

SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

CASE NO. EL05-022

IN THE MATTER OF THE APPLICATION BY OTTER TAIL POWER COMPANY

ON BEHALF OF THE BIG STONE II CO-OWNERS

FOR AN ENERGY CONVERSION FACILITY SITING PERMIT FOR THE

CONSTRUCTION OF THE BIG STONE II PROJECT

DIRECT TESTIMONY

OF

JANELLE JOHNSON

SENIOR FINANCIAL PLANNER

OTTER TAIL POWER COMPANY

MARCH 15, 2006



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1 **BEFORE THE SOUTH DAKOTA PUBLIC UTILITIES COMMISSION**

2 **DIRECT TESTIMONY OF JANELLE JOHNSON**

3 **I. INTRODUCTION**

4 **Q: Please state your name and business address.**

5 A: Janelle Johnson, 215 S. Cascade St., PO Box 496, Fergus Falls, MN 56537-0496

6 **Q: By whom are you employed and in what capacity?**

7 A: I am employed by Otter Tail Power Company as a Senior Financial Planner.

8 **Q: Please state you educational background.**

9 A: I have a B.S. in Accounting from Moorhead State University, Moorhead, MN.

10 **Q: What is your employment history?**

11 A: I have worked for Otter Tail Power Company since December of 1999. Prior to that, I
12 was an auditor for a public CPA firm, Paul Julin & Company, in Fergus Falls, MN.

13 **Q: What work experience do you have that is relevant to your testimony?**

14 A: On the Big Stone II Project, my role is primarily coordination of financing the Project.
15 Additionally, I have been involved with tax legislation related to the Project. For Otter Tail
16 Power Company, my role is responsible for financial modeling and analysis as it relates to the
17 Company's strategic, business and financial planning efforts.

18 **II. PURPOSE AND SUMMARY OF TESTIMONY**

19 **Q: What is the purpose of your testimony?**

20 A: The purpose of my testimony is to provide information on the property tax impacts and
21 the sales, use and contractor's excise tax impacts of the Big Stone II Project on the state of South
22 Dakota, Grant County, Big Stone City, SD, Milbank, SD, and Ortonville, MN.

1 **Q: Please summarize your testimony.**

2 A: The Big Stone II proposed plant is estimated to provide significant increased revenue to
3 governmental entities from payments for property, sales, use, and contractor excise taxes.

4 **III. PROPERTY TAX IMPACTS**

5 **Q: Were you involved in evaluating the potential community impacts of property taxes**
6 **related to the proposed BS Unit II?**

7 A: Yes

8 **Q: Please describe your involvement.**

9 A: I helped perform calculations to determine estimated tax impact of the proposed Big
10 Stone Unit II.

11 **Q: Does the Application provide a forecast of the immediate and long-range impact of**
12 **property and other taxed of the affected taxing jurisdictions?**

13 A: Yes, in the Application section 5.1.5.

14 **Q: Were the results of the calculations you made included in the Application?**

15 A: Yes, the result of the calculations is reflected in section 5.1.5.1 through 5.1.5.5 of the
16 permit.

17 **Q: Did you refer to or rely on other studies or work product in making your evaluation**
18 **and/conclusions?**

19 A: We relied on the 2004 property tax values and calculation from the South Dakota
20 Department of Revenue and analyzed raw data specific to the Big Stone II Project using that
21 methodology.

1 **Q: What is the estimated property tax impact of the proposed Big Stone Unit II during**
 2 **construction?**

3 A: The property taxes collected is expected to total \$4.9 million for the 4-year period of
 4 construction, with \$560,000 in the first year, \$1.1 million in the second year and \$1.6 million in
 5 the third and fourth years of construction.

6 **Q: What did you consider in this calculation?**

7 A: The property tax legislation that was passed provided a partial exemption of the value
 8 upon which the property tax is assessed. For the first legal assessment date after construction
 9 begins, there is an exemption of any value over 10% of the full and true value of \$300 million, or
 10 \$30 million. For the second legal assessment date after construction begins, there is an
 11 exemption of any value over 20% of the full and true value of \$300 million, or \$60 million. For
 12 the third and subsequent legal assessment dates after construction begins, there is an exemption
 13 of any value over 30% of the full and true value of \$300 million, or \$90 million. A new levy is
 14 calculated and applied to the maximum full and true value for each year of construction.

15 **Q: What is the estimated property tax impact of the proposed Big Stone Unit II for the**
 16 **ten-year period of time following the first date of commercial operation?**

17 A: The annual property tax impact is expected to be \$4.7 million per year.

18 **Q: How was that figure calculated?**

19 A: Applying the South Dakota Department of Revenue's 2004 property values and mil
 20 levies, the State's revenue requirements for the affected entities of Grant County, Big Stone
 21 Township, and Milbank School District are increased by an estimated 5%, and the \$300,000,000
 22 full and true value for Big Stone Unit II is added to the property value to calculate a new levy.

1 When the new levy is applied to Big Stone Unit II, it results in approximately \$4.7 million per
 2 year that Big Stone Unit II will be contributing to the property tax revenues. A portion of the
 3 \$4.7 million is allocated to the school district and reduces the need for state aid to the district
 4 because more of district's revenue requirement is collected through property taxes.

5 **Q: Were you involved in evaluating the potential community impacts of sales, use and**
 6 **contractor's excise taxes related to the proposed BS Unit II?**

7 A: Yes

8 **Q: Please describe your involvement.**

9 A: I helped analyze the effect of new legislation on the sales, use and contractor's excise tax
 10 as it would relate to the specific financial data of the proposed Big Stone Unit II.

11 **Q: What was the outcome?**

12 A: In the 2005 legislative session in South Dakota, a sales, use and contractor's excise tax
 13 bill passed and was signed into law. The bill provides for a partial refund of sales, use and
 14 contractor's excise tax to a new business facility. It was not limited to power plants. The bill
 15 allows the owner of a new business facility to apply for a refund of 25% to 90%, depending on
 16 the level of project costs, of sales, use and contractor's excise tax paid on costs associated with
 17 the project. There are no refunds available on the first \$10 million of project costs. The bill
 18 allows the state of South Dakota to provide an incentive to new businesses to build in the state
 19 while still collecting additional revenues on the construction expenditures.

20 **Q: Were the results reflected in the Application?**

21 A: Yes, the result of the group's assessment and calculation are reflected in section 5.1.5.1
 22 through 5.1.5.5 of the permit.

1 **Q: What were the estimated projected revenues arising from sales, use and contractor's**
 2 **excise taxes during the design and construction phase of the proposed Big Stone II project?**

3 A: The calculations begin with the amount of project costs expected to be subject to sales or
 4 use tax in South Dakota. The project costs were received from Burns and McDonnell
 5 architecture and design firm. Materials and services are sales taxable in South Dakota. Labor is
 6 not. Using a tax rate of 4%, the tax was calculated at five levels of spending identified in the
 7 legislation and reduced by the rebate percentage allowed at those levels. This analysis showed
 8 approximately \$7 million of new sales/use tax revenue for the state of South Dakota during the
 9 design and construction of Big Stone II. The spending levels and rebate percentages are as
 10 follows:

11	\$0 - \$10M	No rebate
12	\$10M - \$20M	25% rebate
13	\$20M - \$60M	50% rebate
14	\$60M - \$600M	75% rebate
15	\$600M +	90% rebate

16 A contractor's materials, labor and services are all subject to contractor's excise tax in
 17 South Dakota. Using the contractor's excise tax rate of 2%, the calculation resulted in
 18 approximately \$4 million of new revenue for the state, making the total impact \$11 million.

19 **Q: What is the estimated impact of the additional sales tax, use tax, and contractor's**
 20 **excise tax resulting from the proposed Big Stone Unit II, for the ten year period following**
 21 **the first day of commercial operation?**

1 A: No calculations for sales, use, and contractor's excise tax were done for the period of
2 time following construction, because these amounts are not expected to be materially significant.

3 **Q: What other information would you like to add to your testimony?**

4 A: While the group did not conduct in-depth analysis of revenues beyond the state of South
5 Dakota level, other communities may receive benefits from the construction of Big Stone II, as
6 well. Citizens of Grant County, South Dakota may experience a reduction of property taxes
7 because of the increase in property value Big Stone II will provide. Because the State has more
8 property value dollars to assign their revenue requirement to, the levy rate could go down
9 causing a reduction in property taxes for current property owners. The cities of Milbank, SD and
10 Big Stone City, SD both assess a city sales tax. If construction workers or new long-term
11 employees choose to shop, dine or otherwise make purchases in those cities, Milbank and Big
12 Stone City could expect additional revenues.

13 **Q: Does this conclude your testimony?**

14 A: Yes.