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July 18, 2007

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
 June 30, 2007
 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 second 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
June 30, 2007

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 June 30, 2007.

Status of the Construction

The project has preliminarily chosen one supplier for the Boiler, Baghouse, and Scrubber. This is a significant portion of the Plant Project at nearly 30%. Preliminary discussions 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 in 2008 will depend on permit status of the project.

Status of the Land Acquisition

In addition to purchase of the 80-acre parcel in South ½ of the SE quarter of Section 10, Township 121 North, Range 47 West described in the December 2006 update, the Co-owners have agreed to proceed with the purchase of the remainder of the optioned

properties in Sections 14 and 15 in Township 121 North, Range 47 West. With that purchase, Otter Tail Corporation will own on behalf of the Co-owners all of the property within the blue boundary as identified in Application Exhibit 1-2 Revised June 2006

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

The draft PSD Construction Permit was public noticed 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. The draft PSD Construction Permit will be re-public noticed following incorporation permit application updates.

II. Water Appropriations Permit

The Co-owners received Water Permit No. 6678-3 dated November 1, 2006 which was approved by the Water Management Board at its public hearing on July 12, 2006. The permit authorizes the construction of the surface water diversion system and the beneficial use of water for Big Stone II. The Co-owners have completed a testing program to establish the quantity and quality of groundwater available in the vicinity of the Big Stone site. The ground water would be used in lieu of the 450-acre makeup water storage for site drought protection. A Water Rights Application was submitted to the SD DENR requesting an appropriation of 10,000 acre feet of groundwater for the Big Stone plant site on March 28, 2007. The SD DENR published a Notice of Hearing on April 11 and 18, 2007. The Board of Water Management held a public hearing in Milbank on July 11, 2007 and they approved issuance of the permit at that time..

Condition 3 of the Final Decision and Order requires that the Co-owners conduct an evaluation of alternative water supply options to provide water to the plant site in the event that withdrawals from Big Stone Lake are curtailed for an extended period of time. The Co-owner's intend to file a response with the Commission to Condition 3 by September 1, 2007 as requested in the Final Decision and Order.

III. Solid Waste Permit

On February 2, 2007, Otter Tail Power Company submitted to the SD DENR an application for a revised Big Stone I Solid Waste Permit The permit application

incorporated the needs of Big Stone II that are consistent with the project design changes. The application was public noticed on June 20, 2007.

IV. Local Approvals

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

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.

Ms. Christensen has begun work with property owners and developers on plans for the construction period. She also has made local contacts to build support for the permitting process and has attended a number of local meetings regarding the project.

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
2/14 & 15/2007	SD DENR – Water Rights	Eric Gronlund	Discussion of Water Appropriation Permit application procedures.
2/21/2007	SD DENR – Water Rights	Garland Erbele and Eric Gronlund	Submittal of preliminary Water Permit Application for review.

Date	Agency	Contact	Substance of Contact
3/28/2007	SD DENR – Water Rights		Submitted the Application for Permit to Appropriate Water within the State of South Dakota for Big Stone Unit I and Big Stone II Co-owners.
5/17/2007	SD DENR – Air Quality	Kyrik Rombough	Provided information on passive dust control systems.
5/21/2007	SD DENR – Water Rights	Garland Erbele and Eric Gronlund	Forwarded Barr Engineering’s May 16, 2007 Technical Memorandum to the DENR in further support of the Water Appropriations permit for groundwater.
6/18/2007	SD DENR Water Rights/ MN DNR Division of Waters		Joint agency meeting to discuss water supply for the Big Stone site
June 20, 2007	Joint meeting of Sisseton-Wahpeton Oyate Tribe, Western and Otter Tail representatives	Tribal Chairman, Council representatives, and staff	Review of Big Stone Project.
June 29, 2007	SD DENR – Air Quality	Kyrik Rombough	Provided comments on initial Draft PSD Construction Permit and Statement of Basis
Ongoing	SD DENR – Air Quality	DENR staff	Contacts to determine permitting status
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
Ongoing	Native American Tribes, Western and Otter Tail Power Company representing BSP II	Tribal Historic Preservation Officers and Tribal Representatives	Consultation on cultural resources and the Programmatic Agreement as part of the Section 106 process