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SOUTH DAKOTA PUBLIC UTILITIES COMMISSION VIA UPS OVERNIGHT

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Patty VanGerpen, Ex. Director
SD Public Utilities Commission
500 E Capitol
Pierre SD 57501

Re: In the Matter of the Application by Otter Tail Power Company on Behalf of Big Stone II Co-Owners for an Energy Conversion Facility Permit for the Construction of Big Stone II Project (EL05-022)
Our File No. 11402.000

Dear Ms. Van Gerpen:

Please find enclosed the original and four (4) copies of the Applicant's Answer to Petition for Rehearing. By copy of this letter the same is being served on the other parties.

Sincerely yours,

BOYCE, GREENFIELD, PASHBY & WELK, L.L.P.

Christopher W. Madsen

CWM/vjj

Enclosure

cc (via email): John J. Smith

John Davidson

Lesley J. Adam

Michael D. O'Neill

Elizabeth Goodpaster

Mary Jo Stueve

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AUG 13 2006

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF SOUTH DAKOTA**

**SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION**

In the Matter of Otter Tail Power Company
on Behalf of Big Stone II Co-Owners for an
Energy Conversion Facility Permit for the
Construction of the Big Stone II Project

Docket No. EL 05-022

**APPLICANTS' ANSWER TO PETITION
FOR REHEARING**

Pursuant to ARSD 20:10:01:30.02, Big Stone II Co-Owners ("Applicants"), by and through their undersigned attorneys of record, make this answer to the petition for rehearing submitted by Intervenor Mary Jo Stueve ("Intervenor Stueve") dated July 27, 2006. Applicants respectfully submit that Intervenor Stueve's petition should be denied.

Intervenor Stueve claims that updated cost estimates are newly discovered evidence that justifies rehearing. The updated cost estimates, as reported in the media and which were recently discussed in proceedings before the Minnesota Public Utilities Commission, indicate an increase of approximately 50% in the estimated capital costs to construct the Big Stone II project. Because the Commission heard and considered evidence of the possibility that construction costs would increase, the latest cost estimates are not newly discovered evidence. The evidence already considered included increased costs including but not limited to commodities (e.g., steel, concrete, copper, etc.), labor, possible design changes, and costs that might be incurred with regard to the control of mercury emissions.

Applicants direct the Commission to the following testimony:

- Q: (By attorney O'Neill) What type of issues could arise to cause the costs of this project to increase?
A: (By Mark Rolfes) This of course will be a major construction effort that will cover four years. With any kind of effort of this magnitude, it has the vulnerability to increases in commodity prices such as concrete, steel, wire, copper, labor availability. All of these factors on any large project would be exposed to. HT p. 89.
- Q: (By Commissioner Sahr) I do have a question. You talked about cost increases and revised cost estimates. Do you have any idea whether those are going to be material in nature or how far ballparkwise we are looking at in terms of increases.
A: (By Mark Rolfes) I do not have any exact numbers. That's why we are doing cost estimates. But it is my expectation that the cost of the project will go up. If you look at the state of the industry for any large project, the increase in costs in copper and steel and labor cost is prevalent in all major projects, so I do expect that the cost of this project will go up, but all of the factors that affect the cost of this project are the same factors that would affect any large construction project, whether you are building wind turbines, combustion turbines or Wal-Mart stores. It's the commodities and material and labor that are necessary for the project.

Q. We have heard a lot about those increases in all those different sectors and read that and I'm just curious, since you've been studying this, probably more of a personal interest question than perhaps relevant to this case, but we all know that because of a number of factors, those raw materials have gone up in terms of 2006, 2007, so on, are you projecting similar rises or do you think its going to level out once we kind of get through this temporary situation now?

A. It varies from commodity to commodity. The one that's simple to answer is we believe that labor costs will increase for the whole duration of this project, more so that what we have been seeing in the past. HT pp. 105-106

- Q. Given that the 189 lbs. Hg/yr site-wide cap is still in excess of the South Dakota budget for mercury allowances, have the Applicants considered the monetary risk associated with the requirement to either obtain additional mercury removal or purchase mercury emission credits or allowances?

A. Yes, we are aware that there will be costs incurred in installing mercury control equipment or purchasing emission allowances. We do not know what the next generation of emission control equipment will cost but it is certain it will be several millions of dollars in capital costs and annual operating costs. The cost of mercury emission allowances has not been determined either. Estimates range from a few thousand dollars per pound to tens of thousands and hundreds of thousands of dollars per pound. Applicants' Ex. 34, p 4, L 1-10 (Prefiled Rebuttal Testimony of Terry Graumann)

- Q. (By Karen Cremer) Okay. Then in Exhibit 34 on page 4, it would be lines 7 and 8, you state that several million dollars in capital costs and annual operating costs, so can you clarify what capital equipment you're talking about in that statement?

A. (By Terry Graumann) The capital costs would be incurred to inject the additives into the system, if in fact those proved necessary as a result of the ongoing evaluation. It might be tanks, spray nozzles, some piping, to be able to transfer the additives from whatever storage vessel it might be to either the coal or into the scrubber or into some other - - into the fabric filter, some other location in the system. It is not major in the sense that it would be equal to another SCR or a scrubber or anything like that. It would be some dollars associated with the storage and handling equipment for those materials that would need to be added to the system and then the operating costs, the ongoing operating costs would be for the reagents themselves, the materials themselves, whatever they might be. HT. pp. 140-141

Based on the evidence, the Commission made finding of fact number 28, which states:

The estimated construction cost for Big Stone Unit II is in excess of \$1 billion in 2011 dollars. As Applicants approach a more defined design stage, refined cost estimates will be prepared. [Citation omitted.] It is anticipated that construction costs for Big Stone Unit II will be subject to overall trends for steel, concrete, and other construction commodities.

Clearly, the Commission considered the evidence that the cost of constructing the Big Stone Unit II project could increase. Furthermore, the Commission also entered finding of fact number 201

that clarifies that the Commission's decision in this case does not constitute a finding of prudence. Neither Intervenor Stueve nor Joint Intervenor proposed any findings of fact or conclusions of law to the contrary. The question of whether the Big Stone Unit II is a prudent investment for Otter Tail or MDU would be the subject of some other, later hearing before this Commission.

Regardless of whether construction costs rise or fall in the future, these costs have no bearing on the demand that has been identified by the project co-owners for baseload resources, and have no affect on the community or environmental impacts identified or considered during the hearing.

In conclusion, based on the evidence presented at the hearing, the Final Decision and Order entered by the Commission on July 21, 2006 and the foregoing answer, Applicants respectfully request that the Commission deny Intervenor Stueve's petition for rehearing and her further requests to order production of any additional information.

Dated this 2nd day of August, 2006



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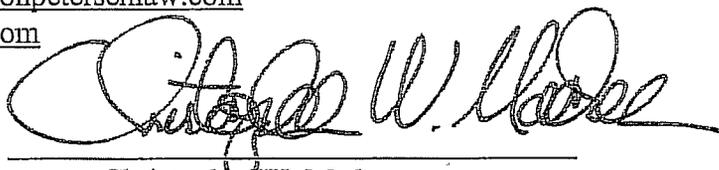
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CERTIFICATE OF SERVICE

I, Christopher W. Madsen, do hereby certify that I am a member of the law firm of Boyce, Greenfield, Pashby & Welk, L.L.P., attorneys for the Co-owners of Big Stone II Project and that on the 2nd day of August, 2006, true and correct copies of the Answer to Petition for Rehearing were served via email to the following addresses listed on the E-Service List and by regular mail:

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