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**VIA ELECTRONIC DELIVERY**

July 28, 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 June 2008. The new adjustment factor is applicable on bills dated on and after August 1, 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 June 2008:

Total Sales in South Dakota	31,214,682 kWh
Sales Subject to Fuel Adjustment	27,743,604 kWh
Average Rate During Period	\$.01456
Revenue in Period	\$403,893.59
Energy Cost Adjustment - Effective 8/1/08	\$.01045

**Plant Conditions for June 2008**

Big Stone: The unit generated 297,741 net MWh for the month. Availability was 100% and our equivalent availability was 97.8%. Fuel prices were about 1% under budget.

Coyote: The Unit generated 144,911 MWh net for the month of June. Availability for the month was 62.1% due to the scheduled spring outage, a voltage regulator card failure and a boiler circulating pump replacement. Fuel costs were 6% above budget for the month, with a significant increase on the 2<sup>nd</sup> quarter fuel price from the mine. The main driver to that increase was the significant increase to the light fuel oil index in the second quarter.

Hoot Lake: Unit 2 generated 6,223 MWh net in June. This generation was 80.5 percent below budget for the month. It had an availability and equivalent availability of 22.8 percent. The Unit's net capacity factor was 16.6 percent. The plant was scheduled to come back on line on May 26<sup>th</sup>, but the outage was extended due to delays in the generator work. There were additional forced outages to address vibration issues in the generator. Fuel costs were about 5% over budget.

Unit 3 generated 41,149 MWh net, which was 3.15 percent below budget for the month. The Unit had an availability and equivalent availability of 96.4 percent. The net capacity factor for June was 78.3 percent. Fuel costs were about 5% over budget.

**Plant Conditions for May 2008**

Big Stone: The unit generated 219,315 net MWh for the month. Availability was 70.2% and our equivalent availability was 67.3%. The Unit came down for its scheduled spring maintenance on May 21<sup>st</sup>. Fuel prices were about 3% under budget.

Coyote: The Unit generated 266,013 mWh net for the month May. Availability for the month was 97.5% due to a cyclone tube leak which carried over from the month of April. Fuel costs were 5% above budget for the month, with a significant increase on the 2<sup>nd</sup> quarter fuel price from the mine. The main driver to that increase was the significant increase to the light fuel oil index in the second quarter.

Hoot Lake: Unit 3 generated 45,399 MWh net for the month of May. The Unit had an availability and equivalent availability of 99.7 percent. The net capacity factor for April was 83.6 percent. Unit 2 has been offline all of the month of April for scheduled outage. The plant was scheduled to come back on line on May 26<sup>th</sup>, but the outage was extended due to delays in the generator work. Fuel costs were about 7% over budget.

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 AUGUST 1, 2008**

EFFECTIVE 8/01/08  
CYCLE 01  
RATE LEVEL 42

<b>ENERGY COSTS</b>	2008 <u>April</u>	2008 <u>May</u>	2008 <u>June</u>	Total <u>This Period</u>		
Purchased Power	\$ 5,849,059	\$ 5,734,293	\$ 2,429,114	\$ 14,012,466		
Steam Plant Generation	\$ 4,995,232	\$ 4,545,056	\$ 4,850,786	\$ 14,391,074		
Other Plant Generation	\$ 320,346	\$ 10,653	\$ 85,733	\$ 416,732		
Hydro Plant Generation	\$ -	\$ -	\$ -	\$ -		
Less: Intersystem Sales	\$ (4,473,736)	\$ (4,396,895)	\$ (1,335,213)	\$ (10,205,844)		
Net Retail MISO Day 2	\$ 651,560	\$ 204,931	\$ 1,631,670	\$ 2,488,161		
<b>NET ENERGY COSTS</b>	<b>\$ 7,342,461</b>	<b>\$ 6,098,038</b>	<b>\$ 7,662,091</b>	<b>\$ 21,102,590</b>	<b>\$</b>	<b>7,034,197</b>
Prior (over) under recovery					<b>\$</b>	<b>61,292</b>
Adjusted Net Energy Costs					<b>\$</b>	<b>6,972,904</b>

**ASSOCIATED ENERGY -- KWH**

Net Generation - Steam	285,521,483	250,598,711	250,111,094	786,231,288
Other Plant IC Generation	2,236,191	215,241	352,230	2,803,662
Hydro Plant Generation	2,322,585	2,464,087	2,201,549	6,988,221
Wind Generation	13,722,582	12,253,087	11,744,147	37,719,816
Purchased Power	336,107,052	290,466,414	303,431,218	930,004,684
<b>Total Energy</b>	<b>639,909,893</b>	<b>555,997,540</b>	<b>567,840,238</b>	<b>1,763,747,671</b>
Less Intersystem Sales	(325,800,359)	(289,147,560)	(308,063,815)	(923,011,734)
Net Retail MISO Day 2	(3,969,276)	13,660,395	27,229,020	36,920,139
<b>Net Energy - KWHs</b>	<b>310,140,258</b>	<b>280,510,375</b>	<b>287,005,443</b>	<b>877,656,076</b>

Energy Adjusted to Retail Sales (Net Energy X (1.00 - .08)) 807,443,590 269,147,863

Delivered Cost per kWh \$ 0.025910  
Base Cost per kWh \$ 0.015460

Energy Cost Adjustment -- Per kWh \$ 0.01045

**True up for May to June**

1) KWH Sales for the Period Subject to FAC		269,014,802
2) KWH Sales for the Period		288,438,022
3) Net Energy Costs Recoverable for the Period		
4) Net Energy Cost to be Recovered Excl. Prior Over/Under	\$ 10,180,485	
5) Portion of Subtotal Previously Collected Thru FAC Base	\$ 6,186,254	
6) Remaining Portion of Net Energy Costs (Line 4 - Line 5)	\$ 3,994,231	
7) Percentage of Total KWH Subject to FAC (Line 1 / Line 2)	93.266%	
8) Remaining Net Energy Costs to be Collected Thru FAC (Line 6 X Line 7)	\$3,725,260	
9) Prior Over/(Under) Recoveries	\$ (130,809)	
10) Net Energy Costs Recoverable Thru FAC (Line 8 - Line 9)	\$ 3,856,069	\$3,856,069
11) FAC Recovery Rate Calculated in May		\$0.01456
12) Amount Recovered by the FAC (Line 1 X Line 11)	\$ 3,916,856	
13) Over/(Under) Recovery Before Carrying Charge (Line 12 - Line 10)	\$ 60,787	
14) Carrying Charge (ROR / 12 x Line 13)	\$ 505	
15) Over/(Under) Recovery (Line 13 + Line 14)	\$ 61,292	

**COST OF ENERGY CALCULATION  
SOUTH DAKOTA OVER/UNDER  
AUGUST 1, 2008**

**I. SYSTEM KWH SALES**

BILLINGS EFFECTIVE JUNE 3, 2008 THRU JULY 2, 2008

	KWH SALES SUBJECT TO F.A.C.	TOTAL KWH SALES
(1) KWH SALES - JUNE	269,014,802	288,438,022

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: FEBRUARY 2008 THRU APRIL 2008

	MONTH FEBRUARY	MONTH MARCH	MONTH APRIL	TOTAL FOR PERIOD	AVERAGE FOR PERIOD
(1) KWH SALES	441,347,429	398,572,557	360,517,449		
(2) F.A.BASE	\$0.015460	\$0.015460	\$0.015460		
(3) AMT. COLLECTED FROM F.A. BASE (LINE 1 X 2)	\$6,823,231	\$6,161,932	\$5,573,600	\$18,558,763	\$6,186,254

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

AUGUST 1, 2008

BILLINGS EFFECTIVE JUNE 3, 2008 THRU JULY 2, 2008

(1) KWH SALES FOR THE PERIOD SUBJECT TO F.A.C.		<u>269,014,802</u>
(2) TOTAL KWH SALES FOR THE PERIOD		<u>288,438,022</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>\$10,180,485</u>	
(5) PORTION OF SUBTOTAL PREVIOUSLY COLLECTED THRU F.A.C. BASE	<u>\$6,186,254</u>	
(6) REMAINING PORTION OF NET ENERGY COSTS (LINE 4 - 5)	<u>\$3,994,231</u>	
(7) PERCENTAGE OF TOTAL KWH SUBJECT TO F.A.C. (LINE 1 / LINE 2)	<u>0.93266</u>	
(8) REMAINING NET ENERGY COSTS TO BE COLLECTED THRU F.A.C.(LINE 6 X LINE 7)	<u>\$3,725,260</u>	
(9) PRIOR OVER/(UNDER) RECOVERIES	<u>(\$130,809)</u>	
(10) NET ENERGY COSTS RECOVERABLE THRU F.A.C. (LINE 8 - LINE 9)	<u>\$3,856,069</u>	<u>\$3,856,069</u>
(11) F.A.C. RECOVERY RATE		<u>\$0.01456</u>
(12) AMOUNT RECOVERED BY THE F.A.C. (LINE 1 X LINE 11)		<u>\$3,916,856</u>
(13) OVER/(UNDER) RECOVERY BEFORE CARRYING CHARGE (LINE 12 - LINE 10)		<u>\$60,787</u>
(14) CARRYING CHARGE (ROR / 12 X LINE 13)		<u>\$505</u>
(15) OVER/(UNDER) RECOVERY (LINE 13 + LINE 14)		<u>\$61,292</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.