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April 26, 2007

Ms. Patricia Van Gerpen  
Executive Director  
Public Utilities Commission  
State of South Dakota  
Pierre, SD 57501



Dear Ms. Van Gerpen:

Enclosed is the detail of the determination of the fuel adjustment factor for the three months ending March 2007. The new adjustment factor is applicable on bills dated on and after May 2, 2007 (Billing Cycle 1).

The calculation was made in compliance with the Fuel Adjustment Clause, Electric Rate Schedule - Rate Designation M-60S, as approved by the South Dakota Public Utilities Commission Order dated April 7, 2005 (Docket No. EL05-009). This calculation includes Item 6 of the tariff "Costs or revenues linked to the utility's load serving obligation, associated with participation in wholesale electric energy markets operated by Regional Transmission Organizations, Independent System Operators or similar entities that have received Federal Energy Regulatory Commission approval to operate the energy markets." A detail schedule of the items included in the calculation is attached to the enclosure. Otter Tail requests confidential treatment of columns (F) and (G) of the detail schedule pursuant to ARSD Part 20:10:01:41 due to the competitive nature of the data in those columns. Otter Tail is requesting confidential treatment for a period of at least 12 months and will request an extension in the future if necessary. Contact Pete Beithon, Manager of Regulatory Economics at: (218) 739-8607, 215 South Cascade Street, Fergus Falls, MN 56537 with any questions of concerns regarding the confidentiality request.

Revenue from Cost of Energy Adjustment for March 2007:

Total Sales in South Dakota	34,482,608 kWh
Sales Subject to Fuel Adjustment	30,617,833 kWh
Average Rate During Period	\$.00962
Revenue in Period	\$294,504.61
Energy Cost Adjustment - Effective 5/2/07	\$.01673

#### **Planned Outages - March**

Big Stone generating plant began its planned derates in March as the first phase of the conversion from the AHPC to a Pulse Jet Baghouse. The unit will operate during this phase of the conversion, but at a derated level. Generation was slightly above budget for the year. Phase one derates will continue through May. Phase two of the conversion will involve a plant outage for about 6 weeks this fall. The March derate resulted in an estimated reduction of 65,459 mwhs.

Hoot Lake generating plant was about 12% over budget in generation for the month. Hoot Lake was supposed to begin a 7-week outage on unit #2 on March 29, but that outage has now been moved to the spring of 2008.

**Unplanned Outages- March**

Coyote generating plant experienced three separate tube leaks during the month of March that required a total of about 260 hours off-line for repairs. As a result of these forced outages, the plant was about 20% under budget in generation for the month. The result of Coyote being off-line was an estimated reduction of 36,692 mwhs.

Hoot Lake was also off-line 27 hours resulting in an estimated reduction of 2,616 mwhs.

**Unplanned Outages - February**

Otter Tail Power's Big Stone generating plant was reduced approximately 2,112 mwhs due to derating from February 20 to February 28. Otter Tail Power's Coyote generating plant was off line four days resulting in an approximate reduction of 13,272 mwhs and was also derated for the month resulting in an approximate reduction of 3,456 mwhs.

Sincerely,

A handwritten signature in black ink that reads "Jill R. Bjorgum". The signature is written in a cursive style with a large, stylized initial "J".

Jill R. Bjorgum  
Regulatory Transactions Specialist  
Regulatory Services

Enclosures

**20:10:01:41. Requests for confidential treatment of information.** A request for confidential treatment of information shall be made by submitting the material to the commission along with the following information:

(1) An identification of the document and the general subject matter of the materials or the portions of the document for which confidentiality is being requested;

(2) The length of time for which confidentiality is being requested and a request for handling at the end of that time. This does not preclude a later request to extend the period of confidential treatment;

(3) The name, address, and phone number of a person to be contacted regarding the confidentiality request;

(4) The statutory or common law grounds and any administrative rules under which confidentiality is requested. Failure to include all possible grounds for confidential treatment does not preclude the party from raising additional grounds in the future; and

(5) The factual basis that qualifies the information for confidentiality under the authority cited.

Information shall be sent to the commission's executive director, unless another person is designated. Information submitted must clearly state in large letters on each page and on the envelope that confidential treatment is requested.

**Source:** 16 SDR 148, effective March 22, 1990.

**SOUTH DAKOTA**  
 OTTER TAIL POWER COMPANY  
 COST OF ENERGY ADJUSTMENT  
 FOR BILLING TO BE EFFECTIVE MAY 2, 2007

EFFECTIVE 5/02/07  
 CYCLE 01  
 RATE LEVEL 42

<b>ENERGY COSTS</b>	2007 January	2007 February	2007 March	Total This Period		
Purchased Power	\$ 6,279,924	\$ 1,557,502	\$ 3,023,654	\$ 10,861,080		
Steam Plant Generation	\$ 4,892,298	\$ 4,641,534	\$ 4,392,651	\$ 13,926,483		
Other Plant Generation	\$ 571,452	\$ 1,582,193	\$ 344,891	\$ 2,498,536		
Hydro Plant Generation	\$ -	\$ -	\$ -	\$ -		
Less: Intersystem Sales	\$ (4,551,380)	\$ (1,812,551)	\$ (741,046)	\$ (7,104,978)		
Net Retail MISO Day 2	\$ 5,121,321	\$ 5,945,704	\$ 5,184,446	\$ 16,251,471		
<b>NET ENERGY COSTS</b>	<b>\$ 12,313,615</b>	<b>\$ 11,914,382</b>	<b>\$ 12,204,596</b>	<b>\$ 36,432,593</b>	\$	12,144,198
Prior (over) under recovery					\$	(102,460)
Adjusted Net Energy Costs					\$	12,246,658

**ASSOCIATED ENERGY -- KWH**

Net Generation - Steam	312,851,659	290,500,880	274,882,383	878,234,922
Other Plant IC Generation	5,091,444	11,617,091	2,892,269	19,600,804
Hydro Plant Generation	1,836,323	1,722,661	2,548,811	6,107,795
Purchased Power	229,767,298	84,945,768	65,113,864	379,826,930
Total Energy	549,546,724	388,786,400	345,437,327	1,283,770,451
Less Intersystem Sales	(161,756,277)	(103,506,006)	(15,734,402)	(280,996,685)
Net Retail MISO Day 2	86,813,595	69,782,848	81,209,087	237,805,530
Net Energy - KWHs	474,604,042	355,063,242	410,912,012	1,240,579,296

Energy Adjusted to Retail Sales (Net Energy X (1.00 - .08)) 1,141,332,952 380,444,317

Delivered Cost per kWh \$ 0.032190  
 Base Cost per kWh \$ 0.015460

Energy Cost Adjustment -- Per kWh \$ 0.01673

**True up for February to March**

1) KWH Sales for the Period Subject to FAC	323,999,599
2) KWH Sales for the Period	375,215,381
3) Net Energy Costs Recoverable for the Period	
4) Net Energy Cost to be Recovered Excl. Prior Over/Under	\$ 10,668,779
5) Portion of Subtotal Previously Collected Thru FAC Base	\$ 5,745,802
6) Remaining Portion of Net Energy Costs (Line 4 - Line 5)	\$ 4,922,977
7) Percentage of Total KWH Subject to FAC (Line 1 / Line 2)	86.350%
8) Remaining Net Energy Costs to be Collected Thru FAC (Line 6 X Line7)	\$4,250,991
9) Prior Over/(Under) Recoveries	\$ 1,032,499
10) Net Energy Costs Recoverable Thru FAC (Line 8 - Line 9)	\$ 3,218,492
11) FAC Recovery Rate Calculated in February	\$0.00962
12) Amount Recovered by the FAC (Line 1 X Line 11)	\$ 3,116,876
13) Over/(Under) Recovery Before Carrying Charge (Line 12 - Line 10)	\$ (101,616)
14) Carrying Charge (ROR / 12 x Line 13)	\$ (844)
15) Over/(Under) Recovery (Line 13 + Line 14)	\$ (102,460)

**COST OF ENERGY CALCULATION  
SOUTH DAKOTA OVER/UNDER  
MAY 2, 2007**

**I. SYSTEM KWH SALES**

BILLINGS EFFECTIVE MARCH 2, 2007 THRU APRIL 1, 2007

	KWH SALES SUBJECT TO F.A.C.	TOTAL KWH SALES
(1) KWH SALES - MARCH	323,999,599	375,215,381

SOURCE: LINE (1)--FROM MONTH END DAILY REVENUE REPORT (MONTH TO DATE AMOUNT).

**II. PORTION OF NET ENERGY COSTS COLLECTED THRU F.A.C. BASE**

PERIOD: NOVEMBER 2006 THRU JANUARY 2007

	MONTH NOVEMBER	MONTH DECEMBER	MONTH JANUARY	TOTAL FOR PERIOD	AVERAGE FOR PERIOD
(1) KWH SALES	350,473,357	366,336,413	398,158,308		
(2) F.A.BASE	\$0.015460	\$0.015460	\$0.015460		
(3) AMT. COLLECTED FROM F.A. BASE (LINE 1 X 2)	\$5,418,318	\$5,663,561	\$6,155,527	\$17,237,406	\$5,745,802

SOURCE: LINE (1)--FROM MONTHLY REVENUE REPORT BY REVENUE CLASS (SUBTOTAL).

(EXCLUDES - CO. USE, FREE SERVICE, INTERSYSTEM SALES).

LINE (2)--BASE AMOUNT THAT WAS APPLIED TO SALES ON LINE 1.

LINE (3)--THREE MONTHS' TOTALS EXTENDED TO TOTAL FOR PERIOD...

DIVIDED FOR AVERAGE FOR PERIOD.

**SD OVER/(UNDER) RECOVERY WORKSHEET**

**MAY 2, 2007**

BILLINGS EFFECTIVE MARCH 2, 2007 THRU APRIL 1, 2007

(1) KWH SALES FOR THE PERIOD SUBJECT TO F.A.C.		<u>323,999,599</u>
(2) TOTAL KWH SALES FOR THE PERIOD		<u>375,215,381</u>
(3) NET ENERGY COSTS RECOVERABLE FOR THE PERIOD THRU F.A.C.		
(4) NET ENERGY COST TO BE RECOVERED EXCL. PRIOR OVER/(UNDER) RECOVERIES	<u>\$10,668,779</u>	
(5) PORTION OF SUBTOTAL PREVIOUSLY COLLECTED THRU F.A.C. BASE	<u>\$5,745,802</u>	
(6) REMAINING PORTION OF NET ENERGY COSTS (LINE 4 - 5)	<u>\$4,922,977</u>	
(7) PERCENTAGE OF TOTAL KWH SUBJECT TO F.A.C. (LINE 1 / LINE 2)	<u>0.8635</u>	
(8) REMAINING NET ENERGY COSTS TO BE COLLECTED THRU F.A.C.(LINE 6 X LINE 7)	<u>\$4,250,991</u>	
(9) PRIOR OVER/(UNDER) RECOVERIES	<u>\$1,032,499</u>	
(10) NET ENERGY COSTS RECOVERABLE THRU F.A.C. (LINE 8 - LINE 9)	<u>\$3,218,492</u>	<u>\$3,218,492</u>
(11) F.A.C. RECOVERY RATE		<u>\$0.00962</u>
(12) AMOUNT RECOVERED BY THE F.A.C. (LINE 1 X LINE 11)		<u>\$3,116,876</u>
(13) OVER/(UNDER) RECOVERY BEFORE CARRYING CHARGE (LINE 12 - LINE 10)		<u>(\$101,616)</u>
(14) CARRYING CHARGE (ROR / 12 X LINE 13)		<u>(\$844)</u>
(15) OVER/(UNDER) RECOVERY (LINE 13 + LINE 14)		<u>(\$102,460)</u>

SOURCE: LINES 1 & 2 FROM MANUAL WORKSHEET FOR SYSTEM KWH SALES.  
 LINE 4 FROM TWO MONTHS' PREVIOUS F.A.C. CALCULATION FOR SO. DAK. (NET ENERGY COST BEFORE ADJ.)  
 LINE 5 FROM MANUAL WORKSHEET FOR ENERGY COSTS COLLECTED THRU F.A.C. BASE.  
 LINE 9 FROM LINE 15 OF THE WORKSHEET CALCULATED TWO MONTHS PREVIOUS.  
 LINE 11 F.A.C. RECOVERY RATE FOR SOUTH DAKOTA FROM TWO MONTHS' PREVIOUS CALCULATION.  
 LINE 14 CARRYING CHARGE (DEBIT OR CREDIT).  
 R.O.R. (OVERALL RATE OF RETURN) = 9.964  
 RATE GRANTED BY COMMISSION IN MOST RECENT RATE CASE.