

215 South Cascade Street
PO Box 496
Fergus Falls, Minnesota 56538-0496
218 739-8200
www.otpco.com (web site)

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AUG 25 2006

SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

August 23, 2006

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 July 2006. The new adjustment factor is applicable on bills dated on and after September 1, 2006 (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 (E) and (F) 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.

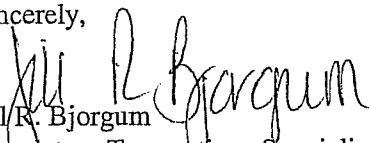
July item of note

On July 17th and 18th the load for an entity in Otter Tail Power's control area (balancing authority) was improperly reported as zero to MISO. The impact on Otter Tail Power's July costs is estimated at over \$1.7 million. This problem will result in a reduction to the fuel clause adjustment rate for this month, next month and November and due to the correction in September slightly increase the fuel clause adjustment rates for December of this year and January and February of next year. This issue is expected to be corrected on the MISO S55 statement related to the period in which the problem occurred. The S55 will be part of September's costs, not August costs.

Revenue from Cost of Energy Adjustment for July 2006:

Total Sales in South Dakota	28,048,985 kWh
Sales Subject to Fuel Adjustment	26,707,742 kWh
Average Rate During Period	\$.01231
Revenue in Period	\$328,710.02
Energy Cost Adjustment - Effective 8/2/06	\$.01063

Sincerely,


Jill R. Bjorgum
Regulatory Transactions Specialist
Regulatory Services