

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



January 13, 2016

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.

130 PU-11-165 Filed 01/13/2016 Pages: 11
Compliance filing - Big Stone Air Quality Control System Project Report
Otter Tail Power Company
Kirk Phinney, AQCS Commissioning Mgr.

132 PU-11-163 Filed 01/13/2016 Pages: 11
Compliance filing - Big Stone Air Quality Control System Project Report
Otter Tail Power Company
Kirk Phinney, AQCS Commissioning Mgr.

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January 13, 2016
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If you have any questions regarding this report, please contact me at (612) 862-6306 or at kphinney@otpc.com.

Sincerely,

/s/ KIRK PHINNEY
Kirk Phinney
AQCS Commissioning Manager

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, 2015



January 13, 2016

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 period ending December 31, 2015. 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 was completed last quarter. During this past quarter activity has centered around the commissioning and testing of all the systems. Only minor problems have been identified, and are being rectified. Reliable operation has been achieved and the systems were declared commercially operational on December 29, 2015. Performance tests have been run on the systems and equipment vendors are all meeting their guarantees for environmental performance. There are several operational guarantees that are still being addressed, including long-term reliability/availability, noise levels, and reagent consumption. These will be monitored and assessed, and any problems will be resolved over the coming months. Also, the demolition of the old baghouse, ID fans, and ash silo has started, and will likely continue into the second quarter of 2016.

Other activity this past quarter has centered around closeout of contracts, establishing units of property, and transferring responsibility to plant operations.

Costs incurred through December 31, 2015, can be broken down into the following general categories:

Category	Costs Through December 31, 2015
Equipment/Material Procurement:	\$105.7M
Construction:	\$211.4M
Engineering/Field Engineering Support:	\$24.4M
Owners Cost:	\$14.8M
Total:	\$356.3M

(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.

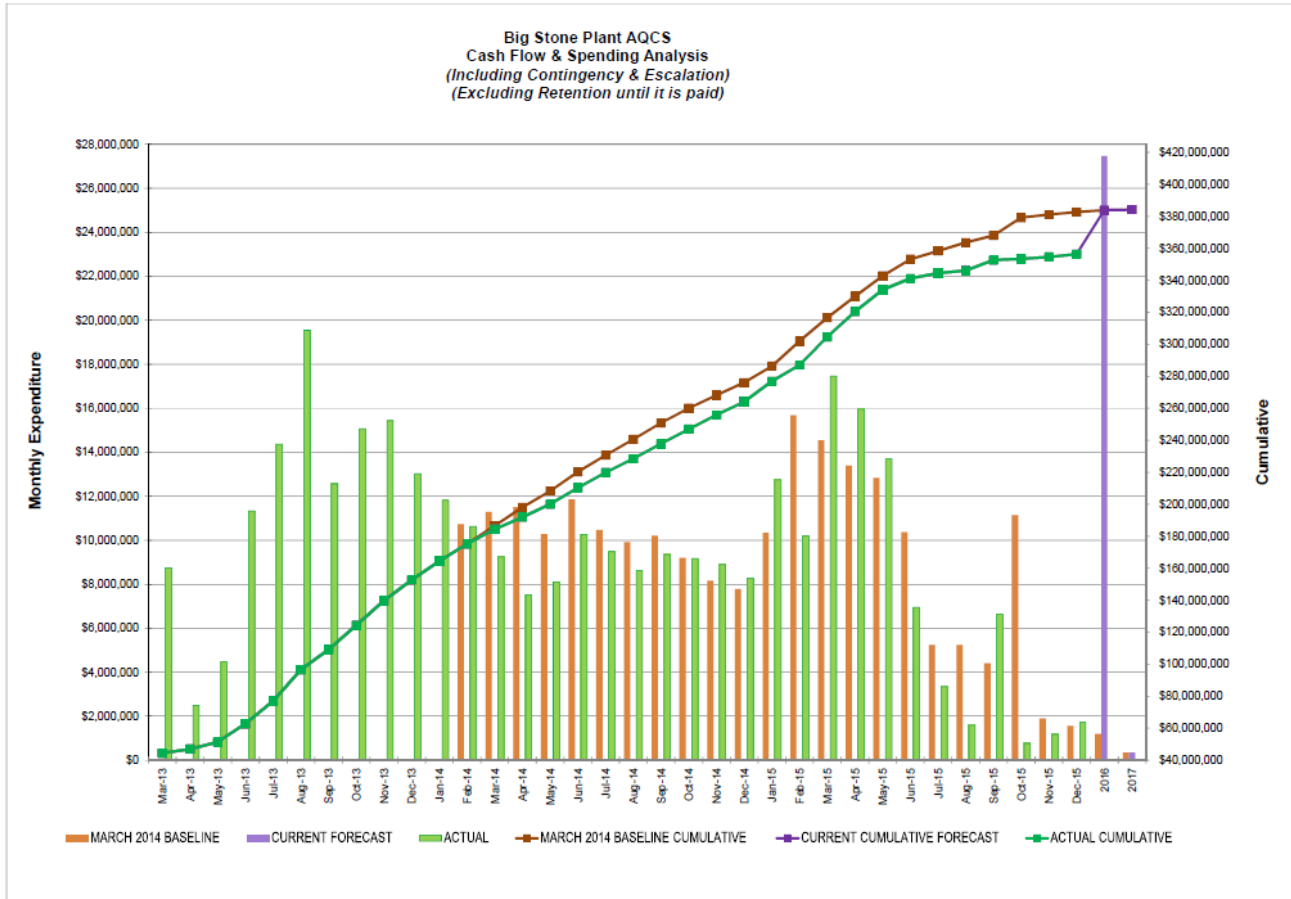
Construction: Payments made to Graycor (the General Work Contractor), site preparation work, testing work, surveying work and work to remove equipment that is no longer needed or which needs to be moved.

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 31, 2015 and forecast through project completion, is illustrated on the following graph:



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

2015-10-07 Veit mobilized and beginning Demo work – ID Fan motors being removed



2015-10-21 Demo photos





2015-10-29 More demo photos



2015-10-29 Performance testing taking place



2015-11-04 Demo work



2015-11-19 Hydrator modifications



2015-12-03 Demo work ongoing



Safety is very important to us. To construct the project over 2.3 million man hours were invested with only one lost time incident and an OSHA rate of approximately 0.88. This is an accomplishment of which we are very proud.

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, on June 29, 2015 the U.S. Supreme Court held that EPA must consider cost, including cost of compliance, before deciding whether Regulation is appropriate and necessary. On December 15, 2015 the U.S. Court of Appeals for the District of Columbia Circuit ruled that the MATS rule should be remanded to EPA without vacatur in order to address the Supreme Court decision. The D.C. Circuit noted that EPA has represented it is on track to issue a final finding by April 15, 2016. Therefore, the MATS rule remains in effect while the rule is remanded for further proceedings. 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 was \$5M. Because of the synergies of installing the system at the same time as the AQCS, the owners installed the ACI system as part of the scope of the AQCS Project. The final installed cost of the ACI system was \$3.8M and this cost is included in the incurred cost table above.

Construction is now 100 percent complete. There is always the possibility that some unknown problem will arise, but with three months of successful testing and operations behind us the odds are getting lower all the time.

Summary

The Project was declared commercially operational on December 29, 2015, completing six years of effort. Testing of the systems and demolition of obsolete facilities will continue, but there is nothing foreseen that will keep the project from coming in at, or under budget.