



Gary Hanson, Chair
Chris Nelson, Vice Chair
Kristie Fiegen, Commissioner

SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

500 East Capitol Avenue
Pierre, South Dakota 57501-5070
www.puc.sd.gov

Capitol Office
(605) 773-3201
1-866-757-6031 fax

Warehouse
(605) 773-5280
(605) 773-3225 fax

Consumer Hotline
1-800-332-1782

February 27, 2011

Patricia Van Gerpen
Executive Director
SD Public Utilities Commission
500 E. Capitol Ave.
Pierre, SD 57501

Re: EL11-031 - In the Matter of the Filing by Otter Tail Power Company for Approval of Tariff Revisions

Dear Ms. Van Gerpen:

On December 30, 2011, Otter Tail Power Company (Otter Tail or Company) requested approval of updates to its Small Power Producer Riders, Sections 12.01, 12.02, and 12.03 of its Tariff Book. The listed sections set forth rates under which Otter Tail is obligated to purchase energy and capacity from qualifying facilities. This request proposes to update the energy and capacity payments.

Upon review of the filing, Commission Staff recommends approval of the tariff revisions.

In accordance with Commission Order F-3365 regarding Section 210 of the Public Utilities Regulatory Policy Act of 1978, Otter Tail proposes changes to the energy and capacity payment rates for cogeneration and small power production facilities of 100kW or less. These proposed rates and payments are based on Otter Tail's annual calculation of avoided energy costs by month. The calculation is produced by Otter Tail's Strategist model used for Integrated Resource Planning.

As reflected in the company's filing, there have been rather substantial changes in the amount of energy payments and capacity payments offered to small power producers under the proposed tariff sheets. The Company sites increased O&M and fuel costs combined with a general decrease in market energy costs as primary factors leading to these changes. In addition, a 2-year gap since Otter Tail's last update contributes to greater changes than would otherwise be seen if the Company had made a 2011 update. Most notable is the large decrease in the value of renewable energy credits (RECs) offered small power producers which has declined from \$3.00 MWh to \$0.91MWh. Otter Tail states this substantial decrease is due to the steady decline in the value of RECs since Otter Tail's last filing. The decrease in the value is a result of the large surplus of RECs in the Midwest region.

Sincerely,

Ryan Soye
Staff Attorney