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December 22, 2008

PUBLIC SERVICE COMMISSION

Fargo office: 4334 18th Avenue S.W.
Suite 200, P.O. Box 9156
Fargo, ND
58106-9156
Fax: 701-232-4108

Fergus Falls office: 215 S. Cascade Street
P.O. Box 496
Fergus Falls, MN
56538-0496
Fax: 218-998-3165

1-866-410-8780 • www.ottertail.com

Reply to Fergus Falls office
Direct: 218-998-7152

Mr. Darrell Nitschke
Executive Secretary
Director of Administration
North Dakota Public Service Commission
600 East Boulevard, Dept. 408
Bismarck, ND 58505-0408

*Via E-Filing to ndpsc@nd.gov
and UPS Overnight Mail*

**Re: Otter Tail Corporation Advance Determination of Prudence Application and MDU
Advance Determination of Prudence Application
Case Nos. PU-06-481 and PU-06-482**

Dear Executive Secretary Nitschke:

Pursuant to Ordering Clauses 6 and 8 of the Commission's August 27, 2008 Order issuing an Advance Determination of Prudence in the proposed Big Stone II generation and transmission project, enclosed please find an original and seven (7) copies each of the First Quarterly Report and First Annual Report.

Thank you for your attention to this matter.

Sincerely,

Mark B. Bring
Associate General Counsel
MBB/nlo

cc: Daniel S. Kuntz, Esq.
Mark Rolfes

Enclosures

351 PU-06-482 Filed: 12/22/2008 Pages: 7
First Quarterly Report and First Annual Report

346 PU-06-481 Filed: 12/22/2008 Pages: 7
First Quarterly Report and First Annual Report

Otter Tail Corporation
Associate General Counsel, Mark Bring

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**STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION**

**Otter Tail Corporation
Advance Determination of Prudence Application**

Case No. PU-06-481

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

Case No. PU-06-482

**First Quarterly Report for the
Big Stone II Project**

**Pursuant to Ordering Clause 6
of the Commission's Order
of August 27, 2008**

The Commission's Order of August 27, 2008, required the Applicants to advise the Commission quarterly, beginning January 1, 2009, of the progress in obtaining all necessary approvals, permits, and licenses from other regulatory bodies and of the anticipated date of commencement of construction.

At this time, the Big Stone II Project has received the following permits from the State of South Dakota:

- South Dakota Energy Conversion Facility Permit
- South Dakota Permit to Construct Transmission Facilities
- South Dakota Surface Water Appropriations Permit
- South Dakota Groundwater Appropriations Permit
- South Dakota Prevention of Significant Deterioration Air Quality Construction ("PSD") Permit for Big Stone II
- South Dakota Title V Air Quality Permit and Acid Rain Permit for the Big Stone Plant site

With the exception of the South Dakota PSD Permit and the Title V Permit, all of the above-referenced permits are beyond the appeal period. The South Dakota Energy Conversion Facility Permit was appealed to the South Dakota Circuit Court (Sixth Judicial District) and the South Dakota Supreme Court. Both courts affirmed the decision of the South Dakota Public Utilities Commission.

The South Dakota Board of Minerals and Environment ("BME") approved the South Dakota PSD and Title V Permits at its meeting on November 20, 2008. Final issuance of the Title V permit is subject to 45-day review by the U.S. Environmental Protection Agency ("EPA") as provided by the Clean Air Act. On December 18, 2008, environmental intervenors filed a Notice of Appeal to the South Dakota Circuit Court (Sixth Judicial Circuit) from the BME's approval of the PSD and Title V permits.

Two necessary permit proceedings are still underway, the Minnesota Certificate of Need and Route Permits for the transmission facilities located in Minnesota and the federal Environment Impact Statement.

The Minnesota Public Utilities Commission ("MPUC") and an administrative law judge ("ALJ") from the Minnesota Office of Administrative Hearings conducted hearings on November 12 and 13 to review a report provided by an independent expert retained by the MPUC, Boston Pacific Company. During these two days of hearings, Boston Pacific presented its report subject to rebuttal testimony from the Big Stone II Project Applicants and environmental intervenors. The schedule calls for the November hearings to be summarized in a report from the ALJ scheduled to be delivered no later than December 24, 2008. If the ALJ timely delivers the report, we expect final oral arguments, deliberation, and decision by the MPUC during the second week of January 2009.

The federal Environmental Impact Statement ("EIS") process led by the Western Area Power Administration ("Western") continues to advance deliberately. Western and its third party subcontractor continue to develop the Final EIS, which will include comments on the Draft EIS and the Supplemental Draft EIS, and responses to those comments. Western will develop a Record of Decision following internal review and approval of the Final EIS. It is anticipated that

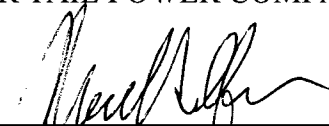
publication of the Record of Decision in the *Federal Register* will occur toward the end of first quarter 2009.

The anticipated date of commencement of construction is late summer 2010. This is subject to completion of permitting and the absence of a stay on the effect of any appealed permit.

Dated this 22 day of December, 2008.

OTTER TAIL CORPORATION, DBA
OTTER TAIL POWER COMPANY

By: _____



Mark Rolfes, Project Manager

**STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION**

**Otter Tail Corporation
Advance Determination of Prudence Application**

Case No. PU-06-481

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

Case No. PU-06-482

**First Annual Report for the
Big Stone II Project**

**Pursuant to Ordering Clause 8
of the Commission's Order
of August 27, 2008**

The Commission's Order of August 27, 2008, requires the Applicants, beginning January 1, 2009, to annually provide a forecasted budget for construction costs for the upcoming year. The Order further required, beginning with the January 1, 2010 report, that each report include the actual expenditures for the year, an analysis of any deviations from the forecasted budget, and an explanation of changes in forecast for future years.

The forecasted Big Stone II Project construction costs for 2009 are shown below:

January	\$416,832
February	\$529,135
March	\$717,596
April	\$908,799
May	\$1,405,842
June	\$1,569,536
July	\$1,146,970
August	\$1,238,853
September	\$2,148,579
October	\$1,043,759
November	\$1,240,291
December	<u>\$12,785,273</u>
Total for 2009	<u>\$25,151,465</u>

These forecasts reflect the projected costs for the jointly-owned Big Stone II generation plant and Big Stone Transmission projects. The Applicants' shares of these costs will be in proportion to their respective levels of ownership.

The Applicants are both participating in the projects at approximately 25 percent.

The forecasts are highly dependent on the permitting process and other dynamic assumptions. These forecasts assume, among other things:

- Minnesota certificate of need and route permits are received in January 2009;
- Federal Environmental Impact Statement record of decision is received in March 2009;
- Co-owners re-engage Black & Veatch in March 2009 to develop a cost estimate and negotiate contracts with suppliers; and
- Co-owners execute contracts with suppliers on the major plant components in November 2009 and make "notice to proceed" payments in December 2009.

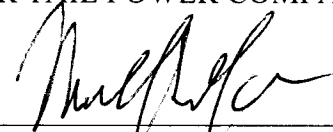
The Applicants propose that the due date for future annual reports be changed to February 1 since actual expenditures for the year are not available by January 1. By February 1, actual expenditures for a prior year would be available, as would a forecasted budget for a current year.

Given that this proposal is essentially administrative in nature, the Applicants request that this latitude in future reporting be approved in the absence of a formal motion.

Dated this 22 day of December, 2008.

OTTER TAIL CORPORATION, DBA
OTTER TAIL POWER COMPANY

By: _____



Mark Rolles, Project Manager