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VIA ELECTRONIC FILING



November 6, 2009

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North Dakota Public Service Commission
State Capitol
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Patrick Fahn
Director, Compliance and Competitive Markets
Commission Advisory Staff
North Dakota Public Service Commission
State Capitol
600 East Boulevard, Dept. 408
Bismarck, ND 58505-0480

Re: Case No. PU-08-862 and Case No. PU-08-742

Dear Ms. Jeffcoat-Sacco and Mr. Fahn:

I'm writing this letter in response to your November 4, 2009 letter to the Parties in the above-referenced cases. This response is a joint response of all Parties and I have reviewed it with Ms. Bendish and Mr. Savelkoul and received their consent to file it as a joint response on behalf of all Parties.

For procedural clarity, I would also like to note that the letter is being filed under NDCC Section 28-32-25, which allows an administrative agency to avail itself of information or evidence in addition to the evidence presented at a hearing. I have confirmed with Ms. Bendish and Mr. Savelkoul that each Party in this proceeding has had an opportunity to examine the information and evidence contained in this letter and understands that it is being offered in response to your November 4, 2009 letter. I also confirmed that each Party stipulates to this letter's admission into the record and waives any right to a hearing to present additional information or evidence or to cross-examine anyone regarding the information contained in this letter.

Your November 4 letter asked that the Parties respond to two questions. I have repeated each of those questions below for your convenience (represented in italics) and followed each question with the Parties' response:

128 PU-08-862 Filed 11/06/2009 Pages: 2
Letter Response to Questions Regarding
Settlement Agreement
Otter Tail Power Company
Bruce Gerhardson Associate Gen. Counsel

103 PU-08-742 Filed 11/06/2009 Pages: 2
Letter Response to Questions Regarding
Settlement Agreement
Otter Tail Power Company
Bruce Gerhardson Associate Gen. Counsel

Question 1):

If the Commission determines that all parts of the settlement are reasonable except for Economic Development Costs and modifies or conditions approval of the Settlement Agreement to remove Economic Development Costs from the revenue requirement, would any party find the Commission decision unacceptable under Settlement Agreement paragraph VI.G.?

Response:

No Party would find a Commission decision unacceptable under paragraph VI.G. of the Settlement Agreement if the Commission were to modify or to condition the approval of the Settlement Agreement to remove Economic Development Costs from the revenue requirement. (It should be noted that the Parties understand that the modification or condition being considered would include a phase-out of the ratepayer investment in economic development, as described in the opening paragraph of the November 4 letter).

Question 2):

If the Commission decides to modify or condition approval of the Settlement Agreement to remove Economic Development Costs from the revenue requirement, and orders a phased out removal of Economic Development Costs from the revenue requirement, what time frame would be reasonable and appropriate for that phase out and how would the phase out be reflected in end user rates?

Response:

The Parties agree that a phased-out removal of Economic Development Costs from the revenue requirement at the end of the 2010 calendar year would be reasonable and appropriate. The Parties agree that the removal of Economic Development Costs from the revenue requirement could be accomplished as a reduction in rates as of January 1, 2011, in the amount of the total of Economic Development Costs included in the revenue requirement. The reduction in rates would be applied as a flat proportional reduction to all rate classes and rate schedules based on energy consumption. The Parties agree that Otter Tail would make a compliance filing no later than 60 days prior to December 31, 2010, reflecting the one-time reduction and application to all rate classes and rate schedules.

The Parties also request for clarification that the Commission consider including in its Order an explanatory paragraph as follows:

This Order does not preclude Otter Tail, or any other Party, from proposing in Otter Tail's next general rate case the recovery of Economic Development Costs (including in the interim rate period, subject to refund); provided, however, any such proposal must adequately demonstrate that the economic development program has the benefit of reducing Otter Tail retail electric rates to a degree that justifies the costs proposed for recovery. The burden of such demonstration shall be on the Party proposing the recovery of Economic Development Costs.

If there are any further questions, please feel free to contact me at any time.

Sincerely,

/s/ Bruce Gerhardson

Bruce Gerhardson
Associate General Counsel
BG/dm

Enclosures

c: Richard Savelkoul
Annette Bendish