

**SETTLEMENT AGREEMENT  
BIG STONE PROJECT  
AUGUST 31, 2007**

**SUMMARY OF TERMS**

This document summarizes the terms of a Settlement Agreement entered into by the Minnesota Department of Commerce and the Big Stone Partners in the Certificate of Need proceeding before the Minnesota Public Utilities Commission.

**Background Section** – describes the BSII transmission and generation projects, describes that the MPUC's jurisdiction is limited to the transmission project, and provides a list of reasons why the settlement agreement is in the public interest, including the reasons why the plant is needed.

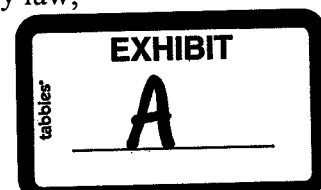
**Section 1 – Jurisdiction and Parties** - describes the parties to the Settlement Agreement and the jurisdiction of the Public Utilities Commission.

**Section 2 – Recommendation** – states that the Agreement satisfies the Department's concerns expressed in the proceeding regarding the applicable Certificate of Need criteria, and that the parties jointly recommend approval of the transmission project CON and route permits.

**Section 3 – Facilities' Cost and Cost Recovery** – provides, among other things, information on the estimated capital cost of the transmission (\$109.8M in 2006 dollars) and Big Stone Unit II (\$1.4B based on 2012 COD), that the commitments made or to be made by the owners with respect to the proposed high voltage transmission lines, Big Stone Unit II, for expenditures as a result of carbon dioxide emission offsets (section 4.0), mercury (section 5.0), Renewable Energy Standard and Community Based Energy Development ("CBED") (Section 7.0), and for all commitments attributable to the Settlement Agreement, are made with the expectation that OTP and MDU will obtain cost recovery of all reasonable and prudent costs from all state public utilities' commissions having jurisdiction.

**Section 4 – Carbon Dioxide Emissions** – provides that the BSII Owners with load in Minnesota will offset 100% of Minnesota CO<sub>2</sub> emissions through a number of different options, including:

- carbon capture and sequestration;
- emission reductions and efficiency improvements in the owner/operators' systems;
- carbon trading on a recognized exchange;
- purchases of carbon credits from a credible offset operation;
- setting aside funds in a separate account on the Owners' books based on a price of \$10.0 per ton of CO<sub>2</sub>;
- making investment in transmission that enhances renewable energy development beyond that which would have otherwise occurred. Within two years of approval of the CON, the Minnesota owners will file with the MPUC a proposed method for calculating the offset method (e.g., as a percentage of revenue requirements);
- adding renewables or investment in efficiencies beyond that required by law;



- achieving energy efficiency savings beyond amounts required by law; or
- any other offset method that results in “permanent quantifiable, verifiable, and enforceable” GHG reductions. The Minnesota Owners will not be required to offset GHG emissions under both a Minnesota and federal GHG program at the same time.

Also provides that use of the funds will be restricted to carbon offsets or research. Provides that the offset requirement will terminate upon the earlier of (1) the effective date of a Minnesota or federal GHG program designed to reduce GHG emissions, or (2) four years after the commercial operation date of Big Stone Unit II if a Minnesota or federal GHG program has not been adopted and implemented by that date.

**Section 5 – Mercury** – the owners agree to install equipment to control emissions of mercury from both Unit I and Unit II such that the control equipment is equivalent to what is required of certain large generating facilities in Minnesota (*i.e.*, Allen S. King, Sherco, and Clay Boswell) under the Minnesota Mercury Emission Reduction Act (*i.e.*, the technology most likely to result in removal of at least 90% mercury removal), within four years from the commercial operation date of Big Stone Unit II.

**Section 6 – Big Stone Lake** - the owners agree to perform tests on the groundwater supply to evaluate its production and impacts relative to the modeling conducted pursuant to the groundwater permit. Should the finding of the tests differ materially from the model results, the SD Water Management Board will have the opportunity to reconsider the conditions to of the groundwater permit. Recognizes that long-term management of the lake is best done through state collaboration (SD/MN), and owners agree to participate in SD/MN meetings when asked.

**Section 7 – Renewables** – the Minnesota owners commit to own or procure 24% of their Minnesota Renewable Energy Standard (RES) obligations for the year 2012 via Community-Based Energy Development (C-BED) projects, subject to commercially reasonable terms (including price). This commitment will be fulfilled no later than four years after the Big Stone Unit II Commercial Operation Date (COD). The Minnesota owners will also take reasonable steps to identify additional C-BED projects which could help them meet their RES obligations.

**Section 8 – Conservation** – the owners with load in Minnesota will file a report by June 1, 2008 that describes how each utility intends to meet its new RES obligations. SMMPA, CMMPA, HCPD, and GRE agree to strive to aggregate the DSM filings of their Minnesota members. The owners who have established electric water heater incentives that are not part of a DSM program will terminate such programs by July 1, 2008, and the owners will work in good faith with any of their Minnesota members who also have such programs to eliminate the programs by July 1, 2010.

**Section 9 – Miscellaneous** – among the noteworthy provisions here are: that the Agreement creates no binding precedent; that the Agreement is null and void if the MPUC imposes undue conditions or otherwise changes materially its terms; or does not approve the Route Permits; or if for any reason Big Stone II is not constructed. The commitments are binding so long as a partner is an owner of the project or otherwise committed to it; no partner is responsible for the obligations of any other individual owner/partner.