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APR 17 2008

April 16, 2008

PUBLIC SERVICE COMMISSION



Mike Diller
Director of Accounting
North Dakota Public Service Commission
State Capitol
600 East Boulevard
Bismarck, ND 58505

RE: Fuel Clause Adjustment Audit
Case No. PU-08-130

Dear Mike:

I am writing in response to the letter dated March 26, 2008, from the Public Service Commissioner requesting that Otter Tail contract with an external auditor to review the circumstances, root causes, decisions, and costs giving rise to the unusually high automatic adjustment clauses beginning January 1, 2008. The letter asked that I work with you to establish a timeline for conducting the review.

Otter Tail sent the Commission's request to Deloitte & Touche, the accounting firm that conducts the annual audit of our fuel clause and audits most financial records and external financial reporting for Otter Tail Corporation and Otter Tail Power Company. Deloitte responded that the audit being requested is outside the scope of expertise that independent auditors provide. Their response is attached to this letter.

We could proceed to engage a consulting firm that could conduct the review requested. I have some concerns with that course of action, however. 1) It will take time to draft the RFP, make the selection, participate in the review, etc. The Commissioners wanted to move quickly on this review. 2) We would need to issue a RFP for such an engagement but I would like to work with you to make the scope clear and precise so that the report meets the Commission's expectations. 3) Otter Tail has worked with several of the firms who might do this type of work and I wonder whether the Commission will view them as independent.

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Response to Request for FCA Audit

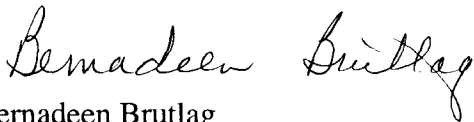
Otter Tail Corporation

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I offer the following alternative. Otter Tail is working on a report of the events surrounding the outage of Big Stone plant that occurred late last fall. The report will cover, in some detail, the work that was needed to be done, the original plan for the outage, the events that caused the time for the outage to change and factors considered before selecting the new date, plant operating data following the outage, procedure for acquiring replacement energy, and the impact on cost of energy and the fuel clause adjustment. Our target date to complete this report is May 15. I suggest that we provide the completed report to the Commission and staff for their review. If appropriate, an informal hearing could be scheduled to give the Commission and staff the opportunity to ask questions of Otter Tail's personnel most knowledgeable about this subject. This process does not preclude the Commission from requiring additional investigation if concerns remain.

I believe that the proposed report, possibly in combination with an informal hearing, will provide the Commission and staff with the information and assurances they are seeking.

Very truly yours,



Bernadeen Brutlag
Manager, Regulatory Services

Att. – Deloitte letter

April 9, 2008

Ms. Bernadeen Brutlag
Manager, Regulatory Affairs
Otter Tail Power Company
215 South Cascade Street
Fergus Falls, MN 56538-0496

We are unable to complete the procedures requested in the letter from the Public Service Commission of the State of North Dakota (the "PSC") dated March 26, 2008 regarding Fuel Clause Adjustment Audit Case No. PU-08-130 due to the following reasons:

- These procedures would involve preparation of a report for submission to (and possibly expert testimony before) the PSC related to an audit client which would be prohibited by Security and Exchange Commission independence rules. The Company's external auditor is not permitted by AICPA standards to testify as an expert witness.
- The procedures requested to be performed are not within our expertise as independent accountants to provide. "...to review the circumstances, root causes, decisions and costs giving rise to the unusually high automatic fuel clauses beginning January 1, 2008", is not something an auditor can do under AICPA audit or attest standards since these procedures are not objective and measurable. A service Deloitte would be able to provide for instance is to issue an agreed upon procedures report where we test 50% of the invoices included in the fuel clause adjustment for the first quarter for overstatement of expense. Since such invoices are subject to the Company's accounting internal controls, they are objective and measurable.
- The request asks the external auditor to include findings and conclusions regarding:
 - "Managements planning and preparation for the planned outage including any backup provisions or built in redundancies for procuring the needed resources.
 - Events and decisions impacting the length and cost of the outage.
 - Reasonableness of purchased power contracts for delivery during the outage period to determine if best practices were employed in securing the power.
 - Reasonableness of all off-system sales made during the outage to ensure that Otter Tail did not assign higher cost energy to its retail customers while benefiting from selling low cost energy in the market.
 - Reasonableness of any affiliated transactions involving the purchase and acquisition of power during the outage to ensure fair business practices exists between Otter Tail and its power supply group and other subsidiaries."

It would not be possible to issue a report with conclusion and findings in support of this request because they are not within our expertise as independent accountants to provide.

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There is not specific criteria identified to be used in the determination of the findings, rather the procedures requested are very subjective instead of objective and measurable.

In order to perform an attest engagement under AICPA rules, the criteria used to judge the subject matter must be suitable. Criteria are suitable when they have the attributes of being objective, measurable, complete and relevant. The requested procedures do not meet all of these criteria.

Deloitte audits a majority of the investor owned utilities in the United States. The North Dakota Public Service Commission's letter was sent to our National Energy Office in Washington D. C. and I consulted with four partners at that level. They concurred with my conclusions that we would not be able to provide the request as detailed in the March 26, 2008 letter. In addition, I do not feel any audit firm would be able to perform these procedures because the request is very subjective, not based on items that are objective and measurable or within the expertise of independent accountants to perform.

Please let me know if I can provide any further information for you regarding this request.

Sincerely,

A handwritten signature in black ink, appearing to read "Cliff Hoffman", with a long horizontal flourish extending to the right.

Cliff Hoffman
Audit Partner

cc: Mr. Kevin Moug – Chief Financial Officer
Ms. Debbie Wilke –Director Corporate Accounting