

1                                   **BEFORE THE PUBLIC UTILITIES COMMISSION**  
2                                   **OF THE STATE OF SOUTH DAKOTA**

**RECEIVED**

MAR 15 2005

**SOUTH DAKOTA PUBLIC  
UTILITIES COMMISSION**

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6 IN THE MATTER OF THE COMPLAINT FILED )  
7 BY SUPERIOR RENEWABLE ENERGY LLC )  
8 ET AL. AGAINST MONTANA DAKOTA )  
9 UTILITIES CO. REGARDING THE JAVA )  
10 WIND PROJECT )  
11 \_\_\_\_\_ )

Docket No. EL04-016

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13  
14                                   **REBUTTAL TESTIMONY OF KENNETH J. SLATER ON BEHALF OF**  
15                                   **SUPERIOR RENEWABLE ENERGY LLC**  
16

17                                   **I.     INTRODUCTION**

18 **Q.     PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

19  
20 A.     My name is Kenneth J. Slater. My business address is 3370 Habersham Road,  
21           Atlanta, Georgia 30305.

22 **Q.     ARE YOU THE SAME KENNETH J. SLATER WHO PROVIDED**  
23 **DIRECT AND SUPPLEMENTAL TESTIMONY IN THIS PROCEEDING ON**  
24 **BEHALF OF SUPERIOR RENEWABLE ENERGY LLC (SUPERIOR)?**

25  
26 A.     Yes.

27                                   **II.    PURPOSE OF TESTIMONY**

28 **Q.     WHAT IS THE PURPOSE OF THIS REBUTTAL TESTIMONY?**

29  
30 A.     The purpose of this testimony is to rebut portions of the testimony provided by  
31 Ms. Stomberg and Mr. Kee on behalf of Montana-Dakota Utilities (MDU), and Mr.  
32 Woolf on behalf of the Staff of the South Dakota Public Utilities Commission.

33 **Q.     IS THERE ANYTHING IN PARTICULAR THAT THESE THREE**  
34 **WITNESSES HAVE ASSERTED IN COMMON?**  
35

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1 A. No, but there is something that all three of them appear to ignore. That is, the  
2 reason that MDU has decided to ignore the results of its Integrated Resource Planning  
3 exercise and opt for base load coal-fired capacity as its next increment of capacity.

4 **Q. AND WHAT IS THAT REASON?**

5

6 A. The reason is that MDU appears to not want the uncertainty of fuel costs  
7 associated with gas-fired combined cycle generation. Once constructed, with long-term  
8 fuel supply arrangements in place, base load coal generation provides a great amount of  
9 energy at low and predictable cost. Fuel cost risk is minimal.

10 MDU has deliberately bypassed the lowest expected cost system addition,  
11 (gas/light oil fired combined cycle plant), in favor of the predictable, low cost low risk  
12 alternative of coal-fired capacity. In addition, their choice of the 175 MW "Lignite  
13 Vision 21" (LV21) unit provides them with greater control over both the plant itself and  
14 the fuel supply.

15 All of these attributes appear to be worth the cost to MDU, and any other source  
16 which can provide similar cost predictability should be worth the same to MDU.

17 **III. THE TESTIMONY OF MS. ANDREA STOMBERG**

18 **Q. WITH WHAT IN PARTICULAR DO YOU DISAGREE IN MS.**  
19 **STOMBERG'S TESTIMONY?**

20

21 A. There are two matters. First, Ms. Stomberg asserts that MDU had no need for  
22 additional firm capacity in 2005 and 2006, when it was recently seeking to arrange  
23 purchases from various members of MAPP and, in fact made such an arrangement with  
24 Saskatchewan.

25 The apparent reason was that MDU wished to improve the reliability of its  
26 overall resources and avoid MAPP deficiency payments. This was a capacity need seen

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1 by MDU. They cannot, at the same time, have no need for capacity and have a need for  
2 capacity. The Java Wind Facility could satisfy such a need as soon as it comes in service.

3 **Q. WHAT IS YOUR SECOND PROBLEM WITH MS. STOMBERG'S**  
4 **TESTIMONY?**

5  
6 A. My second problem is the way Ms. Stomberg has introduced, for the first time,  
7 two additional base load coal options, as if they were at a similar stage of development to  
8 that of the LV21 unit. Both MDU and the LV 21 unit's coal supplier have spent  
9 considerable sums of money on the development and design of the project, even to the  
10 point of applying for an air emissions permit. MDU has had no such participation  
11 concerning either of the other two supposed projects.

12 **Q. WHY WOULD MS. STOMBERG BE APPEARING TO CHANGE**  
13 **HORSES IN MID-STREAM?**

14  
15 A. All I can think of is that she wished to give Mr. Kee a lower \$/kW capital cost for  
16 a base load coal unit.

17 **Q. SHOULDN'T MDU BE OPTING FOR THE LOWEST \$/KW COAL UNIT?**

18  
19 A. Not necessarily. Other factors, such as the higher level of operational control,  
20 closeness to MDU's system, transmission matters, shortness of construction time and the  
21 lack of fuel transportation needs could all have value to MDU in excess of the difference  
22 in nominal \$/kW capital cost.

23 **IV. MR. EDWARD KEE'S TESTIMONY**

24 **Q. WHAT PROBLEMS HAVE YOU FOUND IN MR. KEE'S TESTIMONY?**

25  
26 A. Mr. Kee starts out telling us that QFs and the associated PURPA rules are no  
27 longer needed, and then proceeds to define a set of avoided costs and power purchase

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1 agreement (PPA) rules which would ensure that in South Dakota there would be no QFs  
2 and no need to apply PURPA rules.

3 **Q. WHAT DO YOU FIND SO WRONG ABOUT MR. KEE'S PROPOSALS?**

4

5 A. The elements that I find to be the most troubling are as follows.

6 (a) The ignoring of all capacity value of the Java Wind Facility prior to 2007.

7 (b) The equating of Java's annual capacity value to three month's rental of  
8 some portable CTs during the period from January 2007 to mid-June of  
9 2010.

10 (c) The adoption of base load coal capacity costs that are simply generic  
11 costs, bearing no relationship to any real coal-fired project, just because  
12 those costs are lower than real project costs.

13 (d) The rush to market based avoided costs, when no real market exists.

14 (e) Completely ignoring this Commission's instructions concerning the  
15 capacity value to be used for base-load avoided capacity costs, and  
16 concerning the length of PPA.

17 (f) The attempt to "pile on" firm transmission costs and unrealistic integration  
18 costs.

19 **Q. YOU HAVE ALREADY DISCUSSED ITEMS (A) AND (C). WHAT IS IT**  
20 **THAT YOU FIND SO OBJECTIONABLE ABOUT (B)?**

21

22 A. Equating the annual capacity value of the Java Project to three months rental of  
23 portable CTs is once again searching for the lowest possible capacity cost to avoid. I do  
24 not believe that it is an option that MDU would actually pursue. But, worse, it  
25 completely ignores the capacity value of the Java Wind Facility during the other nine  
26 months of the year.

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1 **Q. WHAT IS SO BAD ABOUT MARKET RATES FOR THE BASIS OF**  
2 **AVOIDED COSTS?**

3  
4 A. In theory, there is nothing wrong with market based avoided cost rates. Once a  
5 competitive wholesale generation market achieves the state where it has true competition  
6 and established workable rules regarding both energy prices and capacity prices, these  
7 prices could be used to determine avoided costs.

8 But, there is only one such market in the U.S. that has reached this point, (the  
9 New York ISO), and one other that is close to achieving the same situation, (ISO New  
10 England). To get to this stage, there has been the divestiture of generation assets by the  
11 vertically integrated utilities, (so that generators have no other source of income except  
12 the markets.) There has been the progressive development and implementation of market  
13 rules through collaboration among the various market participants and the gaining of the  
14 approval of State and Federal regulators. This progression has taken many years, even in  
15 the former “tight” pools in the U.S. Northeast.

16 The Midwest ISO still has vertically integrated utilities whose ratepayers support  
17 the fixed costs associated with generating plant. A “day ahead” energy market has yet to  
18 come into being. A true competitive market in both capacity and energy is a long way  
19 off.

20 **Q. IN WHAT WAYS HAS MR. KEE IGNORED THIS COMMISSION’S**  
21 **INSTRUCTIONS CONCERNING AVOIDED CAPACITY AND CONCERNING**  
22 **THE LENGTH OF POWER PURCHASE AGREEMENTS?**

23  
24 A. This Commission’s 1982 Order clearly states that the avoided capacity payments  
25 should be made on the average capacity during the peak months. Mr. Kee has chosen to  
26 use the lowest monthly value of MAPP accredited capacity rather than the average. In  
27 addition, he has failed to recognize any value for capacity in addition to this amount in all

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1 other eleven months of the year, which would then provide the customers of MDU with  
2 more value than they were paying for, thus violating the customer indifference concept of  
3 the PURPA rules.

4           Regarding the term of the PPA, this Commission in 1982 explained that long-term  
5 (greater than ten years) PPAs were needed in order that the project could obtain the  
6 necessary financing for construction. This is at least as true today as it was in 1982.

7 **Q.     WHAT IS THE AMOUNT OF CAPACITY FOR WHICH SUPERIOR**  
8 **SHOULD BE PAID RELATIVE TO THE JAVA WIND FACILITY?**

9  
10 A.     Based on the wind data provided by Mr. Ferguson and on the demand curve for  
11 MDU's system that shows that MDU is currently a summer peaking system, I would  
12 follow the SDPUC Decision and Order by averaging the amount of capacity available  
13 from the Java Wind Facility for the four months of June, July, August and September.  
14 The average amount of capacity available during that time is equal to 10.6 megawatts. I  
15 would then require MDU to pay Superior for that amount of avoided base load capacity  
16 on a year-round basis.

17           Since in all non-summer months, the Java Wind Project will provide capacity in  
18 addition to the average summer value of 10.6 MW, I would also require MDU to pay  
19 Superior for the seasonal value of this additional capacity.

20 **Q.     WHY DO YOU SAY THAT MR. KEE IS "PILING ON" REGARDING**  
21 **FIRM TRANSMISSION COSTS AND INTEGRATION COSTS?**

22  
23 A.     Mr. Kee's raising of the issue of the QF obtaining firm transmission rights is quite  
24 out of context. Supplies that are contracted to serve the native load of the utility to which  
25 they are connected are, in any jurisdiction of which I am aware, only responsible for their  
26 interconnection with that system. The transport of its power around the system to the

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1 customers of that system is the subject of a native load transmission reservation for  
2 network service, which is the responsibility of the load serving utility, just as it is for that  
3 utility's own generating units. Regarding the suggested level of system integration costs,  
4 Mr. Kee has used an example which is completely different from that of the Java Wind  
5 Facility and MDU, apparently the most costly example available.

6 **V. TESTIMONY OF MR. TIMOTHY WOOLF**

7 **Q. MR. WOOLF, TESTIFYING ON BEHALF OF THE SCPUC STAFF, WAS**  
8 **CRITICAL OF THE FACT THAT YOU DID NOT PRESENT A COMPLETE**  
9 **CALCULATION OF AVOIDED COSTS FOR THE JAVA WIND FACILITY. DO**  
10 **YOU WISH TO COMMENT ON THAT?**

11  
12 A. Yes. First, one cannot provide a complete calculation without possessing the  
13 appropriate amount of data and information. I believe that it is really the responsibility of  
14 the utility, under the supervision of the PUC, to provide a complete calculation of  
15 avoided costs.

16 Second, I note that Mr. Woolf provided no such calculation himself, although I  
17 understand that he has given MDU some direction so that MDU can perform certain of  
18 the calculations recommended by Mr. Woolf. I have not had the opportunity to provide  
19 comments on whether or not they are correct or even whether or not they are consistent  
20 with Mr. Woolf's testimony.

21 Third, I am concerned that Superior will have gone through considerable time and  
22 expense in this proceeding only to have a decision from the Commission that does not  
23 determine a specific avoided cost price that MDU must pay Superior for the Java Wind  
24 Facility. Such an outcome leaves the door open to further disputes with MDU about  
25 price and other terms.

26 **Q. HOW WOULD YOU ADDRESS THIS LAST CONCERN?**

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1  
2 A. If I were unable from the record evidence to determine an avoided cost payable to  
3 the Java Wind Facility, I would include in my decision clear guidance about how avoided  
4 costs are to be determined. In addition, I would provide a fast track timetable for the  
5 parties to complete the avoided cost calculations and to incorporate the resulting avoided  
6 cost price into a power purchase agreement. I would keep the docket open pending  
7 notification by all parties that the power purchase agreement was completed and I would  
8 provide for some way for the parties to come back before the Commission quickly to  
9 resolve any differences that arise during that time period.

10 **Q. APART FROM MR. WOOLF'S CRITICISM ABOUT THE LACK OF AN**  
11 **AVOIDED COST CALCULATION, DO YOU HAVE ANY PARTICULAR**  
12 **PROBLEMS WITH MR. WOOLF'S TESTIMONY?**

13  
14 A. There is much in Mr. Woolf's testimony which coincides with my own view that I  
15 expressed in my testimony. As I do, he recognized the importance of PPA terms which  
16 are considerably longer than ten years, the importance of calculating avoided capacity as  
17 the average of the summer months rather than the lowest, the importance of recognizing  
18 the value of additional capacity provided by the Java Wind Facility during off-peak  
19 months, and the importance of capturing avoided environmental emission costs.

20 However, there is one area where I have some disagreement with Mr. Woolf, and  
21 that is his insistence on using the avoided cost of a CT peaking unit as the avoided  
22 capacity cost under all circumstances, and recognizing what he calls "capitalized energy"  
23 costs when the actual avoided unit is not a CT, but is a base load unit. To determine  
24 avoided costs for MDU, when the avoided unit is a base load unit, Mr. Woolf wants the  
25 Commission to first use the avoided cost of the CT peaking unit as the avoided capacity  
26 cost. He then wants the Commission to recognize the additional capacity cost of the base



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1 load unit as “capitalized energy costs” and add these to the actual energy cost of the base  
2 load unit to obtain an energy avoided cost for the base load unit. Altogether, these  
3 amounts equal a sum that is equivalent to the actual avoided capacity and energy costs of  
4 the base load unit. This approach has some theoretical support and has been used in other  
5 avoided cost type proceedings. It aims to produce the same total avoided cost as does the  
6 use of the base load unit’s actual capacity and energy costs as avoided capacity and  
7 energy costs. Nevertheless, I believe that Mr. Woolf’s methodology introduces  
8 unnecessary complications and a potential for error when the energy output of the  
9 avoided unit varies according to load levels and the relative price of certain system fuels.  
10 It is also inconsistent with the SDPUC’s Decision and Order.

11 **Q. DO THE FEDERAL PURPA RULES PROVIDE ANY GUIDANCE ON**  
12 **THIS POINT?**

13  
14 A. My reading of the FERC rules and preamble is that there are three valid  
15 approaches. The “avoided unit” concept, the “peaker” method and the total system cost  
16 “with and without” method.

17 The avoided unit method adopts the capacity and energy costs of the avoided, (or  
18 avoidable), unit as the avoided capacity and energy costs. The peaker method uses the  
19 capacity costs of a peaking unit as the avoided capacity cost and the system incremental  
20 energy cost as the avoided energy cost. The total system cost with and without method  
21 requires the determination of an optimal system plan with the QF as part of the system  
22 resources and an optimal system plan without the QF as part of the system resources.  
23 The present value of revenue requirement difference between the plans is the total  
24 avoided cost of the QF.

25 **Q. WHICH OF THESE METHODS IS IN COMMON USE?**

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1  
2 A. I feel sure that all have been used. The most common is the peaker method,  
3 because of its ease of application and lack of controversy over what unit was avoided.  
4 The avoided unit method is the easiest to implement once the avoided unit is agreed  
5 upon. I believe it is the better of these two methods because it replicates in the avoided  
6 capacity costs the costs of acquiring various attributes of the avoided unit that prompted  
7 its choice as the next system addition, whereas the peaker methodology recognizes  
8 nothing of the actual avoided unit, and can therefore understate avoided costs. The  
9 peaker method is particularly inappropriate here given MDU's intention for the LV 21  
10 unit to be the avoided unit. The with and without method sounds good in theory, but is  
11 very difficult to implement in practice, gives "lumpy" results because unit additions have  
12 substantial size, and can result in the comparison of two cases, neither of which  
13 represents what the utility is actually doing.

14 **Q. DOES THE SDPUC 1982 ORDER PROVIDE ANY GUIDANCE ON THIS**  
15 **POINT?**

16  
17 A. My reading of the SDPUC rules finds only one methodology. This method uses  
18 the system incremental cost as the avoided energy cost in all cases, and then chooses the  
19 capacity cost of a peaker as the avoided capacity cost if the PPA has a term of less than  
20 ten years, or the capacity costs of baseload resources as the avoided capacity cost if the  
21 PPA has a term greater than ten years. This means that the SDPUC's method of  
22 determining base load (long term) avoided costs is not one of the FERC recognized  
23 procedures, since it provides for the payment of base load avoided capacity costs along  
24 with peaker avoided energy cost. Mr. Woolf, in his testimony points out this same  
25 problem, but endeavors to pursue it through his proposed avoided cost methodology.

1 **Q. TO THE EXTENT THAT THE SDPUC 1982 ORDER ADOPTS A**  
2 **METHODOLOGY FOR DETERMINING AVOIDED COSTS NOT IDENTIFIED**  
3 **BY THE FERC, DOES THE ORDER NEED TO BE MODIFIED?**

4  
5 A. While the FERC gave the individual state regulatory authorities considerable  
6 discretion to implement PURPA within their jurisdictions, I believe that it would be  
7 better to use a method which did not pair the avoided capacity cost of a base load unit  
8 with the avoided energy cost of a peaker.

9 **VI. RECOMMENDATIONS**

10 **Q. WHAT SHOULD BE DONE ABOUT THIS SEEMING MISMATCH OF**  
11 **CAPACITY AND ENERGY AVOIDED COSTS?**

12  
13 A. I have great difficulty in recommending “a rule change in the middle of a game.”  
14 However, if the Commission believes that the SDPUC Order needs to be modified, I  
15 think that there is a rule change that could help clarify matters and help both the QF and  
16 the MDU customers to achieve a closer match of avoided cost payments to the value of  
17 the power and energy provided.

18 **Q. HOW WOULD YOU CHANGE THE RULES?**

19 A. I would provide for the year-round baseload portion of a QF resource such as the  
20 Java Wind Facility, (based on its average summer capability), under a long-term PPA, to  
21 receive the capacity cost and energy cost of the next baseload addition to MDU’s system  
22 as its avoided capacity cost and avoided energy cost payments, to be paid right from the  
23 time the QF comes into service, (not the time the avoided unit was due to enter service).  
24 This could be achieved by using my method or Mr. Woolf’s method. If during the time  
25 between the in-service date of the QF and the in-service date of the avoided unit, the  
26 presence of the QF resulted in some surplus capacity which could not be contracted to  
27 another party, the avoided capacity cost of this surplus capacity would be deducted from

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1 the base load avoided cost which would otherwise be paid to the QF. The seasonal  
2 capacity of the QF over and above the year-round portion would be treated as a non-  
3 baseload resource and paid seasonal capacity value and system incremental energy cost  
4 as its avoided capacity and energy costs

5 **Q. WHAT IS YOUR RATIONALE FOR THIS AVOIDED COST**  
6 **TREATMENT?**

7  
8 A. Actually, it is fairly simple. Because the baseload portion of the QF is providing  
9 the full value of the next base load resource, including capacity, cost stability and the  
10 lowering of fuel price risks it should receive the full avoided costs, except where there is  
11 some capacity which cannot be avoided, in which case the value of that capacity should  
12 be deducted from the QF's baseload capacity payment. In this way, the QF would  
13 receive and the MDU customers would pay the value that the QF provided to the system

14 **Q. BASED ON WHAT YOU KNOW ABOUT MDU'S CAPACITY NEEDS, IS**  
15 **THERE ANY LIKELIHOOD THAT MDU WOULD IN FACT FIND ITSELF**  
16 **WITH SURPLUS CAPACITY FROM THE JAVA WIND FACILITY?**

17  
18 A. No. MDU is short of capacity now, in amounts that are considerably greater than  
19 the amounts of capacity for which the Java Wind Facility should receive credit under  
20 MAPP accreditation procedures and the SDPUC Decision and Order. This capacity  
21 shortfall is expected to grow more acute with the expiration of the Basin Electric  
22 contract. Once the Java Wind Facility is on line, MDU should be able to contract for any  
23 additional needed capacity in the same manner that it has contracted or attempted to  
24 contract this past year.

25 **Q. WHICH BASE LOAD COAL UNIT COSTS SHOULD BE USED IN THE**  
26 **DETERMINATION OF AVOIDED COSTS FOR THE JAVA WIND PROJECT?**

27

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1 A. Avoided costs for the Java Wind Project should be based on the full capacity and  
2 energy costs of the LV21 Unit, the MDU base load coal unit option for which actual cost  
3 estimates have been prepared, and for which permitting has begun.

4 In my Supplemental Testimony, I provided estimates of the capacity costs for this  
5 unit.

6 It is important that these capacity costs be complemented by good estimates of  
7 full energy costs for the LV21 unit, including fuel costs (including start-up fuel), disposal  
8 costs of solid combustion products, all variable Operation and Maintenance costs and  
9 emission allowance costs.

10 **Q. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY?**

11 A. Yes, it does.

12



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**CERTIFICATE OF SERVICE**

This is to certify that on March 11, 2005, a copy Superior Renewable Energy LLC's Rebuttal Testimony of Kenneth J. Slater was forwarded to the following electronically and United States mail, in accordance with South Dakota Codified Law:

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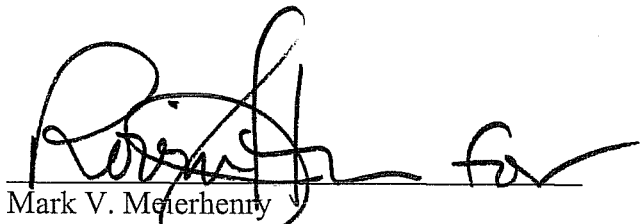
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