



MONTANA-DAKOTA

UTILITIES CO.

A Division of MDU Resources Group, Inc.

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Bismarck, ND 58501
(701) 222-7900

June 25, 2007

Ilona Jeffcoat-Sacco
Executive Secretary
North Dakota Public Service Commission
State Capitol
Bismarck, ND 58505

Re: **In the Matter of the Advance Determination of Prudence Application of Otter Tail Corporation Case No. PU-06-481**

In the Matter of the Advance Determination of Prudence Application of Montana-Dakota Utilities Co., a Division of MDU Resources Group, Inc. Case No. PU-06-482

Dear Ms. Jeffcoat-Sacco:

Please find enclosed for filing the original and seven copies of Otter Tail Power Corporation's and Montana-Dakota Utilities Co.'s Prehearing Brief.

Please acknowledge receipt of this filing by stamping or initialing the duplicate copy of this letter attached hereto and returning the same in the enclosed, self-addressed envelope.

Sincerely,


Daniel S. Kuntz
Associate General Counsel

c: The attached service list with attachments

STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION

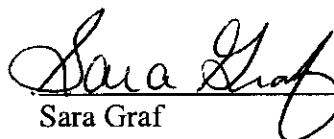
Otter Tail Corporation, Advance
Determination of Prudence
Application

AFFIDAVIT OF SERVICE

Montana-Dakota Utilities Co.,
a Division of MDU Resources Group,
Inc., Advance Determination of Prudence
Application

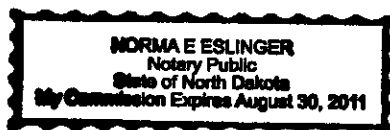
Case Nos. PU-06-481, PU 06-482

Sara Graf, of Bismarck North Dakota, being sworn, says that on June 25, 2007, a copy of the Prehearing Brief filed, in the above referenced cases, has been served upon the North Dakota Public Service Commission and the attached service list via email.


Sara Graf

Subscribed and sworn to before me
this 25th day of June, 2007.


Notary Public



STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION

Otter Tail Corporation, Advance
Determination of Prudence
Application

SERVICE LIST

Montana-Dakota Utilities Co.,
a Division of MDU Resources Group,
Inc., Advance Determination of Prudence
Application

Case Nos. PU-06-481, PU 06-482

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STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION

Otter Tail Corporation and Montana-Dakota Utilities Company, a Division of MDU Resources Group, Inc., Advance Determination of Prudence Application

**APPLICANTS’
PREHEARING BRIEF**

Case Nos. PU-06-481, PU 06-482

I. INTRODUCTION

Otter Tail Power Company (“Otter Tail”) and Montana-Dakota Utilities Co. (“Montana-Dakota”) (collectively the “Applicants”) have applied for an Advanced Determination of Prudence under a relatively new statute – N.D. Cent. C. § 49-05-16 – for a proposed new power plant and transmission lines. This proceeding marks the first occasion the Commission has had to consider a request for an advance decision under the statute. The Applicants have elected to prepare this Prehearing Brief in an effort to identify the significant issues and to address the standards to be applied.

II. THE BIG STONE UNIT II PROJECT

The Applicants, along with five other utilities, propose to construct a 630 MW supercritical pulverized coal facility (Big Stone II) in Big Stone City, South Dakota. Applicants will each own 19.33 percent of Big Stone II. On July 21, 2006, the South Dakota Public Utilities Commission issued an Energy Conversion Facility Permit to Applicants authorizing construction of Big Stone II subject to certain conditions contained in the South Dakota PUC’s Order. The South Dakota Commission also approved construction of the interconnection transmission facilities to be located in South Dakota.

The project also consists of two high voltage transmission lines from the new facility into Minnesota – a 345 kilovolt line to a substation in Granite Falls, Minnesota, and a 230 kV line to a substation in Morris, Minnesota. A decision on the transmission lines is pending before the Minnesota Public Utilities Commission.

The Big Stone Unit II facility will serve hundreds of thousands of customers in six states – North Dakota, South Dakota, Minnesota, Iowa, Montana, and Wisconsin. Otter Tail Power provides electricity to approximately 128,000 customers in North Dakota, South Dakota, and Minnesota. Montana-Dakota serves approximately 120,000 customers in portions of North Dakota, South Dakota, Wyoming, and Montana.

The Big Stone Unit II facility is estimated to cost \$1.361 billion with an in service date of 2011. If the in service date is extended to mid-2012, as expected, the costs will increase 6%. The transmission interconnection and delivery service facilities are expected to cost approximately \$238 million.

III. THE ISSUES

In the January 10, 2007, Notice of Hearing, the Commission identified the following three issues:

1. Whether the resource addition is reasonable and prudent;
2. Whether Applicants have need for additional generating resources; and
3. What alternatives exist for meeting additional generation needs?

A. The Applicants Have Established a Need for Additional Generation.

Otter Tail and Montana-Dakota (and the other five Big Stone co-owners) have each engaged in their own extensive resource planning to determine their future energy and capacity

needs. Otter Tail's and Montana-Dakota's resource planners have presented testimony in this matter showing that their forecasting predicts energy growth over the next decade of more than 2% annually. Both utilities are already experiencing capacity deficits at times, and these deficits continue to grow each year. The Mid-Continent Area Power Pool (MAPP) predicts that continuing load growth will result in a generation capacity deficit by the year 2011 in the region.

The Applicants have also described their increased efforts to obtain more demand side management and conservation to reduce energy and peak demands. These efforts will continue but will not be sufficient to satisfy the increasing demand, even under an aggressive campaign to achieve additional conservation.

The parties to this proceeding do not contest the fact that these utilities are going to require more electricity in the future. Mr. Terry Deason, the consultant to the advocacy staff of the Commission, does not raise any concerns over the fact that the Applicants are going to need additional generating capacity. Mr. Schlissel, for intervenors Dakota Resource Council, does not seriously contest that the Applicants require additional generation capacity in the near future. The argument is over the best way to obtain that additional generation, and that issue is discussed later.

B. The Applicants Have Evaluated Several Possible Alternatives to Big Stone.

The Applicants have analyzed in depth both alternative sites for a supercritical pulverized coal plant, including sites in North Dakota, and also alternative types of generation, including wind, natural gas, biomass, and integrated gasification combined cycle (IGCC).

Alternative Sites. The Applicants identified several different possible sites for a new coal plant, including the Coyote Station site and a Fargo site in North Dakota, and conducted an extensive evaluation of these sites before determining that Big Stone was the preferred location.

The Coyote Station site remains a potential site for future development but is less desirable than Big Stone. Mr. Deason does not suggest that Coyote has advantages over Big Stone that the Applicants have ignored.

Alternative Technologies. The capacity expansion modeling that the Applicants have done, using sophisticated computer models, including the IRP-Manager program that Otter Tail has used for 15 years in all its resource planning, and the Strategist model employed by Montana-Dakota and used by Mr. Schlissel, consistently show that a supercritical plant is a crucial part of the Applicants' future resource needs. Mr. Schlissel criticizes certain assumptions that the Applicants' experienced resource planners made in running the models, relating to ownership of wind turbines and capacity factors, for example, but Applicant's witnesses have explained the reasons for the assumptions made. Mr. Schlissel even challenges the capability of the IRP-Manager model. Mr. Deason has not registered any complaints about the models or the assumptions made by the Applicants.

In addition, sensitivity analyses performed by Burns & McDonnell repeatedly confirm that Big Stone II is the low cost alternative, even when inflationary cost increases are factored in. Both of the reports prepared by Burns & McDonnell analyzing various baseload technologies, including coal, natural gas, wind, and IGCC, are in the record. Mr. Jeff Greig, who was responsible for the studies, prepared written testimony explaining the Burns & McDonnell work and the results. Burns & McDonnell consistently found that a supercritical pulverized coal plant like Big Stone II resulted in a lower cost of energy than the other alternatives.

Mr. Deason testified (page 12) that "All of the reports are quite comprehensive and involve intricate modeling with forecasted assumptions and corresponding economic and engineering inputs." However, he did request clarification regarding some differences between

Mr. Greig's work and the work conducted by Mr. Heidell on behalf of Montana-Dakota. Mr. Greig and Mr. Heidell have explained the reasons for the differences and indicated that the fact that both efforts resulted in a conclusion that Big Stone II was the least cost option confirms the propriety of that determination.

Mr. Schlissel suggests that Burns & McDonnell made some improper assumptions in their work, particularly with regard to the cost of wind energy. Mr. Greig has responded to Mr. Schlissel's complaints and explained the basis for the assumptions.

IV. REASONABLE AND PRUDENT

While the Public Service Commission has not made a decision under this statute before, the Commission is certainly experienced in considering the prudence of utility investment decisions. Is a supercritical pulverized coal plant in South Dakota a sound decision technically, and is it wise economically? The evidence shows that Big Stone II will employ highly efficient generation and emission control technologies, and will be the least cost alternative to meet the Applicants' increasing demands for baseload energy. The following issues are important in confirming the reasonableness and prudence of Big Stone II.

North Dakota customers. Both Applicants serve thousands of customers in North Dakota – commercial, industrial, residential. Their demand for electricity is growing. It takes years to design, obtain approval, and construct a new power plant, as this matter can attest. Big Stone Unit II and related transmission facilities will serve these North Dakota customers beginning in 2012.

Increasing Costs. Big Stone Unit II is estimated to cost \$1.361 billion if completed by 2011. Extending the commercial operation date to 2012 is expected to increase the final costs due to inflationary and other pressures by approximately 6%. However, the costs of every type

of generation are also going up. The concerns of increasing costs affect all the generation choices. Big Stone Unit II nonetheless remains the lowest cost alternative for both Applicants.

Fuel Supply and Deliverability. There is a concern about the availability and deliverability of Powder River Basin coal. The Applicants are not unmindful of this concern and have devoted significant effort, along with the Burlington Northern Santa Fe Railway, to minimizing this concern. The Applicants fully expect a reliable and consistent coal supply. In addition, Mr. Ward Uggerud, Senior Vice President for Otter Tail Power, the company that will operate Big Stone II, has testified that the Applicants are committed to carrying out the recommendations made by Mr. Terry Deason to lessen the concern regarding coal supply.

Future Environmental Regulation. The Big Stone II facility will have a wet scrubber to control emissions of sulfur dioxide from both units, so that sulfur dioxide emissions will be 1/7 of what they are now, a baghouse filter to control emissions of particulate matter, and a selective catalytic reduction system to reduce nitrogen oxide emissions. The Applicants have also committed to control mercury emissions, and over time the emission of mercury will be significantly reduced from what it is presently, even with the addition of Unit II.

Intervenors have presented testimony suggesting that the Applicants have ignored the possibility of future regulation of carbon. On April 24, 2007, the Administrative Law Judge (ALJ) properly ruled that pursuant to N.D. Cent. C § 49-02-3, “no party shall offer . . . any evidence of ‘environmental externality values’ as defined and prohibited by the provisions of [the statute].” On June 22, 2007 the ALJ granted the Applicants’ motion to strike certain portions of Mr. Schlissel’s testimony relating to future carbon regulation. Precluding evidence on this point is not a refusal to recognize that future regulations may be promulgated; it is a recognition of North Dakota statutory requirements that electric generation planning should not

be based on speculation and that coal plants will still need to be built as part of a total generation mix to meet the Country's energy demands.

Future Generating Facilities in North Dakota. The Commission is understandably interested in considering what effect construction of Big Stone II might have on development of new generating facilities in North Dakota. The Applicants' best judgment is that construction of Big Stone II, along with new transmission associated with the facility and other new transmission under consideration, will not impair future development in the state but indeed, will be a positive factor enhancing development of new generation facilities of various types, both fossil fuel and wind, in North Dakota.

The Transmission Lines. The Applicants believe that it is prudent to construct the Granite Falls interconnection transmission line to a capacity of 345 kV. As Mr. Rogelstad explains in his testimony, providing this extra capacity beyond what is needed to interconnect Unit II provides a number of significant benefits. It helps to alleviate the North Dakota Export (NDEX) transmission constraint, a limitation on the transport of electricity in the region. It especially encourages the future development of wind projects. And it is consistent with other regional transmission plans, including the CapX 2020 Vision Plan, a transmission plan by a number of utilities to construct several long 345 kV transmission lines throughout the region. The Midwest Independent Transmission System Operator (MISO) has concluded that construction of the new transmission interconnection as proposed by the Applicants, including constructing the Granite Falls line at 345 kV capability, is a reasonable course of action.

V. CONCLUSION

Otter Tail Power Company and Montana-Dakota Utilities respectfully request that the Administrative Law Judge determine that the addition of the Big Stone Unit II facility and

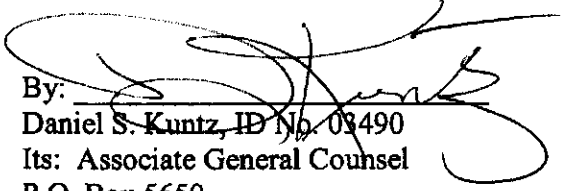
accompanying high voltage transmission lines is reasonable and prudent. The Applicants do not object to the inclusion of the conditions recommended by Mr. Deason as part of the decision.

Dated: June th25, 2007.

Respectfully submitted,

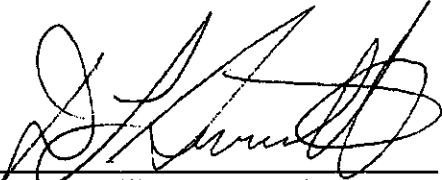
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