

**STATE OF SOUTH DAKOTA
BEFORE THE
SOUTH DAKOTA PUBLIC UTILITIES COMMISSION**

In the Matter of Otter Tail Power
Company's Rates for Small Power
Production and Cogeneration

Docket No. _____

PETITION OF OTTER TAIL POWER COMPANY

I. INTRODUCTION

Otter Tail Power Company ("Otter Tail") hereby applies to the South Dakota Public Utilities Commission ("Commission") for approval of proposed changes to its Small Power Production rate schedules with Rate Designations 12.01, 12.02, and 12.03. These rate schedules set forth the rates under which Otter Tail is obligated to purchase energy and capacity from qualifying facilities ("QFs") pursuant to Commission Cogeneration and Small Power Production Order, Docket No. F-3365.

II. GENERAL FILING INFORMATION

A. Name, Address, and Telephone Number of the Utility Making the Filing.

Otter Tail Power Company
215 South Cascade Street
P.O. Box 496
Fergus Falls, MN 56538-0496
Phone (218) 739-8200

B. Name, Address, and Telephone Number of the Attorney for Otter Tail.

Bruce Gerhardson
Associate General Counsel
Otter Tail Power Company
215 South Cascade Street
P.O. Box 496
Fergus Falls, MN 56538-0496
Phone (218) 739-8475

C. Title of Utility Employee Responsible for Filing.

Debra K. Opatz
Pricing Analyst
Regulatory Administration
Otter Tail Power Company
215 South Cascade Street
P.O. Box 496
Fergus Falls, MN 56538-0496
(218) 739-8606

D. The Date of Filing and the Date Changes Will Take Effect.

The date of this filing is December 31, 2012. Otter Tail proposes that the updated rates for small power production and cogeneration, contained herein, go into effect as of March 1, 2013.

E. Statute Controlling Schedule for Processing the Filing.

ARSD Part 20:10:13:15 requires a 30-day notice to the Commission of a proposed change in a utility's tariff schedule, after which time the proposed changes take effect unless suspended. Because no determination of Otter Tail's general revenue requirement is necessary, the report called for under Part 20:10:13:26 and the general notice provisions applicable to changes in rates is not applicable in this filing. Otter Tail requests an expedited and informal proceeding, including any variances that may be necessary.

Pursuant to ARSD 20:10:13:18, Otter Tail will post a Notice of Proposed Changes (Appendix A, Attachment 1). This Notice will be placed in a conspicuous place in each business office in Otter Tail's affected electric service territory in South Dakota for at least 30 days before the change becomes effective. Otter Tail has also included a report on tariff schedule changes (Appendix A, Attachment 4). This report complies with ARSD 20:10:13:26, which requires the Utility to report all rate schedule changes and customer impacts.

III. BACKGROUND OF ISSUE

Otter Tail last updated the rates in the Small Power Producer rate schedules, 12.01, 12.02, and 12.03 with a filing on December 30, 2011, per the Commission Docket No. EL11-031. As of December 1, 2012, four customers in South Dakota have taken service on the Occasional Delivery Energy Service rate schedule 12.01.

IV. PROPOSED CHANGES

In this petition, Otter Tail is proposing to update the energy and capacity payments and the Renewable Energy Credits (“REC’s”). The proposed cost and payment changes are based on Otter Tail Power Company’s most recent Marginal Cost Study. The proposed rate schedule changes are provided in Appendix B (Red-line versions) and Appendix C (Clean versions).

Otter Tail is also proposing the addition of rate codes in Sections 12.01, 12.02, and 12.03, for administrative purposes.

A. Payment Schedules – Energy and Capacity.

Otter Tail is proposing to modify the payment schedules under the three Rate Designations 12.01, 12.02 and 12.03. The proposed payments contained in the rate schedules reflect Otter Tail’s avoided costs. The avoided costs are consistent with Otter Tail’s Small Power Producer rate schedules as filed recently in Minnesota and North Dakota. Appendix A, Attachments 2 and 3 contain these avoided costs. There were no changes to the capacity payments reflected in Attachment 3.

B. Renewable Energy Credits.

REC’s were introduced for the first time in the Small Power Producer rate (Docket No. EL09-026). RECs represent, according to the Midwest Renewable Tracking System website, “the environmental attributes associated with 1 MWh of renewable energy”¹.

¹ Midwest Renewable Energy Tracking System (“M-RETS”) in their Introduction to Certificate-based Renewable Energy Trading http://www.m-rets.com/resources/MRETS_Overview_for_Webinar.final.pdf

In addition to the energy payments described above, in IV. a. Payment Schedules, Otter Tail adds in the REC value to the energy payment. In exchange for the REC payment to the customer, on a per kWh basis, the customer will transfer ownership to Otter Tail the REC associated with the energy received from the customer's renewable generator. Otter Tail intends to update the value of the REC annually at the same time the avoided cost updates are filed.

C. Additional Rate Codes

An administrative change has been made to page one of each of Otter Tail's Schedule Sections 12.01, 12.02, and 12.03. The administrative change described below is necessary for internal purposes in order to allow Otter Tail the ability to correctly calculate and produce an electric service statement for customers on these sections. This change does not impact the rates, terms or conditions contained within Sections 12.01, 12.02, and 12.03.

The current rate codes on Sections 12.01, 12.02, and 12.03 do not allow Otter Tail the capability to properly separate, within Otter Tail's Customer Information System ("CIS"), the renewable energy credit, or on-peak and off-peak energy and demand delivered from the customer-generator to Otter Tail. Therefore in order for Otter Tail's CIS to correctly calculate and produce an electric service statement for customers on Sections 12.01, 12.02, and 12.03, Otter Tail has added additional rate codes. These additional rate codes will allow Otter Tail to properly differentiate between the on-peak and off-peak energy and demand and associated payments for both Firm and Non-Firm service customers, and to credit renewable energy credits.

The administrative change associated with this filing is reflected on the attached redlined and non-redlined versions of Sections 12.01, 12.02, and 12.03, which has an effective date of bills rendered on and after March 1, 2013. As described above, this administrative change is necessary for internal purposes and does not impact the rates, terms or conditions contained within Sections 12.01, 12.02, and 12.03.

V. CONCLUSION

Based on the foregoing reasons, Otter Tail respectfully requests that the proposed modifications to the rate schedules with Rate Designations 12.01, 12.02, and 12.03 become effective as of March 1, 2013.

Date: December 31, 2012

Respectfully submitted:

OTTER TAIL POWER COMPANY

By: /s/ *DEBRA K. OPATZ*

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