

E-017/M-93-941 ORDER APPROVING STANDBY SERVICE RATE

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Don Storm	Chair
Tom Burton	Commissioner
Marshall Johnson	Commissioner
Cynthia A. Kitlinski	Commissioner
Dee Knaak	Commissioner

In the Matter of Otter Tail  
Power Company's Proposed Standby  
Service Rate

ISSUE DATE: January 7, 1994

DOCKET NO. E-017/M-93-941

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RATE

**PROCEDURAL HISTORY**

On September 22, 1993, Otter Tail Power Company (Otter Tail or the Company) filed a petition for approval of a new Standby Service tariff.

The Department of Public Service (the Department) filed comments regarding the tariff on October 22, 1993.

On November 3, 1993, Otter Tail filed responsive comments. The Department in turn filed a response on November 15, 1993.

On December 8, 1993, the Company filed a minor revision to its proposed tariff.

The matter came before the Commission for consideration on December 16, 1993.

**FINDINGS AND CONCLUSIONS**

**I. The Proposed Tariff**

Otter Tail's proposed tariff would enable customers with their own generation facilities to purchase both energy capacity and the actual supply of electric energy during outages or periods of insufficient supply. The tariff would supply three services:

1. Backup Service. The energy and demand needed during unscheduled outages of the customer's on-site generator;

2. Maintenance Service. The energy and demand needed during scheduled outages of the customer's on-site generator;
3. Supplemental Service. The energy and demand needed by the customer in addition to the capability of its on-site generator.

Otter Tail's proposed tariff included the following five charges:

1. Standby Charge per KW per month. This reflects fixed costs of distribution facilities located near the customer. It would apply to Backup and Supplemental services;
2. Reserve Charge per KW per month. This reflects the increased reserves Otter Tail must carry to provide backup demand.
3. Backup Charge per KW per day. This represents a daily demand charge for either Backup or Maintenance service. It applies only to the on-peak demand that exceeds the Supplemental demand on the day of the forced outage. Only the highest ten days in a billing month are included.
4. Supplemental Charge per KW per month. This is applied to a customer whose total load exceeds the contracted Backup demand.
5. Maintenance Service and Energy Charges. A maximum of 30 days per calendar year are allowed for maintenance. The Backup Charge is waived during maintenance under certain circumstances. Energy Charges are taken from the Time of Use rate and are applied on all kWhs consumed under the tariff.

In its comments the Department suggested that Otter Tail drop Supplemental Service from the tariff. The Department believed that this service should be provided through the Company's standard tariffs. Otter Tail agreed to the Department's recommendation and excluded Supplemental Service from the proposed tariff.

## **II. Positions of the Parties**

After Otter Tail followed the Department's recommendation to drop Supplemental Service from the tariff, the parties continued to disagree on two issues, the daily Backup Charge and incremental transmission costs.

The Department contended that no daily Backup Charge is justified. According to the Department, the daily demand charge is unnecessary because the monthly Standby demand charge should

fully reflect the cost of providing service. The Department noted that Northern States Power Company's (NSP's) Standby Service rider does not include a daily demand charge. NSP instead provides an incentive for limiting use of backup power by including a "grace period," beyond which a standby customer must pay full demand charges for backup power. The Department recommended that Otter Tail replace the daily Backup demand charge with other conditions that would limit customer use of backup service.

Otter Tail stated that the daily Backup Charge provides an incentive for limiting use of backup power. Because customers are allowed 180 on-peak hours before the imposition of the Backup Charge, only unreliable customers will have to pay this part of the tariff. Otter Tail argued that its tariff offers a better incentive than NSP's, without disagreements between the Company and its customers regarding terms of use.

Otter Tail included incremental transmission costs in the daily Backup demand charge and the on-peak Energy charge. According to Otter Tail, a customer who uses Standby Service extensively should pay the same as any full-service customer with similar load characteristics. The standby customer will thus pay for the facilities as the customer uses them.

The Department stated that the monthly Reservation Charge should include incremental transmission cost; the monthly Standby charge should include 15% of incremental on-peak transmission cost. The Department reasoned that standby capacity must be reserved no matter how often a customer uses it. The Department contended that incremental transmission cost should not be reflected in daily demand charges because the cost of facility use is low compared to the cost of facility construction.

### **III. Commission Action**

The Commission observes that the standby tariffs advocated by the Company and the Department offer differences in structure, emphasis and terms, but little substantive difference to the prospective customer. Over time, the average customer costs for the two proposals should be very close. Incremental transmission costs will be recovered under either proposal, although through different customer charges.

Although the Department's proposal is perfectly appropriate and reasonable, the Commission is not convinced that the Department has offered sufficient reason to reject the Company's proposal. Otter Tail's proposed Standby Service tariff is well constructed and equitable. Further, the daily demand charge the Company proposes encourages the customer to have a reliable generator.

The Commission sees no particular merit in imposing NSP's Standby Service structure on Otter Tail. In this case, each utility may find its own preferred way to provide Standby Service to its customers and to recover the costs of the service through rates.

The Commission will approve Otter Tail's proposed Standby Service tariff, as reflected in the Company's December 8, 1993 filing.

**ORDER**

1. The Commission approves Otter Tail Power Company's proposed Standby Service tariff.
2. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar  
Executive Secretary

(S E A L)