and OTP derives an estimate of the costs it would incur if it retired each facility today. OTP then inflates those cost estimates at a rate of two percent per year to the anticipated year of final retirement. The resulting inflated cost estimate, with a small adjustment for interim retirements, is then divided by the account's plant balance, yielding the salvage rate. As described in Department Attachment No. 4, OTP assumed that the most likely terminal scenario for these facilities is that they will be sold as working units, rather than retired and demolished. OTP therefore used each property's assessed property tax valuation as the cost it would incur if it retired and sold the facilities today (which in this case is a negative cost, or a benefit), and inflated those property tax valuations to each facility's anticipated year of final retirement.

The large difference between the current and proposed salvage rates produce similarly large differences in depreciation expense under the current and proposed salvage rates. Table 3 below summarizes the changes. As shown, the proposed salvage rate for Account 390.30 results in negative depreciation expense.

Table 3
Changes in Proposed Depreciation Expense
Accounts 390.10, 390.20, and 390.3
($)

Account		Depreciation Expense		Change	
No.	Description	Current	Proposed	$	%
390.10	General Office Buildings	204,846	24,360	(180,486)	-88%
390.20	Fleet Service Center Building	29,753	1,875	(27,878)	-94%
390.30	Central Stores Building	96,433	(83,549)	(179,982)	-187%

Source: Petition, Statement B

After reviewing OTP's response to IR No. 16 and the records in each of OTP's last five depreciation dockets, the Department was unable to determine exactly what changes to OTP's depreciation policies or assumptions caused the large changes in the salvage rates, although it seems likely that up until now, OTP assumed that the buildings would be retired and demolished, not sold as working units. OTP, however, provided no support for this change in assumption.

[8] See Department Attachment No. 4

The Department requests that OTP explain in reply comments how its current salvage rates for these three accounts were derived, the specific changes to its depreciation policies or assumptions that have caused the large changes in the proposed salvage rates, and the reasons why those changes are reasonable.

C. GENERATING ASSETS REMAINING LIFE POLICY

In 2008, OTP implemented its Remaining Life Policy, which intends to maintain a ten-year minimum remaining life for generating assets, and a five-year window between the retirement dates of baseload plants. According to OTP, the Remaining Life Policy mandates that each generating unit undergo an internal plant review by management to determine if it is economically capable of operating for either at least ten years from the date of the review or five years longer than the unit with the next-shortest remaining life. If management determines that the plant is economically capable of operating for an additional ten years, its remaining life will be adjusted accordingly. If management determines that the plant is not capable of operating economically for ten more years, the remaining life will not be extended, and management will alter the operating strategy for the plant to accommodate the pending retirement.
In its Order in the 2012 Depreciation Docket, the Commission required OTP to include in its next five-year depreciation study a defense of the Company's Generating Assets Remaining Life Policy (Remaining Life Policy) that addresses the issues raised in the Department's January 29, 2013 Comments in the 2012 Depreciation Docket.

1. Concerns Raised by the Department in the 2012 Depreciation Docket

In the 2012 Depreciation Docket, the Department raised several concerns with OTP's Remaining Life Policy. In that Docket, OTP proposed one-year life extensions for five of its generating assets pursuant to the Remaining Life Policy, and the Department was concerned that the practical effect of the policy was that one-year life extensions had become the default treatment for many of the Company's generating assets. For example, in the 2012 Depreciation Docket, absent an extension**,** the remaining life of Hoot Lake would have dropped below 10 years. OTP, however, determined that Hoot Lake was capable of operating for ten years, and Hoot Lake's remaining life was extended by one year. In order to maintain a five-year window between major retirements, as mandated by the policy, the remaining lives of Big Stone and Coyote Station had to be extended by one year as well (from 14 years to 15, and from 19 years to 20, respectively). Table 4 below summarizes the approved remaining lives of the units affected by the policy over the last six years.

Table 4
Approved Remaining Lives of Selected Plants

Plant	Actual					
	2008	2009	2010	2011	2012	2013
Baseload Resources						
Hoot Lake Units 2 & 3	10.36	11.33	10.36	10.36	10.36	10.36
Big Stone Plant	13.26	16.15	15.19	15.19	15.19	15.19
Coyote Station	18.05	20.89	19.94	19.94	19.94	19.94
Peaking Facilities						
Jamestown Combustion	12.29	11.33	10.35	10.35	10.35	10.35
Lake Preston Combustion	12.29	11.32	10.35	10.35	10.35	10.35

Source: OTP Depreciation Studies

From a purely financial perspective, each one-year extension lowers annual depreciation expense booked by OTP; however, the extensions do not reduce the rates that OTP charges to its ratepayers until OTP's subsequent rate case. As a result, extending lives outside of a rate case could result in an inappropriate over-recovery of depreciation expense by OTP from ratepayers. Each one-year extension taken individually has only a small effect, but the aggregate impact of several years' worth of extensions could be as significant as the longer life extensions that typically require more analysis and documentation.

From a reliability perspective, the Department is concerned that OTP's Remaining Life Policy raises the risk of catastrophic equipment failures resulting in costly forced outages that are harmful to ratepayers. In essence, OTP is assuming that the operation of the units listed in Table 4 over the last several years has had no impact on those units' expected remaining lives. Certainly, several years of operation must have added to the general wear and tear of these units and reduced their expected remaining lives. OTP has not adequately demonstrated that it has worked to combat this wear and tear with investments, increased maintenance, etc. which would preserve the units' remaining lives over time. To ensure that utilities provide the analysis and documentation of life extensions, the Department prefers less frequent but larger remaining life extensions rather than a number of annual extensions of only one year.

2. Response From OTP

As required by the Commission, OTP included a defense of its Remaining Life Policy on pages 3-6 of its 2013 Depreciation Petition which addressed the concerns raised by the Department. The Company stated that, as a result of shortening the remaining life of Hoot Lake Units 2 and 3, discussed above, the Remaining Life Policy now only impacts the Company's peaking resources at Jamestown and Lake Preston. In prior depreciation petitions, the one-year extensions required

to maintain a 10-year remaining life for Hoot Lake necessitated one-year life extensions for Big Stone in order to maintain a five-year window between the retirement dates of Hoot Lake and Big Stone. The Big Stone life extensions, in turn, necessitated one-year extensions for Coyote in order to maintain a five-year window between the retirement dates of Big Stone and Coyote. With the change to Hoot Lake's retirement date, it is no longer necessary to extend Big Stone's life, which means it is also no longer necessary to maintain Coyote's life.

OTP stated that the Remaining Life Policy was put in place to address concerns identified by OTP and the Department in prior depreciation proceedings that additions to plants intended to maintain the plants' lives were causing disproportionate growth in depreciation expense due to the fact that the additional investments were being depreciated over shorter periods of time. OTP stated that the Remaining Life Policy remediated these concerns. OTP also stated that the Remaining Life Policy is also a useful tool to ensure the Company is making economic capital investment decisions for its older plants, and that having a ten-year minimum life for an investment payback evaluation period was appropriate if plant management staff and engineers could verify that the ten-year life was achievable.[9]

In response to the Department's concern regarding the potential for over-recovery of depreciation expense, OTP stated that the intention of the policy is not to reduce depreciation expense, but rather to "address inappropriate growth in depreciation expense that occurred due to increasing plant investments occurring at a time when (without the Policy) out-of-proportion reductions to remaining lives were occurring."[10]

In response to the Department's concerns regarding reliability and the potential for the Remaining Life Policy to raise the potential of catastrophic failures, OTP stated:

> Further, the Department raised concerns that the Policy could affect plants' reliability over time causing ratepayers harm if a potential catastrophic equipment failure resulted from extended execution of the Policy. This is also an incorrect assessment, and quite the opposite is more probable. The Company recognizes that catastrophic equipment failures can and do happen and that there is a natural correlation between the risk of such instances and the age of the equipment. However, as equipment ages, appropriate maintenance and capital investment level should actually cause the incidents of failure to reduce when compared to those with a more scaled back maintenance or capital investment level. With the Policy the Company makes more frequent assessments of its operating condition and addresses concerns sooner. Additionally, it allows for assessment and justification of appropriate

[9] See the 2013 Depreciation Petition, page 5
[10] See the 2013 Depreciation Petition, pages 4-5

> maintenance programs and capital investments that will enhance the plant's reliability when there is an appropriately longer payback horizon, resulting in a reduction of operational risk rather than an increase in such risks.[11]

3. Department Analysis of OTP's Defense of the Remaining Life Policy

The Department's primary concern with OTP's Remaining Life Policy was the potential negative effects on ratepayers that numerous life extensions outside of a rate case could have. The Department agrees with OTP that, due to the decision to shorten Hoot Lake's remaining life, the impact of the Remaining Life Policy is much smaller now than in the past depreciation filings and that it will be many years before the Remaining Life Policy has any effects on OTP's baseload units. The Remaining Life Policy will continue to result in one-year extensions for OTP's peaking units at Jamestown and Lake Preston, as long as those plants are deemed capable of operating for an additional ten years. However, those units' annual depreciation accruals are significantly smaller than the annual accruals of OTP's baseload assets, and the dollar value impact of life extensions for those units made pursuant to the Remaining Life Policy is much smaller. For this reason, the Department does not recommend that the Commission take any particular action with respect to the Remaining Life Policy at this time.

However, the Department remains concerned about the potential negative effects the Remaining Life Policy may have if it remains in effect for an extended period of time. The Remaining Life Policy mandates that each of OTP's plants undergo an annual assessment to determine if it is capable of operating for an additional ten years and the 2013 Depreciation Petition is the fourth depreciation petition in a row in which OTP has requested one-year life extensions for its Jamestown and Lake Preston plants. It is not clear to the Department what conditions must be met in order for the Company's engineers and plant managers to determine that the plant is capable of operating for only nine more years, nor is it clear whether it is reasonable to expect the Company's engineers to make such a specific determination.

Additionally, the Department notes that Hoot Lake's remaining life was extended by a year in both 2011 and 2012 pursuant to the Remaining Life Policy, only to be shortened by two years in this proceeding following the Commission's Order on OTP's Baseload Diversification Study. Thus, if the Commission approves Hoot Lake's proposed remaining life in this Docket, the plant's remaining life in 2014 will be exactly what it would have been absent the policy. This experience illustrates the importance of the resource planning process in determining the lives of OTP's older production assets and highlights the problems associated with adjusting lives outside of that process. Further, the Department notes that OTP's Jamestown and Lake Preston plants may experience a similar life-reduction, depending on the outcome of OTP's 2014 Integrated Resource Plan proceeding.[12] In OTP's 2010 Resource Plan, the units were assumed to

[11] See the 2013 Depreciation Petition, pages 5-6
[12] OTP's 2014 IRP was filed on December 2, 2013 in Docket No. E017/RP-13-961.

have to be either be retired or repowered in 2019, and the question of whether to retire or repower did not have a clear answer. The Department's modeling indicated that repowering the units was only marginally more cost-effective than retiring them.[13] The Department is currently analyzing OTP's 2014 IRP, and although the Department has not yet reached any preliminary conclusions regarding the future of these two plants, it is certainly within the realm of possibilities that our analysis will indicate that retirement before the proposed 2023 retirement date is a cost-effective option.

As stated above, due to the small impact it is expected to have for the next several years, the Department does not recommend that the Commission take any specific action related to OTP's Remaining Life Policy at this time. However, the Department will continue to monitor the effects the Remaining Life Policy has on OTP's resource planning process and its depreciation expense.

D. PLANT BALANCES, ADDITIONS, AND RETIREMENTS

Table 3 shows the changes to OTP's plant balances during 2012. The net effect of additions and retirements during the year is an increase in total plant of approximately $49 million, the majority of which was concentrated in the Company's transmission and distribution plant accounts.

Table 5
Primary Plant Account Balances

Primary Plant Assets	Balance 12/31/2011	Additions	Retirements	Transfers	Balance 12/31/2012
Steam Production	352,555,939	7,033,939	5,330,148	-	354,259,730
Hydraulic Production	4,526,532	1,162,431	145,531	-	5,543,432
Other Production	306,189,973	1,075,855	292,822	133,533	307,106,539
Transmission Plant	228,830,165	32,265,608	539,271	(1,635,205)	258,921,297
Distribution Plant	389,306,451	17,782,802	2,696,231	(14,459)	404,378,563
General Plant	49,381,845	2,098,772	2,133,011	(68,789)	49,278,817
Totals	1,330,790,905	61,419,407	11,137,014	(1,584,920)	1,379,488,378

Source: 2013 Depreciation Study, Statement G.

E. 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 to its petition, OTP stated that it is

[13] See page 28 of the Department's May 16, 2011 Comments in Docket No. E017/RP-10-623

"unaware of any major future additions or retirements that would materially affect the current certification results." Attachment No. 3 describes several existing and potential future additions and retirements that may affect future depreciation expense, including:

- Two CapX2020 projects (the Fargo – Monticello 345kV project and the Brookings – Twin Cities 345 kV project);
- Two transmission projects in the Big Stone area in conjunction with the Midcontinent Independent System Operator's (MISO) Candidate Multi-Value Portfolio Study (Big Stone – Brookings and Big Stone – Ellendale);
- The AQCS project at Big Stone, discussed above; and
- The Hoot Lake retrofit project, discussed above.

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." On page six of its Petition, OTP states:

> Because this filing does not yet include any new peaking generators, there is no cost information to report at this time.

The Department recommends that the Commission require OTP to provide the comparison of its last rate case's short-term peaking capacity costs to the peaking capacity costs of the new generators once OTP decides on the peaking option it will pursue.

F. 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, 2014. 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. CONCLUSION

The Department requests that OTP explain in reply comments how its current salvage rates for Accounts 390.10, 390.20, and 390.30 were derived, the specific changes to its depreciation policies or assumptions that have caused the large changes in the proposed salvage rates, and the reasons why those changes are reasonable. The Department will make a final set of recommendations to the Commission regarding all of OTP's proposed depreciation parameters after it reviews OTP's reply comments.

/lt

OTTER TAIL POWER COMPANY
Docket No. E017-D-13-795

Response to: Minnesota Department of Commerce
Analyst: Craig Addonizio
Date Received: 10/14/2013
Date Due: 10/24/2013
Date of Response: 10/31/2013
Responding Witness: Loyal Demmer, Depreciation Accountant - 218 739-8659

Information Request No: MN-DOC-005

Reference: Big Stone Plant Remaining Life Extension

a. Please explain the status of the Air Quality Control System (AQCS) Project at the Big Stone Plant (e.g. percent complete, expected completion date, etc.).

b. Please explain why OTP is proposing to extend the life of this plant now, before the project is complete, rather than waiting until the work is done.

c. Please explain the basis for the assumed 2046 retirement year. Please explain how this specific date was selected.

RESPONSE:

a.) Construction on the BSP AQCS project commenced in April 2013. As of September 30, 2013, the BSP owners have invested $109.2M in the budgeted $405.2M AQCS project. This represents a project completion level of 27% on a project cost basis. The Commissioning & Performance Testing phase is anticipated to begin in June 2015, with Commercial Operation anticipated on October 1, 2015.

b.) OTP is proposing to extend at this time the life of the existing in-service plant assets with its 2013 five-year comprehensive depreciation certification petition (not the investment made for the AQCS, which is not yet in service and therefore will commence depreciation upon being placed into service). The Company has received its ADP from the MPUC and construction is well underway, with anticipated first utilization of the AQCS in 2015. These occurrences affect the existing balance of plant, the components of which are currently in service and which are now being managed under the expectation of the additional operating timeline. The expectation that the balance of plant will operate under the new remaining

life timeline commences at the time the Owners commit to construct the AQCS (i.e. upon issuing the Full Notice to Proceed on the AQCS project) and not at the time the AQCS asset is commissioned into service. The balance of plant remaining life reflects what we know its remaining life to be at the time of the filing.

c.) The 2046 assumed retirement is based upon the expertise and judgment of the engineering and operational staff that manage the plant. It is based on the condition of the plant and its operational performance. This assumed retirement is not new, but was considered at least as early as OTP's 2010 IRP. For example, in Appendix F of that IRP, which explains the modeling assumptions for the 2010 IRP, Table 3, illustrates that the 30-year life expectancy beyond 2016 was used. (Docket No. E017/RP-10-623, Appendix F, Page 3). Assuming a mid-year convention and an additional 30-year remaining life addition to the plant results in a planned retirement of June 2046, as noted in Attachment 4 of the depreciation filing.

OTTER TAIL POWER COMPANY
Docket No. E017-D-13-795

Response to: Minnesota Department of Commerce
Analyst: Craig Addonizio
Date Received: 10/14/2013
Date Due: 10/24/2013
Date of Response: 10/31/2013
Responding Witness: Loyal Demmer, Depreciation Accountant - 218 739-8659

Information Request No: MN-DOC-004

Reference: Coyote Station Remaining Life Extension

a. Please explain the basis for the proposed 2041 retirement year for Coyote Station. Please explain how the exact size of the remaining life extension (approximately 8.4 years) was determined.

b. In Attachment No. 4 to the 2013 Depreciation Petition, the Comments column references a new 25-year coal contract. Please explain specifically how this new contract is reflected in the proposed remaining life.

c. Please explain whether OTP expects that Coyote Station will require any significant capital investments in order to achieve the proposed remaining life (e.g. to comply with upcoming environmental regulations, replacement of aging components, etc.).

d. Please explain why OTP is proposing to extend the life of Coyote Station before OTP's upcoming 2014-2028 Integrated Resource Plan has been filed with or acted upon by the Minnesota Public Utilities Commission.

RESPONSE:

a. 2041 was proposed as the retirement year for Coyote Station to correspond with the Coyote co-owners' determination that such a plant life assumption is reasonable when they issued a request for proposals (RFP) for a coal contract in 2010. That RFP resulted in a new coal contract, executed in 2012 with an expiration occurring in 2041.

The following background may provide additional context to explain the basis for the proposed life extension. OTP owns 35% of Coyote Station. The other owners are Northern Municipal Power Agency with 30% and

Minnkota Power Cooperative acting as their operating agent, Montana Dakota Utilities owns 25%, and NorthWestern Energy owns the remaining 10%. Coyote Station originally went into service in 1981. Coyote Station is a mine-mouth plant, meaning it is a power plant sited adjacent to the mine from which it derives its fuel. The current coal contract is with an adjacent mine owned by the Dakota Westmoreland Coal Company that expires in 2016. In 2009, the owners of Coyote began to consider options for fuel for the plant after the 2016 contract expiration. Based upon the condition and successful operating history of Coyote Station, the four owners issued an RFP for a 25-year contract. As a result of the RFP process, late in 2012 the owners entered into a new contract with a new adjacent mine owned by Coyote Creek Mining Company, LLC. The new contract will commence in 2016 and expire in 2041. When comparing this year's comprehensive five-year depreciation filing's remaining life of 27.42 years (2041) with that of the previous filings 19.94 years (2032) for the plant, the results drive the difference as noted in the question.

To clarify the calculation of the remaining life, depreciation studies adopt the mid-year convention where they assume all plant is placed into service and/or retired mid-year. Additionally, OTP's depreciation studies contemplated interim plant retirements when calculating remaining lives. Therefore, while correlating closely, the remaining life calculation is not simply the year of retirement (6/2041) less the year of the plant balances under review (12/2012), which would result in 28.5 years. Rather it reflects a somewhat smaller remaining life to account for interim plant retirements. These results equal the average years till retirement of the plant assets on the Company's books as of the plant balance date, which in this case is 27.42 years.

b. See the answer in (a.) above.

c. The Coyote Station owners do not anticipate that significant capital investments, over and above what the previous remaining life would have required and over and above what would be required in the ordinary course of plant operations, will be required to achieve the proposed remaining life extension of 8.4 years. The plant anticipates capital investments over the remaining life of the plant to be similar in nature to the capital investments made to date. As a plant ages, there are the normal repairs and replacements that are expected and necessary to keep the plant operating economically and efficiently, such as major boiler tube replacement, generator rewinds, turbine retrofits, and control system retrofits. Coyote Station has been well maintained and this is evident in its strong operating statistics.

Two EPA rules that Coyote Station is planning capital investment for in the near term are EPA's Mercury and Air Toxics Standards (MATS) and the Regional Haze Rule. MATS will require reductions of mercury at Coyote Station by April 15, 2015. Coyote will meet these reductions by installing activated carbon injection along with monitoring equipment to verify the reductions. This equipment is scheduled to be installed during 2014 at a total estimated project cost of **[TRADE SECRET DATA BEGINS . . .**

. . . TRADE SECET DATA ENDS] Regarding the Regional Haze Rule, Coyote Station is required by North Dakota's State Implementation Plan to reduce nitrogen oxide emissions by installing over-fire air by mid-2018. Detailed cost estimates are not available at this time, but budgetary estimates are approximately **[TRADE SECRET DATA BEGINS . . .**

. . . TRADE SECRET DATA ENDS]

Additionally, OTP is monitoring several other potential rulemakings that include, but are not limited to, rules for coal combustion residuals and greenhouse gases. While additional requirements may or may not be imposed as part of these rules, identification of specific costs would be contingent on the requirements of the final rule.

d. Under normal conditions OTP's IRP would have been filed by July 1, then about 60 days later we would file our depreciation certification filings and reconcile them to the IRP. The normal cycle for integrated resource plan filings is expressed in Minnesota Administrative Rule 7843.03000:

> Subp. 2. Filing date. Beginning July 1, 1991, and July 1, 1992, and every two years afterward, an electric utility shall submit a proposed resource plan covering the forecast period.

At present, we are 'out of cycle' with the IRP filing due to the baseload study requirement from the 2010 IRP. We are attempting to keep both the 2013 Depreciation filing and the 2013 IRP filing consistent with each other resulting in more meaningful analysis, rather than relying on outdated data.

Otter Tail Power Company's next IRP will be filed on December 1, 2013. Using the same retirement year as the December 1, 2013 IRP is more appropriate than using the IRP that was filed on June 25, 2010, or about 3½ years ago. This approach is also consistent with the filing cycles and timelines anticipated in the Administrative Rules.

OTTER TAIL POWER COMPANY
Docket No. E017-D-13-795

Response to: Minnesota Department of Commerce
Analyst: Craig Addonizio
Date Received: 11/19/2013
Date Due: 12/3/2013
Date of Response: 12/13/2013
Responding Witness: Loyal Demmer, Depreciation Accountant - 218 739-8659

Information Request No: MN-DOC-011

Reference: Response to Department Information Request No. 4

a.) In its response to Department Information Request No. 4, part (c), OTP stated that Coyote Station's owners anticipate no significant capital investments in order for the plant to achieve its new remaining life, over and above what the previous remaining life would have required. Please describe any capital investments that would have been required for Coyote Station to achieve its previous remaining life.

b.) Please explain whether Coyote Station has experienced any capital investments or upgrades in the last year which are expected to extend its life.

c.) If Coyote Station has experienced no life-extending investments in the last year, and the physical state of the plant is largely unchanged from last year, please explain why the Company believes the plant is capable of operating for an additional 8.4 years with no more than normal repairs and replacements. Please provide any engineering assessments or reports produced in support of the new remaining life.

d.) If Coyote Station has experienced no life-extending investments in the last year, and the physical state of the plant is largely unchanged from last year, please explain the basis for Coyote Station's current remaining life of 19.9 years (i.e., if the current remaining life is not set based on the physical condition of the plant, and is not set based on the old coal contract, what is it based on)?.

RESPONSE:

a) The capital investments required for Coyote to achieve its previous remaining life follow the maintenance and replacement schedule that has been implemented since the plant came on line in 1981. Over the last ten years, the capital investment for normal operations at Coyote Station has averaged just over **[TRADE SECRET DATA BEGINS . . . . . TRADE SECRET DATA ENDS]** a year. These dollars are spent on different projects each year, but there is a fairly constant level of spend on maintenance and

replacement of equipment and components at the plant. Capital spend is determined by specific needs, evaluated by performance monitoring, discussions with our insurance provider, and research of industry trends. Capital projects generally ensure compliance, maintain or improve plant reliability, and/or maintain or improve plant efficiency. It is assumed that Coyote will continue spending at similar levels in the future, adjusted for inflation.

Below is a list of projects that are considered investments for normal operations for the next ten years. These projects are considered typical of the types of projects that will be completed for the remaining life of the plant. Only projects that are greater than $100,000 have been included.

[TRADE SECRET DATA BEGINS . . .

. . . TRADE SECRET DATA ENDS]

In addition to the projects mentioned above, there are routine replacement projects that occur on an on-going basis every so many years that are included as part of the normal operations budget. This is to replace equipment on somewhat regular intervals that simply wears out from use. These types of projects include **[TRADE SECRET DATA BEGINS . . .**

. . . TRADE SECRET DATA ENDS]. These routine projects can be likened to replacing the tires on your car at a certain point. These replacements will reoccur for the remaining life of the plant.

In addition to these annual investments for normal operations, the Coyote Station owners also make non-routine investments, which are larger magnitude projects completed during major outage years that are performed less frequently, in some cases only once during the life of a plant. Examples of these non-routine projects anticipated for Coyote would include **[TRADE SECRET DATA BEGINS . . .**

. . . TRADE SECRET DATA ENDS]. Generator, turbine and boiler projects mentioned in response to (c), below, would also be considered non-routine projects.

b) Although Coyote Station was off line for an unplanned outage for the first six weeks of the year for a generator repair, 2013 was considered a non-overhaul year for Coyote Station and the plant only had a one-week planned outage in June. All investments in the

last year to Coyote Station are considered routine and necessary for the continued economic and efficient operation of a power plant. They would not be expected to extend the life of the plant.

c) The Coyote Owners determined that the plant is capable of operating for an additional 8.4 years based upon several factors which were assessed in order to determine the appropriate length of the new mine-mouth coal contract for the facility, which was negotiated last year. Factors considered were the expected life durations of similar generating plants, the current condition of the major components of the Coyote Station, and the operational performance of the facility.

A comprehensive discussion of coal power plant lifetimes was included in the September 7, 2011 Rebuttal Testimony of Judah L. Rose filed in Docket No. E017/M-10-1082, pages 80-90 (that testimony also included a discussion of the operational prospects for Big Stone Plant, which is discussed in the response to IR 10). Also, additional discussion on the current condition of major components and the operational performance of Coyote station is included in the responses below.

Specific to Coyote Station, when looking at the major components (the turbine, the generator, and the boiler), the plant is positioned to operate until at least the 2040's, as discussed below:

Generator
The insulation in a generator is expected to degrade over time and therefore throughout the industry the rotor and stator are rewound to return the generator to a "like new" condition. Coyote's generator stator was rewound in 2012 and its rotor was rewound in 2013. There is constant monitoring of the generator condition as well as inspections, maintenance and replacements during overhauls to monitor and maintain the generator. There are no plans for major work on the generator between now and the 2040's.

Turbine
The rotors and blades of the steam turbines experience wear over time. At Coyote, the LP (Low Pressure) turbine rotor was replaced/upgraded in 2003. This was replaced earlier than would be expected because of a deficient original design. The LP turbine rotor, which is now 10 years old, is in like-new condition. The HP/IP (High Pressure/Intermediate Pressure) turbine rotor was upgraded in 2009. Turbine rotors and blades are inspected during overhauls. The turbine case is another critical component and this is visually inspected and tested by non-destructive (NDE) means for any wear. Turbine blades can be rebuilt or replaced during overhauls and these are routine projects. Other turbine components such as valves, bearings, and seals are monitored and routinely replaced as needed during overhauls. With the replacement of the major turbine components and the maintenance program in place at Coyote, the turbine rotors and case can be expected to last at least until the 2040's.

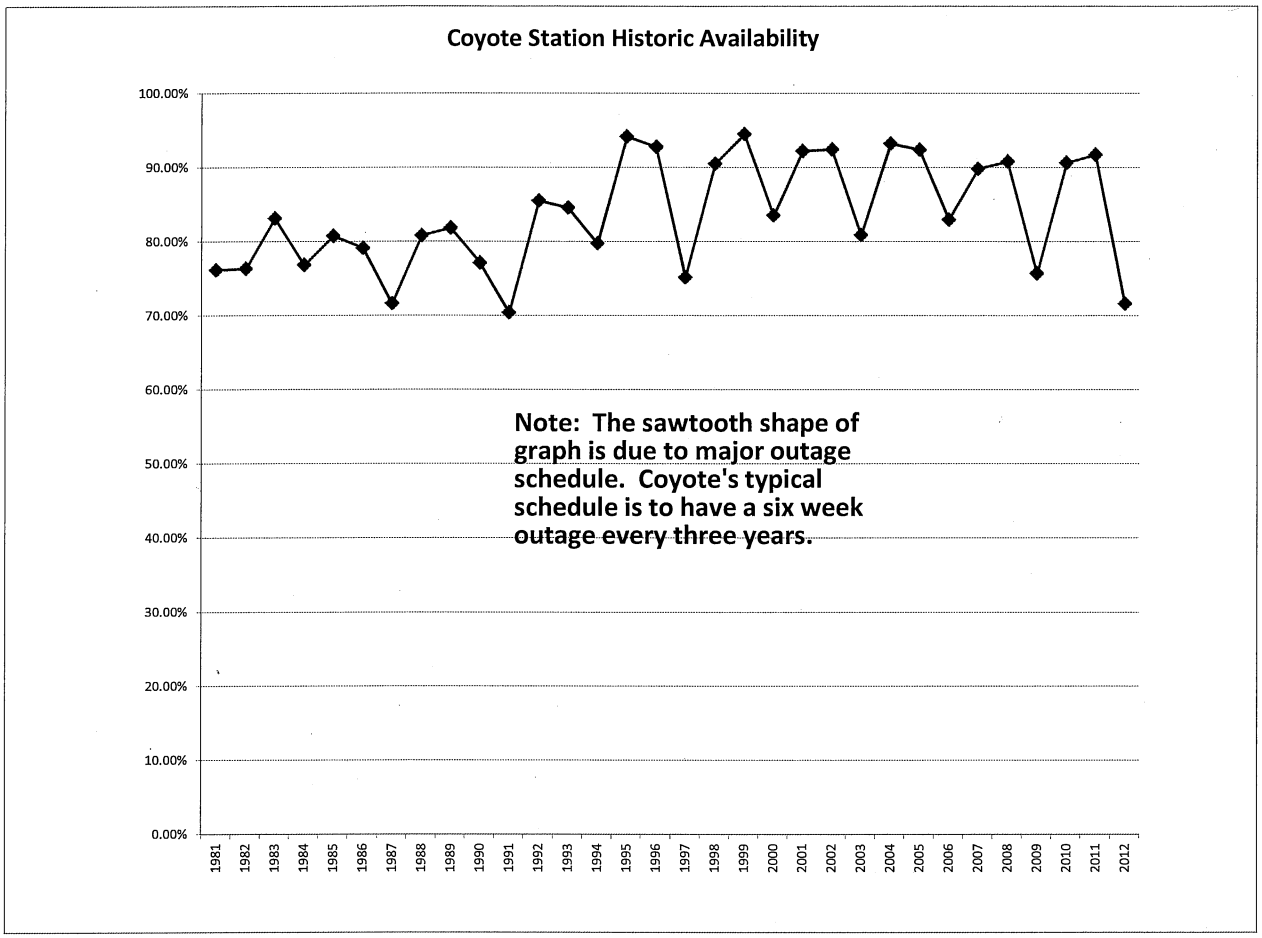
Boiler

The primary components of the boiler include the furnace, the economizer, reheat, primary superheat, secondary superheat, cyclone burners, steam drum, and section headers. Visual and NDE tests are performed during outages and overhauls. Boiler tube leaks are common due to the extreme boiler environment (1000 deg F and 2400 psi) and are repaired when they occur. It often necessary at various intervals to replace entire sections of boiler tubes when repairs are no longer effective. **[TRADE SECRET DATA BEGINS . . .**

. . . TRADE SECRET DATA ENDS]. The steam drum is inspected by Coyote personnel as well as boiler inspectors and insurance inspectors every three years.

It is also noted that Coyote's performance has only improved since it came on line. The graph below shows Coyote Station's availability since it became operational. Over the period, the availability trended upward in the first 15 years and then maintained at that level. During the first ten years of operation, Coyote Station's average availability was 78%. During the last ten years of operation, its availability averaged 86%. This operational evidence points to the fact that Coyote Station has been well maintained over the years.

~~PUBLIC DOCUMENT – TRADE SECRET DATA HAS BEEN EXCISED~~
~~Response to Information Request MN-DOC-011~~
~~Page 5 of 6~~



As discussed above, the Coyote Owners assessed the expected remaining life at Coyote Station as part of their consideration for a new coal contract that was executed in October of 2012. The term for that agreement (for May 2016 – December 2040) was based on the interest of the Coyote owners in achieving the lowest cost fuel supply for our customers over the expected life of the facility. Based upon the expected operational duration of similar facilities, the condition of the major components and the operational performance of the facility, the owners determined it was most reasonable to expect the facility to remain in service through the 2040's.

d. In 1981 Otter Tail along with the other joint plant owners placed into service the Coyote Station electrical generation facility with an initial expected life of 35 years. Periodic internal assessments by plant management typically in conjunctions with five-year depreciation studies resulted in plant remaining life adjustments which over the plants first 27 years of the stations operations resulted in remaining life changes totaling 13 years. For example, during the 2008 five-year depreciation study, four years of remaining

life were added and in the 2003 five-year depreciation study five years were added. Then starting in 2010 Otter Tail began more timely and conscientious annual plant assessments to more carefully monitor its generation fleet as they neared the later portions of their remaining lives. These assessments take into account the overall condition of the generation facility as a result of operations in conjunction with the plants historic maintenance and capital investment programs. Additionally, these assessments allowed Otter Tail to address concerns raised by the Minnesota Department of Commerce where latter life capital investments in these facilities was causing depreciation rates and thus depreciation expense to rise exponentially. As a result of the positive outcome of these assessments an additional year of service was added in 2010, 2011 and 2012 resulting in the Remaining Life of 19.94 years as reflected in its 2012 Depreciation filing and approved by the Minnesota Public Utility Commissions as reflected in its order for docket E-017/D-12-933.

OTTER TAIL POWER COMPANY
Docket No. E017-D-13-795

Response to: Minnesota Department of Commerce
Analyst: Craig Addonizio
Date Received: 11/19/2013
Date Due: 12/3/2013
Date of Response: 12/10/2013
Responding Witness: Loyal Demmer, Depreciation Accountant - 218 739-8659

Information Request No: MN-DOC-016

Reference: Accounts 390.10, 390.20, and 390.30 Salvage Rates

a.) The unadjusted and adjusted net salvage histories for Account 390.10 indicate that the account's actual rolling five-year average salvage rates have been between zero and negative 13 percent for the last several years. Please explain the basis for the proposed positive 51.2 percent salvage rate.
b.) The unadjusted and adjusted net salvage histories for Account 390.20 indicate that the account's actual rolling five-year average salvage rates been between zero and negative 95 percent for the last several years. Please explain the basis for the proposed positive 38.6 percent salvage rate.
c.) The unadjusted and adjusted net salvage histories for Account 390.30 indicate that the account's actual salvage rates been between zero and negative 13 percent for the last several years. Please explain the basis for the proposed positive 95.5 percent salvage rate

RESPONSE:

It can be observed from the 2013 study, Statement F, page 45, that the referenced accounts are AYFR categories. It can also be observed from Table 3, page 12, that terminal salvage has been estimated and employed in Statement E, page 43, to estimate future net salvage rates. The computation of future net salvage rates is illustrated in response to MN-DOC-019. The source of estimated terminal net salvage is provided in the attached memorandum. The referenced unadjusted net salvage histories (Schedule F) are the source of realized net salvage rates used in Statement D (page 37) in the formulation of average net salvage rates.

OTTER TAIL POWER COMPANY

To: Loyal Demmer, Fixed Assets
From: Kyle Rich, Supervisor, Facilities, Construction, and Survey
Date: August 9th, 2013
Re: OTP Building & Facilities Departments, Salvage Assessment for selected Otter Tail Power Company Facilities

The Facilities, Construction, and Survey (Facilities) Department was asked to provide a Salvage Assessment for Otter Tail Power Company's General Office, Fleet Service Center and Central Stores buildings. We understand this request made by Otter Tail Power's, Fixed Assets Department is done in conjunction with the Company's comprehensive five year depreciation study. We understand that these larger General Plant facilities are depreciated individually and not grouped together as much of our of General Plant facilities, which results in the need for this salvage assessment.

Based on the age and condition of these facilities including recent capital improvements the projected retirement dates and corresponding remaining lives as of 12/31/2012 are:

- General Office 12/31/2030, 18 years
- Fleet Service Center 12/31/2025, 13 years
- Central Stores 12/31/2035, 23 years

The Facilities Department has identified future potential Capital projects that when implemented could have a future impact on these estimated retirement dates, including window replacement and plumbing updates.

It is the opinion of the Facilities Department that the most likely terminal salvage scenario for these facilities would be to sell them as working units as opposed to razing, or selling as a distressed asset. We feel that the properties' assessed valuation for property tax purposes represent good estimates of the current salvage values. For these facilities we took into account the value of the building located on the parcel and ignored the value of the land. The most current building valuation for property tax purposes as supplied by our property tax department is:

- General Office $1,993,300
- Fleet Service Center $ 244,163
- Central Stores $2,371,691

The Property Tax Department has supplied the Fixed Assets Department with copies of the County Property Information and Tax Statements for those properties located in Otter Tail County, MN. For those properties located in North Dakota they provided the ND Schedule 16 allocation factor and assessed values for the Wahpeton and Jamestown facilities.

Thanks you for the opportunity to provide this service.

Kyle Rich

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
Public Comments

Docket No. E017/D-13-795

Dated this **17th** day of **January 2014**

/s/Sharon Ferguson

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