

STATE OF NORTH DAKOTA
BEFORE THE
PUBLIC SERVICE COMMISSION

In the Matter of the Application of Otter Tail
Power Company for Authority to Increase Rates
for Electric Service in North Dakota

Case No. PU-08-862

PARTIAL SETTLEMENT

This Partial Settlement is entered into this 20th day of February, 2009, by and between the North Dakota Public Service Commission advocacy staff ("Staff") and Otter Tail Corporation d/b/a Otter Tail Power Company ("OTP" or the "Company"), operating in North Dakota (collectively, the "Parties"). The North Dakota Large Industrial Ratepayers do not oppose this settlement. This Partial Settlement sets forth the positions and recommendations of the Parties relating to the overall rate of return ("ROR") for the Company, including but not limited to the return on equity ("ROE") for the Company in the above-captioned proceeding in a manner consistent with the public interest and will result in just and reasonable rates for the Company's retail electric operations in North Dakota.

TERMS OF SETTLEMENT

Reduced Return on Equity

The Parties agree that an 8.62 percent overall ROR is appropriate for determining revenue requirements in this proceeding. The Parties also agree to, and recommend the North Dakota Public Service Commission (the "Commission") approve in its final order, a ROE of 10.75 percent.

The reasonableness of a 8.62 percent ROR and a 10.75 percent ROE is supported by various considerations, including but not limited to the following:

- The ROR is less than the 8.8 ROR and is based on the same 10.75 ROE just approved in the December 31, 2008 final order for Xcel Energy in its recent electric rate case, Case No. PU-07-776.

- The 10.75 ROE is also equal to the ROE adopted by the Commission in Xcel Energy's recent natural gas rate case, Case No. PU-06-525..

Customer Refunds for Earnings Above Threshold.

The Parties agree to, and recommend that the Commission approve, an earnings sharing mechanism that will result in customer refunds if the Company's net income from electric utility service in North Dakota exceeds a 10.75 percent ROE.

If the Company earns in excess of 10.75 percent ROE as reflected in the annual report of jurisdictional regulated electric earnings for any fiscal year prior to either: (i) 2011; or (ii) the test year included in the Company's next electric general rate case (whichever occurs sooner), the Company will refund to customers revenues corresponding to earnings as shown below:

- 50 percent of earnings above 10.75 percent ROE up to and including 11.25 percent ROE
- 75 percent of earnings above 11.25 percent ROE

Earnings sharing credits would be applied to customer accounts as soon as practical after July 1, after the annual report of electric earnings for the given fiscal year has been filed with the Commission (typically on May 1). A refund would be administered as a one-time bill credit.

OTHER TERMS AND CONDITIONS

Basis of Settlement

It is agreed this Partial Settlement is a negotiated Settlement subject to approval by the Commission. Except for the purpose of setting interim rates in the Company's next electric general rate case, this Partial Settlement does not establish any principle or precedent, nor adopt or recommend any specific type or amount of expense or rate base, for this or any future proceeding.

Effect of the Partial Settlement

It is understood and agreed that all offers of settlement and discussions related to this Partial Settlement are privileged and may not be used in any manner in connection with proceedings in

this case or otherwise, except as provided by law. This Partial Settlement shall not be deemed to prevent either the Staff or the Company from responding to positions taken by other intervenors in this proceeding; provided, however, that the Parties agree that such response shall not alter the positions and recommendations set forth in this Partial Settlement.

Effective Date

This Partial Settlement of Facts shall be effective as of the date hereof. It may be executed in counterparts.

Dated this 20th day of February, 2009

Otter Tail Corporation d/b/a Otter Tail Power
Company

By Thomas R. Brause
Thomas R. Brause
Vice President Administration

Dated this 24th day of February, 2009.

Northern Dakota Public Service Commission Staff

By Mike Diller
Mike Diller
Director of Accounting

The North Dakota Large Industrial Ratepayers

By R. J. Savelkoul

Richard Savelkoul
Felhaber Larson Fenlon & Vogt
Attorney on Behalf of the North Dakota
Large Industrial Ratepayers.

**STIPULATED REVISED CAPITAL STRUCTURE AND OVERALL RATE OF
RETURN**

	Amount	Percent of Total Capitalization	Cost of Capital	Weighted Cost of Capital
Long-Term Debt	\$173,571,466	40.3%	6.33%	2.55%
Short-Term Debt	12,154,247	2.8%	5.85%	0.16%
Preferred Stock	15,500,000	3.6%	4.75%	0.17%
Common Equity	229,633,133	53.3%	10.75%	5.73%
Total Capitalization	\$430,858,846	100.0%		8.62%