Volume 2A

Testimony and Schedules of Witnesses:

Thomas Brause

Policy

Before the South Dakota Public Utilities Commission
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 Rates for Electric Utility
Service in South Dakota

Docket No. EL08-_____
Exhibit___

POLICY

Direct Testimony and Schedules of
THOMAS R. BRAUSE

October 31, 2008

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I. INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Thomas R. Brause; my business address is 215 South Cascade Street, Fergus Falls, Minnesota, 56537.

Q. BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR POSITION?

A. I am employed by Otter Tail Corporation d/b/a Otter Tail Power Company ("Otter Tail Power" or "OTP") as its Vice President Administration. My current duties include providing direction for OTP's Market Planning, Policy and Compliance, Regulatory Services, and Information Technology areas.

Q. PLEASE SUMMARIZE YOUR QUALIFICATIONS AND EXPERIENCE.

A. After 21 years in various Information Technology roles, I became Director Human Resources, Information Technology and Safety in 1999. Since 2004, I have been Vice President Administration. My qualifications and experience are more fully described on Exhibit __ (TRB-1), Schedule 1.

Q. FOR WHOM ARE YOU TESTIFYING?

A. I am testifying on behalf of OTP in support of the application to the South Dakota Public Utilities Commission (the "Commission") for authority to increase rates.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. I provide a description of OTP and a brief update on the status of plans to form a holding company structure ("Holding Company"). I also summarize the revenue needs, and rate design initiatives that OTP is proposing. Lastly, I introduce the other OTP witnesses.

Q. PLEASE SUMMARIZE OTP'S REVENUE REQUEST.

A. We are proposing an overall revenue increase of $3,883,399 (15.30 percent) based on a 2007 Historical Test Year, with known and measurable changes. This proposed increase reflects a return on equity ("ROE") of 11.25 percent and an equity ratio of 53.30 percent, and will result in an overall rate of return on investment of 8.89 percent. With this increase, a typical residential customer using 894 kWh of electricity a month would see an increase of $10.68 a month. Also with this increase, a typical commercial customer using 3,073 kWh of electricity a month would see an increase of $29.39 a month.

Q. HOW IS THE BALANCE OF YOUR TESTIMONY ORGANIZED?

A. Section II provides a description of OTP, including an update on the Company's requests for authority to form a Holding Company legal structure. In Section III, I describe the primary drivers and mitigation efforts that underlie this proposed rate increase. In Section IV, I address our rate design initiatives. In Section V, I introduce the other witnesses.

Q. ARE YOU SPONSORING ANY REQUIRED STATEMENTS?

A. Yes I am sponsoring Statement Q, which is a description of OTP's utility operations and is required by Commission Rules (Sections 20:10:13:101 *et seq*.). This Statement is located in Volume 1:

Q Description of utility operations

Q. WERE THE ATTACHED SCHEDULES PREPARED BY YOU OR UNDER YOUR SUPERVISION?

A. Yes.

II. DESCRIPTION OF OTP

Q. PLEASE BRIEFLY DESCRIBE OTP.

A. OTP is headquartered in Fergus Falls, Minnesota, where it began generating electricity in 1909. OTP provides electricity to 423 communities and to rural areas in northeastern South Dakota, the eastern two-thirds of North Dakota and western Minnesota. Our 50,000 square-mile service territory, shown on Exhibit __(TRB-1), Schedule 2, is roughly the size of Wisconsin. The average population of the communities we serve is approximately 400, and over one-half of the communities we serve have populations of fewer than 200. Only three of our communities have populations exceeding 10,000 (Jamestown, North Dakota (pop. 15,527), Fergus Falls, Minnesota (pop. 13,949) and Bemidji, Minnesota (pop. 13,074)). We operate 11 customer service centers throughout our service territory.

We operate three coal-fired base load generating plants and three peaking plants, one of each in each state where we provide service. We own five hydroelectric stations on the Otter Tail River near Fergus Falls and one on the Mississippi River near Bemidji, Minnesota.

OTP owns a total of 5,291 miles of transmission line. To help provide more reliable service at lower cost in the long term, our electric system is interconnected directly with neighboring suppliers. OTP is a member of the Midwest Reliability Organization ("MRO"), MidContinent Area Power Pool ("MAPP"), the Midwest Independent Transmission System Operator ("MISO") and Midwest Planned Reserve Sharing Group ("MPRSG"). While OTP plans to conclude its membership in MAPP and MRPSG as MISO expands its role, the goal of lowering costs by maintaining interconnection with neighboring suppliers will remain.

Q. HOW MANY CUSTOMERS DOES OTP SERVE?

A. As of year-end 2007, OTP was providing electricity and energy services to 129,311 customers: 11,711 in South Dakota, 56,936 in North Dakota, and 60,664 in Minnesota.

Q. HOW MANY PEOPLE DOES OTP EMPLOY?

A. OTP has 714 employees, including full-time, part-time, and temporary, adjusted for our share of employees at jointly owned plants.

A. OTP'S MISSION

Q. WHAT IS OTP'S MISSION?

A. OTP's mission is:

> To produce and deliver electricity as reliably, economically, and environmentally responsibly as possible to the balanced benefit of customers, shareholders, and employees and to improve the quality of life in the areas in which we do business.

Q. DOES OTP MEASURE ITS SUCCESS IN MEETING THE OBJECTIVES REFLECTED IN THAT MISSION STATEMENT?

A. Yes it does. One way we measure our success is through what we call "Key Performance Indicators" or "KPIs". These KPIs are quantifiable, bellwether components of our performance. These components are: 1) Customer Satisfaction; 2) Service Reliability; 3) Generating Plant Availability; 4) Employee Safety; and 5) Financial Performance. We regularly monitor our performance in each of these areas which provides very good indications of OTP's overall success as an electric utility and whether we are succeeding in our mission.

Q. PLEASE FURTHER EXPLAIN THESE KPI'S.

A. For each KPI, we have objective and concrete measurements of performance. This helps to ensure that we have reliable and quantifiable information from which to judge our performance.

For Customer Satisfaction, we have two types of customer satisfaction surveys, each conducted semi-annually. We have: 1) a "relationship" survey, which is a telephone survey of residential customers in our service territory; and 2) a "transactional" survey, which is a telephone survey of customers who initiated contact with OTP of a transactional nature about any issue other than paying a bill.

For the relationship survey, OTP has historically done extremely well in comparison to the top 29 Investor Owned Utilities ("IOUs"), which serve over 75 percent of all residential customers in the United States. Our second quarter 2008 results continue this trend. OTP's relationship survey score was a significant 7 points higher than the industry average (which was 73 points). The most recent transactional survey conducted with residential, commercial and industrial customers was received in the Spring of 2008. These results indicate that, overall, OTP is providing good service to customers in response to transactions, with nearly 7 in 10 rating its service level "excellent" or "very good."

For Service Reliability, we use the System Average Interruption Duration Index ("SAIDI") – This KPI measures the average minutes of interruption for a customer over the course of a year, or the "minutes per customer per year." OTP's 2007 SAIDI was 65.84 minutes -- 14 minutes lower than our KPI target of 79 minutes.

For Generating Plant Availability, we track our generating plants' Equivalent Availability. This KPI measures the availability of company-run generation plants. Equivalent Availability represents the portion of time that a generating unit is available to operate, including consideration of the lost capacity effects of partial equipment deratings when the unit was available but at less than

the full capacity. This measure is different and more refined than the traditional availability measure that represents the portion of time that a unit is capable of producing energy, regardless of its capacity level. We consistently outperform the industry average on both measures with our steam generating plants.

For Safety, we measure our Occupational Safety and Health Administration ("OSHA") Recordable Incident Rate based on the OSHA 300 Log. Our benchmarks are set using industry data provided by the Edison Electric Institute as well as OTP's own historical safety performance. We are proud to say we have consistently had incident-rate results that are less than one-half the industry average. OTP recently recognized the entire employee group for working more than one million hours without a lost work day.

For Financial Performance, we track our Net Income available for common stock. This KPI is an objective measurement of our financial performance. OTP has a strong record of paying dividends to common stockholders.

Q. HOW ARE THESE KPI'S TRACKED AND COMMUNICATED?

A. KPIs are tracked and evaluated within each respective department; recorded and reported by the Budget/Forecast area; and, evaluated regularly by the department heads and the OTP executive group. Results are reported to all OTP employees after year-end, and periodically during the year, which helps to ensure that all employees are working to help OTP fulfill its mission. Many departments also monitor individual department performance indicators that assist OTP in working toward meeting the KPIs.

Q. OTP ALSO INCLUDES IN ITS MISSION STATEMENT A COMMITMENT TO ENVIRONMENTAL RESPONSIBILITY. PLEASE DISCUSS THAT COMMITMENT.

A. OTP takes environmental stewardship seriously. We have invested millions of dollars in environmental controls and abide by exacting federal and state

environmental regulations. We've reduced sulfur dioxide and nitrogen oxides emissions by more than 25 percent since 1991. We participate in research projects through the University of North Dakota's Energy and Environmental Research Center ("EERC") to help develop cleaner, more efficient energy and environmental technologies. OTP is a partner in the EERC's Plains CO_2 Reduction Partnership, one of seven regional carbon sequestration projects across the country sponsored by the Department of Energy. To save natural resources and lower landfill use we recycle ash byproducts from our power plants for uses such as additives for cement pipe and concrete block and for sandblasting, road surfacing, and roofing shingles. We offer wind as an optional energy source to our customers through our Tail*Winds* program, and we are adding significant new wind generation and other renewables to our resource mix.

Q. HAS OTP ADDED SIGNIFICANT WIND RESOURCES?

A. Yes. We are approaching 180 MWs of wind resources. Major projects include: 40.5 MWs in Purchased Power Agreements ("PPAs"), 40.5 MWs of utility owned generation currently in service, 48 MWs currently under construction with year end 2008 expected completion date, and 49.5 MWs planned for 2009.

B. OTP'S ORGANIZATIONAL STRUCTURE

Q. HOW IS OTP STRUCTURED?

A. OTP is an operating division of Otter Tail Corporation. OTP is not a separate legal entity, but it has been operationally separate since 2001. Otter Tail Corporation also operates several nonutility businesses as separate subsidiaries.

Q. HAS A CHANGE OF OTP'S STRUCTURE BEEN PROPOSED?

A. Yes. On June 3, 2008, OTP filed a request with the Commission for authority to establish the Holding Company structure under which OTP would become a separate subsidiary of a newly formed Holding Company. We have received

authority to form such a structure from the Federal Energy Regulatory Commission and North Dakota Public Service Commission, and a similar request is pending before the Commission and the Minnesota Public Utilities Commission ("MPUC"). Assuming the approvals are received and other requisite authority is obtained, Otter Tail expects to complete the formation of the Holding Company structure during 2009.

III. PRIMARY DRIVERS AND MITIGATION EFFORTS REGARDING THE NEED FOR A BASE RATE INCREASE

Q. CAN YOU PLACE OTP'S PROPOSED REVENUE INCREASE IN CONTEXT?

A. Yes. Our last South Dakota rate case was in 1987, making the 15.30 percent increase equivalent to about a 0.72 percent annual increase, which is significantly below any measure of inflation. We serve our electric customers at rates that are among the lowest in the Midwest, which is a region that has some of the lowest rates in the nation and have done so despite our small size and the sparsely populated area we serve.

Q. WHAT ARE THE PRIMARY DRIVERS OF OTP'S NEED FOR A RATE INCREASE?

A. There are three primary drivers of our need to request a rate increase. First, since our last base rate case in 1987, operating costs, such as material, labor, pension, active medical and post-retirement medical have risen substantially. Second, we have experienced dramatic increases in fuel and purchased power costs, which currently are not being fully recovered in the Fuel Clause Adjustment ("FCA"). Third, OTP has made substantial investments in infrastructure. I will further explain each of these primary drivers.

A. OPERATING COSTS

Q. PLEASE FURTHER EXPLAIN THE INCREASES OTP HAS SEEN IN ITS OPERATING COSTS.

A. Inflation alone has added significantly to the cost of service that OTP has experienced since 1987, and there are several categories of costs that have risen at rates well in excess of inflation in recent years. The most significant increases in operational costs are in labor and employee benefit costs. Mr. Peter Beithon will address these subjects in more detail in his testimony.

Q. WHAT HAS OTP DONE TO MANAGE AND CONTAIN THESE RISING COSTS?

A. Because so many of these increases are related to labor and benefit costs, we have worked very hard to improve productivity and, as a result, reduce our employee count. We have, for example, instituted communications and other logistical improvements that have allowed us to reduce our employee count by approximately 12 percent since 1987. We have also reduced the number of offices we maintain while maintaining field personnel in those areas. These reductions have directly mitigated labor and benefit cost increases, and they have also allowed us to slow the growth of some other overhead costs, ranging from bucket trucks to personal computers. We also instituted a virtual call center in 2004 that has allowed us to better respond to customer calls with fewer customer service representatives. These reductions have been carefully implemented to avoid any adverse impact on service quality.

Q. HAVE THESE CHANGES HAD AN ADVERSE IMPACT ON SERVICE QUALITY?

A. No. Even with the changes, OTP's reliability remains very high and our customer satisfaction is recognized as one of the highest in the nation.

Q. WHAT ELSE HAS OTP DONE TO ADDRESS RISING EMPLOYEE BENEFIT COSTS?

A. We have taken steps to manage the increases in employee benefit costs. Combined with the reduction in employee count, this has helped mitigate these sharply rising costs. Mr. Peter Wasberg will address steps that we have taken to manage cost increases relating to post retirement benefits, including implementing a soft freeze on non-union and some union pension participation, eliminating post retirement medical coverage for new non-union and some new union employees, reducing Employee Stock Ownership Plan ("ESOP") contributions, and increasing the employee-paid portion of active medical costs.

Q. HAS OTP TAKEN STEPS TO CONTROL COSTS OF OPERATING ITS PLANT AND EQUIPMENT?

A. Yes. We have developed efficient transmission, distribution and generation maintenance protocols and prudent purchasing practices to keep operating costs as low as possible. These practices and the impact they have had can be seen in our material standardization practices. Here we have partnered with suppliers to use industry-wide specifications for standard material rather than materials with specifications unique to OTP. This has led to reduced first costs and has allowed us to shorten lead times for material procurement and lower inventory levels.

B. FUEL COSTS

Q. HAVE FUEL AND PURCHASED POWER COSTS CHANGED IN RECENT YEARS?

A. Yes. Fuel and purchased power costs have seen significant increases, the most dramatic of which have occurred in the past few years.

Q. ARE THESE FUEL COST INCREASES FULLY RECOVERED THROUGH OTP'S FUEL ADJUSTMENT MECHANISM?

A. No, OTP's fuel cost increases are not fully recovered through the FCA. OTP is unlike other South Dakota utilities in that OTP currently has some tariffed retail electric rates that do not include an FCA. That is, the customers that are taking service under those tariffed rates do not have fluctuations of fuel and purchased power costs passed through to them in their monthly electric bills. They pay only the base fuel and purchased power costs that were included in OTP's base rates set in 1987. The result is that approximately eight percent (8%) of OTP's total fuel and purchased power costs (since 1987) for serving South Dakota customers are not recovered through the FCA.

Q. HAS OTP MADE MANAGEMENT OF INCREASED FUEL AND PURCHASED POWER COSTS A HIGH PRIORITY?

A. Yes. We made optimizing the output of our low-cost power plants one of our highest priorities to ensure that our low-cost power plants are running at optimal efficiency and available to the greatest extent possible. As described previously, OTP treats plant availability (keeping our power plants on-line to the greatest extent possible) as a "Key Performance Indicator." We also reduced energy costs by optimizing these plants' efficiencies. In these ways we have kept the costs of operating these plants low.

Q. WHAT ARE SOME OF THE THINGS THAT OTP HAS DONE TO IMPROVE PLANT EFFICIENCY?

A. We undertook several projects in recent years to improve plant efficiency. At our Big Stone plant, the low pressure turbine rotor and the high/intermediate pressure turbine rotor were replaced in 1996 and 2005, respectively. Each of these replacements resulted in a 2 percent efficiency improvement. And while 2 percent may not seem like a large amount, it translates to about $900,000 of fuel costs saved each year based on current fuel prices. Big Stone also switched from

lignite coal to sub-bituminous coal in 1995. This not only improved plant efficiency by 5 percent, it reduced sulfur dioxide emissions, reduced fuel prices, and reduced the number of planned outage hours. In 2003, Coyote, like Big Stone, replaced its low pressure rotor and saw similar efficiency improvements. In 2007, the Advanced Hybrid Particulate Collector ("AHPC") was replaced at the Big Stone Plant. The AHPC was a research project with the Department of Energy. Since its replacement, OTP compared operating data from the June through August 2005 time period with the June through August 2008 time period. Average load is up 40 MWs. Opacity also showed significant improvement. These are just a few examples of projects that resulted in improved efficiencies. Many other operational improvements were made in this time-frame that also had positive results.

Q. HAS OTP DONE ANYTHING ELSE TO MANAGE THE COST OF FUEL USED TO OPERATE ITS POWER PLANTS?

A. Yes. Fuel price reductions and access to competition between Powder River Basin ("PRB") mines was one of the reasons behind the fuel switch at the Big Stone Plant in 1995. Switching from steel rail cars to aluminum rail cars also reduced the delivered cost of fuel at the Big Stone Plant. Fuel price reductions were also realized at the Hoot Lake Plant when it switched from lignite to PRB fuels in the late 1980s.

We actively sought legal relief from unfair fuel and transportation costs. For example, in 1996 we and the Coyote Station co-owners took the coal supplier for the Coyote Station to arbitration over the coal price paid for that plant. We achieved a successful outcome, which has paid significant dividends in lower fuel costs. The result allowed OTP to record a $1.9 million reduction in fuel costs during 2000 (due to overcharges in coal prices from 1996 - 1999). This reduction in fuel costs was returned to electric retail customers through the FCA.

Another example of our aggressive efforts to manage delivered fuel costs is the case we and the co-owners of the Big Stone plant brought to the Surface

Transportation Board seeking relief from the high tariff rates of the Burlington Northern and Santa Fe Railroad. The challenge was a significant undertaking, lasting about 48 months and costing nearly $4.5 million dollars in legal and expert fees. While the challenge was not successful, it has been recognized by Otter Tail's customers and others as reflecting OTP's willingness to pursue aggressively lower fuel and transportation costs for the benefit of our customers.

Q. HAS OTP TAKEN ACTION TO MANAGE ITS LOAD?

A. Yes. We significantly increased our load management capabilities. Load management allows us to lower peak demands, thereby reducing the need to purchase energy during peak times, when energy prices in the real-time energy market are often the most expensive and volatile. As of 2007, more than 30 per cent of OTP's customers participate in some form of load management.

Q. PLEASE SUMMARIZE WHAT OTP HAS DONE TO MANAGE AND CONTAIN THESE RISING COSTS?

A. All these efforts—improving the efficiency of our plants, aggressively pursuing low fuel and transportation rates, switching some plants to sub-bituminous coal, replacing the AHPC system at Big Stone Plant, and mitigating purchased power costs through load management—have helped reduce the increases to the fuel and purchased power costs.

Q. HAVE OTHER FACTORS ASSISTED OTP IN DEFERRING THE NEED TO INCREASE RATES?

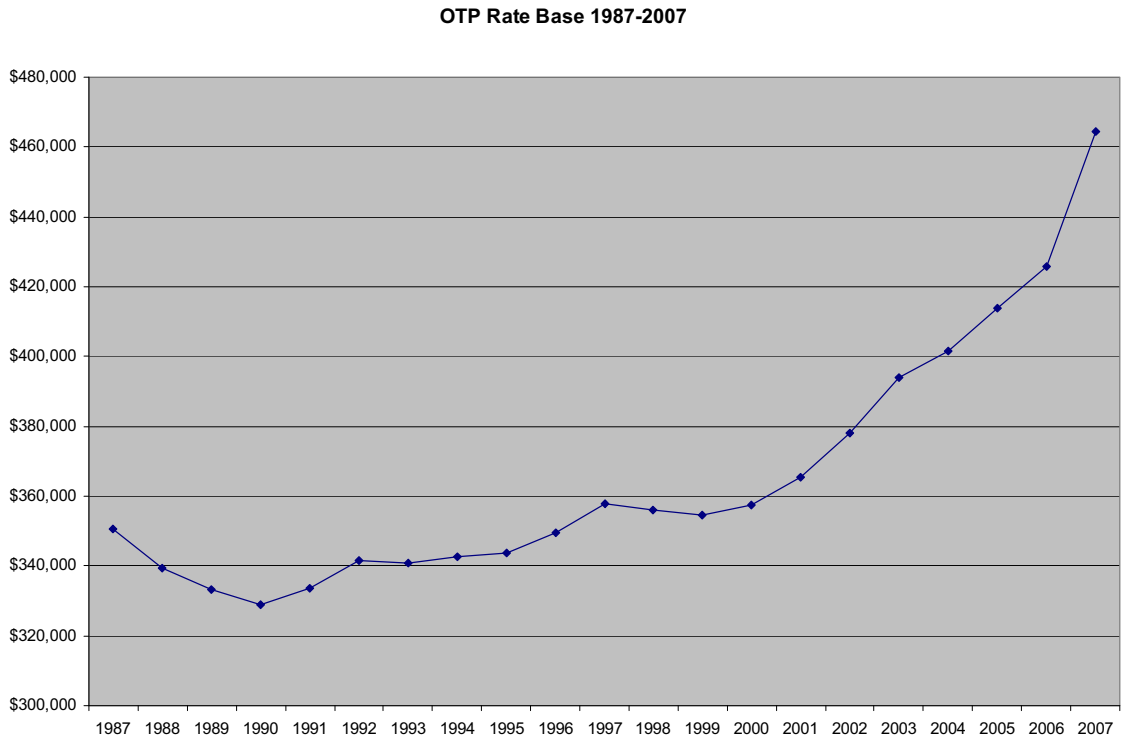
A. Yes. Our aggressive pursuit of opportunities to sell output from our generating plants into the wholesale energy markets (when not needed for our retail customers) has been instrumental in our ability to defer this rate increase. This has been a very important strategy for the benefit of our customers dating back to at least as early as 1986. This approach of selling wholesale generating plant output that was not needed to serve retail customers has helped to stabilize OTP's

rates for the past 20 years. It is one of the reasons OTP did not request a rate increase sooner.

C. INVESTMENTS IN INFRASTRUCTURE

Q. PLEASE DESCRIBE SOME OF OTP'S INVESTMENTS IN INFRASTRUCTURE.

A. As further explained in Mr. Kyle Sem's testimony, OTP made significant investments in our transmission and power plants over the past 20 years. These infrastructure investments have resulted in an increase to our rate base. The table below shows how OTP's rate base has changed:



Q. IS OTP EXPECTING ADDITIONAL INFRASTRUCTURE INVESTMENTS IN THE FUTURE?

A. Yes. Like many other utilities we are entering a period of unprecedented investment in infrastructure needed to reliably serve our customers. Our average investment in 2004-2006 was $30 million per year. OTP's capital expenditures in 2007 were $126 million. Its anticipated investments for the 5-year period of 2008 - 2012 are $880 million, an average of over $175 million per year.

Q. PLEASE DESCRIBE THESE ANTICIPATED INVESTMENTS.

A. These anticipated investments include $336 million for OTP's share of Big Stone II, $121 million for wind, and $67 million for CAPX 2020 transmission projects. Even if OTP's participation in the Big Stone II project were to change, a similar, if not costlier, base load generation investment would be needed. OTP has also actively pursued adding wind generation, including a significant wind generating facility near Langdon, North Dakota. OTP owns 40.5 MW, of that generating facility, at a cost of $80 million. OTP also owns 48 MW of the Ashtabula wind farm, with an anticipated cost of $121 million, and has announced plans to participate in the M- Power project by owning 49.5 MW for a total of 138 MW of wind generation. OTP also has over 40 MW of wind generated PPAs.

In combination, these OTP investments in generation and transmission facilities are expected to reach $880 million by 2012.

Q. WHAT IS THE STATUS OF THE BIG STONE II PROJECT?

A. We have been working with the other project participants on the design and permitting for Big Stone II for several years. As of the date I am completing this testimony, several of the critical permits required for Big Stone II have been received, and two major permits are pending. The pending permits are the certificate of need for the necessary transmission lines, which is pending before the MPUC, and the air permit, which is pending before the South Dakota

Department of Environment and Natural Resources. Until recently, the Big Stone II project was contemplated to be a 630 MW project. Two project participants have withdrawn from ownership, although one participant has expressed interest in a power purchase arrangement. As a result, the Big Stone II project was reduced in size to 500 or 580 MWs.

Q. WOULD CHANGES IN BIG STONE II ELIMINATE OTP'S NEED FOR BASE LOAD CAPACITY?

A. No. Even if Big Stone II does not move forward, OTP still needs additional base load generation to reliably and economically serve our customers. If Big Stone II is not available to meet that need, an alternative base load generation resource will be needed. It is our expectation that any alternative would have a higher levelized cost than Big Stone II, although the specific amounts and timing of investments may change.

Q. IS THIS RATE CASE IMPORTANT FOR OTP TO MEET ITS CAPITAL NEEDS FOR THESE ANTICPATED INVESTMENTS?

A. Yes. In order to complete these significant infrastructure additions, OTP will need access to unprecedented levels of debt and equity financing. It is essential that OTP be financially strong so that it can attract this capital on the most favorable terms possible. Mr. Kevin G. Moug also discusses OTP's capital needs and the importance of this case to meeting those needs.

IV. RATE DESIGN INITIATIVES

Q. IS OTP PROPOSING ANY RATE DESIGN INITIATIVES IN THIS CASE?

A. Yes. There have been dramatic changes in the industry since our last rate case and we are proposing two rate design changes that are driven by policy initiatives:

(1) we propose that all usage rates be subject to the FCA; and (2) we propose that all declining block rates be eliminated.

Q. PLEASE DESCRIBE THESE PROPOSALS.

A. There are two policy-driven proposals that should be adopted.

1. *The FCA should be included in all OTP tariffs.* In an effort to better reflect the costs incurred in providing service to all our customers, we propose to apply our FCA to all our rates. As I explained earlier in my testimony, not all OTP rates are currently subject to a FCA. Recent industry discussions regarding conservation reveal that there are conservation benefits when customers receive more accurate price signals from their electricity providers so that they may make informed decisions as to their consumption patterns. The lack of a FCA reflecting current fuel costs associated with some services means that customers taking those services have received no price signals indicating they should reduce consumption in this era of rising energy costs. Adding the FCA mechanism to these rates should improve the price signals being sent to these customers and should result in additional conservation. Mr. David Prazak more fully explains this proposal in his pre-filed Direct Testimony.

2. *Declining block rates should be eliminated.* We propose to eliminate our declining block rates. Declining block rates are usage-based rates that decrease as usage increases. Such rates are premised on the fact that rates recover both fixed and variable costs and, as usage increases, the fixed costs can be over recovered if the rate does not change (decline) with usage. Such rates, however, are disfavored because of the concern that such rates do not adequately promote conservation. Therefore, we propose eliminating our declining block rates. Mr. Prazak more fully describes this proposal in his pre-filed Direct Testimony.

V. INTRODUCTION OF WITNESSES

Q. PLEASE IDENTIFY THE WITNESSES OTP IS SPONSORING IN THIS PROCEEDING.

A. The following individuals will be sponsoring testimony in this proceeding:

- Bernadeen C. Brutlag addresses: a proposed change in the jurisdictional allocation of accumulated depreciation; proposed changes in depreciation expense, the corporate allocations methodology and corporate cost allocation manual used to determine the revenue requirement, and OTP's proposal for economic development.
- Peter J. Beithon addresses the jurisdictional cost of service study, the development of the test year operating statement with known and measurable and regulatory adjustments, the required financial schedules (developing and supporting the revenue requirement); OTP's proposed treatment of wholesale margins; a discussion of the costs and benefits of belonging to MISO; the class cost of service study and OTP's proposed class revenue allocation.
- Kyle Sem addresses the development of the test year rate base.
- Robert B. Hevert, of Concentric Energy Advisors, presents the recommendation regarding the appropriate ROE.
- Kevin G. Moug addresses capital structure, cost of debt and preferred stock and the overall cost of capital, which incorporates the ROE recommended by Mr. Hevert; a brief discussion of the proposed Holding Company; OTP's capital investment plans; and a discussion of the sources of funding for OTP construction.
- Peter E. Wasberg addresses matters relating to employee compensation and costs.
- Hethie S. Parmesano, with NERA Economic Consulting, provides marginal cost support for our proposed rates and more specifically provides support for our proposed changes to declining block rates.

- David G. Prazak sponsors proposed rate design changes and general tariff changes and application of the FCA to all energy charges.

VI. CONCLUSION

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. As reflected in our Mission Statement, we take very seriously our responsibility to deliver electricity as reliably, economically and environmentally responsible as possible and to improve the quality of life in the areas we serve. We have done a good job in fulfilling that mission. We wish that it were possible to continue those efforts without a rate increase, but it is not. We now require an overall revenue increase of 15.30 percent, or $3,883,399, based on the 2007 historical test year, with known and measurable changes, and including an overall rate of return of 8.89 percent. This increase is based in part on an authorized return on equity of 11.25 percent and an equity ratio of 53.30 percent. OTP is also facing a growing need to invest in additional infrastructure in the next five years and will need to go to the market to raise additional capital. Consequently, we need to have reasonable earnings and a competitive ROE.

We propose to recover this revenue requirement through a rate design that reflects cost and non-cost factors as appropriate and that reasonably encourages conservation. There have been dramatic changes in the industry since our last rate case. In recognition of those changes, we request that: 1) all usage rates be subject to the FCA; and 2) declining block rates be eliminated.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

Mr. Thomas R. Brause
Vice President Administration
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Fergus Falls, Minnesota 56537
218-739-8525

CURRENT RESPONSIBILITIES (2004 – Present)

Provide direction of Otter Tail Power Company's Market Planning, Policy and Compliance, Regulatory Services and Information Technology areas.

PREVIOUS POSITIONS

Otter Tail Power Company

2004 – Present	Vice President Administration
2002-2004	Director Human Resources, Information Technology and Safety
1999-2002	Director Human Resources and Information Technology
1995-1999	Director Information Services
1988-1995	Manager Information Systems
1986-1988	Supervisor Information Systems
1984-1986	Supervising Analyst, Load Management Computer Systems
1982-1984	Programmer/Analyst
1978-1982	Programmer

EDUCATION

Moorhead State University – BA, Computer Science, minor in Mathematics

Docket No. EL08-____
Exhibit ___(TRB-2), Schedule 2