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January 20, 2009

Patricia Van Gerpen
Executive Director
South Dakota Public Utilities Commission
500 East Capitol Avenue
Pierre, SD 57501-5070

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Dear Ms. Van Gerpen:

Subject: Semi-Annual Progress Report
 December 31, 2008
 EL05-022

The following Semi-Annual Progress Report is provided in conformance with the Final Decision and Order for the Energy Conversion Facility Permit for the Construction of the Big Stone II Project Docket EL05-022.

This is the project's fifth report and we would welcome comments on the format and/or content which could be incorporated into future reports.

Sincerely,

Mark Rolfes
Project Manager
Big Stone II Project

Enclosure

Semi-Annual Progress Report
December 31, 2008

Final Decisions and Order
Energy Conversion Facility Permit for the
Construction of the Big Stone II Project

EL05-022

The following Semi-Annual Progress Report is provided in conformance with the Final Decision and Order for the Energy Conversion Facility Permit for the Construction of the Big Stone II Project Docket EL05-022.

The Commission's Final Decision and Order paragraph 2.C. includes the following condition:

C. The Co-owners shall submit semi-annual progress reports to the Commission that summarize the status of the construction, the status of the land acquisition, the status of environmental control activities, the implementation of the other measures required by these conditions, and the overall percent of physical completion of the project and design changes of a substantive nature. Each report shall include a summary of consultations with DENR (the South Dakota Department of Environment and Natural Resources), and other agencies concerning the issuance of permits. The reports shall list dates, names, and the results of each contact and the company's progress implementing prescribed environmental protection or control standards. The first report shall be due for the period ending December 31, 2006. The reports shall be filed within 31 days after the end of each semi-annual period and shall continue until the project is fully operational.

The following are the Applicant's responses to Order 2.C. for the reporting period ending December 31, 2008.

Transmission Certificate of Need and Route Permit Docket before the Minnesota Public Utilities Commission

On May 8, 2008, administrative law judges from the Minnesota Office of Administrative Hearings submitted to the Minnesota Public Utilities Commission (MN PUC) their Supplemental Findings of Fact, Conclusions of Law and Recommendation (ALJs' Report) for the second phase of the hearings on this matter (the second phase was a result of the withdrawal of two companies, Great River Energy and Southern Minnesota Municipal Power Agency, from the Big Stone II project). The MN PUC hearing to review the ALJs' Report took place on June 3, 2008, with the deliberations and decision scheduled for June 5, 2008. On June 5, 2008 the MN PUC voted to defer its decision on the certificate of need and route permit for the transmission lines pending additional proceedings to obtain independent, supplemental expert opinion and information

concerning various cost factors affecting the proposed facilities, including the plant in South Dakota. The MN PUC has heard from the Big Stone II Applicants and the Joint Interveners on their views regarding what process should govern any additional proceedings.

The Minnesota PUC conducted a bidding process to select an independent, supplemental expert to supply additional opinion and information on three areas of concern. These areas were capital cost, fuel cost and future CO2 costs. The Commission selected Boston Pacific Company for this work. Boston Pacific delivered its report to the Minnesota PUC on October 22nd. Rebuttal testimony was filed and the Commission conducted a hearing on November 12th and 13th on the information contained in the report. The Administrative Law Judge summarized the information provided during the hearing and issued his report to the Minnesota PUC on December 22nd. The MN PUC is scheduled to take the matter up for final oral argument, deliberation and decision on January 13 and 15, 2009.

Status of the Construction

Preliminary discussions with equipment suppliers and erectors have taken place and a general process for final negotiations has been reviewed, but the actual timeline will depend on permit status. The planned construction start will depend on permit status of the project.

Status of the Land Acquisition

No additional property has been acquired during this reporting period. The Big Stone II participants did inform the Big Stone I owners that they are exercising options for the acquisition of property from Big Stone I that will be needed for construction of Big Stone II though no transfer of property has occurred as of this date.

Status of Environmental Control Activities

The following is a discussion of the Big Stone II environmental control activities that have occurred during this reporting period.

I. PSD Construction Permit

Public notice of the draft PSD Construction Permit was provided on April 26, 2006 for a 30-day period. An updated application was submitted on June 20, 2006. The updates incorporated additional plant design changes and modeling in conformance with the ambient air quality standards for particulate matter less than 2.5 microns (PM_{2.5}). In compliance with the Final Decisions and Order 2.B., the updated application also included the voluntary commitment to limit mercury emissions to 189 pounds per year beginning three years after commercial operation of Big Stone II. On February 23, 2007, the Co-owners submitted additional PSD Construction Permit updates to address the most recent plant design changes as described in the December 31, 2006 Semi-Annual Progress Report to the Commission. PM_{2.5} modeling results consistent with EPA's

revised PM_{2.5} standards as published in the October 17, 2006 Federal Register (FR 71 61144) accompanied the February 23, 2007 submittal. On July 12, 2007, the Co-owners provided additional revised PM_{2.5} modeling results which included emissions from the adjacent Poet Biorefining – Big Stone, formerly the Northern Lights Ethanol Plant. The draft PSD Construction Permit was again public noticed on January 30, 2008. On February 20, 2008, Otter Tail filed a Petition for a Contested Case Hearing in the Big Stone II PSD Permit proceeding as well as the Big Stone Title V Permit proceeding.

The Board of Minerals and Environment (Board) conducted a public input hearing regarding the proposed permits on July 17, 2008 in Milbank. A hearing on the pre-hearing motions was held that same day.

The Evidentiary Contested Case Hearing was bifurcated. The first portion of the hearing was held on August 18 – 21, 2008 and it considered all issues with the exception of the air modeling issues. Air modeling issues were considered on September 24 –26, 2008. The Board heard final arguments, had deliberations, and issued its Final Decision and Order on November 20, 2008 issuing the PSD permit. The Board also issued the Big Stone Title V permit for EPA’s review as required by the Clean Air Act. Joint petitioner’s Sierra Club and Clean Water Action have appealed the administrative decision to the Circuit Court of Hughes County. The appeal is currently pending before the Court.

II. Water Appropriations Permit

There is no additional information to report for this reporting period regarding water appropriations.

III. Solid Waste Permit

There is no additional information to report for this reporting period regarding the solid waste permit.

IV. Local Approvals

There were no local approvals initiated or received during this semi-annual reporting period.

V. Federal Environmental Impact Statement

The Western Area Power Administration issued a Supplementary Draft Environmental Impact Statement (SDEIS) for public comment on October 26, 2007. The SDEIS addressed the impacts of changes to the project relative to cooling water alternatives and the use of groundwater as the backup water source. Western held a public meeting to solicit comment on the SDEIS in Milbank on November 13, 2007. The comment period was slated to close on December 10, 2007, but it was extended to February 28, 2008. Western is in the process of developing the Final EIS and the responses to comments on the May 2006 draft EIS and the October 2007 SDEIS. We expect that Western will complete the Final EIS and issue a Record of Decision in the second quarter of 2009.

Implementation of Other Required Measures

The following is a summary of the status of each of the required measures included in the Decision and Order as listed in paragraphs 1.A. through 1.D.

- A. Applicants shall prepare a contingency housing plan for construction housing;

Status: An outline for the housing plan has been put together. Data taking has started and a survey of the needs of the expected work force has been completed.

- B. Applicants shall fund an additional officer to the Grant County Sheriff's office for three years, implement a program of drug testing of potential workers and advise law enforcement of peak employment months;

Status: No activity this reporting period for funding of the additional officer to the Grant County Sheriff's office. The assurance of drug testing will be done on a contractual level which is included in Section 000453.5 of BSP II's contract specifications. This provision has not been implemented since construction contracts have not been signed.

Section 00453.5 of the Co-owners' construction contract specifications is the Drug Prevention Program and it is included in the following contract subsections.

- 435.5.1 Pre-Project Assignment Test
- 435.5.2 Post-Employment Test
- 435.5.3 Periodic Unannounced (Random) Drug Test
- 435.5.4 Drug/Alcohol Test Implementation
- 435.5.5 Training and Education

- C. Applicants shall purchase for the Big Stone City Fire Department a high angle rescue kit and provide for the training of several of the Big Stone City Fire Department members in the use of the equipment; and

Status: No activity this reporting period.

- D. Applicants shall provide a public liaison officer to facilitate the exchange of information between the project owners, contractors and the local communities and residents and to promptly resolve problems that may develop for local communities and residents as a result of the project. Applicants shall also implement a web site and conduct periodic meetings to update the public. The public liaison officer shall be afforded immediate access to the Applicant's project manager and to the contractors' on-site managers.

Status: The Co-owners have employed Sandy Christensen as the local public liaison officer who has immediate access to the Applicant's project manager and would have immediate access to the project's on-site managers. Ms. Christensen resides in the Milbank area and is a former Executive Director of the Milbank Chamber of Commerce. She has an excellent knowledge of the area. She has been making local contacts informing the public of her role on the Big Stone II project.

Ms. Christensen, along with Steve Schultz, has maintained close contact with both the local papers and radio stations. They have met with some of the local service clubs and will continue to meet with these organizations in the future.

The Applicants have established a web site for the Big Stone II project. The web site address is the following:

<http://www.bigstoneii.com/>

Overall Percent of Physical Completion of the Project

Physical construction has not begun on the project.

Design Changes of a Substantive Nature

There were no substantive design changes that occurred during this reporting period.

Summary of Consultations with the South Dakota Department of Environment and Natural Resources and other Agencies Concerning the Issuance of Permits

Date	Agency	Contact	Substance of Contact
Ongoing	SD DENR – Air Quality	DENR staff	Various communications regarding permitting activities
10/29/2008	SD DENR – Water Rights Program	Garland Erbele	Verification of construction requirements required by Conditions 5 of Permit 6678-3.
Numerous occasions	Western Area Power Administration and R. W. Beck		Information exchange and discussion of the Supplemental Draft EIS covering groundwater and follow-up on the Final EIS