

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

**IN THE MATTER OF THE APPLICATION OF )  
OTTER TAIL CORPORATION D/B/A OTTER )  
TAIL POWER COMPANY FOR AUTHORITY )  
TO INCREASE ELECTRIC RATES )**

**JOINT MOTION FOR )  
APPROVAL OF )  
SETTLEMENT STIPULATION )  
EL08-030 )**

Otter Tail Corporation doing business as Otter Tail Power Company (Otter Tail), and the Staff of South Dakota Public Utilities Commission (Commission Staff), collectively referred to as Parties, hereby file the above-referenced Motion and Settlement Stipulation with the South Dakota Public Utilities Commission (Commission). The Parties propose the Commission adopt the Settlement Stipulation as the settlement and resolution of all issues in this proceeding. In support of this Motion, the Parties submit as follows:

1. This Motion is made pursuant to ARSD 20:10:01:19.
2. The Settlement Stipulation resolves all of the issues in Docket No. EL08-030
3. The Stipulation represents a negotiated settlement of specific issues in this case. The terms of the Settlement Stipulation agreed upon are, to the belief of the Parties, are just, fair, reasonable and consistent with South Dakota law.

For the foregoing reasons, the undersigned parties jointly request the Commission to adopt the attached Settlement Stipulation without modification for the purpose of resolving all issues in Docket No. EL08-030.

Otter Tail Corporation, d/b/a  
Otter Tail Power Company

BY: 

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DATED: May 27, 2009

DATED: June 4, 2009

BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF SOUTH DAKOTA

IN THE MATTER OF THE APPLICATION OF )  
OTTER TAIL CORPORATION D/B/A OTTER ) DOCKET NO. EL08-030  
TAIL POWER COMPANY FOR AUTHORITY )  
TO INCREASE ITS ELECTRIC RATES )

I. SETTLEMENT STIPULATION

On October 31, 2008, Otter Tail Corporation d/b/a Otter Tail Power Company (“OTP”), filed with the Public Utilities Commission (“Commission”) an application to increase rates for electric service to customers in its service territory by \$3,883,399 annually or approximately 15.3% based on OTP’s 2007 test year.

Commission Staff and OTP (jointly the “Parties”) held settlement conferences on March 24, 27 and 30, 2009, in an effort to arrive at a jointly acceptable resolution of this matter. As a result of those sessions, the Parties resolved all issues subject to this proceeding and entered into this Settlement Stipulation (“Stipulation”), which, if accepted and ordered by the Commission, will determine the rates that result from this proceeding.

II. PURPOSE

This Stipulation was prepared and executed by the Parties for the sole purpose of resolving Docket No. EL08-030. The Parties acknowledge they may have differing views that justify the end result, but each Party deems the end result to be just and reasonable. In light of such differences, the Parties agree the resolution of any single issue, whether express or implied by the Stipulation, should not be viewed as precedent setting. In consideration of the mutual promises hereinafter set forth, the Parties agree as follows:

1. Upon execution of the Stipulation, the Parties shall immediately file this Stipulation with the Commission together with a joint motion requesting the Commission issue an order approving this Stipulation in its entirety without condition or modification.
2. This Stipulation includes all terms of the settlement. The Stipulation is filed conditioned on the understanding that, in the event the Commission imposes any changes in or conditions to this Stipulation, this Stipulation may, at the option of either Party, be withdrawn and shall not constitute any part of the record in this proceeding or any other proceeding nor be used for any purpose in this case or in any other.
3. This Stipulation shall become binding upon execution by the Parties, provided however, if this Stipulation is withdrawn in accordance with Paragraph 2 above, it shall be null, void, and privileged. This Stipulation is intended to

relate only to the specific matters referred to therein; neither Party waives any claim or right which it may otherwise have with respect to any matter not expressly provided therein; neither Party shall be deemed to have approved, accepted, agreed or consented to any rate making principle, or any method of cost of service determination, or any method of cost allocation underlying the provisions of this Stipulation, or be either advantaged or prejudiced or bound thereby in any other current or future rate proceeding before the Commission. Neither Party nor representative thereof shall directly or indirectly refer to this Stipulation or that part of any order of the Commission as precedent in any other current or future proceeding before the Commission.

4. The Parties to this proceeding stipulate all prefiled testimony, exhibits, and workpapers be made a part of the record in this proceeding. The Parties understand if this matter had not been settled, the Commission Staff would have filed direct testimony, OTP would have filed rebuttal testimony responding to certain of the positions contained in the testimony of Commission Staff and Commission Staff would have responded to certain of the positions maintained in OTP's rebuttal testimony, and an evidentiary hearing would have been conducted where the witnesses providing testimony would have been subject to examination.
5. It is understood that the Commission Staff enters into this Stipulation for the benefit of all of OTP's South Dakota customers affected by this docket.

### III. ELEMENTS OF SETTLEMENT STIPULATION

#### 1. Revenue Requirement

The Parties agree that OTP's attached rate schedules are designed to produce an ongoing annual increase in base rate levels (excluding sales taxes) of \$2,972,196 or approximately 11.7% annually for retail electric service sales in South Dakota from test year revenues. The Parties agree to an 8.34 % rate of return on rate base.

#### 2. Tariffs

The Parties agree the increase will be allocated to the affected rate classes with the resulting increases as shown on attached Exhibit A.

#### 3. Wholesale Margins

The Parties agree that OTP shall credit 25% of its South Dakota jurisdictional non-asset based wholesale margins to the fuel adjustment clause/energy adjustment rider calculation for its South Dakota ratepayers; the margins will be calculated annually after the close of each calendar year and the 25% will be credited only if the calendar year margin is positive; and the 25% to be

credited will be apportioned and applied equally each month (1/12<sup>th</sup>) over the following 12-month period.

The Parties further agree that the amount of \$920,871 has been included as a credit to the base rate revenue requirement, and such amount represents 85 % of the average of OTP's annual South Dakota jurisdictional asset based wholesale margins between 2005 and 2008; also that in each year subsequent to the final Order in this docket, 85% of OTP's actual annual asset based margins will be calculated after the close of the calendar year, and any increase or decrease as compared to the \$920,871 base-rate credit will be apportioned and applied equally as adjustments (whether as a credit or an expense) to OTP's fuel adjustment clause/energy adjustment rider calculation each month (1/12) over the following 12-month period. It is agreed that passing any change in these margins directly to customers through the fuel adjustment clause/energy adjustment rider, on an annual basis, ensures that neither ratepayers nor the Company are disadvantaged if the margin credited to the base rate revenue requirement in the test year was not-representative of actual future asset based margins; also, it is agreed that by sharing the asset based margins using an 85%/15% mechanism, the Company is motivated to maximize the benefit from these sales.

4. Implementation of Rates

In accordance with authority granted by the Commission's "Order Approving Request For Authority To Use Current Rate Design" dated May 8, 2009, OTP's rates have been increased on an interim basis using current rate design with bills prorated. Usage prior to May 1, 2009, shall be billed at the previous rates whereas usage on and after May 1, 2009, shall be billed at the increased rates. The Parties agree the implementation of final rates, and the transition between interim rates and final rates, shall be as reflected in the request approved by the Commission's May 8, 2009, Order, and specifically that any change in final class and rate allocations and/or rate design will be implemented prospectively, and no change in the amounts charged individual customers between May 1, 2009, and the implementation of final rates will be subject to refund as a result of any change to class allocations or rate design.

This Stipulation is entered into effective this 4<sup>th</sup> day of June, 2009.

Otter Tail Power Company

South Dakota Public Utilities Commission

By: Thomas R. Brause  
Thomas R. Brause  
Vice President, Administration

By: Kara Semmler  
Kara Semmler  
Staff Attorney