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Mr. Lawrence Smith
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Financial Accounting Standards Board
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Subject: File Reference No. 1099-001

Dear Mr. Smith:

On behalf of Otter Tail Power Company, I appreciate the opportunity to comment on the Financial Accounting Standards Board's (FASB or the Board) Exposure Draft (ED) of a Proposed Interpretation, *Accounting for Conditional Asset Retirement Obligations an interpretation of FASB Statement No. 143* (Statement 143). Otter Tail Power Company is the electric utility division of Otter Tail Corporation and serves customers in northwestern Minnesota and eastern portions of North and South Dakota.

Basically, I felt that the original language in Statement 143 on conditional obligation should have adequately covered proper recognition of conditional obligations. The basic interpretation, paragraphs 1 through 9, also seem reasonable and sufficiently emphasize that a conditional obligation needs to be recognized through either quantified entries or at least disclosure of the nature of the obligation if it is unreasonable to quantify the obligation.

However, I find that a couple of examples in Appendix A set precedent that goes way beyond reasonable or are based false premises.

Example 1, Paragraph A 3, third sentence.

"The asbestos will eventually need to be removed and disposed of in a special manner, since no building will last forever."

I am concerned that this sentence lays a precedent that “eventually” is a reasonably quantifiable time period and that “forever” is the only time period allowable for not quantifying the obligation. This seems to be in direct conflict with the original Standard SFAS 143 and the premise expressed in paragraph 4 of this proposed interpretation, which uses “potential” and “reasonable” in defining time periods and cost estimation. “Eventually” can encompass much too long a time period to be relevant in financial reporting. History tells us that “eventually” all governments, economic systems, structures like the Great Wall of China and the Stonehenge in England, accounting standard setting bodies, and even the business enterprise itself will “eventually” fall. In the scheme of such “eventuality”, legal asset removal obligations rapidly becomes inconsequential and irrelevant. A much more reasonable and potential standard must be put forward. “Eventual” may be a reasonable standard for qualifying an obligation as a Asset Retirement Obligation (ARO), but it is not reasonable for measurement purposes. Further, the discount multiplier for “eventually” approaches zero, which is obviously well below anyone’s definition of material. Finally, there are legal obligations that do exist as long as “eventual”, see below. Even the final sentence in paragraph A3 equates “eventually” with uncertainty. Uncertainty within a decade or two may be reasonable for quantifying probable time periods and values, but uncertainty approaching a century is clearly outside the realm of reasonableness AND the interest of the investing community.

Example 2, Paragraph A 4, third sentence.

“Once the poles are removed from the ground, existing legislation requires special disposal procedures for the poles.” (Sentence 1 identifies these poles as “wood poles that are treated with certain chemicals”).

I am concerned about the inaccuracies within this example that could create a lot of misunderstanding, misinterpretations, or inaccurate disclosures. The first inaccuracy is the assertion that removal of the pole automatically leads to special disposal. There are many causes of removal from the ground that do not affect the continued usefulness of a pole. Re-

use of poles is the predominant action with many reused poles involving activities outside of telecommunication or other utility operations. Our environmental engineers estimate that less than 10 percent of our poles end up in landfills or other special disposal facilities. Use of landfill disposal is a management decision rather than a legal requirement.

Neither does the “eventual” issue (from example 1) take affect because due to other inaccuracies in this sentence. The second inaccuracy is the implication of the extent that special disposal procedures are required. While the chemical used have restriction, our environmental engineers state that there is no federal standard requiring special disposal procedures for any of the types of chemically treated utility poles we use. Further, there are no special disposal procedures required by the three states in which we operate. As a result, the third inaccuracy is that assumption that disposal procedures involves a removal cost. While there may be local limitations on chemically treated wood poles, the best option would involve elimination of this example.

“Issue 1: The Board concluded that the uncertainty surrounding the timing and method of settlement should not affect whether the fair value of a liability for a conditional asset retirement obligation would be recognized but rather, should be factored into the measurement of the liability.”

I would agree with the basic conclusion, but only under the original criteria of reasonableness. I believe “eventually” as described in the first example is an unreasonable standard that can create unnecessary recordkeeping and calculations which would result in totally immaterial amounts. The first two examples should be eliminated or materially revised.

Issue 2: The Board concluded that all retirement obligations within the scope of Statement 143 that meet the definition of a liability in Concepts Statement 6 should be recognized as liabilities... Are there instances where a law or regulation obligates an

entity to permanently avoid settling the obligation? If so, please provided specific examples.

Here are a couple of the legal obligations we ran into:

For underground storage tanks -

- *Minnesota Rule 7150.0400 Temporary Closure* – provides for temporary closure of underground storage tanks and condition that allow for permanent closure as long as it meets certain but not all of the performance standards “in part 7150.100” or “7150.0110.

Related to hydroelectric generating plants -

- *Minnesota Rule 6115.0390 Termination of Operations and Perpetual Maintenance* – “Unless the dam is removed, the owner shall perpetually maintain the dam and appurtenances so as to ensure the integrity of the structure.”(Rule 6115 .0310 Scope - applies “to all dams” and is “supplementary and complimentary to rules which establish standards and criteria for granting permits to change the course, current or cross-section of public waters” – in other words, it covers the dam portion of a hydroelectric generating station). Under Rule 6115. 0211 Subp. 8 *Removal of structures* – if the dam is removed or determined to be no longer functional or a public nuisance, hazard or threat, “a permit is required for the removal or abandonment of all existing water waterway obstructions...”. “Permits shall be issued provided: A. the original cross-section and bed conditions will be restored insofar as practicable” plus a couple other requirements. In other words, state law requires perpetual maintenance of the dam portion even when the rest of the hydroelectric generation has been retired and or removed. The asset removal cost for riverbed restoration is conditional upon state action or a managerial decision to remove the dam.

Again, I thank you for the opportunity to respond with comments about this proposed interpretation.

Sincerely,

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