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PUBLIC SERVICE COMMISSION



July 9, 2012

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**

Compliance Filing - Report

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 ("Otter Tail") hereby submits the Big Stone Air Quality Control System Project Report. This report has been electronically filed. Enclosed is one original and seven (7) copies.

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

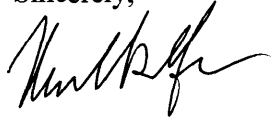
104 PU-11-165 Filed 07/09/2012 Pages: 5
Compliance filing - Big Stone Air quality control system project report
Otter Tail Power Company
Mark Rolfes, Manager, Generation Devel.

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

Sincerely,

A handwritten signature in black ink, appearing to read 'Mark Rolfes', written in a cursive style.

Mark Rolfes, P.E.
Manager, Generation Development

wao

Enclosures

By electronic filing and UPS overnight mail

c: Tamie A. Aberle (by email)

**Big Stone Plant
Air Quality Control System Project
Quarterly Report**

Period April 1, 2012 to June 30, 2012



July 9, 2012

In compliance with the Commission Order the following information is being presented for their review.

Section I

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

EPA published in the *Federal Register* its proposed approval of the South Dakota Regional Haze SIP on December 8th, 2011. This began a 60 day comment period. Four organizations filed comments during the period. The State of South Dakota and the National Park Services filed comments in support of the requirements for Big Stone Plant. The Sierra Club and National Parks Conservation Association jointly filed comments opposing portions of the South Dakota Regional Haze SIP. An internet based group, CEDRO Action also filed 222 nearly identical comment from South Dakota citizens urging EPA to strengthen South Dakota's regional haze requirements.

On March 29th the Administrator for EPA Region 8 signed as a final rule the approval of South Dakotas State 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

Total project cost actually incurred through June 30th, 2012 is approximately \$14.5M. (excluding individual company regulatory costs)

Approximately half of the costs to date have been for project development, project management and engineering.

Procurements for surveying, geo-technical investigation, Flue Gas Desulfurization ("FGD") system, Selective Catalytic Reduction ("SCR") catalyst and site preparation have cost approximately \$7.5M of the total.

Section III

Any changed circumstances that will affect cost or project installation

Procurement activity continues for the project. At this time we have approximately 25 percent of the project budgeted costs either under contract or have bids in our possession that are being reviewed. The cost for this 25% percent of the project is below budgeted expenditures. Current market conditions do not indicate any change in the foreseeable future though it is too early to predict conditions for the entire duration of the project.

The EPA has issued their Mercury and Air Toxic Standards (“MATS”) rule, also known as the utility Maximum Achievable Control Technology (“MACT”) rule, which is for the control of mercury and other hazardous air pollutants. While the rule has been issued, several petitions for review have been filed in court which could delay its effective date. The rules as issued would require the Big Stone Plant to likely add Activated Carbon Injection (“ACI”) to the project. The cost of the ACI is estimated to be approximately \$5,000,000. This was expected and considered during the AQCS evaluation and engineering. The ACI is expected to add one percent to the total cost of the project.

Summary

The Big Stone AQCS Project is currently on schedule and on budget. It is quite likely that in the near future an ACI system will be added to the project scope for compliance with the MATS rule. This will increase the total cost of the project by one percent. This change was anticipated during project development.