

MEMORANDUM

To: Commissioners Clark, Kalk and Cramer

Fr: Jerry Lein

Da: February 8, 2011

Re: 2/9/11 Consent Agenda, Otter Tail Updated Cogeneration Rates
Case No. PU-10-671.

On December 22, 2010, Otter Tail filed its annual 2011 update of cogeneration and small power production rate schedules P-09N, P-10N, and P-11N. These updates are required annually under the Public Utilities Regulatory Policies Act of 1979 (PURPA) and the Commission's rules. These schedules provide standard rates for purchases of energy and capacity from small customer-owned Qualifying Facilities (QFs) as defined under PURPA. PURPA originally obligated utilities to purchase energy delivered by QFs at a price equal to the costs the utility would have paid to purchase the energy elsewhere (avoided cost). However, amendments to PURPA under the Energy Policy Act of 2005 allow FERC to relieve utilities of that purchase obligation if the FERC finds that the QF has access to energy markets such as the MISO Day-2 market.

Otter Tail reports only three customers operating small wind generators under the net billing rate schedule P-09N, and no customers under the other schedules. Payments to those customers should not be affected by this filing, assuming production and consumption habits do not change from last year when the customers consumed more every month than they produced.

Otter Tail's avoided cost payment amounts are derived from a computer production costing model. Generally, energy payment amounts have decreased somewhat except off-peak summer energy payments have increased slightly, as have capacity payments. Payments for Renewable Energy Credits (RECs) obtained from QF purchases are decreased from 0.3 to 0.1 cents per kWh, which Otter Tail attributes largely to an increase in the amount of wind generation over the last couple of years causing REC market prices to decline. Metering charges are unchanged.

I recommend the Commission approve the filing.

JRL