

A network diagram in the background consisting of a grid of interconnected nodes. The nodes are represented by 3D cubes in various colors (blue, orange, green, yellow) connected by thin yellow lines. The diagram is set against a light gray grid background.

Linked together

Chuck MacFarlane, President & CEO
April 13, 2012



Overview

- Otter Tail Power Company anchors Minnesota's northwestern economy by providing reliable, low-cost electricity and 785 jobs.
- Is part of Otter Tail Corporation, an \$800 million publicly traded company employing 1,425 Minnesotans.
- Serves a relatively small number of customers in a wide-ranging rural area in MN, ND, and SD.
- Faces the following challenges:
 - Investing significant capital in environmental upgrades and transmission expansion
 - Determining the future of Hoot Lake Plant
 - Serving three different state regulatory jurisdictions
- **We want to work better with regulators to address these issues in ways that best serve customers. We are linked together.**



Otter Tail Corporation: Our parent

- Employs 3,000 people in the electric, wind energy, and manufacturing industries.
 - 1,425 employees work in Minnesota: Bemidji, Clearwater, Crookston, Detroit Lakes, Fergus Falls, Moorhead, and Morris.
- Minneapolis *Star Tribune* “2011 Top 100 Companies” report :
 - Employees: 32nd
 - Assets: 25th
- President and CEO Jim McIntyre: “Going forward, we expect the electric segment to be a larger source of growth and plan to invest approximately \$730 million in this segment between 2012 and 2016.”
- **To protect utility ratepayers, strong walls separate the utility, parent corporation, and other subsidiaries.**

Otter Tail Power Company



- Serves 70,000 square miles
- Has served northwestern Minnesota since 1909
- Employs 785 people for a payroll of about \$60 million
 - 495 in Minnesota
 - 200 in North Dakota
 - 90 in South Dakota
 - About 400 are union workers



Customers

- **129,300 customers**
 - 60,600 in MN – 47% (about **4%** of *all* MN electricity customers)
 - 57,025 in ND – 44%
 - 11,675 in SD – 9%

- **Minnesota customers and load**

Residential:	49,884 – 82%	1,326,160,478 kwh – 31%
Commercial:	9,533 – 16%	665,559,475 kwh – 15%
Industrial:	786 – 1%	2,242,821,551 kwh – 52%
Other:	363 – 1%	68,616,841 kwh – 2%

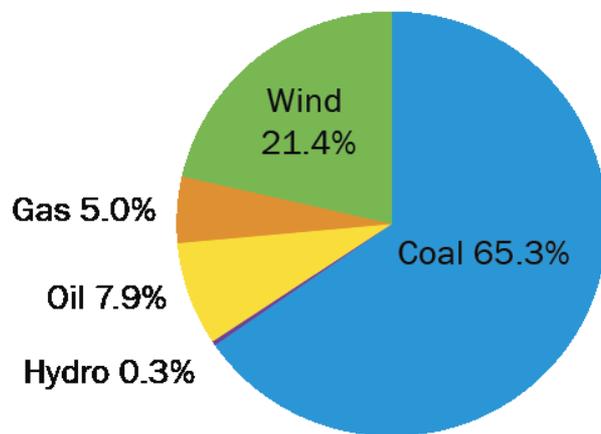
- **423 communities**
 - The average population is about 400.
 - Only three exceed 10,000. (Jamestown 15,527; Fergus Falls 13,949; Bemidji 13,074)



Rates and generation

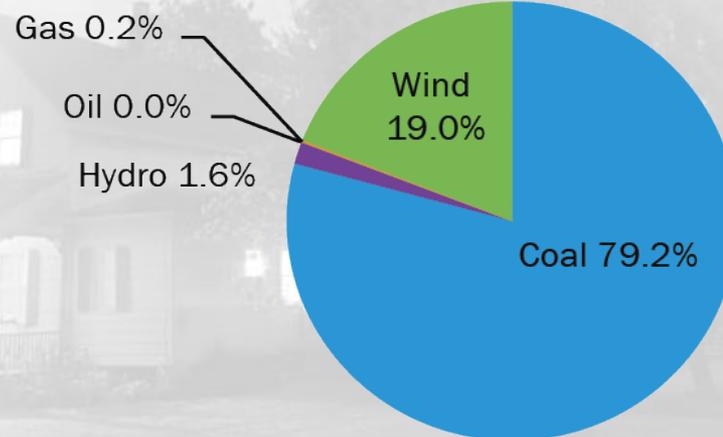
- Our average residential rate is \$0.0820/kwh. (Compares with \$0.1201/kwh nationally.)
- Our generation portfolio is about 800 MW of owned capacity.
- Our January 2012 peak was 823 MW. We are winter peaking.

Capacity¹



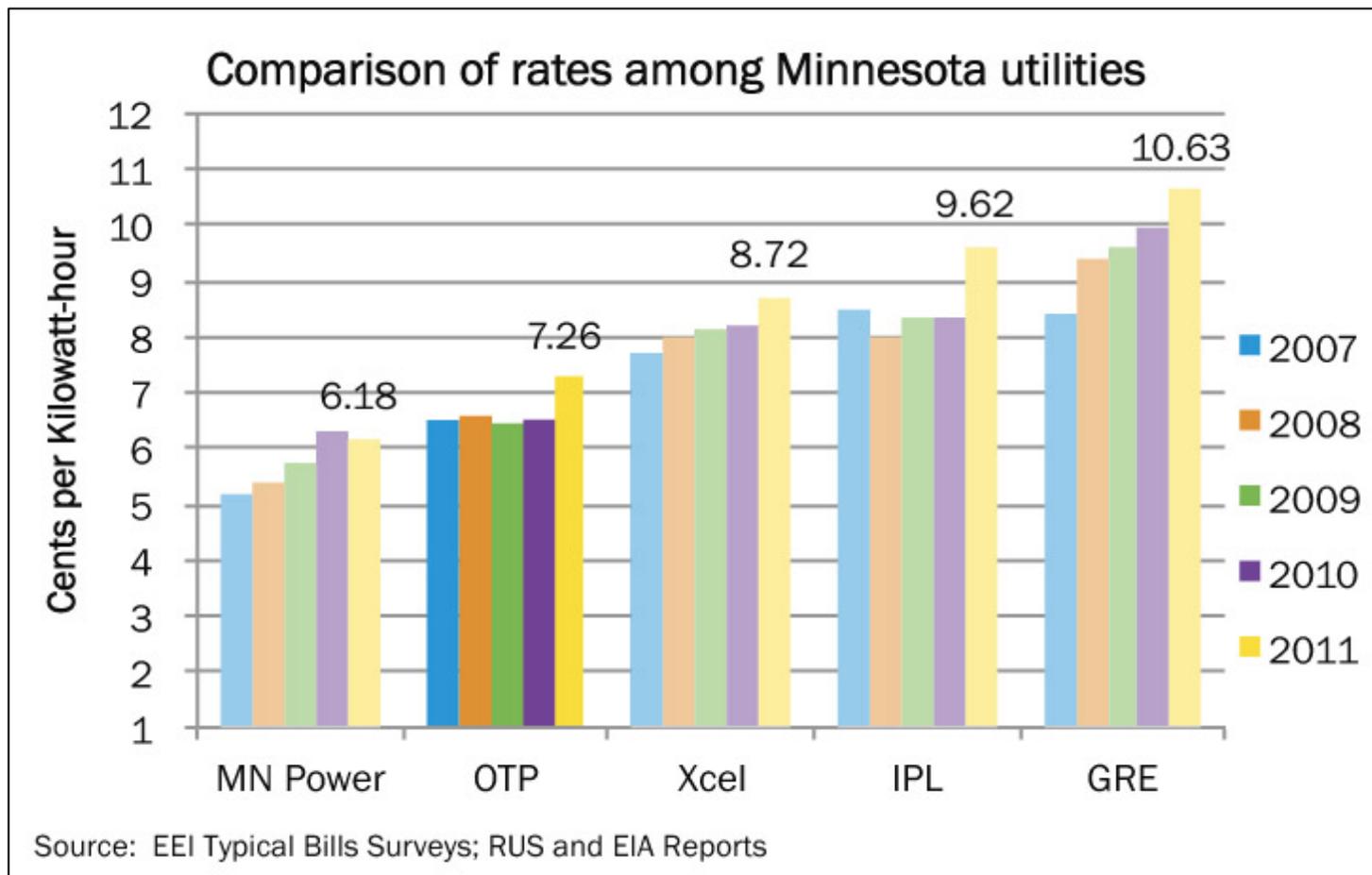
1. Nameplate/Net Dependable Capacity (NDC)

Energy¹



1. Purchases excluded (21% of OTP Total)

Rate comparison: Average of all customer classes





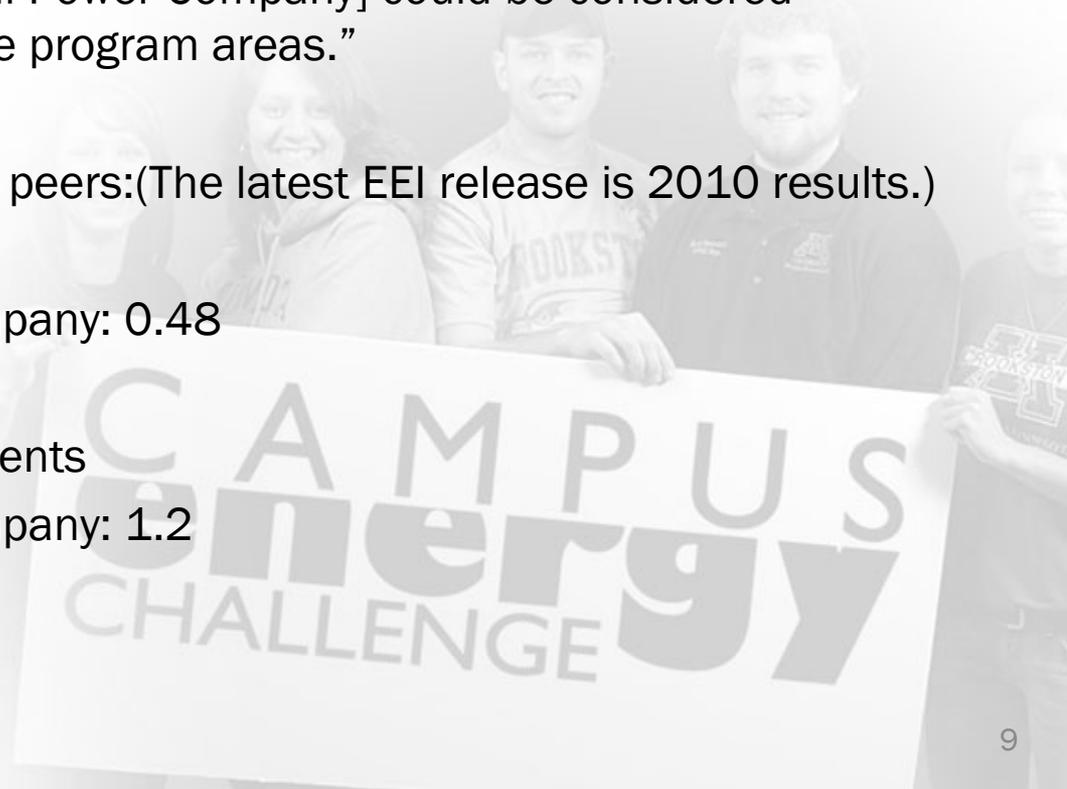
Quiet leadership

- **ACSI customer satisfaction ranking**
 - Consistently among the top five utilities nationally as measured by the American Customer Satisfaction Index, which ranks utilities that serve about 75% of the residential customers in the United States.
 - In 2011 ranked well above industry average in the categories of customer expectations, perceived quality, perceived value, reliability, ability to restore service, loyalty, and overall customer satisfaction.
- **Renewable energy**
 - Fourth in the nation in wind generation as a percentage of retail sales. (Source: U.S. Department of Energy's 2009 Wind Technologies Report published August 2010.)
 - Early adopter of wind energy (ahead of Minnesota standard with the equivalent of 15% of retail sales).



Quiet leadership (cont.)

- **Energy efficiency:** Navigant Consulting in the DSM Potential Study stated that “indeed, [Otter Tail Power Company] could be considered a ‘best-practice’ utility in these program areas.”
- **Safety** compared with our EEI peers:(The latest EEI release is 2010 results.)
 - Lost workday rate
 - Otter Tail Power Company: 0.48
 - EEI peers: 0.48
 - Preventable vehicle accidents
 - Otter Tail Power Company: 1.2
 - EEI peers: 9.07





Challenge: Significant capital needs

\$730 million in capital investments 2012 to 2016		Bill impact
Routine capital	\$250 m	0%
Big Stone Plant air quality control system (to meet regional haze requirements)	\$265 m	15.0%
CapX2020 Phase I projects	\$ 98 m	5.4%
MISO multi-value projects (BSS-Ellendale, BSS-Brookings, \$212 m over 10 yr.)	\$117 m	2.3%

- Provides reliability, required environmental improvements.
- Is 115 percent of our existing rate base.
- Requires us to attract investment, which requires as much regulatory certainty as possible.
- Baseload diversification study result (Hoot Lake) is not included.

*Bill impact is at the end of 2016 as a percent increase over 2011, all customers.



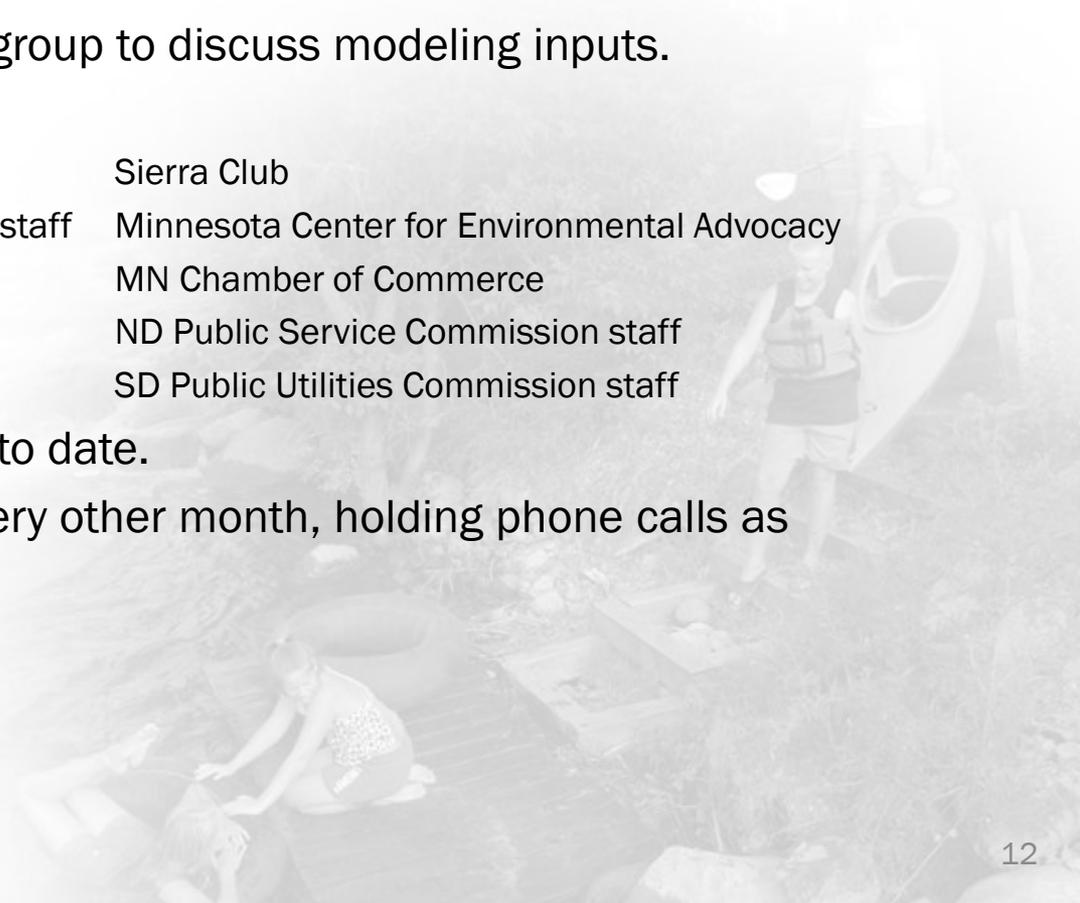
Challenge: Outcome of baseload diversification study

- Hoot Lake Plant retirement without replacement is not an option.
 - Provides 138 MW of capacity and about 800,000 mwh of energy.
 - Is equivalent to 17% of retail sales.
 - We own 100% of the plant.
- Options being considered:
 - Retire and replace with market purchases.
 - Retire and replace with new gas plant.
 - Switch fuel to gas.
 - Add pollution control equipment for limited life.
 - Add pollution control equipment for extended life.
- Replacement in 2015/2016 would pancake rate increases for customers.



Outcome of baseload diversification study (cont.)

- We convened a stakeholder group to discuss modeling inputs.
 - Participants
 - Department of Commerce
 - MN Public Utilities Commission staff
 - MN Pollution Control Agency
 - Izaak Walton League
 - Fresh Energy
 - Sierra Club
 - Minnesota Center for Environmental Advocacy
 - MN Chamber of Commerce
 - ND Public Service Commission staff
 - SD Public Utilities Commission staff
 - Have held two meetings to date.
 - Will continue to meet every other month, holding phone calls as questions arise.





Challenge: Serving three state jurisdictions

- Serving Minnesota, North Dakota, and South Dakota as one system is in the best interests of our customers in each state.
 - Increasingly difficult because of diverging energy policies among the states.
 - 53% of our customers are outside of Minnesota.

How can we work together to better address these challenges while protecting ratepayers ?



Thank you

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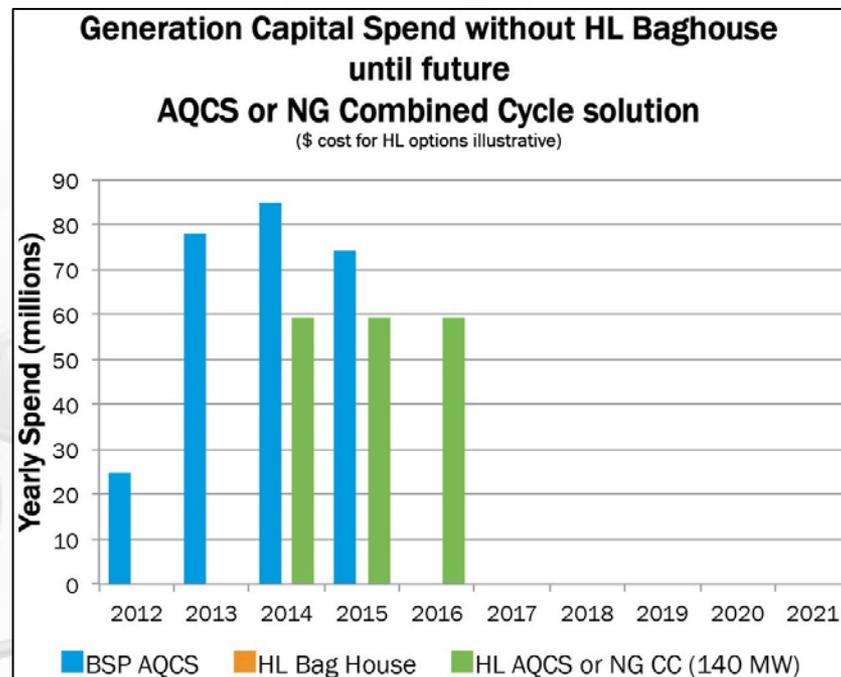
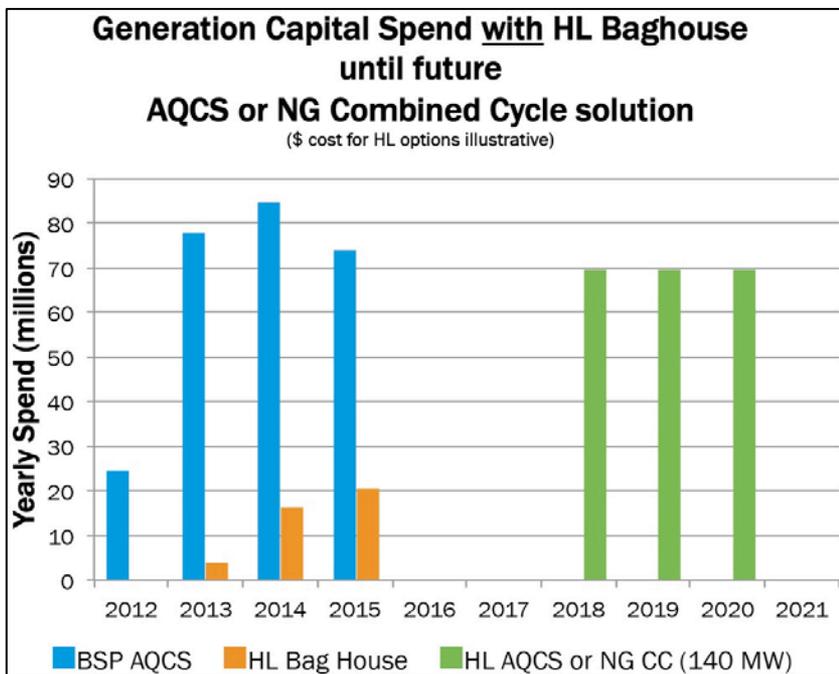




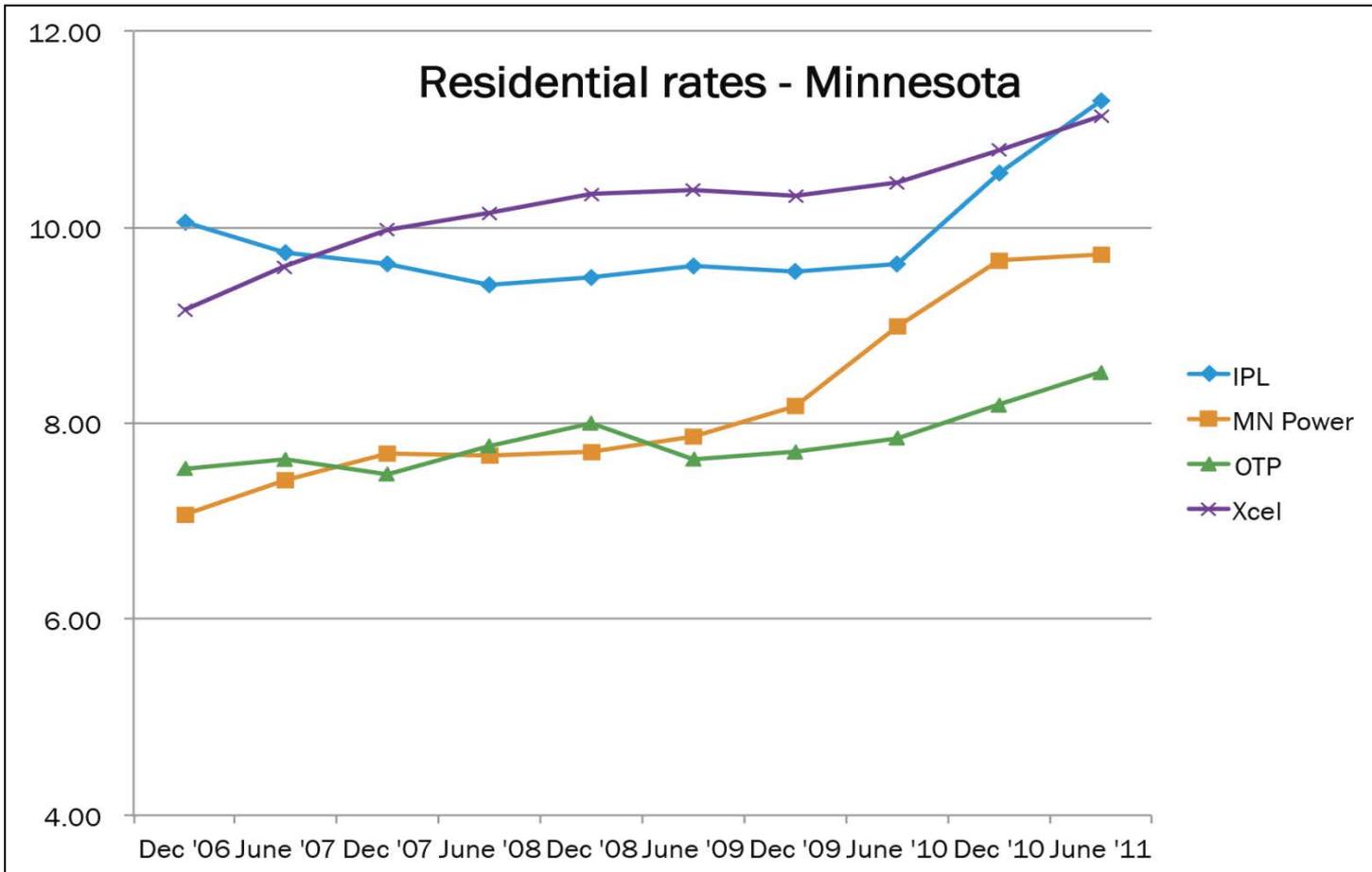
Appendix



Timing Hoot Lake Plant rate impacts



Comparison of MN residential rates





Low-cost generation: coal plants

- **Big Stone Plant - Big Stone City, SD**
 - Initial operation: 1975; Capacity: 475 MW
 - Primary fuel: Low-sulfur western subbituminous coal
 - Ownership:
 - Otter Tail Power Company – 53.9% (operating agent)
 - NorthWestern Energy – 23.4%
 - Montana-Dakota Utilities Co. – 22.7%
- **Coyote Station - Beulah, ND**
 - Initial operation: 1981; Capacity: 427 MW
 - Primary fuel: North Dakota lignite
 - Ownership:
 - Otter Tail Power Company – 35% (operating agent)
 - Northern Municipal Power Agency – 30%
 - Montana-Dakota Utilities Co. – 25%
 - NorthWestern Energy – 10%
- **Hoot Lake Plant- Fergus Falls, MN**
 - Initial operation: Unit 2 – 1959, Unit 3 – 1964; Capacity: 138 MW
 - Primary fuel: Low-sulfur western subbituminous coal
 - Ownership: Otter Tail Power Company – 100%



Low-cost generation: wind energy

- Luverne Wind Farm – Steele County, ND
 - Initial operation: September 2009
 - Own 49.5 MW of the 170 MW farm
- Ashtabula Wind Energy Center – Barnes County, ND
 - Initial operation: November 2008
 - Own 48 MW of the nearly 200 MW center
- Langdon Wind Energy Center – South of Langdon, ND
 - Initial operation: January 2008
 - Own 40.5 MW and purchase 19.5 MW of the 200 MW farm.
- North Dakota Wind – Near Edgeley, ND
 - Initial operation: September 2003
 - Purchase all 21 MW of the 61 MW farm.



Energy efficiency and DSM

- Since 1992 we've helped our customer conserve 427 MW of cumulative demand and more than 2 million cumulative megawatt-hours of electricity.
- One-third of our customers participate in load management programs.
- We accredited with MISO a portion of our load-control capability to make it available during MISO system peaks.
- Our 2011-2025 integrated resource plan calls for demand-side management resources to increase annually through 2025 to reach approximately 15 MW of additional summer DSM and 90 MW of additional winter DSM.



Other power sources

- Hydropower
 - Dayton Hollow - 1.0 MW (est. 1909)
 - Hoot Lake - 0.8 MW (est. 1914)
 - Pisgah - 0.7 MW (est. 1918)
 - Wright - 0.5 MW (est. 1922)
 - Taplin Gorge - 0.5 MW (est. 1925)
 - Bemidji - 0.2 MW (est. 1907)
- Other sources
 - Natural gas
 - Solway, MN, combustion turbine - 41.9 MW (also uses fuel oil)
 - Fuel oil
 - Jamestown, ND, combustion turbine - 44.1 MW
 - Lake Preston, SD, combustion turbine - 22.1 MW
 - Other purchases



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