

# Memo

**To:** Commissioners, Illona  
**From:** Bendish, Binek & Diller  
**Date:** December 21, 2006  
**Re:** Advance Determination of Prudence (Admin Agenda)

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Staff would like the commission's approval to hire outside consultants to help in evaluating and processing Otter Tail's and MDU's request for an advance determination of prudence in Case Nos. PU-06-481 and PU-06-482. We believe developing a full record is in the best interest of the ratepayers and the state of North Dakota. In addition, we would like to reassign Jerry from the commission staff to the advocacy staff in order to better use Jerry's expertise concerning transmission issues. Pat has not been assigned to either side and is available for assignment to the commission staff if desired.

After reading the prefiled testimony of both companies, it is apparent that making a decision to build a generating facility here or there and what type involves a great deal of expertise and institutional knowledge.

In the absence of hiring a consultant, staff can provide a review of the applications for reasonableness. Staff can also ask the companies to run a few different scenarios and then provide the commission with some general observations and conclusions. For instance, based on the prefiled testimony it appears that little consideration was given to expanding Coyote Station. Even the criteria for plant selection appears to favor the hauling and burning of Powder River Basin coal instead of a mine-mouth operation. These kinds of questions and observations can be pursued and brought forward by existing staff.

However, if the commission desires a deeper analysis, outside consultants will need to be hired. We are entering a new construction era and this kind of analysis has not been done for 25 years. There is not enough time for staff to become experts over the course of this proceeding. In fact, the utility companies involved in building Big Stone II recognize the value of hiring outside consultants and engineering firms who are actively engaged in these types of activities.

We look forward to our discussion on the December 29 administrative agenda.

Following are some brief notes of reviewed testimony:

- A. Testimony of Mark Rolfes was that six sites from the initial screening were evaluated. Two of the sites were Big Stone and Coyote.
- B. Criteria used to determine which site was chosen:
  - 1. Water Supply 20%
  - 2. Fuel lines 20%
  - 3. Transmission 20%
  - 4. Environmental issues 15%
  - 5. Air Quality 15%
  - 6. Other factors 10%
- C. Why doesn't testimony address how the Coyote site fared against Big Stone II?
  - 1. A major consideration favoring Big Stone II was due to the existing infrastructure resulting from being located adjacent to an existing plant – Coyote is basically the same type of plant as Big Stone I.
  - 2. One disadvantage listed for Big Stone II is water supply because there will need to be some sort of backup supply. Water supply should not be an issue for a Coyote location.
  - 3. Another disadvantage for Big Stone II is service by a single rail carrier. Coyote would be a mine mouth operation that would not be dependent on rail transportation for delivery of coal.
- D. Big Stone II received the highest weighted score in the evaluation:
  - 1. How did the rest of the sites compare?
  - 2. Powder River Basin (PRB) was the only coal source identified for a pulverized coal plant.
  - 3. Rail is used for coal delivery.
  - 4. Fuel cost assumptions do not include a lignite mine mouth operation.
  - 5. On the environmental side, CO2 capture and sequestration is not included in the assessment.
- E. Reliability of coal delivery by BNSF from the PRB should be examined.
- F. Project cost estimates should be reviewed.
- G. Fuel costs - Big Stone vs. Coyote should be evaluated.
- H. Capacity factor – Big Stone vs. Coyote should be evaluated.