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April 17, 2013

Ms. Patricia Van Gerpen
Executive Director
South Dakota Public Utilities Commission
Capitol Building, 1st floor
500 East Capitol Avenue
Pierre, SD 57501-5070

**Re: In the Matter of Otter Tail Power Company's Petition to Establish an
Environmental Quality Cost Recovery Tariff
Docket No. EL12-027**

Dear Ms. Van Gerpen:

By this letter, Otter Tail Power Company ("Otter Tail") requests that action on the Petition in the above-referenced matter be suspended until the Air Quality Control System (AQCS) project described in the Petition nears completion, or, if the Commission prefers, Otter Tail requests authority to withdraw its Petition in this matter with the expectation that the Petition will be re-filed at that time.

Otter Tail's Petition in this docket requested that the Environmental Quality Cost Recovery Tariff (Rider) be implemented during the AQCS's construction so that its customers would pay the costs of financing during the construction period rather than have such costs accumulate as an "allowance for funds used during construction" to be included in rates when the project goes into service. Otter Tail has not been able to reach agreement with Staff on issues relating to the rate of return to be used on the construction work in progress (CWIP) expenditures, and it appears it would likely be necessary to incur significant expense to litigate those issues to conclusion. By suspending action on the Petition until the construction is near completion (with the intent that any Rider rates would go into effect only after the Project is in service) the issues relating to a current return on CWIP will not require costly litigation. Therefore, Otter Tail requests that action be suspended on the Petition, or that it be permitted to withdraw the Petition, so that it can avoid additional costs of litigation at this time. As indicated, it is Otter Tail's intention that it will request implementation of the Rider to coincide with the facility going into service, either as part of this docket if the Petition is treated as suspended or by filing another Petition if the Commission prefers that the Petition be treated as withdrawn.

The current in-service date for the AQCS project is targeted for late 2015 and therefore it is expected that action on Otter Tail's request for an ECRR can be suspended for approximately 24 months, with the goal of having a final ruling from the Commission in time for a late 2015 implementation of the ECRR.

Otter Tail also would like to use this correspondence as an opportunity to update the Commission on the progress of the AQCS project.

The project leadership team has made significant progress in securing supplier contracts for the project. Approximately ninety percent of the project's costs are now under contract. Also a new budget has been issued for the project. The new budget estimate is \$405 million, which is 17.5 percent lower than the original budget of \$489 million. The large reduction to the budget is a result of the following:

1. Prudent design/engineering modifications account for approximately 45 percent of the reduction. Through prudent engineering and hard work, there have been a number of changes in the design and specifications resulting in considerable cost savings without compromising the performance or operability of the project. Examples are changes to the requirements and design of the boiler modifications which eliminated major structural changes originally contemplated. Another example is the reuse of the plant's 13.8Kv switchgear that was recently replaced. This reuse eliminates the need for a new plant substation and transformer to feed the AQCS Project. These and other changes yielded the largest share of the reductions.
2. Selection of a project delivery method, timing and market conditions account for approximately 35 percent of the reduction. With the combination of the project delivery method, General Work Contract target pricing methodology, and a "buyer's market" we have been able to take advantage of many very competitive situations that have often yielded bid prices below the expected market. This was not coincidental. We selected the project delivery method to allow us to get to the market at the right time, and we have aggressively pushed ahead to be in the market during this opportune time.
3. Otter Tail has taken on the duties of construction management for the project and this change accounts for approximately 13 percent of the reduction. With a project delivery method focused on having a single contractor for the construction of the AQCS equipment, the partners determined Otter Tail could take on the construction management of the project rather than using a third party. We have added very experienced people to the project staff to ensure that this is a success.
4. Changes to the contingency for the project accounts for about 7 percent of the reduction. Being at a point where so much of the project is under contract we went through an extensive effort to evaluate the contingency needed for the rest of the project. The outcome was a lowering of the contingency level for the project.

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It should be remembered that construction only started days ago and we have two and a half years ahead of us. Because of this there are still many unknowns and potential challenges ahead of us. But the work that has been done to date and the careful review of the project justifies a reduction in the anticipated project costs.

Sincerely,

/s/ BRUCE GERHARDSON
Bruce Gerhardson
Associate General Counsel

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By electronic filing