



Public Service Commission
State of North Dakota

COMMISSIONERS

Kevin Cramer
Tony Clark
Brian P. Kalk

Executive Secretary
Darrell Nitschke

May 25, 2011

600 E. Boulevard Ave. Dept 408
Bismarck, North Dakota 58505-0480
Web: www.nd.gov/psc
E-mail: ndpsc@nd.gov
Phone 701-328-2400
Toll Free 1-877-245-6685
Fax 701-328-2410
TDD 800-366-6888 or 711

Kathleen Spilman
Keitu Engineers & Consultants, Inc.
2610 Old Red Trail Ste. C
Mandan ND 58554-1447

RE: Contract No. PU-599-10: Post-construction Siting Inspections

Dear Ms. Spilman,

Under Contract No. PU-599-10 Keitu Engineers & Consultants, Inc. is providing consulting services for 16 post-construction inspection projects at energy conversion or transmission facility sites.

On May 6, 2011, I emailed you concerning an extension of Contract No. PU-599-10. Since that email, the Commission has been informed by State Procurement that, while the contract termination date is June 30, 2011, the services that Keitu is providing for the 16 siting inspection projects listed in the contract will continue under that contract. Therefore, there is no need to extend the contract to complete those services.

If you have questions, please contact me.

Best regards

Patrick Fahm
Director, Compliance and Competitive Markets Division

Fahn, Patrick J.

From: Kathleen Spilman [kspilman@keitu.com]
Sent: Thursday, May 19, 2011 4:35 PM
To: Fahn, Patrick J.
Cc: 'Timothy Spilman'
Subject: PU-10-123 Post Construction Inspection Contract

My apologies for the delay in our response you inquiry on behalf of the PSC Commission to extend our contract on the same terms and conditions.

Tim and I have discussed the work done to date. I understand he shared a couple of our observations in a phone conversation earlier this week. Let me attempt to simplify our concerns to four points.

(1) Inflation to staff, indirect, and overhead costs

I believe Tim mentioned that we would seek a 4% increase in each of the two years of the proposed contract extension. Our staff average pay increase for last year was 6.5%. Many regional and national consulting firms are or have opened offices in North Dakota and the demand continues to increase for experienced professionals, which translates into higher staff costs. We believe a modest increase in our contracts rate is appropriate.

(2) Travel expenses

It should come as no surprise that in addition to a 36% increase in gasoline nationwide over the past year coupled with short supply / high lodging costs for hotel/motel rooms in western North Dakota translate into high travel costs. For other Keitu projects, generally we do not accept the Federal per diem rates for meals and lodging when traveling in western North Dakota and eastern Montana as even meals have skyrocketed. Billing is based on actual costs plus 10%

(3) Project Synergies - Economy of scale

The list of projects originally offered in the proposal brought with it some synergies with would not be expected in a contract extension period. Let's use the Whiting natural gas and crude oil lines or the Enbridge pipeline expansions as an example. Two or three or more of the project inspections can be satisfied by the same site visit. Not being able to bid on specific projects, looking for these cost efficiencies put our firm at risk of not meeting the defined max funds available to complete the scope of work.

(4) All projects Not Created Same – i.e. \$5000 project limit

Consider the short Whiting Oil & Gas 17 miles pipeline vs. Keystone Pipeline 200+ miles in length and the effort involved and the different complexity/number of items in the Commission's order may or may not be directly related to the work associated with the follow-up. Some projects have more complete records than others (changing the follow-up effort involved). Apparently there are significant differences between projects.

If there is a statutory limit as to how much \$\$ the Commission may withhold for post construction follow-up, it may become an issue – requiring a reduction in project scope/level of review and detail provided. A common element in the Commission's order, for example, is a type of catch all item that specifies compliance with all other provisions cited in the application(s). Subsequently, that forces our staff to review the application documents, which are sometimes short, and sometimes not. We have a better chance of remaining within the specified \$5,000 project by project budget if we concentrate on items important enough to warrant a specific item in the Commission's order. If there is money left, than we can tackle that item. Another item that could be cut from the review is eliminating the reference to the exact

item in the order /application section that spells out the item found deficient. However that reference may be important to have for you to cite on the Commission's follow-up report to the applicant.

We also are willing to try assigning a project to a different, less experienced, lower cost staff member to. He may or may not be as productive with his time given his lack of prior experience in the utility industry. Tim and I both agree that with the exception of one small administrative task – i.e. setting up the project specific database – which is less than two hours on his part – there is really nothing we have found that can be “staffed out” to staff with a lower billable rate.

We also welcome your and the Commission's feedback. If any items in our initial reports are too detailed, or seem to be given too much effort on our part, let us know. We can then redeploy the available dollars/resources to the items that offer the most value, if we are limited by statutory maximum “project budget.” Expanding the amount withheld from a project would of course address this issue. But the “budget” limits the staff hours that we can devote to the project which may leave items un-reviewed.

We would be willing to extend the contract terms and conditions if a 4% each year increase in staff rate and overhead is allowed; plus a complete pass-thru of travel costs. And if we can find a way to prepare an acceptable report/work scope within the allotted budget.

I look forward to hearing your comments on this perspective and am available to discuss further.

Kathleen M Spilman, PE
Managing Director
Keitu Engineers & Consultants, Inc.
2610 Old Red Trail NW Suite C
PO Box 98
Mandan ND 58554-1447
(701) 667-1800 www.keitu.com

Fahn, Patrick J.

From: Fahn, Patrick J.
Sent: Friday, May 06, 2011 3:32 PM
To: 'kspilman@keitu.com'
Subject: extension of contract with North Dakota Public Service Commission

The current contract between Keitu Engineers & Consultants, Inc. and the North Dakota Public Service Commission (Contract Number PU-599-10) ends June 30, 2011. The Commission wishes to renew/extend the contract for July 1, 2011 through June 30, 2013. Please respond to this email and indicate whether Keitu Engineers & Consultants, Inc. is agreeable to an extension of the contract terms and conditions.

Patrick Fahn

Director-Compliance and Competitive Markets
Email: pfahn@nd.gov
Phone: (701) 328-4077

North Dakota Public Service Commission
600 E Boulevard
Bismarck ND 58505-0480
Fax: (701) 328-2410