STAFF MEMORANDUM

TO: COMMISSIONERS AND ADVISORS

FROM: BRITTANY MEHLHAFF AND AMANDA REISS

RE: EL20-003 - 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 10, 2020

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

BACKGROUND

On January 31, 2020, 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 6, 2020, and set an intervention deadline of February 21, 2020. 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[1] and small power production facilities[2]. 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[3].

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[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.

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, and 12.03 rates. This filing updates the avoided cost energy and capacity credits based on current data and also updates the Wind Renewable Energy Credit and Solar Renewable Energy Credit. Otter Tail does not propose any change to the monthly customer charges. Such proposed revisions will affect 6 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 Strategist 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 data showing the peak energy price forecast and the natural gas price forecast is lower in most months compared to the forecast from the Company's prior filing. However, the off-peak energy price forecast is greater in most months compared to the previous forecast. The energy payments resulting from the Company's analysis is a slightly increased energy payment for the Occasional Energy Service rate schedule, and slightly reduced on-peak and slightly increased off-peak payments for the other two rate schedules. The minor changes to the 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)	2.368 ₵ per kWh		2.441 ₵ per kWh	
Time of Delivery (12.02)	On-Peak	Off-Peak	On-Peak	Off-Peak
Summer	2.762 ₵ per kWh	1.764 ₵ per kWh	2.700 ₵ per kWh	1.950 ₵ per kWh
Winter	2.910 ₵ per kWh	1.993 ₵ per kWh	2.850 ₵ per kWh	2.178 ₵ per kWh
Dependable (12.03)	On-Peak	Off-Peak	On-Peak	Off-Peak
Summer	2.762 ₵ per kWh	1.764 ₵ per kWh	2.700 ₵ per kWh	1.950 ₵ per kWh
Winter	2.910 ₵ per kWh	1.993 ₵ per kWh	2.850 ₵ per kWh	2.178 ₵ per kWh

CAPACITY PAYMENTS

In past years, 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, reflecting current updates to Otter Tail's generation fleet, primarily the addition of the Astoria Generating Station to be in-service in 2020, 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, Otter Tail proposes to revise its capacity rate to $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). Otter Tail is currently in a REC surplus and thus sells its excess RECs. The average of such sales is the basis for the WREC and SREC payments included in the tariff. Customers receiving and 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	0.048 ₵ per kWh	0.065 ₵ per kWh
Solar Renewable Energy Credit	0.173 ₵ per kWh	0.150 ₵ per kWh

RECOMMENDATION

Staff recommends the Commission approve the tariff revisions as filed on February 27, 2020[4], with an effective date of April 1, 2020.

[4] The February 27, 2020 revised tariff pages reflect removal of the interim rate language inadvertently left on the tariff sheets.