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VIA ELECTRONIC FILING

June 26, 2007

Ms. Patricia Van Gerpen
Executive Director
South Dakota Public Utilities Commission
Capitol Building, 1st floor
500 East Capitol Avenue
Pierre, SD 57501-5070

RE: Otter Tail Power Company's First Annual DSM and Renewables Programs Report pursuant to July 21, 2006, Order in Case No. EL05-022

Dear Ms. Van Gerpen:

Otter Tail Corporation d/b/a Otter Tail Power Company hereby submits its first Annual Report on DSM and Renewables Programs. The requirement for this report was included in the Commission's Order dated July 21, 2006, in the Big Stone II Energy Conversion Facility Permitting case referenced above.

Please contact me at (218) 739-8289 or bbrutlag@otpco.com if you have any questions regarding this filing.

Yours very truly,

/S/ BERNADEEN BRUTLAG
Bernadeen Brutlag
Manager, Regulatory Services

Enclosure

OTTER TAIL POWER COMPANY

FIRST ANNUAL REPORT ON DSM AND RENEWABLE PROGRAMS

June 26, 2007

I. Introduction

Otter Tail Corporation d/b/a Otter Tail Power Company ("Otter Tail") submits its First Annual Report on DSM and Renewable Programs, pursuant to the Final Decision and Order dated July 21, 2006, in Case No. EL05-022. Ordering paragraph no. 4 set forth the following requirement:

> 4. Beginning on July 1, 2007, Otter Tail Power and Montana-Dakota Utilities shall file annually a detailed report of their ongoing DSM and renewable programs and a forecast of their near- and long-term initiatives to optimize benefits related to demand-side management and renewable energy programs.

The following is Otter Tail's report in compliance with that ordering provision.

II. Demand-Side Management (DSM) Resources

Otter Tail Power Company uses a fully integrated capacity expansion model to conduct detailed computer modeling of Otter Tail's load, generation resources, (DSM) and conservation programs, regulatory requirements, and financial structure so that an optimal long-range plan is developed to meet customer needs. Otter Tail's current resource plan, developed in 2005, identifies the addition of up to 67 MW of DSM and conservation over the 15-year planning period. Because of timing, the most recent resource plan does not include the consideration of the Company's recently filed proposal with the Commission for conservation programs in South Dakota. The plan also does not include consideration of new conservation initiatives recently passed by the latest Minnesota legislature.

DSM is a broad category that includes load management (direct load control and interruptible programs) as well as conservation and energy efficiency programs. We discuss these areas in two distinct categories for this filing.

A. Load Management

Direct Load Control - DSM program activities that can interrupt consumer load at the time of annual peak load by direct control of the utility system operator by interrupting power supply to individual appliances or equipment on consumer premises. This type of control usually involves residential consumers, but it can involve larger customers as well.

Interruptible Load - DSM program activities that, in accordance with contractual arrangements, can interrupt consumer load at times of seasonal peak load by direct control of the utility system operator or by action of the consumer at the direct request of the system operator. This type of control usually involves commercial and industrial consumers, but it can involve residential customers as well.

Other Load Management - DSM programs other than direct load control and interruptible load that limit or shift peak load from on-peak to off-peak time periods. Other Load Management includes technologies that primarily shift all or part of a load from one time-of-day to another and secondarily may have an impact on energy consumption. Examples include space heating and water heating storage systems, cool storage systems, and load limiting devices in energy management systems. This category also includes programs that aggressively promote TOU (time-of-use) rates and other innovative rates such as real time pricing. These rates are intended to reduce consumer bills and shift hours of operation of equipment from on-peak to off-peak periods through the application of time-differentiated rates.

In all cases savings are typically reported as kilowatt or megawatt savings.

B. Energy Efficiency and Conservation

Energy conservation and efficient programs are aimed at reducing the energy used by specific end-use devices and systems, typically without affecting the services provided. These programs reduce overall electricity consumption (reported in kilowatt-hours (kWh) or megawatt-hours (MWh), often without explicit consideration for the timing of program-induced savings. Such savings are generally achieved by substituting technologically more advanced equipment to produce the same level of end-use services (e.g., lighting, heating, motor drive) with less electricity. Examples include energy saving appliances and lighting programs, high-efficiency heating, ventilating and air conditioning (HVAC) systems or control modifications, efficient building design, advanced electric motor drives, and heat recovery systems.

C. Otter Tail's DSM Portfolio

DSM has been part of Otter Tail's energy plan since the 1940s when we encouraged customers to put timers on their water heaters. Today nearly 40 percent of our customers participate in some form of DSM program. Otter Tail operates a diverse DSM portfolio in all three states. In 2006, Otter Tail added 34 MW of new controlled load. From 1999 through 2006 we have added 159 MW of new controlled load capability system-wide. The following two parts of Table 1 summarize our achievements for the past eight years.

Demand Side Management - MN, ND, SD
Otter Tail Power Company
1999 – 2006

Additional Controlled Load (kw) by Customer Class	1999	2000	2001	2002	2003	2004	2005	2006
Residential	4,792	6,750	9,017	7,975	10,290	11,689	13,268	18,633
Commercial	4,932	6,183	11,457	9,666	12,560	6,838	9,838	15,476
Total kW	9,724	12,933	20,474	17,641	22,850	18,527	23,106	34,109

Additional Controlled Load (kw) by Load Type	1999	2000	2001	2002	2003	2004	2005	2006
Dual Fuel	5,370	6,571	15,087	11,939	13,795	9,898	14,482	21,533
Heat Storage	1,156	2,845	1,922	2,891	4,658	3,992	3,776	7,120
Demand Control	1,789	2,023	2,616	2,008	2,556	2,356	2,525	2,240
Water Heating	1,409	1,494	850	802	1,841	2,281	2,323	3,217
Total kW	9,724	12,933	20,474	17,641	22,850	18,527	23,106	34,109

Table 1

Keep in mind that these numbers represent potential peak reduction, which is different than actual peak reduction. These charts reflect the installed load reduction capability, as opposed to the actual peak reduction achieved by participants, during the time of annual system peak load.

Conservation and energy efficiency have been a part of our portfolio since the 1980s to some extent. The conservation improvement program in Minnesota became much more aggressive in the early 1990s. Today in Minnesota we are required to spend 1.5 percent of our Minnesota retail gross operating revenues on programs for customers. The Minnesota Omnibus Energy Bill recently passed also includes a requirement to achieve energy savings of 1.5 percent of annual retail kilowatt-hour sales, based on a rolling three-year weather-normalized average. Our Minnesota portfolio has approximately 20 programs to improve efficiency of lighting, motors, water heating, refrigeration, cooking, heating, cooling, and process improvements.

Since 1992 we have helped our Minnesota customers conserve more than one million cumulative megawatt-hours of electricity. That's roughly equivalent to the amount of electricity that 90,000 average homes would have used in a year. Annual cumulative kWh saved as a percentage of 2006 mwh sales is 7.95 percent since 1992, or averaging approximately 0.64 percent of Minnesota kilowatt-hour sales annually.

In March of 2007, Otter Tail filed with the South Dakota Public Utilities Commission a portfolio of ten conservation and energy efficiency programs covering the majority of the same end uses as our Minnesota portfolio. The budget is less than one percent of annual South Dakota retail revenues and would launch January 1, 2008. We await approval from the South Dakota Commission.

North Dakota has a limited number of conservation and efficiency programs, primarily educational in nature.

CIP Savings and Expenditures -- Minnesota Only Otter Tail Power Company 1992 - 2006						
CIP Year	Annual kWh Saved	Aggregate kWh Saved (based on measure lifetime)	Annual kW Saved	Aggregate kW Saved (based on measure lifetime)	Annual CIP Spending	Aggregate CIP Spending
1992	4,284,548	4,284,548	1,010	1,010	$793,002	$793,002
1993	7,371,451	11,655,999	1,903	2,913	$1,419,873	$2,212,875
1994	9,177,166	20,833,165	2,943	5,856	$1,067,207	$3,280,082
1995	11,970,185	32,803,350	3,434	9,290	$1,603,473	$4,883,555
1996	13,470,907	46,274,257	2,513	11,803	$1,585,598	$6,469,153
1997	17,957,861	63,307,100	2,760	14,442	$1,591,258	$8,060,411
1998	10,175,545	72,558,174	2,373	16,691	$1,521,266	$9,581,677
1999	10,258,589	81,915,611	2,180	18,679	$1,579,010	$11,160,687
2000	13,302,713	94,963,467	2,075	20,711	$1,843,790	$13,004,477
2001	10,533,420	105,316,910	2,244	22,922	$1,918,475	$14,922,952
2002	10,131,511	113,444,953	1,935	24,459	$1,545,358	$16,468,310
2003	13,681,770	122,528,207	2,984	26,354	$1,703,663	$18,171,973
2004	10,991,151	131,082,743	3,555	28,878	$1,783,288	$19,955,261
2005	18,099,987	146,401,910	2,874	30,589	$1,590,411	$21,545,672
2006	14,027,710	157,388,505	3,218	33,050	$1,938,812	$23,484,484
Total	175,434,514	1,204,758,899			$23,484,484	

Table 2

Table 2 above table shows Conservation Improvement Program achieved savings and costs since 1992.

D. Near-term Objectives

As mentioned previously, the Company's long-term objective in our current resource plan identifies the addition of up to 67 MW of DSM and conservation within the next few years. This goal is defined as the Actual Peak Reduction (measured in kilowatts) achieved by consumers that participate in a utility DSM program. It reflects the changes in the demand for electricity resulting from a utility DSM program that is in effect at the same time the utility experiences its annual peak load, as opposed to the installed peak load reduction capability (i.e., Potential Peak Reduction). The DSM program should account for the regular cycling of energy efficient units during the period of annual peak load.

The Company has found that aggressive marketing tactics and goals are required to achieve the actual peak reduction defined in our integrated resource plan. Table 3 below defines our DSM goals for the next two years.

Future DSM and CIP Savings & Budgets Otter Tail Power Company 2007-2008		
Additional Controlled Load (kW) by Customer Class	**2007**	**2008**
Residential	12,309	14,770
Commercial	8,225	10,281
Total kW	20,534	25,051
Additional Conservation Savings by State	**2007**	**2008**
MN - CIP - kWh	12,553,929	12,553,929
SD - EEP - kWh	0	1,325,497
Total Proposed kWh Savings	12,553,929	13,879,426
MN - CIP - kW	3,443	3,443
SD - EEP - kW	0	444
Total Proposed kW Savings	3,443	3,887
Additional Conservation Spending by State	**2007**	**2008**
MN - CIP	$1,777,000	$1,747,000
SD - EEP	$0	$180,700
Total Proposed Spending	$1,777,000	$1,927,700

Table 3

III. Renewable Resources

Otter Tail uses a fully integrated capacity expansion model to conduct detailed computer modeling of Otter Tail's load, generation resources, conservation programs, regulatory requirements, and financial structure so that an optimal long-range plan is developed to meet customer needs. Otter Tail's current resource plan identifies the addition of up to 160 MW of new wind generation within the next few years.

In March 2006, Otter Tail issued a Request for Proposal (RFP) for up to 75 MW of renewable generation as the first step to develop the wind generation identified in the resource plan. After analyzing approximately 45 proposals that were received, final negotiations commenced with some of the developers. In March 2007, Otter Tail announced participation in 60 MW of wind generation in the Langdon Wind Project. Construction commenced in June 2007 and commercial operation is expected in late 2007 or early 2008. Additional discussions are underway with other potential projects.

Typically 9 to 11 percent of the energy delivered to retail customers is derived from renewable resources. In 2006, approximately 8.3 percent was from renewable resources.

This lower-than-typical value was due to the loss of a biomass resource in late summer, and lower than anticipated wind generation.

Otter Tail serves customers in three states: Minnesota, North Dakota, and South Dakota. Each state has varying policies regarding renewable energy and Otter Tail strives to meet regulatory requirements while maintaining economical and reliable electricity to customers in all three states. The states' mandates, policies, and/or objectives regarding renewable generation in Otter Tail's service territory are summarized in the following bulleted list.

Minnesota: A renewable energy objective has been established to have 7 percent of retail electric sales come from qualifying renewable resources by 2010, and a new renewable energy standard requires 12 percent by 2012, 17 percent by 2016, 20 percent by 2020, and 25 percent by 2025.

North Dakota: A state renewable and recycled energy objective has been established to have 10 percent of all electricity sold at retail within the state by the year 2015 be obtained from renewable energy and recycled energy sources.

Through the Tail*Winds* program, Otter Tail offers retail customers in all three state jurisdictions the opportunity to purchase wind-generated energy in 100-kilowatt-hour blocks, giving them the flexibility to buy enough wind power for their entire home or business or just a few appliances.

With the existing renewable resources and plans for additional development, Otter Tail Power expects by 2012 or earlier to have at least 15 percent of its total energy requirements for the total three-state system being provided by renewable resources. The recent Minnesota legislative session increased the renewables requirement for Otter Tail to serve its Minnesota customers. Those requirements will be addressed in the development of the Company's next resource plan, but are not expected to impact the plan prior to about 2015. The current resource plan is in compliance with the new requirements until that time period.

Existing Renewable Resources

A summary of 2006 existing renewable resources is shown in Table 4. Otter Tail owns and purchases hydro, wind, and biomass energy. In 2006, Otter Tail utilized 253,215 MWh of hydroelectric power, 68,383 MWh of wind power, and 21,554 MWh of biomass to serve retail customer loads in all three states. Some of the resources are fully dedicated to Otter Tail, and others are customer owned used to serve some or all the customer's load, with Otter Tail only receiving the surplus. Resources used to either partially or fully serve the customer's own load are identified in the table.

Existing Renewable Resources						
Name	Technology	Location	Ownership	Rating (kW)	2006 MWh to OTP	Self-Serve
Hendricks Wind	Wind	Hendricks, MN	Purchase	900	2,605	No
Borderline Wind	Wind	Hendricks, MN	Purchase	900	2,465	No
EMS Wind	Wind	Gary, SD	Purchase	90	200	No
Lac Qui Parle Valley School	Wind	Madison, MN	Purchase	225	24	Yes
Trautman Wind	Wind	Jamestown, ND	Purchase	50	0	Yes
University of Minnesota – Morris	Wind	Morris, MN	Purchase	1,650	2,156	Yes
Ainsworth Co-Generation	Biomass	Bemidji, MN	Purchase	6,250	20,389	No
Big Stone	Biomass	Big Stone, SD	Own	256,025	1,165	No
FPL Energy ND Wind II	Wind	Edgeley, ND	Purchase	21,000	60,933	No
Spirit Lake Casino	Wind	Devils Lake, ND	Purchase	100	0	Yes
OTP Hydros	Hydro	MN	Own	4,294	18, 363	No
Manitoba Hydro Electric Board	Hydro	Manitoba	Purchase	50,000	204,981	No
Western Area Power Administration	Hydro	ND and SD	Purchase	5,566	29,870	No
ADM Enderlin	Biomass	Enderlin, ND	Purchase	9,000	0	Yes
Minnesota West Community and Technical College	Wind	Canby, MN	Purchase	35	0	Yes

Table 4

Renewable Resource Projects Under Development

A number of renewable resource projects are in various stages of development or investigation. Table 5 identifies various projects that are under discussion and have moved beyond the initial contact phase. Some of these projects will be developed and some will not.

Renewable Resource Projects Under Development			
Facility	Rating (kW)	Location	Status
Wind	1,000	Pembina County, ND	PPA under development
Wind	660	Rolette County, ND	PPA signed, waiting for turbine installation
Wind	< 2,500	Stevens County, MN	PPA under development
Wind	2,500	Otter Tail County, MN	Verbal agreement had been reached, but township siting raised issues. Project currently stalled but may become active in 2008.
Langdon Wind	60,000	Cavalier County, ND	Construction start June 2007
Wind	< 2,500	Cass County, ND	Under discussion
Wind	< 300	Otter Tail County, MN	Under discussion
Wind	250	Becker County, MN	Under discussion
Wind	Unknown	Wilkin County, MN	Very early discussion phase
Small Hydro	Unknown	Norman County, MN	Very early discussion phase
Biomass	< 4,500	Otter Tail County, MN	Under discussion
Biomass	Unknown	Stevens County, MN	Under discussion
Photovoltaic	Unknown	Stevens County, MN	Under discussion
Wind	Unknown	McIntosh County, ND	Negotiations underway
Wind	<3	Otter Tail County, MN	Under discussion

Table 5