

Staff Briefing Papers

Meeting Date February 6, 2020 Agenda Item 1*

Company Otter Tail Power Company

Docket No. E017/M-19-765

In the Matter of the Miscellaneous Filing of RECs Rates Annual update for Cogeneration and Small Power Production Rates for Otter Tail Power Company

Issues Should the Commission approve Otter Tail Power Company's request for approval of its annual Renewable Energy Credit (REC) and Solar Renewable Energy Credit (SREC) values, tariff administration changes, and filing changes?

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Relevant Documents

Date

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| Order from Docket No. E017/M-16-280 | May 27, 2017 |
| Petition, Otter Tail Power Company | November 26, 2019 |
| Comments, Department of Commerce | December 20, 2019 |

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The attached materials are work papers of the Commission Staff. They are intended for use by the Public Utilities Commission and are based upon information already in the record unless noted otherwise.

I. Statement of the Issues

Should the Commission approve Otter Tail Power Company's request for approval of its annual Renewable Energy Credit (REC) and Solar Renewable Energy Credit (SREC) values, tariff administration changes, and filing changes?

II. Background

The May 22, 2017 order in Docket No. E017/M-16-280, *Request for Approval of Changes to Rate Schedules*, approved with modification Otter Tail Power's tariff revisions addressing key changes made to the Cogeneration and Small Power Production statute, [Minn. Stat. § 216B.164](#) and other changes requested by the Company. Specifically, it:

- Allowed public-utility customers with net-metered facilities of between 40 kilowatts (kW) and less than 1,000 kW to choose to be compensated for any net input into the utility's system through a kilowatt-hour (kWh) credit carried forward and applied to subsequent energy bills;
- Allowed public utilities to require a customer being compensated through a kWh credit to limit the capacity of the customer's net-metered facility to, for wind systems, 120 percent of the customer's on-site maximum electric demand and, for all other facilities, 120 percent of the customer's on-site annual electric consumption;
- Prohibited public utilities from imposing standby charges on customers with facilities of 100 kW or less;
- Required public utilities, upon request, to aggregate a customer's designated meter with one or more other meters for billing purposes; and
- Authorized the Commission to limit the cumulative generation of net-metered facilities upon a public utility's showing that such generation has reached four percent of the utility's annual retail electric sales.
- Established an update process for Otter Tail Power's (Otter Tail) future RECs and SRECs pricing and changes to tariff language. "Any credits sold will be transferred to the Company and the generator will be compensated at Otter Tail's most recent transaction price of Renewable Energy Credits or Solar Renewable Energy Credits (whichever is relevant). If the Company has not purchased or sold RECs or SRECs within the most recent 3- year period, the Company will obtain pricing quotes and compensate the generator at the mid-range of the quotes."¹
- Established Otter Tail's monthly fixed customer charges in Section 12.01 of its tariff.

On October 17, 2017, the Commission issued its Order Approving Fees and Setting Filing Requirements in Docket No. E999/CI-15-755, *In the Matter of a Commission Inquiry into Fees Charged on Qualifying Facilities*. In the Order, the Commission set forth a streamlined approval method for public utilities' Annual Cogeneration and Small Power Production tariff filings under Minn. Rules Ch. 7835. The Executive Secretary was delegated authority to approve via notice these filings if no interested parties or Commission staff raise concerns within 60 days of the

¹ [ORDER APPROVING TARIFFS AS MODIFIED](#) at 10 in Docket No. E017/M-16-280 (May 22, 2017).

filing. Neither parties nor Commission staff raised concerns in this docket within 60 days of the 2019 filings. Seven filing conditions were also established in the Notice.

On March 20, 2019, the Commission issued a Notice Approving Tariff Filings in the Annual Cogeneration and Small Power Production Filings (Docket No. E999/PR-19-09). There, Otter Tail's proposal was approved with modifications, one being that any changes to the REC pricing structure was not approved and must be refiled in a separate docket.

On January 18, 2019, Otter Tail filed its 2019 annual filing of Cogeneration and Small Power Production rates that became effective on April 1, 2019 per the above-mentioned notice.²

On November 26, 2019, Otter Tail submitted this filing requesting the Commission to review and approve three items related to RECs and SRECs:

1. an annual update of the RECs and SRECs values for 2020;
2. tariff administration changes to three rate schedules, and
3. allow REC and SREC changes to occur in the Annual Compliance Filing for Cogeneration and Small Power Production, per Minnesota Administrative Rules Chapter 7835.

On December 20, 2019, the Department of Commerce, Division of Energy Resources filed comments.

III. Party Comments

A. Department of Commerce, Division of Energy Resources

The Department noted that Otter Tail is requesting approval of two SREC prices – one for small scale solar (<40 kW) and the other for larger facilities – which is different from historical practice as Otter Tail used one SREC price.³ This is reflective of current SREC transactions. OTP also included administrative changes to their tariffs to reflect clarifying language and updates to its rate codes to accommodate the two SREC credits.⁴

The Department reviewed the revised compensation rates for small distributed generators for RECs and SRECs as well as the supporting rate calculations. Those rates are:

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| Wind RECs | 0.054 cents per kWh |
| SRECs from facilities 41 kW to 1,000 kW | 0.14 cents per kWh |
| SRECs from facilities less than or equal to 40 kW | 0.725 cents per kWh |

² The 2019 Cogeneration and Small Power Production rates may be found in Docket No. E999/PR-19-09.

³ [Comments](#) by Department of Commerce at 1 (December 20, 2019).

⁴ [Comments](#) by Department of Commerce at 1 (December 20, 2019).

The Department concluded “that the proposed changes are reasonable and recommends approval of OTP’s proposed rates and tariff changes.”⁵

Otter Tail’s last request pertaining to filing future REC and SREC pricing updates within its Annual Cogeneration and Small Power Production docket, the Department found that it “does not oppose the Company’s proposal for years in which the rates are merely updated, since the annual Cogeneration and Small Power Production reports are filed to update rate schedules; however should OTP propose to make tariff language or any other change that may require supporting narrative, the Department would prefer that OTP submit a miscellaneous filing to effectuate those changes.”⁶

IV. Staff Analysis

Staff highlights the Commission’s established practice and preference with regard to filing the REC and SREC pricing. In last year’s Annual Cogeneration and Small Power Production Notice of Approval of Tariff Filings, the Commission expressly requested that “changes to the REC pricing structure are not approved and will be refiled in a separate docket.”⁷ As the Department pointed out, any rate update or modification would not only need to be explained, but fully supported by cost figures and evaluated. This is done in a miscellaneous filing.

The Commission’s October 17, 2017 Order established conditions based on Minnesota Rules Ch. 7835 for the streamlined Approval by Notice process for the Annual Cogeneration and Small Power Production tariff filings.⁸ Minnesota Rules Ch. 7835 does not include a rule on how to calculate REC or SREC values for compensation rates in tariffs; rather, the Commission approved the voluntary compensation offering Otter Tail Power proposed in a miscellaneous filing.⁹ The Commission would be extending the Executive Secretary’s authority if it adopted Otter Tail Power’s request for streamlined Approval by Notice to REC and SREC compensation rates. Otter Tail Power is the only utility that offers a standalone, voluntary compensation rate for RECs and SRECs; both Minnesota Power and Xcel Energy obtain RECs and SRECs from customers who opt-in to incentive programs as a condition of participation in the incentive program.

⁵ [Comments](#) by Department of Commerce at 2 (December 20, 2019).

⁶ *Id.*

⁷ [NOTICE OF APPROVAL OF TARIFF FILINGS](#) in Docket No. E999/PR-19-09 (March 20, 2019).

⁸ [ORDER APPROVING FEES AND SETTING FILING REQUIREMENTS](#), Ordering Paragraph 4a-b at 5 in Docket No. E999/CI-15-755 (October 17, 2017).

⁹ [ORDER APPROVING TARIFFS AS MODIFIED](#), Ordering Paragraph 4a-b at 14 in Docket No. E017/M-16-280 (May 22, 2017).

V. Decision Options

1. Approve the modifications to Otter Tail's Sections 12.01, 12.02, and 12.03 of its Electric Rate Schedules and associated REC rates. (*Otter Tail, the Department*)

AND

2. Approve future updates to Otter Tail's REC and SREC rates may be included in the Annual Cogeneration and Small Power Producer rates under these same Electric Rate Schedules. (*Otter Tail*)

OR

3. Require Otter Tail to file any future REC and SREC rate changes related to 12.01, 12.02, and 12.03 in separate, miscellaneous dockets. (*Staff language based on current process*)