

**BEFORE THE  
NORTH DAKOTA PUBLIC SERVICE COMMISSION**

**Otter Tail Power Company  
Environmental Cost Recovery Rider  
Tariff**

**Case No. PU-13-79**

**Montana-Dakota Utilities Co., a Division of MDU  
Resources Group, Inc.  
Environmental Cost Recovery  
Rates**

**Case No. PU-13-83**

**Otter Tail Power Company  
Environmental Cost Recovery Rider  
Rates**

**Case No. PU-13-84**

**Montana-Dakota Utilities Co., a Division of MDU  
Resources Group, Inc.  
Environmental Cost Recovery  
Tariff**

**Case No. PU-13-85**

OAH File No. 20130326

**DIRECT TESTIMONY**

**OF**

**MIKE DILLER**

**ON BEHALF OF**

**COMMISSION ADVOCACY STAFF**

**September 6, 2013**

18 PU-13-85 Filed 09/06/2013 Pages: 6  
Direct Testimony of Mike Diller  
Public Service Commission Advocacy Staff  
Mike Diller

21 PU-13-84 Filed 09/06/2013 Pages: 6  
Direct Testimony of Mike Diller  
Public Service Commission Advocacy Staff  
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21 PU-13-83 Filed 09/06/2013 Pages: 6  
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20 PU-13-79 Filed 09/06/2013 Pages: 6  
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Public Service Commission Advocacy Staff  
Mike Diller

1 Q: Provide your name and position at the North Dakota Public Service  
2 Commission (Commission).

3 A: My name is Mike Diller and I am the Director of Economic Regulation.

4  
5 Q: What kind of work do you provide to the North Dakota Public Service  
6 Commission?

7 A: I am a public utility analyst and provide direction to a small staff.

8  
9 Q: Provide a summary of your educational background and public utility  
10 regulatory experience.

11 A: I have more than 28 years of public utility regulatory experience including  
12 service for both the Oklahoma Corporation Commission and the North Dakota  
13 Public Service Commission. I received a Bachelor of Science Degree in  
14 Accounting from Oklahoma Christian College in Edmond, Oklahoma in 1981.  
15 I am a Certified Public Accountant and I am a member of the American  
16 Institute of Certified Public Accountants.

17  
18 Q: Have you provided testimony in North Dakota before?

19 A: Yes. I have testified before the Commission on acquisition proposals, rate  
20 cases, settlement offers, advance determination of prudence cases and rule  
21 changes.

22  
23 Q: What is the purpose of your testimony?

24 A: I have been assigned the role of advocacy staff in this proceeding and will  
25 respond to the applications and direct testimonies filed by Otter Tail Power  
26 Company (Otter Tail) and Montana-Dakota Utilities Co. (MDU).

27  
28 Q: Please summarize your analysis and conclusions.

29 A: On May 9, 2012, the Commission granted an Advance Determination of  
30 Prudence (ADP) to Otter Tail and MDU for the proposed Air Quality Control  
31 System (AQCS) required for the Big Stone electric generation plant.

1           However, the Commission conditioned the ADP by stating that it was making  
2           no determination as to the prudence of either Selective Catalytic Reduction  
3           (SCR) or Selective Non-Catalytic Reduction (SNCR) technology; that the  
4           companies submit semi-annual reports about the amounts and types of costs  
5           including any changed circumstances; and that the companies must  
6           demonstrate in subsequent rate proceedings the reasonableness of the costs  
7           incurred.

8  
9           I believe that the companies have made a compelling case for the selection of  
10          SCR technology and have no reason to object to their conclusions or argue in  
11          favor of SNCR technology.

12  
13          I have reviewed the Commission's docketing records noting that quarterly  
14          reports have been filed rather than the semi-annual reports ordered by the  
15          Commission and therefore find that the parties are in compliance with the  
16          Commission's reporting requirements.

17  
18          With regard to the final condition of cost demonstration, Advocacy Staff would  
19          like the Commission to establish a framework for making that determination in  
20          the future. I will discuss this more in the latter part of my testimony.

21  
22          Q:     The companies are seeking to add an Environmental Cost Recovery Rider  
23                 (ECRR) to recover the costs associated with the AQCS project. Have you  
24                 reviewed the rider tariffs and what did you conclude?

25          A:     Yes, I have reviewed the tariffs and believe the tariffs achieve the objectives  
26                 described in the Commission's Notice of Consolidated Hearing. Specifically,  
27                 the proposed tariffs allow the companies to recover the costs of meeting  
28                 federal environmental mandates related to generation facilities and provides  
29                 for rates of return previously ordered by the Commission for project costs not  
30                 yet included in base rates.

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Q: The Notice of Consolidated Hearing also poses the question of whether the Commission should approve the cost recovery rate adjustments followed by two sub-questions. The first sub-question asks whether the rate adjustments comply with the respective tariff. Do the proposed ECRRs comply?

A: I believe that the ECRRs filed by the companies comply with the proposed tariffs.

Q: The second sub-question asks whether the companies' costs and expenses to meet the federal mandates are reasonable and prudent. What is your opinion?

A: The Commission granted an ADP for this project because installing AQCS was the least cost resource. At the time, the estimated cost was \$489 million. It would be somewhat difficult for staff to suggest that the greatly reduced price of \$405 million is anything but prudent given the stewardship of the project described by the companies' witnesses. That said, I think the Commission should wait until the project is completed and the costs are known before making a final determination of prudence. The most efficient use of staff time would be to review the costs in total once the project is completed. The proposed ECRR's appear reasonable but should be reviewed in totality once the project is complete before ascribing a final determination of prudence.

North Dakota's environmental cost recovery law requires cost recovery over the course of a project like AQCS. The companies' proposed ECRRs accomplish the purpose of the law and I recommend approval of the ECRRs.

1 Q: What if Advocacy Staff reviews the costs at the completion of the project and  
2 determines that past costs were overstated or discovers an imprudent cost  
3 was included in a past ECRR, how would ratepayers be held harmless?

4 A: Each year the ECRR will be reset to recover a combination of actual costs  
5 and projected costs for the upcoming year. The estimates are always wrong  
6 of course and therefore adjustments are made along the way towards actual  
7 cost. The true-up mechanism of both MDU's and Otter Tail's ECRR ensures  
8 that the companies will only recover 100% of their costs. Should the  
9 Commission later find a mistake or an imprudently incurred cost, the ECRR  
10 can be easily adjusted going forward.

11

12 Q: MDU and Otter Tail's cost recovery methods are different. MDU has asked  
13 for cost recovery on a kWh basis and Otter Tail has asked for cost recovery  
14 on a "percent of bill" basis. Please comment.

15 A: Otter Tail's large industrial group remains active in its rate filings. Otter Tail  
16 used to allocate its wind riders on a kWh basis but its large industrial group  
17 argued that doing so did not recognize the differences between the demand  
18 and energy bill components of the large industrial customers compared to the  
19 energy only charges paid by the other classes. As a result, Otter Tail  
20 changed its method of allocation to include a demand component for its  
21 renewable energy rider. In this filing, the large industrial group argued for  
22 further change and the adoption of a "percent of bill" approach or a factor  
23 applied to each customer's total bill. Otter Tail agreed and submitted a  
24 supplemental filing to that effect on August 6, 2013. I agree with the  
25 approach because it more accurately apportions the cost increases to  
26 customers based on the existing rate designs last approved by the  
27 Commission.

28

29 Q: If this is true, do you recommend denial of MDU's method of cost  
30 apportionment to customers on a kWh basis?

1 A: I think Otter Tail's method falls more in line with the rate design last ordered  
2 by the Commission. However, rate design and cost apportionment is not an  
3 exact science and therefore I conclude that MDU's method is acceptable as  
4 well. Should MDU decide to follow the revenue billed approach, I would not  
5 oppose it.

6

7 Q: Do you have any recommendations for future filing requirements?

8 A: Yes, I would like the commission to require the companies to coordinate the  
9 filing of their annual ECCR updates so they are similar in nature. Specifically,  
10 I would like the companies to coordinate their filings so that the same joint  
11 costs appear in each of their applications. Doing so will make the filings  
12 clearer and easier for staff to review.

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14 Most of the costs incurred for the project are the same for both companies.  
15 These same costs are then assigned to each company based on ownership;  
16 53.9% to Otter Tail and 22.7% to MDU. Any remaining incidental costs  
17 incurred by the companies independently for evaluation, administration or the  
18 use of different rates of return should be disclosed and evident in the cost  
19 recovery filings. The total costs (both joint and independent) of each  
20 company can then be allocated amongst the states served and on down to  
21 the various customer classes...but the beginning point should be the same.

22

23 This kind of similarity and coordination will allow staff to review one set of  
24 costs common to both companies. It will require the utilities to coordinate and  
25 review their filings together to avoid potential errors and will make reconciling  
26 the annual updated rider filings easier.

27

28 Q: Does this conclude your testimony?

29 A: Yes, it does.