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PUBLIC SERVICE COMMISSION



VIA E-FILING AND OVERNIGHT MAIL

February 23, 2009

Darrell Nitschke  
Director of Administration/Executive Secretary  
North Dakota Public Service Commission  
State Capitol  
600 East Boulevard Dept. 408  
Bismarck, ND 58505-0408

Dear Mr. Nitschke:

This letter is to inform the North Dakota Public Service Commission (NDPSC) of a correction Otter Tail Corporation d/b/a Otter Tail Power Company ("Otter Tail") plans to make in Otter Tail's cost of energy adjustment clause (COEAC) starting with rates effective in March. Otter Tail recently discovered an error which has caused an estimated under collection through the COEAC of close to 2 million dollars. One positive aspect of the under collection is Otter Tail's North Dakota customers to have the impact of colder than average temperatures in December and January lessened through lower bills.

How the under collection occurred:

The change in Otter Tail Power Company's base cost of energy, which was effective with the start of interim rates (January 1, 2009), created a change in the inputs to Otter Tail's monthly calculation of the cost of energy adjustment clause (COEAC). Unfortunately, Otter Tail has discovered one of the formulas in its calculation of the COEAC used the new base cost of energy to calculate the prior month's true-up portion of the January and February rates. This affected the overall COEAC rates for January and December. This means Otter Tail under collected the COEAC in January and February.

The monthly true-up portion of the COEAC calculation is for the month two months prior to the rate being calculated. For example, the February rate includes the true-up for December. The formula in the calculation of the true-up portion used the current month's base cost of energy. This was not a problem as long as the base cost of energy didn't change (which it hadn't since 1983). When the base cost of energy rate changed for January, for the true-up portion of the calculation, the base cost of energy in effect for December should have been used. For the future we have corrected the formula to look back at the base cost of energy rate in effect for the month the true-up calculation is related to.

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The impact of the under collection:

January's COEAC rate was (\$0.0069) and should have been (\$0.0028). We determined the impact of this was the difference in the two COEAC rates  $(\$0.0028) - (\$0.0069) = \$0.0041$  times the kWh subject to COEAC of 162,533,021, which equals \$666,385.39.

February's COEAC rate was (\$0.0084) and it should have been \$0.0000. We don't know the exact impact for February yet, but there are 158,075,000 kWh subject to COEAC in the budget.  $(\$0.0000) - (\$0.0084) = \$0.0084$  times 158,075,000 = \$1,327,827.

The total Otter Tail estimates it will under collect is \$666,385 (Jan) plus \$1,327,827 (Feb) or \$1,994,213. See attachment 1 and 2 for further detail.

The correction to be spread over four months:

As the error relates to a base rate change, future true-ups will not fix the problem. The most logical correction is to adjust the true-up dollar amount. Since the error happened over a two month period, Otter Tail proposes to spread the correction over a four month period to minimize the impact to customers. With the four month average cost of energy calculation in North Dakota and spreading the calculation correction through the monthly true-up calculation over four months, it will take approximately eight months total for Otter Tail to collect the under collection. Otter Tail will work with North Dakota Public Service Commission staff to monitor the results of the correction to assure what appears to be a simple fix will work accurately. See attachment 3 for estimated impacts.

Please contact me with any questions via e-mail [pbeithon@otpc.com](mailto:pbeithon@otpc.com) or phone 218-739-8607.

Sincerely,



Pete Beithon  
Manager, Regulatory Economics

wao  
Enclosures

(A) (B) (C) (D) (E) (F) (G) (H)  
**NORTH DAKOTA**  
**OTTER TAIL POWER COMPANY**  
**COST OF ENERGY ADJUSTMENT**  
 FOR BILLING TO BE EFFECTIVE JANUARY 2, 2009  
 EFFECTIVE 1/02/09  
 CYCLE '1'  
 RATE LEVEL 44

Line No.	ENERGY COSTS					AS FILED	CORRECTED	Difference
		2008 August	2008 September	2008 October	2008 November	Total This Period	Total This Period	
1	Purchased Power	\$ 13,295,808	\$ 7,192,854	\$ 6,713,728	\$ 5,489,258	\$ 32,691,648	\$ 32,691,648	
2	Steam Plant Generation	\$ 6,055,579	\$ 4,854,401	\$ 5,550,936	\$ 5,514,464	\$ 21,975,380	\$ 21,975,380	
3	Other Plant Generation	\$ 565,111	\$ 208,752	\$ 84,368	\$ 225,056	\$ 1,083,287	\$ 1,083,287	
4	Hydro Plant Generation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
5	Coyote Coal Conv. Tax	\$ 25,910	\$ 25,074	\$ 25,910	\$ 25,074	\$ 101,968	\$ 101,968	
6	Less: Intersystem Sales	\$ (12,762,026)	\$ (6,525,421)	\$ (5,686,342)	\$ (4,026,646)	\$ (29,000,435)	\$ (29,000,435)	
7	Net Retail MISO Day 2	\$ 746,873	\$ 1,743,137	\$ 1,444,492	\$ 2,422,938	\$ 6,357,441	\$ 6,357,441	
8	NET ENERGY COSTS	\$ 7,927,254	\$ 7,498,797	\$ 8,133,093	\$ 9,650,145	\$ 33,209,288	\$ 33,209,288	
9								
10	Prior (over) under recovery					\$ (4,953,802)	\$ (115,880)	
11								
12	Adjusted Net Energy Costs					\$ 28,255,486	\$ 33,093,408	
13								
14	<b>ASSOCIATED ENERGY -- KWH</b>							
15								
16	Net Generation - Steam	317,856,794	251,996,063	294,213,869	298,059,068	1,162,125,794	1,162,125,794	
17	Other Plant IC Generation	5,289,726	2,918,587	583,731	2,992,163	11,784,207	11,784,207	
18	Hydro Plant Generation	1,688,922	1,392,796	1,573,365	2,144,989	6,800,072	6,800,072	
19	Wind	10,931,575	8,957,082	15,609,405	12,083,639	47,581,701	47,581,701	
20	Purchased Power	455,421,854	407,517,793	276,064,801	261,152,876	1,400,157,324	1,400,157,324	
21	Total Energy	791,188,871	672,782,321	588,045,171	576,432,735	2,628,449,098	2,628,449,098	
22	Less Intersystem Sales	(471,944,339)	(426,333,192)	(290,941,425)	(250,536,563)	(1,439,755,519)	(1,439,755,519)	
23	Net Retail MISO Day 2	12,455,912	48,031,055	34,054,110	53,984,883	148,525,960	148,525,960	
24	Net Energy - KWHs	331,700,444	294,480,184	331,157,856	379,881,055	1,337,219,539	1,337,219,539	
25								
26								
27	Energy Adjusted to Retail Sales (Net Energy X (1.00 - .12))					1,176,753,194	1,176,753,194	
28								
29	Delivered Cost per kWh					\$ 0.024011	\$ 0.028123	
30	Base Cost per kWh					\$ 0.030945	\$ 0.030945	
31								
32	Energy Cost Adjustment -- Per kWh					<b>\$ (0.0069)</b>	<b>\$ (0.0028)</b>	<b>\$ 0.0041</b>
33								
34								
35	1) Net Energy (kWhs) Less 12% Losses					334,295,328	334,295,328	
36								
37	2) Net Energy Costs for the System - Most recent month					\$ 9,650,145	\$ 9,650,145	
38								
39	3) Base Cost Recovered (1 X Base Cost of Fuel)			334,295,328				
40				November Rate \$ 0.016473				
41				Rate used in errc \$ 0.030945		\$ 10,344,769	\$ 5,506,847	
42								
43	4) Net to be Recovered from COE (2 - 3)					\$ (694,624)	\$ 4,143,298	
44								
45	5) COE Recovery Rate Effective for November					\$ 0.0099	\$ 0.0099	
46								
47	6) Amount Recovered by COE (5 X 1)					\$ 3,309,524	\$ 3,309,524	
48								
49	7) Over / (Under) Recovery (4 - 6)					\$ 4,004,148	\$ (833,774)	
50								
51	8) Cumulative Over / (Under) Recovery					\$ 4,953,802	\$ 115,880	

(A) (B) (C) (D) (E) (F) (G) (H)

**NORTH DAKOTA**  
**OTTER TAIL POWER COMPANY**  
**COST OF ENERGY ADJUSTMENT**  
**FOR BILLING TO BE EFFECTIVE FEBRUARY 2, 2009**

EFFECTIVE 2/02/09  
 CYCLE '1'  
 RATE LEVEL 44

Line No.	ENERGY COSTS	2008				AS FILED	CORRECTED	Difference
		September	October	November	December	Total This Period	Total This Period	
1	Purchased Power	\$ 7,192,854	\$ 6,713,728	\$ 5,489,258	\$ 3,292,580	\$ 22,688,420	\$ 22,688,420	
2	Steam Plant Generation	\$ 4,854,401	\$ 5,550,936	\$ 5,514,464	\$ 6,430,992	\$ 22,350,793	\$ 22,350,793	
3	Other Plant Generation	\$ 208,752	\$ 84,368	\$ 225,056	\$ 679,741	\$ 1,197,917	\$ 1,197,917	
4	Hydro Plant Generation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
5	Coyote Coal Conv. Tax	\$ 25,074	\$ 25,910	\$ 25,074	\$ 25,910	\$ 101,968	\$ 101,968	
6	Less: Intersystem Sales	\$ (6,525,421)	\$ (5,686,342)	\$ (4,026,646)	\$ (1,692,955)	\$ (17,931,364)	\$ (17,931,364)	
7	Net Retail MISO Day 2	\$ 1,743,137	\$ 1,444,492	\$ 2,422,938	\$ 4,460,553	\$ 10,071,121	\$ 10,071,121	
8	NET ENERGY COSTS	\$ 7,498,797	\$ 8,133,093	\$ 9,650,145	\$ 13,196,820	\$ 38,478,854	\$ 38,478,854	
9								
10	Prior (over) under recovery					\$ (9,093,291)	\$ 1,798,221	
11								
12	Adjusted Net Energy Costs					\$ 29,385,564	\$ 40,277,076	
13								
14	<b>ASSOCIATED ENERGY -- KWH</b>							
15								
16	Net Generation - Steam	251,996,063	294,213,869	298,059,068	341,828,814	1,186,097,814	1,186,097,814	
17	Other Plant IC Generation	2,918,587	583,731	2,992,163	8,461,388	14,955,869	14,955,869	
18	Hydro Plant Generation	1,392,796	1,573,365	2,144,989	2,049,120	7,160,270	7,160,270	
19	Wind	8,957,082	15,609,405	12,083,639	32,132,456	68,782,582	68,782,582	
20	Purchased Power	407,517,793	276,064,801	261,152,876	102,961,282	1,047,696,752	1,047,696,752	
21	Total Energy	672,782,321	588,045,171	576,432,735	487,433,060	2,324,693,287	2,324,693,287	
22	Less Intersystem Sales	(426,333,192)	(290,941,425)	(250,536,563)	(102,232,403)	(1,070,043,583)	(1,070,043,583)	
23	Net Retail MISO Day 2	48,031,055	34,054,110	53,984,883	90,136,569	226,206,617	226,206,617	
24	Net Energy - KWHs	294,480,184	331,157,856	379,881,055	475,337,226	1,480,856,321	1,480,856,321	
25								
26								
27	Energy Adjusted to Retail Sales (Net Energy X (1.00 - .12))					1,303,153,562	1,303,153,562	
28								
29	Delivered Cost per kWh					\$ 0.022550	\$ 0.030907	
30	Base Cost per kWh					\$ 0.030945	\$ 0.030945	
31								
32	Energy Cost Adjustment -- Per kWh					<b>\$ (0.0084)</b>	<b>\$ 0.0000</b>	<b>\$ 0.0084</b>
33								
34								
35	1) Net Energy (kWhs) Less 12% Losses					418,296,759	418,296,759	
36								
37	2) Net Energy Costs for the System -- Most recent month					\$ 13,196,820	\$ 13,196,820	
38								
39	3) Base Cost Recovered (1 X Base Cost of Fuel)			418,296,759				
40	November Rate			\$ 0.016473				
41	Rate used in error			\$ 0.030945		\$ 12,944,193	\$ 6,890,603	
42								
43	4) Net to be Recovered from COE (2 - 3)					\$ 252,627	\$ 6,306,217	
44								
45	5) COE Recovery Rate Effective for December					\$ 0.0105	\$ 0.0105	
46								
47	6) Amount Recovered by COE (5 X 1)					\$ 4,392,116	\$ 4,392,116	
48								
49	7) Over / (Under) Recovery (4 - 6)					\$ 4,139,489	\$ (1,914,101)	
50								
51	8) Cumulative Over / (Under) Recovery					\$ 9,093,291	\$ (1,798,221)	

Estimated Impact of Otter Tail Power Company's Correction of January and February Cost of Energy Adjustment Clause Calculation Error

(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	
Line No.	Description	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	total
1	Expected COEAC rate before correction	\$ (0.0052)	\$ 0.0005	\$ 0.0011	\$ 0.0021	\$ -	\$ (0.0052)	\$ (0.0084)	\$ (0.0109)	
2	Expected COEAC rate after correction	\$ (0.0040)	\$ 0.0026	\$ 0.0039	\$ 0.0055	\$ 0.0028	\$ (0.0030)	\$ (0.0068)	\$ (0.0099)	
3	Difference - Expected COEAC rate after correction minus original forecast	\$ 0.0012	\$ 0.0021	\$ 0.0027	\$ 0.0034	\$ 0.0028	\$ 0.0022	\$ 0.0016	\$ 0.0010	
4	kWh subject to COEAC - budgeted	132,306,966	124,364,954	109,836,857	109,204,313	118,568,275	117,213,379	115,228,705	121,179,724	
5	Collection of under recovery - Change in rate times kWh subject to COEAC	\$153,309	\$261,282	\$300,723	\$372,195	\$335,655	\$259,801	\$182,484	\$122,452	\$1,987,901
6								Estimated under collection		1,993,213
7								Estimated Difference		(\$5,312)

NOTE: all amounts are based on forecasts and budgets - actuals are expected to differ depending on actual costs and collections.