

**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 153<sup>rd</sup> Ave. SE, Casselton, North Dakota.

8  
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