



MONTANA-DAKOTA

UTILITIES CO.

A Division of MDU Resources Group, Inc.

400 North Fourth Street
Bismarck, ND 58501
(701) 222-7900

September 7, 2011

Executive Secretary
North Dakota Public Service Commission
State Capitol Building
Bismarck, ND 58505

Re: Application for An Advance Determination
of Prudence Big Stone Air Quality Control
System Project
Case No. PU-11-163

Montana-Dakota Utilities Co. (Montana-Dakota), a Division of MDU Resources Group, Inc., herewith submits an original and seven (7) copies of Montana-Dakota Exhibit 4 which has been reformatted to include line numbers in accordance with the Prehearing Order dated September 6, 2011.

Otter Tail Power Company is submitting Joint Exhibits 1-3 reformatted to include line numbers in Case Nos. PU-11-163 and PU-11-165.

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

Sincerely,

Tamie A. Aberle
Regulatory Affairs Manager

Enclosure

Cc: Daniel S. Kuntz
Certificate of Service

- 43 PU-11-165 Filed 09/08/2011 Pages: 4
Reformatted MDU exhibit 4
Montana-Dakota Utilities Co., a Division of MDU Resources Group, Inc.
Tamie Aberle
- 44 PU-11-163 Filed 09/08/2011 Pages: 4
Reformatted MDU exhibit 4
Montana-Dakota Utilities Co., a Division of MDU Resources Group, Inc.
Tamie Aberle

CERTIFICATE OF SERVICE

Montana-Dakota Utilities Co., a Division of)
MDU Resources Group, Inc. Application for) **Case No. PU-11-163**
Advance Determination of Prudence)
Big Stone Air Quality Control System)
Project)

I, Sara J. Graf, being first duly sworn on oath, deposes and says: that on the 7th day of September, 2011, I served the attached reformatted Montana-Dakota Exhibit 4 in Case No. PU-11-163 adding line numbers for each line of text, on the North Dakota Public Service Commission by e-mail and regular mail and to all other persons list below by email.

Honorable Al. Wahl (Cover Letter Only)
Administrative Law Judge
aljwahl@gmail.com

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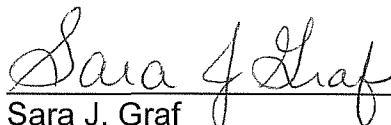
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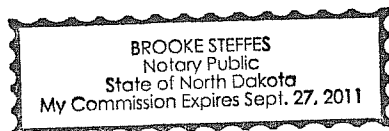
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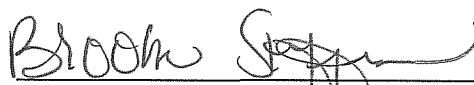
Chris Marohl
Public Service Commission
camarohl@nd.gov

Pete Beithon
Otter Tail Power Company
pbeithon@otpc.com


Sara J. Graf

Subscribed and sworn to before me this 7th day of September, 2011.




Brooke Steffes, Notary Public
Burleigh County, North Dakota
My Commission Expires: 09/27/2011

IV. Montana-Dakota Exhibit 4 -MONTANA-DAKOTA'S ASSESSMENT OF PENDING ENVIRONMENTAL REGULATIONS TO THE BIG STONE PLANT

1 Montana-Dakota's analysis of the operational impacts of the alternative scenarios developed by
2 OTP demonstrates that the AQCS Project should be implemented to assure that the current
3 function of the Big Stone Plant in Montana-Dakota's system is maintained, including
4 dispatchable baseload and load following capability. In contrast, the other alternatives would
5 dramatically increase the exposure of Montana-Dakota's customers to the market price of power
6 and to fluctuations in the price of natural gas, while reducing the load following capability of the
7 Plant.

8 The Big Stone Plant represents a significant low cost baseload resource as part of Montana-
9 Dakota's portfolio accounting for approximately 20 percent of the Planning Resource Credits
10 required to meet the Midwest ISO's resource adequacy requirements while meeting
11 approximately 23 percent of Montana-Dakota's retail customers' energy requirements. As a low
12 cost producer the Big Stone Plant is also a significant contributor to wholesale sales that provide
13 benefits to Montana-Dakota's retail customers.

14 Montana-Dakota separately analyzed the cost effectiveness of the Big Stone AQCS Project as
15 part of its 2011 Integrated Resource Plan (2011 IRP) submitted to the Commission on May 12,
16 2011. As summarized in the Executive Summary of the IRP and as provided in more detail in
17 the Supply Side and Integration Analysis in Attachment C of the 2011 IRP, the AQCS Project
18 allowing the continued operation of the Big Stone Plant was modeled as a resource addition
19 beginning in 2015. In Montana-Dakota's IRP, the AQCS project was compared with other
20 alternatives to determine if it would be more cost-effective to retire the Big Stone plant or install
21 the AQCS to continue the operation of the plant

22 The results of the Base Case analysis in the 2011 IRP and the results of each scenario modeled to
23 test various sensitivities indicate that the AQCS Project is a least cost alternative to meet the
24 capacity and energy requirements of Montana-Dakota's customers. The sensitivity scenarios
25 consisted of various assumptions regarding carbon taxes, low and high natural gas prices, low
26 and high load growth, high environmental costs, higher capital costs for combustion turbines,
27 and higher costs for the Big Stone AQCS project. In the Big Stone AQCS scenario, the project
28 cost was incrementally increased to determine at what point other alternatives would be selected
29 over the Big Stone AQCS project. With the modeled cost of the Big Stone AQCS project nearly
30 doubled from the original estimated cost, the project was still selected as part of Montana-
31 Dakota's resource plan recommended in the 2011 IRP.

32 Montana-Dakota is not requesting any decision on cost recovery at this time. This Application is
33 solely a request for an advance determination that it is prudent for Montana-Dakota to undertake
34 the design, construction and operation of the Big Stone AQCS Project.

35 Montana-Dakota expects to seek cost recovery for the Big Stone AQCS Project through retail
36 rates in future general rate cases or other cost recovery mechanisms. Montana-Dakota

1 understands that it must show that the project costs are reasonable. (N.D. Cent. Code § 49-05-
2 16) Montana-Dakota further understands that the Commission may accept, modify, or reject any
3 of the project costs found to be unreasonable in a future cost recovery proceeding, even though
4 the Commission has made a determination that the Big Stone AQCS is prudent and should be
5 implemented.