

**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. EL17-

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 Producer electric rate schedules Sections 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.

Cary Stephenson
Associate General Counsel
Otter Tail Power Company
215 South Cascade Street
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C. Title of Utility Employee Responsible for Filing.

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

The date of this filing is January 17, 2017. Otter Tail proposes that the updated rates for small power production and cogeneration, contained herein, go into effect as of March 1, 2017 or on the first day of the following month upon Commission approval.

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, Sections 12.01, 12.02, and 12.03 in Docket No. EL16-002. As of December 1, 2016, five customers in South Dakota have taken service on the Occasional Delivery Energy Service rate schedule Section 12.01. No customers have taken service on the Time of Delivery Energy Service rate schedule Section 12.02 or the Dependable Service rate schedule Section 12.03.

IV. PROPOSED CHANGES

In this petition, Otter Tail is proposing to update the energy and capacity payments and the Renewable Energy Credits (REC's) aka Renewable Energy Certificates. The proposed cost and payment changes are based on Otter Tail Power Company's most recent Integrated Resource Plan filing¹ and Marginal Cost Study inputs. The proposed rate schedule changes are provided in Appendix B (Red-line versions) and Appendix C (Clean versions). The calculated proposed energy payment show a reduction from last year's approved filing. Two key assumptions that are noticeably lower than in the prior resource plan assumptions are 1) the market energy price forecast and 2) the natural gas price forecast. The proposed capacity payments show an increase in the first 60 months as Otter Tail is reflecting the need for generation capacity in the near term.

A. Payment Schedules – Energy and Capacity.

Otter Tail is proposing to modify the payment schedules Sections 12.01, 12.02 and 12.03. The proposed payments contained in the rate schedules reflect Otter Tail's avoided costs (energy and capacity). 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.

¹ E017-RP-16-386, filed June 1, 2016 and pending the Minnesota PUC approval.

B. Renewable Energy Credits.

RECs were introduced for the first time in the Small Power Producer rate (Docket No. EL09-026). RECs represent the environmental attributes associated with 1 MWh of renewable energy. Midwest Renewable Tracking System website (M-RETS) tracks and facilitates REC transactions by issuing a unique, traceable digital certificate for every megawatt-hour (MWh) of renewable energy generated by registered units or imported into its system.”²

Because Otter Tail is currently in a REC surplus scenario, Otter Tail sells excess RECs not needed for state REO/RES compliance. Otter Tail calculates the REC’s value, proposed for the rates in this filing, based on the average actual REC’s net sales executed by Otter Tail.

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. Customers who do not receive a REC payment from Otter Tail retain REC ownership.

Otter Tail intends to update the value of the REC annually at the same time the avoided cost updates are filed. Otter Tail proposes to adjust the REC payment, based on transactions occurred in 2016, which reflect a decrease in payment.

² Midwest Renewable Energy Tracking System (“M-RETS”) in their Introduction to Certificate-based Renewable Energy Trading <http://www.mrets.org/>

V. CONCLUSION

Based on the foregoing reasons, Otter Tail respectfully requests that the proposed modifications to the electric rate schedules Sections 12.01, 12.02, and 12.03 become effective as of March 1, 2017 or on the first day of the following month upon Commission approval.

Date: January 17, 2017

Respectfully submitted:

OTTER TAIL POWER COMPANY

/s/ SVETLANA A. FEDJE

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