

Request to use Deferred Accounting

For Big Stone II Development Costs

Introduction

- Deferred accounting and rate recovery
- Big Stone II development costs incurred
 - Activities for which costs incurred
 - Period over which costs incurred
 - OTP's share of project costs

Deferred accounting and rate recovery

- Deferred accounting
 - Preserves current accounting until rate case
 - During development, costs capitalized (as CWIP)
 - Costs excluded from OTP's 2008 SD rate case
 - Without deferred accounting, costs incurred over several years would be reflected as an abrupt expense in current period
- Deferred Accounting does not result in change to current rates
- Rate recovery will be addressed in OTP's next SD rate case—anticipated by July 1, 2010

Development activities

- Project agreements
- Project management
- Permit proceedings
- Engineering
- Generation and transmission projects

Otter Tail Power Company capitalized approximately \$12.7 million over five years.

The South Dakota share of these costs is 9.64 percent or \$1.22 million.

Big Stone II development timeline

1995	OTP begins exploration of 2 nd unit at Big Stone
Dec 2003	OTP forms Steering Committee to consider feasibility of 2 nd multi-owner unit at Big Stone
Feb 2005	OTP begins capitalizing BSP II costs
June 2005	Project agreements signed -OTP, MDU, MRES, GRE, SMMPA, CMMPA, HCPD
July 2006	South Dakota PUC issues site permit
Sept 2007	GRE and SMMPA withdraw from project
2007 -2009	Development activities continue and additional participants sought
Sept 2009	OTP withdraws from project
Nov 2009	Remaining participants discontinue project

OTP share of costs

- With seven participants, OTP had
 - 19.33 percent ownership share/share of costs
- After GRE (19.33 percent) and SMMPA (7.83 percent) withdrew in 2007, 27.16% of project was unallocated
- OTP's cost responsibility increased to
 - 26.54 percent ownership share/share of costs

Through the use of deferred accounting, OTP's current accounting will be preserved until our next rate case.

Financial statements will not reflect abrupt expensing of project costs prior to a Commission decision on cost recovery.

Rate case proceeding provides forum for considering factual record for rate recovery decisions.

Thank you

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Questions?