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May 4, 2016



Darrell Nitschke
Director of Administration/Executive Secretary
North Dakota Public Service Commission
State Capitol
600 East Boulevard, Dept. 408
Bismarck, ND 58505-0408

**RE: In the Matter of Otter Tail Power Company's Request for Approval of its 2016
Renewable Resource Cost Recovery Adjustment Factor
Case No. PU-16-14
OAH File No. 20160181
Decommissioning Exhibit to Formal Hearing**

Dear Mr. Nitschke:

Enclosed are an original and seven copies of Otter Tail Power Company's exhibit in response to the Commission's request on decommissioning posed at the Formal Hearing in the above referenced Case held on April, 27, 2016. The exhibit and cover letter are being sent to you by electronic mail as well as U.S Mail.

Should you have any questions, please feel free to contact me at 218-739-8279 or stommerdahl@otpc.com.

Very truly yours,

/s/ STUART TOMMERDAHL
Stuart Tommerdahl
Manager, Regulatory Administration

nlo
Enclosures
By electronic filing and U.S. Mail

cc: Janet Demarais Seaworth, OAH

Before the North Dakota Public Service Commission
State of North Dakota

In the Matter of Otter Tail Power Company's
Application of the Annual Rate Update
For its Renewable Resource Cost Recovery Adjustment
For Langdon, Ashtabula & Luverne Wind Farms

Case No. PU-16-14

OAH File No. 20160181

Exhibit___

**LATE-FILED EXHIBIT
EXPLAINING HOW DECOMMISSIONING COSTS
ARE ACCOUNTED FOR IN THE RENEWABLE RIDER**

FILED AT THE REQUEST OF THE COMMISSION

May 4, 2016

1 **INFORMATION REQUESTED**

2 At the evidentiary hearing held April 27, 2016, the Commission asked Otter Tail Power
3 Company (Otter Tail) to supply a late-filed exhibit to answer the following questions: Are costs
4 associated with decommissioning the wind projects included in the Renewable Rider Tracker
5 Schedule? Is the amount accumulated for the purpose of decommissioning adequate?
6

7 **OTTER TAIL'S RESPONSE:**

8 Costs associated with decommissioning the wind projects are included in the Renewable Rider
9 tracker as a component of depreciation expense. As explained below, the amount included is
10 adequate.
11

12 Consistent with standard practices used for accounting and rate regulation in the electric
13 industry, Otter Tail, where applicable includes in its annual depreciation rate calculations, a
14 component that is specifically intended to provide for the recovery of the final net salvage costs
15 of its capital projects. The net salvage component is intended to cover the anticipated costs of
16 decommissioning each item of capital property, net of any salvage expected to be recovered at
17 the end of its service life. Otter Tail provided its initial estimated decommissioning costs to the
18 Commission for these three projects in Decommissioning Plans filed in Cases PU-08-766
19 (Luverne), PU-09-244 (Langdon) and PU-09-245 (Ashtabula). The net salvage amount used in
20 the Renewable Rider is an updated amount, derived from decommissioning studies performed in
21 conjunction with Otter Tail's five-year depreciation study, the last of which was conducted in
22 2013 based on book balances as of 12/31/2012. The next 5-year study will be completed in
23 2018. Decommissioning cost estimates are not expected to change materially between these 5-
24 year studies. In these five-year depreciation studies, the estimated accumulated net salvage at the
25 end of the projects' service lives is calculated and rates are revised as necessary to meet
26 anticipated decommissioning obligations. This approach is used for Otter Tail's wind farm
27 projects and for other types of depreciable capital property.
28

1 The table below shows the anticipated net salvage amounts for the three wind farms (based on
 2 decommissioning costs as of 12/31/2012), and the total estimated net salvage that is expected to
 3 be accumulated by the end of their 25-year useful service lives.

| Wind Farm | Estimated Cost of Removal | (Less) Estimated Salvage | Net Salvage | Inflation Rate | Estimated Demolition Costs at end of service life |
|------------------|----------------------------------|---------------------------------|--------------------|-----------------------|--|
| Langdon | \$1,374,029 | \$602,100 | \$771,929 | 2.0% | \$1,388,447 |
| Ashtabula | \$1,629,664 | \$713,600 | \$916,064 | 2.0% | \$1,147,046 |
| Luverne | \$1,680,591 | \$735,900 | \$944,691 | 2.0% | \$1,460,473 |