

THARALDSON ETHANOL

Rebuttal Testimony of

RYAN THORPE

Before the
North Dakota Public Service Commission

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

Docket No. PU-17-398

Exhibit __

June 22, 2018

1 **I. Introduction and Background**

2 Q. PLEASE STATE YOUR NAME AND OCCUPATION.

3 A. My name is Ryan Thorpe. I am the Chief Operating Officer of Tharaldson Ethanol
4 (“Tharaldson”).

5
6 Q. PLEASE STATE YOUR BUSINESS ADDRESS.

7 A. My office is located at 3549 153rd Ave. SE, Casselton, North Dakota.

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9 Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?

10 A. I am testifying as a witness on behalf of the Midwest Large Energy Consumers
11 (“MLEC”).

12
13 Q. PLEASE DESCRIBE THE PURPOSE OF YOUR TESTIMONY.

14 A. I am testifying to explain the impact of high and increasing rates on an energy intensive
15 business that competes on a national and international basis.

16
17 **II. Impact of High and Increasing Rates on Energy Intensive Business**

18 **A. Tharaldson Company**

19 Q. PLEASE EXPLAIN THARALDSON’S OPERATION.

20 A. We convert corn into ethanol fuel.

21
22 Q. HOW MANY EMPLOYEES DOES THARALDSON EMPLOY?

23 A. There are fifty-five employees with an average annual compensation of over \$90,000.00,
24 including benefits. The total annual payroll including benefits exceeds \$5,000,000.

25
26 Q. PLEASE EXPLAIN HOW ELECTRICITY COST IMPACTS THARALDSON.

27 A. Tharaldson’s process is energy intensive and a large consumer of electricity. We are
28 amongst the top purchasers of electricity in Otter Tail Power Company’s service area.
29 Naturally, if others have lower costs, they have a competitive advantage over us. Our
30 product is a commodity; as such we cannot pass along the increased cost of electricity.

1 Q. WHAT PERCENTAGE OF THARALDSON'S COST OF OPERATIONS IS REPRESENTED BY ENERGY
2 COSTS?

3 A. Overall electricity accounts for approximately 4.2% of Tharalson's operating cost.
4 However, with a low-cost, high volume industry, electricity has a disproportionate impact
5 on our ability to maintain profitability. This means that every small change in our power
6 costs has a large and direct impact on our bottom line. Consequently, competitive
7 pressures have driven us to manage and lower our power costs.

8

9 Q. HOW HAS THARALDSON TRIED TO MANAGE ITS ELECTRICITY COSTS?

10 A. Due to the cost impact of energy consumption, energy conservation is a central focus of
11 our sustainability and business plans. As a large energy user, Tharaldson invests heavily
12 on energy reduction projects. Since 2010, we have lowered our electricity cost per gallon
13 by 30% as a result of energy efficiency improvements even though our power costs rose
14 as result of cost recovery through rider. We have lowered electricity cost contribution
15 from \$.055 to .0383 per gallon. Over that same period, we have spent \$50 million on
16 energy efficiency projects and \$25 million in the last two years alone.

17

18 Q. CAN THARALDSON PASS ON ELECTRIC RATE INCREASES?

19 A. No, because the markets for ethanol are commodity based, these costs cannot be passed
20 on and must be absorbed. Ethanol is widely understood to be in a price-taker position
21 currently. We compete with other facilities in the region that have access to lower-cost
22 electric markets and closer to consumption markets, both of which already put us at a
23 competitive disadvantage.

24

25 Q. OTHER THAN ENERGY CONSUMPTION HOW HAS THARALDSON TRIED TO CONTROL COSTS?

26 A. There is constant pressure to control costs and remain competitive; Tharaldson has
27 worked diligently with suppliers to negotiate the lowest possible costs of goods and
28 services.

29

30 Q. PLEASE EXPLAIN THE COMPETITIVE SITUATION THARALDSON IS IN. CAN YOU AFFORD
31 ELECTRIC RATE INCREASES?

1 A. No. We compete on the open market nationally. We cannot afford increases in operating
2 costs. This is a zero to low growth business; the highest overall cost facilities get closed.

3
4 With electricity having such a significant impact of our business profitability, Otter Tail's
5 industrial rates are especially concerning. MLEC Witness Maini's analysis of costs of
6 our industrial rates compared to our competitors in the region and nationally, reinforces
7 the disadvantage for us, our suppliers and farmers that produce for us.

8
9 Q. PLEASE EXPLAIN YOUR LOCAL SUPPLY CHAIN OR OTHER BUSINESSES THAT RELY ON YOU
10 PURCHASING THEIR PRODUCTS OR SERVICES.

11 A. Attached as Exhibit A is a publication that explains some of the economic benefit brought
12 by the Ethanol Industry to North Dakota and includes some of the specific impacts of
13 Tharaldson. We buy grain from farmers in a 50 mile radius of our facility. Specifically,
14 we accept grain from approximately 400 farmers in the region. In addition to our farmers
15 and direct employees, we engage engineering firms from Fargo, local electrical
16 contractors, plumbers, construction contractors, service professionals and others on a
17 regular basis.

18
19 Q. RECENT OR PLANNED EXPANSION AND CAPITAL INVESTMENT?

20 A. We expect to continue spending \$1 million per year on efficiency projects over the next 5
21 years. These are all performed by and paid to local contractors in our area.

22
23 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

24 A. Yes.

EXHIBIT A

North Dakota's Ethanol Industry

\$623 MILLION

Annual Economic Impact



Hankinson Renewable Energy

Location: Hankinson
Number of Employees: 47
Ethanol Production: 145 million gallons per year
Corn Use: 51 million bushels per year
DDGS: 440,000 tons per year
Year Established: 2008



Midwest AgEnergy - Blue Flint

Location: Underwood
Number of Employees: 42
Ethanol Production: 70 million gallons per year
Corn Use: 25 million bushels per year
DDGS: 200,000 tons per year
Year Established: 2007



Midwest AgEnergy - Dakota Spirit

Location: Spiritwood
Number of Employees: 40
Ethanol Production: 70 million gallons per year
Corn Use: 25 million bushels per year
DDGS: 200,000 tons per year
Year Established: 2015



Red Trail Energy

Location: Richardton
Number of Employees: 48
Ethanol Production: 63 million gallons per year
Corn Use: 23 million bushels per year
DDGS: 180,000 tons per year
Year Established: 2007



Tharaldson Ethanol

Location: Casselton
Number of Employees: 55
Ethanol Production: 175 million gallons per year
Corn Use: 65 million bushels per year
DDGS: 500,000 tons per year
Year Established: 2008

North Dakota
Ethanol
Annual Total: 

232 EMPLOYEES
523 MILLION GALLONS OF ETHANOL
189 MILLION BUSHELS OF CORN
1.52 MILLION TONS OF DDGS

March 2018