MEMORANDUM

To: Commissioners Clark, Cramer, and Kalk

Fr: Christopher Marohl

Da: February 28, 2012

Re: 2/29/12 Consent Agenda, Otter Tail Updated Cogeneration Rates
Case No. PU-12-18.

On December 30, 2011, Otter Tail filed its annual 2012 update of cogeneration and small power production rate schedules 12.01, 12.02, and 12.03. On January 25 and February 17, 2012 Otter Tail filed corrected versions after discovering an error in the costing data. 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 three customers operating generators under the net billing rate schedule 12.01, and no customers under the other schedules. Only one of these customers produced more energy than he or she used in 2011, therefore if consumption and generation stay the same this will be the only customer affected by this filing.

Summer on-peak, winter on-peak, and summer off-peak energy costs have increased and winter off-peak energy costs have decreased, as a result average energy costs increased slightly. Otter Tail bases their avoided capacity costs on their capacity purchase contracts. Capacity rates increased approximately 54% from last year as a result of capacity contracts increasing in price this year. Payments for Renewable Energy Credits (RECs) obtained from QF purchases decreased from 0.1 to 0.091 cents per kWh, which is a continuing trend attributed largely to an increase in the amount of wind generation resulting in a large supply of RECs. Metering charges are unchanged.

I recommend the Commission approve the filing.