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May 25, 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 April 2007. The new adjustment factor is applicable on bills dated on and after June 1, 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 April 2007:

Total Sales in South Dakota	29,967,577 kWh
Sales Subject to Fuel Adjustment	27,427,384 kWh
Average Rate During Period	\$.01334
Revenue in Period	\$365,785.50
Energy Cost Adjustment - Effective 6/1/07	\$.01982

The main factor contributing to the fuel adjustment increase is NSP/Xcel changed how it's load is reported daily in the Otter Tail Power Balancing Authority (BA-old term was control area). Previously, Xcel used the MISO State Estimator for determining its load in Otter Tail's BA. In April they changed to using their dynamic schedule. The accuracy of the dynamic schedule is much greater than the State Estimator. The accuracy means the amount of Xcel's load in the Otter Tail BA is significantly lower in the short-term. Otter Tail previously would get too much credit (which was flowed to retail customers) from MISO, then get charged back when S55 statements had the actual metered load. As a result, there was a one-time shift in costs for Otter Tail Power as the allocation of load was corrected. The financial obligation due Xcel was approximately \$3,000,000. The "payback" for this moved through daily settlements over 37 days following March 30, 2007. It appears approximately \$1.9 million of this correction occurred in April 2007. The change should minimize the amount of adjustments Otter Tail has experienced due to S55 statements being settled (monthly since the start of the MISO Day 2 Market) once actual meter readings are included by MISO.