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October 10, 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.

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

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

Mr. Darrell Nitschke

October 10, 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)

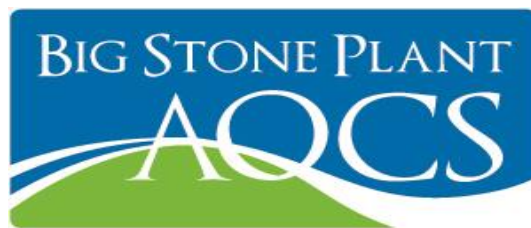
**BIG STONE PLANT
AIR QUALITY CONTROL SYSTEM PROJECT
QUARTERLY REPORT**

TO THE

NORTH DAKOTA PUBLIC SERVICE COMMISSION

FOR THE

PERIOD JULY 1 THROUGH SEPTEMBER 30, 2014



October 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 June 30, 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 70 percent completed. Considerable progress was made this last quarter; also the weather has been favorable for construction this quarter. Examples of accomplishments include:

- Structural steel to support the ductwork to and from the ID fans is all in place.
- Inlet ductwork for the 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 has started.
- Baghouse modules are all in place and are being welded out. Wiring, piping and insulation are underway throughout the baghouse.
- Selective Catalytic Reduction (“SCR”) structural steel is substantially complete, with the B SCR reactor section all in place.
- Ammonia system unloading facilities are substantially complete.
- Commissioning work has started with the first equipment being energized.
- Approximately 425 construction workers are on the project at this time.

Costs incurred through September 30, 2014, can be broken down into the following general categories:

	Costs Through September 30, 2014
Equipment/Material Procurement:	\$93.8M
Construction:	\$114.5M
Engineering/Field Engineering Support:	\$20.7M
Owners Cost:	\$8.8M
Total:	\$237.8M

(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.

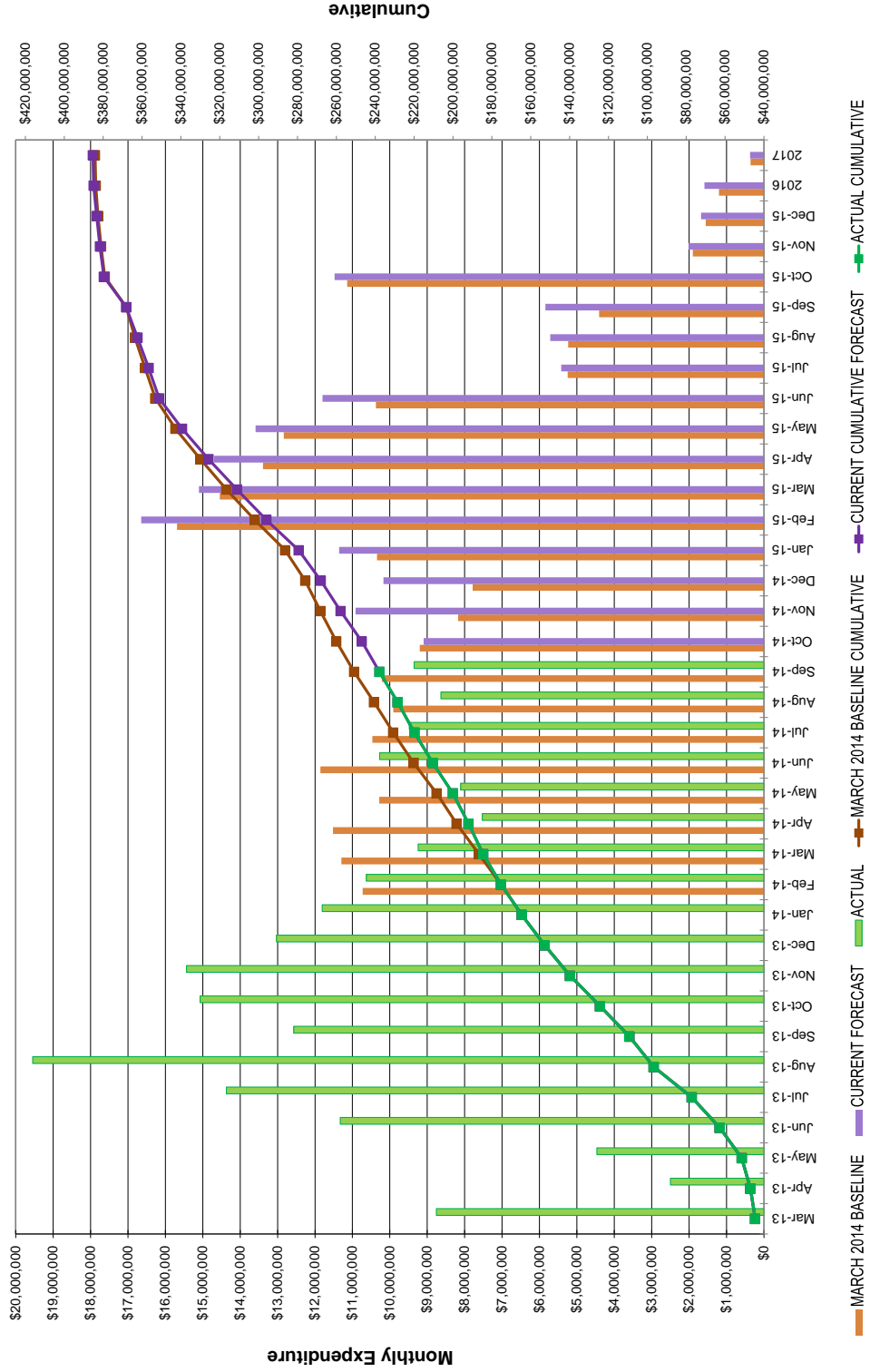
Engineering and Field Engineering Support: Engineering and procurement work done by Sargent & Lundy (Project engineer) and engineering field support for construction and commissioning.

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 September 2014, and forecast through project completion, is illustrated on the following graph:

Big Stone Plant AQCS
Cash Flow & Spending Analysis
(Including Contingency & Escalation)
(Excluding Retention until it is paid)



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



07-15 Aerial overview



08-04 CFB train 1 and train 2 outlet transition elbows



08-13 Setting train 1 outlet elbow



08-15 Setting train 2 outlet transition elbow, 1 set



07-08 North SCR tower



08-20 SCR grating install



09-04 Reactor box set center SCR



07-26 ID fan area



09-09 Corner of baghouse & 1A ID fan



07-17 Looking down into SCR



08-15 Aerial overview

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 September 30, 2014.

	Hours	Recordable	Lost Time	Near Miss	First Aid
Graycor	1,046,249	3	0	10	13
Project Team & Contractors	86,007	0	0	0	0
Engineering	163,211	0	0	0	0
Totals	1,295,467	3	0	10	13

OSHA rate for recordable incidents: 0.46, 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”) rules, which require control of hazardous air pollutants. The rule 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 70 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.