

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 ____

POLICY

Surrebuttal Testimony of

BRUCE GERHARDSON

July 3, 2018

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1 **I. INTRODUCTION AND SUMMARY**

2 Q. PLEASE STATE YOUR NAME AND OCCUPATION.

3 A. My name is Bruce Gerhardson. I am employed by Otter Tail Power Company (OTP) as
4 Vice President of Regulatory Affairs.

5

6 Q. DID YOU PREPARE DIRECT TESTIMONY, SUPPLEMENTAL DIRECT
7 TESTIMONY AND REBUTTAL TESTIMONY IN THIS PROCEEDING?

8 A. Yes. I filed Direct Testimony, Supplemental Direct Testimony and Rebuttal Testimony
9 on behalf of OTP describing OTP and why OTP is requesting a rate increase. I provided a
10 summary showing the very high levels of customer satisfaction OTP has achieved, and I
11 described some of our recent capital expenditures, including the very large recent projects
12 that OTP successfully completed under budget. I also discussed some of the significant
13 sources of OTP's revenue deficiency and introduced OTP's other witnesses. My Rebuttal
14 Testimony focused on (1) OTP's overall rate levels and customer satisfaction levels; (2)
15 Return on Equity (ROE) as it relates to OTP's capital expenditure plan and performance;
16 and (3) OTP's management incentives.

17

18 Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

19 A. I will respond to the Rebuttal Testimony of Mr. Timothy Eggert of Doosan Bobcat North
20 America (Bobcat) and Mr. Ryan Thorpe of Tharaldson Ethanol (Tharaldson), both filed
21 on behalf of the Midwest Large Energy Consumers (MLEC).

22

23 Q. PLEASE SUMMARIZE YOUR SURREBUTTAL TESTIMONY.

24 A. Mr. Eggert and Mr. Thorpe discussed the steps taken by Bobcat and Tharaldson to
25 control costs and expressed concerns regarding industrial rate levels and increases in
26 those industrial rates. We take the concerns expressed by Bobcat and Tharaldson
27 seriously, and like Bobcat and Tharaldson, we have taken significant steps to control
28 OTP costs. For example, our completion of the Big Stone plant Air Quality Control
29 System project (AQCS Project) substantially under budget has resulted in \$3.4 million

1 (OTP ND) of savings to our customers in the 2018 Test Year – savings that will continue
2 for the entire 30-year life of the project.¹ Or efforts have resulted in the consistently
3 lowest overall rate levels of any investor owned utility in North Dakota since 2010, and
4 our overall rate levels will remain the lowest of any investor owned utility in North
5 Dakota even assuming our entire original rate increase request is granted. Accordingly, I
6 believe the concerns expressed by Bobcat and Tharaldson speak primarily to how the
7 benefits of our low rates and superior performance are shared among customer groups,
8 and specifically to those customers paying our industrial rates. We have made specific
9 proposals in this case to control industrial rate levels. Our revenue allocation proposal
10 moves all classes closer to cost responsibility. We have also agreed to MLEC’s Large
11 General Service (LGS) rate design proposal and have made targeted rate proposals that
12 are intended to attract and retain large industrial customers. We believe our ongoing
13 efforts to control costs and our requests in this case address the issues brought forward by
14 Bobcat and Tharaldson.

15 **II. RESPONSE TO MLEC MEMBERS’ REBUTTAL TESTIMONY**

16 Q. PLEASE SUMMARIZE OTP’S RESPONSE TO THE REBUTTAL TESTIMONY
17 SUBMITTED BY MR. THORPE AND MR. EGGERT.

18 A. OTP acknowledges the importance of energy costs in the operations of Bobcat,
19 Tharaldson and other industrial customers. OTP has been successful at keeping its rates
20 very low.² We will continue to do so in the future because we recognize the importance
21 of providing economic service to our customers.
22

23 Q. HOW DO OTP RATES COMPARE TO THE RATES OF OTHER UTILITIES?

24 A. OTP’s overall average rates are substantially lower than regional and national averages,
25 and our overall North Dakota rates are the lowest of any North Dakota investor owned
26 utility. Our North Dakota rates will continue to be the lowest of all the North Dakota

¹ Tommerdahl Direct, p. 5-6.

² Gerhardson Direct, p. 9-10.

1 investor owned utilities even if OTP is awarded its full rate increase in this proceeding.
2 Otter Tail Corporation (OTP's parent company) is the 4th lowest price provider among all
3 utility parent companies nationwide, with a blended rate for all customers of 8.16
4 cents/kWh. OTP has achieved these results despite the challenges OTP faces as a very
5 small utility serving customers in a very large, sparsely populated service territory. As I
6 mentioned in My Direct Testimony, OTP is the second smallest investor owned utility in
7 America.

8
9 Q. DO YOU AGREE WITH THE MLEC'S POSITION THAT IT WOULD BE
10 REASONABLE TO ALLOCATE TO THE INDUSTRIAL CLASS OF CUSTOMERS
11 MORE OF THE BENEFITS FROM OTP'S LOW RATES?

12 A. Yes. As discussed in the Direct Testimony of MLEC witness Ms. Kavita Maini, OTP's
13 rates, averaged for all 18 rate classes, are approximately 13 percent and 23 percent *lower*
14 than the regional and national averages respectively. Ms. Maini also noted that OTP's
15 residential rates are 25 percent and 31 percent *below* the regional and national averages
16 respectively, and that OTP's commercial rates are 3.5 percent and 14.5 percent *lower*
17 than the regional and national averages, respectively. Ms. Maini also testified that OTP's
18 average industrial rates were higher than regional and national averages.³

19
20 Q. HAS OTP MADE PROPOSALS TO SPREAD THE BENEFITS OF ITS LOW RATES
21 MORE EQUITABLY ACROSS CUSTOMER CLASSES?

22 A. Yes. OTP witness Ms. Gina S. Ice explained in her Rebuttal Testimony that OTP's
23 recommended revenue allocation moves all customer classes closer to their cost
24 responsibilities. Our industrial classes are currently above cost, so our recommendation
25 results in those classes receiving a lower increase than the overall increase proposed by
26 OTP. This approach will allow the industrial customer classes to obtain a greater share of
27 the benefits of OTP's overall low rates.⁴

28

³ Maini Rebuttal, p.11-14.

⁴ Ice Rebuttal, p. 2-8.

1 Q. DID OTP ALSO AGREE TO MLEC'S PROPOSED RATE DESIGN FOR THE LGS
2 CLASS?

3 A. Yes. OTP witness Mr. David G. Prazak discusses this agreement in his Rebuttal
4 Testimony.⁵ We have agreed with MLEC's proposed intra-LGS class revenue allocation
5 and the process for developing the LGS class rate elements.
6

7 Q. DO OTP'S PROPOSALS RESPOND TO CONCERNS RAISED BY MR. EGGERT
8 AND MR. THORPE?

9 A. Yes. Both Mr. Eggert and Mr. Thorpe discuss the importance of competitive electric rates
10 in being able to grow and maintain their operations in North Dakota.⁶
11

12 Q. PLEASE FURTHER DESCRIBE OTP'S EFFORTS TO CONTROL COSTS LIKE
13 THARALDSON AND BOBCAT.

14 A. Both Mr. Eggert and Mr. Thorpe explain that Bobcat and Tharaldson control costs in
15 order to remain competitive.⁷ OTP also has worked diligently to control costs, as
16 discussed in my Direct Testimony.⁸ As discussed in the Direct Testimony of Mr.
17 Tommerdahl and in the Direct Testimony of OTP witness Mr. Kirk A. Phinney, OTP
18 brought the Big Stone AQCS Project online more than \$125 million under budget (Total
19 Project), which has resulted in \$3.4 million of savings for our customers in the 2018 Test
20 Year (OTP ND). Over the 30-year life of the AQCS Project, OTP's under-budget
21 completion will reduce OTP's North Dakota customer costs by approximately \$69.5
22 million (OTP ND).⁹ Our under-budget completion of the Hoot Lake Plant Mercury and
23 Air Toxics Standards (MATS) project also will save customers significant costs. We have
24 also taken a number of steps to control operating expenses, as I have also discussed in my
25 Direct Testimony. It has been 8 years since OTP's last North Dakota rate case, and

⁵ Prazak Rebuttal, p. 13, 17-18.

⁶ Eggert Rebuttal, p. 2-5; Thorpe Rebuttal, p. 2-3.

⁷ Eggert Rebuttal, p. 2; Thorpe Rebuttal, p. 4.

⁸ Gerhardson Direct, p. 20-22.

⁹ Tommerdahl Direct, p. 5-6.

1 OTP's rates are the lowest of any investor owned utility in North Dakota and among the
2 lowest in the country.

3

4 Q. HOW DO THESE FACTS RELATE TO THE COMMISSION'S DECISION IN THIS
5 CASE?

6 A There is no doubt in this record that OTP is performing exceptionally: OTP's rates are
7 low, and its customer satisfaction is high. Our performance has resulted in demonstrable
8 savings to our customers (and the customers of other utilities).¹⁰ It is entirely reasonable
9 and appropriate for the Commission to take these considerations into account. Adopting a
10 Return on Equity (ROE) below the mainstream when OTP has performed so well would
11 indicate the Commission does not value exceptional performance and would have long-
12 term adverse consequences for OTP and its North Dakota customers and possibly all
13 customers receiving service from utilities regulated by the Commission. Such a result
14 would also be harmful given OTP's commitment to invest \$862 million in necessary
15 infrastructure over the next several years. Ultimately, OTP's performance merits a ROE
16 materially above the national average and above ROEs approved for other utilities.

17 **III. CONCLUSION**

18 Q. PLEASE SUMMARIZE YOUR SURREBUTTAL TESTIMONY.

19 A. OTP has maintained low rates with high customer satisfaction levels despite being a very
20 small investor-owned utility serving small communities in an expansive rural service
21 area. We have made specific proposals intended to make sure the benefits of our low
22 rates and superior performance are shared more equitably among customer groups. We
23 have also made targeted rate proposals that are intended to attract and retain large
24 industrial loads. We believe our request, in its totality, addresses the issues brought
25 forward by Bobcat and Tharaldson.

26

¹⁰ For example, Montana Dakota Utilities (MDU) is a part owner of the Big Stone plant. OTP bringing the AQCS project in under cost resulted in savings for MDU's customers as well as OTP's customers.

- 1 Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?
- 2 A. Yes.