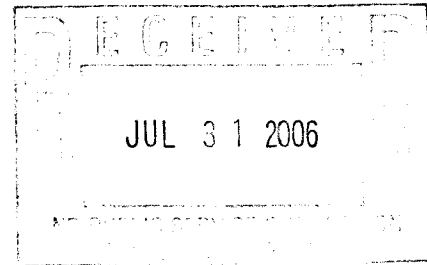


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July 27, 2006



North Dakota Public Service Commission
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BIG STONE II COST ESTIMATE INCREASE

Various parties have expressed concerns with increased cost estimates on the Big Stone II project. One of the main sources for these concerns is an article which appeared in the Austin, Minnesota, newspaper last week.

The article that appeared in the Austin, Minnesota, newspaper does not provide an accurate reflection of the latest Big Stone II project cost estimates. As part of a scheduled work plan process for securing firm price bids for construction of the project in 2011, the Big Stone II project team recently did identify potential cost increases. Preliminary results from detailed vendor bids show that the estimated capital cost of the Big Stone II project, including both plant and transmission, have increased by about 50 percent, from \$1.2 billion to \$1.8 billion. Expressed in energy terms, these updated costs result in approximately a 40 percent project cost increase on a kilowatt basis and a 25 percent increase on a kilowatt-hour basis for the Big Stone II project. These increases are due in part to:

- o Improvements in plant design and expansion of the transmission lines.
- o Increases in commodity costs for plant and transmission materials.
- o Increases in labor costs.
- o Heightened worldwide demand for generation plant construction.

Enhancements in plant design have increased Big Stone II's nominal output rating from 600 MW to 630 MW and improved operating (fuel) efficiency. These improvements will make the plant approximately 20 percent more efficient than the existing fleet of coal plants in the region. At the same time, air quality will improve and mercury emissions will be reduced through the construction of a single wet scrubber that will serve both Big Stone Unit I and Unit II. In addition, transmission line voltage for the Granite Falls line has been increased from 230 kv to 345 kv to accommodate more generation, including renewables. In total, these plant and transmission enhancements account for approximately 25 percent to 35 percent of the estimated capital cost increase.

The increase in worldwide demand for new generating plants has caused escalation in labor rates. Costs have escalated for both on-site plant construction labor and for skilled manufacturing labor needed to build critical plant and transmission components such as boilers and scrubbers.

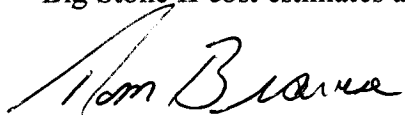
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At the same time, market prices for certain raw materials have escalated significantly, affecting construction and manufacturing costs across the energy sector. These labor and plant construction market increases account for the remaining 60 percent to 70 percent of the estimated capital cost increase for Big Stone II.

The potential additional cost from the recent bid information is considered preliminary. During the next few weeks, in accordance with procedures previously established in agreements between the Applicants, each Applicant will review the bid information. During this process, the costs of Big Stone II may change.

Otter Tail Power Company personnel would be available to visit with commissioners to review Big Stone II cost estimates and to answer any further questions.



Tom Brause, Vice President
Administration