

May 31, 2013


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
Semi-annual Report 3
Case Nos. PU-11-395

Montana-Dakota Utilities Co. (Montana-Dakota), a Division of MDU Resources Group, Inc., herewith submits its third 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
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 3

Presented to:
North Dakota Public Service Commission

Submitted:
May 31, 2013

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

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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 3 on the status of the 88MW Combustion Turbine Project ("Project") under construction 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. Construction of the Combustion Turbine commenced on April 29, 2013 and Montana-Dakota anticipates commercial operation to begin around July 1, 2014.

2.0 Status

Overall status of the Project

The Project is currently ahead of schedule and under budget. The majority of the activities that have occurred during this report period have been focused on Project permitting, Project management, major equipment procurement and inspections, detailed engineering design, and execution of the first Combustion Turbine construction contract.

Combustion Turbine

Manufacturing of the General Electric Company (GE) PG7121(EA) combustion gas turbine packaged power plant is well underway. Factory inspections of the generator rotor (field) and generator stator were held on April 5 and 17, 2013 at the Andritz Hydro GmbH factory in Weiz, Austria. All balancing, overspeed, and high-voltage tests that were witnessed passed with acceptable results. Between April 28 and May 15, 2013 various factory inspections of the gas turbine were held at GE's factory in Greenville, South Carolina. Inspections witnessed included compressor rotor balance, turbine rotor balance, horizontal casing and bearing alignment, compressor and turbine rotating and stationary clearance checks, and final assembled 6-point position checks. All results witnessed during these inspections were found to be acceptable. Manufacturing non-conformance reports were also reviewed at the factories during generator and turbine inspections.

Montana-Dakota executed procurement contracts for the generator step-up and unit auxiliary transformers in December 2012. In February, procurement contracts were executed for the exhaust system and silencing package, and the 480-volt electrical equipment. The medium voltage electrical equipment and fuel gas coalescing filter procurement contracts were executed in April and May, respectively. The final major procurement contract, the continuous emissions monitoring system (CEMS), was awarded in mid May with a fully executed contract expected in early June.

The first design review meeting with the Project consulting engineer took place in mid-December 2012. Site preparation, service building, foundations, and underground installation

("Site Prep") drawings and specifications were reviewed at this meeting. The Site Prep bid package was put out to bid in mid January and two short-listed bidders were interviewed in mid March. The Site Prep construction contract was awarded in late March and was executed in late April. Site Prep construction work for the Combustion Turbine commenced on April 29, 2013.

The second design review meeting for the mechanical and electrical installation ("M/E") drawings and specifications took place in early April. The M/E bid package was put out to bid in late April and bids are expected to be received in early June. Montana-Dakota anticipates the M/E contract to be awarded in mid July.

The North Dakota Department of Health ("NDDH") finalized and issued the Prevention of Significant Deterioration Permit to Construct for the Project on February 25, 2013. The Commission issued the Certificate of Site Compatibility for the Combustion Turbine on December 21, 2012. All other permits needed for the Combustion Turbine from the NDDH, City of Mandan, Morton County, and Custer Health Unit have been issued.

Pipeline

Montana-Dakota submitted an application to the Commission for a Certificate of Corridor Compatibility and an Energy Transmission Facility Route Permit for the Pipeline on February 13, 2013. A formal public hearing was held on May 3, 2013. Over 90 percent of the right-of-way parcels for the Pipeline have been acquired and the Pipeline route has been finalized. The Pipeline interconnection facilities agreement with the Northern Border Pipeline was executed in late April 2013.

Montana-Dakota is nearing final completion with the engineering design documents and drawings for the Pipeline, and procurement of materials is well under way. Bid documents for construction of the Pipeline are under development and Montana-Dakota expects to issue for bids in early June. Upon receiving the Certificate of Corridor Compatibility and an Energy Transmission Facility Route Permit, the Pipeline construction is anticipated to begin in early July.

Interconnect

The Midwest Independent Transmission System Operator, Inc. (MISO) Generator Interconnect Process re-studies for the Interconnect were completed in April 2013. New impacts for the Interconnect have been identified primarily due to how wind projects are allowed to be modeled now that MISO's queue reform is in place. Montana-Dakota is currently evaluating, in conjunction with MISO, the best approach to mitigating these unforeseen impacts, however no delays to the Project schedule or increases to the Project budget are anticipated.

3.0 Costs

Amounts and types of costs incurred

The total Project cost incurred through April 30, 2013 is approximately \$22.1 million. This is approximately 26 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 majority of Interconnect costs incurred were for engineering design and equipment procurement. The majority of Pipeline costs incurred were for route planning, siting application development and fees, surveying, engineering design, and materials procurement.

Table 1 – Cost Summary

Through 4/30/13	Budget	Committed	Actual
Combustion Turbine	\$55,229,376	\$39,200,649	\$19,113,121
Interconnect ^a	\$1,215,625	\$657,421	\$690,827
Pipeline	\$18,554,999	\$7,309,370	\$1,278,983
Total before Loadings	\$75,000,000	\$47,167,440	\$21,082,931
Loadings	\$10,629,000	\$5,555,790	\$959,585
Overall Total	\$85,629,000	\$52,723,230	\$22,042,516

^a The actual Interconnect cost currently reflects the M2 milestone payment to the MISO. Montana-Dakota expects to receive full reimbursement for the M2 milestone upon completion of the Interconnect.

4.0 Changes

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

As of May 24, 2013, approximately 62 percent of the overall Project budget is considered committed. All major equipment procurement contracts for the Combustion Turbine have been awarded, and in total they are approximately 9 percent under budget. The Site Prep construction contract for the Combustion Turbine was awarded slightly above the budgeted amount, and Montana-Dakota is projecting that in total the Combustion Turbine construction contracts will be slightly over budget. The Interconnect and Pipeline portions of the Project are expected to be slightly under budget. Overall, the committed costs for the Project are slightly lower than budgeted amounts and Montana-Dakota is projecting the Project can be completed under budget. The current market conditions do not indicate that significant changes will occur in the foreseeable future.

The Project is well ahead of the original schedule, with engineering design and major equipment procurement nearing completion. The construction activities that have commenced are currently on schedule and future construction contracts are expected to facilitate a commercial operation date around July 1, 2014.