
STAFF MEMORANDUM

TO: COMMISSIONERS AND ADVISORS
FROM: JON THURBER
RE: EL26-001 - 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 19, 2026

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

BACKGROUND

On January 30, 2026, 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.

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 facilities¹ and small power production facilities². 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-3365³.

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 Sections 12.01, 12.02, 12.03, and 14.14. This filing updates: 1) the avoided cost energy and capacity credits based on current data, (2) Wind Renewable Energy Credit, and (3) My RECs rate options. Otter Tail does not propose any change to the optional production meter charge. Such proposed revisions will

¹ Cogeneration facilities are generating units that produce electricity and steam simultaneously.

² 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.

³ 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.

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, and both are trending higher. As a result, the avoided energy costs are higher compared to the forecast from the Company’s prior filing, and the Company’s analysis shows an increased 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:

Rate Schedule	Current Energy Payment		Proposed Energy Payment	
Occasional Delivery (12.01)	\$0.04310 per kWh		\$0.04571 per kWh	
Time of Delivery (12.02)	On-Peak	Off-Peak	On-Peak	Off-Peak
Summer	\$0.04987 per kWh	\$0.03460 per kWh	\$0.05681 per kWh	\$0.03703 per kWh
Winter	\$0.04932 per kWh	\$0.03963 per kWh	\$0.05248 per kWh	\$0.04007 per kWh
Dependable (12.03)	On-Peak	Off-Peak	On-Peak	Off-Peak
Summer	\$0.04987 per kWh	\$0.03460 per kWh	\$0.05681 per kWh	\$0.03703 per kWh
Winter	\$0.04932 per kWh	\$0.03963 per kWh	\$0.05248 per kWh	\$0.04007 per kWh

CAPACITY PAYMENTS

Otter Tail had not offered a capacity payment since March 2020 through the Dependable Service rate schedule, Section 12.03, because the Company had a capacity surplus and no capacity costs would be avoided. The Company claims that recent changes at MISO, including the move to a seasonal capacity construct, changes in accreditation methodology for generation and other capacity resource, and adoption of the Reliability Based Demand Curve, have resulted in a capacity shortfall beginning in the Winter capacity season in 2026. Otter Tail’s capacity payment is based on the cost of a combustion turbine gas plant used in its 2023 Integrated Resource Plan, escalated with three years of inflation. The

Company’s proposed capacity payments by contract term are shown on Section 12.03, Sheet No. 2. No South Dakota customers are currently providing electricity via the Dependable Service rate schedule where this capacity payment is offered.

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.

RECs (12.01, 12.02, & 12.03)	Current Renewable Energy Credit	Proposed Renewable Energy Credit
Wind Renewable Energy Credit	\$0.00111 per kWh	\$0.00096 per kWh
Solar Renewable Energy Credit	\$0.00300 per kWh	\$0.00300 per kWh

CUSTOMER CHARGE

Otter Tail is proposing to reduce the monthly customer charge from \$1.28 to \$1.25 for the My RECs Rider. The slight change in costs was supported by updating their marginal cost study.

OPTIONAL PRODUCTION METER CHARGE

Otter Tail is not proposing to revise the monthly optional production meter charge at this time.

RECOMMENDATION

Staff recommends the Commission approve the tariff revisions with an effective date of April 1, 2026.