

Before the North Dakota Public Service Commission  
State of North Dakota

In the Matter of the Application of Otter Tail Power Company  
For Authority to Increase Rates for Electric Utility  
Service in North Dakota

Case No. PU-17-398  
OAH File No. 20170622

Exhibit \_\_

**REVENUE REQUIREMENTS AND REGULATORY ISSUES**

Rebuttal Testimony and Schedules of

**Stuart D. Tommerdahl**

**PUBLIC DOCUMENT – NOT PUBLIC (OR PRIVILEGED)  
DATA HAS BEEN EXCISED**

June 22, 2018

**TABLE OF CONTENTS**

**I. INTRODUCTION..... 1**

**II. SUMMARY OF REBUTTAL TESTIMONY ..... 2**

**III. CONTESTED ISSUES ..... 2**

A. CISone [MLEC-Maini; Staff-Smith] ..... 2

    1. CISone Normalization [MLEC-Maini] ..... 2

    2. Updated CISone Budget [Staff-Smith] ..... 4

    3. Cost Savings [MLEC-Maini] ..... 6

B. Rate Case Expense [Staff-Smith]..... 7

C. Corporate Aircraft [Staff-Smith]..... 10

D. Investor Relations [Staff-Smith] ..... 18

E. Economic Development [Staff-Dismukes] ..... 22

F. Generation Cost Recovery Rider [MLEC-Maini; Staff-Dismukes; Walmart-Chriss] ..... 25

    1. The GCRR is reasonable and appropriate. [Staff-Dismukes; Walmart-Chriss] ..... 25

    2. The Company’s proposed GCRR structure is reasonable and appropriate. [Walmart-Chriss; MLEC-Maini; Staff-Dismukes] ..... 28

G. Employee Gifts [Staff-Smith] ..... 31

H. Energy Adjustment Rider – Base Fuel Timing – E8760 [MLEC-Maini] ..... 33

I. Service Quality [MLEC-Schedin]..... 34

J. Baseload Performance [MLEC-Schedin]..... 38

**IV. NON-CONTESTED ISSUES ..... 40**

A. Reagents and Emissions Allowance Costs [Staff-Smith] ..... 40

B. Generation Rider Rate Design [MLEC- Maini]..... 41

C. E8760 Allocator [Staff-Dismukes] ..... 41

D. Treatment of Renewable Energy Credits [Staff-Smith]..... 41

**V. CONCLUSION..... 41**

**ATTACHED SCHEDULES**

Schedule 1 – OTP Response to ND-PSC-01.9

Schedule 2 – OTP Amended Response to ND-PSC-15.26 NOT PUBLIC

1 **I. INTRODUCTION**

2 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

3 A. My name is Stuart D. Tommerdahl. My business address is 215 S. Cascade Fergus Falls,  
4 MN 56537.

5

6 Q. BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR POSITION?

7 A. I am employed by Otter Tail Power Company (OTP or the Company) as Manager,  
8 Regulatory Administration.

9

10 Q. DID YOU PREPARE DIRECT TESTIMONY AND SUPPLEMENTAL DIRECT  
11 TESTIMONY IN THIS PROCEEDING?

12 A. Yes. On November 2, 2017, I filed my Direct Testimony in this proceeding, addressing  
13 the Company's revenue requirement and certain regulatory issues in this proceeding. On  
14 March 23, 2018, I filed Supplemental Direct Testimony discussing certain impacts that  
15 the 2017 Tax Cuts and Jobs Act (TCJA) had on the proration of accumulated deferred  
16 income taxes in OTP's revenue requirements for the 2018 Test Year and the Interim Test  
17 Year, as well as a proposed change for the recovery of one specific reagent at Coyote  
18 Station currently being recovered in base rates.

19

20 Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

21 A. My rebuttal testimony replies to the Direct Testimony of Mr. Ralph C. Smith and Dr.  
22 David E. Dismukes filed on behalf of North Dakota Public Service Commission (the  
23 Commission) Advocacy Staff (Staff), the Direct Testimony of Ms. Kavita Maini filed on  
24 behalf of the Midwest Large Energy Consumers Group (MLEC) and the Direct  
25 Testimony of Mr. Steve W. Chriss filed on behalf of Walmart Inc. (Walmart). I also  
26 provide updated information regarding OTP's CISone project.

1 **II. SUMMARY OF REBUTTAL TESTIMONY**

2 Q. PLEASE SUMMARIZE YOUR REBUTTAL TESTIMONY.

3 A. My Rebuttal Testimony addresses several contested issues and offers further explanation  
4 of the costs and proposals included in OTP’s request. Regarding the Company’s CISone  
5 project, I provide updated projections and address recovery timing. I will then address  
6 several issues raised regarding OTP’s proposed Generation Cost Recovery Rider. My  
7 testimony then provides further explanation for the reasonable inclusion of costs for  
8 investor relations, rate case expenses, aircraft expense, employee recognition, and  
9 economic development. Finally, I will respond to questions raised regarding OTP’s  
10 Energy Adjustment Rider, service quality, and baseload performance. I will also address  
11 several uncontested issues.

12 **III. CONTESTED ISSUES**

13 **A. CISone [MLEC-Maini; Staff-Smith]**

14 *1. CISone Normalization [MLEC-Maini]*

15 Q. WILL THE CISONE PROJECT BE IN SERVICE THE ENTIRE TIME CUSTOMERS  
16 PAY FINAL RATES DETERMINED IN THIS CASE?

17 A. Yes. I explained in my Direct Testimony that CISone will be placed into service before  
18 or concurrent with implementation of final rates in this case. The current schedule calls  
19 for CISone to be placed in-service on October 1, 2018, approximately the same time OTP  
20 estimates that final rates would become effective in this case.

21  
22 Q. DOES MS. MAINI RECOMMEND THE FULL COST OF THE CISONE PROJECT BE  
23 REFLECTED IN FINAL RATES?

24 A. No. Despite CISone being in service the entire time final rates are in effect, Ms. Maini  
25 recommends the project be reclassified as Construction Work in Progress (CWIP) to the  
26 extent the system is not operational in 2018 and prorate the revenue requirement for only  
27 the portion of 2018 that CISone is in-service.<sup>1</sup>

---

<sup>1</sup> Maini Direct, p. 6-7.

1 Q. WHY IS IT APPROPRIATE THAT OTP BE ALLOWED TO INCLUDE THE FULLY  
2 ANNUALIZED COST OF CISONE IN THE TEST YEAR?

3 A. As I noted above, we believe that the CISone system will be placed in-service  
4 simultaneously with the implementation of final rates in this case, meaning it will be used  
5 and useful for the entire period final rates are in effect. Also, CISone has a relatively  
6 short depreciable life of 10 years as compared to the majority of utility property that is  
7 depreciated over much longer time periods. If OTP does not file another rate case for 3  
8 years, 30 percent of the project will be depreciated before OTP would have the  
9 opportunity to fully include CISone in rates.

10

11 Q. WAS CISONE INCLUDED IN THE INTERIM TEST YEAR?

12 A. No. The CISone normalization adjustment was removed from the Interim Test Year  
13 through an interim rate adjustment<sup>2</sup> to reflect the fact that CISone was not yet in service  
14 and that customers would not be realizing the benefit of the system during the interim  
15 period. OTP's treatment of including no recovery of any CISone costs during the interim  
16 period, but then starting full recovery at the time final rates go into effect, aligns cost  
17 recovery with the start of CISone's useful life.

18

19 Q. DID ANY OTHER PARTY RECOMMEND ANY CHANGES TO OTP'S PROPOSAL  
20 TO INCLUDE CISONE IN FINAL RATES?

21 A. No. Mr. Smith reviewed OTP's proposal to include CISone in final rates and stated that  
22 he is not recommending any adjustments related to the CISone project at this time.<sup>3</sup>

23

24 Q. DOES OTP CONTINUE TO SUPPORT INCLUDING THE FULLY ANNUALIZED  
25 COST OF CISONE IN THE TEST YEAR?

26 A. Yes. OTP continues to recommend the Commission include the fully annualized cost of  
27 CISone in the 2018 Test Year. Ms. Maini's recommendation should not be adopted.

---

<sup>2</sup> Volume 1, Interim Supporting Schedules and Workpapers, Part B, Schedule 3, Column E.

<sup>3</sup> Smith Direct, p. 98.

2. Updated CISone Budget [Staff-Smith]

1 Q. DID MR. SMITH RECOMMEND OTP PROVIDE UPDATED CISONE COST  
2 INFORMATION?  
3

4 A. Yes. Mr. Smith recommended that OTP be required to report to Staff and the  
5 Commission on the actual cost of CISone when it is placed in service and to explain the  
6 reasons for any actual costs that are different than the \$14.8 million (OTP Total) cost,  
7 inclusive of AFUDC, associated rate base and operating expense amounts currently in the  
8 2018 Test Year.<sup>4</sup> OTP believes this is a reasonable request.  
9

10 Q. DO YOU HAVE ANY INFORMATION RELATED TO MR. SMITH'S  
11 RECOMMENDATION AT THIS TIME?

12 A. Yes. Through March of 2018, as noted in OTP's response to ND-PSC-19.04, the actual  
13 cash spend on the project was \$11.851 million (OTP Total). As of the end of May 2018,  
14 actual cash spend (before AFUDC) was approximately \$12.6 million (OTP Total).  
15 Including AFUDC, total project cost at the end of May 2018 was \$13.65 million (OTP  
16 Total). Based on current and updated projections of the remaining time and costs to  
17 complete integration, testing, and post go-live activities, the current projected cost  
18 through 2018 to complete the project (before AFUDC) is \$17.85 million (OTP Total).  
19 Including AFUDC, the total project cost for 2018 is approximately \$19.495<sup>5</sup> million  
20 (OTP Total). This amount reflects the current October 1, 2018 in-service date. This  
21 projection is consistent with a \$17.85 million projected amount (before AFUDC) that  
22 OTP's Board of Directors approved in early May 2018.  
23

24 Q. DID THE OTP BOARD OF DIRECTORS REVISE THE BUDGET FOR CISONE?

25 A. Yes. OTP's Board of Directors initially set the CISone project budget in 2015.<sup>6</sup> While  
26 the estimate established in 2015 set a reasonable target for the project, this important  
27 effort and what has been needed to design, implement, test, and integrate the new system

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<sup>4</sup> Smith Direct, p. 99.

<sup>5</sup> Akerman Rebuttal, Schedule 7.

<sup>6</sup> Included on pages 118-126 of Smith Direct, Exhibit RCS-2.

1 with all other OTP systems and associated business needs to support OTP's customer  
2 information needs across three jurisdictions comes with a high degree of complexity.  
3 The original estimate considered projects at other utilities that were upgrading from  
4 systems that are typically 10-15 years old and were out of the box solutions when  
5 installed. The complexity of upgrading our system, which by contrast, is 30 years old  
6 and requires a custom solution, became readily apparent as the project progressed further.  
7 As discussed in ND-PSC-19.04, the project has required more testing and integration  
8 work due to the architecture of the 30-year old legacy customer information system.

9  
10 Q. WHAT AMOUNT DID OTP ORIGINALLY INCLUDE IN THE 2018 TEST YEAR  
11 FOR CISONE?

12 A. As noted in my Supplemental Direct Testimony, OTP included CISone at a cost of \$14.8  
13 million (OTP Total) in the 2018 Test Year based on a schedule that contemplated a Q1  
14 2018 in-service date at the time this case was developed.

15  
16 Q. WHAT IS OTP'S RECOMMENDATION WITH REGARD TO THE REVISED  
17 CISONE BUDGET?

18 A. OTP believes that the updated project cost amount (before AFUDC) of \$17.85 million  
19 (OTP Total) is reasonable given the magnitude and scope of the CISone project. CISone  
20 will bring a long-overdue overhaul to our customer information system and add  
21 additional needed functionality, both internally for OTP employees and externally for  
22 OTP customers. As I noted earlier, however, a project of this size and scope comes with  
23 numerous complexities. Those challenges include getting the new system configured  
24 properly to integrate with all other systems, to meet OTP's business and service needs in  
25 all three of its jurisdictions and to provide adequate time to test all aspects of the system  
26 to ensure that customer bills will be correctly and efficiently calculated, presented, and  
27 accounted for.

1                   3.       *Cost Savings [MLEC-Maini]*

2   Q.    ARE ANY COST SAVINGS ASSOCIATED WITH THE TRANSITION TO CISONE  
3       REFLECTED IN THE 2018 TEST YEAR?<sup>7</sup>

4   A.    No. As explained in OTP’s response to ND-PSC-19.04:<sup>8</sup>

5                   OTP does not anticipate immediate cost savings from the system. In the  
6                   future we anticipate that the automation of many of the functions by the  
7                   new system will result in time savings over manual processes that exist  
8                   today. However, the system will add tasks for functions that the current  
9                   30-year old legacy system cannot perform today. Rather than drive cost  
10                  savings, the CISone project is intended to provide a modern platform for  
11                  services and conveniences that customers have grown to expect from their  
12                  service providers. For example, in the future, customers will realize more  
13                  options with rates, as the system is capable of interfacing with future  
14                  automated meter infrastructure (AMI). The system will also provide a  
15                  platform for an outage management system (OMS) to assist with outage  
16                  information and restoration times.

17  
18                  OTP has not yet seen the impacts of any cost changes with the  
19                  implementation of Cayenta Utilities. As described above, it is expected  
20                  that future technology projects, that are made possible by adding the  
21                  CISone platform, will give OTP the ability to drive organizational change  
22                  and subsequently provide efficiencies that don’t exist today.

23  
24                  OTP’s 1980s-vintage legacy system has no material book value remaining. No other cost  
25                  adjustments have been made in the 2018 Test Year.

26  
27   Q.    IF COST SAVINGS MATERIALIZE, WILL THAT MEAN OTP’S COST OF  
28       SERVICE GOES DOWN?

29   A.    Not necessarily. OTP has a maintenance contract with Cayenta related to the CISone  
30       system that requires annual payments of approximately \$200,000 (OTP Total). If cost  
31       savings are less than \$200,000 (OTP Total), then the cost of service would not  
32       necessarily go down.

---

<sup>7</sup> Maini Direct, p. 7.

<sup>8</sup> Smith Direct, p. 98; Exhibit RECS-2 Page 120 of 130, subparts i and j.

1 Q. DOES THE FACT THERE ARE NO IDENTIFIED COST SAVINGS MEAN THE  
2 CISONE PROJECT IS NOT REASONABLE?

3 A. No. OTP needs an enhanced, updated, capable and more flexible customer information  
4 system. The legacy customer information system is well beyond its useful life and  
5 needed to be replaced. Further, CISone will provide significant benefits and functionality  
6 to address the changes in technology and customer expectations that have occurred over  
7 the last 30 years, as discussed in my Direct Testimony.<sup>9</sup> Even without cost savings, the  
8 Company's CISone modernization effort is a reasonable and prudent investment.

9

10 **B. Rate Case Expense [Staff-Smith]**

11 Q. PLEASE DESCRIBE MR. SMITH'S BASIS FOR RECOMMENDING AN  
12 ADJUSTMENT TO RATE CASE EXPENSE.

13 A. Mr. Smith provides two reasons for his adjustment: (1) inclusion of external legal fees;  
14 and (2) excess consulting costs.<sup>10</sup>

15

16 Q. IS MR. SMITH CORRECT THAT THERE ARE NO EXTERNAL LEGAL SERVICES  
17 ASSOCIATED WITH THIS CASE?

18 A. No. OTP is utilizing both internal and external attorneys in this case.

19

20 Q. ARE THE EXTERNAL LEGAL SERVICES BEING PROVIDED BY THE SAME  
21 FIRM AS IN CASE NO. 08-862?

22 A. Yes.

23

24 Q. WHY IS OTP USING BOTH INTERNAL AND EXTERNAL RESOURCES IN THIS  
25 CASE?

26 A. There are two reasons. First, OTP's internal legal department is relatively small,  
27 consisting of three non-supervisory attorneys. Of those three attorneys, only two  
28 generally practice before regulatory commissions. Both of those attorneys are working

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<sup>9</sup> Tommerdal Direct, p. 17-18.

<sup>10</sup> Smith Direct, p. 53-55.

1 on this case, but they also continue to support other OTP legal needs, both regulatory  
2 (state and FERC), commercial, and general legal matters. OTP has responded to 507 data  
3 requests in this case, with over 1,200 subparts; we filed Direct Testimony from 12  
4 witnesses and are filing Rebuttal Testimony of 10 witnesses. Our external legal partners  
5 help our internal attorneys manage the workload of this case and other legal  
6 commitments.

7 Second, our external legal partners bring specialized knowledge and skill in  
8 regulatory matters, with a specific expertise in rate cases.

9  
10 Q. DOES THE CURRENT POSTURE OF THE CASE CONTRIBUTE TO EXTERNAL  
11 LEGAL FEES BEING HIGHER THAN THOSE OF CASE NO. 08-862?

12 A. Yes. In Case No. 08-862, Staff and OTP settled the return on equity (ROE), capital  
13 structure and overall rate of return (ROR) issues prior to the submission of Staff's  
14 consultants' Direct Testimony. In this case, Staff's consultant Mr. Aaron L. Rothschild  
15 has recommended a ROE that, if adopted, would be the lowest ROE awarded to a  
16 vertically integrated electric utility in the United States since at least 1980. OTP  
17 continues to contest the ROE issue in this case.

18 Staff's consultants have also recommended an overall rate increase of 0.61  
19 percent, as compared to OTP's Rebuttal Testimony increase of 6.91 percent.<sup>11</sup> This is  
20 very different than Case No. 08-862 where Staff's consultants recommended an increase  
21 of 4.17 percent as compared to the Company's requested increase of 5.14 percent.<sup>12</sup> And  
22 in Case No. 08-862, Staff's consultant generally agreed with OTP's rate design, unlike  
23 the testimony of Dr. David E. Dismukes in this case.<sup>13</sup> The fact that so many issues were  
24 contended by Staff's consultants in this case requires response, which involves utilizing  
25 legal resources.

26 The general alignment between OTP's positions and the testimony of Staff's  
27 consultants in Case No. 08-862 resulted in a comprehensive settlement before OTP

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<sup>11</sup> Smith Direct, p. 9; Ice Rebuttal, p.7.

<sup>12</sup> Case No. 08-862, Majoros Direct, Schedule 1.

<sup>13</sup> Case No. 08-862, King Direct, p. 5-6.

1 submitted rebuttal testimony. Reaching a settlement at that point also allowed for a  
2 streamlined evidentiary hearing, all of which contributed to the actual external legal costs  
3 of Case No. PU-08-862.

4 Finally, as noted in OTP's response to ND-PSC-01.9, included as  
5 Exhibit\_\_\_(SDT-3), Schedule 1, actual external legal costs in Case No. PU-08-862  
6 benefited from work from recently completed South Dakota and Minnesota rate cases.  
7

8 Q. ARE OUTSIDE LEGAL EXPENSES IN THIS CASE ALSO LOWER DUE TO WORK  
9 PERFORMED IN OTP'S RECENT RATE CASES?

10 A. Yes. As noted in OTP's response to ND-PSC-01.9 and amended response to ND-PSC-  
11 15.26, included as Exhibit\_\_\_(SDT-3), Schedule 2, much of the work of preparing the  
12 Minnesota case offset additional legal expenses that would otherwise have been required  
13 to file this case in North Dakota. For example, OTP requested the Internal Revenue  
14 Service issue a Private Letter Ruling to determine the appropriate proration of  
15 Accumulated Deferred Income Taxes and the IRS's decision is being applied to this  
16 North Dakota case. The legal costs associated with this request were significant and are  
17 benefiting this North Dakota filing.  
18

19 Q. HOW MANY OUTSIDE CONSULTANTS HAS OTP UTILIZED IN THIS CASE?

20 A. OTP has engaged two outside consultants, Mr. Robert B. Hevert regarding OTP's overall  
21 ROR and ROE and Ms. Amparo Nieto regarding OTP's marginal cost study. Mr. Hevert  
22 filed Direct Testimony in this case, while Ms. Nieto prepared the marginal cost study that  
23 was included as Exhibit\_\_\_(DGP-1), Schedule 2 to the Direct Testimony of OTP witness  
24 Mr. David G. Prazak.<sup>14</sup> Both Mr. Hevert and Ms. Nieto have responded to data requests  
25 or assisted in the preparation of answers to data requests and both are filing Rebuttal  
26 Testimony.

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<sup>14</sup> Prazak Direct, p. 4 ("OTP engaged Ms. Amparo Nieto of NH Regulatory Consulting, LLC to develop a marginal cost study covering the period 2018-2022 applicable to service in our three jurisdictions (the 2018 Marginal Cost Study).").

1 Q. ARE THE COSTS ASSOCIATED WITH SERVICES PROVIDED BY MR. HEVERT  
2 AND MS. NIETO PART OF THE RATE CASE EXPENSE IN THIS CASE?

3 A. Yes. Costs associated with the services of Mr. Hevert and Ms. Nieto are included in the  
4 Administrative Costs, Consultants, etc. line item of workpaper TY-02. As noted in OTP's  
5 response to ND-PSC-16.01,<sup>15</sup> the 2018 Test Year costs of the services provided by Mr.  
6 Hevert and Ms. Nieto were equal to the costs for similar services provided in Case No.  
7 PU-08-662.

8  
9 Q. SHOULD THE COMMISSION ADOPT MR. SMITH'S ADJUSTMENT FOR RATE  
10 CASE EXPENSE?

11 A. No. Mr. Smith's adjustment is predicated on an incorrect understanding of the external  
12 services being utilized by OTP in this case (i.e. external legal and Ms. Nieto).<sup>16</sup> His  
13 reliance on costs from Case No. PU-08-862 is misplaced given the radically different  
14 position taken by Staff's consultants in this case and the volume of data requests. OTP's  
15 2018 Test Year rate case expense remains reasonable and should be adopted.

16

17 **C. Corporate Aircraft [Staff-Smith]**

18 Q. WHY DOES OTP OWN AN AIRCRAFT?

19 A. OTP's service territory spans approximately 70,000 square miles. The majority of the  
20 service territory is rural and has no commercial air service. Also, OTP operates in three  
21 states and needs to attend regulatory hearings and business meetings in a time efficient  
22 manner. OTP's aircraft helps OTP employees fulfill these business obligations in an  
23 efficient manner.

24

25 Q. DOES OTP SEPARATELY BUDGET CORPORATE AIRCRAFT EXPENSE?

26 A. No. Each cost center and department establishes its own travel budget for the coming  
27 year. These budgets are based on the events requiring travel. At the time budgets are  
28 established, the cost centers and departments will not know if the corporate aircraft will

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<sup>15</sup> Included in Smith Direct, Exhibit RCS-2, p. 117.

<sup>16</sup> Smith Direct, p. 53-54.

1 be available on the day of the specific travel event. Therefore, the budget is not  
2 developed based upon the per-use cost of the corporate aircraft, but rather by examining  
3 the number of projected travel events and historical actual travel expense, which may  
4 include use of the corporate aircraft.  
5

6 Q. WHAT IS THE 2018 TEST YEAR BUDGETED TRAVEL EXPENSE?

7 A. The 2018 Test Year includes \$5.25 million (OTP ND) of travel expense. The vast  
8 majority of the cost includes the cost of OTP's vehicle fleet for service representatives,  
9 line crews and service personnel. Travel expense also includes other typical employee  
10 travel expenses such as lodging, parking, taxi's/shuttles and commercial airfare. Though  
11 not budgeted directly, it also inherently includes the cost of the corporate aircraft since  
12 the underlying travel budgets draw upon historical data and the historical data includes  
13 corporate aircraft expense.  
14

15 Q. IS IT POSSIBLE TO UNDERSTAND THE SCOPE OF AIRCRAFT EXPENSE  
16 INCLUDED IN THE BUDGETED TRAVEL EXPENSE?

17 A. Yes. The best approximation is the costs incurred in the prior year.  
18

19 Q. HOW MANY FLIGHTS WERE MADE BY OTP IN 2017?

20 A. In 2017, OTP took 71 flights. Flights in 2018 are expected to be similar to 2017 flights in  
21 number and destination.  
22

23 Q. WHAT WERE THE DESTINATIONS FOR THE MAJORITY OF THE FLIGHTS IN  
24 2017 AND FOR WHAT PURPOSE?

25 A. The plane is predominately used to participate in regulatory proceedings and other  
26 meetings. Fifty-two percent (37 of 71) were to the three state capitals. Eighteen of the  
27 flights were to Bismarck, North Dakota, for various hearings and meetings. Fourteen of  
28 the flights were to St. Paul, Minnesota for various matters. Five were to Pierre, South  
29 Dakota.

1 Q. WHY IS THE PLANE USED FOR REGULATORY PURPOSES SO OFTEN?

2 A. Typically, a number of managerial-level employees and in many cases subject matter  
3 experts are needed for regulatory hearings/meetings. In our experience, providing  
4 Commissioners and other regulators access to such personnel is beneficial to an  
5 understanding of our business. When the plane is used, these employees can attend the  
6 regulatory matter and be back in the office the same day. Driving to Bismarck is  
7 approximately an eight hour round trip for OTP personnel living or working in Fergus  
8 Falls. St. Paul is approximately a six hour round trip by car and Pierre is approximately a  
9 ten hour round trip by car. Use of the plane can avoid overnight stays or multiple days of  
10 driving. Flying can thus avoid marginal driving costs as well as reducing the burden on  
11 employees of being away from home longer by minimizing time on the road. The general  
12 idea of having multiple regulatory-focused employees spending large parts of their days  
13 or even entire days, on both ends of a required trip to a state capital, just driving is both  
14 inefficient and wasteful of these important human resources. We have a rigorous process  
15 and evaluation criteria for making sure the air travel is necessary or otherwise justified  
16 under particular case-by-case circumstances. It is net beneficial in those circumstances to  
17 allow for the use of the plane.

18

19 Q. IS COMMERCIAL AIR SERVICE AVAILABLE WITHIN OTP'S SERVICE  
20 TERRITORY?

21 A. Commercial air service is not available from OTP's headquarters in Fergus Falls. In  
22 North Dakota, the only towns with commercial air service available to travel within the  
23 service territory are Fargo and Grand Forks. Flights from Minot and Devils Lake are only  
24 to and from Denver. Within OTP's Minnesota service territory, the FAA lists commercial  
25 air service is available at Bemidji and Thief River Falls, both well over two hours away  
26 from Fergus Falls. Both only offer flights to and from Minneapolis. Commercial air  
27 travel is not available in the Company's South Dakota service territory.

1 Q. DOES THIS IMPACT REALISTIC TRAVEL OPTIONS?

2 A. Yes. Mr. Smith contends that commercial flights are cheaper than using the plane.<sup>17</sup> But  
3 the commercial flights identified by Mr. Smith are not realistic travel options. As shown  
4 in Table 1 below, the airports identified by Mr. Smith all involve significant drive time  
5 just to start the process of flying. Then, because the airports identified by Mr. Smith are  
6 all regional in nature, the overall travel time is extensive.

7 Table 1  
8 Assessment of Smith Airports

Airport	Round Trip Drive Time From Fergus Falls	Flight to Vancouver, BC	Total Trip
Bemidji, MN	5.0 Hours	7.5 Hours <sup>18</sup>	12.5 Hours
Brainerd, MN	4.0 Hours	8.0 Hours <sup>19</sup>	12.0 Hours
Duluth, MN	8.0 Hours	5.5 Hours <sup>20</sup>	13.5 Hours
Hibbing, MN	8.0 Hours	8.25 Hours <sup>21</sup>	16.25 Hours

9

10 Q. WHO CAN USE THE OTP AIRCRAFT?

11 A. Any OTP employee with the authorization of their supervisor can request use of the plane  
12 and complete the cost justification. Additionally, Otter Tail Corporation and its other  
13 subsidiaries can use the OTP plane.

14

15 Q. WHY SHOULD EMPLOYEES OF OTTER TAIL CORPORATION BE ALLOWED  
16 TO UTILIZE THE PLANE?

17 A. Sharing the plane with Otter Tail Corporation creates efficiency that benefits OTP's  
18 ratepayers. Use of the plane by Otter Tail Corporation reduces the fixed costs allocated to  
19 the utility.

---

<sup>17</sup> Smith Direct, p. 29.

<sup>18</sup> Departing June 24, 2018, Delta flight DL 7370 with connections in Minneapolis and Seattle. DL 3730 departs Bemidji at 5:10 a.m.; with drive time, would likely require overnight stay in Bemidji.

<sup>19</sup> Departing June 24, 2018, Delta flight DL 7423 with a connection in Minneapolis.

<sup>20</sup> Departing June 24, 2018, Delta flight DL 4857 with a connection in Minneapolis.

<sup>21</sup> Departing June 24, 2018, Delta flight DL 7404 with a connection in Minneapolis.

- 1 Q. HOW ARE COSTS SHARED BETWEEN OTTER TAIL CORPORATION AND OTP?  
2 A. While the plane is owned by OTP, the pilots are employees of Otter Tail Corporation and  
3 the plane is scheduled by administrative staff of Otter Tail Corporation. At the end of  
4 each year, costs that are not offset by direct billings are allocated between Otter Tail  
5 Corporation and OTP based on number of flights in a year.  
6  
7 Q. WHICH ENTITY IS RESPONSIBLE FOR SCHEDULING USE OF THE PLANE?  
8 A. The plane is owned by OTP, but staff of Otter Tail Corporation are responsible for  
9 scheduling the plane's use and capturing all costs of flights in a given year.  
10  
11 Q. WHAT WERE THE TOTAL COSTS OF THE PLANE FOR 2017?  
12 A. The total 2017 cost of the plane was \$526,339.<sup>22</sup> The total cost includes pilot salaries,  
13 repairs, fuel, hanger rental, pilot education and other miscellaneous costs.  
14  
15 Q. HOW WERE THOSE TOTAL COSTS ALLOCATED TO THE USERS OF THE  
16 PLANE?  
17 A. The first step is direct billing: every flight is billed to the entity using the plane at a cost  
18 of \$750/hour. In 2017, \$174,224 was directly billed to the entities using the plane.<sup>23</sup> After  
19 accounting for direct billings, the remaining \$352,115 of total cost was allocated to OTP  
20 and other users of the plane based on number of flights. Since about 30 percent of the  
21 flights were taken by entities other than OTP, \$105,170 was allocated to non-utility  
22 entities: the remaining \$246,945 was allocated to OTP.

---

<sup>22</sup> This information was originally supplied in response to ND-PSC-16.05 and was included in Smith Direct, p. 25.

<sup>23</sup> Flights are directly billed at \$750/hour.

1  
2

Table 2  
Summary of 2017 Aircraft Costs

<b>Description</b>	<b>Amount</b>
Pilot Salaries (loaded labor)	\$301,868
Plane Repairs	\$74,238
Fuel	\$106,889
Rental of Hanger	\$10,800
Pilot Education	\$24,710
Miscellaneous	\$7,834
<b>Total</b>	<b>\$526,339</b>
Less: Billings for Direct Usage of Plane	(\$174,224)
<b>Total Costs of Plane</b>	<b>\$352,115</b>
Less: Non-Utility Usage	(\$105,170)
<b>Billing to OTP (OTP Total)</b>	<b>\$246,945</b>

3

4 Q. HAS OTP PREPARED A COST/BENEFIT ANALYSIS MORE FORMALLY  
5 EXAMINING THE COSTS AND BENEFITS OF AIRCRAFT OWNERSHIP?

6 A. Yes. OTP prepared a cost/benefit analysis using actual trip records from 2017, as detailed  
7 in ND-PSC-06.08, included at Exhibit RCS-2, at page 17. As further explained below,  
8 OTP's cost/benefit analysis compares the total flight costs against the total costs of  
9 driving. OTP's cost/benefit analysis found that driving costs for the 71 flights in 2017  
10 would have been \$417,470 (Total) if the aircraft had not been used. Alternatively, the  
11 total flying cost for 2017 was \$400,872 (Total), which includes the variable costs of each  
12 trip and the portion of the total fixed costs allocated to OTP. This analysis shows that  
13 owning and operating aircraft provides a benefit of at least \$16,598 (Total).

14

15 Q. ARE THERE ADDITIONAL COSTS ASSOCIATED WITH DRIVING NOT  
16 CAPTURED IN THE COST/BENEFIT ANALYSIS?

17 A. Yes. There are additional costs of driving that are not included in this quantification that  
18 would increase the benefit of owning the plane. Such costs include additional fleet  
19 vehicles that would be needed, additional staff that would be required, and incidental  
20 costs such as meals that would be incurred by lengthening travel time. There are also  
21 significant safety advantages to keeping employees off roadways, particularly for long  
22 duration trips.

1 Q. HOW WAS THE COST/BENEFIT ANALYSIS PERFORMED?

2 A. OTP created a model to determine whether using the company-owned plane is cost  
3 justified for each trip, as compared to driving. This model compares the costs for each  
4 form of transportation for each trip. The cost/benefit analysis was completed by entering  
5 the 71 flights taken by OTP in 2017 into the OTP model, the fly vs drive tool, to compare  
6 the total flying and driving cost required by the trip. The assumptions were that meetings  
7 would last an average of three hours and if, including travel time, any trip was over 10  
8 hours, the cost of one night at a hotel would be added. Productive time was calculated  
9 using the total hours required by either driving or flying multiplied by the number of  
10 travelers. The fly vs drive tool also incorporates an estimate of the value of the time  
11 required by flying or driving.

12

13 Q. WHERE DID OTP GET THE IDEA TO USE A “FLY VS DRIVE” TOOL?

14 A. The Company’s fly vs drive tool is originally based on a similar tool used by the State of  
15 Minnesota for its employees to make travel arrangements. Specifically, the State of  
16 Minnesota’s Department of Transportation (DOT) uses a fly vs drive tool to help state  
17 employees determine whether it is more economical to use a state plane for transportation  
18 instead of driving.

19

20 Q. HOW SIMILAR IS OTP’S FLY VS DRIVE TOOL TO THE ONE THE MINNESOTA  
21 DOT USES?

22 A. OTP started with a tool identical to the one used by Minnesota DOT and made some  
23 modifications to the assumptions the Minnesota DOT model uses to match OTP  
24 operations. The model used by Minnesota DOT calculates driving costs based on the  
25 Internal Revenue Service’s (IRS) mileage reimbursement rate whereas OTP’s model  
26 calculates driving costs based on actual fleet costs, which are less than the IRS’s rate.  
27 Also, the OTP model calculates flying costs on a rate per hour, while the Minnesota DOT  
28 model uses a rate per mile. OTP chose to use a cost per hour because the aircraft is billed  
29 on a per hour basis. Both models use the variable costs of the aircraft to determine the  
30 rate. Examples of variable costs are gas, oil, repairs, etc.

1 Q. HOW IS TRAVEL TIME VALUED IN OTP’S FLY VS DRIVE TOOL AND IN THE  
2 MINNESOTA DOT’S TOOL?

3 A. Within both the OTP and Minnesota DOT models, in addition to fuel and maintenance  
4 costs there are time-related costs applied to driving. These values are not applied to the  
5 cost of flying because the aircraft is viewed as a secure office environment where work  
6 can be accomplished. Thus, the time spent flying is not considered lost productivity. OTP  
7 uses the same method as the Minnesota DOT to calculate the hourly values of employee  
8 work time for the time spent driving. The calculation uses the average hourly value for  
9 certain job levels. The rates were determined through studies by PRC Aviation and  
10 Minnesota DOT.

11  
12 Q. IS IT APPROPRIATE TO INCLUDE THE VALUE OF EXEMPT EMPLOYEE TIME  
13 IN THE COST OF DRIVING WHEN MAKING THIS COMPARISON?

14 A. Yes. All employees have a finite amount of time available. There is real value to the time  
15 of our employees, even if hourly wages are not avoided. For example, an exempt  
16 employee flying can still be performing their day-to-day tasks during the trip; that same  
17 employee cannot be performing their day-to-day tasks while driving. This additional  
18 productivity needs to be captured in order to assess the true cost of flying and driving.

19  
20 Q. PLEASE DESCRIBE THE MEANING OF “FLIGHT CREW EXPENSES” AS NOTED  
21 IN THE FLIGHT INVOICES?

22 A. Mr. Smith states that a significant portion of the invoiced amounts for particular trips  
23 relate to flight crew expenses.<sup>24</sup> While there may be a more fitting label, the costs that are  
24 captured under this category are the hourly billing of flight hours at \$750/hour. There is  
25 good cause for this to be a significant portion of the bill.

---

<sup>24</sup> Smith Direct, p. 27-28.

1 Q. DO YOU AGREE WITH MR. SMITH'S ADJUSTMENT TO OTP'S AIRCRAFT  
2 EXPENSE?

3 A. No. As described above, OTP operates within three states across a 70,000 square mile  
4 service territory and utilizes its aircraft for necessary business travel, often to reach our  
5 state regulators. Commercial air travel is not reasonably available for this purpose.

6 Actual data from 2017 demonstrates that OTP's use of corporate aircraft is  
7 cheaper than alternatives. Further, OTP justifies each trip by conducting a cost/benefit  
8 analysis using a method approved and employed by one of the states in which we operate.  
9 All of OTP's aircraft expenses are appropriate and necessary; there is no basis for an  
10 adjustment.

11

12 **D. Investor Relations [Staff-Smith]**

13 Q. WHAT IS THE 2018 TEST YEAR AMOUNT OF INVESTOR RELATIONS  
14 EXPENSE?

15 A. The total 2018 budget for Otter Tail Corporation Investor Relations is \$692,893 as  
16 reflected in the Table 3 below:

17

Table 3

2018 Investor Relations Costs			ND Share
Allocated to OTP	\$412,615	59.6%	<b>\$167,148</b>
Allocated to non-utility	\$280,278	40.4%	
Total Corporate Cost	<b>\$692,893</b>	100.0%	

18

19 OTP's share is \$412,615 or approximately 59.6 percent. The remaining 40.4 percent  
20 (\$280,278) is allocated to non-utility operations. The North Dakota share of OTP's  
21 allocated costs is \$167,148 which represents only 24.12 percent of the total corporate  
22 Investor Relations costs. Thus, OTP's North Dakota customers pay a relatively small  
23 portion of the total Investor Relations expense. Mr. Smith's proposal to disallow 50  
24 percent of the North Dakota share, or \$83,574, reduces the amount of Investor Relations  
25 expense included in rates to only 12.1 percent of total Investor Relations costs.

26 I would also note that Investor Relations fulfills the required administrative  
27 activities associated with being a publicly traded company and are appropriately included

1 in the cost of service. Such functions include payment of dividends, coordinating  
2 dividend reinvestments, annual reports, shareholder recordkeeping, required annual  
3 meetings and Securities and Exchange Commission compliance.  
4

5 Q. IS THERE ANY BASIS FOR DISALLOWING 50 PERCENT OF INVESTOR  
6 RELATIONS EXPENSE?

7 A. No. There is no basis for the arbitrary 50 percent disallowance.  
8

9 Q. HAVE INVESTOR RELATIONS COSTS BEEN DISALLOWED IN ANY OF OTP'S  
10 PRIOR NORTH DAKOTA RATE CASES?

11 A. No. There has been no disallowance for Investor Relations expense in OTP's prior North  
12 Dakota rate cases. I also note that Staff's consultant in our last North Dakota rate case  
13 made no recommended disallowance for investor relations expense.<sup>25</sup>  
14

15 Q. HOW DO INVESTOR RELATIONS ACTIVITIES BENEFIT RATEPAYERS?

16 A. OTP is in the midst of a significant period of capital spending, as discussed in Mr.  
17 Gerhardson's Direct Testimony.<sup>26</sup> Investor Relations helps the Company effectively  
18 compete for capital and provides feedback to our management, while also educating the  
19 investment community about the risks, rewards, and performance inherent in our equity  
20 and debt securities. The work of the Investor Relations group involves developing and  
21 supporting strong relationships with both the debt and equity capital markets for purposes  
22 of raising the necessary funds to support the Company's capital funding needs. Since  
23 2014 and forecasted through 2022, 100 percent of equity raised by Otter Tail Corporation  
24 is expected to be passed down to OTP to fund capital expenditures which are being made  
25 on behalf of ratepayers. So, Investor Relation's ability to maintain strong relationships  
26 with the investment community ensures that our stock is fairly valued.

27 In addition to raising equity, Investor Relations efforts are spent on maintaining  
28 solid credit ratings for OTP, which reduces the cost of our debt and is a direct benefit to

---

<sup>25</sup> Case No. PU-08-862, Majoros Direct (Apr. 2009).

<sup>26</sup> Gerhardson Direct, p. 6-7.

1 ratepayers. OTP witness Mr. Kevin G. Moug explains in his Rebuttal Testimony that the  
2 ROE recommendation of Mr. Aaron L. Rothschild would have negative impacts on  
3 OTP's ability to raise debt at favorable prices, increasing the importance of the work  
4 done by Investor Relations. OTP's cost to serve its customers relies equally on both  
5 markets to provide adequate funding. Each source of funding has a cost associated with  
6 securing and administering that funding.

7 These informational and relationship functions, coupled with shareholder  
8 relationships, help OTP obtain the most cost-effective financing, thereby evidencing a  
9 clear impact on the Company's revenue requirement.

10  
11 Q. HOW DOES THE ALLOCATION OF 59.6 PERCENT OF INVESTOR RELATIONS  
12 COSTS COMPARE WITH THE RATIO OF UTILITY/NON-UTILITY CAPITAL  
13 SPENDING OVER THE NEXT 5 YEARS?

14 A. OTP's capital spend from 2018 – 2022 is currently forecast to be approximately \$901  
15 million, or 93 percent of the total corporation's \$973 million capital budget.<sup>27</sup> While cash  
16 flows from current operations will provide some funding for those expenditures, OTP  
17 will require both additional debt and equity funding during this time-frame. The efforts of  
18 the Investor Relations group over this time period will be heavily weighted on the needs  
19 of the utility.

20  
21 Q. IF OTP WERE A STANDALONE PUBLICLY HELD UTILITY, WOULD THE  
22 FUNCTIONS AND RELATED COSTS OF AN INVESTOR RELATIONS GROUP  
23 FOR THAT UTILITY BE MATERIALLY DIFFERENT?

24 A. No. OTP ratepayers would be responsible for 100 percent of the Investor Relations costs  
25 because none of these costs would go away. They are ordinary costs for a publicly traded  
26 company.

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<sup>27</sup> Otter Tail Corporation 2017 Year End Earnings Conference Call, February 13, 2018, p. 19, available at <http://www.ottertail.com/file/4057017/Index?KeyFile=1500107553>.

1 Q. DID THE ADMINISTRATIVE LAW JUDGE IN OTP’S MOST RECENT  
2 MINNESOTA RATE CASE RECOMMEND 100 PERCENT RECOVERY OF  
3 ALLOCATED INVESTOR RELATIONS COSTS?

4 A. Yes. The Administrative Law Judge in that case stated the following:

5 406. ... blunt exclusion of half of properly-incurred costs, is inappropriate.  
6 Particularly so because the public, through its regulation of utility service,  
7 will attribute a very specific level of equity capital to OTP with the  
8 expectation that this amount will be assembled by the Company from the  
9 securities market. When the Commission sets a particular capital structure  
10 for a utility, on the grounds that the utility’s property is “devoted to public  
11 use,” the Commission should apply a reasonableness standard with respect  
12 to the costs of obtaining the capital that it has required.

13  
14 408..... Investor relations activities benefit ratepayers by ensuring that:  
15 OTP can meet the capital requirements set by the Commission, that its  
16 stock is fairly valued and that OTP maintains solid credit ratings – all of  
17 which reduce the cost of debt.

18  
19 415. The Administrative Law Judge recommends that the Commission  
20 permit OTP to recover 100 percent of the Minnesota share of investor  
21 relations expenses allocated to OTP by Otter Tail Corporation for the 2016  
22 Test Year.<sup>28</sup>

23  
24 Q. WHAT IS OTP’S RECOMMENDATION WITH REGARD TO INVESTOR  
25 RELATIONS COSTS?

26 A. When comparing the ratio of utility to non-utility investment (93 percent utility/ 7 percent  
27 non-utility) planned over the next five years with the current allocation of investor  
28 relations costs (60 percent utility / 40 percent non-utility), OTP believes the current  
29 utility/non-utility allocation of investor relations costs is a more than reasonable  
30 allocation of costs between rate payers and shareholders. OTP continues to request full  
31 recovery of the \$167,148 (OTP ND) share of these costs.

---

<sup>28</sup>MPUC Docket No. E017/GR-15-1033, ALJ Report Dated January 5, 2017, ¶¶ 406, 408, 415.

1           **E.       Economic Development [Staff-Dismukes]**

2    Q.    HAS OTP PROPOSED A SERIES OF INITIATIVES IN THIS CASE DESIGNED TO  
3    ENHANCE ECONOMIC ACTIVITY IN NORTH DAKOTA?

4    A.    Yes. We have presented a variety of initiatives in this case that are intended to stimulate  
5    economic activity in North Dakota. These include the Super Large General Service  
6    (SLGS) rate offering, cost-based rates and spending on economic development. We also  
7    have a pending request in Case No. PU-17-238 for a special Economic Development  
8    Rider (EDR).

9  
10   Q.   DID DR. DISMUKES SUPPORT ANY OF THESE INITIATIVES DESIGNED TO  
11   STIMULATE GROWTH IN NORTH DAKOTA?

12   A.    No. Dr. Dismukes recommends the Commission reject the SLGS rate offering, the  
13   proposed economic development spending and OTP’s rate design for the General Service  
14   and Large General Service classes.<sup>29</sup>

15  
16   Q.    ARE YOU CONCERNED THAT DR. DISMUKES DOES NOT ADEQUATELY  
17   APPRECIATE THE IMPORTANCE OF ENHANCING ECONOMIC ACTIVITY IN  
18   NORTH DAKOTA?

19   A.    Yes. I explained in my Direct Testimony that OTP serves a sparsely populated, rural part  
20   of North Dakota that is seeing no population growth<sup>30</sup> and even some cases of population  
21   decline.<sup>31</sup> These demographics are in part due to the lack of job opportunities. Our  
22   economic development efforts are aimed at increasing job opportunities within our  
23   communities to stem the tide of the migration out of our rural service territory. That out-  
24   migration is particularly impactful when it is the young families and college-educated  
25   citizens that are leaving. We believe there is a real and present interest for those who live  
26   in rural areas to have the resources, infrastructure, tax base and professionals that it takes  
27   to sustain a community. Good jobs are the top of the list, and that is inextricably tied to

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<sup>29</sup> Dismukes Direct, p. 80-83, 108, 111.

<sup>30</sup> Tommerdahl Direct, p. 38. *See also* Draxten Direct, p. 4-7; Gerhardson Direct, p. 9.

<sup>31</sup> Figure 2 Draxten’s Direct Testimony shows that many of the counties OTP serves have experienced population loss since 2010.

1 economic development. Dr. Dismukes makes no allowance for the importance of  
2 economic development to the citizens of North Dakota and the future health of OTP.  
3 Rather, he argues the Commission should be concerned with energy efficiency and  
4 distributed generation.<sup>32</sup>

5  
6 Q. IS THERE ANY DATA INDICATING THAT ADDITIONAL FOCUS ON  
7 ECONOMIC DEVELOPMENT MAY BE APPROPRIATE AT THIS TIME?

8 A. Yes. OTP has the 4<sup>th</sup> lowest blended rate for all customers in the United States, and the  
9 lowest of any investor-owned utility in North Dakota.<sup>33</sup> But the benefits of those low  
10 rates are not shared equally between Residential and business customers, as noted by Ms.  
11 Maini.<sup>34</sup> OTP witness Ms. Gina S. Ice explains that OTP's proposed revenue allocation  
12 attempts to spread the benefits of OTP's low rates more equitably. Additional focus on  
13 economic development can be another way to stimulate economic growth in North  
14 Dakota.

15  
16 Q. DOES DR. DISMUKES SET UP AN IMPOSSIBLE TEST FOR THE RECOVERY OF  
17 ECONOMIC DEVELOPMENT EXPENSES?

18 A. Yes. According to Dr. Dismukes, OTP needs to show a companion rate reduction benefit  
19 before it can recover economic development expenses.<sup>35</sup> The rate reduction benefit that  
20 occurs from economic development is spreading the cost of service across more  
21 customers and sales.<sup>36</sup> Yet, the economic development expenses (and other proposals)  
22 that Dr. Dismukes criticizes are precisely the mechanisms that are to be used to pursue  
23 those additional customers and sales. Dr. Dismukes creates a chicken-and-egg test that  
24 should not be accepted by the Commission.

---

<sup>32</sup> Dismukes Direct, p. 61.

<sup>33</sup> Tommerdal Direct, p. 42.

<sup>34</sup> Maini Direct, p. 11-14.

<sup>35</sup> Dismukes Direct, p. 108.

<sup>36</sup> Tommerdahl Direct, p. 43.

1 Q. CAN YOU PROVIDE AN EXAMPLE OF THE RATE REDUCTION BENEFITS  
2 ASSOCIATED WITH SUCCESSFUL ECONOMIC DEVELOPMENT ACTIVITIES?

3 A. Yes. As discussed above, the rate reduction benefit that occurs from economic  
4 development is spreading the cost of service across more customers and sales. For  
5 example, a rider with a \$5 million annual revenue requirement spread over 1,200,000,000  
6 of annual kWh sales would result in a rate of \$0.0042/kWh. If OTP's economic  
7 development efforts resulted in the addition of a 25 MW, 80 percent load factor customer,  
8 that would result in an additional 175,200,000 kWh of sales on an annual basis.  
9 Spreading the \$5 million annual revenue requirement over 1,375,200 kWhs results in a  
10 rate of \$0.0036/kWh. The pre-existing customers would pay \$4.36 million  
11 (1,200,000,000 kWh \* \$0.0036/kWh) of the \$5 million revenue requirement, saving  
12 approximately \$636,000.

13  
14 Q. DO YOU HAVE ANY INFORMATION REGARDING THE VALUE OF JOBS  
15 SAVED OR ADDED IN NORTH DAKOTA?

16 A. Yes. The State of North Dakota Executive Budget for the 2017-2019 Biennium<sup>37</sup> noted  
17 that the Office of the Governor “[c]ontinued to focus on economic development  
18 opportunities that have paid dividends for the people of North Dakota.” That same  
19 document states:

20 More and more tech companies like Evolution1 and NISC are hiring and  
21 expanding their footprints in North Dakota. Today, our tech industry  
22 payroll has grown to more than \$1.00 billion a year, providing an average  
23 wage of \$79,500.  
24

25 Q. DOES OTP CONTINUE TO SUPPORT THE RECOVERY OF ECONOMIC  
26 DEVELOPMENT EXPENSES IN THE 2018 TEST YEAR?

27 A. Yes. We want to play our part in economic development strategies for North Dakota.

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<sup>37</sup> <https://www.nd.gov/omb/sites/omb/files/documents/agency/financial/state-budgets/docs/budget/executivebudgetsummary2017-19.pdf>.

1 **F. Generation Cost Recovery Rider [MLEC-Maini; Staff-Dismukes; Walmart-**  
2 **Chriss]**

3 *1. The GCRR is reasonable and appropriate. [Staff-Dismukes; Walmart-*  
4 *Chriss]*

5 Q. WHAT IS THE PURPOSE OF THE GENERATION COST RECOVERY RIDER?

6 A. As explained in my Direct Testimony,<sup>38</sup> OTP is requesting the Commission authorize the  
7 Generation Cost Recovery Rider (GCRR) in order to allow for timely recovery of costs  
8 associated with the proposed Astoria Project.

9  
10 Q. IS THE ASTORIA PROJECT PART OF A LARGER PLAN TO MEET OTP'S  
11 FUTURE RESOURCE NEEDS?

12 A. Yes. OTP developed a two-part plan for meeting its future load serving obligations. The  
13 Astoria Project was targeted to provide low-cost capacity and dispatchable energy. OTP  
14 also is pursuing the 150 MW Merricourt wind generation facility (Merricourt Project),  
15 located near Merricourt, North Dakota, to provide low-cost energy and preserve a  
16 diversified mix of generation resources.<sup>39</sup>

17  
18 Q. HAS THE COMMISSION GRANTED AN ADVANCED DETERMINATION OF  
19 PRUDENCE FOR THE ASTORIA PROJECT AND THE MERRICOURT PROJECT?

20 A. Yes. The Commission's November 3, 2017 Order on Settlement in Case Nos. PU-17-  
21 140, PU-17-141 and PU-17-143 approved a settlement between OTP and Staff that: (1)  
22 the Astoria Project is reasonable and prudent at a total capital expenditure cost of up to  
23 \$181.5 million (OTP Total),<sup>40</sup> which is 10 percent above OTP's estimated cost of the  
24 project;<sup>41</sup> and (2) that the Merricourt Project is reasonable and prudent up to an identified  
25 total capital expenditure cost.

---

<sup>38</sup> Tommerdahl Direct, p. 22.

<sup>39</sup> Case No. PU-17-140, Draxten Direct, p. 2.

<sup>40</sup> AFUDC is not counted towards the \$181.5 million.

<sup>41</sup> Case No. PU-17-140, Heidell Direct, p. 6.

1 Q. DID THE SETTLEMENT AGREEMENT IN CASE NOS. PU-17-140, PU-17-141 AND  
2 PU-17-143 CONTEMPLATE COST RECOVERY OF THE ASTORIA PROJECT AND  
3 THE MERRICOURT PROJECT?

4 A. Yes. The settlement in Case Nos. PU-17-140, PU-17-141 and PU-17-143 anticipated cost  
5 recovery of both the Astoria Project and the Merricourt Project “through applicable  
6 riders, a general rate case, or any other authorized mechanisms....”<sup>42</sup>  
7

8 Q. DOES OTP HAVE AN EXISTING RIDER THAT CAN BE USED TO RECOVER THE  
9 COSTS OF THE MERRICOURT PROJECT?

10 A. Yes. OTP’s RRAR, which was established in Case No. PU-06-466, allows OTP to  
11 recover jurisdictional capital costs and associated operating expenses of certain  
12 renewable resource additions outside of a rate case. OTP will seek Commission  
13 authorization to include the Merricourt Project in the RRAR.  
14

15 Q. IS OTP PROPOSING THE GCRR TO ROUND OUT THE COST RECOVERY  
16 OPTIONS FOR MEETING ITS CUSTOMERS FUTURE RESOURCE NEEDS?

17 A. Yes. The RRAR has historically been limited to renewable resources that have been  
18 deemed reasonable and prudent by the Commission. The Astoria Project and the  
19 Merricourt Project were a combined package for meeting customers’ future resource  
20 needs: the GCRR would round out the cost-recovery options for both of these reasonable  
21 and prudent investments.  
22

23 Q. WHY ARE RIDERS APPROPRIATE COST RECOVERY MECHANISMS FOR  
24 PROJECTS LIKE THE ASTORIA PROJECT AND THE MERRICOURT PROJECT?

25 A. Both the Astoria Project and the Merricourt Project are multi-year capital projects. A  
26 rider allows OTP to recover the costs in a timely manner and avoid abrupt rate increases.  
27 The alternative would be to file multiple, consecutive rate cases, which ultimately  
28 increases costs and places administrative burdens and costs on OTP and Staff, which  
29 ultimately must be borne by customers.

---

<sup>42</sup> Case Nos. PU-17-140, PU-17-141 and PU-17-143, Settlement Agreement, p. 5 (Sept. 29, 2017).

1           The proposed GRCC, as well as the RRAR and OTP’s other riders, also gradually  
2 incorporate multi-year investments into rates. Without the GCRR (and RRAR), the full  
3 cost of the Astoria Project and the Merricourt Project would be added to rates in one large  
4 chunk, causing an immediate increase in rates. I also note that this effect would be made  
5 even worse under Mr. Chriss’s recommendation that OTP accrue Allowance for Funds  
6 Used During Construction (AFUDC) on the Astoria Project during construction because  
7 accruing AFUDC increases the total project cost included in rate base.<sup>43</sup>

8  
9 Q. HAS OTP UTILIZED RIDERS IN THE PAST TO RECOVER MULTI-YEAR  
10 CAPITAL PROJECTS?

11 A. Yes. OTP has three riders (the RRAR, the Environmental Cost Recovery Rider (ECRR)  
12 and the Transmission Cost Recovery Rider (TCRR)). Each of these riders has been used  
13 to recover multi-year capital projects and collectively, they have been key in OTP’s  
14 ability to avoid serial rate cases.

15  
16 Q. IS DR. DISMUKES CORRECT THAT THE COMMISSION MUST FIND  
17 FINANCIAL HARDSHIP FOR THE COMPANY BEFORE APPROVING THE GCRR?

18 A. No.<sup>44</sup> The Commission has approved OTP’s RRAR, ECRR and TCRR to allow for  
19 recovery of capital projects between rate cases.<sup>45</sup> In none of those cases did the  
20 Commission condition approval upon a finding of financial hardship.

21           The ultimate touchstone is just and reasonable rates. The Commission has already  
22 determined that the Astoria Project is reasonable and prudent at a total capital  
23 expenditure cost of up to \$181.5 million (OTP Total). The GCRR is simply a mechanism  
24 to allow for recovery those just and reasonable costs without the need of a full rate case.

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<sup>43</sup> Chriss Direct, p. 10-12.

<sup>44</sup> Dismukes Direct, p. 96.

<sup>45</sup> See Case Nos. PU-06-466 (RRAR), PU-13-84 and PU-13-79 (ECRR) and PU-11-153 and PU-11-682 (TCRR).



1 Q. DOES A CURRENT RETURN ALLOW PROJECTS TO BE INCORPORATED INTO  
2 RATES GRADUALLY?

3 A. Yes. Under OTP's proposal (and its other riders), capital projects are incorporated into  
4 rates over time as money is spent. This means rates adjust gradually over time rather than  
5 in one large step.  
6

7 Q. IS THE STEP PHENOMENA MADE WORSE BY THE ACCRUAL OF AFUDC?

8 A. Yes. Any AFUDC that accrues during the construction phase is added to the total rate  
9 base of the project that is eventually included in rates.  
10

11 Q. DOES THE FACT OTHER UTILITIES DO NOT UTILIZE A CURRENT RETURN  
12 REQUIRE THE COMMISSION TO ADOPT MR. CHRISS'S RECOMMENDATION?

13 A. No. As discussed above, OTP's RRAR, ECRR and TCRR all provide for current return  
14 in lieu of accruing AFUDC, as do Xcel Energy's environmental and transmission riders.  
15 Approving the GCRR as proposed would be keeping with past treatment of OTP's capital  
16 projects.

17 OTP acknowledges that Montana Dakota Utilities (MDU) has taken a different  
18 approach to its generation rider.<sup>49</sup> But Mr. Chriss fails to note important differences  
19 between OTP and MDU, including the facts that: (1) MDU was over-earning when it  
20 proposed its generation rider;<sup>50</sup> (2) MDU never sought a current return, but rather always  
21 proposed to initiate recovery with its investments going into service;<sup>51</sup> and (3) OTP's  
22 Astoria Project is much larger than the projects MDU has sought to include in its  
23 generation rider.<sup>52</sup>

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<sup>49</sup> Chriss Direct, p. 11-12.

<sup>50</sup> Case No. PU-14-108, Diller Direct, p. 3-7.

<sup>51</sup> Case No. PU-14-108, Feb. 27, 2014 Letter, p. 2.

<sup>52</sup> The Astoria Project is projected to cost \$165 million (OTP Total). Case No. PU-17-140, Tollerson Direct, p. 2. Astoria Project costs up to \$181.5 (OTP Total) have been deemed reasonable and prudent. In contrast, the Heskett III and Lewis & Clark RICE projects recovered through MDU's generation rider had estimated costs of \$76.1 million and \$43 million, respectively. *See* Case No. PU-14-108, Feb. 27, 2014 Letter, p. 2; Case No. PU-15-704, Application, p. 7.

1                                    b)            GRCC Projects

2    Q.        DOES OTP ANTICIPATE INCLUDING OTHER INVESTMENTS IN THE GCRR?

3    A.        Not at this time. As noted in in OTP’s response to ND-PSC-13.03,<sup>53</sup> the Astoria Project  
4                    and the Merricourt Project are the only two production plant projects currently underway.  
5                    Contrary to the Direct Testimony of Dr. Dismukes, the Merricourt Project would be  
6                    eligible for recovery in the RRAR.<sup>54</sup>

7  
8    Q.        WHAT ABOUT A POTENTIAL UTILITY-SCALE SOLAR PROJECT, AS NOTED  
9                    BY DR. DISMUKES?<sup>55</sup>

10   A.        First, like the Merricourt Project, a utility-scale solar project potentially could be eligible  
11                    for recovery under the RRAR, not the GCRR. But more importantly, any project included  
12                    in the GCRR (or RRAR) would need to receive an advance determination of prudence or  
13                    other authorization from the Commission prior to it being included in rider rates.  
14                    Ultimately OTP’s assessment of utility-scale solar is part of our overall assessment of the  
15                    least-cost resource mix that benefits all customers. Dr. Dismukes recommendation  
16                    regarding limiting the scope of the GCRR is not necessary.

17  
18                                    c)            Cost Caps

19   Q.        HAS THE COMMISSION ALREADY ADDRESSED THE APPROPRIATE  
20                    TREATMENT OF THE ACTUAL COST OF THE ASTORIA PROJECT?

21   A.        Yes. The settlement approved by the Commission in Case Nos. PU-17-140, PU-17-141  
22                    and PU-17-143 provides that the actual cost of the Astoria Project, up to \$181.5 million  
23                    (OTP Total), shall be reflected in rates.<sup>56</sup> Actual costs in excess of \$181.5 million (OTP  
24                    Total) may be included in rates, subject to Commission approval.<sup>57</sup> The additional  
25                    provisions recommended by Dr. Dismukes are not necessary.

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<sup>53</sup> Dismukes Direct, Exhibit DED-15, p. 163.

<sup>54</sup> Dismukes Direct, p. 94.

<sup>55</sup> Dismukes Direct, p. 94.

<sup>56</sup> Case Nos. PU-17-140, PU-17-141 and PU-17-143, Settlement Agreement, p. 6 (Sept. 29, 2017).

<sup>57</sup> Case Nos. PU-17-140, PU-17-141 and PU-17-143, Settlement Agreement, p. 6-7 (Sept. 29, 2017).

1 d) Future GRCC Considerations

2 Q. DOES MLEC WITNESS MAINI MAKE ANY RECOMMENDATIONS REGARDING  
3 FUTURE OPERATION OF THE GCRR?

4 A. Yes. Ms. Maini makes two recommendations regarding future operation of the GCRR:  
5 1) that the Astoria Project remain in the GCRR for three years; and 2) that savings  
6 associated with the retirement of the Hoot Lake Plant be incorporated into the GCRR.<sup>58</sup>  
7

8 Q. ARE THESE APPROPRIATE ITEMS FOR CONSIDERATION IN THIS CASE?

9 A. No. Both of Ms. Maini's recommendations are better addressed at the time OTP actually  
10 seeks to include the Astoria Project in the GCRR. At that time, OTP will have more  
11 information regarding the actual costs of the Astoria Project and far more insight on the  
12 Hoot Lake Plant retirement and related cost impacts. OTP may also have more  
13 information regarding future rate case filings, which could address some of Ms. Maini's  
14 concerns.  
15

16 **G. Employee Gifts [Staff-Smith]**

17 Q. PLEASE SUMMARIZE MR. SMITH'S RECOMMENDATIONS CONCERNING  
18 EMPLOYEE GIFTS AND RECOGNITION EXPENSE.

19 A. Mr. Smith recommends disallowance of a representative amount of employee gift and  
20 recognition expenses totaling \$31,695 (OTP ND) as unreasonable and unnecessary for  
21 the provision of utility services. I describe these costs as representative because OTP's  
22 budget does not go to this level of detail, as noted in OTP's response to ND-PSC-06.28,<sup>59</sup>  
23 but instead OTP provided 2016 and 2017 actual costs and computed a two-year average  
24 of those costs.

25 Q. WHAT EVENTS TRIGGER THE INCURRENCE OF GIFT EXPENSES?

26 A. The gift expenses were largely for: (a) recognizing employee achievement; (b) employee  
27 life events such as modest gifts for retiring employees and flowers for funerals of OTP  
28 employees and family members; and (c) modest holiday gifts.

---

<sup>58</sup> Maini Direct, p. 8.

<sup>59</sup> Smith Exhibit RCS-2, page 7 of 130.

1 Q. ARE SUCH GIFTS REASONABLE AND NECESSARY FOR THE PROVISION OF  
2 UTILITY SERVICES?

3 A. Yes. Saying “thank you” and providing employee recognition are part of our public  
4 service culture. These expenses are more than a nice gesture. Like employee recognition  
5 more generally, it makes good management sense and companies engaging in successful  
6 employee recognition programs experience better business results. Yes, it is part of a  
7 larger effort in addition to sending, say, a handwritten note, or relaying praise at a  
8 meeting, so these gift-related expenditures also help OTP create and maintain positive  
9 relationships with employees and their families, as well as the communities we serve.  
10 Employee recognition gifts promote employee engagement, build morale and are an  
11 effective way of engaging employees and making them know their contributions and  
12 value directed toward what we do is appreciated and will be recognized. This can be  
13 accomplished at a relatively small cost; a low-cost endeavor for acknowledging our  
14 employees’ best work.

15  
16 Q. DO RATEPAYERS BENEFIT FROM EMPLOYEE GIFT EXPENSES?

17 A. Yes. Much like the benefits of incentive compensation addressed in the Rebuttal  
18 Testimony of Company Witness Peter E. Wasberg, committed and engaged employees  
19 are more productive and less likely to leave OTP, which aids in retention and keeps  
20 employee turnover costs lower.

21  
22 Q. WHAT IS YOUR CONCLUSION REGARDING MR. SMITH’S  
23 RECOMMENDATION ON GIFTS?

24 A. The Commission should not accept Mr. Smith’s recommendation to exclude \$31,695  
25 (OTP ND) from the 2018 Test Year for the reasons I have explained.

1 **H. Energy Adjustment Rider – Base Fuel Timing – E8760 [MLEC-Maini]**

2 Q. DOES MS. MAINI’S SUPPORT THE USE OF THE E8760 ALLOCATOR TO  
3 ALLOCATE FUEL COSTS TO THE CLASSES?

4 A. Yes, Ms. Maini supports OTP’s proposal to allocate fuel costs to classes using the E8760  
5 allocator as ordered by the Commission in OTP’s last rate case.

6  
7 Q. WHAT IS MS. MAINI’S CONCERN WITH REGARD TO RECOVERY OF THE  
8 ENTIRE FUEL COST THROUGH THE ENERGY ADJUSTMENT RIDER?

9 A. While Ms. Maini is supportive of utilizing the E8760 allocator to allocate the entire fuel  
10 clause to each respective class, her concern arises from a scenario where the  
11 implementation of final rates occurs, but OTP has not yet implemented CISone, which is  
12 required to facilitate the separate fuel clause rates for each class as derived by the use of  
13 the E8760 allocator.

14 With the implementation of final rates, all fuel costs will be pulled out of base  
15 rates and those fuel costs will be recovered in the Energy Adjustment Rider. In my Direct  
16 Testimony I proposed that if that scenario occurred, OTP would utilize the flat fuel clause  
17 rate for the Energy Adjustment Rider across all classes until CISone is placed in service.

18  
19 Q. WHAT IS MS. MAINI’S PROPOSAL IF CISONE IS NOT IN SERVICE WHEN  
20 FINAL RATES GO INTO EFFECT?

21 A. Ms. Maini proposes that the current base cost of fuel remain in base rates and only the  
22 deviation from base rates be recovered in the Energy Adjustment Rider until CISone is  
23 fully operational. Then, when CISone is in-service, Ms. Maini proposes that fuel be  
24 removed from base rates and recovery of all fuel costs then move to the Energy  
25 Adjustment Rider and allocated based on E8760.

26  
27 Q. WHAT IS OTP’S CONCERN WITH MS. MAINI’S PROPOSAL?

28 A. Ms. Maini’s proposal would require design of two sets of final rates: 1) a set of final rates  
29 with fuel remaining in base rates and 2) a set of final rates with all base fuel removed.  
30 Her approach would also require the administrative burden of implementation of two sets

1 of rates: 1) the first set of final rates which still include base fuel, and; 2) the second set  
2 of final rates with all base fuel costs removed. OTP believes that this could also happen  
3 within a very short period of time, perhaps only one or two months apart.  
4

5 Q. WHAT IS OTP'S RECOMMENDATION WITH REGARD TO CISONE AND FINAL  
6 RATES?

7 A. OTP proposes that final rates be implemented concurrent or after CISone goes into effect.  
8 Based on the current schedule, CISone will go into service October 1, 2018, which is also  
9 the earliest time OTP believes final rates could go into effect.  
10

11 Q. WHAT IS OTP'S PROPOSAL IF FINAL RATES COULD BE IMPLEMENTED  
12 OCTOBER 1, 2018, BUT CISONE IMPLEMENTATION IS DELAYED?

13 A. OTP would propose to keep interim rates in effect until CISone is implemented.  
14 Customers would be protected because any potential interim rate refund to customers  
15 would include interest. There are significant administrative burdens to attempt to  
16 implement new rates in the old system for only a short period of time and then implement  
17 rates again in CISone.  
18

19 **I. Service Quality [MLEC-Schedin]**

20 Q. PLEASE SUMMARIZE MR. SCHEDIN'S CONCERNS WITH REGARD TO OTP'S  
21 MAIFI INDEX IN THE CONTEXT OF SERVICE QUALITY AND RELIABILITY  
22 REPORTING.

23 A. Mr. Schedin raised concerns that OTP is not properly analyzing and reporting on its  
24 Momentary Average Interruption Frequency Index (MAIFI) and that MAIFI is being  
25 ignored as a KPI since MAIFI is not one of the measures listed in Minnesota rules which  
26 utilities are required to establish a minimum standard on in Minnesota. Mr. Schedin also  
27 makes a statement that MAIFI is being ignored as a KPI.<sup>60</sup>

---

<sup>60</sup> Schedin Direct at 4

1 Q. WHAT RECOMMENDATIONS IS MR. SCHEDIN MAKING WITH REGARD TO  
2 MAIFI?

3 A. Mr. Schedin would like to see an area-by-area review of MAIFI performance by OTP; a  
4 discussion on OTP's plans to improve on OTP's internal goal of 6.5 outages per year; and  
5 relate the MAIFI index to outages per year for C&I customers.  
6

7 Q. PLEASE DESCRIBE THE ANNUAL SAFETY, RELIABILITY, AND SERVICE  
8 QUALITY REPORT MR. SCHEDIN IS REFERRING TO.

9 A. Minnesota Commission Rules require OTP to file a report each year that provides  
10 analysis and reporting of OTP's performance against that year's performance standards,  
11 as well as proposals for the coming year's performance standards for the following  
12 reliability indices: System average interruption duration index or SAIDI; System average  
13 interruption frequency index or SAIFI, and Customer average interruption duration index  
14 or CAIDI.<sup>61</sup> Mr. Schedin provides a summary of each of these indices in his Direct  
15 Testimony.<sup>62</sup> OTP files this information in a Safety, Reliability, and Service Quality  
16 (SRSQ) report annually with the Minnesota Commission. North Dakota does not have a  
17 similar reporting obligation. OTP does provide annual SAIDI, SAIFI, and CAIDI  
18 information as part of its North Dakota Jurisdictional Annual Report each year.  
19

20 Q. DOES OTP MONITOR AND TRACK MAIFI?

21 A. Yes. OTP understands the impacts momentary outages can have on certain customers  
22 and strives to minimize those impacts as much as possible. OTP views MAIFI as a  
23 leading indicator for future SAIDI and tracks and analyzes line sections with excessive  
24 momentary interruptions for future capital improvements or possible vegetation  
25 management needs. We certainly view MAIFI as useful for tracking momentary power  
26 outages, *e.g.*, transient faults or "blinks," and is more granular than an overall outage  
27 duration index like SAIDI or SAIFI. But it has limitations versus those overall outage  
28 metrics as well, especially in comparing one utility to another. Variables such as the

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<sup>61</sup> Minnesota Commission Rules 7826.0600 subp. 1

<sup>62</sup> Schedin Direct at 3

1 number and types of trees, high/low lightning, wind impacts and other geographic and  
2 topographic differences render such comparisons invalid. We do not view it particularly  
3 helpful as a comparison within OTP over time either, as one year we may experience an  
4 unusually high number of thunderstorms for example, and thus skew any comparison to  
5 another year's MAIFI.

6  
7 Q. DOES OTP INCLUDE ANY REPORTING WITH REGARD TO MAIFI IN ITS  
8 ANNUAL SRSQ REPORT TO MINNESOTA?

9 A. Yes. While not required by rule, OTP does provide information in the SRSQ report on  
10 MAIFI performance, as noted in Figure 4 and Table 1 in Exhibit \_\_\_(LLS-1), Attachment  
11 2-10, pages 10 and 11 of 60, which is part of OTP's 2016 Annual SRSQ report filed in  
12 Minnesota.

13  
14 Q. IS MR. SCHEDIN CORRECT THAT THERE IS NOT A KEY PERFORMANCE  
15 INDICATOR (KPI) FOR MAIFI?

16 A. It is unclear whether Mr. Schedin is referring to an OTP KPI or the Minnesota Rules,  
17 which require reporting on the three reliability indices I noted above. As mentioned  
18 earlier, Minnesota rules do not require reporting on MAIFI. However, we do reference  
19 MAIFI performance in the SRSQ.

20  
21 Q. DOES OTP ESTABLISH INTERNAL KPI'S FOR MAIFI?

22 A. Yes. OTP does have a KPI related to MAIFI, as well as the three other reliability indices.  
23 Exhibit \_\_\_(LLS-1), Attachment 2-10, page 8 of 60, which is part of OTP's 2016 Annual  
24 SRSQ report, states the following:

25 The integrity of Otter Tail's entire transmission and distribution system is  
26 directly related to interruption frequency; thus, the accountability lies  
27 within our Asset Management area. Otter Tail's Asset Management area is  
28 accountable for the quality, availability and delivery of materials and  
29 engineering associated with providing electric service to Otter Tail  
30 customers. At Otter Tail, we employ a system of Key Performance  
31 Indicators (KPIs), for the purpose of providing additional focus on  
32 achievement in particular areas of our operations. Two of Asset  
33 Management's KPIs are reliability indices dealing with interruption

1 frequency: the Momentary Average Interruption Frequency Index (MAIFI)  
2 and System Average Interruption Frequency Index (SAIFI).  
3

4 Otter Tail's Customer Service area is accountable for responding to all  
5 interruptions. Thus, Otter Tail's Customer Service area is accountable for  
6 the cost effective and efficient deployment of field personnel, trucks, and  
7 equipment as quickly and safely as possible, necessary for restoring  
8 service to customers when interruptions occur. One of the Customer  
9 Service area's KPIs is Customer Average Interruption Duration Index  
10 (CAIDI.) Additionally, the Reliability indices, SAIDI, SAIFI, CAIDI, and  
11 MAIFI are companywide KPI's. These indices are communicated and  
12 reviewed with all employees, on a monthly basis, with the expectation that  
13 all employees remain cognizant of our company's reliability performance.  
14

15 As noted above, OTP has a MAIFI KPI both at a departmental level for Asset  
16 Management, as well as at a company level. OTP's company-level commitment to  
17 reliability is demonstrated at the highest level through reference in the beginning of  
18 OTP's mission statement which states in part: "To produce and deliver electricity as  
19 reliably, economically, and environmentally responsibly as possible..."  
20

21 Q. IS OTP ENHANCING ITS INTERRUPTION MONITORING SYSTEM?

22 A. Yes. Since 2016, OTP has been actively working on designing and installing a new  
23 Interruption Monitoring System (IMS) across its service territory to replace the existing  
24 systems, which are soon to be technologically obsolete. In 2017, the focus for the new  
25 system was on the installation of 450 cellular advanced metering infrastructure (AMI)  
26 meters in North Dakota. For the balance of 2018, the focus has shifted to Minnesota and  
27 South Dakota system installations. This deployment gives our company better reliability  
28 coverage than the old system as it covers all three phases of each feeder (through either  
29 three single-phase meters or one three-phase meter), whereas the current system was  
30 deployed only on one phase of each feeder. This replacement project also includes  
31 software design to create/modify a system that allows us to continue to run similar  
32 reliability metrics as we'd done historically. It is anticipated that the measurement of  
33 reliability results will transition from the old system to the new system beginning in  
34 2019.

1 Q. WHAT IS OTP'S RESPONSE TO MR. SCHEDIN'S RECOMMENDATIONS WITH  
2 REGARD TO MAIFI?

3 A. It is reasonable for OTP to include further MAIFI reliability reporting in its annual  
4 jurisdictional report if desired. OTP should be able to do this on an area-by-area basis as  
5 suggested. A recognition of and appreciation for MAIFI's limitations, however, as I  
6 noted above, is also important.

7 With regard to KPI's, OTP is continually striving to reduce all interruption  
8 incidents on its system. OTP's investment in the new ISM monitoring system is expected  
9 to enhance OTP's ability to identify problem areas more effectively with the hope of  
10 continued improvement in the areas of interruption management, outage response and  
11 outage mitigation. While OTP understands the desire to be able to monitor and report  
12 MAIFI information at a customer level, that is not feasible with the new system. In the  
13 future, AMI deployment across the entire system may support such an idea after that  
14 infrastructure is in place.

15

16 **J. Baseload Performance [MLEC-Schedin]**

17 Q. PLEASE SUMMARIZE MR. SCHEDIN'S CONCERNS WITH REGARD TO  
18 BASELOAD GENERATION PERFORMANCE AND PLANT OUTAGE COSTS.

19 A. Mr. Schedin recommends that OTP make available to C&I customers, how excessive unit  
20 outage costs are treated by the Commission and what costs, if any, are denied recovery in  
21 OTP's Fuel Clause (FCA).

22

23 Q. DOES OTP REPORT PLANT AVAILABILITY, PERFORMANCE AND  
24 ASSOCIATED OUTAGES AS PART OF ITS MONTHLY FUEL CLAUSE FILINGS?

25 A. Yes. OTP provides a summary of monthly baseload plant generation output, plant  
26 availability, and plant outages that occur each month. In that summary, OTP notes  
27 whether the outages were planned or forced, the duration of those outages and reason for  
28 the outage. OTP also reports what percentage fuel costs for the month were over or under  
29 budget.

1 Q. CAN CUSTOMERS ACCESS THIS INFORMATION?

2 A. Yes.

3

4 Q. DOES THE COMPANY PLACE A HIGH VALUE ON PLANT AVAILABILITY?

5 A. Yes. OTP maintains a company-wide KPI on plant availability because OTP knows that  
6 our customers benefit from low, stable energy costs when our plants are operating and  
7 serving OTP customers' energy needs. Mr. Schedin acknowledged in his Direct  
8 Testimony,<sup>63</sup> that OTP set's performance standards for our plant's by sharing OTP's KPI  
9 goals for the last 3 years along with OTP's performance against those goals. I believe we  
10 are aligned with Mr. Schedin with the view that setting such goals is a good thing in  
11 incenting good performance from our plants.

12

13 Q. HAS OTP EXPERIENCED EXCESSIVE OUTAGE COSTS IN RECENT YEARS?

14 A. No. While Mr. Schedin correctly notes in his Direct Testimony that outage costs have  
15 declined at OTP's Coyote Station since the 2012-2013 outage,<sup>64</sup> OTP's outage costs for  
16 all of its baseload units over the last 5 years have been very reasonable. Table 4 below  
17 shows the total estimated outage costs, on a system basis, for forced outages OTP has  
18 experience from 2013 – 2017. The quantity of MWhs and associated costs attributable to  
19 forced outages for the last three years have been very minimal in the context of OTP's  
20 overall system sales and associated system fuel costs.

---

<sup>63</sup> Schedin Direct at 10-11.

<sup>64</sup> Schedin Direct at 10-11.

1  
2

Table 4  
Comparison of Forced Outage Costs to Total System Fuel Costs

Year	MWhs attributable to Forced Outages (System)	(B) Incremental Cost Attributable to Forced Outages (System)	(C) Total Annual MWh Sales Subject to FCA (System)	(D) Total Annual Fuel Costs (FCA Eligible) (System)	(E) Forced outage MWhs % of Total MWhs	(F) Forced outage Cost % of Total
2013	321,647	\$2,360,942	4,461,870	\$109,721,736	7.21%	2.15%
2014	234,411	\$1,651,179	4,697,479	\$123,448,587	4.99%	1.34%
2015	65,631	\$64,769	4,608,390	\$114,502,760	1.42%	0.06%
2016	27,180	(\$131,407)	4,734,429	\$110,115,519	0.57%	-0.12%
2017	107,972	(\$168,596)	4,796,119	\$114,877,984	2.25%	-0.15%

3

4 Q. HAS THE COMMISSION DENIED RECOVERY OF ANY COST FROM OTP'S  
5 ENERGY ADJUSTMENT RIDER?

6 A. No.

7 **IV. NON-CONTESTED ISSUES**

8 **A. Reagents and Emissions Allowance Costs [Staff-Smith]**

9 Q. PLEASE SUMMARIZE MR. SMITH'S RECOMMENDATION WITH REGARD TO  
10 MOVING THE RECOVERY OF REAGENTS AND EMISSIONS ALLOWANCE  
11 COSTS INTO THE ENERGY ADJUSTMENT RIDER?

12 A. Mr. Smith supports OTP's proposal to move recovery of environmental reagents and  
13 emissions allowance expenses out of base rates (and out of the Reagent and Emissions  
14 Allowance Rider) into the Energy Adjustment Rider at the end of this case. OTP will  
15 make the appropriate transfer of Coyote Station's lime expense out of O&M expenses  
16 and into the Energy Adjustment Rider in conjunction with the Compliance Filing and  
17 development of final rates.<sup>65</sup>

<sup>65</sup> Tommerdahl Supplemental Direct, p. 5-6.

1 **B. Generation Rider Rate Design [MLEC- Maini]**

2 Q. WHAT IS MS. MAINI'S RECOMMENDATION WITH REGARD TO THE  
3 GENERATION COST RECOVERY RIDER PROPOSED RATE DESIGN?

4 A. Ms. Maini agrees with OTP's proposal to use a percent of bill rate design for the  
5 proposed Generation Cost Recovery Rider.  
6

7 **C. E8760 Allocator [Staff-Dismukes]**

8 Q. WHAT IS DR. DISMUKES'S VIEW OF OTP'S USE OF THE E8760 ALLOCATOR  
9 AS ORDERED IN OTP'S LAST RATE CASE?

10 A. Dr. Dismukes agrees that OTP is using the E8760 allocator in the CCOSS in a manner  
11 consistent with the Commission's last rate case order.  
12

13 **D. Treatment of Renewable Energy Credits [Staff-Smith]**

14 Q. WHAT IS MR. SMITH'S VIEW OF OTP'S CREDITING PROCEEDS FROM THE  
15 SALE OF RENEWABLE ENERGY CREDITS AS ORDERED IN OTP'S LAST RATE  
16 CASE?

17 A. Mr. Smith agrees that OTP is crediting the North Dakota share of proceeds of the sale of  
18 Renewable Energy Credits in the Renewable Resource Adjustment rider in a manner  
19 consistent with the Commissions last rate case order.

20 **V. CONCLUSION**

21 Q. PLEASE SUMMARIZE YOUR REBUTTAL TESTIMONY.

22 A. The full annual cost of the CISone project should be included in final rates, incorporating  
23 the updated project cost, including applicable AFUDC, of \$19.495 million (OTP Total).  
24 The Company's proposed Generation Cost Recovery Rider should be approved to allow  
25 OTP to recover costs of ADP-approved generation projects as incurred to avoid abrupt  
26 rate changes of delaying recovery until a full rate case and to avoid a full rate case if not  
27 otherwise necessary. OTP's investor relations expenses should be approved as proposed  
28 because they provide benefits to customers by enhancing the Company's ability to fund  
29 projects. OTP's rate case expenses, including external legal and consulting costs, are a

1 reasonable and necessary cost of this rate case. OTP's costs of aircraft are prudently  
2 incurred to avoid greater costs in other travel and employment expenses and should be  
3 recovered in this case. Employee gift expenses are used for recognizing employees  
4 which aids in retention and benefit customers by avoiding more costly employee attrition.  
5 The economic development costs proposed by OTP in this case would benefit the State of  
6 North Dakota and customers in OTP's service territory by retaining and attracting  
7 businesses that would offset the costs borne by other customers and increase the overall  
8 economic activity in the region. A change to the Energy Adjustment Rider is not  
9 necessary at this time and OTP's service quality and baseload performance continue at  
10 high levels.

11  
12 Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

13 A. Yes.

Public  
Response to Data Request ND-PSC-01.9  
Page 1 of 1

OTTER TAIL POWER COMPANY  
Case No: PU-17-398

Response to: North Dakota Public Service Commission

Analyst: Sara Cardwell

Date Received: 11/29/2017

Date Due: 12/13/2017

Date of Response: 12/11/2017

Responding Witness: Tyler A. Akerman, Manager, Business Planning Regulatory Accounting -  
(218) 739-8298

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Data Request:

Please explain the external attorney fees of \$400,000 as provided at part of the Company's rate case expenses. What is the basis for these charges?

Attachments: 0

Response:

OTP included \$400,000 for legal expenses as part of the rate case expenses because we believe that is a reasonable estimate of the external legal fees that will be incurred in this case. In OTP's last rate case in North Dakota (PU-08-862) we included \$250,000 in the rate case expense request. At the time of OTP's last North Dakota case, we were in the middle of concurrent or recently concluded cases in Minnesota and South Dakota. The work done in the Minnesota and South Dakota cases at that time reduced the need for more legal expenses. For additional context, OTP spent \$1,370,000 on outside legal fees in our recent Minnesota rate case. We had included \$900,000 in the Minnesota rate case expense request for recovery. While we do not expect outside legal work in this case to be nearly as extensive as the Minnesota case, much of the work of preparing the Minnesota case offset additional legal expenses that would otherwise have been required to file this case in North Dakota. For example, OTP requested the Internal Revenue Service issue a Private Letter Ruling to determine the appropriate proration of Accumulated Deferred Income Taxes and the IRS's decision is being applied to this North Dakota case. The legal costs associated with this request were significant and are benefiting this North Dakota filing.

**OTTER TAIL POWER COMPANY**

Case No: PU-17-398

Response to: North Dakota Public Service Commission

Analyst: Victor Schock

Date Received: 04/20/2018

Date Due: 05/04/2018

Date of Response: 05/04/2018

Responding Witness: Stuart Tommerdahl, Manager, Regulatory Administration, 218 739-8279

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Data Request:

Rate Case Expense.

- a. Identify the test year, filing date and rate effective date for the Company's last five rate cases.
- b. Provide the level of rate case expense incurred for the last five rate cases broken down by payee or type of activity.
- c. Indicate which cases were settled and which were litigated. For the settled cases, also indicate at which stage they were settled (e.g., before rebuttal, after rebuttal, before hearings, after hearings, etc.).
- d. Explain fully and in detail why the Company normalized rate case expense over the period it is proposing versus some other period.
- e. Has the Company included any rate case expense in rate base? If so, explain fully why and identify by amount and account.

Attachments: 0

Response:

The following is OTP's Amended Response to ND-PSC-15.26.

**Otter Tail deems all or portions of the following attachments marked as NOT PUBLIC to be trade secrets, valuable or sensitive commercial or financial information, or information that is otherwise confidential or proprietary and subject to restrictions against unauthorized use and disclosure under North Dakota law and the Parties' Confidentiality Agreement. Such materials are noted as NOT PUBLIC.**

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AMENDED Response to Data Request ND-PSC-15.26  
Page 2 of 3

- a. OTP's last ND rate case was filed November 3, 2008 using a historic 2007 Test Year (PU-08-862). Final rates from that case went into place December 1, 2009. Prior to that, OTP's next most recent ND rate case was filed in 1983.
- b. Expenses incurred in OTP's most recent ND rate case are provided in the Table 1 below.

<b>Table 1: PU-08-862 Rate Case Expenses</b>	
Filing Fees and Assessments	\$39,476.78
Travel, Meals and Lodging	\$14,782.03
<b>[PROTECTED DATA BEGINS...</b>	
<b>...PROTECTED DATA ENDS]</b>	
Miscellaneous	\$962.24
<b>TOTAL</b>	<b>\$392,253.95</b>

Expenses from earlier ND cases (1983 and earlier) are unavailable and would not be comparable to modern figures.

Expenses for OTP's most recent Minnesota rate case (MN Docket No. E017/GR-15-1033) are provided in Table 2 below:

<b>Table 2: E017/GR-15-1033 Rate Case Expenses</b>	
FILING FEES AND ASSESSMENTS	\$782,948.93
<b>[PROTECTED DATA BEGINS...</b>	
<b>...PROTECTED DATA ENDS]</b>	
INTERNAL REVENUE SERVICE	\$28,300.00
<b>[PROTECTED DATA BEGINS...</b>	
<b>...PROTECTED DATA ENDS]</b>	
<b>TOTAL</b>	<b>\$2,852,032.08</b>

Because similar projects and rate base additions occurred, as well as similar increases in expenses, much of the testimony developed in the Minnesota case was used to benefit the filing prepared for this North Dakota case.

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AMENDED Response to Data Request ND-PSC-15.26  
Page 3 of 3

OTP recently filed a rate increase request in South Dakota (EL18-021) on April 20, 2018. That request includes rate case expenses of \$550,000 amortized over three years.

- c. OTP's most recent ND rate case (2008) was settled after all direct testimony was filed, but before rebuttal testimony was filed. OTP's 1983 rate case went to full hearings.
- d. OTP proposes to amortize rate case expenses over a period of three years, as addressed in the Direct Testimony of OTP witness Mr. Stuart D. Tommerdahl (at page 46). Mr. Tommerdahl includes that OTP believes we will likely file our next rate case in three years. It is appropriate to collect the costs of conducting the rate case over the time frame in which the rates established are expected to be in place.
- e. OTP has not included any rate case expenses in rate base.