



November 18, 2005

Ms. Heather K. Forney, Acting Executive Director
South Dakota Public Utilities Commission
State Capitol-500 East Capitol Street
Pierre, SD 57501-5070

Subject: In the Matter of an amendment to the Controlled Service-Interruptible Load Tariff
for Otter Tail Corporation, d/b/a Otter Tail Power Company.

Dear Ms. Forney:

Enclosed is a miscellaneous filing, of an updated amendment to the Controlled Service-Interruptible Load Tariff.

In this filing, Otter Tail is proposing to remove the three-year "installation credit" in the Controlled Service- Less than 80 kw Capacity Tariff. The credit was designed to encourage customers to install dual fuel along with their alternate fuel systems. The cost of fuel in 1983, constituted a necessity to offer this credit to spark the sales of off peak systems. This is further discussed in the petition and in Exhibits 1 and 2.

The date of this filing is November 18, 2005. The proposed effective date, with Commission approval, will be the date January 1, 2006.

Pursuant to South Dakota Codified Laws Section 49-34A-10 and Administrative Rules of South Dakota ("ARSD") Part 20:10:13:12, enclosed for filing please find an original and 10 copies of Otter Tail Corporation, d/b/a Otter Tail Power Company., Petition for approval of an amendment to the Controlled Service-Interruptible Load Tariff.

An electronic copy of the Petition is being sent to you at heather.forney@state.sd.us.

If you have any questions with respect to this filing, please contact me at (218) 739-8896 or Mr. Bruce Gerhardson, Associate General Counsel, Otter Tail Power Company at (218) 998-7108.

Very truly yours,

A handwritten signature in dark ink, appearing to read "Dave Ross".

Dave Ross
Tariff Specialist

Enclosures

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

**In the Matter of Otter Tail Power
Company's Request for Approval to
Amend Its Controlled Service –
Interruptible Load Tariff**

Docket No. _____

APPLICATION OF OTTER TAIL POWER COMPANY

I. INTRODUCTION.

Otter Tail Corporation, d/b/a Otter Tail Power Company ("Otter Tail"), hereby applies to the South Dakota Public Utilities Commission ("Commission") for approval of an amendment to its Controlled Service-Interruptible Load Tariff, Rate Designation I-02S ("I-02S"). The Controlled Service Tariff has two rates, which are 1) the Controlled Service-with credit, rate code 180 ("180 rate") and 2) the Controlled Service-without credit, rate code 190 ("190 rate").

Otter Tail requests approval to amend I-02S to close only the 180 rate in the tariff to new customers, effective no later than January 1, 2006. The 180 rate provides an "installation credit," i.e., a reduced rate for three years, in order to attract customers by helping them meet their installation payback requirements. The 180 rate has been in effect since 1983. Otter Tail believes this credit is no longer required because recent price increases in alternative fuels eliminate the need for an incentive for customers to install electric controlled service equipment.

This application provides the background history of the Controlled Service Tariff, recent customer interest, and a summary of our implementation plan.

II. GENERAL FILING INFORMATION.

A. Name, address, and telephone number of utility making the filing.

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 attorney for Otter Tail.

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. Title of utility employee responsible for filing.

David Ross
Tariff Specialist, Regulatory Services
Otter Tail Power Company
215 South Cascade Street
P.O. Box 496
Fergus Falls, MN 56538-0496
(218) 739-8896

D. The date of filing and the date changes will take effect.

This petition is being filed on November 18, 2005. Otter Tail proposes to close the 180 rate to new customers, effective on or before January 1, 2006.

E. Statute controlling schedule for processing the filing.

ARSD Part 20:10:13:15 requires a 30-day notice to the Commission of a proposed change in a utilities tariff schedule, after which time the proposed changes take 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.

III. BACKGROUND OF ISSUE.

On June 24, 1983 Otter Tail received Commission approval for revisions in the Controlled Service Rate, Rate Designation R-96S, in Docket F-3418. Approval was granted for an addition of an installation credit, 180 rate- (rates shown in the parenthesis), which amounted to the following:

Nov.-April

First 500 kwh - 3.631 cents/kwh

Next 5000 kwh - 3.300 cents/kwh (less .4 cents/kwh for the first 3 years)

Excess kwh - 3.000 cents/kwh (less .7 cents/kwh for the first 3 years)

May – Oct.

First 500 kwh - 3.631 cents/kwh

Next 1500 kwh - 3.15 cents/kwh (less .4 cents/kwh for first 3 years)

Excess kwh - 2.850 cents/kwh (less .7 cents/kwh for the first 3 years)

On July 17, 1987, in Docket No. F-3687 approval was granted for revisions in the Controlled Service Rate. The block structure was changed to the block structure similar to the current tariff on file with the Commission, but the installation credit was left in place.

The installation credit was only applicable for the first 3 years of service. Part of the “rationale” at the time that the rate change was initiated, in 1983 was that, “Even though advertising efforts have been used to add alternate fuel customers, current savings are not

sufficient to encourage customers to act. Therefore, an installation credit must be given to all new customers installing an alternate fuel system. This credit is designed to get customers near the three-year payback range for their alternate fuel systems considering current prices for backup fuels and installation costs”.

Please see Exhibit 1 for further explanations on the original filing¹ as to why Otter Tail believed the installation credit was needed at that time.

IV. RECENT CUSTOMER INTEREST

Over the past few years, we have seen an increase of the number of customers who are going on the Controlled Tariff, and who by default qualify for the installation credit on the rate, 180 rate. The increase of customers going on our controlled rates during the last year is being driven by alternate fuel prices. In October of 2001, we had 62 customers, who were on the rate, Controlled Tariff-with credit (which is tracked by the meter installations). As of the end of October in 2005, we have 84 customers on this rate. We have also filed to remove the 180 rate in North Dakota, where we went from 375 customers on the 180 rate in October of 2001 to 501 customers in October of 2005.

Also attached as Exhibit 2, is a chart of break-even points for alternate heating sources². One example would be a fuel oil comparison—using the current 180 rate of 2.9 cents/kwh and comparing it to a 70% efficient furnace the break-even point is 83 cents per gallon. An internally

¹ Reasoning for application of installation credits. Pages 12 & 13 from the “Pricing Changes For The Controlled Service; A General Overview”, which was an attachment to the to the miscellaneous rate filing, Docket No. F-3418-Revisions in the Controlled Service Rate, which was approved by the SD PUC on June 20, 1983. The attachment helped to justify the need for the “installation credit”.

² – Fuel Price break-even points, from Otter Tail’s “Marketing Planning Guide” that is sent to contractors and employees annually.

conducted survey of area alternate fuel prices showed that in October, the average price for #2 fuel oil in South Dakota is at \$2.91 per gallon. Otter Tail's 190 rate (without credit) is 3.3 cents/kwh, which would have a break-even point of 95 cents per gallon. It is clear that the installation credit is not a driving factor in the increased number of dual heating installations. It is being driven by the comparative costs, and the savings of off-peak electric heating over alternate heating sources.

Since the break-even point of off-peak electricity is considerably lower than the current price of alternate fuels, the payback period for installing an electric-portion of a dual fuel heating system is rather short, even without the "installation credit." For example, a common application is the installation of an off-peak electric plenum heater in an existing forced-air fuel oil furnace. The average price for this installation is approximately \$2,500. Assuming the customer used 870 gallons of fuel oil last year, with a 70% efficient furnace (equivalent to 24,981 kwh's), this would cost \$2,531.70 this year if costs remained at \$2.91 per gallon. After installing the electric plenum heater, and assuming the customer still has to use the fuel oil for 10% of the time, the cost would be as follows:

Fuel Oil	80 gallons @ \$2.91	\$232.80
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Electric Heating (190 rate-without credit)		
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	22,483 kwh's	\$762.94
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The total cost to heat this residence would be \$995.74, compared to \$2,531.70 for fuel oil alone, which results in a savings of \$1,535.96 per year. The payback on this installation would be recovered in 1.63 years, on the 190 rate-without credit. Because the payback period is much shorter than the time period of the installation credit, the installation credit (the 180 rate) is no

longer required, as this credit is no longer the deciding factor for selecting service on the Controlled Service Tariff.

V. REQUESTED AMENDMENT

For the reasons explained, Otter Tail requests approval to amend its I-02S tariff to close the credit, designated as rate code 180, to new customers, effective on or before January 1, 2006. A red-line version of the proposed amended tariff is attached for reference.

VI. PROPOSED IMPLEMENTATION PLAN

The implementation of the rate change would take place no later than January 1, 2006. Any customer who is on the 180 rate prior to the implementation date would be “grandfathered” in and would remain on the 180 rate for the remaining balance of their three-year installation credit period.

In the case where a customer currently on the 180 rate moves out of his/her current address or premises, the credit would not carry over to the moving customer's new address/premises nor would it apply to the new customer moving into old address/premises, as the 180 rate would be a closed rate. The new customer would go on the 190 rate (without a credit).

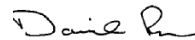
Three years after the approved effective date closing the 180 rate, Otter Tail would provide the Commission with a compliance filing that would remove the 180 rate from the tariff. At that time, all customers who were on the 180 rate would have exhausted the installation credit and would be served on the 190 rate, or any other applicable tariff for which the customer qualifies.

VII. CONCLUSION.

For the foregoing reasons, Otter Tail respectfully requests approval of the amended tariff, Rate Designation I02S, to close the 180 rate portion of that tariff.

Dated: November 18, 2005

Respectfully submitted,



By: _____

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Exhibit 1

Because additional off-peak capacity remains available, average unit costs remain relatively high. At the same time, volume levels remain relatively low at the current price. The result of the low volume and the reduction in volume growth for the alternate fuel service has resulted in inadequate returns on the existing investment.

Reduction in alternate fuel sales growth, and the subsequent reduction in total off-peak sales, are the result of two factors. Those factors are:

1. An increase of 80% in the price for alternate fuel electricity over the past three years, during which time backup fuel prices (primarily fuel oil) increased by only 30%, and
2. An increase of approximately 20% in the installation costs of alternate fuel systems over the past three years.

Those factors have caused the customer payback period for installation of an alternate fuel system to extend well beyond the desirable three-year range.

A drop in fuel oil prices over the past four months is another factor in the stalling of alternate fuel sales growth. This trend, if continued, will further retard alternate fuel sales. At current prices, already deficient earnings would fall even lower as unit costs are pushed ever higher.

A solution to this problem appears unlikely as long as current pricing methods do not permit prices to be adjusted quickly in order to compensate for changes in backup fuel prices or anticipated electricity costs. This inflexibility in pricing has resulted in a greatly reduced ability to compete in the dynamic alternate fuel market, together with the inability to earn a reasonable return either now or in the future.

Proposal

It has been demonstrated that sales growth for the alternate fuel

Exhibit 1-
PG 2 of 2

service--once the "star" of the load management program--has stalled. This has happened in spite of the existence of off-peak energy on the electrical system. Increased alternate fuel sales are needed to utilize existing facilities more completely and thereby reduce overall costs. However, the inflexibility of the current pricing system makes it all but impossible for price adjustments to be made in response to changing prices in fuels such as gas or fuel oil.

It is our belief that a solution to the problem can be accomplished through implementation of the following proposals.

1. An installation credit must be given to customers who have used the system for less than three years or who install new alternate fuel systems.

Rationale. Even though advertising efforts have been used to add alternate fuel customers, current savings are not sufficient to encourage customers to act. Therefore, an installation credit must be given to all new customers installing an alternate fuel system. A credit averaging 0.50 cents per kWh will be given to all new customers for the first three years of service, and to all existing customers who have less than three years of service. This credit is designed to get customers near the three-year payback range for their alternate fuel systems considering current prices for backup fuels and installation costs.

Customers who have used the service more than three years will not be eligible for the installation credit. The current price remains competitive with backup fuels when the cost of installation is not considered. It can therefore be assumed that customers who have been on the service for three years or more have now realized their payback. Fairness dictates, however, that the reduction be given to all new customers and to present customers who have been on the service for less than three years. Many members of the latter group have not yet realized a payback on their alternate fuel system.

2. The installation credit must be established to encourage greatest use during times when the load--and therefore, the system costs--are lowest.

South Dakota

Fuel price break-even points

Propane			91,800 Btu/gallon		
			Furnace efficiency		
	Otter Tail Power Company rates	Price/kwh	60%	70%	85%
170	Dual fuel> 80 kw	\$ 0.024	\$ 0.39	\$ 0.45	\$ 0.55
180	Dual fuel< 80 kw (first three years)	\$ 0.029	\$ 0.47	\$ 0.55	\$ 0.66
190	Dual fuel< 80 kw (after three years)	\$ 0.033	\$ 0.53	\$ 0.62	\$ 0.75
191	Off-peak water heating	\$ 0.03485	\$ 0.56	\$ 0.66	\$ 0.80
197	Deferred load	\$ 0.03369	\$ 0.54	\$ 0.63	\$ 0.77
301	Fixed time of delivery 11 pm - 7 am < 100 kw	\$ 0.029	\$ 0.47	\$ 0.55	\$ 0.66
302	Fixed time of delivery 11 pm - 7 am > 100 kw	\$ 0.025	\$ 0.40	\$ 0.47	\$ 0.57
121	Average residential uncontrolled rate	\$ 0.0638	\$ 1.03	\$ 1.20	\$ 1.46

Natural gas			1,000,000 Btu/ MCF		
			Furnace efficiency		
	Otter Tail Power Company rates	Price/kwh	60%	70%	85%
170	Dual fuel> 80 kw	\$ 0.024	\$ 4.22	\$ 4.92	\$ 5.98
180	Dual fuel< 80 kw (first three years)	\$ 0.029	\$ 5.10	\$ 5.95	\$ 7.22
190	Dual fuel< 80 kw (after three years)	\$ 0.033	\$ 5.80	\$ 6.77	\$ 8.22
191	Off-peak water heating	\$ 0.03485	\$ 6.13	\$ 7.15	\$ 8.68
197	Deferred load	\$ 0.03369	\$ 5.92	\$ 6.91	\$ 8.39
301	Fixed time of delivery 11 pm - 7 am < 100 kw	\$ 0.029	\$ 5.10	\$ 5.95	\$ 7.22
302	Fixed time of delivery 11 pm - 7 am > 100 kw	\$ 0.025	\$ 4.39	\$ 5.13	\$ 6.23
121	Average residential uncontrolled rate	\$ 0.0638	\$11.22	\$13.09	\$15.86

Fuel oil			140,000 Btu/gallon		
			Furnace efficiency		
	Otter Tail Power Company rates	Price/kwh	60%	70%	80%
170	Dual fuel> 80 kw	\$ 0.024	\$ 0.59	\$ 0.69	\$ 0.79
180	Dual fuel< 80 kw (first three years)	\$ 0.029	\$ 0.71	\$ 0.83	\$ 0.95
190	Dual fuel< 80 kw (after three years)	\$ 0.033	\$ 0.81	\$ 0.95	\$ 1.08
191	Off-peak water heating	\$ 0.03485	\$ 0.86	\$ 1.00	\$ 1.14
197	Deferred load	\$ 0.03369	\$ 0.83	\$ 0.97	\$ 1.11
301	Fixed time of delivery 11 pm - 7 am < 100 kw	\$ 0.029	\$ 0.71	\$ 0.83	\$ 0.95
302	Fixed time of delivery 11 pm - 7 am > 100 kw	\$ 0.025	\$ 0.62	\$ 0.72	\$ 0.82
121	Average residential uncontrolled rate	\$ 0.0638	\$ 1.57	\$ 1.83	\$ 2.09

Geothermal heat pumps are more than 300 percent efficient. That means the system creates three units of heat for each unit of energy it uses. To compare fossil fuel prices to those of a geothermal heat pump, divide the fossil fuel price by three.

CONTROLLED SERVICE

Less Than 80 kW Capacity
Rate Zones 1 & 9

Controlled Service -- With Credit- Closed to New Customers	42-180
Controlled Service -- Without Credit	42-190
Penalty	42-199

APPLICATION OF SCHEDULE: This rate schedule is applicable for residential or commercial service to any approved permanently connected interruptible load or loads that can be served under the limited conditions provided; such loads are primarily the electric heating portion of alternate fuel heating systems. Domestic electric water heating and/or other permanently connected approved loads may be served under the provisions of this rate schedule. Electric fans, pumps or associated equipment used in the distribution of heat shall be wired for service through the customer's residential, farm, general service, or large general service meter unless approved by Otter Tail Power Company.

Alternate fuel energy heating sources, when service to space heating equipment on this rate is curtailed, cannot be electric except for approved supplemental units on the main use meter.

CONTROL CRITERIA: Interruptible loads, such as alternate fuel--0 to 24 hours service per day and 10 or more hours service to other approved deferred loads.

RATE: Customer Charge \$1.75 - plus - Energy:

November-April =

First 5000	kWh - 3.300¢ per kWh (less .4¢ per kWh for first three years- closed)
Excess	kWh - 3.000¢ per kWh (less .7¢ per kWh for first three years- closed)

May-October =

First 1500	kWh - 3.150¢ per kWh (less .4¢ per kWh for first three years- closed)
Excess	kWh - 2.850¢ per kWh (less .7¢ per kWh for first three years- closed)

Penalty: All kWh - 11.500¢ per kWh in addition to the off-peak charge.

Penalty periods are defined as periods when the Company's control equipment has operated to provide a switching signal to switch off customer's controlled service loads during winter or summer peaking conditions. Penalty usage will be recorded on the peak register, and the total register of the dual register meters. Installation of a dual register meter will be at the option of the Company.

FUEL ADJUSTMENT CLAUSE: Does not apply.

CONTROLLED SERVICE (Continued)

MONTHLY MINIMUM CHARGE: Customer Charge \$1.75

FIRST THREE YEARS: (~~Closed to New Customers~~). Three years following the date service is first supplied on this rate.

EQUIPMENT SUPPLIED: Otter Tail will supply and maintain the necessary metering and control equipment. Wiring by the customer shall be such that the meter and associated controlling devices are separate and located adjacent to each other. For large controlled loads, the customer's controllable load interrupting device may, with Otter Tail's approval, be located inside the building adjacent to the customer's main disconnects.

OTHER PROVISIONS:

1. Otter Tail Power Company recommends that the installed capacity of electric space heating equipment be sufficient to heat the structure or specified area during normal winter weather to permit maximum utilization of the rate for the benefit of the customer.
2. If the installed capacity for electric space heating is insufficient to provide adequate heating down to outdoor design temperature during normal winter months, the customer must incorporate his or her own outdoor thermostat in conjunction with Otter Tail's control equipment.
3. The Company reserves the right to substitute central control for time-temperature control and has the right to control loads on this rate during emergencies.
4. The Company shall not be liable for loss or damage caused by normal interruption of service.

PAYMENT: Bills will be due ten days after the billing date; net payment will be accepted through the 21st day. On the 22nd day after billing an account with an unpaid balance of \$5.00 or more (after allowance for any EMP credit) will be considered late and a late payment charge will apply. The late payment charge shall be 1.5% of the unpaid balance plus a collection charge of \$2.00, except that a customer with at least 12 successive payments of regular bills prior to the 22nd day after the billing date shall not be billed a late payment charge. Where a customer is disconnected for nonpayment of a bill, a reconnection charge will be made; the charge will be the Customer Connection Charge as provided for in Rate M-61S, or any amendments or superseding provisions applicable thereto, plus direct labor costs for reconnection outside of regular business hours.

A \$10.00 charge will be made subsequent to a customer's check being returned from the bank because of nonsufficient funds.

CONTRACT PERIOD: Not less than one year, unless otherwise authorized by Otter Tail Power Company.

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

ADJUSTMENT FOR MUNICIPAL PAYMENTS: Bills under this rate schedule may be subject to adjustment for certain payments to municipalities as provided in the General Rules and Regulations.