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The following underlined list provides a brief overview of the most prevalent changes that have occurred since the 2005 resource plan filing and its subsequent updates. These changes include both regulatory and economic factors that have had very tangible effects on the Company's current outlook.

Withdrawal from Big Stone II Baseload Coal Project

Otter Tail announced its withdrawal from the Big Stone II project in the fall of 2009. Financial obligations combined with a tightened credit market due to the economic downturn precluded the Company from going forward with the Big Stone II project. Significant changes to energy price forecasts also influenced the Company's decision. The project's inability to secure new participants (whose participation was likely to add additional regulatory scrutiny) and a contractual obligation to increase participation/cost share made the financial commitment to the project greater and increased the risk to participate. Federal legislative and regulatory activity surrounding CO₂ and other green house gases had indicated an unclear future after passage of the American Clean Energy and Security Act of 2009 (Waxman-Markey) through the U.S. House of Representatives on June 26, 2009. The Company also had uncertainty regarding adequate and timely cost recovery and uncertainty and likely delay related to permit appeals.

Midwest ISO Module E Resource Adequacy Obligation

Beginning in June 2009, Otter Tail's obligation for resource adequacy switched from the Midcontinent Area Power Pool (MAPP) to the Midwest ISO under the Module E Resource Adequacy Program. The Midwest ISO's planning reserve requirement has reduced the effective reserve margin from 15% under MAPP to 11.94% (non-coincident peak) for the 2010 Planning Year. Some utilities participating in the Midwest ISO have realized this reduction in reserve margin obligation and this has contributed to a surplus pool and buyer's market for capacity, particularly in non-peak months. Because Otter Tail is a winter peaking utility and the Midwest ISO is summer peaking, the Company anticipates benefits from the synergies and efficiencies the Midwest ISO is able to provide in meeting resource adequacy obligations. The Midwest ISO requires monthly reserve adequacy and provides a monthly capacity auction resulting in a more liquid market for capacity purchases. However, the Company's participation in Module E is still relatively new and it is not fully clear the long term implications participation will have.

The 11.94% resource adequacy obligation under Module E is implemented through two components: a load-based reserve margin and a generation accreditation. For the 2010 planning year, the reserve margin applied to the load forecast is 4.5%. For every MW of forecasted peak demand, net of accredited demand response, the Company must provide 1.045 MW of accredited capability. Otter Tail's generators are accredited based on historical plant performance. Each resource's historical performance data is used to calculate a probability for that resource of being available to operate when called upon. The probability, called an "equivalent forced outage rate," is applied to the resource's demonstrated capability under defined conditions, and lowers the accreditation of that resource from its demonstrated capability. Because the accreditation of resources is specific to each market participant and each resource, the effective reserve margin for each market participant can vary. Module E rules result in an effective reserve margin specific to Otter Tail that is higher than the 11.94% regional reserve margin due to the accreditations of the Company's units. Otter Tail's effective reserve margin is closer to 16% in the 2010 Planning Year. This 16% is comprised of the 4.5% load-based reserve margin on the peak demand forecast and an estimated aggregate equivalent forced outage rate of roughly 11.5% applied to the generation resources, excluding wind. The Module E resource adequacy construct provides incentive to

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improve plant performance and availability to maximize generator accreditation under Module E.

Resource accreditations change annually and are primarily based on summer ratings, unless the accreditation is for demand response or a PPA that varies monthly. As stated previously, ratings for generators are based on historic generator availability data or, if that is unavailable, class averages. Wind generation accreditation dropped from 20% of nameplate capacity in the 2009 planning year to 8% of nameplate capacity in the 2010 planning year. The Midwest ISO expects this accreditation to continue to decline as more wind generation penetrates the system, and has indicated a floor of 3% for long term planning purposes. Likewise, the Company's oil-fired peaking units were penalized in the 2010 planning year accreditations for "low service hours," meaning the units were not called on to run very often, causing an additional 30% drop in their accreditation. The Company expects this to reverse with the planning year beginning June 2011. The Midwest ISO has recognized that generating units which are rarely called upon to operate are being unfairly penalized by the resource adequacy procedures. A revised procedure has been developed for such units and will be implemented for the planning year beginning in June 2011. However, the swings in accreditation and rules for accreditation in Module E are a critical component in long term planning and evaluation of existing and future resources.

Otter Tail has successfully registered the load management system and retail firm service level contracts under Module E as Demand Resources. The accredited capability of these resources is subtracted from the Company's forecast demand prior to calculation of the resource adequacy obligation. Of particular benefit to the Company is the smoothing of the obligation that this resource provides from winter to summer. Otter Tail's accredited Demand Resources total 105 MW in the winter when the Company experiences its annual peak demand and 25 MW in the summer when Midwest ISO experiences its annual peak demand. The accreditation of the Demand Resources causes the adjusted summer season deficits to be larger than the adjusted winter season deficits.

Market Conditions in the Midwest ISO

Since 2007, the Company has added approximately 160 MW of new wind generation to its resource mix. Likewise, the Midwest ISO as a whole has seen increased intermittent generation on its system and anticipates significantly more additions in the near future. At the same time the Midwest ISO has added over 1600 MW of coal generation from Wisconsin, over 500 MW from Iowa, and an additional 300 MW is under construction. Additionally, the recession caused a decrease in load levels in 2008 and 2009 from previous years' levels. The end result has been lower cost generation being on the margin more often and more availability of low-priced energy and capacity. The Company has experienced more cycling on its coal-fired generators as a result, as well as an increase in minimum generation events.

Capacity contracts available through the Midwest ISO's monthly auction under Module E have demonstrated the surplus condition of the regional capacity market. For the Midwest ISO's peak month of July in the 2009 Planning Year, capacity sold for \$10,000/MW-mo. For the remainder of the 2009 Planning Year, monthly auction prices were near zero. For the 2010 Planning Year, the peak month of July saw a maximum price in the auction of \$10/MW-mo, one thousand times lower than last year. This severely low capacity price reflects the 2010 Midwest ISO summer assessment that showed the Midwest ISO's expected reserve margin of approximately 25%. Otter Tail presently benefits by being capacity deficit in a surplus market. However, the Company recognizes the potential for swings in market conditions associated with participation in a regional market and is planning accordingly.

New EPA Emission Standards for Stationary Engines

On March 3, 2010 the U.S. Environmental Protection Agency issued new national emission standards for hazardous air pollutants for existing stationary compression ignition reciprocating internal combustion engines. Engines affected by the new standards are required to be in compliance by May 3, 2013. The new standards include emissions limitations, operating limitations, maintenance requirements, performance tests, recordkeeping requirements, and reporting requirements. Compliance with the new standards will require the addition of equipment in some cases. Otter Tail currently contracts for roughly 10 MW of accredited capacity with customers who own generation that will be impacted by these new standards. Otter Tail recognizes that these customers may choose to forego meeting the standards and would no longer be eligible to the Company for resource adequacy compliance. Otter Tail also owns several small units, totaling about 4 MW, for which it may not be economical to comply for some of the units. For planning purposes, the Company is assuming this capability is no longer available after April 2013.

Climate Change Legislation Uncertainty

The Minnesota legislature has a state CO₂ reduction goal of 15% by 2015, 30% by 2025, and 80% by 2050. The Minnesota Commission increased the CO₂ value from \$4-\$30 to \$9-\$34 per ton for evaluation of all future resource additions. Although there is currently no federal climate change legislation, Waxman-Markey passed the House of Representatives and some type of CO₂ regulation is expected, with currently unknown reduction levels, emissions allocation programs, or trade values. The Environmental Protection Agency issued an endangerment finding on December 7, 2009 that paves the way for regulation of green house gases under the existing Clean Air Act, regardless of whether the federal legislature takes action.

Renewable Energy Objectives and Standards

Otter Tail is required to make a good faith effort to comply with the state REO through 2011. Beginning with 2012 the requirement switches to an RES. The state requirements² increase in a step-wise fashion, consisting of:

- 2007 – 1% of retail sales
- 2010 – 7% of retail sales
- 2012 – 12% of retail sales
- 2016 – 17% of retail sales
- 2020 – 20% of retail sales
- 2025 – 25% of retail sales.

The Company is also obligated to meet a REO beginning in 2015 in both North Dakota and South Dakota to generate or procure 10% of annual retail sales from renewable or recycled energy. Otter Tail has joined the Midwest Renewable Energy Tracking System (M-RETS) and has registered and tracked nearly all renewable generators owned or under contract. Only a very small amount of generators have not been registered because the resources are so small and/or self-serving some of their own load and thus generate negligible amounts of surplus energy for purchase by Otter Tail.

2007 MN Legislature DSM and Conservation Requirements

The 2007 Next Generation Act established an ambitious goal for all Minnesota electric and natural gas utilities of achieving energy savings equal to 1.5 percent of retail sales. The goal is based on a rolling

² These REO and RES requirements only apply to utilities like Otter Tail without nuclear generating assets. Utilities with nuclear generating assets have a more aggressive standard as detailed in Minn. Stat. §216B.1691 .

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three year average of weather normalized historical retail sales. In addition, the Director of the Minnesota Office of Energy Security (OES) must ensure that each utility’s CIP plan meets a goal of at least 1.0% of retail energy sales (MN Statute 216B.241, Subd 1c). On July 1, 2010 the Company will file its 2011, 2012, 2013 Minnesota CIP with the OES. This filing is being submitted in tandem with this resource plan and efforts were made to coordinate the two planning efforts as much as possible.

3.1 Projected Load and Capability

Appendix B provides Otter Tail’s load and forecast report in detail. Figure 3-1 below shows the peak demand by season historically and projected through the study period to 2034. As the figure shows, Otter Tail is a winter peaking utility. Figure 3-2 shows historic and forecast annual energy requirements by customer class. The historic and forecast values have existing conservation programs embedded, whereas the forecasted values exclude new conservation programs. Otter Tail’s energy requirements are currently driven equally by residential and commercial customers, creating an annual load factor of approximately 70%. Otter Tail projects that by 2019, large commercial and industrial loads will increase to roughly 60% of the Company’s retail sales, particularly due to pipeline load growth.

Figure 3-1: Historic and Forecast Unmanaged 50/50 Peak Demand by Season

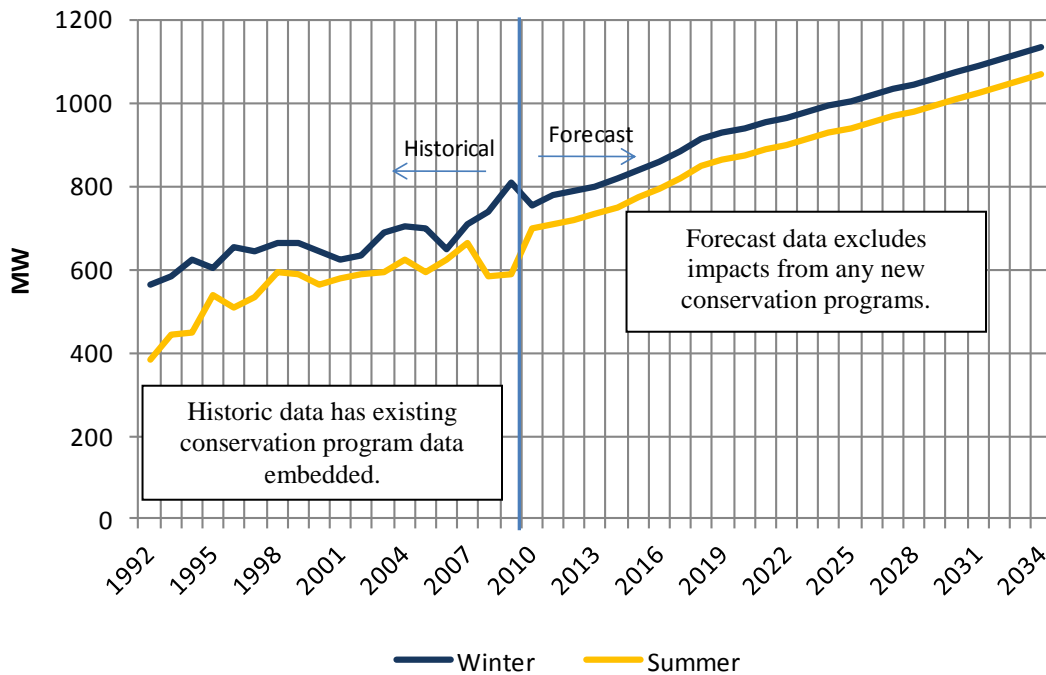
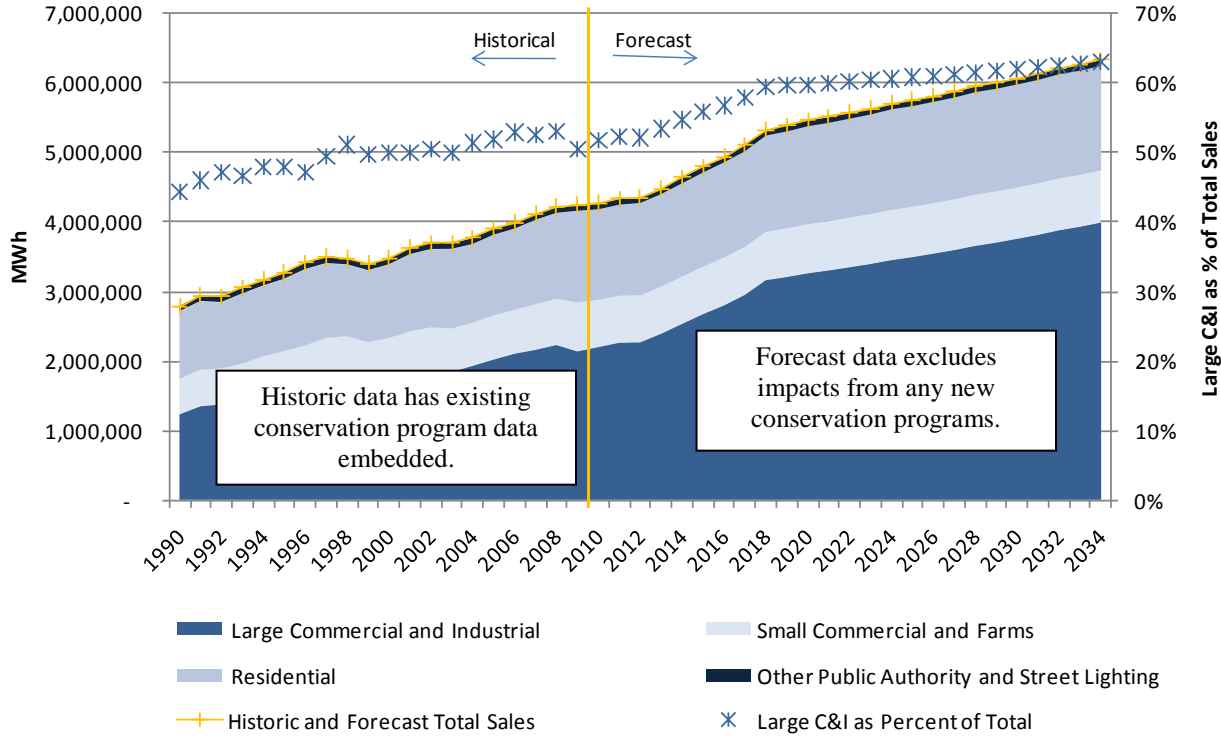


Figure 3-2: Historic and Forecast Annual Retail Sales (Losses are not included)



Otter Tail assesses capacity need through evaluation of the Company’s load and capability under Module E of the Midwest ISO Resource Adequacy Program. This calculation determines the difference between the resource obligation, which is the demand forecast plus the load reserve margin, and the sum of accredited generating capability, firm sales or purchases, and demand side resources. For the 2010 planning year, the reserve margin applied to the load forecast is 4.5%, and combined with the resource accreditations under Module E results in an effective reserve margin specific to Otter Tail of approximately 16% in the 2010 Planning Year.

The projected summer and winter capacity needs of the Company under Module E requirements are shown in Tables 3-1 and 3-2, respectively, and represented graphically in Figure 3-3. The Midwest ISO requires the Company designate capacity to meet the 50th percentile peak demand forecast plus reserves. Demand response resources, such as Otter Tail’s load management system, are netted from the demand forecast prior to calculation of the resource adequacy obligation. The supply-side resource stack is comprised of capacity that is converted to planning resource credits (PRCs) for resources that are universally deliverable within the Midwest ISO footprint (or aggregate), as well as for resources that are locally deliverable to Otter Tail’s load, and any bilateral transactions of PRCs.

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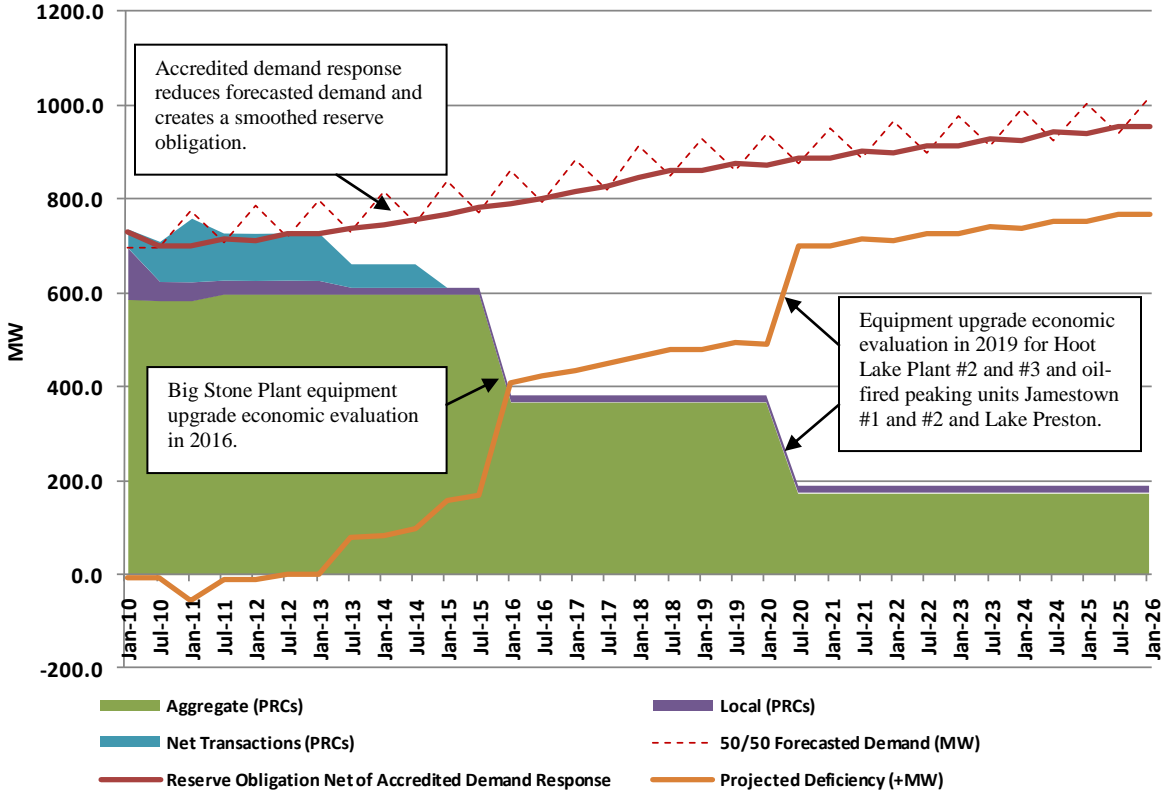
Table 3-1: Summer 2010-2025 Load and Capability Prior to Preferred Plan Information

Planning Year	50/50 Forecasted Demand (MW)	Accredited Demand Response (MW)	Reserve Obligation Net of Accredited Demand Response (MW)	Aggregate Capacity (PRCs)	Local Capacity (PRCs)	Net Transaction Capacity (PRCs)	Total Accredited Capacity (PRCs)	Projected Summer Deficiency (-MW)
2010	696.8	25.0	702.1	582.1	41.0	85.0	708.1	6.1
2011	708.4	25.0	714.1	596.1	30.0	100.0	726.0	11.9
2012	720.1	25.0	726.4	596.1	30.0	100.0	726.0	-0.3
2013	732.0	25.0	738.8	596.1	14.7	50.0	660.7	-78.0
2014	750.4	25.0	758.0	596.1	14.7	50.0	660.7	-97.3
2015	772.7	25.0	781.3	596.1	14.7	0.0	610.7	-170.6
2016	793.2	25.0	802.7	366.1	14.7	0.0	380.7	-422.0
2017	818.4	25.0	829.1	366.1	14.7	0.0	380.7	-448.4
2018	849.3	25.0	861.4	366.1	14.7	0.0	380.7	-480.6
2019	861.8	25.0	874.4	366.1	14.7	0.0	380.7	-493.7
2020	874.4	25.0	887.6	172.7	14.7	0.0	187.4	-700.2
2021	887.2	25.0	901.0	172.7	14.7	0.0	187.4	-713.6
2022	900.1	25.0	914.5	172.7	14.7	0.0	187.4	-727.1
2023	913.1	25.0	928.1	172.7	14.7	0.0	187.4	-740.7
2024	926.3	25.0	941.9	172.7	14.7	0.0	187.4	-754.5
2025	939.7	25.0	955.8	172.7	14.7	0.0	187.4	-768.4

Table 3-2: Winter 2010-2025 Load and Capability Prior to Preferred Plan Information

Planning Year	50/50 Forecasted Demand (MW)	Accredited Demand Response (MW)	Reserve Obligation Net of Accredited Demand Response (MW)	Aggregate Capacity (PRCs)	Local Capacity (PRCs)	Net Transaction Capacity (PRCs)	Total Accredited Capacity (PRCs)	Projected Winter Deficiency (-MW)
2010	775.5	105.0	700.7	582.1	40.3	135.0	757.4	56.7
2011	787.1	105.0	712.8	596.1	29.3	100.0	725.3	12.5
2012	798.9	105.0	725.1	596.1	29.3	100.0	725.3	0.2
2013	817.1	105.0	744.2	596.1	14.7	50.0	660.7	-83.4
2014	839.2	105.0	767.3	596.1	14.7	0.0	610.7	-156.5
2015	859.6	105.0	788.5	366.1	14.7	0.0	380.7	-407.8
2016	884.6	105.0	814.7	366.1	14.7	0.0	380.7	-434.0
2017	915.3	105.0	846.8	366.1	14.7	0.0	380.7	-466.1
2018	927.7	105.0	859.7	366.1	14.7	0.0	380.7	-479.0
2019	940.2	105.0	872.8	366.1	14.7	0.0	380.7	-492.0
2020	952.8	105.0	886.0	172.7	14.7	0.0	187.4	-698.6
2021	965.6	105.0	899.3	172.7	14.7	0.0	187.4	-711.9
2022	978.4	105.0	912.8	172.7	14.7	0.0	187.4	-725.4
2023	991.5	105.0	926.4	172.7	14.7	0.0	187.4	-739.0
2024	1004.6	105.0	940.1	172.7	14.7	0.0	187.4	-752.7
2025	1017.9	105.0	954.0	172.7	14.7	0.0	187.4	-766.6

Figure 3-3: Projected Winter and Summer Capacity Needs through 2025, by Calendar Year



As shown, Otter Tail expects deficiencies to begin slightly in the summer of 2012 and in earnest by the summer of 2013 as some bilateral contracts expire. The Company is presently negotiating bilateral contracts for the 2013-2014 time-frame. Based on the most recent long term forecast, the calculation under Module E, and including scheduled accounting plant retirements, Otter Tail’s capacity deficiency reaches roughly 770 MW by 2025. Otter Tail is a winter peaking utility, but for modeling purposes bases its capacity resource need on the summer season due to the minimum reserve margin in the summer season after netting of demand resources from the peak demand forecast under Module E (based on calendar years, not planning years). Although the summer season drives capacity needs, the entire year is evaluated for the Company’s energy needs.