OTTER TAIL POWER COMPANY
Docket No: EL17-003

Response to: South Dakota Public Utilities Commission
Analyst: SDPUC Staff
Date Received: 01/20/2017
Date Due: 02/03/2017
Date of Response: 02/03/2017
Responding Witness: Svetlana Fedje, Pricing Analyst - (218) 739-8799

Information Request:

Refer to 18 CFR 292.304(e). Explain and/or demonstrate how Otter Tail's determination of the avoided costs take into consideration factors (1), (2), (3), and (4).

Attachments: 0

Response:

Otter Tail's determination of the avoided costs takes into account the Commission's January 3, 1985 Order in Docket No. F-3365 *(In the Matter of the Investigation of the Implementation of Certain Requirements of Title II of the Public Utilities Regulatory Policies Act of 1978 Regarding Cogeneration and Small Power Production)* and the above-referenced federal regulation. Otter Tail's calculation of avoided costs for qualifying facilities (QFs) of 100 kW or less as reflected in this filing has changed little over the years.

Otter Tail employs a rigorous resource planning model (Strategist) to estimate the costs of various resource expansion plans involving load forecasts and generation assets and costs[1]. The Strategist modeling is used to simulate the cost of the marginal unit that a QF entity would displace. Otter Tail uses the results of the Strategist model and other appropriate adders, such as A&G loading for variable O&M and Cash Working Capital and losses, to develop the avoided cost energy rates. Otter Tail's calculations are consistent among its jurisdictions.

As for capacity cost development, Otter Tail continues to follow the Commission's directives in Order in Docket No. F-3365 to determine capacity costs by using purchases fixed by contract with a duration of less than 10 years ("short-term contract") and rates for purchases set by contract with a duration of 10 years or more ("long-term contract"). Otter Tail's capacity rate

[1] Please refer to Otter Tail's response to Information Request SD-PUC-01-02 in this docket for a description of inputs and assumptions used in the Strategist model. As noted therein the inputs are described in greater detail to Appendix F to Otter Tail's 2016 Resource Plan.

reflects the avoided capacity cost, taking into account to the extent practicable factors noted in 18 CFR 292.304(e)(2).[2]

With respect to Paragraph 3 of 18 CFR 292.304(e), Otter Tail takes into account that QF's may allow Otter Tail some ability to avoid cost including the deferral of capacity additions and the reduction of fossil fuel use. Through the integrated resource planning process, which includes the use of its Strategist model (again see IR response SD-PUC-01-02), Otter Tail utilizes the best information possible to develop its avoided costs in this filing and makes these avoided costs rates available through the South Dakota F-3365 Order.

Otter Tail has not calculated specific potential line loss benefits[3] as described in 18 CFR 292.304(e), Paragraph (4). It would not be practicable to do so, because many factors would be required in order to carry out such a study and the administrative costs would likely exceed the benefits, especially those at or below 100 kW.   Nonetheless, Otter Tail does incorporate a simplified assumption regarding losses when calculating its energy payments. In all its jurisdictions – 50% of system line losses are used to increase the avoided energy cost payment. Otter Tail's system line losses used in this filing are 9.59%.

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[2] In Docket EL14-006 *(In the Matter of Otter Tail Power Company's Rates for Small Power Production and Cogeneration)*, Otter Tail described its process for calculating capacity costs, including when capacity costs would and wouldn't be avoided.

[3] Otter Tail searched through the Order in Docket No. F-3365 and was not able to locate this requirement.