

APPROVED

DATE: 12-3-08



MOTION

December 3, 2008

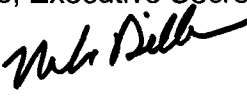
**Otter Tail Power Company
Electric Rate Increase
Application**

Case No. PU-08-862

I move the commission adopt the Order on Interim Rates authorizing interim electric rates in Otter Tail Power Company's Electric Rate Increase application, Case No. PU-08-862.

MRD

Memo

To: Darrell Nitschke, Executive Secretary
From: Mike Diller 
Date: December 1, 2008
Re: Otter Tail's Interim Electric Rate Increase Request (PU-08-862)
Staff Recommends Approval

Otter Tail uses a historical 2007 test year, adjusted for known and measurable changes, to calculate its interim rate request of \$4,810,562 or an overall increase in revenue collections of 4.07%. Based on staff's review of the law and Otter Tail's last rate proceeding (Case No. 10,334), staff recommends that the interim rates be approved.

Otter Tail's requested interim rates are calculated using a return on equity of 11.25%. However, the law requires the commission to use a return on equity of 14.5% as ordered by the commission in its most recent rate case proceeding (1983). Using 14.5% instead of 11.25% would increase the Company's interim request to more than \$10 million; substantially more than the interim increase request or the final rate increase request of \$6,084,003.

A strict adherence to the law would result in an absurd result requiring Otter Tail to collect more than it is requesting and then later refund the over-collected amount plus interest after the commission ordered final rates. Given the requirements of law that any excess recoveries above final rates are to be returned to customers plus interest, it is clear the lawmakers never intended to require the commission to grant interim rates in excess of the total and final amount requested. To be safe, staff requested that Otter Tail waive its rights under the law and the Company agreed.

Due to the large discrepancy between the legally required interim rates and what is being requested, staff's review of the company's test year adjustments to ensure that they are the same in nature and kind allowed by the commission in its last rate order was curtailed. A cursory review indicates that there are not enough questionable adjustments made by the Company to cause further review of its interim rate request.

The company properly applies the interim rate increase across-the-board to all customer classes resulting in no change to rate design and an overall increase in revenue collections of 4.07%.

See next page for applicable section of the law and a few underscores for emphasis.

49-05-06. Hearing by commission on proposed change of rates.

- 2. Notwithstanding that the commission may suspend a filing and order a hearing, a public utility may file for interim rate relief as part of its general rate increase application and filing. If interim rates are requested, the commission shall order that the interim rate schedule take effect no later than sixty days after the initial filing date and without a public hearing. The interim rate schedule must be calculated using the proposed test year cost of capital, rate base, and expenses, except that the schedule must include:
 - a. A rate of return on common equity for the public utility equal to that authorized by the commission in the public utility's most recent rate proceeding;**
 - b. Rate base or expense items the same in nature and kind as those allowed by a currently effective commission order in the public utility's most recent rate proceeding; and**
 - c. No change in existing rate design.****
- 3. In ordering an interim rate schedule, the commission may require a bond to secure any projected refund required by subsection 4. The terms of the bond, including the amount and surety, are subject to the commission's approval.**
- 4. As ordered by the commission, the utility shall promptly refund to persons entitled thereto all interim rate amounts collected by the public utility in excess of the final rates approved by the commission plus reasonable interest at a rate to be determined by the commission.**