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South Dakota

PUBLIC UTILITIES COMMISSION

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February 19, 2013

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

Re: EL12-064 – In the Matter of the Filing by Otter Tail Power Company for Approval of Tariff Revisions to its Rates for Small Power Production and Cogeneration

Dear Ms. Van Gerpen:

On December 31, 2012, 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. This same methodology was used in Otter Tail's previous update to its Small Power Producer Riders and approved by the Commission in Docket EL11-031.

As reflected in the company's filing, there have been changes in energy and capacity payments and the value of Renewable Energy Credits (RECs). In general, the on-peak rates have

decreased while the off-peak rates have increased. The decrease in on-peak rates can be attributed primarily to the net decrease in forecasted on-peak energy prices relative to increases in plant O&M while the increase in off-peak rates is derived primarily from the net increase of plant O&M relative to decreases in off-peak energy prices. Meanwhile, the surplus of RECs in the Midwest has continued to exert downward pressure on the value of those credits.

Otter Tail is also proposing an administrative change regarding additional rate codes to allow their Customer Information System to separate the renewable energy credit as well as the on-peak and off-peak energy and demand delivered from the customer to Otter Tail. This change does not impact rates, terms or conditions contained within these riders.

Sincerely,

Matthew Tysdal
Staff Analyst