

**STATE OF NORTH DAKOTA**  
**PUBLIC SERVICE COMMISSION**

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

**Case No. PU-08-862**

**ORDER ON INTERIM RATES**  
**December 3, 2008**

On November 3, 2008, Otter Tail Power Company (Otter Tail) filed an application to increase its electric rates including an interim rate increase.

Under North Dakota Century Code section 49-05-06(2) a company filing for a rate increase is entitled to an interim increase, but the rate increase must meet certain criteria. These include: the same rate of return on common equity authorized by the Commission in the public utility's most recent rate proceeding; rate base and expense items the same in nature and kind allowed by the Commission in its most recent rate proceeding and; no change in the existing rate design.

Otter Tail's interim rate increase is based on a historical 2007 test year and seeks an increase in annual revenue collections of \$4,810,562 or an overall increase in retail revenues of 4.07%. To accomplish this, Otter Tail filed an Interim Rate Adjustment of 4.07% to be applied to both the energy and non-energy portion of the bill. The Interim Rate Adjustment will be shown as a separate line item on customers' bills.

On December 1, 2008, the Commission's advocacy staff filed comments recommending that Otter Tail's interim rate request 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. Staff requested that Otter Tail waive its rights under the law and the Company agreed.

In the event the interim rate amounts collected by Otter Tail are in excess of the final rates approved by the Commission, Otter Tail is required to refund the excess under North Dakota Century Code section 49-05-06(4), including interest at a rate to be determined by the Commission.

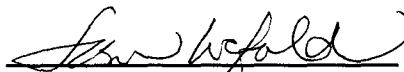
### Order

The Commission orders:

1. Otter Tail's proposed interim rate increase is approved to increase annual revenue collections by \$4,810,562.
2. Otter Tail's proposed interim rates shall be effective for service billed on or after January 2, 2009.
3. Otter Tail Power Company is not required to obtain a bond under North Dakota Century Code section 49-05-06(3) to secure a refund required under North Dakota Century Code section 49-05-06(4).
4. Otter Tail may combine its interim rate notice with its rate increase application notice to customers.

### PUBLIC SERVICE COMMISSION

  
Tony Clark  
Commissioner

  
Susan E. Wefald  
President

  
Kevin Cramer  
Commissioner