

November 30, 2012

Executive Secretary
North Dakota Public Service Commission
State Capitol Building
Bismarck, ND 58505-0480

Re: R.M. Heskett Station – Unit 3
88 MW Combustion Turbine Project
Case Nos. PU-11-395

Montana-Dakota Utilities Co. (Montana-Dakota), a Division of MDU Resources Group, Inc., herewith submits its second semi-annual report regarding the status of the 88 MW Combustion Turbine Project to be constructed at the R.M. Heskett Station near Mandan, North Dakota in accordance with the Commission's Order on Settlement issued on April 11, 2012 in this Case.

Please acknowledge receipt by stamping or initialing the duplicate copy of this letter attached hereto and returning the same in the enclosed self-addressed, stamped envelope.

Sincerely,

Tamie A. Aberle / SG

Tamie A. Aberle
Director of Regulatory Affairs

Attachment



R.M. Heskett Station – Unit 3
88 MW Combustion Turbine Project
Semi-Annual Report
Case No. PU-11-395

Report Number 2

Presented to:
North Dakota Public Service Commission

Submitted:
November 30, 2012

R.M. Heskett Station – Unit 3
88 MW Combustion Turbine Project
Semi-Annual Report Number 2

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1.0 Introduction

In accordance with the North Dakota Public Service Commission's ("Commission's") April 11, 2012 Order in Case Nos. PU-11-395 and PU-11-396, Montana-Dakota Utilities Co. ("Montana-Dakota") hereby submits Semi-Annual Report Number 2 on the status of the 88MW Combustion Turbine Project ("Project") to be constructed at the R.M. Heskett Station near Mandan, North Dakota. The Project is referred to as the R.M. Heskett Station Unit 3.

The Project consists of the construction of a simple cycle combustion turbine ("Combustion Turbine"), the necessary transmission interconnection facilities for the turbine ("Interconnect"), and approximately 24 miles of natural gas pipeline to supply fuel to the turbine ("Pipeline").

The overall Project budget, including Allowance for Funds Used During Construction ("AFUDC") is \$85.6 million. Montana-Dakota anticipates construction to begin in the second quarter of 2013 and commercial operation to begin on or before March 15, 2015.

2.0 Status

Overall status of the Project

The Project is currently ahead of schedule and on budget. The majority of the activities that have occurred during this report period have been focused on Project development, Project management, major equipment procurement, and detailed engineering design.

Montana-Dakota continues to work with the General Electric Company (GE) to refine the design of the PG7121(EA) combustion gas turbine packaged power plant. A controls finalization meeting was held on September 25-26, 2012 at GE's factory in Salem, Virginia. This meeting finalized the overall plant control system architecture and philosophy, communications design, and plant electrical design.

Montana-Dakota anticipates executing a number of equipment procurement contracts in December 2012. These are likely to include the generator step-up transformer, the unit auxiliary transformer, the exhaust system and silencing package, the medium voltage equipment, and the 480-volt equipment.

The first design review meeting with the Project consulting engineer is scheduled to take place in mid-December 2012. Site layout, site preparation, service building, foundations, and underground installation drawings and specifications will be reviewed at this meeting

Montana-Dakota submitted an updated application to the North Dakota Department of Health (NDDH) for a Prevention of Significant Deterioration (PSD) Permit to Construct (PTC) for the Project on October 8, 2012. This update to the May 4 submittal provided additional information requested by the NDDH on air modeling and best available control analyses. The draft PTC is expected to be issued for public notice by the NDDH in the near future, possibly in December 2012.

Montana-Dakota submitted an application to the Commission for a Certificate of Site Compatibility for the Combustion Turbine on September 18, 2012. A prehearing telephone

conference was held on October 30, 2012 and the formal hearing is scheduled for December 4, 2012.

Montana-Dakota is preparing an application for a Certificate of Corridor Compatibility and an Energy Transmission Facility Route Permit for the Pipeline and anticipates submittal to the Commission in December 2012. Over 60% of the right-of-way parcels for the Pipeline have been acquired and purchase of land for interconnection with the Northern Border Pipeline is in progress.

Montana-Dakota executed a provisional Generator Interconnect Agreement (GIA) for the Interconnect with the Midwest Independent Transmission System Operator, Inc. (MISO) on July 30, 2012. The MISO filed the GIA with the Federal Energy Regulatory Commission (FERC) on August 10, 2012, and confirmation of the FERC's final agency action was received on September 27, 2012. Due to the MISO's queue reform and required re-studies, Montana-Dakota expects the MISO's Generator Interconnect Process to continue into the first half of 2013. To-date no new impacts for the Interconnect have been identified by re-study, therefore no changes to the GIA are anticipated.

3.0 Costs

Amounts and types of costs incurred

The total Project cost incurred through October 31, 2012 is approximately \$14.7 million. This is approximately 17 percent of the budgeted total for the project.

The majority of the Combustion Turbine costs incurred were for equipment manufacturing milestone payments and detailed engineering design. The Interconnect costs incurred were for the MISO's M2 milestone payment, which was required as part of queue reform. The majority of Pipeline costs incurred were for route planning, title searches, siting application development, and preliminary engineering design.

Table 1 – Cost Summary

Through 10/31/12	Budget	Committed	Actual
Combustion Turbine	\$55,229,376	\$26,642,245	\$12,905,441
Interconnect	\$1,215,625	\$585,344	\$532,363
Pipeline	\$18,554,999	\$1,628,400	\$877,567
Total before Loadings	\$75,000,000	\$28,855,989	\$14,315,371
Loadings	\$10,629,000	\$5,536,437	\$424,206
Overall Total	\$85,629,000	\$34,392,426	\$14,739,577

4.0 Changes

Any changed circumstances that will materially affect cost, schedule or installation

As of October 31, 2012, approximately 40 percent of the overall Project budget is considered committed. To-date equipment bids have been mixed; either slightly above or slightly below budgeted amounts. Overall, the committed costs are slightly lower than budgeted amounts.

The current market conditions do not indicate that significant changes will occur in the foreseeable future; however there is some uncertainty on what impacts Hurricane Sandy might have on future market conditions.

The Project schedule continues to be refined as engineering design and equipment procurement progresses. The latest schedule indicates that the construction duration of the Project can likely be shortened by approximately 9 months, which would allow the Project to commence commercial operation in mid-2014.