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January 15, 2006

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, 2006
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 first 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, 2006

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, 2006.

Status of the Construction

The project is in the process of reviewing bid specifications for the Boiler, Turbine, Scrubber, Baghouse, Chimney, and other miscellaneous contracts. We previously received bids for these pieces of equipment but they have since lapsed and need to be refreshed. Although these five contracts are a significant capital portion of the project, there are a significant additional number of contracts (approximately 100) that will need to be issued during the beginning phase of this project. The current schedule is to begin construction in the early spring of 2008 with a commercial operation date of May 1, 2012.

Status of the Land Acquisition

Otter Tail Corporation has purchased the 80-acre parcel in South ½ of the SE quarter of Section 10, Township 121 North, Range 47 West as identified in Application Exhibit 1-2 Revised June 2006. No other purchase options have been exercised at this time.

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. The Co-owners will be submitting additional PSD Construction Permit updates to address the most recent plant design changes as described below and to incorporate the results of additional PM_{2.5} modeling consistent with EPA's revised PM_{2.5} standards as published in the October 17, 2006 Federal Register (FR 71 61144). The date for the re-public notice publication has not been identified.

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. As noted below, the Co-owners have initiated 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. Plans are to submit a Water Rights Application to the SD DENR for groundwater in February 2007.

III. Solid Waste Permit

There was no activity on the Solid Waste Permit relative to the Big Stone II project during this semi-annual reporting period.

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: No activity during this reporting period.

- 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

The project has undergone a number of design changes since issuance of the Final Decision and Order. However, the final scope and fundamental project design remain unchanged. The design changes were the result of a number of factors including the availability of more detailed information following receipt of project bids, cost-saving measures, and responses to comments and concerns expressed during the various approval processes.

I. Water Supply System and Drought Protection

As described in the Energy Conversion Siting Permit Application for Big Stone II, the Co-owners had planned to acquire all of the plant water needs from Big Stone Lake. A new 450-acre makeup water storage pond would have been constructed on the plant site and would have provided water storage during those time periods when the water appropriations permit conditions prevented pumping from the lake.

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. In addition, the U.S. Environmental Protection Agency as well as public interest groups have expressed concern in the Corps of Engineers Section 404 permitting process and in

comments to the draft Federal Environmental Impact Statement over the need to take wetlands for the construction of the makeup water storage pond.

Black and Veatch, the Applicant's project engineer, has also re-evaluated the construction and operating cost of the 450-acre makeup water storage pond using more detailed design information and have compared it to other viable options. Their evaluation concluded that using a 450-acre makeup water storage pond was more expensive than using groundwater for drought protection. Given that finding and the environmental concerns with construction of the pond, the Co-owners have developed a new conceptual design of the plant water supply system and are now proposing to use groundwater for drought protection instead of the 450-acre makeup water storage pond that was initially proposed.

Based on available water resource information, discussions with the SD DENR, and Water Appropriations Permits that were issued but not perfected, the Co-owners believe that a suitable quantity and quality of groundwater is available in the vicinity of the plant site. The Co-owners have begun a test program to further characterize the groundwater resources in the vicinity of the plant site. The information that is gathered from the test program will supplement the historical databases and will be used to support the Federal EIS process and the SD Water Appropriations Permit for groundwater. The SD Water Appropriations Permit for Groundwater requesting 10,000 acre-feet per year (Approximately 6000 gallons per minute) is expected to be filed with the SD DENR in February 2007.

II. Water Management System

The conceptual design of the facility water management has been reviewed, simplified and made more cost-effective. The cooling tower blowdown will discharge directly to the wet limestone scrubber. The brine concentrator sludge pond will serve as the initial settling pond for the wet limestone scrubber blowdown. The scrubber blowdown will then flow to the existing BSP I evaporation pond, a portion of which will be lined with a synthetic liner as part of the Big Stone II project. A lime and soda ash softener will be added to pretreat well water prior to pumping it to the existing cooling pond. These changes will eliminate the need for a new cooling tower blowdown pond and the new brine concentrator(s). Exhibit 1 is a revised Big Stone site Water Mass Balance that incorporates the most recent changes

III. Materials Handling System

The coal handling system design has been revised. The new emergency stock-out pile would be 28,000 tons rather than 75,000 tons as was included in Exhibit 2-3 of the Application. The Big Stone II coal storage silos and the associated emissions points for the filling and unloading of the silos have been removed from the design. Plans are to store and recover coal from the 28,000-ton pile rather than using coal silos.

Two storage silos will also be added for storage of water treatment materials. One will store lime and a second will store soda ash.. Each silo would be approximately 12 feet in diameter and 30 feet tall. Emissions will be controlled with a fabric filter. Exhibit 2 is a revised Plant Site drawing that illustrates the revised site arrangement following the redesign as described above.

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
8/07/2006	SD DENR – Water Rights	Garland Erbele	Initial contact asking about the prospects of groundwater availability for the Big Stone site.
8/08/2006	SD DENR – Water Rights	Jim Goodman	Discussed in more technical detail the prospects of groundwater availability for the Big Stone site and sources of additional information.
9/13/2006	SD DENR – Water Rights	Garland Erbele and Eric Gronwald	Discussed the SD Groundwater Permit Application – Even though ProGold had received a permit in 1995 for a water appropriation that was not perfected, the DENR suggested that the Big Stone II develop additional groundwater resource information based on test wells for inclusion in the Water Appropriations Permit application for groundwater.
10/23/2006	SD DENR – Surface Water Quality Program		Application for General Permit for Temporary Discharge and a Temporary Water Use Permit - The permits would allow installation and testing of groundwater wells on the Big Stone site.
11/06/2006	SD DENR Surface Water Quality Program		Received General Permit for Temporary Discharge
11/06/2006	SD DENR Water Rights Program		Received Temporary Permit to Use Public Waters for Testing Purposes
Approx. 11/08/2006	USFWS	Peter Gober	Call to determine status of Western’s request for Interim Action to install test wells

11/20/2006	Western Area Power Administration		Received Interim Action Determination that allowed for installation of five test wells on the Big Stone site
11/29/06	SD DENR - Air Quality	Kyrik Rombough	Call to SD DENR to inform them of design changes to BSP II and the need to remodel the site to include EPA revised PM2.5 ambient air standards
11/29/2006	SD DENR and MN DNR	Garland Erbele and Eric Gronlund of the DENR and Dave Leuthe of the DNR	Provided via e-mail results of modeling designed to determine impacts to Big Stone Lake level and MN River flows under the revised drought protection design that uses groundwater rather than the 450- acre makeup water storage pond
12/18/2006	SD DENR – Surface Water Quality Program		Renewal Application for General Permit for Temporary Water Use Permit which expired on December 31, 2006.
01/02/2007	SD DENR Water Rights Program		Received Temporary Permit to Use Public Waters for Testing Purposes
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