

OTTER TAIL POWER COMPANY
2011 Attachment O
Customer Meeting

October 27, 2010



Agenda

- Meeting Purpose
- Otter Tail Power Company Profile
- Attachment O Calculation
- Capital Projects
- Budget Risks
- Question/Answer

Meeting Purpose

- To provide an informational forum regarding Otter Tail's forecasted Attachment O for 2011.
- The forecasted Attachment O for 2011 is calculated using the Midwest ISO's FERC Form 1 Attachment O template with a projected net revenue requirement and projected load.
- Rates become effective on January 1, 2011 for joint pricing zone comprised of Otter Tail and Great River Energy.

Otter Tail Power Company



- Size: 50,000 square miles (roughly the size of Wisconsin)
- Communities served: 423
- Customers served: 129,500
- Transmission: ~ 5,300 miles
- Generation: ~ 798 MW of owned generation
 - renewable energy (generated & purchased) represents 18 percent of our retail sales

Mission: To produce and deliver electricity as reliably, economically, and environmentally responsibly as possible to the balanced benefit of customers, shareholders, and employees and to improve the quality of life in the areas in which we do business.

Forward Looking Attachment 0

- Forward Rate Requirements
- Rate Base
- Operating Expenses
- Revenues Requirement and Rate
- Network Rate Summary

Forward Rate Requirements

- By June 1 of each year, Otter Tail will post on OASIS all information regarding any Attachment O True-up Adjustments for the prior year.
 - 2011 Forward Looking Attachment O will be trued-up by June 2012 .
- Beginning Sept. 1, 2010 and Sept. 1 all years thereafter, Otter Tail will post on OASIS its projected Net Revenue Requirement including the True-Up Adjustment and load for the following year, and associated work papers.
- Beginning in 2010 and each year thereafter, Otter Tail will hold a customer meeting by October 31, to explain its formula rate input projections and cost detail.

Rate Base

Rate Base Item	2011 Projected	2010 Projected	\$ Change	% Change	Explanation
Gross Plant in Service	\$236,254,088	\$239,888,008	\$(3,633,920)	-1.5%	The decrease is due to the reclassification of Transmission Plant to Distribution Plant as a result of the Boundary Guideline Study
Accumulated Depreciation	\$93,309,725	\$91,167,318	\$2,142,407	2.3%	Annual Depreciation Expense
Net Plant in Service	\$142,944,363	\$148,720,690	\$(5,776,327)	-3.9%	
Adjustments to Rate Base	(\$33,632,687)	(\$34,007,783)	\$375,096	-1.1%	ADIT - Book vs Tax Timing Differences
CWIP for CON Projects	\$19,432,431	\$8,688,507	\$10,743,924	123.7%	Additional costs to be incurred in 2011 for eligible projects.
Land Held for Future Use	\$9,038	9,038	-	0.0%	
Working Capital	\$4,925,678	\$4,779,527	\$146,151	3.1%	Increases in allocated Materials and Supplies as well as Prepayments drove the increase.
Rate Base	\$133,678,823	\$128,189,979	\$5,488,844	4.3%	= Net Plant + Adj + CWIP + Land + Working Capital

Note: The above numbers are Transmission only

Operating Expenses

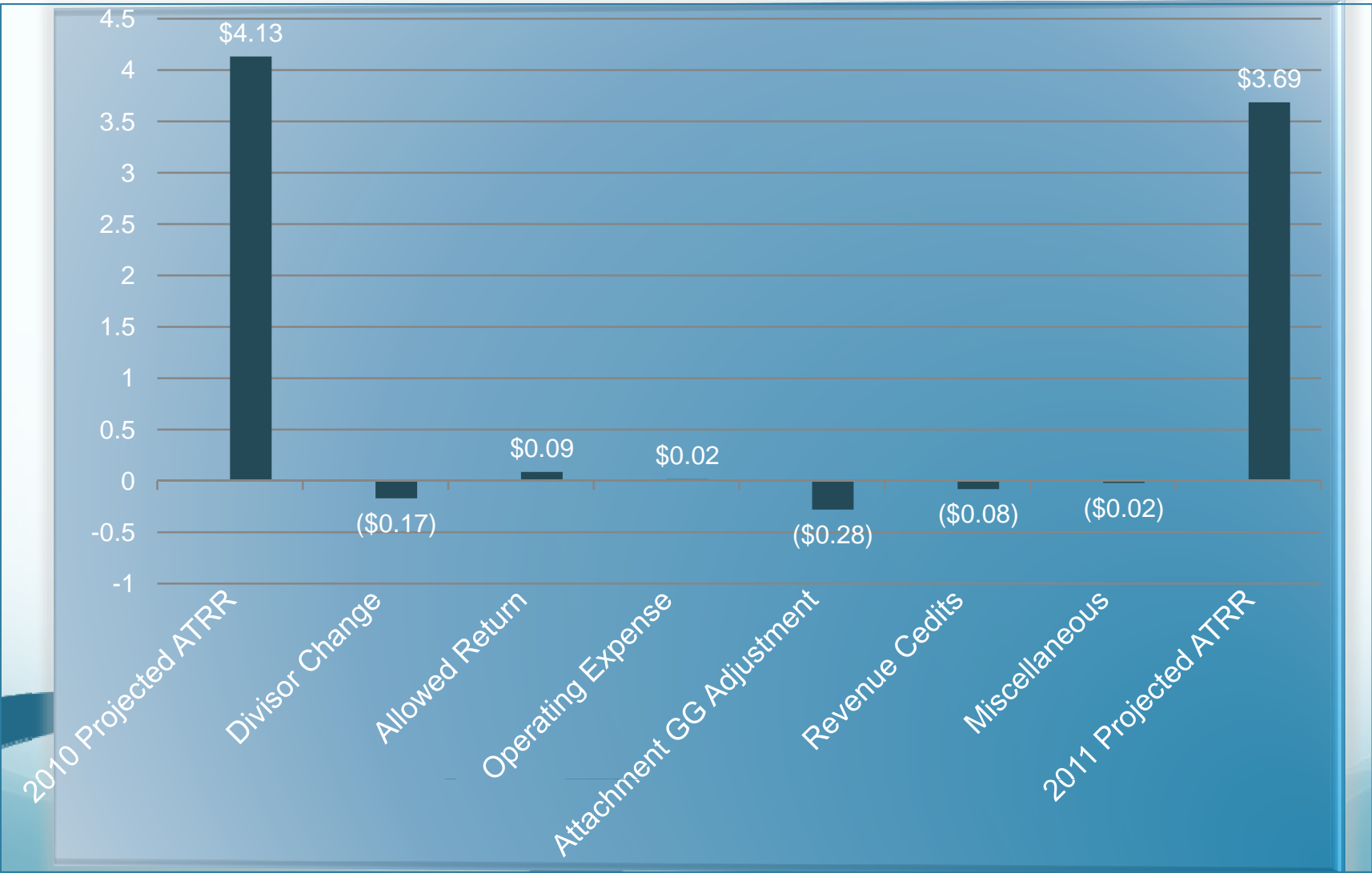
Expense Item	2011 Projected	2010 Projected	\$ Change	% Change	Explanation
O&M	\$13,140,824	\$13,261,666	-\$120,842	-0.9%	Increases in Transmission O&M were offset by an increased budget in FERC 565 related to MISO Schedule 26 costs. In addition, there were slight reductions in Other O&M Budgeted amounts from 2010 to 2011.
Depreciation Expense	\$4,972,671	\$5,012,720	-\$40,049	-0.8%	The reclassification of Transmission Plant to Distribution Plant as a result of the Boundary Guideline Study also reduced Transmission-related depreciation expense from 2010 to 2011.
Taxes Other than Income	\$1,698,067	\$1,887,207	-\$189,140	-10.0%	Property Tax Expense decreased from 2010 to 2011 which reduced the allocation in Attachment O.
Income Taxes	\$4,949,617	\$4,468,011	\$481,606	10.8%	A slightly lower return in 2011 was offset by a higher effective tax rate than 2010.
Operating Expense	\$24,761,179	\$24,629,604	\$131,575	0.5%	= O&M + A&G + Depreciation + Taxes

Note: The above numbers are Transmission only

Rate and Revenue Requirement

	2011 Projected	2010 Projected	\$ Change	% Change	Explanation
Long Term Debt	46.84%	48.55%		-1.71%	A payoff of a 2010 Long-term Debt Issuance and a slight increase in budgeted Common Stock balance resulted in a Long-Term debt capital allocation decrease.
Preferred Stock	0.00%	0.00%		0.00%	
Common Stock	53.16%	51.45%		1.71%	See the Long-Term Debt explanation above.
Total	100.00%	100.00%			= Debt + Equity
Weighted Cost of Debt	6.68%	6.98%		-0.30%	Slightly Lower Cost of Debt in 2011.
Cost of Preferred Stock	0.00%	0.00%		0.00%	
Cost of Common Stock	12.38%	12.38%		0.00%	Constant
Rate of Return	9.71%	9.76%		-0.05%	= (LTD*Cost)+(Preferred Stock*Cost)+(Common Stock*Cost)
Rate Base	\$133,678,823	\$128,189,979	\$5,488,844	4.28%	From "Rate Base" Calculation
Allowed Return	\$12,980,513	\$12,508,256	\$472,257	3.78%	= Rate of Return * Rate Base
Operating Expenses	\$24,761,179	\$24,629,604	\$131,575	0.53%	From "Operating Expense" Calculation
Attachment GG Adjustments	\$3,442,833	\$1,291,702	\$2,151,131	N/A	2011 was the second year for the GG revenue requirement calculation. As with the discussion associated with the change in CWIP on Attachment O, GG projects have budgeted increases in accumulated cost balances eligible for recovery in 2011 over 2010.
Gross Revenue Requirement	\$34,298,859	\$35,846,158	-\$1,547,299	-4.32%	= Return + Expenses - Adjustments
Revenue Credits	\$5,940,612	\$5,363,545	\$577,067	10.76%	Increase in FERC 456.1 Revenue
Net Revenue Requirement	\$28,358,248	\$30,482,613	-\$2,124,366	-6.97%	= Gross Revenue Requirement - Revenue Credits

Rate Summary



Capital Projects:

Transmission Line Projects > \$100K

Project	Voltage	Estimated In-Service Date	Forecasted Capital Addition	Project Description
Rejected pole replacement (2011-2015)	41.6kV	12/31/2011	\$194,880	Transmission Pole replacements throughout the OTP service territory (due to ground line inspections)
Reroute 41.6 kV line near Crookston, MN	41.6kV	5/30/2011	\$170,000	Reroute existing 41.6 kV line (about 50 poles) due to MN DOT road move of US Hwy 2 and eroding river banks along existing line.
Proactive Relay Upgrade (2011-2015)		12/31/2011	\$100,000	Proactive relay upgrades throughout OTP service territory (installing new digital relays)
Circuit Breaker Change Out Program (2011-2015)	41.6kV	12/1/2011	\$300,000	Transmission breakers being replaced at Jamestown Peaking Plant, ND and Colgate, ND
Karlstad Capacitor Bank	115kV	12/31/2011	\$950,000	Improve voltage profile of the transmission system by adding two 7 MVAR capacitor banks
Victor – New Effington 41.6 kV line	41.6kV	12/30/2011	\$200,000	Rebuild existing 4-mile, 41.6 kV transmission line with new structures and a shield wire
Herman – Nashua 41.6 kV line (2011 - 2013)	41.6kV	12/31/2011	\$150,000	Rebuild a portion of the existing 41.6 kV transmission line with new structures and insulators

Budget Risks

Revenue

Demand/
Weather

Regulatory
Filings

Financing

Outages

Timing of
Capital
Projects

Tight
Budgets

Questions?

If you have any additional questions after the meeting,
please submit via e-mail to:

JoAnn Thompson

jthompson@otpc.com

All questions and answers will be distributed by e-mail to
all attendees. Additionally, the questions and answers
will be posted on Otter Tail's OASIS website
(<http://oasis.midwestiso.org/OASIS/OTP>) within two
weeks from the date of inquiry.