

215 South Cascade Street
PO Box 496
Fergus Falls, Minnesota 56538-0496
218 739-8200
www.otpco.com (web site)



May 31, 2012

Darrell Nitschke
Executive Secretary/Director of Administration
North Dakota Public Service Commission
State Capitol - 600 East Boulevard
Bismarck, ND 58505-0480

RE: Otter Tail Power Company's Big Stone II Cost Recovery Report

Dear Mr. Nitschke:

Pursuant to the Settlement Agreement of Case Nos. PU-09-739 and PU-10-30 adopted by the North Dakota Public Service Commission ("Commission") on June 25, 2010, enclosed is Otter Tail Power Company's ("OTP") 2012 Big Stone II Cost Recovery Report ("Report") for North Dakota. I am also forwarding an electronic copy of the Report in pdf format by email to you at dnitschk@nd.gov and to ndpsc@nd.gov.

The Settlement Agreement included a provision for over- or under-collection of the Big Stone II costs, which is as follows:

OTP will calculate any amount of over- or under-collection (based on actual amounts up to the time of the report and estimated sales for the remainder of the annual period), and that amount ("True-up Amount") shall be added to or subtracted from the amount to be recovered in the next annual period.

The amount OTP recovered through the Big Stone II Cost Recovery Rider ("BS II Rider") from August 2010 to July 2012 resulted in an under-collection of \$48,994, as shown on page 3 of the Report. The revenue collection for months May 2012 through July 2012 are estimates based on OTP's most recent sales projections.

The calculation of the new rates to be effective August 1, 2012, pending the Commission's approval, is found on page 1 of the Report. The tracker account information found on page 2 compares OTP's costs and the amount recovered through the BS II Rider by month. This tracker begins by listing the total monthly Big Stone II Generation Costs from August 2012 through July 2013, plus the true-up amount from the previous recovery period, followed by the amount billed to retail customers, then the difference between these two amounts. The billed amount is shown to the end of July 2013 and is based on the most recent sales projection billing determinants multiplied by the 2012 BS II Rider rates.

Page 4 shows the difference between the actual consumption (kWh) and the projected consumption for the non-LGS classes from the report filing dated May 31, 2011, as well as the difference between actual consumption (kW and kWh) and projected consumption for the LGS class. For Lines 2, 7 and 11, the amounts

for the months of May, June and July of 2012 reflect billing determinants based on OTP's most recent sales projections.

Request that rates remain at current level for the next 12-month period:

Given that the rates have nearly matched estimated collections to date, OTP requests that the BS II Rider rates remain at the current level for the next 12-month period of recovery. If a change was to be required, it would change the rate a very small amount (for the non-LGS classes an increase from \$0.00083 to \$0.00084 per kWh; for the LGS class, an increase from \$0.00062 to \$0.00073 per kWh and a decrease from \$0.075 to \$0.065 per kWh). A change in the rates would be based on an estimate of consumption over the period and, because the actual consumption will depend on weather and other factors, the rates will result in some over- or under-collection. Based on OTP's current sales projections and using current rates, a total under-collection of (\$66,058) would exist at the end of the next 12-month recovery period, as reflected on page 5 of the Report. The Settlement Agreement includes the following provision to address the True-up of any over- or under-collection remaining at the end of the 36-month recovery period:

Any True-up Amount remaining at the end of the 36 month recovery period shall be collected from customers (for any under-collection) or refunded to customers (for any over-collection) in a one-time adjustment to customer bills (and reflected as part of the energy and renewables adjustment line item).

Based on the current projected True-Up amount, it would be prudent to leave current rates in effect for the remaining recovery period to mitigate the potential for customer confusion and also reduce administrative costs of making this very small rate change.

For these reasons, OTP requests that the BS II Rider rates remain at current levels for the next 12-month recovery period. Because OTP is not requesting a rate change with this filing, OTP does not believe Commission action is required to affirmatively authorize the retention of the current rates. If the Commission determines that Commission action is required or desirable, OTP requests that the Commission issue an Order approving the retention of current rates for the BS II Rider for the next 12-month recovery period.

If you have questions on the information provided, do not hesitate to contact me at (218) 739-8279 or stommerdahl@otpc.com.

Very truly yours,

/s/ STUART TOMMERDAHL
Stuart Tommerdahl
Manager, Regulatory Administration

wao
Enclosures
By electronic service and overnight mail

Otter Tail Power Company
Big Stone II Cost Recovery Rider - Rate Calculations

Costs subject of settlement agreement (generation only)						\$10,080,092	
North Dakota share* 40.32%						4,064,293	
Carrying costs (cost recovery began August 2010)**						285,009	
ND Costs						4,349,302	
Annual amount to be recovered						\$1,449,767	
Less: Over(Under) Recovery						(\$48,994)	
Amount to be recovered in 3rd year						\$1,498,761	
Class factors	Weighting	LGS		All others		Total	
ND E1****	81.155%	33.304%	\$405,085	66.696%	\$811,240	\$1,216,325	
ND D1****	18.845%	24.445%	\$69,041	75.555%	\$213,395	\$282,436	
North Dakota			\$474,126		\$1,024,635	\$1,498,761	
		LGS		All others			
		Rate	billing units***	Revenue	Rate	billing units***	Revenue
kWh billing		\$0.00073	551,261,140	\$405,085	\$0.00084	1,217,727,621	\$1,024,635
kW billing		\$0.065	1,069,427	\$69,041	n/a	n/a	n/a
North Dakota				\$474,126			\$1,024,635
						Total North Dakota year 3 revenue	\$1,498,761
* Allocated to North Dakota based on a composite of D1 and E1 factors used for generation rate base in Otter Tail's most recent North Dakota rate case, Case No. PU-08-862.							
** Carrying cost is the 2009 average AFUDC rate for 11 months (September 1, 2009 - July 31, 2010).							
*** August 2012 - July 2013 projected year 3 recovery period.							
**** Class factors are 2009 actual year.							

Line No.	TRACKER SUMMARY Requirements Compared to Billed:	2012					2013						Aug 2012 - Jul 2013
		August Projected	September Projected	October Projected	November Projected	December Projected	January Projected	February Projected	March Projected	April Projected	May Projected	June Projected	
1	Monthly Costs Subject of Settlement Agreement												
2	ND Share 40.32%	112,897	112,897	112,897	112,897	112,897	112,897	112,897	112,897	112,897	112,897	112,897	1,354,764
3	Less: Over(Under) Recovery	(4,083)	(4,083)	(4,083)	(4,083)	(4,083)	(4,083)	(4,083)	(4,083)	(4,083)	(4,083)	(4,083)	(48,994)
4		116,980	116,980	116,980	116,980	116,980	116,980	116,980	116,980	116,980	116,980	116,980	1,403,758
5													
6	Billed (forecast kWh x adj factor)	107,456	108,092	105,743	124,119	142,590	162,029	159,627	143,389	130,638	108,204	101,698	1,498,761
7													
8	Difference	9,524	8,888	11,236	(7,139)	(25,610)	(45,049)	(42,647)	(26,409)	(13,658)	8,776	15,282	11,803
9	Carrying Charge											95,003	
10	Cumulative Difference	9,524	18,412	29,649	22,510	(3,100)	(48,149)	(90,796)	(117,205)	(130,863)	(122,087)	(106,806)	(0)
11													
12	Carrying Charge Calculation												
13	Cumulative Carrying Charge												
14	Carrying cost												
15													
16													
17													
18	Forecasted Sales (MWh)	126,830	127,581	124,809	146,497	168,299	191,243	188,407	169,242	154,192	127,713	120,034	1,768,989

	<u>Aug 2012 - Jul 2013</u>
SUMMARY	
ND Share	\$1,354,764
Carrying Charge (Sep 2009-Jul 2010)	95,003
Less: Over(Under) Recovery	<u>(48,994)</u>
Amount to be Recovered	\$1,498,761
Aug 2012-Jul 2013 projected sales in mWh	1,768,989
Average Rate	\$0.00085

Line No.		2011					2012							Aug 2011 - Jul 2012
		August Actual	September Actual	October Actual	November Actual	December Actual	January Actual	February Actual	March Actual	April Actual	May Projected	June Projected	July Projected	
1	Revenue Collected	105,030	103,672	95,691	114,579	136,832	143,590	148,935	134,400	104,554	103,465	97,203	99,919	1,387,869
2														
3	Amortization	120,814	120,814	120,814	120,814	120,814	120,814	120,814	120,814	120,814	120,814	120,814	120,814	1,449,767
4														
5	Over(Under) Recovery	(15,784)	(17,142)	(25,123)	(6,235)	16,018	22,776	28,121	13,586	(16,260)	(17,349)	(23,611)	(20,895)	(61,898)

(1) Months May through July actual amounts are based off of OTP's most recent sales projections.

Net over/(Under) Recovery as of 7/31/2012

(48,994)

Line No.		2011					2012							
		August Actual	September Actual	October Actual	November Actual	December Actual	January Actual	February Actual	March Actual	April Actual	May Projected	June Projected	July Projected	Aug 2011 - Jul 2012
1	Non-LGS:													
2	Actual kWh (1)	75,813,787	74,734,251	66,946,704	89,085,703	116,261,295	123,199,059	130,169,347	115,453,283	80,056,536	83,045,987	73,100,112	74,955,414	1,102,821,478
3	Forecasted kWh	76,149,727	79,252,971	77,763,002	99,434,209	125,158,572	143,672,643	145,184,738	132,264,159	107,236,655	89,189,530	76,614,572	76,517,502	1,228,438,280
4		(335,940)	(4,518,720)	(10,816,298)	(10,348,506)	(8,897,277)	(20,473,584)	(15,015,391)	(16,810,876)	(27,180,119)	(6,143,543)	(3,514,460)	(1,562,088)	(125,616,802)
5														
6	LGS:													
7	Actual kWh (1)	52,890,247	53,112,984	49,814,391	50,748,974	51,703,765	52,622,964	52,882,240	48,363,135	47,223,781	44,282,683	46,522,216	48,009,339	598,176,719
8	Forecasted kWh	53,141,197	54,116,118	50,037,803	50,344,905	50,151,846	52,068,386	51,087,161	50,020,135	51,632,894	50,927,838	51,825,832	53,138,273	618,492,389
9		(250,950)	(1,003,134)	(223,412)	404,069	1,551,919	554,578	1,795,079	(1,657,000)	(4,409,113)	(6,645,155)	(5,303,616)	(5,128,934)	(20,315,670)
10														
11	Actual kW (1)	108,364	108,309	104,199	103,226	101,061	103,358	102,085	100,803	99,498	85,193	89,479	94,249	1,199,822
12	Forecasted kW	100,520	102,470	94,735	95,305	94,973	98,317	96,674	94,721	97,452	96,300	98,088	100,722	1,170,275
13		7,845	5,839	9,464	7,921	6,088	5,042	5,411	6,082	2,045	(11,107)	(8,610)	(6,473)	29,547

(1) Months May through July 2012 actual amounts are based off of OTP's most recent sales projections.

Otter Tail Power Company
Over(Under) Recovery Leaving Rates at Current Level
North Dakota

Line No.		LGS			All Other		
		Rate	Billing Units	Revenue	Rate	Billing Units	Revenue
1	kWh billing	\$0.00062	551,261,140	\$341,782	\$0.00083	1,217,727,621	\$1,010,714
2							
3	kW billing	\$0.075	1,069,427	<u>\$80,207</u>	n/a	n/a	<u>\$0</u>
4							
5	North Dakota			\$421,989			\$1,010,714
6							
7					Total North Dakota year 3 revenue		\$1,432,703
8							
9							
10					Amount to be recovered in 3rd year		<u>\$1,498,761</u>
11							
12					Over(Under) Collection		(\$66,058)