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April 14, 2014

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.

113 PU-11-165 Filed 04/14/2014 Pages: 10
Compliance filing - Big Stone Air Quality Control System Project Report
Otter Tail Power Company
Mark Rolfes, P.E.

114 PU-11-163 Filed 04/14/2014 Pages: 10
Compliance filing - Big Stone Air Quality Control System Project Report
Otter Tail Power Company
Mark Rolfes, P.E.

Mr. Darrell Nitschke

April 14, 2014

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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,

/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 JANUARY 1 THROUGH MARCH 31, 2014



April 14, 2014

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 March 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 has now been underway for one year. Progress was made this last quarter, though the cold and wind has been a challenge to schedule and productivity. Examples of accomplishments include:

- All major concrete foundation work completed.
- Installation of the waste ash and pebble lime silos are complete.
- Siding for the waste ash and pebble lime silo nearly complete. Electrical and mechanical installation well underway.
- Scrubber vessels have been erected.
- Baghouse and scrubber structural steel nearly complete. All of the elevated slabs have been poured. Twenty four of the forty eight baghouse modules have been set in place.
- Electrical equipment room concrete block walls have been installed. Equipment pads have been poured and electrical switchgear and variable frequency drives have been placed.
- Selective Catalytic Reduction (“SCR”) structural steel is approximately 30 percent complete, with lower duct sections being placed.
- Ground assembly of the SCR is taking place.
- Approximately 300-350 construction workers are on the project at this time.
- Most material is now on site.

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

Category	Costs Through March 31, 2014
Equipment/Material Procurement:	\$88.3M
Construction:	\$70.2M
Engineering/Field Engineering Support:	\$18.7M
Owners Cost:	\$7.3M
Total:	\$184.4M

(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.

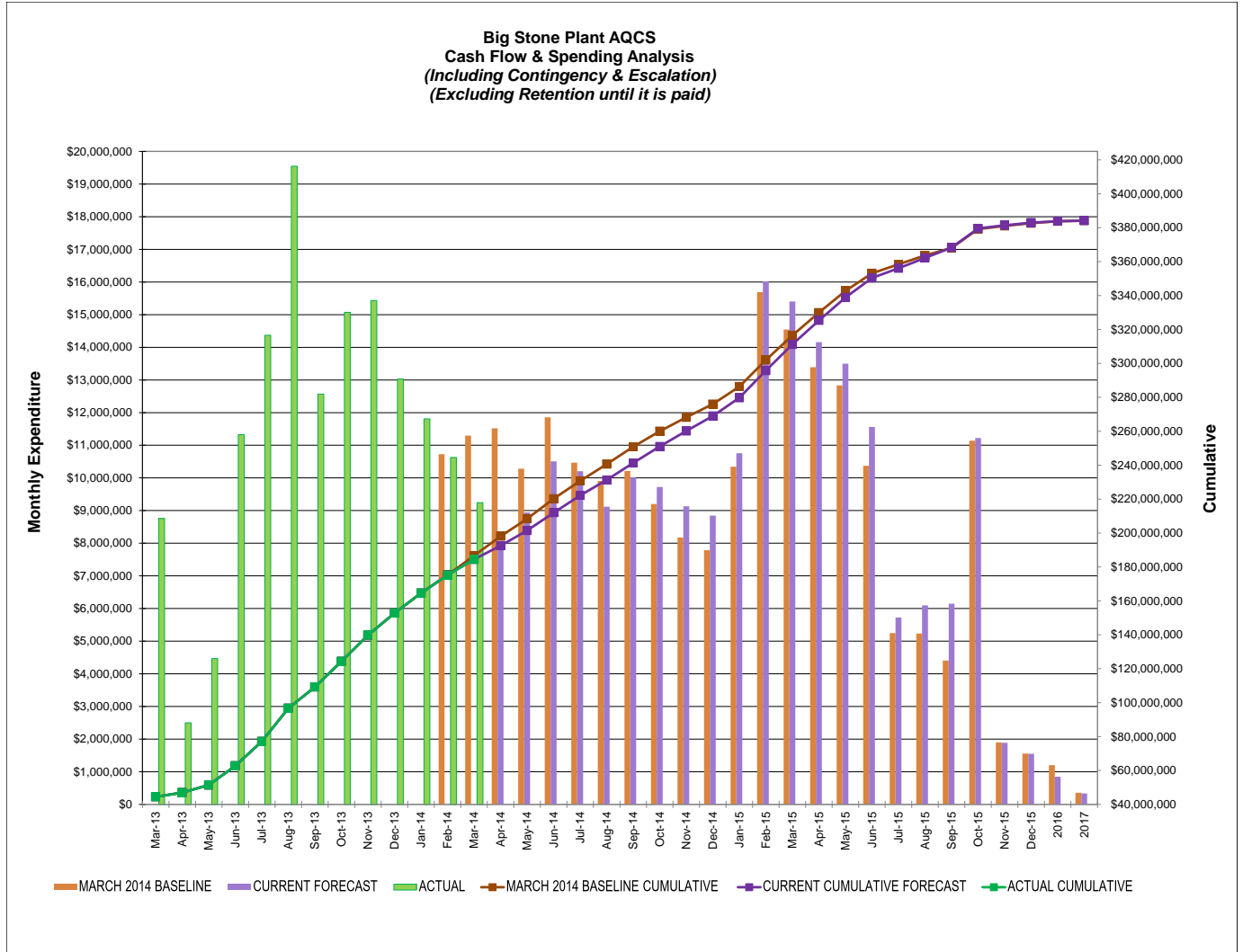
As described in the April Quarterly report for 2013, the overall Project budget was reduced from \$489M to \$405M.

Now that the project is one year into construction, a review of projected Project cost was completed during this last quarter. Based on the review, we have again altered the projected Project cost. We are lowering the expected Project cost to \$384M. This is a reduction of approximately \$21M. The owners approved this budget change in mid-March.

There are three main reasons for the reduction. The first and smallest was the final procurements coming in under the expected amount. The second reason is a reduction in the expected engineering costs. The total engineering work for the Project is nearing 90 percent completed and it is running under projections. The third and largest factor was a reduction in the contingency dollars. These were reduced because the procurements are completed, construction is over one-third complete and engineering is about 90 percent complete. In the process each budget line item was assessed for the proper contingency level. The project has focused on each item to control the cost and minimize the use of contingency.

At this time, we do not expect any additional changes in the Project’s cost projection before the Project is completed.

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



The following photographs illustrate various Project construction activities during the quarter.



01-10-14 Baghouse F6 lower module set in place



03-01-14 Setting D07 hopper



03-11-14 CFB & south SCR



01-07-14 SCR north 03 truss lift



03-13-14 Center SCR



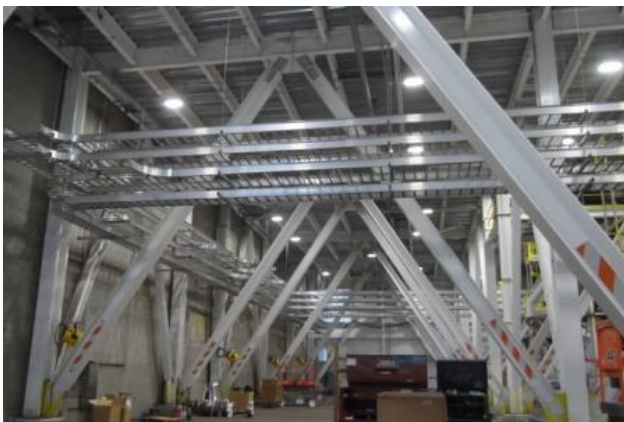
02-19-14 G6 1A duct set in place by 1B



03-04-14 G13 duct lift



03-14-14 ID fan rotors stored on third floor



01-06-14 Cable tray installation



02-1-14 MCC in electrical room



**01-17-14 Setting pebble lime blowers
inside WA/PL building**



03-11-14 Waste ash/pebble lime building



03-28-2014 Aerial View Taken

Safety is very important to us. We are taking extra steps to ensure 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 March 31, 2014:

	Hours	Recordable	Lost Time	Near Miss	First Aid
Graycor	534,049	2	0	6	12
Project Team & Contractors	64,039	0	0	0	0
Engineering	154.667	0	0	0	0
Totals	752,755	2	0	6	12

OSHA rate recordable incidents: 0.5, lost time: 0.0.

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”) rule, which requires 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 37 percent complete. To date we are not aware of any change in circumstance to cause us to alter our schedule.

Summary

The winter weather has caused some setbacks on schedule and the schedule progression gained this fall has been lost. However, the Project is still on track for completion on time. The Project continues to stay on budget.