

---

---

## STAFF MEMORANDUM

---

---

**TO:** COMMISSIONERS AND ADVISORS  
**FROM:** PATRICK STEFFENSEN AND AMANDA REISS  
**RE:** EL24-002 - 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  
**DATE:** March 20, 2024

---

Commission Staff (Staff) submits this Memorandum regarding its recommendations for the above captioned matter.

### **BACKGROUND**

On January 31, 2024, the South Dakota Public Utilities Commission (Commission) received a filing from Otter Tail Power Company (Otter Tail or Company) for approval of tariff revisions for small power production and cogeneration rates.

The Commission officially noticed Otter Tail's filing on February 1, 2024, and set an intervention deadline of February 16, 2024. No petitions to intervene or comments were filed.

Under Section 210 of the Public Utility Regulatory Policies Act of 1978 (PURPA), electric utilities are required to purchase energy offered by Qualifying Facilities (QFs), which are cogeneration facilities<sup>1</sup> and small power production facilities<sup>2</sup>. Utilities are required to purchase energy, capacity, or both from QFs at rates which are just and reasonable, non-discriminatory, in the public interest, and reflect the incremental cost of energy, capacity, or both, that the utility would have incurred to generate or purchase the energy if it was not supplied by the QF. These incremental costs are termed the utility's avoided costs.

Federal Energy Regulatory Commission (FERC) regulations required states to establish standardized rates for QFs with an installed capacity of 100 kW or less. These standardized rates are included in Otter Tail's tariff. Pursuant to 18 CFR 292.302, at least every two years, each electric utility must provide to its State regulatory authority data from which avoided costs may be derived. The Commission affirmed this requirement for Otter Tail in an Order Approving Tariff Sheets in Docket F-3365<sup>3</sup>.

Although data is required every two years, Otter Tail has consistently filed for updated rates annually, and seeks to update its rates accordingly in this current docket. Otter Tail proposes to update its tariff

---

<sup>1</sup> Cogeneration facilities are generating units that produce electricity and steam simultaneously.

<sup>2</sup> Small power production facilities have a maximum size of 80 MW and have a primary energy source (75 percent or more) of biomass, waste, renewable resources, geothermal resources, or any combination thereof.

<sup>3</sup> In the Matter of the Investigation of the Implementation of Certain Requirements of Title II of the Public Utilities Regulatory Policy Act of 1978 Regarding Cogeneration and Small Power Production.

Sections 12.01, 12.02, and 12.03 rates. This filing updates the avoided cost energy credits based on current data and updates the Customer Charge, Wind Renewable Energy Credit, and Solar Renewable Energy Credit. Otter Tail does not propose any change to the optional production meter charge or the capacity credit. Such proposed revisions will affect six customers currently receiving generation credits for their small qualifying facilities per the Occasional Delivery Energy Service rate schedule Section 12.01. The Company’s calculation of the avoided costs underlying the proposed credits is discussed more thoroughly below.

**ENERGY PAYMENTS**

Otter Tail calculates the energy payments for purchases from qualifying facilities based on its most recent Integrated Resource Plan filing and Marginal Cost Study inputs. The Company uses the results of the Encompass resource planning model to simulate the cost of the marginal unit that a QF entity would displace. The forecasted market energy and natural gas prices are two key variables impacting the avoided energy costs. Otter Tail provided monthly data<sup>4</sup> showing the peak and off-peak market energy price forecasts are lower in every month compared to the forecasts from the Company’s prior filing. Further, the natural gas price forecasts are lower in all but two months compared to the forecasts from the Company’s prior filing. Therefore, the average marginal costs are lower compared to the forecast from the Company’s prior filing, and the Company’s analysis shows a decreased energy payment for 12.01, 12.02, and 12.03 rates.

The current and proposed energy payments resulting from the current data are shown in the table below:

<b>Rate Schedule</b>	<b>Current Energy Payment</b>		<b>Proposed Energy Payment</b>	
<b>Occasional Delivery (12.01)</b>	4.961 ¢ per kWh		3.999 ¢ per kWh	
<b>Time of Delivery (12.02)</b>	On-Peak	Off-Peak	On-Peak	Off-Peak
Summer	5.106 ¢ per kWh	3.585 ¢ per kWh	4.401 ¢ per kWh	3.079 ¢ per kWh
Winter	5.949 ¢ per kWh	4.718 ¢ per kWh	4.560 ¢ per kWh	3.845 ¢ per kWh
<b>Dependable (12.03)</b>	On-Peak	Off-Peak	On-Peak	Off-Peak
Summer	5.106 ¢ per kWh	3.585 ¢ per kWh	4.401 ¢ per kWh	3.079 ¢ per kWh
Winter	5.949 ¢ per kWh	4.718 ¢ per kWh	4.560 ¢ per kWh	3.845 ¢ per kWh

<sup>4</sup> Confidential Attachment 5 to Staff DR 1-1

## **CAPACITY PAYMENTS**

Prior to April 1, 2020, the Dependable Service rate schedule Section 12.03 included a capacity payment since Otter Tail's analysis reflected a need for generation capacity in the near term. However, with updates to Otter Tail's generation fleet, the Company's 10-year load forecast shows no capacity deficit and in fact depicts a surplus. Without a capacity deficit, there are no capacity costs to be avoided. Thus, the capacity rate remains at \$0.00 in this filing.

## **RENEWABLE ENERGY CREDITS**

Otter Tail's tariff provides for Renewable Energy Credit (REC) payments, separately calculated for wind (WREC) and solar (SREC). Customers receiving a WREC or SREC payment will transfer the ownership of the REC associated with the energy received from the customer's renewable generator to Otter Tail. If customers retain REC ownership, they will not receive a REC payment. Otter Tail simply updates these credits in this filing based on current information.

<b>RECs (12.01, 12.02, &amp; 12.03)</b>	<b>Current Renewable Energy Credit</b>	<b>Proposed Renewable Energy Credit</b>
<b>Wind Renewable Energy Credit</b>	0.150 ¢ per kWh	0.157 ¢ per kWh
<b>Solar Renewable Energy Credit</b>	0.150 ¢ per kWh	0.300 ¢ per kWh

## **CUSTOMER CHARGE**

Otter Tail proposes to increase the monthly customer charge to \$1.33 per month for rates 12.01, 12.02, and 12.03 to reflect its average marginal customer service charges. Otter Tail has indicated<sup>5</sup> that the incremental costs for these services are currently similar, justifying the same customer charge rate for all three tariffs. This revision equates to a \$0.25 per month bill increase for the six current customers.

## **RECOMMENDATION**

Staff recommends the Commission approve the tariff revisions with an effective date of April 1, 2024.

---

<sup>5</sup> Staff DR 1-9