

Otter Tail Power Company  
Policy of Capitalizing Interest  
For the period January 1, 2013 Through December 31, 2017

Line No.	Policy Description
1	<u>Allowance for Funds Used During Construction</u>
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3	AFUDC is calculated on a monthly basis by applying the monthly rate to the sum of the
4	balance of the project at the beginning of the month plus one-half of the current month's
5	charges. Capitalization ceases when the project is placed in service. All capital projects
6	are charged interest except the following:
7	
8	A. Projects estimated to cost less than \$10,000
9	B. Projects estimated to take less than 30 days to construct
10	C. Customer Service Center blanket distribution projects
11	D. Others as determined by the Fixed Assets Department
12	
13	The allowance rate is based on the composite cost of capital as required under Federal
14	Energy Regulatory Commission Order 561. Capitalization ceases when the project is
15	placed in service.
16	
17	
18	<u>Labor Related Loadings</u>
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20	Overhead costs (Payroll loading and Warehouse Clearing) related to construction
21	projects are capitalized in accordance with Electric Plant instruction of the FERC
22	Uniform System of Accounts
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25	These methods and procedures have been in place for the last five calendar years.