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February 23, 2006

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

SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION



Dear Ms. Van Gerpen:

Enclosed is the detail of the determination of the fuel adjustment factor for the three months ending January 2006. The new adjustment factor is applicable on bills dated on and after March 2, 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.

Note that in this month's calculation, the net MISO costs have a notable adjustment to the benefit of customers. Last month we indicated that Otter Tail was in the process of implementing and testing new software to track MISO settlements, and that a resulting adjustment to the FCA was anticipated. Since April 1, 2005, we have also been reviewing and refining our allocation processes and methods with the aid of an independent accounting firm. The results of those refinements have been incorporated into the new automated settlement system, but were not incorporated into our interim manual system. The adjustment in this month's MISO costs reflects the application of the current allocation process applied back to April 1, 2005. The amount of this cumulative adjustment will reduce Otter Tail's March FAC rate by 0.280 cents/kWh. Otter Tail is happy to provide additional information if requested.

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.

Revenue from Cost of Energy Adjustment for January 2006:

Total Sales in South Dakota	34,874,705 kWh
Sales Subject to Fuel Adjustment	29,805,625 kWh
Average Rate During Period	\$.01105
Revenue in Period	\$329,313.96
Energy Cost Adjustment - Effective 3/2/06	\$.00866

Sincerely,

Pete Beithon
Manager Regulatory Economics
Regulatory Services
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