

April 4, 2012

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

**Re: Montana-Dakota Utilities Co., a Division of MDU Resources
Group, Inc. Application for Advance Determination of Prudence
Big Stone Air Quality Control System Project - PU-11-163
Otter Tail Power Company Application for Advance Determination
of Prudence Big Stone Air Quality Control System Project - PU-11-165**

Dear Mr. Nitschke:

The parties observed the Commission's March 26, 2012 work session in the above-referenced dockets. At the conclusion of the work session, advisory staff was directed to draft an order adopting a modified advance determination of prudence (ADP) rather than an order on the January 9, 2012 settlement agreement, as requested by the parties.

During the work session, it became apparent there was a misunderstanding regarding the testimony and recommendation of Advocacy Staff's expert Richard Hahn. Specifically, it appeared one or more commissioners may have erroneously believed Mr. Hahn recommended approval of an ADP for a suite of emission control technologies that differed from what is required by South Dakota's state implementation plan (SIP) for regional haze.

The parties wish to clarify that Mr. Hahn's testimony urged approval of Applicants' requests for ADP with the particular suite of control technologies called for by South Dakota's SIP, including the selective catalytic reduction (SCR) technology. See Hearing Transcript at 298-301 (testimony of Mr. Hahn).

The parties believe the settlement agreement also addresses any concern regarding project cost approval by requiring that (upon issuance of an ADP) the utilities will provide periodic reports to the Commission (including information regarding the amounts and types of costs incurred with respect to the AQCS project), and any changed circumstances that will materially affect the cost, schedule or installation of the AQCS project, and by acknowledging that the Commission retains authority to review for reasonableness actual expenditures incurred by the Applicants in undertaking the project.

On March 29, 2012, the regional administrator of the U.S. Environmental Protection Agency (EPA) Region VIII approved South Dakota's SIP. EPA's SIP approval will now be published in the Federal Register, and the period for coming into compliance with the SIP will commence.

The Big Stone Plant must install the SIP-required suite of emission control technologies (including SCR technology), or the generation resource cannot continue to be operated. Quite simply, an ADP for an alternative suite of emission control technologies will not allow continued operation of the Big Stone Plant. As the record reflects, non-compliance would expose the co-owners of the Big Stone Plant and their North Dakota customers to the prospect of finding a significantly more expensive replacement generation resource (or the untenable risk of relying on the market).

The parties request the opportunity to appear at a work session in support of the proposed settlement agreement to address questions the commissioners may have about the matter. Because commercial aspects of the project schedule are heavily dependent upon timely and satisfactory completion of this significant regulatory matter, we urge the Commission to schedule any such work session at the earliest opportunity.

The record reflects that the Big Stone AQCS project schedule is designed to take advantage of a favorable market for emissions control projects, just ahead of a "bubble" of projects likely to be precipitated by the Cross-State Air Pollution Rule and the utility MACT rule (also known as the Mercury Air Toxics Standards or MATS).

Additional delay in approving the ADP could require renegotiation of commercial contracts, consequent project cost escalation, need for OTP to revisit the request for an advance determination of prudence from the Minnesota Public Utilities Commission (which approved OTP's request by written order dated January 23, 2012) due to new cost projections, and result in a one-year delay in project completion (including potential cost escalation for market reliance during a later scheduled outage).

Thank you for your attention to this matter. Please feel free to contact any one of us if you need additional information.

Very truly yours,

/s/ Mark B. Bring
Mark B. Bring
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Otter Tail Corporation
on behalf of Otter Tail Power Company

/s/ Daniel S. Kuntz
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