

215 South Cascade Street
PO Box 496
Fergus Falls, Minnesota 56538-0496
218 739-8200
www.otpc.com (web site)



January 14, 2015

Mr. Darrell Nitschke
Director of Administration/Executive Secretary
North Dakota Public Service Commission
State Capitol
Bismarck, ND 58505

**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
Case No. PU-11-163**

**Otter Tail Power Company Application for Advance Determination of Prudence
Big Stone Air Quality Control System Project
Case No. PU-11-165**

Quarterly Report - Compliance Filing

Dear Mr. Nitschke:

On May 9, 2012 the North Dakota Public Service Commission issued a Findings of Fact Conclusions of Law and Order Granting Advance Determination of Prudence in the above described cases. In compliance with ordering paragraph 2, Otter Tail Power Company hereby submits the Big Stone Air Quality Control System Project Report. This report has been electronically filed. Enclosed you will find an original and seven (7) copies.

I have been authorized by Montana-Dakota Utilities Co. to file this report in both cases described above.

116 PU-11-165 Filed 01/14/2015 Pages: 10
Compliance filing - Big Stone Air Quality Control System Project Report
Otter Tail Power Company
Mark Rolfes, P.E.

An Equal Opportunity Employer

117 PU-11-163 Filed 01/14/2015 Pages: 10
Compliance filing - Big Stone Air Quality Control System Project Report
Otter Tail Power Company
Mark Rolfes, P.E.

Mr. Darrell Nitschke

January 14, 2015

Page 2

If you have any questions regarding this report, please contact me at 218-739-8648 or at mrolfes@otpc.com.

Sincerely,

/s/ MARK ROLFES

Mark Rolfes, P.E.

Manager, Generation Development

wao

Enclosures

By electronic filing and US mail

c: Tamie A. Aberle (by email)

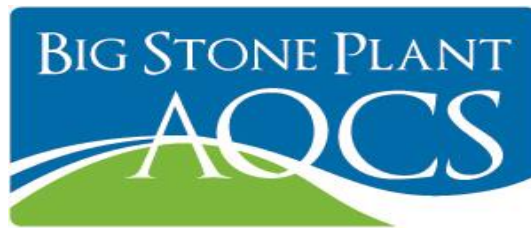
**BIG STONE PLANT
AIR QUALITY CONTROL SYSTEM PROJECT
QUARTERLY REPORT**

TO THE

NORTH DAKOTA PUBLIC SERVICE COMMISSION

FOR THE

PERIOD OCTOBER 1 THROUGH DECEMBER 31, 2014



January 14, 2015

Montana-Dakota Utilities Co. and Otter Tail Power Company submit this report on the Big Stone Plant Air Quality Control System (“AQCS”) Project in compliance with the North Dakota Public Service Commission May 9, 2012 Order in Cases No. PU-11-163 & PU-11-165, ordering paragraph 2.

This report describes progress made on the project during the quarter ending December 31, 2014. Specifically, in compliance with the above-referenced Order, this report includes information on the status of the United States Environmental Protection Agency (“EPA”) review of the South Dakota Regional Haze State Implementation Plan (“SIP”); it describes the types and amounts of costs incurred on the project to date; and it describes changed circumstances that are expected to affect the cost, schedule or installation of the AQCS Project.

Section I

Status of the United States Environmental Protection Agency’s (“EPA”) review of the South Dakota Regional Haze State Implementation Plan (“SIP”)

On March 29, 2012, the Administrator for EPA Region 8 signed as a final rule the approval of South Dakota’s Regional Haze SIP. The final rule was published in the *Federal Register* on April 26, 2012 and became effective on May 29, 2012.

Section II

Types and amounts of Project cost actually incurred

Actual construction on the project is now approximately 86 percent completed. Considerable progress was made this last quarter; however the early arrival of winter in early November has been challenging for the outside construction. Examples of accomplishments include:

- Structural steel to support the ductwork into the scrubber is now all in place. The ductwork is being fabricated and placed and should be completed in January.
- Inlet ductwork for the induced draft (“ID”) fans is all in place and outlet ductwork for B fan is complete until the tie-in outage work. Insulation on the ductwork and fans continues.
- Baghouse is complete structurally. Piping insulation, siding, electrical and instrumentation is all being worked on. Commissioning has started checking out systems in the lower baghouse area. A few systems, such as building heating, are being put into service.
- Selective Catalytic Reduction (“SCR”) is complete. Weld out is almost done. Siding, roofing, piping and electrical is all well underway structurally. The catalyst will begin arriving in early January for placement inside the reactor boxes.
- Ammonia system unloading facilities are substantially complete, piping to the control skids and then to the distribution grid are being worked on.
- Commissioning work is well underway.

- Preparation for the tie-in outage has begun. Numerous planning sessions have taken place and wiring and site preparation has begun for the boiler contractor that will mobilize to the site in January.
- The quarter began with approximately 425 construction workers onsite. In late November we passed the peak staffing and the number has declined to approximately 370 at the end of the period. The number will slowly drop for the next month and then start to pick up again as we approach the outage.

Costs incurred through December 31, 2014, can be broken down into the following general categories:

Category	Costs Through December 31, 2014
Equipment/Material Procurement:	\$94.2M
Construction:	\$138.5M
Engineering/Field Engineering Support:	\$21.7M
Owners Cost:	\$9.7M
Total:	\$264.1M

(Project costs identified do not include individual company costs.)

Equipment and Material Procurement: All owner-procured material for the project, such as the flue-gas desulfurization system equipment, selective catalytic reduction catalyst, induced draft fans and their motors, transformers, structural steel, ductwork, ammonia handling equipment and the Distributed Control System.

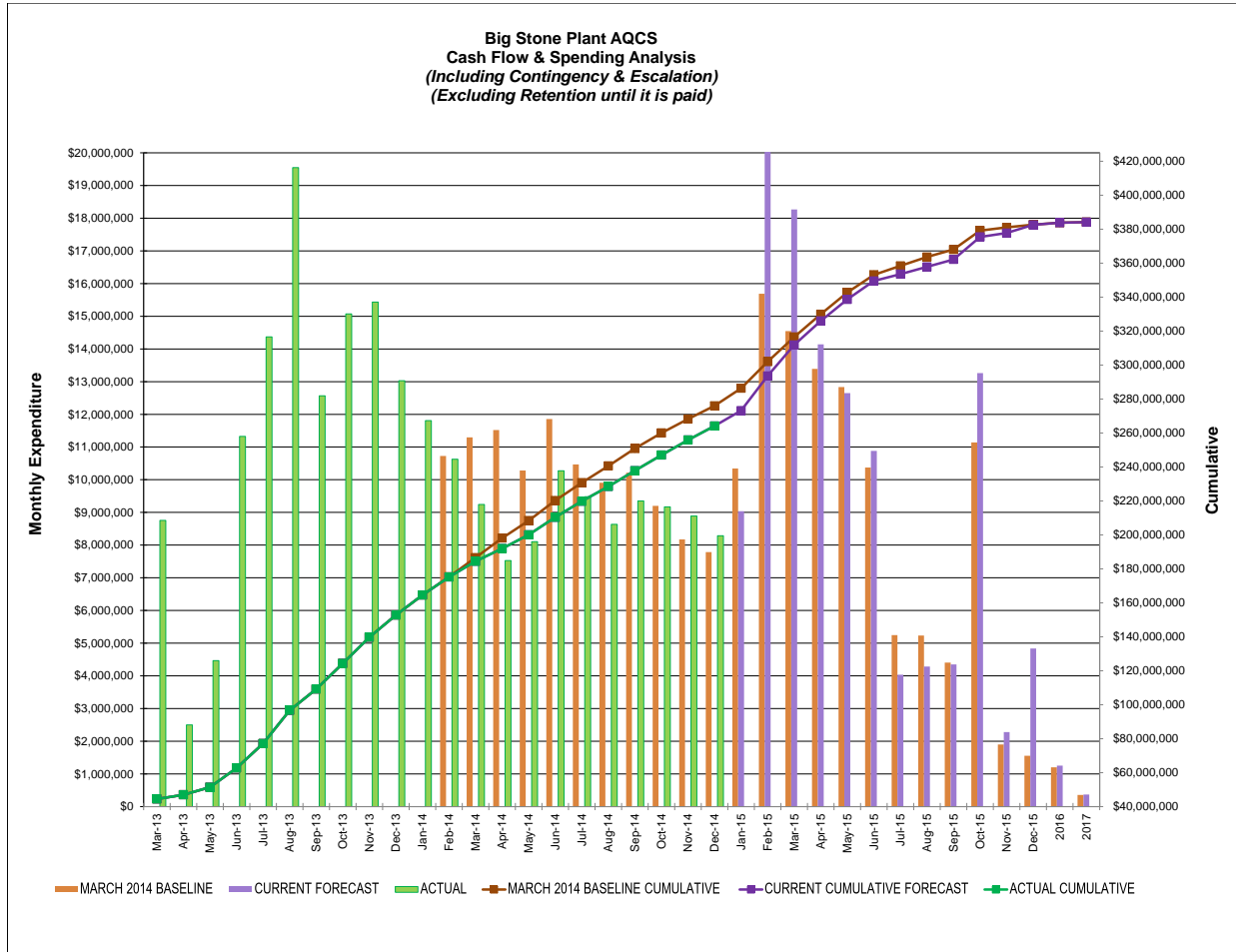
Construction: Payments made to Graycor (the General Work Contractor), site preparation work, testing work, surveying work and work to remove equipment that is no longer needed or which needs to be moved.

Engineering and Field Engineering Support: Engineering and procurement work done by Sargent & Lundy (Project engineer) and engineering field support for construction and commissioning.

Owners Cost: Items such as labor for project development and construction management, and such things as insurance, legal costs, permitting, office space and equipment; also spare parts and consumables used during testing and commissioning.

As described in previous quarterly reports, the project budget was reviewed in early 2013 and then again in early 2014. Following both reviews the projected project budget was reduced. The original project budget was \$491M; it was reduced in 2013 to \$405M and again reduced to \$384M in 2014.

Actual project cash flow and spending through December 2014, and forecast through project completion, is illustrated on the following graph:



The following photographs illustrate various construction activities on the project during the quarter.



2014-10-07 Siding on SCR



2014-12-09 Siding work continues



2014-10-21 SCR, CFB, WA



2014-12-09 SCR, CFB, WA/PL



2014-11-26 ID fans 1A & 1B



2014-12-09 ID fan 1B



2014-12-09 Siding waste ash silo



2014-11-14 Section 3 set, setting section 1



2014-10-14 G3A duct lift



2014-11-03 G28 duct lift



2014-10-07 G26 ID fan 1A
discharge ductwork lift



2014-12-09 Insulating ductwork



2014-10-15 Aerial view of project

Safety is very important to us. We are taking extra steps to insure a safe work site. The table below is included to provide information on recordable and lost-time injuries and near miss incidents for the total labor hours worked on the project through December 31, 2014:

	Hours	Recordable	Lost Time	Near Miss	First Aid
Graycor	1,290,671	3	0	10	13
Project Team & Contractors	99,823	0	0	0	0
Engineering	165,921	0	0	0	0
Totals	1,556,415	3	0	10	13

OSHA rate for recordable incidents: 0.39

OSHA rate for lost time: 0.0 (There were no incidents during this last quarter.)

Section III

Any changed circumstances that will affect cost or project installation

The EPA has issued the Mercury and Air Toxic Standards (“MATS”) rule, also known as the utility Maximum Achievable Control Technology (“MACT”) rules, which require control of hazardous air pollutants. While the final rule has been issued, several petitions for review have been filed in United States Court of Appeals for the D.C. Circuit which could ultimately delay its effective date. The rule as issued requires the Big Stone Plant to reduce mercury emissions, which can be controlled by adding Activated Carbon Injection (“ACI”) to the project. The estimated cost to add ACI as a standalone project is \$5M. Because of the synergies of installing the system at the same time as the AQCS, the owners have decided to include the ACI system as part of the scope of the AQCS Project; we have only increased the projected cost of the AQCS Project by \$2.1M to account for the ACI system. Although the standard MATS rule compliance date is April 16, 2015, on August 27, 2013 the South Dakota Department of Environment and Natural Resources granted a one year compliance extension for Big Stone Plant, such that the new compliance date is April 16, 2016.

Construction is now 86 percent complete. To date we have not seen anything to cause us to alter our schedule or increase our final project cost estimate.

Summary

The project continues to stay on schedule and on budget.