

**Otter Tail Power Company**  
**South Dakota Retail Jurisdiction**

**I. Return on Equity**

<b><u>Actual Return on Equity (ROE)</u></b>	<b><u>2016</u></b>	<b><u>2015</u></b>
(In Thousands)		
1 Operating Income from Electric Operations (Exhibit 2)	\$5,940	\$5,665
2 Average Regulated Rate Base (Exhibit 3)	\$89,086	\$75,607
3 Rate of Return on Rate Base (Line 1/Line 2)	6.67%	7.49%
4 Weighted Cost of Debt (Exhibit 4)	5.41%	2.70%
5 Weighted Cost of Preferred Stock (Exhibit 4)	0.00%	0.00%
6 Percent of Equity in Capital Structure	52.67%	51.81%
7 Return on Equity (ROE)	7.80%	9.25%

**Normalization Impact**

8 Operating Income from Electric Operations	\$6,241	\$5,731
9 Impact of weather on mWh Sales	(6,280)	(4,718)
10 Impact of Weather on Electric Operating Income	(\$301)	(\$65)
11 Weather Normalized Operating Income	\$6,241	\$5,731
12 Average Regulated Rate Base	\$89,067	\$75,628
13 Weather Normalized Rate of Return on Rate Base	7.01%	7.58%
14 Weather Normalized Return on Equity (ROE)	8.45%	9.48%