Otter Tail Power Company
2014 Attachment O
Customer Meeting

October 28, 2013

Agenda

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

Legal Disclosure

All numeric data provided in this presentation is preliminary and subject to change.

All information will be finalized by 12/31/13.

Meeting Purpose

- To provide an informational forum regarding Otter Tail's forecasted Attachment O for 2014.
- The forecasted Attachment O for 2014 is calculated using the FERC Form 1 Attachment O template under the MISO Tariff with a projected net revenue requirement and projected load.
- Rates become effective on January 1, 2014 for the joint pricing zone comprised of Otter Tail, Great River Energy, and Missouri River Energy Services.

Otter Tail Power Company

- Incorporated in 1907, Otter Tail Power Company is a subsidiary of Otter Tail Corporation, trading under the NASDAQ symbol OTTR.
- Size: 70,000 square miles
- Communities served: 422
- Customers served: 129,800
- Transmission: ~ 5,300 miles
- Generation: ~ 798 MW of owned generation

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 O

- Forward Rate Requirements
- Rate Base
- Operating Expenses
- Revenue 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.
  - 2013 Forward Looking Attachment O will be trued-up by June 2014.
- 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	2014 Projected	2013 Projected	$ Change	% Change	Explanation
Gross Plant in Service	$318,287,029	$287,571,748	$30,715,281	10.7%	Increase mainly due to the transfer of Fargo Phase II (~ $25M) and Fargo Phase III (~ $45M) CAPX projects to Plant in Service during mid- to late-2014 and calculating a full year's worth of in-service investment on the Casselton-Buffalo 115kV line. Also includes ~ $5M of general Transmission Plant additions.
Accumulated Depreciation	$107,878,058	$102,744,252	$5,133,806	5.0%	Net result of Annual Depreciation Expense combined with projected retirements.
Net Plant in Service	$210,408,971	$184,827,496	$25,581,475	13.8%	= Gross Plant - A/D
Adjustments to Rate Base	$(50,181,698)	$(44,023,296)	$(6,158,402)	14.0%	ADIT - Book vs Tax Depreciation Timing Differences originating due to accelerated tax depreciation methods such as Bonus depreciation and MACRS tables created when large Transmission (i.e., Fargo Phase II and Fargo Phase III) projects go into service.
CWIP for CON Projects	$65,920,432	$53,482,317	$12,438,115	23.3%	Additional costs to be incurred in 2014 for eligible projects. Individual projects can be found on Attachments GG and MM.
Land Held for Future Use	$9,038	$9,038	-	0.0%	
Working Capital	$5,710,799	$5,830,055	$(119,256)	-2.0%	Relatively unchanged with a slight decrease in CWC due to drop in Transmission-related O&M.
Rate Base	$231,867,542	$200,125,610	$31,741,932	15.9%	= Net Plant + Adj + CWIP + Land + Working Capital

Note: The above numbers are Transmission only

Operating Expenses

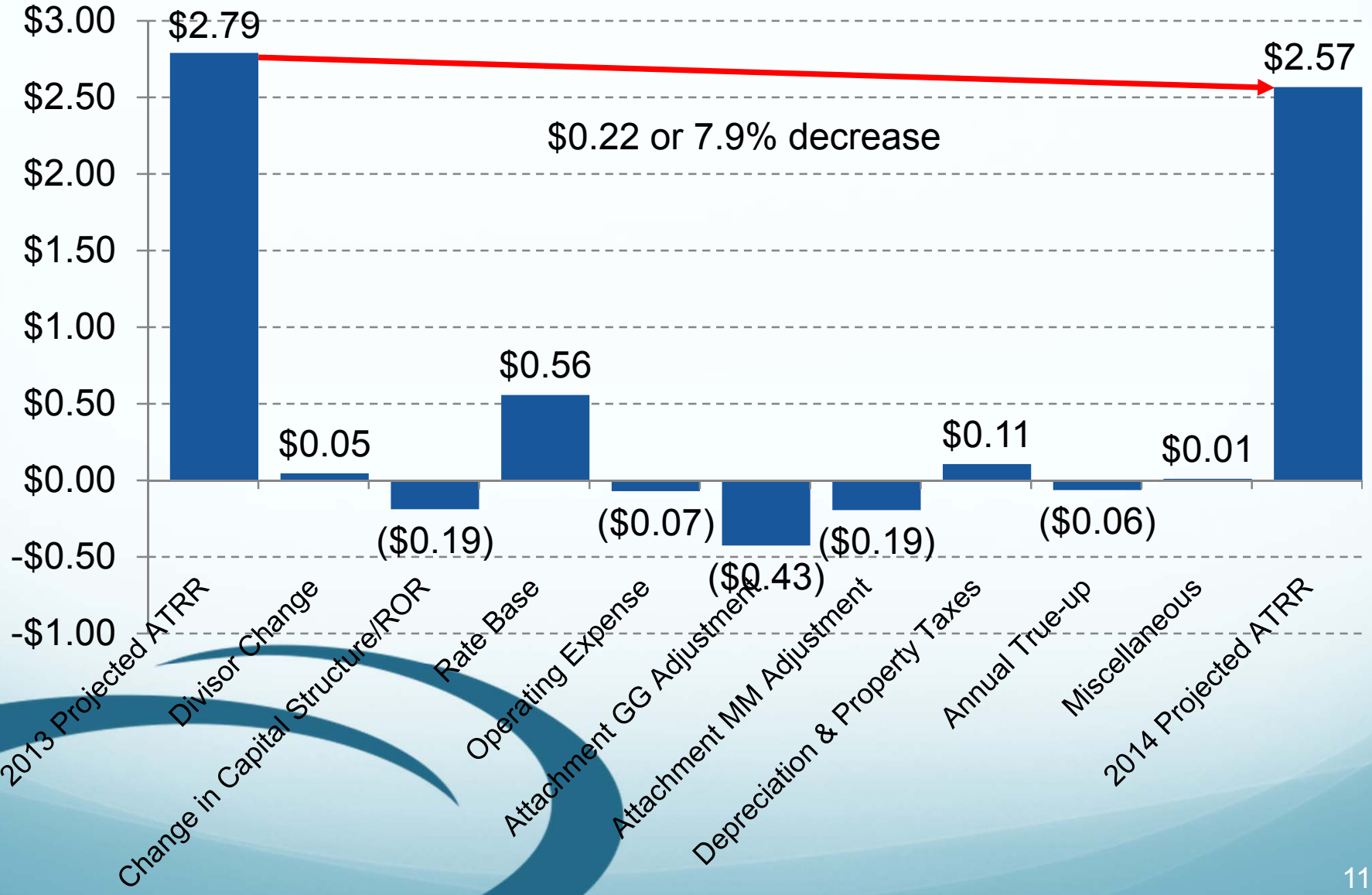
Expense Item	2014 Projected	2013 Projected	$ Change	% Change	Explanation
O&M	$14,317,565	$15,223,429	$(905,864)	-6.0%	Total Company O&M after adjusting for the removal of Schedule 26/26A expense is up just slightly (~$15K) from Projected Year 2013 but Transmission-allocated expense is down as the W/S (Wage and Salary) and TE (Transmission Expense) allocator are both down from the previous year resulting in less allocated expense.
Depreciation Expense	$6,566,168	$5,923,798	$642,370	10.8%	Increase in Depreciation Expense due to projected plant additions primarily related to Fargo Phase II and Casselton-Buffalo 115kV moving into service as discussed on the previous slide for Gross Plant increases.
Taxes Other than Income	$2,711,397	$2,373,190	$338,207	14.3%	An increase in Total Company Property Tax Expense as a result of higher assessed values and tax rates combined with an increase in the GP allocation percentage from 2013 to 2014 resulted in a higher allocation in Attachment O.
Income Taxes	$8,343,341	$7,933,216	$410,125	5.2%	Increase in Rate Base = Increase in Return = Increase in Income Tax Expense; Also, 2014 has lower projected tax credits then 2013. These increases in tax expense are somewhat offset by a lower ETR as the ND State Tax rate has been lowered from 5.15% to 4.53%.
Operating Expense	$31,938,471	$31,453,633	$484,838	1.5%	= O&M + A&G + Depreciation + Taxes

Note: The above numbers are Transmission only

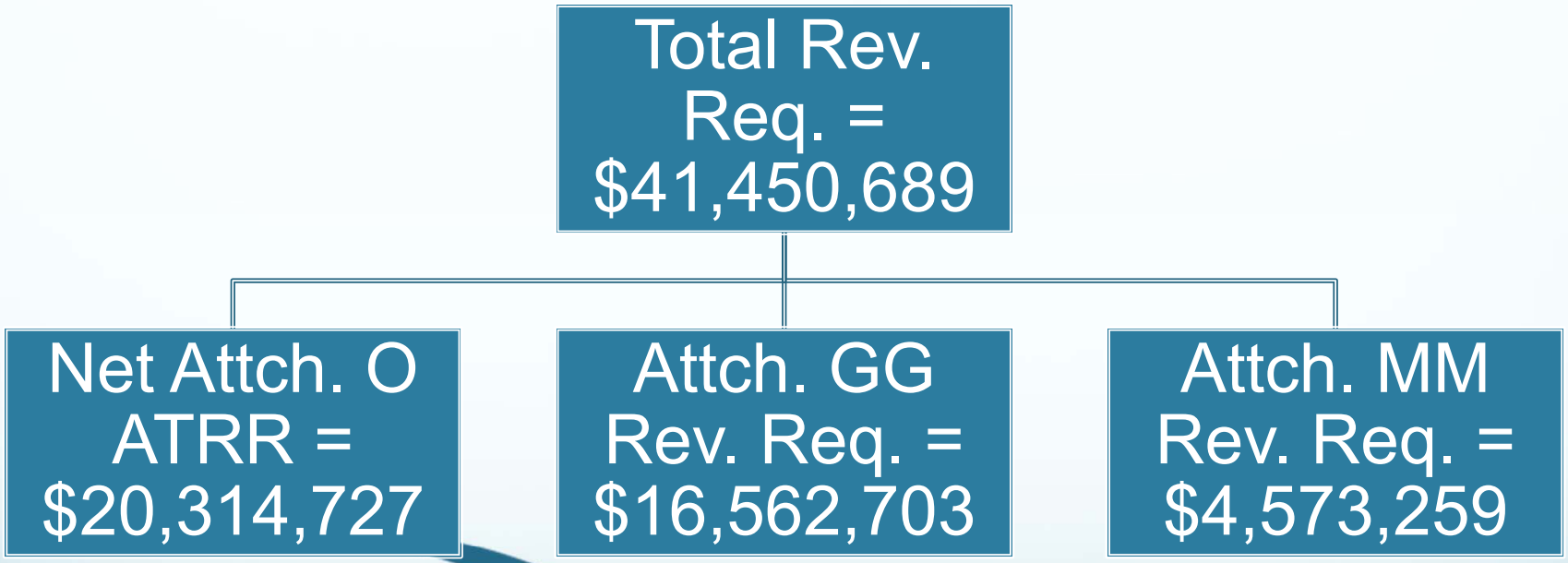
Revenue Requirement and Rate

	2014 Projected	2013 Projected	$ Change	% Change	Explanation
Long Term Debt	50.54%	46.17%		4.37%	2014 includes a projected new debt issuance to help fund capital requirements needed for the large Transmission (CAPX and MVP's) and Generation (AQCS) investments being undertaken.
Common Stock	49.46%	53.83%		-4.37%	An equity infusion is projected in 2014 to keep the capital structure within jurisdictionally ordered guidelines and to help finance large projects mentioned in the LT Debt line above but not in the same proportion as the debt issuance which thereby drives the ratio down.
Total	100.00%	100.00%			= Debt + Equity
Weighted Cost of Debt	5.49%	5.73%		-0.24%	The projected rate on the new debt issuance is expected to help lower the Total Company over Cost of Debt.
Cost of Common Stock	12.38%	12.38%		0.00%	Unchanged
Rate of Return	8.90%	9.31%		-0.41%	= (LTD*Cost)+(Preferred Stock*Cost)+(Common Stock*Cost)
Rate Base	$231,867,542	$200,125,610	$31,741,932	15.86%	From "Rate Base" Calculation
Allowed Return	$20,629,078	$18,629,007	$2,000,071	10.74%	= Rate of Return * Rate Base
Operating Expenses	$31,938,471	$31,453,633	$484,838	1.54%	From "Operating Expense" Calculation
Attachment GG Adjustments	$16,562,703	$13,142,264	$3,420,439	26.03%	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 2014 over 2013.
Attachment MM Adjustments	$4,573,259	$3,007,552	$1,565,707	52.06%	As with the discussion associated with the change in CWIP on Attachment O, MM projects have budgeted increases in accumulated cost balances eligible for recovery in 2014 over 2013.
Gross Revenue Requirement	$31,431,587	$33,932,824	$(2,501,237)	-7.37%	= Return + Expenses - Adjustments
Revenue Credits	$6,449,668	$7,328,404	$(878,736)	-11.99%	Estimated decreases in Other MISO Schedule revenue and miscellaneous ITA deficiency revenue for 2014 when compared to 2013. Note the decrease on the "Gross Revenue Requirement" line above as an example. A declining Attachment O revenue requirement means less 7 and 8 revenue for 2014.
2012 True-up (Including Interest)	$(4,667,192)	$(4,159,423)	$(507,769)	12.21%	2014 includes the 2012 True-up Adjustment; 2013 includes the 2011 True-up adjustment.
Net Revenue Requirement	$20,314,727	$22,444,998	$(2,130,270)	-9.49%	= Gross Revenue Requirement - Revenue Credits + True-up

Rate Summary



Total Transmission Revenue Requirement Breakdown



2014 Transmission Projects

Attachment O Capital Projects: Transmission Line Projects > $200K

Project	Voltage	Estimated In-Service Date	Forecasted 2014 Capital Addition	Project Description
Circuit Breaker Replacements	≥ 41.6 kV	12/31/2014	$300,000	Circuit breakers being replaced at various locations that fail testing
Rejected Pole Replacements	≥ 41.6 kV	12/31/2014	$500,000	Transmission pole replacements throughout the OTP service territory (due to ground line inspections)
Parshall Area 115 kV Source	115 kV	9/1/2014	$1,098,547	Add new 115/41.6 kV transformer near Parshall, ND
Summit 115/41.6 kV Transformer Replacement	115 kV	7/1/2014	$200,000	Replace existing 115/41.6 kV transformer at Summit (8 MVA to 25 MVA)
Proactive Worst Performing Lines	41.6 kV	12/20/2014	$300,000	Enhancements and/or rebuild of worst performing 41.6 kV lines.

Attachment O Capital Projects: Transmission Line Projects > $200K

Project	Voltage	Estimated In-Service Date	Forecasted 2014 Capital Addition	Project Description
Proactive Relay Upgrade	41.6 kV	12/20/2014	$200,000	Replace existing relaying with new microprocessor based relaying.
Oakes Area Transmission Improvements	41.6 kV	11/30/2014	$3,000,000	Build new 8-mile 41.6 kV line and 41.6 kV substation at Oakes (ND)
Devils Lake – Spirit Lake 41.6 kV Line	41.6 kV	12/20/2014	$500,000	Construct 41.6kV line to improve reliability and reduce the exposure of the 41.6kV lines in this area.
Winger –Thief River Falls 230 kV Line	230 kV	12/20/2020	$60,000	Construct a new, approximately 50-mile, 230kV line between the Winger Substation and the Thief River Falls Substation in Northwest MN.
Clearbrook – Solway 115 kV Line	115 kV	6/30/2018	$1,045,000	Construct a new, approximately 22-mile, 115kV transmission line from the Clearbrook Substation to the Solway Substation in north central MN.

Attachments GG and MM Capital Projects: Transmission Line Projects > $200K

Project	Voltage	Estimated In-Service Date	Forecasted 2014 Capital Addition	Project Description
Attachment GG				
Mapleton – Sheyenne 115 kV Line Rebuild	115 kV	6/1/2014	$3,500,000	Underlying System improvements for 115 kV line from Casselton – Buffalo. Rebuild approximately 8 miles of existing 115 kV line.
Buffalo 345/115 kV Transformer	345 kV	11/30/2015	$3,699,999	Underlying System improvements for 115 kV line from Casselton – Buffalo. Add more transformer capacity at Buffalo.
Fargo – St. Cloud 345 kV Line	345 kV	5/31/2015	$22,939,882	Build new 345 kV line from St. Cloud (Quarry) to Alexandria to Fargo (Bison) (MN/ND)
Attachment MM				
Brookings – Hampton Line	345 kV	2/13/2015	$6,505,790	Build new 345 kV line from Brookings – Hampton
Big Stone South – Brookings Line	345 kV	9/30/2017	$2,350,809	Build new 345 kV line from Big Stone South – Brookings with Big Stone Plant Substation Expansion
Big Stone South – Ellendale Line	345 kV	9/30/2019	$3,696,143	Build new 345 kV line from Big Stone South – Ellendale

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

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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://www.oasis.oati.com/OTP/index.html) within two weeks from the date of inquiry.

Appendix

Relevant 2013 FERC Filings

- **Attachment MM MVP Revisions** (FERC Docket No. ER13-263)
  - Accepted by FERC on 2/11/2013
  - Effective on 1/1/2013
  - Filing Purpose:
    - Incorporate a true-up mechanism to ensure the MISO TOs collect actual revenue requirements calculated under Attachment MM and assessed through various schedules, while protecting customers from over-recovery

- **Attachment MM MVP Revision Corrections** (FERC Docket No. ER13-1169)
  - Accepted by FERC on 7/11/2013
  - Effective on 6/1/2013
  - Filing Purpose
    - Make technical corrections to Attachment MM true-up templates
    - Specify that MidAmerican and Montana-Dakota Utilities will use the aggregate method for determining interest for their true-up adjustments

- **Attachment O, GG, and M Revisions** (FERC Docket No. ER13-674)
  - Accepted by FERC on 3/20/2013
  - Effective on 1/1/2013
  - Filing Purpose:
    - Correct and clarify references to Tariff schedules throughout Attachments O, GG, and MM.

- **Attachment MM MVP Financial Obligations and Cost Recovery** (FERC Docket No. ER12-715)
  - Accepted by FERC on 11/9/2012
  - Effective on 1/1/2012
  - Filing Purpose
    - Clarify whether the withdrawal amounts used to determine the Schedule 39 MVP usage rate and to assess a withdrawing TO's Schedule 39 MVP monthly obligation will include or exclude net energy withdrawals specific to Grandfathered Agreements
    - Correct references in Attachment MM as required in previous order in same docket