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March 31, 2010



## VIA E-FILING

Dr. Burl Haar  
Executive Secretary  
Minnesota Public Utilities Commission  
350 Metro Square Building  
121 East Seventh Place  
St. Paul, MN 55101

**Re: In the Matter of the Petition of Otter Tail Power Company for Approval of 2010 Capital Structure and Permission to Issue Securities**

Dear Dr. Haar:

Pursuant to Minnesota Statutes, §216B.49 and Minnesota Rules, Part 7825.1000-7825.1500, enclosed for filing please find the Petition of Otter Tail Power Company ("OTP") for Approval of a 2010 Capital Structure and Permission to Issue Securities.

In this Petition, OTP requests two things:

- Approval of a common equity ratio of 51.7 percent, along with a contingency range of 10 percent below the ratio and 10 percent above the ratio, i.e., a ratio of 46.5 percent-56.9 percent. Any equity ratio that falls outside of this range for a period to exceed sixty (60) days would first have to be approved by the Commission.
- Approval of a total capitalization of \$651,541,000, with a contingency cap of 10 percent above the \$651,541,000, i.e., a total capitalization of \$716,695,000. Similar to the equity ratio, any contemplated securities issuance that would cause total capitalization to exceed the contingency for a period to exceed sixty (60) days would first have to be approved by the Commission.

At any time or from time to time during the authorized period set forth in the Commission's Order granted in this matter, OTP requests that it be allowed to complete financing transactions provided it maintains an equity ratio within the proposed range and total capitalization under the proposed cap. The contingencies in both the equity ratio and total capitalization are necessary to account for unforeseen circumstances that may occur during the period covered by this petition.

OTP's proposed capital structure (in thousands of dollars) as of December 31, 2010 is as follows:

	<u>Amount</u>	<u>Percent of Capitalization</u>
Long Term Debt	\$ 276,681	42.5%
Inter-Company Note	15,500	2.4
Common Equity	336,859	51.7
Short-term Debt	<u>22,500</u>	<u>3.5</u>
Total Capitalization	<u>\$ 651,540</u>	<u>100%</u>

This represents a reasonable capital structure and one that will allow OTP to maintain a strong credit rating and to attract capital on favorable terms.

The proposed capital structure contemplates capital expenditures in our electric utility operations relating to investments for replacement and reliability upkeep of our current infrastructure and anticipated expansion of transmission capacity in Minnesota (CAPX 2020).

Please address all correspondence with respect to this Petition, including data requests, to Mr. Todd Hennem, Otter Tail Corporation.

Thank you for your consideration.

Very truly yours,

*/s/ Todd Hennem*  
Todd Hennem  
Director of Finance  
Otter Tail Corporation

*/s/ Bruce Gerhardson*  
Bruce Gerhardson  
Associate General Counsel  
Otter Tail Power Company

Enclosures

c: Gary L. Tygesson, Dorsey & Whitney LLP (w/encl.)

## **CERTIFICATE OF SERVICE**

**RE: In the Matter of the Petition of Otter Tail Power Company for Approval of  
2010 Capital Structure and Permission to Issue Securities**

**MPUC Docket No. E-017/\_\_\_\_\_**

I, Diane Merz, hereby certify that I have this day served a copy of the following, or a summary thereof, on Dr. Burl W. Haar and Sharon Ferguson by e-filing, and to all other persons on the attached service list by electronic service or by First Class mail.

**Otter Tail Power Company  
2010 Capital Structure and Permission to Issue Securities**

Dated this 31<sup>st</sup> day of March, 2010.

/s/ DIANE MERZ

Diane Merz, Rate Case Coordinator  
Otter Tail Power Company  
215 South Cascade Street  
Fergus Falls MN 56537  
(218) 739-8608

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
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Michael	Bradley	bradlym@moss- barnett.com	Moss & Barnett	4800 Wells Fargo Ctr 90 S 7th St Minneapolis, MN 55402-4129	Paper Service	No	GEN_SL_Otter Tail Power Company_Capital Structure 2010
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Gary	Chesnut	gchesnut@agp.com	AG Processing Inc. a cooperative	12700 West Dodge Road PO Box 2047 Omaha, NE 681032047	Paper Service	No	GEN_SL_Otter Tail Power Company_Capital Structure 2010
James C.	Erickson	jericksonkbc@gmail.com	Kelly Bay Consulting	17 Quechee St Superior, WI 54880-4421	Paper Service	No	GEN_SL_Otter Tail Power Company_Capital Structure 2010
Sharon	Ferguson	sharon.ferguson@state.mn .us	Department of Commerce	85 7th Place E Ste 500 Saint Paul, MN 551012198	Electronic Service	No	GEN_SL_Otter Tail Power Company_Capital Structure 2010
Bruce	Gerhardson	bgerhardson@ottertail.com	Otter Tail Corporation	PO Box 496 215 S Cascade St Fergus Falls, MN 565380496	Electronic Service	No	GEN_SL_Otter Tail Power Company_Capital Structure 2010
Ronald M.	Giteck	ron.giteck@state.mn.us	Office of the Attorney General-RUD	Residential Utilities Division 445 Minnesota Street, 900 BRM Tower St. Paul, MN 55101	Electronic Service	No	GEN_SL_Otter Tail Power Company_Capital Structure 2010
Burt W.	Haar	burlhaar@state.mn.us	Public Utilities Commission	Suite 350 121 7th Place East St. Paul, MN 551012147	Electronic Service	No	GEN_SL_Otter Tail Power Company_Capital Structure 2010
Todd	Hennum	thennum@ottertail.com	Otter Tail Corporation	215 S. Cascade Street Fergus Falls, MN 56538	Paper Service	No	GEN_SL_Otter Tail Power Company_Capital Structure 2010

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
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James D.	Larson		Avant Energy Services	200 S 6th St Ste 300  Minneapolis, MN 55402	Paper Service	No	GEN_SL_Otter Tail Power Company_Capital Structure 2010
Robert S	Lee	RSL@MCMLAW.COM	Mackall Crouse & Moore Law Offices	1400 AT&T Tower 901 Marquette Ave Minneapolis, MN 554022859	Paper Service	No	GEN_SL_Otter Tail Power Company_Capital Structure 2010
John	Lindell	agorud.ecf@state.mn.us	Office of the Attorney General-RUD	900 BRM Tower 445 Minnesota St St. Paul, MN 551012130	Electronic Service	No	GEN_SL_Otter Tail Power Company_Capital Structure 2010
Kavita	Maini	kmaini@wi.rr.com	KM Energy Consulting LLC	961 N Lost Woods Rd  Oconomowoc, WI 53066	Paper Service	No	GEN_SL_Otter Tail Power Company_Capital Structure 2010
Andrew	Moratzka	apm@mcmlaw.com	Mackall, Crouse and Moore	1400 AT&T Tower 901 Marquette Ave Minneapolis, MN 55402	Paper Service	No	GEN_SL_Otter Tail Power Company_Capital Structure 2010
Marcia	Podratz	mpodratz@mnpower.com	Minnesota Power	30 W Superior S  Duluth, MN 55802	Paper Service	No	GEN_SL_Otter Tail Power Company_Capital Structure 2010
Larry L.	Schedin	Larry@LLSResources.com	LLS Resources, LLC	12 S 6th St Ste 1137  Minneapolis, MN 55402	Paper Service	No	GEN_SL_Otter Tail Power Company_Capital Structure 2010

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Gary L.	Tygesson, Esq.		Dorsey & Whitney	Suite 1500 50 South Sixth Street Minneapolis, MN 554021498	Paper Service	No	GEN_SL_Otter Tail Power Company_Capital Structure 2010

## SUMMARY OF THE FILING

**Re: In the Matter of the Petition of Otter Tail Power Company for Approval of 2010  
Capital Structure and Permission to Issue Securities  
MPUC Docket No. \_\_\_\_\_**

On March 31, 2010 Otter Tail Power Company filed with the Minnesota Public Utilities Commission its proposed Capital Structure and request for Permission to Issue Securities for 2010. Otter Tail Power Company is seeking approval of a common equity ratio of 51.7 percent with a contingency window of +10 percent and -10 percent (46.5 percent-56.9 percent). It is also seeking approval of a total capitalization of \$651,541,000, with a contingency cap of \$65,154,000 (\$716,695,000). These parameters will not be exceeded for more than 60 days.

PETITION  
OF  
OTTER TAIL POWER COMPANY  
TO THE  
MINNESOTA PUBLIC UTILITIES COMMISSION  
FOR  
APPROVAL OF 2010 CAPITAL STRUCTURE  
AND  
PERMISSION TO ISSUE SECURITIES



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BEFORE THE  
PUBLIC UTILITIES COMMISSION  
OF MINNESOTA

IN THE MATTER OF )  
OTTER TAIL POWER COMPANY )  
PETITION UNDER MINNESOTA STATUTES, )  
SECTION 216B.49, FOR APPROVAL )  
OF 2010 CAPITAL STRUCTURE AND )  
PERMISSION TO ISSUE SECURITIES ) Docket No. E-017/S-10-\_\_\_

**I. INTRODUCTION**

Otter Tail Power Company (“OTP”) hereby petitions the Minnesota Public Utilities Commission (“Commission”), pursuant to the provisions of Minnesota Statutes, Section 216B.49, for approval of its 2010 Capital Structure and for Permission to Issue Securities, as described herein.

This Petition is filed in compliance with the Commission’s November 10, 2009 Order approving OTP’s last Capital Structure, in Docket No. E-017/S-09-1018, which required OTP to file its 2010 Capital Structure Petition by March 31, 2010.

This Petition also provides the information required by the Commission’s May 12, 2009 Order Augmenting Information Required in Connection with Securities Issuances and Annual Capital Structure Filings in Docket No. E,G-999/CI-08-1416. Specifically Attachments No. 10A, 10B, and 10C have been added to address the requirements of that Order.

OTP requests authority to issue at any time or from time to time during the period from the date of the Commission's Order granted in this matter until the Commission issues a 2011 capital structure Order relating to OTP (“the Authorization Period”) any of the following securities:

- (i) *Securities evidencing long term debt, including First Mortgage Bonds and other secured or unsecured debt obligations.* OTP has no current plans to issue such securities during the Authorization Period.
- (ii) *Common Equity.* OTP is a wholly owned subsidiary of Otter Tail Corporation and OTP does not issue equity securities. Otter Tail Corporation may make equity contributions to OTP during the Authorization Period; provided that OTP shall remain within the equity ratio range and total capitalization range established by the Commission order in this proceeding. Otter Tail Corporation shall not increase its total equity contribution balance to OTP by any amount that would cause OTP to exceed the equity ratio range or total capitalization range during the Authorization Period without prior Commission approval. Changes in common equity during that period will reflect contributions from Otter Tail Corporation, net earnings by OTP and dividends paid by OTP to Otter Tail Corporation.

- (iii) *Short-term unsecured debt.* OTP has authority to borrow up to \$170 million under its existing credit facilities, however OTP's short term unsecured debt shall not exceed the short term contingency range set forth below during the Authorization Period unless OTP obtains further approval from the Commission, as further described herein;

provided, the issuance of any of the above securities shall be subject to the following contingency ranges:

(a) Equity ratio contingency range: a contingency window (plus or minus 10 percent) around OTP's approved "best estimate" equity ratio of 51.7 percent. Any securities issuance that results in an equity ratio within that window (i.e., at or above 46.5 percent or at or below 56.9 percent) would fall within this authority. In addition, equity ratios that exceed 56.9 percent or fall below 46.5 percent for a period not exceeding 60 days would also be authorized. As soon as OTP has reason to know that a contemplated securities issuance would cause OTP's equity ratio to fall outside the window for a period exceeding 60 days, OTP will seek approval from the Commission for any such issuance;

(b) Total capitalization contingency range: a contingency cap on OTP's total capitalization of 10 percent above \$651,541,000 (the approved total capitalization) or \$716,695,000. Any securities issuance that results in total capitalization below the cap (i.e., below \$716,695,000) would be authorized. In addition, total capitalization that exceeds the cap for a period not exceeding 60 days would also be authorized. As soon as OTP has reason to know that a contemplated securities issuance would cause OTP's total capitalization to exceed \$716,695,000 for a period exceeding 60 days, OTP will seek approval from the Commission for any such issuance; and

(c) Short Term Debt contingency range: a contingency cap based on 15 percent of OTP's total capitalization (approximately \$98 million). Short term debt that exceeds the short term contingency range for a period not exceeding 60 days would be authorized. As soon as OTP has reason to know that a contemplated short term borrowing would exceed the 15 percent cap for a period exceeding 60 days (such as a borrowing for an unanticipated capital expenditure), OTP will seek approval from the Commission for any such borrowing.

For a summary of OTP's Capital Structure see Attachment No. 1.

## **II. REQUIREMENTS FOR MINN. RULE, PART 7825.1400.**

In support of this Petition, pursuant to Minnesota Rules, Part 7825.1400, OTP respectfully states and represents as follows:

**A. A descriptive title.**

In the Matter of the Petition of Otter Tail Power Company for Approval of 2010 Capital Structure and Permission to Issue Securities.

**B. A table of contents.** See pages i-iii above.

C. **The exact name of the petitioner and the address of its principal business office.**

Otter Tail Power Company  
215 South Cascade Street  
P. O. Box 496  
Fergus Falls, Minnesota 56538-0496

Otter Tail Power Company is incorporated under the laws of the State of Minnesota. The date of incorporation was July 5, 1907, and the Company is qualified to transact business as a foreign corporation in the States of North Dakota and South Dakota.

D. **Name, address, and telephone number of persons authorized to receive notices and communications in respect to this petition.**

Financial:

Mr. Todd Hennum  
Director of Finance  
Otter Tail Corporation  
4334 18<sup>th</sup> Avenue S, Suite #200  
P. O. Box 9156  
Fargo, North Dakota 58106-9156  
Telephone: (701) 451-3594

Legal:

Mr. Bruce G. Gerhardson  
Associate General Counsel  
Otter Tail Power Company  
215 South Cascade Street  
P. O. Box 496  
Fergus Falls, Minnesota 56538-0496  
Telephone: (218) 998-7108

Mr. Gary L. Tygesson, Attorney  
Dorsey & Whitney LLP  
50 South Sixth Street  
Minneapolis, Minnesota 55402  
Telephone: (612) 340-8753

It is requested that notices and correspondence with respect to this Petition be given to each of the above-named persons.

E. **A verified statement by a responsible officer of the petitioner attesting to the accuracy and completeness of the enclosed information.**

See Attachment No. 2.

F. **The purpose for which the securities are to be issued.**

As is further explained below, OTP is currently planning to use internally generated cash flows, equity capital contributions and short-term debt to meet its financing needs for its expected 2010 capital expenditure plan. OTP's capital expenditure plans for 2010 primarily consist of capital expenditures to maintain existing plant in the

areas of generation, transmission and distribution, along with some capital expenditures related to OTP's share of the CapX 2020 transmission project. These capital expenditure plans are outlined in Attachment No. 10B, where it is noted that OTP's capital expenditures include numerous projects in 2010, including generation projects for Hoot Lake, Big Stone and Coyote plants. The largest generation-related project planned in 2010 is replacement of the coal conveying equipment at the Hoot Lake Plant. Transmission projects in 2010 include transmission line and substation projects, the largest of which is an upgrade of the Ramsey transformer. The largest distribution project in 2010 involves replacement of distribution transformers.

In 2011, OTP's capital expenditure plans are expected to increase as OTP expects to increase expenditures in CapX 2020 and expects to begin expenditures in a combustion turbine project. As capital spending is expected to begin on these projects in the first quarter of 2011, OTP is requesting sufficient authority to meet these financing needs, including OTP's short-term debt authority, and the 10% ranges in OTP's equity ratio and total capitalization.

Since implementation of the Holding Company structure effective July 1, 2009, OTP has been a wholly owned subsidiary of Otter Tail Corporation and OTP no longer issues its own equity securities. Instead, OTP receives its equity in the form of equity contributions from Otter Tail Corporation. The proceeds from equity contributions provided by Otter Tail Corporation may be used to pay for portions of OTP capital expenditures during 2010 and 2011 in connection with OTP's capital projects.

OTP's next planned issuance of long-term debt is in 2011, when OTP expects to refinance its \$90 million of 6.630 percent Series 2011 Senior Notes. However, based on OTP's additional capital needs in 2011 (for projects such as CapX 2020), OTP may either increase the amount of that planned issuance or make other long-term borrowings. These long-term financings are currently scheduled for the last half of 2011, outside the Authorization Period, but the timing of these financings could be moved earlier if market conditions or other opportunities made doing so advantageous. Accordingly, OTP requests the authority outlined in this Petition so that it is adequately prepared to respond to financing needs and opportunities as they arise during 2010 and the first half of 2011, the expected duration of the Authorization Period.

Long-term debt may be issued in connection with, or in order to secure funds for (or to secure funds to be applied against short-term borrowings incurred and to be incurred by OTP as temporary financing for) the following: (i) OTP's capital expenditure programs; (ii) current maturities and sinking fund requirements on OTP's long-term debt obligations; (iii) refunding or retiring existing long-term debt; (iv) employee benefit plans; and (v) other OTP financing requirements.

OTP maintains a \$170 million unsecured revolving credit facility with a three-year term. The line of credit is subject to renewal on July 30, 2011. OTP plans to draw on this line to support its working capital needs and its capital expenditure program until such time as makes sense to term out these short-term borrowings into a long-term financing arrangement.

Additionally, opportunities may arise in the Authorization Period that will require capital investments and financing that are not currently anticipated, as has been the case in each of the last three years related to wind generation projects. OTP's ability to use short-term borrowing was a critical element in making it possible for OTP to complete these investments, particularly in 2009. The \$170 million capacity of OTP's short term capacity agreement can be used to fund significant construction projects until such time as the short-term borrowing can be refinanced with longer-term debt and equity contributions. Accordingly, OTP respectfully states that it is quite possible that OTP may submit a request to the Commission during the Authorization Period for an increase in short-term borrowing authority from the 15 percent cap (approximately \$98 million) up to \$170 million in the event of an unanticipated large scale capital project.

See Attachment No. 1 for a summary of OTP's capitalization and short-term borrowings as of July 31, 2009 and December 31, 2009 and as forecasted at December 31, 2010.

**G. Copies of resolutions by the directors authorizing the petition for the issue or assumption of liability in respect to which the petition is made; and if approval of stockholders has been obtained, copies of the resolution of the stockholders shall be furnished.**

A certified copy of resolutions adopted by OTP's Board of Directors authorizing this Petition and short-term borrowings is included as Attachment No. 3.

**H. A statement as to whether, at the time of filing of the petition, the petitioner knows of any person who is an "affiliated interest" within the meaning of Minnesota Statutes, Section 216B.48, subdivision 1, who has received or is entitled to receive a fee for services in connection with the negotiations or consummation of the issuance of the securities, or for services in securing underwriters, sellers, or purchasers of the securities.**

At the date hereof, OTP is not aware of any person who is deemed to have an "affiliated interest" within the meaning of Minnesota Statutes, Section 216B.48, and also has received or is entitled to receive a fee for services in connection with the negotiations or consummation of the issuance of the securities which are the subject of this Petition or for services in securing underwriters, sellers or purchasers of such securities. In that connection, OTP is not aware of any investment banking firm that presently is an "affiliated interest" of OTP.

Otter Tail Corporation allocates costs to OTP pursuant to OTP's Corporate Cost Allocation Manual (approved in Docket No. E-017/GR-07-1178).

**I. A signed copy of the opinion of counsel in respect to the legality of the issue or assumption of liability.**

See Opinion of Dorsey & Whitney LLP, Attachment No. 4.



**J. A balance sheet dated no earlier than six months prior to the date of the petition together with an income statement and statement of cash flows covering the 12 months then ended. When the petitions include long-term securities, such statements shall show the effects of the issuance on such balance sheet and income statement.**

See Attachment No. 5. The required information is included in four parts:

Part 1 -Balance Sheet as of December 31, 2009 (actual and pro forma).

Part 2 -Income Statement - For the 12-Month Period Ended

December 31, 2009 (actual and pro forma).

Part 3 -Adjustments to Parts 1 and 2.

Part 4 -Statement of Cash Flows - For the 12-Month Period Ended

December 31, 2009.

**K. A description of the security or securities to be issued.**

As described earlier, OTP is currently planning to use internally generated cash flows, equity capital contributions and short-term debt to meet its financing needs in the 2010 calendar year. In 2011, OTP's planned capital expenditures increase, and its next scheduled issuance of long-term debt is in the second half of 2011. It is possible that opportunities could arise that would make it advantageous to issue the long-term debt sooner. Therefore, based on these plans, OTP requests the authority outlined in this Petition so that it is adequately prepared to respond to financing needs and opportunities as they arise during 2010 and the first half of 2011, the expected duration of the Authorization Period.

**1. Long-Term Debt.**

**(a) First Mortgage Bonds.**

The Company does not have any First Mortgage Bonds currently outstanding. Any First Mortgage Bonds OTP may issue in the future (the "New Bonds") would be governed by a new Indenture to be entered into by OTP prior to any such issuance.

The maturity date or dates of the New Bonds that may be issued have not yet been determined. The interest rate, voluntary and mandatory redemption provisions and the sinking fund, if any, of the New Bonds also have not yet been determined. The Board of Directors will determine these terms after negotiation with the principal underwriters for the New Bonds (or by formal or informal competitive bidding, if such is the case) or, in the case of a private placement, after negotiation with the purchasers of the New Bonds. It is not presently possible to estimate with certainty the interest rate on the New Bonds which, among other things, will depend on the money markets at the time of sale, the maturity date of the New Bonds, OTP's senior secured credit ratings and the manner of sale (viz., by public offering or by private sale). Based on previous issues, OTP believes that such interest rate would compare favorably with the rates of similar first mortgage bonds of other public utilities with similar ratings from rating agencies.

**(b) Debentures.**

The maturity date or dates of New Debentures that may be issued have not yet been determined. The interest rate, any voluntary or mandatory redemption provisions and any sinking fund provisions of the New Debentures also have not yet been determined. The Board of Directors will determine these terms after negotiation, in the case of a public offering, with the principal underwriters for the New Debentures (or by formal or informal competitive bidding, if such is the case) or, in the case of a private placement, after negotiation with the purchasers of the New Debentures. It is not presently possible to estimate with certainty the interest rate on the New Debentures which, among other things, will depend on the money markets at the time of sale, the maturity date of the New Debentures, OTP's senior unsecured credit ratings and the manner of sale (viz., by public offering or by private sale). OTP believes that such interest rate would compare favorably with rates of similar debt securities of other public utilities with similar ratings from rating agencies.

The New Debentures will be unsecured and unsubordinated obligations of OTP and will rank equally and ratably with OTP's other unsecured and unsubordinated debt. The New Debentures are not expected to have any voting rights.

**(c) Other Debt Securities.**

OTP may issue other long-term debt securities and guarantee long-term debt securities issued by its employee benefit plans. Such debt securities may be any of the types of debt "securities" as defined in Minnesota Statutes, Section 216B.49 (other than short-term securities as defined in Minnesota Rules, part 7825.1000). No specific arrangements have yet been made to issue any of such debt securities or guarantees and, consequently, the terms and specific amounts thereof have not yet been determined. The Board of Directors of OTP will determine the terms and amounts of any such securities or guarantees if and when such securities or guarantees are to be issued.

**2. Inter-Company Notes.**

Immediately following the holding company reorganization in July 2009, OTP issued inter-company notes of \$15.5 million to be held by Otter Tail Corporation. This was done to provide OTP with the full benefit of Preferred Stock issued by Otter Tail Corporation prior to the reorganization. The issuance of these inter-company notes results in a cost for this capital that is no greater than the cost of Preferred Stock enjoyed by OTP prior to the reorganization.

**3. Common Shares.**

OTP receives its common equity from its parent, Otter Tail Corporation. OTP anticipates that it may receive equity contributions from Otter Tail Corporation during the Authorization Period.

A full description of the Common Shares presently outstanding and which may be issued is set forth in OTP's Articles of Incorporation, copies of which are on file with the Commission.

#### **4. Unsecured Short-Term Debt.**

OTP could issue up to \$98 million of short-term debt under its present line of credit during the Authorization Period. This amount is 15 percent of OTP's requested total capitalization. OTP also requests that it be allowed to issue up to \$170 million, the total amount of its line of credit, in the event of an unanticipated large scale capital project or other unanticipated needs for short term borrowing; however, as soon as OTP has reason to know that a contemplated short term borrowing would exceed the 15 percent cap for a period exceeding 60 days (such as a borrowing for an unanticipated capital expenditure), OTP will seek approval from the Commission for any such borrowing.

##### **(a) Kind and Nature of Securities.**

###### **(i) Promissory Notes Issued to Commercial Banks and Other Institutional Lenders.**

These notes will be unsecured promissory notes of OTP which may be prepaid on any legal banking day without premium, and which may be issued to renew or refund outstanding promissory notes of the same nature or to replace maturing notes sold through commercial paper dealers as described below, as well as to provide additional funds for working capital needs, capital expenditure programs and other corporate purposes.

###### **(ii) Promissory Notes Issued through Commercial Paper Dealers.**

These notes will be unsecured promissory notes and will be issued through recognized dealers in commercial paper to banks, insurance companies, financial institutions, pension funds and other substantial institutions or corporate purchasers of the type which normally participate in the commercial paper market. All such notes will have a maturity of not more than nine months, will not be payable on demand, will not be extended or renewed and will not contain any provision for extension or renewal or automatic "roll-over." These notes will be sold to provide funds for current working capital transactions or to replace maturing notes of this type or to replace maturing notes issued to commercial banks or other institutional lenders as described above.

###### **(iii) Other Promissory Notes of OTP.**

These notes will be unsecured promissory notes of OTP or guarantees by OTP of short-term promissory notes of OTP's employee benefit plans to provide funds to OTP (or its employee benefit plans in the case of guarantees by OTP) for their respective financing requirements.

**(b) Interest or Discount Rate.**

The interest rate on notes issued to commercial banks and any other institutional lenders will be determined and negotiated with the lending bank or institution as the respective loans are made, and will be dependent on market conditions at the time of issuance.

The interest rate on notes issued through commercial paper dealers will be dependent on the term of the note and market conditions at the time of issuance and will be at rates prevailing at the time of issuance for commercial paper of comparable quality.

**(c) Date of Issue and Date of Maturity.**

The notes issued to commercial banks and any other financial institutions will be issued at various times during the Authorized Period, and for varying periods of time, but no such note will mature more than twelve months after the date of issuance or renewal thereof.

The notes issued through commercial paper dealers will be issued from time to time during the Authorized Period, for varying periods of time, but no such note will mature more than nine months from the date of issue thereof nor will any such note be extended or renewed or contain any provision for extension or renewal or for automatic "roll-over."

**(d) Voting Privileges, if Any.**

None of the notes proposed to be issued will have any voting rights.

**L. An estimate of the interest or dividend cost per \$100 principal amount, except in the case of common stock, and a description of any anticipated terms or indenture provisions.**

See Section K above, "A description of the security or securities to be issued."

**M. If the petitioner is a corporation, a copy of its current articles of incorporation certified by the secretary of state of incorporation. If the current articles have already been filed, the petitioner need only make specific reference to such filings.**

A copy of the Corporation's Articles of Amendment Restating Second Restated Articles of Incorporation and all amendments thereto, certified by the Secretary of the State of Minnesota are incorporated herein by reference to Attachment No. 15 to the Corporation's Petition in Docket No. E017/S-09-1018.

**N. Exhibits.**

Petitioner provides the following information in response to Minn. Rule, Part

7825.1400, subp. N:

- N(1). The amount and kinds of stock authorized by articles of incorporation and amount outstanding.**

See Attachment No. 7(N: 1,2).

- N(2). The terms of preference of preferred stock, whether cumulative or participating, or on dividends or assets, or otherwise.**

See Attachment No. 7(N: 1,2).

- N(3). A brief description of each security agreement, mortgage, and deed of trust upon petitioner's property, showing date of execution, debtor, and secured party, mortgagor and mortgagee and trustor and beneficiary, amount of indebtedness authorized to be secured thereby, and amount of indebtedness actually secured, together with any sinking fund provision.**

None.

- N(4). The amount of bonds authorized and issued that exceed one percent of total debt giving the name of the public utility which issued same, describing each class separately, and giving the date of issue, par value, rate of interest, date of maturity, and how secured, together with the amount of interest paid thereon during the last fiscal year.**

See Attachment No. 6(N: 3,4,6).

- N(5). Each note outstanding with a maturity of more than one year and which exceeds one percent of total debt, giving the date of issue, the amount, the date of maturity, the rate of interest, in whose favor, together with the amount of interest paid thereon during the last fiscal year.**

See Attachment No. 6(N: 3,4,6).

- N(6). Other indebtedness with a maturity of more than one year, by class, together with the amount of interest paid thereon during the last fiscal year.**

See Attachment No. 6(N: 3,4,6).

- N(7). The rate and amount of dividends paid during the five previous fiscal years.**

See Attachment No. 8(N: 7).

**O. A statement of the manner in which such securities will be issued; and if invitations for sealed written proposals (competitive bidding) are not anticipated, an explanation of the decision not to invite such proposals shall be submitted.**

**1. Long-Term Debt.**

**(a) First Mortgage Bonds.**

OTP has not yet determined whether the New Bonds should be sold publicly through underwriters selected either by negotiation or by formal or informal competitive bidding, or whether the New Bonds should be placed privately with institutional investors, in order to assure that the method of sale will result in the lowest cost of money to OTP. Generally speaking, OTP would expect that a sale of the New Bonds through receipt of formal or informal competitive proposals would result in the lowest cost of money to OTP. However, it is possible that, as of the time of sale, a lower cost of money to OTP could be obtained through a negotiated public offering or a private placement. Among the factors to be considered would be (i) the size and maturity date of the offering of the New Bonds, (ii) the settled or unsettled nature of the public utilities bond market, (iii) the required deadline for obtaining the proceeds from the offering, (iv) the need for including any special provisions in the terms for the New Bonds with respect to redemptions, sinking funds, call provisions and the like, and (v) the costs of registration and ongoing public reporting requirements relating to a public offering. OTP will consult with its financial advisers and seek the advice of investment bankers familiar with OTP and its securities in order to determine the best method of sale.

**(b) Debentures.**

OTP has not yet determined whether the New Debentures should be sold publicly through underwriters selected either by negotiation or by formal or informal competitive bidding, or whether the New Debentures should be placed privately with institutional investors, in order to assure the method of sale will result in the lowest cost of money to OTP. Generally speaking, OTP would expect a sale of the New Debentures through receipt of formal or informal competitive proposals would result in the lowest cost of money to OTP. However, it is possible at the time of sale, a lower cost of money to OTP could be obtained through a negotiated public offering or a private placement. Among the factors to be considered would be (i) the size and maturity date of the offering of the New Debentures, (ii) the settled or unsettled nature of the public utilities bond market, (iii) the required deadline for obtaining the proceeds from the offering, (iv) the need for including any special provisions in the terms for the New Debentures with respect to redemptions, sinking funds, call provisions and the like, and (v) the costs of registration and ongoing public reporting requirements relating to a public offering. OTP will consult with its financial advisers and seek the advice of investment bankers familiar with OTP and its securities in order to determine the best method of sale.

**(c) Other Long-Term Debt Securities.**

The terms and amounts of any other long-term debt securities or guarantees for long-term debt securities will be determined by the Board of Directors of the Company if

and when such securities or guarantees are to be issued. It is likely that any such issuances would be for specific corporate purposes and would therefore involve negotiations of specific debt terms and covenants with the prospective debt holders. As a result, the use of competitive bidding procedures in connection with the issuance of such long-term debt securities or guarantees may not be feasible.

**2. Common Shares.**

OTP receives its common equity from its parent, Otter Tail Corporation. OTP anticipates that it may receive equity contributions from Otter Tail Corporation during the Authorization Period.

**3. Unsecured Short-Term Debt.**

See the discussion in Section K(5) above with respect to the manner in which OTP proposes to issue its unsecured short-term debt.

**P. A copy of each plan, offer, or agreement for the reorganization or readjustment of indebtedness or capitalization or for the retirement or exchange of securities.**

None.

**Q. If any of the above filing requirements are provided in petitions or applications to other regulatory agencies, then such petitions or applications, properly cross-referenced in item B, may be submitted in lieu of the specific filing requirements.**

There are no such items referenced in this filing.

**R. Such additional information that the staff or commission may require in a particular case.**

To OTP's knowledge, no additional information has been requested or required from previous filings.

**S. If a filing requirement does not apply, it shall be so stated with an explanation why it does not apply.**

All filing requirements have been complied with.

**III. REQUIREMENTS FOR MINN. RULE, PART 7825.1300**

**A. Items A to K of part 7825.1400.**

See Sections A to K above.

**B. A descriptive summary of the assumptions made in the development of such statement of cash flow.**

See Attachment No. 9.

**C. A statement of cash flow, by month showing the most recent available 21 months' actual data and forecasted data to the end of the period encompassed by the petition.**

A statement of monthly cash flows showing the actual data for the most recent and available twenty-one (21) months and forecast data to the end of the period is contained in Attachment No. 10.

#### **IV. REQUEST FOR ORDER**

OTP respectfully requests the Commission find that, for the purposes of this Petition, OTP's proposed capital structure is reasonable and proper and will not be detrimental to the interests of the consumers and patrons affected thereby, and that the Commission issue its written Order granting the Commission's permission for the issuance by OTP, at any time or from time to time during the Authorized Period, any of the following securities of OTP:

- (i) Securities evidencing long-term debt, including First Mortgage Bonds and other secured or unsecured debt obligations;
- (ii) Short-term unsecured debt;

provided, the issuance of any of the above securities shall be subject to the following contingency ranges:

(a) Equity ratio contingency range: a contingency window (plus or minus 10 percent) around OTP's approved "best estimate" equity ratio of 51.7 percent. Any securities issuance that results in an equity ratio within that window (i.e., at or above 46.5 percent or at or below 56.9 percent) is approved. In addition, equity ratios that exceed 56.9 percent or fall below 46.5 percent for a period not exceeding 60 days are also authorized. As soon as OTP has reason to know that a contemplated securities issuance would cause OTP's equity ratio to fall outside the window for a period exceeding 60 days, OTP will seek approval from the Commission for any such issuance;

(b) Total capitalization contingency range: a contingency cap on OTP's total capitalization of 10 percent above \$651,541,000 (the approved total capitalization) or \$716,695,000. Any securities issuance that results in total capitalization below the cap (i.e., below \$716,695,000) is approved. In addition, total capitalization that exceeds the cap for a period not exceeding 60 days is also authorized. As soon as OTP has reason to know that a contemplated securities issuance would cause OTP's total capitalization to exceed \$716,695,000 for a period exceeding 60 days, OTP will seek approval from the Commission for any such issuance; and



(c) Short Term Debt contingency range: a contingency cap based on 15 percent of OTP's total capitalization (approximately \$98 million). Short term debt that exceeds the short term contingency range for a period not exceeding 60 days would be authorized. As soon as OTP has reason to know that a contemplated short term borrowing would exceed the 15 percent cap for a period exceeding 60 days (such as a borrowing for an unanticipated capital expenditure), OTP will seek approval from the Commission for any such borrowing.

OTP hereby waives a hearing on any and all matters covered by this Petition and respectfully requests that, in accordance with the authority granted to the Commission under Minnesota Statutes, Section 216B.26, the Order of the Commission in this matter be declared in force and effective immediately upon its being filed and served.

In compliance with the requirements of the Minnesota Statutes, Section 216B.49, the Petitioner, OTP, has duly caused this Petition to be signed on its behalf by its Chief Financial Officer, thereunto duly authorized on the 31<sup>st</sup> day of March, 2010.

OTTER TAIL POWER COMPANY

By /s/ Kevin Moug  
Kevin Moug  
Chief Financial Officer  
215 South Cascade Street  
P. O. Box 496  
Fergus Falls, Minnesota 56538-0496  
Telephone: (701) 451-3562

This Petition comprises the Petition proper, including the Table of Contents hereto and the following Attachments:

- Attachment No. 1        Summary of Otter Tail Power Company Capital Structure.
- Attachment No. 1A      Explanation of Deviations Between Capital Structure Estimates
- Attachment No. 2        Verification of Kevin Moug, Chief Financial Officer, Otter Tail Power Company.
- Attachment No. 3        Conformed Copies of Otter Tail Power Company's Board of Directors Resolutions Authorizing this Petition and Short-Term Borrowing.
- Attachment No. 4        Opinion of Dorsey & Whitney LLP, with respect to the legality of the securities covered by this Petition.
- Attachment No. 5
  - Part 1            Balance Sheet of OTP as of December 31, 2009 (actual and pro forma).
  - Part 2            Income Statement of OTP for the twelve months ended December 31, 2009 (actual and pro forma).
  - Part 3            Adjustments to Parts 1 and 2.
  - Part 4            Statement of Cash Flows of OTP for the twelve months ended December 31, 2009.
- Attachment No. 6        (N: 3, 4, 6) Statement, as of July 1, 2009, describing each class and series of funded debt of OTP.
- Attachment No. 7        (N: 1, 2) Statement, as of July 1, 2009, describing each class and series of OTP's shares authorized by the Articles of Incorporation.
- Attachment No. 8        (N: 7) Statement as to the rate and amount of dividends paid during the five years ended December 31, 2009.
- Attachment No. 9        Summary of assumptions made in developing Cash Flow Forecast.
- Attachment No. 10       Form No. ST-1, Monthly Cash Flow for period of January 1, 2008 through December 31, 2009 (actual) and forecasted January 1, 2010 to December 31, 2010.
- Attachment No. 10A      Summary of security issuances and uses of proceeds for the year ended December 31, 2009
- Attachment No. 10B      Projection of Capital Expenditures by Category
- Attachment No. 10C      Reconciliation Between 2009 Budgeted Capital Expenditures Compared with Actual

**OTTER TAIL POWER COMPANY  
CAPITAL STRUCTURE SUMMARY**

The following is a summary of OTP's actual capitalization and short-term borrowings at July 31, 2009, December 31, 2009 and as projected at December 31, 2010:

	<u>July 31, 2009</u> (Actual)		<u>Dec. 31, 2009</u> (Actual)		<u>Dec. 31, 2010</u> "Projected" (1)	
	(Thousands of Dollars)					
Short-Term Debt	\$ -	-	\$1,585	0.2%	\$22,500	3.5%
Current Maturities of LTD	-	-	58,000	8.5	-	-
Long-Term Debt Net	356,145	51.1	280,925	40.9	276,681	42.4
Inter-Company Note	15,500	2.2	15,500	2.3	15,500	2.4
Preferred Shares	-	-	-	-	-	-
Common Share Equity	<u>325,483</u>	<u>46.7</u>	<u>330,037</u>	<u>48.1</u>	<u>336,859</u>	<u>51.7</u>
Total Capitalization	<u>\$697,128</u>	<u>100.0%</u>	<u>\$686,047</u>	<u>100.0%</u>	<u>\$651,541</u>	<u>100.0%</u>

(1) The "Projected" column reflects the Corporation's best estimate of the proposed capital structure as of December 31, 2010.

**OTTER TAIL COPORATION**  
**EXPLANATION OF DEVIATIONS BETWEEN CAPITAL STRUCTURE ESTIMATES**

Estimated for December 31, 2009

	Estimated for December 31, 2009 In 2009 Capital Structure Filing	Actual <u>December 31, 2009</u> (Thousands of Dollars)	<u>Deviations</u>
Short-Term Debt	\$194	\$1,585	1,391
Current Maturities of LTD	--	58,000	58,000 (1)
Long-Term Debt Net	331,790	280,925	(50,865) (1)
Inter-Company Note	15,500	15,500	--
Preferred Shares	--	--	--
Common Share Equity	<u>334,457</u>	<u>330,037</u>	<u>(4,420)</u>
Total Capitalization	<u>\$681,941</u>	<u>\$686,047</u>	<u>\$4,106</u>

- (1) Management decision to pay off balance of \$75MM term loan in Q1 of 2010. Balance reclassified to current maturities to reflect early payoff.



WRITTEN ACTION  
OF THE BOARD OF DIRECTORS OF  
OTTER TAIL POWER COMPANY  
RE PETITION TO  
MINNESOTA PUBLIC UTILITIES COMMISSION  
FOR APPROVAL OF 2010 CAPITAL STRUCTURE  
March 30, 2010

THE UNDERSIGNED, being all of the Directors of Otter Tail Power Company (the “Corporation”), do hereby determine to act without a meeting in accordance with the authority granted in the Minnesota Business Corporations Act and thus do hereby consent in writing to the adoption of and do hereby adopt the following resolutions and take the following actions and instruct the Secretary to file this Written Action with the minutes of the Corporation:

WHEREAS, The financial planning of Otter Tail Power Company contemplates the potential issuance in 2010 of various securities of the Corporation; and

WHEREAS, Issuance of such securities is subject to the prior approval of the capital structure of the Corporation by the Public Utilities Commission of the State of Minnesota pursuant to Section 49 of the Minnesota Public Utilities Act (Minnesota Statutes, Section 216B.49).

NOW, THEREFORE, BE IT RESOLVED, That the Chief Executive Officer & President or Vice President of Administration of the Corporation, or their designees be, and they severally hereby are, authorized to execute and file, with the Public Utilities Commission of the State of Minnesota, a Petition or Petitions for approval of the Corporation’s 2010 capital structure in connection with issuance of any one or more of the securities of the Corporation, and the officers of the Corporation be, and they severally hereby are, authorized and directed to prepare or cause to be prepared, and to execute and file, on behalf of the Corporation, such Amendments to said Petition as said officers, or any of them (being advised by counsel), may deem necessary or advisable.

The effective date of this action is March 30, 2010.

/s/ John Erickson  
John Erickson, Director

/s/ Lauris N. Molbert  
Lauris N. Molbert, Director

WRITTEN ACTION  
OF THE BOARD OF DIRECTORS OF  
OTTER TAIL POWER COMPANY  
RE PETITION TO  
MINNESOTA PUBLIC UTILITIES COMMISSION  
FOR APPROVAL OF 2010 SHORT-TERM BORROWING  
March 30, 2010

THE UNDERSIGNED, being all of the Directors of Otter Tail Power Company (the "Corporation"), do hereby determine to act without a meeting in accordance with the authority granted in the Minnesota Business Corporations Act and thus do hereby consent in writing to the adoption of and do hereby adopt the following resolutions and take the following actions and instruct the Secretary to file this Written Action with the minutes of the Corporation:

WHEREAS, The Corporation's short-term borrowing authority, as evidenced by the Order of the Minnesota Public Utilities Commission issued November 10, 2009 (Docket No. E-017/S-09-1018), requires it to promptly file a petition for 2010.

WHEREAS, It is necessary for the Corporation to again file a new Petition with said Minnesota Public Utilities Commission for an Order approving the Corporation's capital structure and granting permission to issue short-term unsecured promissory notes; and

WHEREAS, It is reasonable in light of the Corporation's projected capital structure and short-term borrowing requirements for 2010 to file a Petition for an Order approving the capital structure and granting permission to issue short-term unsecured promissory notes for the calendar period 2010.

NOW, THEREFORE, BE IT RESOLVED By the Board of Directors of Otter Tail Power Company that, during calendar year 2010, the Chief Executive Officer & President, the Chief Financial Officer, the Treasurer and the Secretary of the Corporation, or their designees, be, and they severally hereby are, authorized to borrow for and in the name of the Corporation, from any bank or banks or other institutional lenders, or through dealers in commercial paper, such amounts of money as may be required by the Corporation, from time to time, but not to exceed a total of \$170 million at any one time outstanding during the calendar year 2010, (provided, that at no time will the aggregate amount of commercial paper outstanding exceed the aggregate cash requirements of the Corporation for "current transactions" which occur in the ordinary course of business).

BE IT FURTHER RESOLVED That the above designated officers are hereby authorized and empowered, for and in the name of the Corporation, to effect such borrowing through the issuance of promissory notes and letters of credit of the Corporation to commercial banks and other institutional lenders, such borrowings and any renewals thereof to bear such rates of interest as the above designated officers may, from time to time, negotiate with such commercial banks and other institutional lenders.

BE IT FURTHER RESOLVED That, to the extent such borrowing is effected through the issuance of commercial paper within the limits above specified, the above designated officers are hereby authorized and empowered, for and in the name of the Corporation, to issue and sell promissory notes of the Corporation through one or more recognized dealers in commercial paper to banks, insurance companies, financial institutions, pension funds and other substantial institutional or corporate purchasers of the type which normally participate in the commercial paper market, and such notes (i) will have a minimum denomination of \$100,000, (ii) will mature not more than nine months from the date of their issuance, (iii) will not be payable on demand or contain any provisions for extension, renewal or automatic "roll-over" either at the option of the Corporation or at the option of any holder of the notes, (iv) will, at the time of issue, be of prime quality and rated in one of the three highest categories by Moody's Investors Services, Inc. and Standard & Poor's Corporation, (v) will be used by the Corporation to finance "current transactions" and (vi) will be sold at a discount dependent upon the term of the note and the money market conditions at the time of issuance.

BE IT FURTHER RESOLVED That the above designated officers of the Corporation are hereby authorized and empowered to apply to the Minnesota Public Utilities Commission for an Order authorizing such borrowing, and to execute and deliver, on behalf of the Corporation, a Petition to said Minnesota Public Utilities Commission for such purposes, such Petition to be in such form as the officer executing the same, on advice of counsel, deems necessary.

The effective date of this action is March 30, 2010.

/s/ John Erickson  
John Erickson, Director

/s/ Lauris N. Molbert  
Lauris N. Molbert, Director



## Attachment No. 4

Otter Tail Power Company  
215 South Cascade Street  
P.O. Box 496  
Fergus Falls, Minnesota 56538-0496

Ladies and Gentlemen:

We have acted as counsel to Otter Tail Power Company, a Minnesota corporation (the "Company"), in connection with the Petition which you propose to file with the Minnesota Public Utilities Commission for approval of your proposed capital structure and permission to issue certain long-term debt securities, including First Mortgage Bonds, and unsecured short-term debt securities (collectively, the "Debt Securities").

We have examined such documents and reviewed such questions of law as we deem relevant for the purposes hereof.

We are of the opinion that all requisite action will have been taken by and before all bodies, including bondholders, shareholders, directors and regulatory authorities, necessary to make valid the issuance and sale of the Debt Securities as contemplated by said Petition, when the following additional steps shall have been taken:

- (a) in the case of First Mortgage Bonds, your Board of Directors shall have duly adopted appropriate resolutions approving the form of Indenture pursuant to which such series of First Mortgage Bonds will be issued (the "First Mortgage Indenture") and authorizing the issuance and sale of such series of First Mortgage Bonds and, in the case of other Debt Securities, shall have approved and authorized the issuance and sale thereof;
- (b) the First Mortgage Indenture shall have been duly executed, acknowledged and delivered by the parties thereto and duly recorded and filed in accordance with applicable laws of the States of Minnesota, North Dakota and South Dakota;
- (c) your capital structure and the issuance of the First Mortgage Bonds or other Debt Securities shall have been duly approved by an appropriate Order of the Minnesota Public Utilities Commission, and the issuance and sale of the First Mortgage Bonds or other Debt Securities shall have been duly authorized by an appropriate Order of the Public Service Commission of North Dakota, if then required;
- (d) the First Mortgage Bonds or other Debt Securities shall have been issued and sold in accordance with the resolutions of the Board of Directors and the Orders of the Minnesota Public Utilities Commission and the Public Service Commission of North Dakota;

Otter Tail Corporation  
March 29, 2010  
Page 2

- (e) in the event that any of the First Mortgage Bonds or other Debt Securities are to be sold in a public offering, a Registration Statement with respect thereto shall have been filed with the Securities and Exchange Commission under the Securities Act of 1933, as amended, and shall have become effective; and
- (f) the securities laws of the various states in which the First Mortgage Bonds or other Debt Securities are to be offered shall have been complied with.

We are further of the opinion that no approval of any state or federal regulatory authority, other than as set forth above, is required with respect to the proposed offering, issuance and sale of the Debt Securities, and that when the additional steps set forth above shall have been taken, and upon payment for the Debt Securities as provided for in the related resolutions of the Board of Directors:

- (a) the First Mortgage Bonds will constitute legal, valid and binding obligations of the Company enforceable in accordance with their terms, secured by the lien of, and entitled to the benefits provided by, the First Mortgage Indenture; and
- (b) the other Debt Securities will constitute legal, valid and binding obligations of the Company enforceable in accordance with their terms.

Our opinions set forth above as to the enforceability of the First Mortgage Bonds and the other Debt Securities are subject to the following qualifications and exceptions:

- (1) such opinions are subject to the effects of any applicable bankruptcy, insolvency, reorganization, arrangement, moratorium, fraudulent transfer, statutes of limitation or other similar laws and judicial decisions affecting or relating to the rights of creditors generally;
- (2) such opinions are subject to the effect of general principles of equity, including, without limitation, concepts of materiality, reasonableness, good faith and fair dealing, estoppel, election of remedies and other similar doctrines affecting the enforceability of agreements generally (regardless of whether enforcement is considered in a proceeding in equity or at law); in addition, the availability of specific performance, injunctive relief, the appointment of a receiver or other equitable remedies is subject to the discretion of the tribunal before which any proceeding therefor may be brought;
- (3) such opinions are subject to limitations regarding the availability of indemnification and contribution where such indemnification or contribution may be limited by applicable law or the application of principles of public policy;
- (4) we express no opinion as to the enforceability of (i) provisions that relate to choice of law, forum selection or submission to jurisdiction (including, without limitation, any express or implied waiver of any objection to venue in any court or

Otter Tail Corporation  
March 29, 2010  
Page 3

of any objection that a court is an inconvenient forum) to the extent that the validity, binding effect or enforceability of any such provision is to be determined by any court other than a state court of the State of Minnesota, (ii) waivers by the Company of any statutory or constitutional rights or remedies, (iii) terms which excuse any person or entity from liability for, or require the Company to indemnify such person or entity against, such person's or entity's negligence or willful misconduct or (iv) obligations to pay any prepayment premium, default interest rate, early termination fee or other form of liquidated damages, if the payment of such premium, interest rate, fee or damages may be construed as unreasonable in relation to actual damages or disproportionate to actual damages suffered as a result of such prepayment, default or termination; and

- (5) we draw your attention to the fact that, under certain circumstances, the enforceability of terms to the effect that provisions may not be waived or modified except in writing may be limited.

Our opinions expressed above are limited to the laws of the State of Minnesota.

We consent that copies of this opinion may be filed with the Minnesota Public Utilities Commission in connection with your Petition thereto.

Dated: March 29, 2010

Yours very truly,



GLT/SFA





**Otter Tail Power Company**  
**Income Statement**  
**December 31, 2009 and Pro Forma**

Line #	Dec 31, 2009	Adjustments	Pro Forma
		(Thousands of Dollars)	
	<b>Operating Revenues</b>		
1	Total Operating Revenue	NONE	307,777
2			
3	<b>Operating Expenses</b>		
4			
5	Production Fuel		59,387
6	Purchased Power		52,944
7	Other Electric Operation and Maintenance		103,700
8	Depreciation and Amortization		35,381
9	Property Taxes		8,846
10	Total Operating Expenses		260,258
11			
12	<b>Operating Income</b>		47,519
13			
14	AFUDC		3,180
15	Other Income & Deductions		3,439
16	<b>Other Income &amp; Deductions - Net</b>		6,619
17	<b>Interest Charges</b>		19,414
18			
19	<b>Income Before Income Taxes</b>		34,725
20	<b>Income Taxes</b>		646
21			
22	<b>Net Income from continuing operations</b>		34,079
23	Income from discontinued operations		-
24	Preferred Dividend Requirements		368
25			
26	<b>Earnings Available for Common Shares</b>		\$33,711

***Otter Tail Power Company***  
***December 31, 2009 and Pro Forma***

**None**

**Otter Tail Power Company**  
**Statement of Cash Flows**  
**December 31, 2009 and Pro Forma**  
**(Thousands of Dollars)**

Line #		
	<b>Cash Flows From Operating Activities:</b>	
1	Net Income	\$34,079
2	Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:	
3	Depreciation and Amortization	36,946
4	Deferred Investment Tax Credit - Net	(2,331)
5	Deferred Income Taxes	46,102
6	Change in Deferred Debits and Other Assets	(17,367)
7	Discretionary Contribution to Pension Plan	(4,000)
8	Change in Noncurrent Liabilities and Deferred Credits	13,411
9	Allowance for Equity Funds Used During Construction	(3,180)
10	Other - Net	(1,254)
11	Cash (Used for) Current Assets and Current Liabilities:	
12	Change in Receivables, Materials and Supplies	2,124
13	Change in Other Current Assets	8,652
14	Change in Payables and Other Current Liabilities	(8,491)
15	Change in Interest and Income Taxes Payable	(19,181)
16	Net Cash Provided by operating activities	85,510
17		
18	<b>Cash Flows From Investing Activities:</b>	
19	Gross Capital Expenditures	(145,913)
20	Federal Grain in lieu of production tax credit for Luverne Wind Farm	30,182
21	Purchases of Nonutility Assets	(296)
22	Proceeds from Disposal of Noncurrent Assets	422
23	Change in Other Investments	44
24	Net Cash Used in Investing Activities	(115,561)
25		
26	<b>Cash Flows From Financing Activities:</b>	
27	Change in Short-Term Debt - Net Issuances	(23,771)
28	Capital Contributions from Parent	9,669
29	Proceeds from Issuance of Long-Term Debt	95,030
30	Payments for Retirement of Long-Term Debt	(17,265)
31	Dividends Paid	(34,213)
32	Net Cash Provided by Financing Activities	29,450
33		
34	Net Change in Cash and Cash Equivalents	(601)
35		
36	Cash and Cash Equivalents at December 31, 2008	844
37		
38	Cash and Cash Equivalents at December 31, 2009	\$242



**OTTER TAIL POWER COMPANY**  
**STATEMENT AS OF DECEMBER 31, 2009, DESCRIBING EACH**  
**CLASS AND SERIES OF FUNDED DEBT OF THE CORPORATION**

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- I. (1) Brief description – Mercer County, North Dakota Pollution Control Refunding Revenue Senior Debentures, 4.85% Series of 2001, issued September 1, 2001, maturing September 1, 2022, interest payable semi-annually on March 1 and September 1 of each year. The Senior Debentures are unsecured and rank on a parity with all other unsecured and unsubordinated debt of the Corporation. The Senior Debentures are redeemable on or after September 1, 2006.
- (2) Amount authorized -- \$20,790,000.
- (3) Amount outstanding, exclusive of treasury bonds -- \$20,400,000.
- (4) Amount held in treasury as reacquired securities -- none.
- (5) Amount pledged -- none.
- (6) Amount owned by affiliated corporations -- none.
- (7) Amount in sinking or other funds -- none.
- (8) Interest paid for the fiscal year ended December 31, 2009 -- \$995,584.
- II. (1) Brief description – Grant County, South Dakota Pollution Control Refunding Revenue Senior Debentures, 4.65% Series of 2001, issued September 1, 2001, maturing September 1, 2017, interest payable semi-annually on March 1 and September 1 of each year. The Senior Debentures are unsecured and rank on a parity with all other unsecured and unsubordinated debt of the Corporation. The Senior Debentures are redeemable on or after September 1, 2006.
- (2) Amount authorized -- \$5,185,000.
- (3) Amount outstanding, exclusive of treasury bonds -- \$5,125,000.
- (4) Amount held in treasury as reacquired securities -- none.
- (5) Amount pledged -- none.
- (6) Amount owned by affiliated corporations -- none.
- (7) Amount in sinking or other funds -- none.
- (8) Interest paid for the fiscal year ended December 31, 2009 -- \$239,553.
- III. (1) Brief description -- Obligation pursuant to Loan Agreement dated as of December 1, 1993

between Otter Tail Power Company and Grant County, South Dakota. Payments under said Loan Agreement will be sufficient to pay the principal of, premium, if any, and interest on \$10,400,000 principal amount of Pollution Control Refunding Revenue Bonds (Otter Tail Power Company Project) Series 1993, issued by Grant County, South Dakota. The Bonds are dated December 15, 1993, mature December 1, 2012, and bear interest at a variable rate which is determined by the Remarketing Agent. Interest is payable commencing on January 1, 1994, and thereafter on the first day of each month at the variable rate.

- (2) Amount of Bonds authorized -- \$10,400,000.
  - (3) Amount of Bonds outstanding, exclusive of treasury bonds -- \$10,400,000.
  - (4) Amount held in treasury as reacquired securities -- none.
  - (5) Amount pledged -- none.
  - (6) Amount owned by affiliated corporations -- none.
  - (7) Amount in sinking or other funds -- none.
  - (8) Interest on Bonds paid for the fiscal year ended December 31, 2009 -- \$367,633.
- IV. (1) Brief description -- Senior Notes, 6.63% Series Due 2011, issued December 27, 2001, maturing December 1, 2011, bearing interest at the rate of 6.63% per annum, payable semi-annually on June 1 and December 1 of each year. The Senior Notes are unsecured and rank on parity with all other unsecured and unsubordinated debt of the Corporation. The Corporation's obligations under the Senior Notes are guaranteed by certain of the Corporation's subsidiaries. The Senior Notes are redeemable at the option of the Corporation, in whole or in part from time to time, prior to maturity, at 100% of the principal amount plus a make-whole premium. The Senior Notes do not have the benefit of any sinking fund.
- (2) Amount authorized -- \$90,000,000.
  - (3) Amount outstanding, exclusive of treasury bonds -- \$90,000,000.
  - (4) Amount held in treasury as reacquired securities -- none.
  - (5) Amount pledged -- none.
  - (6) Amount owned by affiliated corporations -- none.
  - (7) Amount in sinking or other funds -- none.
  - (8) Interest paid for the fiscal year ended December 31, 2009 - \$5,967,000.

- V. (1) Brief description -- Senior Notes: Series A Due 2017, issued October 1, 2007, maturing August 20, 2017, bearing interest at the rate of 5.950% per annum; Series B Due 2022, issued October 1, 2007, maturing August 20, 2022, bearing interest at the rate of 6.150% per annum; Series C Due 2027, issued August 20 and October 1, 2007, maturing August 20, 2027, bearing interest at the rate of 6.370% per annum; and Series D Due 2037, issued August 20 and October 1, 2007, maturing August 20, 2037, bearing interest at the rate of 6.470% per annum. Interest is payable semi-annually on February 15<sup>th</sup> and August 15<sup>th</sup> of each year for all series. The Senior Notes are unsecured and rank on a parity with all other unsecured and unsubordinated debt of the Corporation. The Senior Notes are redeemable at the option of the Corporation, in whole or in part from time to time, prior to maturity, at 100% of the principal amount plus a make-whole premium. The Senior Notes are redeemable at the option of the holders in the event of a change of control at 100% of the principal amount plus a make-whole premium. The Senior Notes do not have the benefit of any sinking fund.
- (2) Amount authorized -- \$155,000,000.
- (3) Amount outstanding, exclusive of treasury bonds -- \$155,000,000.
- (4) Amount held in treasury as reacquired securities -- none.
- (5) Amount pledged -- none.
- (6) Amount owned by affiliated corporations -- none.
- (7) Amount in sinking or other funds -- none.
- (8) Interest paid for the fiscal year ended December 31, 2009 -- \$9,718,900.
- VI. (1) Brief description -- Term Loan, Due 2011, issued May 22, 2009, maturing May 20, 2011, bearing interest at a variable rate equal to the base rate in effect from time to time. The base rate is a fluctuating rate per annum equal to (1) the highest of (A) JPMorgan Chase Bank's prime rate, (B) the Federal funds effective rate plus 0.5% per annum, and (C) a daily LIBOR rate plus 1.0% per annum, plus (ii) a margin of 1.5% to 3.0% determined on the basis of the Corporation's senior unsecured credit ratings, as provided in the Term Loan Agreement. The Term Loan is unsecured and ranks on a parity with all other unsecured and unsubordinated debt of the Corporation. The Term Loan does not have the benefit of any sinking fund.
- (2) Amount authorized -- \$75,000,000.
- (3) Amount outstanding, exclusive of treasury bonds -- \$58,000,000.
- (4) Amount held in treasury as reacquired securities -- none.
- (5) Amount pledged -- none.
- (6) Amount owned by affiliated corporations -- none.

- (7) Amount in sinking or other funds -- none.
  - (8) Interest paid for the fiscal year ended December 31, 2009 -- \$1,712,124.
- VII. (1) Brief description – Inter-Company Notes: Series A issued July 1, 2009, no maturity date specified, bearing interest at the rate of 5.33% per annum; Series B, issued July 1, 2009, no maturity date specified, bearing interest at the rate of 7.21% per annum pre-tax; Series C, issued July 1, 2009, no maturity date specified, bearing interest at the rate of 7.62% per annum pre-tax; and Series D, issued July 1, 2009, no maturity date specified, bearing interest at the rate of 9.35% per annum pre-tax. Interest payable quarterly on March 1, June 1, September 1 and December 1 of each year.
- (2) Amount authorized -- \$15,500,000.
  - (3) Amount outstanding, exclusive of treasury bonds -- \$15,500,000.
  - (4) Amount held in treasury as reacquired securities -- none.
  - (5) Amount pledged -- none.
  - (6) Amount owned by affiliated corporations -- \$15,500,000.
  - (7) Amount in sinking or other funds -- none.
  - (8) After-tax interest equivalent paid for the fiscal year ended December 31, 2009 -- \$367,750.

**OTTER TAIL POWER COMPANY  
STATEMENT AS OF DECEMBER 31, 2009, DESCRIBING EACH  
CLASS AND SERIES OF THE CORPORATION'S SHARES  
AUTHORIZED BY ARTICLES OF INCORPORATION**

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- I. (1) Brief description -- Cumulative Preferred Shares without par value, when issued, will be senior to the Company's Common and Cumulative Preference Shares with respect to the rights to receive dividends and amounts payable upon the liquidation, dissolution, or winding up of the Company, - issuable from time to time in one or more series, each series having such designation and such relative rights, voting power, preferences, and restrictions as provided in the Articles of Incorporation of the Company and, to the extent therein permitted, as are determined by the Board of Directors of the Company.
- (2) Amount authorized -- 1,500,000 shares, without par value.
- (3) Amount outstanding, exclusive of treasury shares -- none.
- (4) Amount held in treasury as reacquired securities -- none.
- (5) Amount pledged -- none.
- (6) Amount owned by affiliated corporations -- none.
- (7) Amount held in any fund -- none.
- II. (1) Brief description -- Cumulative Preference Shares without par value, which, when issued, will be junior to the Company's Cumulative Preferred Shares, but senior to the Company's Common Shares with respect to the rights to receive dividends and amounts payable upon the liquidation, dissolution, or winding up of the Company, - issuable from time to time in one or more series, each series having such designation and such relative rights, voting power, preferences, and restrictions as provided in the Articles of Incorporation of the Company and, to the extent therein permitted, as are determined by the Board of Directors of the Company.
- (2) Amount authorized -- 1,000,000 shares, without par value.
- (3) Amount outstanding, exclusive of treasury shares -- none.
- (4) Amount held in treasury as reacquired securities -- none.
- (5) Amount pledged -- none.
- (6) Amount owned by affiliated corporations -- none.
- (7) Amount held in any fund -- none.

- III. (1) Brief description -- Common Shares, par value \$5 each, entitled subject to the prior rights of the holders of Preferred Shares, to receive dividends without limit, and, except as otherwise provided by statute and except in event of certain defaults in the payment of dividends on the Preferred Shares, to full voting rights.
- (2) Amount authorized -- 50,000,000 shares of the par value of \$5 each.
- (3) Amount outstanding -- 100 shares.
- (4) Amount held in treasury as reacquired securities -- none.
- (5) Amount pledged -- none.
- (6) Amount owned by affiliated corporations -- 100 shares.
- (7) Amount held in any fund -- none.

**Otter Tail Power Company**  
**Rate and Amount of Dividends Paid**  
**Years 2005 Through 2009**  
**(Thousands of Dollars)**

	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009 (1)</b>
<b><u>Cumulative Preferred Shares</u></b>					
\$3.60 Series - 60,000 Shares	\$ 216	\$ 216	\$ 216	\$ 216	108
4.40 Series - 25,000 Shares	110	110	110	110	55
4.65 Series - 30,000 Shares	139	139	139	139	70
6.75 Series - 40,000 Shares	270	270	270	270	135
<b>Total</b>	<b>\$ 735</b>	<b>\$ 735</b>	<b>\$ 735</b>	<b>\$ 735</b>	<b>368</b>

**Common Shares (2)**

Amount Paid	\$ 26,182	\$ 27,108	\$ 27,824	\$ 29,886	33,846
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(1) Preferred Shares were converted to inter-company notes in July 2009 with the conversion to Holding Company structure. Interest shown for 2009 represents amount for first half of year while the preferred shares were in place. Inter-company notes have the same after tax interest rate as the preferred shares and are outlined in Attachment No. 6

(2) OTP does not pay public common stock dividends. Amounts listed are dividends paid to parent company, OTC

**OTTER TAIL POWER COMPANY**

**Assumptions Used In Developing Monthly Cash Flow Forecast**

1. Monthly cash requirements are based on actual results for 2008 and 2009.
2. Dividends on Otter Tail Corporation's common stock were \$1.19 per share in 2009. The 2010 indicated annual dividend is \$1.19 per share for Otter Tail Corporation.





**Attachment No. 10**  
Continued

**Otter Tail Power Company**  
**Monthly Cash Flow**  
**For Period January to December 2009 Actual**  
**(Thousands of Dollars)**

Line #	Actual Jan	Actual Feb	Actual Mar	Actual Apr	Actual May	Actual Jun	Actual Jul	Actual Aug	Actual Sep	Actual Oct	Actual Nov	Actual Dec	Total
1	1,026	4,777	5,175	6,941	11,352	9,519	16,381	52,498	17,529	(25,548)	2,186	2,719	\$ 104,553
2													0
3													0
4													0
5													0
6			8,611		8,629				8,478			8,496	34,213
7													-
8	(7)	291	(89)	(21)	(5)	574	(343)	141	(505)	99	(8)	77	205
9													0
10	(7)	291	8,522	(21)	(5)	9,203	(343)	141	7,973	99	(8)	8,573	34,418
11													0
12	\$1,018	\$5,068	\$13,696	\$6,920	\$11,347	\$18,722	\$16,039	\$52,639	\$25,502	(\$25,449)	\$2,178	\$11,291	\$138,971
13													0
14													0
15													0
16													0
17	\$ 2,627	\$ 3,343	\$ 2,555	\$ 926	\$ 676	\$ 2,793	\$ 3,940	\$ 3,269	\$ 2,317	\$ 2,780	\$ 4,306	\$ 4,545	\$ 34,078
18	1,111	(199)	5,285	4,435	2,215	18,986	1,520	(705)	10,024	4,205	(9,600)	(34,778)	2,501
19	(7,656)	(8,350)	1,286	(4,067)	17,142	(10,612)	12,086	43,332	(34,338)	(9,364)	(5,352)	8,872	2,979
20	1,613	1,920	996	1,394	1,747	6,159	1,562	2,708	(4,109)	74	3,861	27,542	45,466
21	741	827	923	(165)	19	(13,256)	(8,146)	(4,343)	(14,129)	(7,243)	1,803	(3,768)	(46,737)
22	2,848	1,966	2,982	2,903	3,023	3,650	4,871	4,871	2,618	5,390	3,061	5,273	43,170
23	1,284	(493)	14,027	5,426	24,822	7,720	15,547	49,131	(37,616)	(4,158)	(1,921)	7,686	81,456
24													0
25					75,000		24,400				(17,000)		82,400
26					(24,801)		(19,913)				(7,999)		(25,479)
27								1	14,498	(6,499)		1,563	
28													
29	\$2,224	\$4,187	\$13,660	\$6,922	\$75,021	\$18,624	\$20,035	\$49,132	(\$23,119)	(\$10,657)	(\$26,920)	\$9,269	\$138,377
30	1,205	(882)	(36)	2	63,674	(98)	3,996	(3,507)	(48,620)	14,793	(29,098)	(2,023)	
31													
32	\$2,045	\$1,163	\$1,127	\$1,129	\$64,803	\$64,705	\$68,701	\$65,194	\$16,573	\$31,366	\$2,267	\$245	
33													
34	\$28,000	\$32,678	\$32,315	\$33,811	\$9,009	\$19,914	\$0	\$0	\$14,499	\$8,000	\$0	\$1,585	



## Attachment No. 10A

**Otter Tail Power Company**  
**Financing Issuances**  
**For Year Ended December 31, 2009**  
**(Thousands of Dollars)**

	Amount
<b>Sources:</b>	
<b><u>Long Term Debt Financing</u></b>	
2 Year Term Loan - variable rate	\$ 75,000
Series 2011 Note / 6.63%	19,400 (4)
Series D Senior Note / 6.47%	5,000 (4)
Payment of 2 Year Term Loan	(17,000)
	<u>0</u>
	\$ 82,400 (1)
<b><u>Equity Financing</u></b>	
No Equity Financing Activity for period	<u>\$ -</u>
	\$ - (2)
<b><u>Grant Financing</u></b>	
U.S. Treasury-American Recover and Reinvestment Act of 2009	<u>\$ 30,200</u>
	\$ 30,200

  

<b>Uses:</b>	
Luverne Wind Energy Center	\$ 101,773 (3)

### **Notes**

- (1) ties to row 25 of prior year on Attachment No. 10
- (2) ties to row 26 of prior year on Attachment No. 10
- (3) balance of financing temporarily completed as short term debt at time of construction
- (4) financing completed by OTC earlier than 2009 and now reflected in the OTP cap structure as part of the finalization of the holding company structure completed in July 2009.

**Otter Tail Power Company**  
**Capital Expenditures Projected by Category**  
*(Thousands of Dollars)*

**For Year Ending December 31, 2010**

Category Breakdown	2010 (000's)			Individual Largest Project
	Dollars	Individual Projects	Average Size	
Replace Existing Equipment				
Generation	\$8,405.3	80	\$105.1	\$1,300.9
Transmission	8,286.9	36	230.2	2,000.0
Distribution	15,894.8	83	191.5	1,500.0
General	8,284.4	69	120.1	350.0
Intangible	1,679.9	7	240.0	500.0
Total:	<u>42,551.3</u>	<u>275</u>	<u>154.7</u>	
New Product or Venture				
CAPX2020	\$7,894.1	3	\$2,631.4	\$3,837.2
Gas Peaking Turbine	-			
Total	<u>\$50,445.4 (1)</u>	<u>278</u>		

**For Year Ending December 31, 2011**

Category Breakdown	2011 (000's)			Individual Largest Project
	Dollars	Individual Projects	Average Size	
Replace Existing Equipment				
Generation	\$17,064.4	68	\$250.9	\$2,910.6
Transmission	15,667.1	1	15,667.1	10,000.0
Distribution	16,462.9	86	191.4	1,575.0
General	10,001.9	54	185.2	3,500.0
Intangible	606.4	2	303.2	500.0
Total:	<u>59,802.6</u>	<u>211</u>	<u>283.4</u>	
New Product or Venture				
CAPX2020	\$28,078.9	3	\$9,359.6	\$12,854.9
Gas Peaking Turbine	19,468.0	1		
Total	<u>\$107,349.4</u>	<u>215</u>		

(1) ties to row 1 of current year on Attachment No. 10

**Generation** includes projects at Hoot Lake, Big Stone and Coyote plants. The largest project planned in 2010 is replacement of coal conveying equipment at the Hoot Lake Plant. **Transmission** includes projects in transmission lines and substations. The largest project planned in 2010 is the Ramsey transformer upgrade. **Distribution** includes projects primarily in Customer Service Center's in Bemidji, Crookston, Devils Lake, Rugby, Fergus Falls, Wahpeton, Jamestown, Morris and Milbank.

The largest project planned in 2010 is for distribution transformer replacements.

**General** includes projects in common buildings, transportation, telecommunications, computer networks/hardware and print&mail services. **Intangible** includes projects involving software in the areas of work orders, energy management systems, human resources management, capital budgeting and accounts payable

**CAPX2020** includes 3 projects: Bemidji-Grand Rapids (Engineering, Right of Way Acquisition and Permitting), Fargo-St. Cloud (Permitting, Material Procurement and Construction) and Brookings-Twin Cities (Environmental and Permitting)

\*\*Spending amounts listed are for the years listed, Larger projects (CAPX2020, Gas Peaking Turbine) have further spending in years beyond 2011

**OTTER TAIL COPORATION**  
**RECONCILIATION BETWEEN 2009 BUDGETED CAPITAL EXPENDITURES COMPARED**  
**WITH ACTUAL**

	December 31, 2009		
	Cap. Ex.	Actual Cap. Ex.	
	<u>Budget</u>	<u>December 31, 2009</u>	<u>Deviations</u>
		(Thousands of Dollars)	
Generation	\$11,420	\$11,098	322
Transmission	7,460	8,654	(1,194)
Distribution	12,603	15,475	(2,872)
General	3,304	5,781	(2,477)
Intangible	442	434	8
CAPX2020	--	1,558	(1,558)
Wind	<u>          --</u>	<u>102,913</u>	<u>(102,913)</u> (1)
Total Capital Spending	<u>\$35,229</u>	<u>\$145,913</u>	<u>(\$110,684)</u>

- (1) OTP investment in Luverne wind farm. This project was not part of the 2009 Capital Expenditure Budget. The Luverne project was approved by the OTC Board of Directors in March 2009 once a financing plan had been solidified. The Commission approved OTP's capital expenditure in Luverne in its January 27, 2010 order approving investment in affiliated interest project, with clarifications in Docket No. E-017/M-09-883.