



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

Otter Tail Power Company	)	Case No. PU-13-79
Environmental Cost Recovery Rider	)	
Tariff	)	
Montana-Dakota Utilities Co., a Division of MDU	)	Case No. PU-13-83
Resources Group, Inc.	)	
Environmental Cost Recovery Rider	)	
Rates	)	
Otter Tail Power Company	)	Case No. PU-13-84
Environmental Cost Recovery Rider	)	
Rates	)	
Montana-Dakota Utilities Co., a Division of MDU	)	Case No. PU-13-85
Resources Group, Inc.	)	
Environmental Cost Recovery Rider	)	
Tariff	)	
OAH File No. 20130326		

DIRECT TESTIMONY

OF

PETER J. BEITHON

ON BEHALF OF

OTTER TAIL POWER COMPANY

August 26, 2013

29 PU-13-85 Filed 09/17/2013 Pages: 10  
Exhibit OTP-8 from Sept. 16 formal hearing  
Otter Tail Power Company

31 PU-13-84 Filed 09/17/2013 Pages: 10  
Exhibit OTP-8 from Sept. 16 formal hearing  
Otter Tail Power Company

31 PU-13-83 Filed 09/17/2013 Pages: 10  
Exhibit OTP-8 from Sept. 16 formal hearing  
Otter Tail Power Company

30 PU-13-79 Filed 09/17/2013 Pages: 10  
Exhibit OTP-8 from Sept. 16 formal hearing  
Otter Tail Power Company

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Peter J. Beithon. My business address is 215 South Cascade Street,  
3 Fergus Falls, MN 56537.

4  
5 **Q. BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR POSITION?**

6 A. I am employed by Otter Tail Power Company (“Otter Tail” or the “Company”) as  
7 Manager, Regulatory Recovery.

8  
9 **Q. PLEASE SUMMARIZE YOUR QUALIFICATIONS, DUTIES, AND**  
10 **RESPONSIBILITIES.**

11 A. I have a Bachelor of Science Degree from the University of North Dakota with  
12 majors in accounting and marketing and a minor in natural science. I am a  
13 Certified Management Accountant, a Certified Public Accountant (inactive), and  
14 a Chartered Global Management Accountant. I have worked for Otter Tail since  
15 November of 1983, starting as a Property Accountant in the Accounting  
16 Department, moving to Treasury Department as the Administrator of Cash  
17 Management, and have worked in the Regulatory Services Department since  
18 1991, holding various positions from Regulatory Analyst to Manager, Regulatory  
19 Economics. I have held my current position of Manager, Regulatory Recovery,  
20 since March 2012.

21

22

1 **Q. FOR WHOM ARE YOU TESTIFYING?**

2 A. I am testifying on behalf of Otter Tail.

3

4 **Q. HAVE YOU TESTIFIED IN OTHER PROCEEDINGS BEFORE**  
5 **REGULATORY BODIES?**

6 A. Yes. I have previously presented testimony before this Commission and the  
7 Public Utility Commissions of South Dakota and Minnesota.

8 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

9 A. The purpose of my testimony is to explain Otter Tail's proposed Environmental  
10 Cost Recovery Rider, Rate Schedule 13.08 (the "ECRR") and how it complies  
11 with the tariff and rate-related issues identified in the Commission's July 10, 2013  
12 Notice of Consolidated Hearing in the above-captioned cases.

13

14 **Q. PLEASE DESCRIBE OTTER TAIL'S PROPOSAL IN THIS CASE?**

15 A. Otter Tail is proposing to implement an ECRR to recover jurisdictional capital  
16 costs and associated operating expenses incurred for environmental retrofit  
17 equipment to be installed at Big Stone Plant. The environmental retrofit  
18 equipment is described in Mr. Mark Rolfes' Direct Testimony. The ECRR is  
19 proposed in accordance with the North Dakota Century Code Section 49-05-  
20 04.2(1), which reads:

21 *The commission may approve, reject, or modify a tariff filed under section 49-05-*  
22 *06, which provides for an adjustment of rates to recover jurisdictional capital*

1 *costs and associated operating expenses incurred by a public utility to comply*  
2 *with federal environmental mandates on existing electricity generating stations.*  
3 *For purposes of this section, federal environmental mandates are limited to any*  
4 *requirements under the Clean Air Act, the Clean Water Act, or any other federal*  
5 *law or rule designed to protect the environment. Associated operating expenses*  
6 *are costs incurred by the public utility to comply with the environmental mandate.*  
7

8 *The tariff must:*

- 9 *a. Allow the public utility to recover on a timely basis its investment in capital*  
10 *costs and associated operating expenses incurred to meet federal*  
11 *environmental mandates not reflected in the utility's general rate schedule.*  
12 *b. Allow a return on the public utility's investment made to meet federal*  
13 *environmental mandates at the level approved in the utility's most recent*  
14 *general rate case.*  
15 *c. Provide a current return on construction work in progress to meet federal*  
16 *environmental mandates provided the cost recovery from retail customers of*  
17 *the allowance for funds used during construction is not sought through any*  
18 *other means.*  
19 *d. Terminate cost recovery after the public utility's costs and expenses to meet*  
20 *federal environmental mandates have been recovered fully or have been*  
21 *reflected in the utility's general rate tariffs.*  
22

23 The benefits of the ECRR are threefold. First, implementing the ECRR while the  
24 project is under construction will help phase in rates, helping to mitigate abrupt  
25 rate increases for our customers at the time the project is brought into service.  
26 Second, implementing the ECRR at this time will prevent the compounding of  
27 carrying costs during construction, thus reducing the amount of rate base on  
28 which rates are set for the 30-year life of the project. This results in lower rates  
29 for the life of the project. Third, Otter Tail is making significant capital  
30 investment over the next five years. By commencing some recovery now through  
31 the ECRR, the amount that will need to be financed will be reduced, and this will

1 stabilize Otter Tail's financing costs for its overall financings, which will  
2 ultimately benefit our customers.

3

4 **Q. WHAT IS OTTER TAIL'S PROJECTED SHARE OF AQCS PROJECT**  
5 **COSTS AND HOW LARGE IS THAT INVESTMENT RELATIVE TO**  
6 **OTTER TAIL'S TOTAL RATE BASE?**

7 A. Otter Tail's 53.9 percent share of the AQCS project is approximately \$218  
8 million (total system), as described later in my testimony. Otter Tail had \$690  
9 million in rate base at the end of 2012 (total system). Otter Tail's investment in  
10 the AQCS project represents approximately 32 percent of its current rate base  
11 (end of 2012).

12

13 **Q. WOULD YOU PLEASE IDENTIFY THE ISSUES THE COMMISSION**  
14 **NOTICED FOR CONSIDERATION REGARDING THE COMPANY'S**  
15 **PROPOSED ECRR?**

16 A. Yes. Four issues were identified on pages 2 and 3 of the Commission's Notice of  
17 Hearing: (1) Does each tariff allow the respective public utility to recover on a  
18 timely basis its investment in capital costs and associated operating expenses  
19 incurred to meet federal environmental mandates not reflected in the utility's  
20 general rate schedule? (2) Does each tariff allow a return on the respective public  
21 utility's investment made to meet federal environmental mandates at the level  
22 approved in the utility's most recent general rate case? (3) Does each tariff

1 provide a current return on construction work in progress to meet federal  
2 environmental mandates provided the cost recovery from retail customers of the  
3 allowance for funds used during construction is not sought through any other  
4 means? (4) Does each tariff terminate cost recovery after the respective public  
5 utility's costs and expenses to meet federal environmental mandates have been  
6 recovered fully or have been reflected in the utility's general rate tariffs?  
7

8 Two additional questions were included for consideration on page 3 of the  
9 Commission's Notice for Hearing: (1) Does each rate adjustment comply with  
10 the respective tariff? (2) Are each utility's incurred costs and expenses to meet  
11 federal environmental mandates reasonable and prudent? I will address the tariff  
12 and rate-related issues identified in the Notice. Other witnesses' Direct  
13 Testimony addresses the reasonability and prudence of Otter Tail's AQCS costs  
14 and expenses projected for the project  
15

16 **Q. WOULD YOU PLEASE ADDRESS THE ISSUES NOTICED BY THE**  
17 **COMMISSION RELATING TO OTTER TAIL'S PROPOSED**  
18 **ENVIRONMENTAL COST RECOVERY TARIFF, RATE SCHEDULE**  
19 **13.08?**

20 **A.** Yes. I will address each issue noticed by the Commission in regard to Otter Tail's  
21 proposed tariff. First, the proposed Rate Schedule 13.08 is designed to allow  
22 Otter Tail to recover on a timely basis its investment in capital costs and

1 associated operating expenses incurred to meet federal environmental mandates  
2 not reflected in Otter Tail's existing rates. The proposed Rate Schedule 13.08  
3 tariff provides Otter Tail with a rate mechanism that aligns the recovery of  
4 eligible costs with the timing of the costs being incurred. The proposed tariff also  
5 provides a return on Otter Tail's investment made to meet federal environmental  
6 mandates at the level approved in the utility's most recent general rate case. In  
7 compliance with the proposed tariff and the Statute, the return on rate base was  
8 calculated using the authorized capital structure approved in Case No. PU-08-862,  
9 the Company's most recent general rate case. The return on rate base, calculated  
10 using the authorized capital structure, is shown in Attachment 4, page 2 of 3 of  
11 the Company's May 8, 2013 Update to the Application to Establish an  
12 Environmental Upgrades Cost Recovery Rider and Tariff. The proposed tariff  
13 provides a current return on Construction Work in Progress ("CWIP") to meet  
14 federal environmental mandates and Otter Tail is not seeking cost recovery from  
15 retail customers through any other means. Finally, while Otter Tail's ECRR tariff  
16 will remain active, the rate applicable to the AQCS project will terminate once the  
17 project is completed and the investment is reflected in its general rates pursuant to  
18 a general rate case. Otter Tail is proposing to file an ECRR update annually, to be  
19 effective April 1 of each year, with the Company terminating rider collections  
20 when the costs are included in base rates in a general rate case.

21

1 **Q. DOES OTTER TAIL'S ECRR RATE COMPLY WITH THE PROPOSED**  
2 **TARIFF?**

3 A. Yes.

4  
5 **Q. PLEASE EXPLAIN OTTER TAIL'S CALCULATION OF THE ECRR**  
6 **RATE.**

7 A. The projected costs included in the calculation of Otter Tail's proposed ECRR  
8 rate reflect an allocation of those costs to North Dakota based on the peak demand  
9 allocators applicable each year. The Application submitted on February 8, 2013  
10 was based on Otter Tail's total system share of estimated project costs of  
11 \$133,574,126 through March 31, 2014. That amount was updated to reflect Otter  
12 Tail's share of total project estimated costs of \$119,640,028 through March 31,  
13 2014, as shown on Exhibit 1, page 2, included with the May 8, 2013 Update. The  
14 update in costs reflects the reduction in the total budget from \$491 million  
15 (including the mercury reduction system) to \$405 million, as described more fully  
16 in Mr. Mark Rolfes' Direct Testimony. Otter Tail's ownership share in the Big  
17 Stone Plant is 53.9 percent. Therefore Otter Tail is responsible for 53.9 percent of  
18 joint project costs, or \$218 million, and some additional Otter Tail-only costs,  
19 which are those costs incurred directly by Otter Tail related to its individual  
20 interest in the project. The costs also include an Allowance for Funds Used  
21 During Construction ("AFUDC") accrued prior to the proposed commencement

1 date of the first ECRR recovery period. Otter Tail's North Dakota jurisdictional  
2 share of this cost responsibility is approximately 40.3 percent or \$87.8 million.

3

4 The revenue requirement for the AQCS at Big Stone as shown on Updated  
5 Attachment 2, page 1 of 1 of the May 8, 2013 Update reflects actual CWIP costs  
6 incurred through April 30, 2013 plus projected costs for the period May 1, 2013  
7 through March 31, 2014. The total amount requested to be recovered through this  
8 first ECRR rate is \$4,308,473. This amount represents the revenue requirement  
9 associated with the average CWIP balances for the period January 2013 through  
10 March 2014. As described in Otter Tail's August 6, 2013 Supplemental filing in  
11 this case, the revenue requirement is allocated to the rate classes through the use  
12 of a percent-of-bill rate design. The ECRR rate using the percent-of-bill rate  
13 design being proposed is 4.319 percent of base rates and will be shown as a  
14 separate line item on customers' bills denoted as "Req Environmental Cost." The  
15 ECRR revenue requirement will be trued up based on actual expenditures in each  
16 annual ECRR update filing. Also, future update filings will reflect a thirteen-  
17 month average balance for the determination of CWIP.

18

19 **Q. WHAT IS OTTER TAIL PROPOSING FOR THE ENVIRONMENTAL**  
20 **COST RECOVERY RIDER RATE DESIGN?**

21 A. Otter Tail had initially proposed an all energy (per kWh) rate design. After  
22 consulting with representatives of the North Dakota Large Industrial Group and

1 Commission Staff we filed a letter on August 6, 2013 recommending a percent-  
2 of-bill rate design.

3

4 **Q. WHY ARE YOU NOW RECOMMENDING THE PERCENT-OF-BILL**  
5 **RATE DESIGN?**

6 A. The environmental upgrades are to a baseload generation plant which has demand  
7 and energy components. An energy only rate, while straightforward, does not  
8 match the cost causation associated with this type of upgrade. In order to keep the  
9 rate design simple and better match cost causation, Otter Tail recommends using  
10 the percent-of-bill method applied to base rates which by its nature reflects the  
11 rate design used for all customers as approved in Otter Tail's last general rate  
12 case.

13

14 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

15 A. Yes, it does.