

OTTER TAIL POWER COMPANY  
Docket No: EL14-070

Response to: South Dakota Public Utilities Commission  
Analyst: Brittany Mehlhaff  
Date Received: 08/25/2014  
Date Due: 09/08/2014  
Date of Response: 09/08/2014  
Responding Witness: Stuart Tommerdahl, Manager Regulatory Administration, 218 739-8279

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Information Request:

Explain how the emission allowances to be purchased differ from the emission allowances sold currently included in the fuel clause.

Attachments: 0

Response:

**Current Acid Rain Program Allowances** To reduce acid rain, Title IV of the Clean Air Act Amendments of 1990 (CAAA) established the Acid Rain Program, which uses a market-based allowance trading system to reduce sulfur dioxide (SO<sub>2</sub>) emissions. The CAAA set a permanent ceiling (or cap) of 8.95 million allowances for total annual allowance allocations. These allowances are allocated at no cost to utilities across the nation. Otter Tail receives allowances for all three of its coal-fired generating units: Big Stone Plant, Coyote Plant, and Hoot Lake Plant. These SO<sub>2</sub> emissions allowances are retired for each ton of SO<sub>2</sub> emissions that occurs at each facility. Unused allowances are banked for future use. The number of allowances issued to Otter Tail under this program has been sufficient to cover the operations of these facilities. The CAAA mandates that Environmental Protection Agency (“EPA”) hold yearly auctions of a small portion of allowances (2.8 percent) reserved from the total allowances allocated to utilities each year. The auctions are intended to help signal price information to the allowance market and provide a public source of allowances for new utilities that are not allocated allowances. The revenue from the sale of the withheld emission allowances is provided to the utilities by the EPA. Otter Tail includes this revenue (recently only a few hundred dollars) as a credit in its fuel clause. Otter Tail has not sold any of its directly allocated emission allowances issued under this section of the CAA.

**New Cross State Air Pollution Rule Allowances**

The purchased emissions allowances (specifically SO<sub>2</sub> and nitrogen dioxide (“NO<sub>x</sub>”) allowances) for which Otter Tail is seeking fuel clause recovery in this docket stem from anticipated compliance obligations associated with the EPA’s proposed Cross State Air Pollution Rules (“CSAPR”). These rules will not rely on the Title IV allowances used for Acid Rain Program compliance. As noted in Otter Tail’s Petition, the Rule establishes two new types of SO<sub>2</sub> allowances (“Group 1” and “Group 2”) and two new types of NO<sub>x</sub> allowances (“annual” and “ozone”). Minnesota is classified as a “Group 2” SO<sub>2</sub> state (along with six other states) and

an “annual” NOx state (along with 22 other states). The rule sets an allowance budget for each state and then allocations are made from the state budget to each affected generating facility within the state.

Hoot Lake Plant is the primary Otter Tail plant impacted by the CSAPR. On pages 6 and 7 of the Petition, Otter Tail provided tables quantifying the expected allocations of allowances and the anticipated amounts of allowances Otter Tail may need to acquire to comply with the requirements of the CSAPR based on historical emissions levels.