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## Investing in upgrades: Big Stone Air Quality Control System construction moving ahead

As 2013 comes to a close, the Big Stone Plant's air quality control system (AQCS) is well under way and under budget.

The Big Stone Power plant is owned by Otter Tail Power Company, Northwestern Energy and Montana Dakota Utilities. The 476 megawatt plant is operated by Otter Tail Power. As a result of the EPA's Regional Haze Rule Requirements, South Dakota is requiring the Big Stone Plant to implement new air-quality control systems as soon as practical, but no later than early 2017.

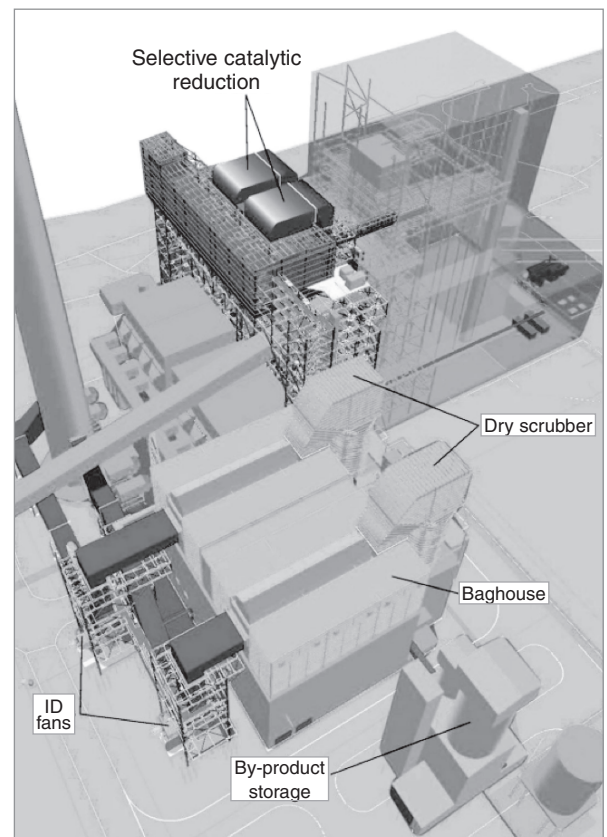
The project is currently ahead of schedule. The tie in outage for the controls is projected to be March 1 to June 9, 2015 and online by November 2015. The project includes costs to implement control technology for reducing mercury emissions per the federal Mercury and Air Toxics Standard regulation. These controls must be in place by April 2015.

The project cost was originally estimated at \$491 million, but because of prudent design changes, lower than expected bids, in-house project management and a lowered contingency reserve, the estimated cost has been lowered to \$405 million. The plant was completed in 1975 for \$150 million. Even with the high cost to implement this project, Big Stone continues to be a least cost resource for the owner utilities.

To date, auger cast piles have been completed, as has approximately 20,000 ft. of underground piping. Foundations for the baghouse/scrubber, waste ash and the selective catalytic reduction system

(SCR) have been completed. Steel erection on the scrubber, baghouse and SCR are well underway. This is no small undertaking: there are approximately 250 contractors on site, and the site receives approximately five semi-loads of steel per day. Safety remains high priority on the project: so far over 475,000 hours have been completed with no recordable accidents or injuries.

A website has been set up for the project. For the latest news on the project, please visit: <http://www.bigstoneplantaqcs.com/project-updates>



# Greetings From Bismarck ...

*"Do not spoil what you have by desiring what you have not; remember that what you now have was once among the things you only hoped for."*

– Epicurus

*"Cultivate the habit of being grateful for every good thing that comes to you, and to give thanks continuously. And because all things have contributed to your advancement, you should include all things in your gratitude."*

– Ralph Waldo Emerson

When people make it their lot in life to solve problems, they are more likely to focus on the problems still be to solved rather than the problems their efforts have rendered nonexistent. We, the recipients of their labor, often fail to make known our gratitude for the absence of the hurdles they've removed. Our silence doesn't stop their endeavors, because they are driven by an internal obligation to do what is right. However, what is right to do is not always what is easy to do, and the burden takes a toll.

I'm guilty, I'll admit, of focusing too often on the problems. In asking for your engagement on a variety of issues, I've directed your attention to the problems that still exist rather than the positive things that we have accomplished together or that have been accomplished on our behalf.

Our culture is partly to blame – it's not in our modest Midwest nature to dwell on our successes or seek acknowledgment. Humility is ingrained in us at an early age. When I was a little girl, we played a game in our house called "don't get caught doing good deeds." The purpose of the game was to do as many good deeds as possible without seeking recognition. At Christmas time, there was a candy dish filled with miniature candy canes that served as our reward for doing our sneaky good deeds. Even though the mantra "the reward is in itself" was drilled into our heads daily, my mom recognized that, sometimes, a little silent recognition was just what the doctor ordered. Sure, I was happy

when I did good deeds other times of the year, but nothing filled me with silent satisfaction quite as much as checking to see if the coast to the candy dish was clear after I'd done something good during Christmas.

While you might not have played the same game, I bet you were taught the same message. Humility is a noble thing, but sometimes, we need acknowledgment. Even if we're embarrassed by the attention, we need to know our work means something. Over the past year, you've heard me talk about a lot of things that need work. Now it's time to fill the candy dish for the people who don't flaunt their good works. Now it's time to talk about the good things that have been done on your behalf.

This year on your behalf, the ND Legislative Assembly passed income tax relief. Projections place the relief at \$200 million for individual income and \$50 million for corporate income. That is not a small amount of relief, and it comes when the legislature was dealing with infrastructure and growth needs across the state. Critics will point out that the state has a large surplus, and the relief could have been bigger. That is true. However, with pressure from innumerable interests to spend more on the growing needs of the state, a \$250 million income tax relief package was a leap in the right direction. For that, we need to thank our legislators.

This year on your behalf, the ND Legislative Assembly passed a 12%



**Carlee McLeod**  
USND President

property tax credit, continued and expanded the existing property tax mill levy buy-down, and restructured educational spending so that the state paid more and the local school districts could fund less. Furthermore, the law requires greater transparency in local property tax changes and in statements so that each property owner can better understand state funding and local changes. While property tax is a local assessment, state legislators took up the cause for relief, and they continue to search for better ways to ease property tax during the interim. For that, we need to thank our legislators.

This year on your behalf, the ND Legislative Assembly passed a bill decreasing the double taxation that comes with capital gains and dividend income. Prior to their work, North Dakota allowed a 30% exclusion from taxation for that income type. Now, the exclusion is at 40%. The projected relief is between \$6-8 million. As shareholders, you understand the impact this has on your yearly tax burden. While the focus for tax reform was solidly on property and overall income tax, it would have been easy for legislators to overlook this issue. But they didn't. They saw the issue as what it is – an unfair tax practice that

*(cont. on page 7)*

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# USND joins North Dakotans for Common Sense Conservation

Utility Shareholders of North Dakota has agreed to join the broad-based coalition supporting North Dakotans for Common Sense Conservation. The coalition opposes the proposed constitutional amendment that would commit five percent of North Dakota's oil extraction tax – conservatively estimated at over \$200 million a biennium – to a new fund with no clear idea of how it would be spent. The amendment would mandate spending – roughly \$2 million a week – on conservation projects with no regard to demonstrated need.

We all support conservation efforts and safeguarding our environment, but this measure is the wrong approach. Here's why we oppose it:

- It would divert billions of dollars of state funds that could otherwise be spent on schools, education, infrastructure, emergency services and tax relief.
- The money from this fund can be granted to state agencies, tribal and local governments, political subdivisions and non-profit groups. Some of the non-profits that will likely benefit from it would be the Sierra Club, the Nature Conservancy, the Dakota Resource Council and other radical environmental and wilderness organizations.
- Putting this in our state's Constitution is not the proper way to fund conservation programs. Any changes to this constitutional amendment could only be corrected

by another statewide vote. Passing this would set a dangerous precedence where every special interest group could try to secure funding through a ballot instead of the Legislature.

- Its advisory board members would be required to have a background in land conservation and/or conservation activism – likely ensuring that only conservation groups would be represented without the input of taxpayers.
- The supporters of this proposed constitutional amendment are being funded by out-of-state special interest groups. A report filed with the Secretary of State's office at the end of last year showed the group received 95 percent of its money from outside our state.

We are among more than 20 diverse groups that are part of this coalition backing the North Dakotans for Common Sense Conservation. We support them because we already invest over \$100 million per biennium in preservation and conservation in North Dakota.

As its name implies, supporting this effort is just common sense. There are better ways to support conservation programs than through an ill-advised constitutional amendment that would saddle our state with unnecessary mandated spending.

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## Circuit court rules in favor of Coyote Station emissions State Implementation Plan

The 8th U.S. Circuit Court of Appeals ruled Sept. 23 to uphold the nitrogen oxides emission limit set for the Coyote Station in North Dakota's Regional Haze State Implementation Plan. The electric generation facility located near Beulah, N.D. is co-owned by Montana-Dakota Utilities, Otter Tail Power Co., Northern Municipal Power Agency and Northwestern Energy.

The nitrogen oxide emission limit came under dispute when the National Parks Conservation Association and the Sierra Club petitioned to challenge North Dakota's SIP in May 2012. The EPA had partially approved North Dakota's SIP in April 2012, including an agreement with Coyote Station to reduce nitrogen oxide emissions by installing a separated over-fire air, or SOFA, system by 2018. Within the agreement ultimately approved by the EPA, the state set Coyote Station's nitrogen oxide emission limit at 0.50 pounds per million British thermal

units on a 30-day rolling average. This limit would decrease the station's nitrogen oxide emissions by approximately 4,213 tons annually, which is about a 32 percent decrease in emissions from the station's 2000-04 baseline.

Within its petition to the 8th U.S. Circuit Court of Appeals, the National Parks Conservation Association and the Sierra Club argued that the emissions limit for Coyote Station was not strict enough. The court ultimately denied the challenge to the SIP as it relates to Coyote, ruling that the emission limit approved by the EPA was reasonable.

## Xcel Energy participates in drill to ensure grid protection

This November, Xcel Energy participated in a two-day drill simulating cyber and physical events on the power grid. Nearly 200 entities in the United States, Mexico and Canada participated in the drill which was designed to validate the readiness of the electric industry's response plans and provide input for future improvements.

North American Electric Reliability Corp. conducted the drill, called GridEx II, along with thousands of utility workers, business executives, National Guard officers, FBI experts and officials from government agencies across North America.

The biennial international grid security exercise uses best practices and other contributions from the Department of Homeland Security, the Federal Emergency Management Agency and the National Institute of Standards and Technology.

"While Xcel Energy conducts dozens of drills throughout the year that have informed significant investments in grid security, this drill was a great opportunity to test our processes and interactions with the many other agencies involved," said Ben Fowke, Xcel Energy chairman,

president and CEO.

More than 125 Xcel Energy employees joined the exercise from various locations in the company's eight-state service territory as NERC released each sequence of the simulated event. Different cyber and physical simulations evolved over the course of the drill, imitating the complexity of a real event. Teams assessed, tested and validated existing command, control and communication plans and tools.

"We have a responsibility to deliver safe and reliable service to customers," said Fowke. "Our active participation in large-scale drills such as GridEx II is just a part of that commitment." Fowke is a member of the National Infrastructure Advisory Council sub-committee on cyber security. NIAC advises the U.S. president through the secretary of Homeland Security on the security of critical infrastructure sectors and their information systems. Several advisory committees work with NIAC on a variety of security issues, including communications infrastructure and emergency management. NERC will publish the findings of the drill on its website in the coming months.

## MDU Resources' Knife River Corp. awarded Highway 85 bypass construction contract

Knife River Corp., a subsidiary of MDU Resources Group Inc., received a \$51 million North Dakota highway construction contract for a bypass project on Highway 85. This is the largest road construction contract Knife River has been awarded in the state.

"Our growing backlog, along with our strong results this year, leads us to believe the construction industry is seeing signs of a sustained recovery," said David C. Barney, president and CEO of Knife River. "We believe work in many of our markets is picking up, and we continue to see more private projects being offered for bid. We are well-positioned to take on this additional work."

"This contract is a testament to Knife River's capabilities. Crews from our

North Dakota operations and our Idaho operations will be working on this project, which makes it another good example of our ability to bring together expertise from various divisions," said David L. Goodin, president and CEO of MDU Resources. "All of our businesses, including Knife River, continue to see growth in the region surrounding the Bakken oil play."

Knife River expects to complete about 1.5 miles of the approximately eight-mile project by the end of December 2013. Knife River will start construction again in the spring as weather allows and expects to complete the project in the fall of 2014.

## Words to Ponder...

*Big words seldom  
accompany good deeds.*

~Charlotte Whitton

*Do good by stealth, and blush  
to find it fame.*

~Alexander Pope

*The greatest good you can  
do for another is not just  
to share your riches but to  
reveal to him his own.*

~Benjamin Disraeli

*Noble deeds are most  
estimable when hidden.*

~Pascal

# Third Quarter Results

**Otter Tail Corporation** declared a quarterly common stock dividend of \$0.2975 per share. This dividend is payable December 10, 2013 to shareholders of record on November 15, 2013. Consolidated net income and diluted earnings per share from continuing operations totaled \$14.8 million and \$0.41, respectively, compared with \$4.8 million and \$0.13 for the third quarter of 2012. The corporation is narrowing its earnings guidance range to \$1.38 to \$1.50 per diluted share from its previously issued guidance of \$1.30 to \$1.50 per diluted share.

“Strong third quarter results from our Manufacturing and Infrastructure businesses under Varistar continue to reflect execution of our strategic direction,” said Otter Tail Corporation President and CEO Jim McIntyre. “These businesses are seeing the benefits of a more “hands-on” approach to improving operational excellence, and a committed focus on execution.

“As a result of our overall improved outlook, and a further indication of reducing risk across our mix of businesses, all three rating agencies have recently upgraded their ratings or outlooks for both Otter Tail Corporation and Otter Tail Power Company.

On October 7, 2013 Moody’s Investors Service (Moody’s) changed its rating outlook for Otter Tail Corporation to positive from stable, reflecting management’s continued strategy to realign and simplify its non-regulated activities to reduce business risk and its renewed focus on the regulated utility enhancing the corporation’s overall financial performance. At the same time, Moody’s changed its rating outlook for Otter Tail Power Company to stable from negative, prompted by the utility’s reduced capital expenditure program related to its Big Stone Plant AQCS project, and supportive regulatory environments.

**MDU Resources Group, Inc.** reported third quarter consolidated adjusted earnings of \$92.3 million, or 49 cents per share, compared to \$71.9 million, or 38 cents per share in the third quarter of 2012. Consolidated GAAP earnings were \$84.3 million, or 44 cents per common share, compared to a loss of \$29.8 million, or 16 cents per common share for the third quarter of 2012.

“We are seeing excellent results from our businesses’ capital investments and strategic focus continuing the trend we have had for the last three quarters,” said David L. Goodin, president and CEO of MDU Resources. “Our strong operations have produced 38 percent growth year-to-date in consolidated adjusted earnings per share compared to last year. These results reflect the value of our diversified model with all of our business segments contributing to this success.

“The focus that our businesses have placed on growth is producing strong results, and I’m pleased with our progress through the first nine months of the year,” Goodin said. “Considering earnings to this point, we are increasing our adjusted earnings per share guidance range for 2013 to \$1.35 to \$1.45. Where we end the year will be dependent on several factors – commodity prices being one. We have seen a widening of differentials for oil and weather is certainly a factor for our construction businesses as to whether we can continue work in our northern tier states in this fourth quarter.”

In addition, the board of directors increased the company’s quarterly common stock dividend to 17.75 cents per share, for an annualized dividend of 71 cents per share, payable Jan. 1, 2014, to stockholders of record Dec. 12, 2013.

This marks the 23rd consecutive year that MDU Resources has increased its common stock dividend, a mark achieved by only about 3 percent of the 3,300-plus North American listed, dividend-paying common stocks traded on a major exchange. MDU Resources has paid dividends for 76 consecutive years, dating back to 1937.

**Xcel Energy Inc.** reported 2013 third quarter GAAP earnings of \$365 million, or \$0.73 per share, compared with 2012 GAAP earnings of \$398 million, or \$0.81 per share.

Ongoing earnings, which exclude adjustments for certain items, were \$0.77 per share for the third quarter of 2013 compared with \$0.78 per share in 2012. Third quarter 2013 ongoing earnings declined as a result of cooler weather and higher operating and maintenance expenses. While third quarter 2013 weather was warmer than normal, it was cooler than the third quarter of 2012. These factors were partially offset by rate increases in various states.

“While the final electric rate increase in Minnesota was less than expected, the combination of favorable weather and effective management actions position us to deliver 2013 ongoing earnings in the upper half of our guidance range,” stated Ben Fowke, Chairman, President and Chief Executive Officer. “In addition, we have updated our financial objectives. We are increasing our dividend growth rate objective to 4 to 6 percent to align with our annual earnings per share growth rate of 4 to 6 percent that should allow us to provide an attractive total return for our shareholders for years to come. We are also introducing our 2014 ongoing earnings guidance of \$1.90 to \$2.05 per share.”

## North Dakota's Lawsuit over Minnesota's Next Generation Energy Act Waits for Procedural Decision

Oral arguments were heard on summary judgment motions in the lawsuit in which North Dakota sued Minnesota over its 2007 Next Generation Energy Act. The act severely limits the importation of coal-generated electricity into Minnesota. North Dakota has an abundance of coal and coal generated electricity comprises over 70% of all electricity generated in North Dakota. Companies enter into contracts to buy and sell electricity, and many of those contracts cross state borders, which means the Minnesota law interferes with the ability of companies to enter into interstate commerce. North Dakota joined in the lawsuit challenging the Next Generation Energy Act's constitutionality based on that interference with interstate commerce.

The procedural hearing was held in late October and dealt with cross summary judgment motions.

Summary judgment is a legal procedural tool that can be used by the court when there are no facts that need to be established in a trial. In other words, if the court can look at the plain words of the law and see that a decision can be made without determining external facts, that court can make a ruling on the issue.

Here, the plaintiff's (North Dakota and various industry partners) summary judgment motion asks the court to look at the plain meaning of the law and determine that it clearly interferes with interstate commerce as protected by a variety of provisions of the U.S. Constitution. The defendant's (Minnesota's Public Utilities Commission and the MN Department of Commerce) summary judgment motion asks the court to look at the law and determine that it does not violate interstate commerce under the provisions of

the U.S. Constitution. During the hearing, both sides presented their oral argument, and the court asked questions of each side.

The court has not ruled on the matter, and the judge gave no indication at the hearing when her decision would be made. Her decision could do a variety of things: it could render the act unconstitutional and strike the law down; it could rule that the plaintiff's case has no merit and uphold the act in total; it could decide portions of the legal case and reserve others for trial; or it could preserve all the presented legal issues and hold a trial for further fact establishment.

## Montana-Dakota Utilities signs power purchase agreement with N.D. wind project

Montana-Dakota Utilities has signed a power purchase agreement with Thunder Spirit Wind LLC, a subsidiary of Wind Works Power Corp.

The agreement is for approximately 105 megawatts of installed capacity of wind turbine generators to be located in southwest North Dakota near Hettinger. The generation will interconnect at Montana-Dakota's substation near Hettinger. The project is expected to begin commercial operation in the fourth quarter of 2015.

Montana-Dakota issued a request for proposal earlier this year for electric capacity and energy. The Thunder Spirit Wind proposal will provide Montana-Dakota customers with stable pricing over the 25-year contract.

"This is a competitively priced agreement that will serve our customers for many years to come," said Frank Morehouse, president and CEO of Montana-Dakota. "Moving some of our current market energy purchases into a

fixed contract helps protect our customers from unexpected changes in market pricing."

In addition to renewable generation owned by Montana-Dakota, the agreement with Thunder Spirit Wind means 20 percent of Montana-Dakota's energy supply requirements will come from renewable resources.

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# Natural gas pipeline to serve Heskett turbine under construction

Construction is on schedule for the 24-mile natural gas pipeline that will serve the new natural gas combustion turbine being built near MDU's Heskett Station in Mandan, N.D., according to Dave Yexley, business development and special project director for Montana-Dakota.

The project requires nearly 2,100 sections of 60-foot long pipe to move the natural gas from the connection point at a large transmission line near St. Anthony, N.D., to the new gas turbine.

The project started in mid-September, but the approximately 100 people working the project have

encountered more wet days than dry. Nearly 12 inches of rain has fallen in the area since Sept. 9, making it one of the wettest seasons on record.

"We've lost a few days because of rain but have worked Saturdays and some Sundays to get the project done on time," Yexley said.

Yexley said it's likely the pipe will be pressure tested in the spring before connection to the turbine. A lot of right of way cleanup also will have to wait until spring because of the wet conditions.

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## Fall Member Meetings Complete

Approximately 600 USND members attended the latest round of member meetings throughout North Dakota.

Brien Krank of Morgan Stanley and Wayne Papke of Investment Centers of America provided financial and market remarks for the meetings. Krank discussed the media's influence on financial decision-making and provided perspective to help investors avoid common investment mistakes. Papke focused on the effect of diversification in investment portfolios and discussed alternative investment options for diversification.

The Fargo meeting served as USND's annual meeting. Edward J. (Jim) McIntyre, Otter Tail Corporation's President and Chief Executive Officer, spoke about the company's corporate strategy, environmental stewardship, earnings, and dividend history.

At other meeting locations, speakers from MDU provided an overview of their abundant construction projects, including the Big Stone environmental upgrade, and Bakken projects such as the Highway 85 bypass. Nick Cain spoke in Minot, Jacob Zettel spoke in Dickinson, Ken Callahan spoke in Williston, and Abbie Krebsbach spoke in Bismarck.

In Jamestown, Ritchie Wolf from Otter Tail Power Company discussed the Jamestown 115 kv upgrade. In Wahpeton, Harvey McMahon provided the attendees information on Otter Tail Power Company's wind power expansion.

USND President Carlee McLeod provided remarks at all meetings.

Thank you to all who were able to make it to one of the meetings. We hope to see you all again in the spring.

### Greetings *(cont. from page 2)*

needed to be addressed. They moved the exclusion in the right direction. For that, we need to thank our legislators.

As you reflect on the year with gratitude, I encourage you to reach out to your legislators and express your gratitude. It might be uncomfortable for you to say it, and they might be embarrassed to hear it. It still needs to be said. They need to hear how their good work affects you. They're in the thick of interim work developing ideas for next session, and they need to understand your concerns. At a recent interim taxation hearing, the chairman voiced what I've heard him and others say many times: "we need to hear from our constituents." They do need to hear from you. As ideas are presented during a legislative session, those ideas move forward or die for one reason: whether or not citizens have expressed favor or disfavor for the idea. As thankful as we are for their good work so far, we have to encourage them to do more. They won't be able to do more if people don't speak their concern. But don't forget to speak your gratitude – they need to know we've caught them doing good deeds.

Finally, as I reflect on my year with gratitude, I want to thank you. For your involvement in USND, I am truly grateful. I appreciate your membership, your attendance at member meetings, your willingness to reach out to legislators on issues of importance to this organization, your commitment to staying educated on emerging issues, and your willingness to share your concerns with me so that I may better serve you. You each make this organization successful by your efforts, and I can't think of a better reward than knowing that we have made a positive difference together.

## Utility Industry Terms

**Capital Intensive:** A business condition in which a relatively large dollar investment in plant and equipment is required to produce a single dollar of revenue. The electric utility industry is one of the most capital intensive of all industries. The ratio of capital investment to annual operating revenues for electric utilities is nearly 3 to 1. That same ratio for the average manufacturing facility amounts to about 0.8 to 1. In other words, the manufacturing facility needs less than \$1 of investment to generate a single dollar of revenue. The typical electric utility must spend nearly \$3 on plant and equipment to collect a single dollar of revenue.

**Cost Allowance:** Occurs when a regulatory body allows a utility to include a particular cost in the cost of service used for setting rates. A utility then has an opportunity to recover the allowed cost. This opportunity is lost when there is a cost disallowance.

**Cost of Service:** The total costs incurred by a company in providing utility services. Usually refers to annual costs unless otherwise specified. This amount, which consists of estimated operating expenses, depreciation, taxes, a return on the rate base (investment), and possibly other costs, is used to design and establish regulated “cost-based” rates.

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