

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



VIA ELECTRONIC DELIVERY

February 27, 2008

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 January 2008. The new adjustment factor is applicable on bills dated on and after March 3, 2008 (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 enclosed. Otter Tail Power Company 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 Power Company 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 2008:

Total Sales in South Dakota	41,048,550 kWh
Sales Subject to Fuel Adjustment	36,978,056 kWh
Average Rate During Period	\$.01340
Revenue in Period	\$495,589.45
Energy Cost Adjustment - Effective 3/3/08	\$.01957

Ms. Patricia Van Gerpen
February 27, 2008
Page 2

Plant Conditions for January 2008

Big Stone: The Unit generated 321,013 net MWH for the month. Availability was 96.3% and equivalent availability was 92.8%. There was one forced outage. The Unit was released to 460 net MW cruise level for most of the month. Fuel costs were 1% below budget.

Coyote: The Unit generated 265,125 MWH net for the month of January. Availability for the month was 92.9% due to two forced outages. Both outages were caused by tube leaks; one in the primary superheat section and the other in the reheat section of the boiler. The Unit was derated at 400 MWH net for the entire month for turbine copper deposits. Coal quality for the month was average. Fuel costs for the month were 2% below budget.

Hoot Lake: The plant produced 81,423 MWh net for the month of January. Plant availability was 94.5 percent, with no outages at Hoot Lake #2 and two tube leak outages at Hoot Lake #3. Fuel costs were about 1 percent over budget.

Plant Conditions for December 2007

Big Stone: The unit was off-line for most of the month for a planned outage that was extended by almost 3 weeks due to additional work that was discovered to be needed once the outage was underway. Generation for the month was 42,206 MWh. Plant availability was 17.8%. Fuel costs were 4.5% above budget, mainly due to the cost of railcar maintenance that was performed during the plant outage.

Coyote: The Unit generated 258,949 net MWH for the month of December. Availability for the month was 89.77% due to a scheduled boiler wash outage. At the beginning of the month an 8 MWH derate was placed on the Unit for turbine copper deposits. Several small derates occurred during the month for coal leaks and coal quality. Fuel costs for December were 9.3% above budget. The fuel budget anticipated price reduction resulted from the 12-month roll-off of lower productivity associate with the Coyote Station major outage during the spring of 2006, but this did not occur. Westmoreland indicated that increase in price was due to pension funding contributions, which recently resumed after a holiday of several years, and a continued increase in the PPI-Light Fuel Oils index and an increase in insurance premiums.

Hoot Lake: The plant produced 82,051 MWh net for the month of December. Plant availability was 97.1 percent. Fuel costs were 8.5% over budget for the month. This overage results from some timing differences on when the repairs on returned railcars were expected to be incurred versus when they were actually incurred.

Sincerely,



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 MARCH 3, 2008

EFFECTIVE 3/03/08
CYCLE 01
RATE LEVEL 42

<u>ENERGY COSTS</u>	2007 <u>November</u>	2007 <u>December</u>	2008 <u>January</u>	Total <u>This Period</u>	
Purchased Power	\$ 7,308,208	\$ 6,649,015	\$ 11,782,537	\$ 25,739,759	
Steam Plant Generation	\$ 2,904,174	\$ 3,565,157	\$ 6,039,616	\$ 12,508,947	
Other Plant Generation	\$ 225,458	\$ 1,117,299	\$ 585,061	\$ 1,927,818	
Hydro Plant Generation	\$ -	\$ -	\$ -	\$ -	
Less: Intersystem Sales	\$ (3,549,932)	\$ (5,781,171)	\$ (9,486,708)	\$ (18,817,811)	
Net Retail MISO Day 2	\$ 6,662,438	\$ 14,388,802	\$ 4,414,340	\$ 25,465,581	
NET ENERGY COSTS	\$ 13,550,346	\$ 19,939,102	\$ 13,334,846	\$ 46,824,294	\$ 15,608,098
Prior (over) under recovery					\$ 2,131,393
Adjusted Net Energy Costs					\$ 13,476,705

ASSOCIATED ENERGY -- KWH

Net Generation - Steam	170,736,624	188,744,559	355,097,753	714,578,936
Other Plant IC Generation	6,594,455	7,585,293	5,107,558	19,287,306
Hydro Plant Generation	1,057,401	1,524,064	1,763,564	4,345,029
Wind Generation	-	167,205	6,465,931	6,633,136
Purchased Power	219,117,604	390,143,013	495,291,448	1,104,552,065
Total Energy	397,506,084	588,164,134	863,726,254	1,849,396,472
Less Intersystem Sales	(181,183,216)	(384,944,792)	(470,458,788)	(1,036,586,796)
Net Retail MISO Day 2	145,235,302	222,272,924	74,279,616	441,787,842
Net Energy - KWHs	361,558,170	425,492,266	467,547,082	1,254,597,518

Energy Adjusted to Retail Sales (Net Energy X (1.00 - .08)) 1,154,229,717 384,743,239

Delivered Cost per kWh \$ 0.035030
Base Cost per kWh \$ 0.015460

Energy Cost Adjustment -- Per kWh \$ 0.01957

True up for December to January

1) KWH Sales for the Period Subject to FAC	382,440,405
2) KWH Sales for the Period	441,020,386
3) Net Energy Costs Recoverable for the Period	
4) Net Energy Cost to be Recovered Excl. Prior Over/Under	\$ 9,160,588
5) Portion of Subtotal Previously Collected Thru FAC Base	\$ 4,936,872
6) Remaining Portion of Net Energy Costs (Line 4 - Line 5)	\$ 4,223,716
7) Percentage of Total KWH Subject to FAC (Line 1 / Line 2)	86.717%
8) Remaining Net Energy Costs to be Collected Thru FAC (Line 6 X Line 7)	\$3,662,680
9) Prior Over/(Under) Recoveries	\$ 647,995
10) Net Energy Costs Recoverable Thru FAC (Line 8 - Line 9)	\$ 3,014,685
11) FAC Recovery Rate Calculated in December	\$0.01341
12) Amount Recovered by the FAC (Line 1 X Line 11)	\$ 5,128,526
13) Over/(Under) Recovery Before Carrying Charge (Line 12 - Line 10)	\$ 2,113,841
14) Carrying Charge (ROR / 12 x Line 13)	\$ 17,552
15) Over/(Under) Recovery (Line 13 + Line 14)	\$ 2,131,393

**COST OF ENERGY CALCULATION
SOUTH DAKOTA OVER/UNDER
MARCH 3, 2008**

I. SYSTEM KWH SALES

BILLINGS EFFECTIVE JANUARY 4, 2008 THRU FEBRUARY 1, 2008

	KWH SALES SUBJECT TO F.A.C.	TOTAL KWH SALES
(1) KWH SALES - JANUARY	382,440,405	441,020,386

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: SEPTEMBER 2007 THRU NOVEMBER 2007

	MONTH SEPTEMBER	MONTH OCTOBER	MONTH NOVEMBER	TOTAL FOR PERIOD	AVERAGE FOR PERIOD
(1) KWH SALES	318,961,834	293,060,110	345,973,974		
(2) F.A.BASE	\$0.015460	\$0.015460	\$0.015460		
(3) AMT. COLLECTED FROM F.A. BASE (LINE 1 X 2)	\$4,931,150	\$4,530,709	\$5,348,758	\$14,810,617	\$4,936,872

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

MARCH 3, 2008

BILLINGS EFFECTIVE JANUARY 4, 2008 THRU FEBRUARY 1, 2008

(1) KWH SALES FOR THE PERIOD SUBJECT TO F.A.C.		<u>382,440,405</u>
(2) TOTAL KWH SALES FOR THE PERIOD		<u>441,020,386</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>\$9,160,588</u>	
(5) PORTION OF SUBTOTAL PREVIOUSLY COLLECTED THRU F.A.C. BASE	<u>\$4,936,872</u>	
(6) REMAINING PORTION OF NET ENERGY COSTS (LINE 4 - 5)	<u>\$4,223,716</u>	
(7) PERCENTAGE OF TOTAL KWH SUBJECT TO F.A.C. (LINE 1 / LINE 2)	<u>0.86717</u>	
(8) REMAINING NET ENERGY COSTS TO BE COLLECTED THRU F.A.C.(LINE 6 X LINE 7)	<u>\$3,662,680</u>	
(9) PRIOR OVER/(UNDER) RECOVERIES	<u>\$647,995</u>	
(10) NET ENERGY COSTS RECOVERABLE THRU F.A.C. (LINE 8 - LINE 9)	<u>\$3,014,685</u>	<u>\$3,014,685</u>
(11) F.A.C. RECOVERY RATE		<u>\$0.01341</u>
(12) AMOUNT RECOVERED BY THE F.A.C. (LINE 1 X LINE 11)		<u>\$5,128,526</u>
(13) OVER/(UNDER) RECOVERY BEFORE CARRYING CHARGE (LINE 12 - LINE 10)		<u>\$2,113,841</u>
(14) CARRYING CHARGE (ROR / 12 X LINE 13)		<u>\$17,552</u>
(15) OVER/(UNDER) RECOVERY (LINE 13 + LINE 14)		<u>\$2,131,393</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.

