

03-31-2005

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From-OTTER TAIL CORPORATION DEPARTMENT

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P.002

F-609

215 South Cascade Street
PO Box 496
Fergus Falls, Minnesota 56538-0496
218 739-8200
www.otpco.com (web site)

VIA FAX and OVERNIGHT DELIVERY

March 31, 2005



Ms. Pamela Bonrud, Executive Director
South Dakota Public Utilities Commission
State Capitol
500 East Capitol Street
Pierre, SD 57501-5070

**Re: Renewal of an Electric Service Agreement for the
Supply of Bulk Interruptible Power Between Otter Tail
Power Company and Valley Queen Cheese Factory, Inc.**

Dear Ms. Bonrud,

According to South Dakota Codified Laws Section 49-34A-10 and Administrative Rules of South Dakota ("ARSD") Part 20:10:13:11, enclosed for filing please find an original and 10 copies of the Otter Tail Corporation d/b/a Otter Tail Power Company, petition in the Matter of a Renewal of an Electric Service Agreement for the Supply of Bulk Interruptible Power between Otter Tail Power Company and Valley Queen Cheese Factory, Inc.

Should you have any questions with respect to this filing, please contact me by phone at (218) 739-8595 or by email at dprazak@otpco.com

Sincerely yours,

A handwritten signature in black ink, appearing to read "David G. Prazak", is written over the typed name.

David G. Prazak
Senior Pricing Specialist
Regulatory Services

Enclosures

**STATE OF SOUTH DAKOTA
BEFORE THE
SOUTH DAKOTA PUBLIC UTILITIES COMMISSION**

**In the Matter of a Renewal of an Electric Service Agreement
for the Supply of Bulk Interruptible Power Between Otter Tail
Power Company and Valley Queen Cheese Factory, Inc.**

Docket No.

PETITION OF OTTER TAIL POWER COMPANY

1. INTRODUCTION.

Pursuant to South Dakota Codified Laws Section 49-34A-10 and Administrative Rules of South Dakota ("ARSD") part 20:10:13:03, Otter Tail Power Company, a division of Otter Tail Corporation, hereby petitions the South Dakota Public Utilities Commission for re-approval of an Electric Service Agreement ("ESA") for the Supply of Bulk Interruptible Power Between Otter Tail Power Company and Valley Queen Cheese Factory, Inc.

2. GENERAL FILING INFORMATION.

Pursuant to ARSD Part 20:10:13:03, Otter Tail provides the following general information.

A. Name, Address, and Telephone Number of Utility.

Otter Tail Power Company
215 South Cascade Street
P. O. Box 496
Fergus Falls, MN 56538-0496
(218) 739-8200

B. Name, Address, and Telephone Number of Utility Attorney.

Bruce Gerhardson
Associate General Counsel
Otter Tail Corporation
215 South Cascade Street
P. O. Box 496
Fergus Falls, MN 56538-0496
(218) 998-7108

C. Date of Filing and Date Electric Service Agreement Will Take Effect.

This ESA is being filed on March 31, 2005, and Otter Tail requests approval effective June 1, 2005. An effective approval date of June 1, 2005 will provide a seamless transition between contracts.

D. Statute Controlling Schedule for Processing the Filing.

Otter Tail is petitioning for a re-approval of the Electric Service Agreement, which will implement the existing Bulk Interruptible Service Tariff (Rate Designation I-06S) for Valley Queen Cheese Factory, Inc. Otter Tail believes ARSD part 20:10:13:15 controls this filing.

ARSD Part 20:10:13:15 requires 30 days notice to the Commission of a proposed new tariff, after which time the proposed new tariff takes effect unless suspended. Because no determination of Otter Tail's general revenue requirement is necessary, the report called for under Part 20:10:13:26 and the general notice provisions applicable to changes in rates is not applicable in this filing. Otter Tail requests an expedited and informal proceeding, including any variances that may be necessary.

E. Title of Utility Employee Responsible for Filing.

David G. Prazak
Senior Pricing Specialist
Regulatory Services
Otter Tail Power Company
215 South Cascade Street
P. O. Box 496
Fergus Falls, MN 56538-0496
(218) 739-8595

3. DESCRIPTION OF FILING.

A. Background.

The enclosed ESA allows Valley Queen Cheese Factory, Inc. to purchase electric energy under Otter Tail's Bulk Interruptible Service Tariff ("Tariff"), Rate Designation I-06S. Under the Tariff, customers are eligible to purchase power from Otter Tail on an interruptible basis if three conditions are met: (1) the load is 750 kW or greater; (2) there is a contract in place between the parties; and (3) the customer assumes responsibility for providing its own alternative backup power supply. The Tariff provides that the energy rate is to be negotiated separately between Otter Tail and the customer, with the condition that the minimum energy rate that will be accepted will cover Otter Tail's "energy cost of service plus a margin of \$0.002 per kwh." The Tariff further provides that the term of any contract be no longer than five (5) years. The term for this contract is for five (5) years.

B. Customer Information

Valley Queen Cheese Factory, Inc. is a dairy processor located at Milbank, South Dakota. Valley Queen Cheese Factory, Inc. is currently taking service on the Bulk Interruptible

(Rate Designation I-06S) for their boiler facility¹. Valley Queen Cheese Factory, Inc. utilizes an electric and natural gas boiler, depending on fuel prices.

4. CONCLUSION.

For the foregoing reasons, Otter Tail respectfully requests that the Commission approve at the earliest possible date the enclosed ESA, to be effective June 1, 2005.

Dated: March 31, 2005.

Respectfully submitted,

OTTER TAIL POWER COMPANY

By: 

David G. Prazak,
Senior Pricing Specialist
Otter Tail Power Company
215 South Cascade Street
P. O. Box 496
Fergus Falls, MN 56538-0496
(218) 739-8595

Bruce Gerhardson
Associate General Counsel
Otter Tail Corporation
215 South Cascade Street
P. O. Box 496
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(218) 998-7108

¹ Docket No. EL04-013. In the Matter of Electric Service Agreement for the Supply of Bulk Interruptible Power Between Otter Tail Power Company and Valley Queen Cheese Factory, Inc., Approved May 4, 2004.

**ELECTRIC SERVICE AGREEMENT
FOR THE SUPPLY OF BULK INTERRUPTIBLE POWER**

This Agreement is entered into as of the 1st day of JUNE, 2005, by and between Otter Tail Corporation d/b/a Otter Tail Power Company, a corporation organized and existing under the laws of the State of Minnesota ("Otter Tail"), with its principal place of business located at 215 South Cascade Street, P.O. Box 496, Fergus Falls, Minnesota 56538-0496 and Valley Queen Cheese Factory, Inc., (hereinafter Valley Queen or Customer), a South Dakota corporation with its principal place of business located at 200 Railway Ave. E., Milbank, South Dakota. The Effective Date of this Agreement is June 1, 2005.

Background

WHEREAS, uncommitted supplies of power are available to the Otter Tail system during periods of time when the system is not operating at or near its peak capacity, and such power supplies will be available during the period of 2005 through approximately 2010, and such power can be made available on an interruptible basis to Valley Queen without the system incurring any incremental capacity costs; and

WHEREAS, large power customers having loads of 750 kW or greater who assume responsibility for providing an alternative backup power supply are eligible to purchase power from Otter Tail on an interruptible basis under Otter Tail's Bulk Interruptible Service tariff, Rate Designation I-06S, as filed and approved by the South Dakota Public Service Commission (the "Bulk Interruptible Tariff"); and

WHEREAS, the costs of providing interruptible service includes the costs of energy plus a margin, along with the cost of necessary facilities that are installed, and is lower than the cost of non-interruptible, or firm, power, as firm power includes capacity costs; and

WHEREAS, Valley Queen desires to purchase bulk interruptible power from Otter Tail to serve the electric requirement needs of its electrode boiler that provides steam used in its dairy production processes and Otter Tail desires to sell such bulk interruptible power to Valley Queen for that purpose.

For the reasons recited above, and in consideration of the mutual covenants and agreements hereinafter stated, the parties to this Agreement mutually agree as follows:

1. **SERVICE.** Otter Tail agrees to sell and deliver to Customer, and Customer agrees to purchase from Otter Tail at its premises in Milbank, South Dakota, interruptible bulk electric power and energy to serve the electric needs of Valley Queen's electrode boiler in accordance with the Bulk Interruptible Tariff, which is specifically made a part of this Agreement, and in accordance with all other applicable rules and regulations of the South Dakota Public Utilities Commission.

2. **RATE.** For service under this Agreement, and in accordance with the Bulk Interruptible Tariff, Valley Queen shall pay to Otter Tail an energy charge, on a per kilowatt-hour of electricity consumed, \$.0358 per kWh. In addition to this charge for energy, Valley Queen

shall pay to Otter Tail a monthly fixed charge in the amount of \$1,000 to cover the cost of installations necessary to provide service. This fixed charge shall be rendered as part of Otter Tail's regular monthly billing, and shall apply irrespective of whether energy is taken or delivered under the Agreement.

3. ENERGY ESCALATION CLAUSE. The Parties agree that in lieu of the standard automatic fuel adjustment clause, a maximum energy escalation rate of 4% per six-month period shall apply. Escalation adjustments under this Section 3 may be applied six months following the effective date of this Agreement, and every six months thereafter.

4. TERM. This Agreement shall be binding on the Parties and each of them for a period of five (5) years from and after the Effective Date.

5. DETERMINING COST OF ALTERNATIVE FUELS. Under the Bulk Interruptible Tariff, Valley Queen is required to purchase electricity from Otter Tail as long the total cost of electric service offered by Otter Tail under this Agreement and the Bulk Interruptible Tariff is competitive with Valley Queen's existing alternate fuel. The factors required to determine the total cost of electric service and the energy conversion factors used to determine cost competitiveness of alternate fuels is set forth in Exhibit A, which is attached and specifically made a part of this Agreement.

6. NO GUARANTEE OF SUPPLY. Otter Tail makes no warranties and Valley Queen expressly agrees that no warranties or guarantees of any kind are made as to the availability of replacement power and energy after the expiration of the term of this Agreement.

7. DIRECT CUSTOMER INVESTMENT. Valley Queen shall, at its own risk and expense, furnish, install and maintain in good and safe condition, all electric lines, machinery and apparatus which may be required on its side of the point of interconnection and for distributing and utilizing such power and energy, and will indemnify Otter Tail against any and all loss, damage or liability, including liability to any third persons, occasioned or caused by any defect in the condition or construction of such lines, machinery, or apparatus, or any part thereof, or by reason of any negligence on the part of Valley Queen in installing, maintaining, using or operating such lines, machinery or apparatus. The point of delivery shall be the point of interconnection of the Otter Tail facilities and Valley Queen's facilities.

8. POWER DELIVERY. All electric energy to be delivered and received pursuant to the provisions of this Agreement shall be delivered at what is commonly designated as three-phase, approximately 12,500 volts and 60 hertz alternating current and shall be metered at primary voltage of approximately 12,500 volts. Otter Tail shall furnish and install all necessary meters to measure the electricity furnished by Otter Tail to Valley Queen.

9. INTERRUPTION. Interruption of electric service under this Agreement is at the sole discretion of Otter Tail and no liability shall attach to Otter Tail for any failure to deliver such electricity, whether it be for reasons either beyond or within its control and regardless of whether the interruption is scheduled or nonscheduled.

10. BACKUP SERVICE. Valley Queen hereby expressly agrees that upon any interruption of electric service under this Agreement it shall have the sole responsibility for providing any backup service necessary for its continued operations. Valley Queen expressly agrees to hold Otter Tail harmless and to indemnify Otter Tail against any and all loss, damage or liability, including liability to any third parties, arising out of or related to interruption of

electrical service. Otter Tail agrees to make every effort to provide at least one hour's notice prior to interruption of service.

11. RESALE. Purchases of electric energy by Valley Queen for resale to third parties, including affiliates, is strictly prohibited under the terms of this Agreement, and any resale or transmission to any third party shall constitute a breach of this Agreement.

12. RIGHTS-OF-WAY. All easements and rights of way necessary to provide and maintain service under this Agreement shall be and the same hereby are granted by Valley Queen to Otter Tail.

13. TITLE. Title and ownership of all electric lines, meters, related equipment owned and installed by Otter Tail shall be and remain the personal property of Otter Tail and shall not become a part of the real estate of Valley Queen.

14. ASSIGNMENT. Neither Otter Tail nor Valley Queen shall voluntarily assign its rights nor delegate its duties under this Agreement, or any part of such rights or duties, without the written consent of the other party. Such consent shall not unreasonably be withheld. However, Otter Tail may assign this Agreement and the rights and privileges herein granted to any of the following, without Valley Queen's consent, provided that such assignee assumes in full the obligations of Otter Tail under this Agreement: (a) any cooperative, corporation, partnership, or other entity that controls, is controlled by or is under common control with Otter Tail; (b) any corporation or other entity resulting from the merger, consolidation, or reorganization of Otter Tail; (c) any corporation, partnership, or other entity or person which acquires all or substantially all of the assets of Otter Tail. This Agreement shall inure to and bind the parties' successors and assigns.

15. INDEMNIFICATION AND HOLD HARMLESS.

15.1 Valley Queen to Indemnify Otter Tail. Valley Queen shall indemnify, defend, and save harmless Otter Tail from any liability, loss, or expense arising from or growing out of injury to persons, including death, or property damages incurred by persons other than the parties, which may occur on the electric system of Valley Queen or on its side of the point of delivery unless such loss is solely due to the negligence of Otter Tail.

15.2 Otter Tail to Indemnify Valley Queen. Otter Tail shall indemnify, defend, and save harmless Valley Queen from any liability, loss, or expense arising from or growing out of injury to persons, including death, or property damages for persons other than the parties, which may occur on the electric system of Otter Tail and on its side of the point of delivery unless such loss is solely due to the negligence of Valley Queen.

15.3 Damages in Proportion of Negligence. If such loss or injury is not due to the negligence of either party or is due to the negligence of both parties, any damages recovered therefore shall be borne by the parties in proportion to its negligence. If either party is required to satisfy any claim or judgment recovered for such damages, such party shall have the right of contribution against the other party.

15.4 Each Party Responsible for Actions. It is the intent of this Section 15 that each party be responsible for its own acts and omissions

16. MISCELLANEOUS.

16.1 Entire Agreement and Modification. All previous communications between the parties hereto, either verbal or written, with reference to the subject matter of this Agreement are hereby abrogated. No amendment, modification or waiver of, or consent with respect to any provision of this Agreement shall be effective unless the same shall be in writing and signed by both parties and then any such amendment, modification, waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

16.2 Savings Clause. If any provision of this Agreement shall be found invalid or unenforceable, in whole or in part, by a court of competent jurisdiction, then such provision shall be deemed to be modified or restricted to the extent and in a manner necessary to render the same valid and enforceable, or if that is not possible, such provision shall be stricken and deleted from this Agreement, as the case may require, and this Agreement shall then be construed and enforced to the maximum extent permitted by law and with the purpose to achieve the fundamental intent of the parties.

16.3 Waiver. Any waiver at any time by either party of its rights with respect to a default under this Agreement, or with respect to any other matters arising in connection with this Agreement, shall be in writing and shall not be deemed a waiver with respect to any subsequent default or other matter.

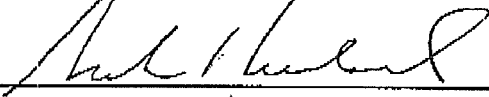
16.4 Choice of Laws. This Agreement shall be construed and interpreted in accordance with the laws of the State of South Dakota and excluding any choice of law rules which may direct the application of laws of another jurisdiction.

16.5 Subject to Regulation. This Agreement, along with the attached Exhibit which are made a part of this Agreement, shall be filed with and is subject to the approval of the South Dakota Public Utilities Commission, and to all applicable rules, regulations, and orders of the same.

16.6 Agreement Drafted Jointly. The Parties agree that both parties shared equally in the drafting of the Agreement and/or had full opportunity to provide suggestions and/or language that reflects the intent of the Parties.

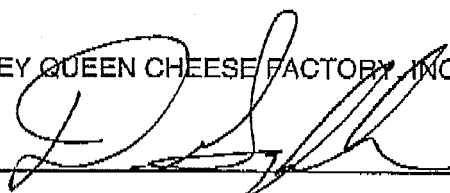
WITNESS WHEREOF, the parties hereto have caused this Agreement to become effective as of the date set forth in the first paragraph.

OTTER TAIL POWER COMPANY

By: 
3-25-05

Its: V.P. CUSTOMER SERVICE

VALLEY QUEEN CHEESE FACTORY, INC.

By: 

Its: CEO

EXHIBIT A

DETERMINING COST OF ALTERNATIVE FUELS

COST FACTORS. The factors used to determine whether the cost of alternative fuel is lower than electric service under the Agreement are:

A. Btu Conversion Factors

Electricity – 3413 Btu/kWh and 100% annual efficiency

#2 Fuel Oil – 140,000 Btu/gallon and 80% overall annual efficiency

Natural Gas – 1,000,000 Btu/MCF and 80% overall annual efficiency

B. Total Cost of Electricity

The Total Cost of Electricity is the sum of the energy charge in \$/kWh, plus the fixed charge based on 4,800,000 kWh/yr., which is \$12,000 divided by 4,800,000 kWh, or \$.0025/kWh.

The formula for the Total Cost of Electricity shall be:

$$\frac{\text{Energy Charge (\$/kWh)} + \text{Fixed Chare (\$/kWh)}}{\text{Btu/kWh} \times \text{Efficiency}}$$

C. Cost of Alternate Fuel

The cost of the Customer's existing alternate fuel is the delivered cost of natural gas to the Customer's premises in Milbank, South Dakota.

The formula for the Cost of Natural Gas shall be:

$$\frac{\$/\text{Btu} \times \text{Delivered Natural Gas Cost (\$/MCF)}}{\text{Btu/MCF} \times \text{Efficiency}}$$

Fergus Falls, Minnesota
ELECTRIC RATE SCHEDULE

1st Rev. Sheet No. 50.7-Super. 39
Canceling 1st Rev. Sheet No. 39
Supersedes Rate Designation C-02S
Rate Designation I-06S, Page 1 of 1

**BULK INTERRUPTIBLE SERVICE
APPLICATION AND PRICING GUIDELINES**

Rate Zones 1 and 9 Code 42-680

APPLICATION OF SCHEDULE: This service will be applicable to interruptible loads of 750 kW or larger by signed contract only.

CONTRACT PERIOD AND FUTURE RESPONSIBILITIES: Contracts will be for a maximum period of five years, renewable only at the Company's option. The customer will be responsible for all energy supply after the contract period. The Company will not guarantee any energy supply to replace the bulk interruptible service after the contract expires.

ENERGY RATE DETERMINATION: An energy rate will be negotiated separately with each customer in order to maximize the margin. The minimum energy rate that will be accepted is the energy cost of service plus a margin of \$0.002 per kWh.

FIXED CHARGE DETERMINATION: A monthly fixed charge will be established to recover Otter Tail's investment related costs. This charge will be determined based on a monthly rate of 1.5% (18% annually) applied to the total installed cost of all Otter Tail supplied equipment.

ENERGY ESCALATION: A maximum energy escalation rate of 4% per six-month period may be established. The actual escalation rate will be determined by the competitive price conditions, contract language and negotiations with the customer.

MINIMUMS: The fixed charge will constitute the minimum payment. In addition, the customer must agree to utilize electricity as long as the total cost of the electricity offered under this rate is competitive with the customer's existing alternate fuel. The factors required to determine the total cost of electricity to the customer and the energy conversion factors used to determine cost competitiveness will be specified in the contract.

OTHER PROVISIONS: Customers will be responsible for backup service when supply of bulk energy is interrupted.

Company will control the interruptions.

Company will not be liable for any loss or damage
to customer due to interruptions.

REGULATIONS: General Rules and Regulations govern use under this contract.

SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION
Approved: October 30, 1987
Docket No. F-3691

EFFECTIVE for services rendered on
and after November 1, 1987, in SD

APPROVED: Jay D. Myster
Corporate Secretary