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May 30, 2008

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MAY 30 2008

Illona Jeffcoat-Sacco
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600 E. Boulevard Ave. Dept. 408
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PUBLIC SERVICE COMMISSION

Re: In the Matter of the Advance Determination of Prudence Application
of Otter Tail Corporation, Case No. PU-06-481

In the Matter of the Advance Determination of Prudence Application of
Montana-Dakota Utilities Co., a Division of MDU Resources Group, Inc.
Case No. PU-06-482

Dear Ms. Jeffcoat-Sacco

Enclosed for filing please find the original and seven copies of the following
documents:

1. Intervenors' Reply Brief
2. Service List

Sincerely yours,

Carrie La Seur
Founder

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Intervenors Reply Brief

Intervenors

Plains Justice, Carrie La Seur

326 PU-06-481 Filed: 5/30/2008 Pages: 19
Intervenors Reply Brief

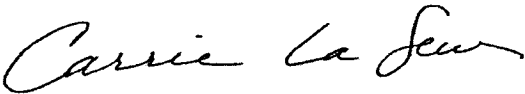
Intervenors

Plains Justice, Carrie La Seur

- **BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF NORTH DAKOTA**

Otter Tail Power Corporation, Advance Determination of Prudence Application,)	
)	Case No. PU-06-481
)	
And)	and
)	
Montana-Dakota Utilities Co., a Division of MDU Resources Group, Inc., Advance Determination of Prudence Application)	Case No. PU-06-482
)	
)	

The undersigned hereby certifies that true copies of the Intervenor's Reply Brief were served via electronic mail to each of the parties on the service list on the 30th day of May, 2008. A copy was of said document was also placed in the United States mail on the 30th day of May, 2008.

By: 
_____ **Carrie L. La Seur**

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF NORTH DAKOTA**

Otter Tail Power Corporation, d/b/a Otter Tail Power Company)	Case No. PU-06-481
)	
And)	and
)	
Montana-Dakota Utilities Co., a Division of MDU Resources Group, Inc.)	Case No. PU-06-482
)	
)	

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STATE OF NORTH DAKOTA

PUBLIC SERVICE COMMISSION

**Otter Tail Corporation, Advance
Determination of Prudence
Application**

**Advance Determination of Prudence
Application**

**Montana-Dakota Utilities Co., a
Division of MDU Resources Group,
Inc.,**

Case Nos. PU-06-481, PU-06-482

INTERVENORS' REPLY BRIEF

May 30, 2008

**Dakota Resource Council
Mark Trechok**

**PUBLIC VERSION
NO CONFIDENTIAL INFORMATION**

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I. INTRODUCTION

Intervenors Dakota Resource Council and Mark Trechock submit this brief in reply to Applicants' post-hearing brief of May 21, 2008 in the above-captioned matter. Applicants Otter Tail Power (OTP) and Montana-Dakota Utilities (MDU) have succeeded in crystallizing many of the fatal flaws in their proposal in this latest brief. The brief relies on a thinly modified version of an Application rendered archaic by the events of the past two years, repeats factual misrepresentations that have plagued Applicants' testimony, and completely ignores the tremendous risk to North Dakota ratepayers posed by the Minnesota Administrative Law Judges' (ALJs') recommendation that the Minnesota Public Utilities Commission (PUC) deny a certificate of need for the two proposed Big Stone 2 transmission lines.¹ This brief outlines the persistent flaws in Applicants' position and emphasizes the train wreck that this project is becoming for North Dakota ratepayers. If the Commission grants a prudence finding, consumers may find themselves on the hook for massive planning costs for a plant that is never built.

II. APPLICANTS' PROPOSAL BECOMES A WORSE RISK FOR NORTH DAKOTA RATEPAYERS WITH EACH PASSING DAY.

Applicants continue to include their proposed transmission infrastructure as an integral part of the proposal before this Commission, and request a prudence finding based on the full infrastructure package associated with Big Stone 2.² Such a prudence finding might comfort Applicants' financiers, but it creates a completely unacceptable level of risk for North Dakota ratepayers. Subsequent to the Minnesota ALJs' recommendation, there is no longer any reasonable certainty that the MN PUC will grant

¹ See Exhibit to Intervenors' Motion to Take Administrative Notice (May 13, 2008) (pending).

² See Applicants' Post-Hearing Brief (May 21, 2008) at 4.

a Certificate of Need. Applicants have never proposed that the project might go forward without the proposed Minnesota transmission. Failure to receive the Certificate is therefore more than likely a death knell for Big Stone 2.

At the same time, Applicants fail even to acknowledge in their brief what an enormous risk the current situation poses for North Dakota ratepayers. While waxing self-righteous about their responsibilities, Applicants omit the fact that North Dakota ratepayers are at this moment more likely than ever to be left holding the bag for planning costs for a non-existent plant. According to N.D.C.C. 49-05-16(5):

If at any time following an initial Commission order the Commission following a subsequent hearing determines that continuation of a project is no longer prudent or that its prior order should be modified, the public utility may recover in its rates, and in a timely manner consistent with the public utility's financial obligations the amounts the public utility has already expensed, incurred or obligated on a project, including interest expense and return on equity invested in the project up to the time the new order is entered, even though the project may never be fully operational or used by the public utility to serve its customers.

Therefore, if the Commission grants an advance determination of prudence prior to the MN PUC decision (currently anticipated for June 5, 2008), there is nothing to prevent Applicants from recovering from North Dakota ratepayers a portion of their significant costs to date. This outcome will surely not be "politically correct" in the eyes of anyone who votes in this state.

III. THE KEY ASSERTIONS IN APPLICANTS' POST-HEARING BRIEF ARE BASED ON A NEAR-TOTAL LACK OF EVIDENCE, AND A NUMBER OF FACTUAL MISREPRESENTATIONS.

Applicants have relied throughout this proceeding on rhetorical slight of hand, making legal and factual arguments unsupported by or contradictory to the evidence they have presented. Their post-hearing brief is no exception.

The testimony of Thomas Crowley on coal supply is a perfect example. Applicants claim to have “demonstrated” through Mr. Crowley’s testimony that Applicants’ coal and freight forecasts are reasonable. Mr. Crowley advises the Commission to ignore current shocking price trends and Big Stone 2’s captive status with Burlington Northern Santa Fe (BNSF) and trust instead in the tender mercies of BNSF and the Surface Transportation Board (STB). This recommendation is based on nothing more solid than Mr. Crowley’s personal opinion.³ He is hardly infallible: Mr. Crowley admitted in live testimony that he failed to forecast current fuel surcharges correctly.⁴ Experts’ opinions are valuable when they are interpreting current data, their own independent analyses, or extrapolating based on demonstrable trends. Mr. Crowley has done none of these things. He is merely hopeful, in the face of strong indications that pessimism would be more appropriate.

Another misrepresentation appears at page five of Applicants’ brief, where Applicants attempt to create an “applicable legal standard” (and declare Intervenors in agreement with it) out of a wholly irrelevant FERC opinion. The Federal Energy Regulatory Commission neither writes nor interprets North Dakota law, and its opinions have no precedential value in the Commission’s interpretation of a new North Dakota statute. It falls to the Commission to determine, according to the plain language of N.D.C.C. § 49-05-16, what constitutes prudence in this jurisdiction. Counsel for Applicants had attempted during cross-examination to solicit a legal opinion from Intervenors’ expert witness.⁵ Mr. Schlissel’s acknowledgment that Applicants’ counsel

³ April 29, 2008 transcript at 1150, lines 16-24.

⁴ *Id.* at 1144-1145.

⁵ Applicants’ counsel Mr. Guerrero had himself objected to a question that he claimed called “for a legal conclusion” in the previous day’s hearing. April 28, 2008 transcript at 938.

had correctly read out the FERC prudence standard does not constitute an admission on the part of Intervenor of an “applicable standard” of prudence for this Commission.

Applicants’ assertion at page eight of their Post-Hearing Brief that Applicants “would have no interest in making a proportionate investment in new facilities costing \$1.5 billion without first having determined through extensive resource planning and other evaluation that they have no better alternative to this project” is disingenuous at best. A rate-regulated utility would have no interest in *getting caught* including cost inefficiencies in its generating facility design, and even that scenario is only likely to lead to an amended design. There is in fact a tremendous economic incentive for a rate-regulated utility to have inefficiencies approved by the regulator and made part of the rate base. Any efficiencies that the utility later accomplishes then become pure profit.

Applicants’ persistent argument that they have no motivation to choose anything but the most cost-effective resource plan is also tautological. That is, Applicants in effect argue that any resource plan or generation facility proposal that they bring to the Commission is by definition the best possible. This position renders the Commission redundant and ignores the ever-present burden of proof. So long as we believe that utility regulation happens for a reason and this Commission has a reason to exist, the Commission must view Applicants’ assertions on all issues with healthy skepticism.

IV. APPLICANTS PERSIST IN SHIRKING THE BURDEN OF PROOF.

The dominant theme of Applicants’ response to Intervenor’s briefing and testimony has been that Intervenor has not offered a detailed alternative resource plan. Applicants devote more than three pages of a sixteen-page brief to the irrelevant argument that Intervenor has neither “suggested” nor “identified” a more reasonable

alternative to Big Stone 2. Applicants ignore the fact that they – not Intervenors and not the Commission – must bear the burden of proof. In response to a question about the burden of proof, witness Wade Uggerud consumed several pages of the transcript making a speech about Applicants’ business practices and never did answer the question.⁶ This unresponsive attitude is typical of Applicants’ arrogance.

Intervenors have in fact submitted a large amount of information about risks that Applicants have not fully considered, modeling that Applicants have not performed, and alternatives that Applicants have not given full consideration.⁷ All of Intervenors’ evidence is directly relevant to the question of whether or not Applicants have upheld the burden of proof. Because Big Stone 2 is an out-of-state plant, there is no rebuttable presumption of prudence. N.D.C.C. § 49-05-16(6). Applicants must prove that their project is prudent by a preponderance of evidence.⁸ Applicants’ irrelevant arguments calling for Intervenors to prove that a given alternative is more cost effective does not constitute rebuttal of Intervenors’ evidence, nor do they fulfill Applicants’ statutory burden.

With repeated motions in limine and to strike, Applicants have maneuvered to block relevant evidence submitted by Intervenors under cover of N.D.C.C. § 49-02-23. Yet Applicants only want to see the “environmental externalities” statute honored as long as it benefits them. Applicants did not shrink from offering to the Commission evidence regarding future carbon cost calculations performed by OTP for Minnesota proceedings on Big Stone 2, assuming a \$9/ton carbon cost.⁹ This strategy backfired. The May 9,

⁶ April 28, 2008 transcript at 938-941.

⁷ See Direct Supplemental Testimony of David Schlissel and accompanying exhibits.

⁸ See Intervenors’ Post-Hearing Brief of July 28, 2007.

⁹ See, e.g., OTP Exhibit 112 at 5.

2008 Minnesota ALJ recommendation explicitly rejects OTP's carbon cost assumptions.

The Minnesota judges found:

53. The Applicants presented expert testimony that a \$5-\$10/ton carbon cost is reasonable. That testimony was not credible. It would be accurate only in the currently unlikely event that no carbon regulation is ever enacted. For one thing, it ignores the cost for adding carbon capture and sequestration (CCS) technology to coal plants when it becomes available. Capital costs will increase and the net output of a coal-fired plant with CCS will decrease significantly when the CCS equipment is installed and operated, causing a corresponding increase in the price of energy from the plant. Credible studies indicate CCS costs from \$41/metric ton to \$75/metric ton.

54. The Applicants' modeling using the \$9/ton value was deficient in several ways. First, it was too low. It was a value that they and some other utilities had recommended to the Commission. Most of the recommended values, and studies, exceeded that amount. Second, they did not increase the value over time in their models, which is unreasonable because the price would not hold its value constant in real terms. Lastly, the Applicants failed to apply a range of costs up to \$30/ton as required by the *Order Establishing Estimate of Future Carbon Dioxide Regulation Costs*, and as recommended to them during this proceeding by OES. The Applicants had time to do so during the pendency of the second phase of this proceeding.¹⁰

Therefore, the Minnesota ALJs, who had the benefit of reviewing a full record on future carbon costs, found Applicants' calculations unconvincing. On this point as well, Applicants have failed to carry the burden of proof.

V. APPLICANTS' PROPOSED FINDINGS OF FACT INCLUDE MISREPRESENTATIONS AND FLATLY INCORRECT STATEMENTS.

In identifying the following flaws in Applicants' proposed findings of fact, Intervenor in no way accept or endorse any proposed findings of fact not mentioned

¹⁰ MPUC Dkt. No. ET-6131, ET-2, ET-6130, ET-10, ET-6444, ET-01, ET-9/CN-05-619, Supplemental Findings of Fact, Conclusions of Law, and Recommendation (May 9, 2008) at 15 (referencing Order Establishing Estimate of Future Carbon Dioxide Regulation Costs, MPUC Docket No. E-999/CI-07-1199 (December 21, 2007)).

here. However, there are a number of Applicants' proposed findings of fact that we must critique in detail.

At paragraphs 43 – 45, Applicants propose findings of fact regarding conservation measures without providing for any enforceable commitments to expanded conservation, energy efficiency, or load management programs. Current levels of all three forms of energy savings in North Dakota are not maximized and remain well below what is being achieved cost-effectively in Minnesota. The findings of fact should reflect a need for expanded efficiency programming in North Dakota and any order granting prudence should be conditioned on a study of how to maximize North Dakota efficiency programming and implementation of the results.

Paragraph 46 declares “conservative” OTP’s incorporated savings of 0.5% of annual retail sales in North and South Dakota, because Minnesota conservation savings have historically equaled 0.6 – 0.7% of annual Minnesota kWh sales. This definition of “conservative” – assuming lower utilization of the most cost-effective energy resource than history shows is reliably possible – is irrational. A truly “conservative” amount of conservation would be carefully calculated to exploit the maximum possible load reduction, not the least. In addition, OTP’s calculation appears to rely only on conservation programs, not the full panoply of efficiency and load reduction programming available. The final order should reflect the desirability of maximized efficiency programming of all kinds, and require it.

Paragraph 56 describes a few efficiency programs that MDU has implemented or is in the process of implementing. The description includes no analysis – because none has been offered in this proceeding – of the maximum potential of this programming or

other programming that might be appropriate to the region. MDU appears to have picked a few programs with little or no analytical justification for the choice of programming or level of investment, and no comparative performance information. Any competitive business that operated in this kind of data vacuum would quickly go bankrupt. The fact finding should reflect the need for a system-wide study of how to maximize the performance of all practicable efficiency programming, and the order should require such a study and implementation of the results. In light of Applicants' shabby efficiency performance in North Dakota to date, paragraph 44 and 57's pro forma recitation of the importance of DSM and conservation is cynical and offensive to anyone who has knowledge of the level of cost-effective energy efficiency programming that has already been achieved in other states, including Minnesota.

The reference at paragraph 58 to Black and Veatch's cost estimate cannot be considered in compliance with the legal obligation to submit accurate cost estimates to the Commission. The 2006 Black and Veatch estimate has been rendered antiquated by skyrocketing costs in construction, equipment, and necessary services for plant construction. The cost adder calculated by Applicants does not represent appropriate analysis of these trends over the last two years. The fact-finding must reflect Applicants' failure to provide an accurate update on construction costs.

Paragraph 62 appears to mischaracterize the 2007 testimony of Rita Mulkern as saying that "once Big Stone II goes online, a reduction in its fuel costs is expected."

What Ms. Mulkern in fact said in live testimony is

“One of the factors that will affect the rates at the time the plant goes on line is the fact that we are purchasing power from the MISO market and we anticipate that when Big Stone goes on line, we will see a reduction in our fuel costs.”¹¹

A reduction in overall fuel costs from a shift from purchased to owned power is not the same thing as an anticipated reduction in fuel costs for Big Stone 2 itself, which evidence in the record does not support. All evidence in the record shows steep upward trends in fuel costs for Big Stone 2. The fact-finding should reflect this reality and Ms. Mulkern’s actual testimony.

Paragraph 74, relating to the proposed transmission infrastructure that Minnesota seems likely to reject, does nothing more than expose North Dakota ratepayers to planning costs for a project that may never be realized. Any reference to the prudence of the proposed transmission lines should be made conditional on approval by Minnesota.

The reference at paragraph 85 to the “maximum rate” currently allowed by the STB and the ability of the Board to provide relief in case of unreasonable increases is unreasonably optimistic. A great deal of evidence to the contrary exists in the record in this matter and in other dockets that have come before this Commission.¹² Mr. Crowley’s own live testimony repeatedly acknowledges the fragility of current fuel supply prices and STB’s failure to protect rail customers.¹³ He acknowledges that he has assumed implementation of carbon capture and storage technology, which is currently prohibitively expensive, but has not included in his fuel supply cost calculations the impact of that kind of expense on coal markets.¹⁴ Mr. Crowley’s testimony should not be the basis for a fact finding that any meaningful measure of protection exists against fuel

¹¹ June 28, 2007 transcript at 667.

¹² See discussion of STB and BNSF history in the April 29, 2008 transcript at 1136-1145.

¹³ April 29, 2008 transcript at 1138-1143.

¹⁴ *Id.* at 1153.

supply cost increases over the life of Big Stone 2.

Paragraph 88 proposes a finding of fact that relies on Mr. Crowley's calculations of the cost of future carbon dioxide regulation. Once again, Applicants want it both ways. They want Intervenors' testimony on future carbon dioxide pricing stricken from the record. They also want to shore up their economic forecasting with unrebutted evidence regarding future carbon dioxide pricing, in spite of the fact that the Minnesota ALJs rejected Applicants' carbon pricing calculations as inadequate. As a matter of simple equity, this inconsistency should not be allowed, and certainly not adopted in a fact-finding.

The proposed fact finding at Paragraph 99 that "neither we nor the Applicants can predict what (carbon dioxide) regulations will require" is a slap in the face to Intervenors, who have repeatedly offered the best expert evidence available of what such regulations are likely to require, and repeatedly had it stricken from the record upon Applicants' motion. Applicants, who rely on forecasting on a daily basis, should not be allowed to take the position at this late stage of the proceedings that no one can predict what carbon dioxide regulation will look like. When Citi, JP Morgan Chase and Morgan Stanley published their Carbon Principles on February 4, 2008, for example, they demonstrated sufficient certainty about the likelihood and likely stringency of carbon regulation to take public, pro-active measures to insulate their investments from this risk.¹⁵ Applicants' proposed fact-finding is indefensible.

At Paragraph 101, a fact-finding is proposed that would create a distinction without a difference, claiming that future carbon dioxide regulation can be considered without considering the magnitude of the associated cost. No responsible investor would

¹⁵ Intervenors' Exhibit I15.

“consider the possibility” of a future risk without acquiring the best analysis possible of the quantified extent of that risk. This approach is simply irresponsible, as is N.D.C.C. § 49-02-23, and ratepayers will pay the price. The Commission should reject this proposed finding of fact.

The implication at Paragraph 102 that supercritical and ultra-supercritical technologies are solutions for the challenge of greenhouse gas reduction is inaccurate. All current science indicates an immediate need for a net reduction in global greenhouse gas emissions, not a mere reduction in the rate of increase, which is what Applicants propose.

Paragraph 104, projecting off-system sales benefits to customers, is inconsistent with previous proposed findings of fact regarding total anticipated capacity deficit. Paragraphs 7, 24 and 30 project a combined net capacity deficit for Applicants of more than the proposed Big Stone 2 resource acquisition by the time of Applicants’ anticipated Commercial Operation Date in 2013. Applicants have not quantified what off-system sales will be possible if the claimed net capacity deficit still exists after Big Stone 2 goes online.

Applicants’ proposed fact-finding at Paragraph 108, regarding comparative busbar costs for Big Stone 2 for the 2013-2031 period directly contradicts evidence brought by Intervenors in Mr. Schlissel’s testimony.¹⁶ Intervenors dispute Applicants’ conclusion that wind generation requires 100% new natural gas back-up. This fact-finding reflects Applicants’ persistent failure to model accurate and cost-effective wind generation scenarios.

¹⁶ Supplemental Direct Testimony of David Schlissel at 80.

Paragraphs 113, 117 and 125 perpetuate Applicants' mischaracterization of the alternative to Big Stone 2 as primarily natural gas. Intervenors have proposed a small amount of additional natural gas generation, only to the extent necessary to back up additional renewables, along with significant demand reduction from a variety of proven programming.¹⁷ Applicants have illegitimately proposed fact-findings suggesting that new, as opposed to existing, gas-fired generation would be necessary to back up new wind. Intervenors object to all proposed findings of fact that mischaracterize the evidentiary record in this way.

Paragraph 119 perpetuates Applicants' attempt to lump petroleum and natural gas together to present far higher consumption numbers for North Dakota than exist for natural gas alone. Under cross-examination, Applicants' witness Mr. Klein acknowledged that throughout his pre-filed testimony he refers to the sum of North Dakota natural gas and petroleum consumption rather than natural gas alone.¹⁸ He further acknowledged that North Dakota non-electric household natural gas consumption is in fact below the national average.¹⁹ The evidence does not reflect higher than average natural gas consumption for North Dakota. The opposite is true, as Applicants' expert witness admitted. Any fact finding on this issue should separate petroleum from natural gas consumption to reflect the natural gas consumption reality in North Dakota, and in-state production of synthetic gas must be acknowledged as a relevant economic factor.

Paragraph 127 also assumes a natural gas plant that would effectively take the place of the proposed 500 MW at Big Stone 2, something never proposed by Intervenors

¹⁷ *Id.* at 7.

¹⁸ April 30, 2008 transcript at 1441.

¹⁹ *Id.* at 1440.

and not required in any realistic alternative scenario.²⁰ This wholly unrealistic alternative is a red herring that should not be included in the findings of fact.

Paragraph 131 assumes that “wind generation is credited only a 20 percent capacity”, while the proposed fact finding at Paragraph 122 states: “The record discloses that wind turbines are typically capable of achieving capacity factors in the range of 30-40%” but that “[i]n MAPP, wind generation is generally accredited for reserve obligation purposes between 5 and 20 percent.” A distinction between capacity factor and reserve obligation must be made in the fact-findings.

The proposed finding at Paragraph 139 that a supercritical or ultra-supercritical baseload pulverized coal generating station is prudent “in combination with demand-side management and energy conservation programs that prove more cost effective than such plant” is insufficiently specific with regard to the DSM and energy conservation programs, and how they will be modeled and chosen. Any fact finding that cost-effective DSM and efficiency are necessary in combination with a coal plant must include detailed findings as to how the complementary efficiency programming will be developed, implemented, and evaluated for effectiveness. Any final order granting prudence must include these explicit conditions. Applicants have made it clear that they have not maximized all feasible, cost-effective efficiency and conservation programming.²¹ A Commission order requiring maximized cost-effective efficiency and conservation programming will clearly be necessary if this outcome is ever to be achieved.

²⁰ Supplemental Direct Testimony of David Schlissel at 7.

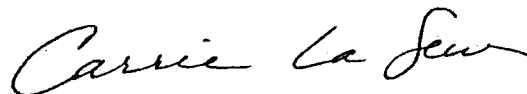
²¹ See April 28, 2008 transcript at 1041,

VI. CONCLUSION

In sum, Applicants have failed to update their Application sufficiently to justify an advance determination of prudence. They have persistently ignored and shirked their burden of proof, attempting to shift it wrongly to Intervenors. Many of Applicants' key arguments are tautological and unsupported by the evidence. Finally and most importantly to North Dakota ratepayers, the proposal is currently at great risk of failing to obtain Minnesota's approval for transmission infrastructure, without which the project cannot go forward. To grant an advance determination of prudence at this time risks saddling North Dakota ratepayers with planning expenses for an ill-conceived plant that is never built.

Dated: May 30, 2008

Respectfully submitted,



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