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June 12, 2009

Reply to Fergus Falls office
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Mr. Darrell Nitschke
Executive Secretary
North Dakota Public Service Commission
State Capitol
600 East Boulevard, Department 408
Bismarck, ND 58505-0480

*Via E-Filing
and UPS Overnight Mail*

RE: 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

Dear Mr. Nitschke:

Please accept for filing the enclosed the Third Quarterly Report for the Big Stone II Project, Pursuant to Ordering Clause 6 of the Commission's Order of August 27, 2008.

An original and seven copies of the Report are being sent via UPS overnight mail to your attention for filing.

Sincerely,

Mark B. Bring
Associate General Counsel
MBB:nlo

Enclosures

**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

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

July 1, 2009 Quarter

**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 Preconstruction (PSD) Permit for Big Stone II
South Dakota Title V Air Quality and Acid Rain Permit (Operating Permit)

The South Dakota Energy Conversion Facility Permit was appealed to the South Dakota Circuit Court and the South Dakota Supreme Court. Both courts affirmed the decision of the South Dakota Public Utilities Commission.

With the exception of the PSD and Title V Permits, all of the remaining above-referenced permits are beyond the appeal period.

On November 20, 2008, the South Dakota Board of Minerals and Environment (BME) unanimously approved the Big Stone II participating utilities' application for a PSD permit for Big Stone II and a proposed Title V Operating Permit for the Big Stone site. A PSD permit is a pre-construction permit designed to protect air quality. Joint petitioners Sierra Club and Clean Water Action have appealed the administrative decision on the PSD permit to the Circuit Court of Hughes County. The appeal is currently pending before the court. The issuance of the Title V permit is subject to review by the U.S. Environmental Protection Agency (EPA). On January 22, 2009, the EPA filed a formal objection to the proposed Title V permit.

EPA's objection with the DENR identified three general areas of concern with the draft Title V Permit. Under the provisions of the Clean Air Act, the DENR had 90 days to correct the deficiencies in the permit. The DENR revised the draft Title V Permit and made the revised draft permit available for public comment for a 30-day period beginning on February 11, 2009. The BME held a public hearing to consider the revised draft Title V Permit on April 20, 2009, in Pierre, South Dakota. The BME approved the revised draft permit, and the EPA again had a 45-day review period before the permit could become final. The period ended on June 6, without comment from the EPA. The South Dakota Department of Environment and Natural Resources issued the Title V Permit as final on June 9, 2009.

Two additional permit proceedings are at differing stages: a consolidated case docket for the Certificate of Need (CON) and Route Permit for transmission facilities located in Minnesota, and the Federal Environmental Impact Statement (EIS).

The Minnesota Public Utilities Commission (MPUC) heard final oral arguments on the CON and Route Permit on January 13, 2009. Deliberation and decision occurred on January 15, 2009. In

a unanimous decision, the MPUC approved both the CON and Route Permit, subject to a variety of conditions.

On March 17, 2009, the MPUC issued its written orders on the CON and Route Permit. While not included as conditions on the CON, the MPUC put Otter Tail on notice of the MPUC's present intention to shield Otter Tail's Minnesota ratepayers from bearing any construction costs exceeding the \$2600-\$3000/kW range and carbon dioxide regulation costs exceeding \$26/ton, adjusted as appropriate for the passage of time, including inflation.

The Minnesota process allows parties the opportunity to request reconsideration/clarification of the MPUC decision. Both the environmental interveners and the Big Stone II applicants filed such requests. The MPUC denied the requests on May 6, 2009. This brings to a conclusion the Certificate of Need process before the MPUC.

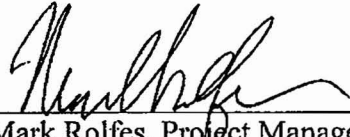
The Joint Interveners filed an appeal from the Certificate of Need issuance with the Minnesota Court of Appeals on June 5, 2009.

The EIS process led by the Western Area Power Administration (Western) continues to advance deliberately. Western has approved the Final EIS, which includes comments on the Draft EIS and the Supplemental Draft EIS, and responses to those comments. EPA will publish a notice of availability of the Final EIS in the *Federal Register*. EPA does not review the EIS prior to its publication; it is simply fulfilling its role under the National Environmental Policy Act. Western's Record of Decision (ROD) will be published in the *Federal Register* no sooner than 30 days from the date that EPA publishes its Notice of Availability of the Final EIS in the Federal Register. It is anticipated that publication of the ROD in the *Federal Register* will occur in August 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 12 day of June 2009.

OTTER TAIL CORPORATION, DBA
OTTER TAIL POWER COMPANY

By: 
Mark Rolfes, Project Manager