

November 27, 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 4
Case Nos. PU-11-395

Montana-Dakota Utilities Co. (Montana-Dakota), a Division of MDU Resources Group, Inc., herewith submits its fourth 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 4

Presented to:
North Dakota Public Service Commission

Submitted:
November 27, 2013

R.M. Heskett Station – Unit 3
88 MW Combustion Turbine Project
Semi-Annual Report Number 4

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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 4 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, while construction of the Interconnect and Pipeline commenced in September 2013. 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 Pipeline permitting, Project management, detailed engineering design, and construction of the Combustion Turbine, Interconnect, and Pipeline.

Combustion Turbine

The first construction contract for site preparation, service building, foundations, and underground installation (“Site Prep”) was substantially completed on November 15, 2013. Site preparation work included construction trailers, site clearing, site grading, site surfacing, site fencing, site roads, site lighting, and site erosion control. Foundation work included excavation, forming, rebar, pouring, and backfilling of all drilled pier and spread footing concrete foundations for all procured equipment as well as the service building. Other service building work included erection and complete external and internal finishing of the pre-engineered metal building. Underground work included the stormwater system, stormwater pond, vaults, manholes, underground piping and valves, underground and embedded electrical ducts and conduits, electrical grounding system, industrial wastewater system, and emergency oily drains tank system.

Bids for the second construction contract for mechanical and electrical installation (“M/E”) were received in early June and two short-listed bidders were interviewed in late June. The M/E construction contract was awarded in early July, executed in early August, and M/E construction work commenced on August 19, 2013. Handling work includes heavy haul and rough setting of the turbine and generator along with receiving and handling of all other equipment and materials. Mechanical work includes erection of all aboveground mechanical equipment, piping, and valves; as well as existing water tank modification work. Electrical work includes installation of all aboveground electrical equipment, enclosures, fixtures, and panels; as well as grounding, cabling, and wiring of all equipment. The M/E contractor is also responsible for assisting with commissioning and startup of all equipment. The M/E

work is well under way with approximately 20 percent of the contract completed through October.

More detail on the weekly progress of the Site Prep and M/E construction work contracts can be found in the weekly construction reports submitted to the Commission in accordance with Case No. PU-11-631.

Manufacturing of the General Electric Company (GE) PG7121(EA) combustion gas turbine packaged power plant was completed on June 28, 2013. The GE turbine and generator were delivered to the Project site via rail on September 18 and 20 respectively. Heavy haul and rough setting of the turbine and generator on the foundation was completed by September 27. Other GE skids and support equipment consisting of approximately 170 cases were substantially complete and delivered to the Project site by October 18. Approximately 5 cases remain to be delivered in the future when requested by the M/E construction contractor. Montana-Dakota has executed procurement contracts for all other major equipment required for the Combustion Turbine. Manufacturing of all equipment is substantially complete, while delivery and installation is at varying stages. Table 1 shows a tabular summary of progress for all equipment contracts.

Table 1 – Equipment Contracts – Overall Completion Status

Equipment Contract	Manufacturing	Delivery	Installation
Turbine, Generator, and support equipment	June 28, 2013 (Substantially)	Oct 18, 2013 (Substantially)	In Progress
Generator Step-Up Transformer	Aug 22, 2013	Sept 13, 2013	Sept 30, 2013 (Substantially)
Unit Auxiliary Transformer	Oct 16, 2013	Oct 25, 2013	Nov 22, 2013 (Substantially)
Exhaust System and Silencing Package	Aug 19, 2013 (Substantially)	Oct 2, 2013	In Progress
480-Volt Electrical Equipment	Sept 10, 2013	Sept 12, 2013	In Progress
Medium Voltage Electrical Equipment	Oct 1, 2013	Oct 4, 2013 (Substantially)	In Progress
Fuel Gas Coalescing Filter	Nov 6, 2013	Nov 12, 2013	In Progress
Continuous Emissions Monitoring System	Nov 15, 2013 (Substantially)	Dec 5, 2013 (Scheduled)	May 2, 2014 (Scheduled)

Pipeline

The Commission issued a Certificate of Corridor Compatibility and Energy Transmission Facility Route Permit for the Pipeline on August 21, 2013. Construction of the Pipeline commenced on September 9, 2013 and is progressing very well even though the route terrain and unusually wet weather have been a challenge. As of November 16, 2013, all pipe is welded and lowered and approximately 70 percent of bores and 83 percent of tie-ins are completed. Other Pipeline construction work completed includes approximately 48 percent of clean-up, 60 percent of interconnection regulator station work at the tap end, and 40 percent of pressure reduction regulator station work at the Combustion Turbine end. Northern Border Pipeline is approximately 10 percent complete with the Pipeline interconnection tap facilities near St. Anthony. More detail on the weekly progress of the Pipeline can be found in the weekly construction reports submitted to the Commission in accordance with Case No. PU-11-680.

Interconnect

Construction of the foundations for the substation portions of the 115kV Interconnect equipment was completed in early September as part of the Site Prep construction contract. Installation of the 115kV bus, circuit breaker, disconnect switch, metering equipment, and A-frame support structure was completed in early October as part of the M/E construction contract. Installation of the transmission portion of the Interconnect was completed on November 22, 2013. Substation wiring, checkout, and relay configuration for the Interconnect remains to be completed during the next report period.

3.0 Costs

Amounts and types of costs incurred

The total Project cost incurred through October 31, 2013 is approximately \$52.4 million. This is approximately 62 percent of the budgeted total for the project.

The majority of the Combustion Turbine costs incurred were for equipment milestone payments, engineering and construction management, and Site Prep and M/E construction progress payments. The majority of Interconnect costs incurred were for equipment procurement, construction, and installation. The majority of Pipeline costs incurred were for route planning, surveying, materials procurement, and pipeline construction.

Table 2 – Cost Summary

Through 10/31/13	Budget	Committed	Actual
Combustion Turbine	\$55,229,376	\$46,032,026	\$35,558,103
Interconnect ^a	\$1,215,625	\$856,354	\$974,344
Pipeline	\$18,554,999	\$20,331,624	\$14,008,816
Total before Loadings	\$75,000,000	\$67,220,004	\$50,541,263
Loadings	\$10,629,000	\$4,614,459	\$1,854,948
Overall Total	\$85,629,000	\$71,834,463	\$52,396,211

^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 November 16, 2013, approximately 84 percent of the overall Project budget is considered committed. While the various Combustion Turbine contracts for consulting, equipment procurement, and construction have deviated above and below the budgeted amounts, Montana-Dakota is projecting that in total the Combustion Turbine portion of the Project will finish under budget.

The committed costs for the Pipeline portion of the Project are currently over budget by approximately 10 percent. Montana-Dakota is projecting that the Pipeline will exceed the budgeted amount by approximately 15 percent due to construction challenges with the route terrain and the unusually wet weather encountered this fall.

The Interconnect portion of the Project is expected to be slightly over budget; however this is not expected to impact the overall Project budget.

Overall, Montana-Dakota is still projecting the Project can be completed within the original budget. The Project is well ahead of the original schedule, with Combustion Turbine, Interconnect, and Pipeline construction well under way. Loadings for the Project are well under budget primarily due to AFUDC timing that reflects the current Project schedule. The construction activities that remain are currently on schedule and future construction contracts are expected to facilitate a commercial operation date around July 1, 2014.