

BASIN ELECTRIC POWER COOPERATIVE

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December 15, 2008

Dear Senator _____:

As you prepare to work with the new Obama Administration, we would like you to consider a number of important issues outlined below. President-elect Obama has made it clear that a significant element of his first 100-days strategy will be to develop clean, green and domestic energy sources. Such a strategy will, of necessity, be multi-pronged, addressing environmental concerns, creating incentives for “green collar” jobs to stimulate the flagging economy and developing our domestic resources including oil, coal and natural gas in an environmentally responsible fashion.

While it is certain these proposals will be far reaching, we would like to touch on a few that are especially relevant to the members within Basin Electric’s nine-state service territory and their energy future. These include proposals to create a Renewable Energy Standard or RES, the creation of a national transmission grid, and the need to provide a policy framework for future domestic energy production from clean coal.

Renewable Energy Standards and a National Transmission Plan

The development of a Renewable Energy Standard will have significant ramifications for the country. It is a reasonable goal to try to enhance our use of renewable energy. Regional differences in potential to develop renewable energy are significant. Wind energy represents a vast potential resource. However, wind generation potential resides in rural areas, and these rural areas have traditionally been served by cooperatives. Current federal renewable policy does not recognize the fact that cooperatives provide much of rural America’s electricity infrastructure, and unfortunately, cooperatives cannot fully participate in renewable energy development.

In short, the main federal incentive for spurring renewable development, the Production Tax Credit (PTC), is inadequate and inequitable. To develop renewable energy, an organization must already have a huge tax appetite. This means that newer, smaller organizations and non-profits have very limited ways of engaging in renewable energy development. Energy projects are capital intensive, and economies of scale dictate wind farms of at least 50MW costing \$100 million at a minimum. The PTC must be extended for a reasonable timeframe and restructured if a broader constituency is going to engage in renewable energy development. Making the PTC tradable or refundable would enable cooperatives to fully participate in renewable energy development. In addition, the counterpart to the PTC for non-profits, the Clean Renewable Energy Bond (CREBS) program, should be revised to ensure a reasonable economy of scale and surety of process.

Another key element to development of renewable energy is the transportation of that energy from rural areas to urban areas that need the energy. A national effort to address transmission limitations is essential to that effort. There are several reasons why this is true. First, renewable energy projects have a difficult time building the transmission capacity necessary to move their energy to market solely on their own. Wind projects with excellent capacity factors range in the low 40 percent. This means that if a developer built associated transmission strictly to match the full nameplate capacity of the project, that transmission would be 60 percent underutilized. Financially, this does not work. Second, the balkanization of the electric grid has resulted in compounded pancaked rates and cost allocation gridlock. The high-voltage regional transmission grid is critical to the long-term economic health of our nation. A main key to solving both these problems is pricing. Pricing is clearly one of the most difficult, but most important, issues facing the development of a national transmission grid. Only the development of a system-wide average price for transmission will clearly provide a path for the long distance transmission of renewable energy from rural areas to urban centers.

Ineffective transmission cost recovery policies, such as license-plate pricing, continue to discourage investment in transmission infrastructure. License-plate pricing allows local utilities to pay only for transmission costs in their area without regard to the transmission required to import energy into their area. This leads to cost allocation gridlock stifling regional transmission investment and prevents customers from competitively accessing wholesale electric power from an expanded regional transmission infrastructure.

Basin Electric encourages a policy that will overcome the pricing structure that charges customers using the same regional transmission grid different prices based on their geographic location. Broad regional support for the high-voltage transmission grid using a system-wide average rate for new and existing high-voltage transmission – allowing everyone to contribute equally – will establish a firm foundation for solving the remaining issues of long-term electric energy supply.

System-wide average pricing, along with concepts such as tax-exempt bonding, would minimize cost of new construction. This pricing structure mitigates the numerous revenue recovery risks of the current pricing models in the region, eliminates cost allocation debates, and allows investments to be based on the needs and benefits of the region instead of an individual entity's situation.

Creating a Clean Coal Path

At the same time that the nation needs to create a path for the growing use of renewable energy, there is a need to create a path for the continued use of domestic fossil fuels. Imperative to this effort is the creation of clean-coal technology in the form of carbon capture and sequestration (CCS). CCS is currently the only technological approach that shows promise for enabling the United States to use its vast coal resources to produce electricity or liquids (jet fuel, diesel) and address the carbon emission reductions necessary to tackle climate change concerns. Coal generates 50 percent of our energy in the U.S. and, while CCS is not a viable solution to all of the coal-based generation in the country, it is absolutely vital that this technology be developed for as broad a spectrum of generating

facilities as possible. In order to support such an effort, the Administration should fully fund a significant number of full-scale CCS demonstration projects. These demonstration projects should be applied to various coal types and technologies. Supercritical Pulverized Coal (PC) and Integrated Gasification Combined Cycle (IGCC) both have a place in our nation's electricity portfolio. At this time, there is no clear indication that one of these technologies is preferred over the other for capturing and sequestering carbon dioxide.

The energy security of America is vital. All forms of energy development must be enhanced and encouraged to provide for the growth of our economy. Energy development with a renewed vision and commitment is sorely needed. It will take a diverse energy portfolio, energy conservation, energy efficiency and the development of a national transmission grid to move America in the right direction.

The first 100 days of any Administration sets the tone for the next four years. It is essential for the country to address energy in a proactive fashion that coordinates energy policy, environmental issues and job creation that America needs. Thank you for your attention to these issues, and we look forward to working with you in the future.

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