


# Memo

**To:** Darrell Nitschke  
**From:** Mike Diller   
**Date:** February 24, 2009  
**Re:** Otter Tail Power Rate Case Partial Stipulation (Case No. PU-08-862)

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The Commission's advocacy staff and Otter Tail Power Company have agreed to use an overall rate of return of 8.62% and a return on common stock equity of 10.75% for Case No. PU-08-862. As you know, the overall rate of return is a weighted average cost of invested capital taking into consideration the company's equity and debt issues.

While the agreement is between advocacy staff and the Company, the North Dakota Large Industrial Ratepayers do not oppose this settlement. The agreement is intended to dispose of any arguments that might occur between the Company and advocacy staff concerning rate of return and return on equity issues.

In reaching this agreement, the advocacy staff will not file cost of capital testimony during the rate case proceeding. The advocacy staff believes the stipulation is reasonable and in the best interest of North Dakota ratepayers. The stipulation also includes a provision requiring Otter Tail to share future earnings on equity above 10.75% with its customers. Staff believes the agreement will enable staff, the Company and the commission to focus on the more critical elements of the requested rate increase and proposed rate design.

The settlement contains the primary rationale for reaching an agreement. Beyond that, staff believes the stipulation accomplishes what would likely occur through a contested proceeding.

MRD

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