

Montana-Dakota Utilities Co.

Good morning. I'm Frank Morehouse, President and CEO of Montana-Dakota Utilities Co. Thank you, Commissioners and staff for giving us the opportunity to talk about EPA's plans. We are in "coal country" and coal has been an abundant and affordable resource for our customers. We also appreciate that EPA Region 8 Administrator Shawn McGrath took the time to come here and listen to our concerns. I know this is about carbon dioxide but, I'd like to emphasize that the State's air quality data shows that North Dakota air meets EPA's standards and the American Lung Association gives "A" ratings to the air around North Dakota's coal plants.

MDU is an investor owned utility, serving 135,000 customers in the Dakota's, Montana and Wyoming, with about 70% of them in North Dakota. Our company-owned electric

generating capacity is 544 megawatts, with more than 70% of the electricity we generate coming from coal-fired power plants. We recently signed a power purchase agreement for additional wind generation that will bring our percent of renewables to twenty percent. We need to expand our generation resources by five percent per year to meet growing demand in our service territory, including the Bakken oil development. We cannot shutdown our existing coal plants, which have significant useful life remaining, without replacing them with much higher cost new generation.

Since 2005, Montana-Dakota has invested in renewable and natural-gas fired generation, and new coal in Wyoming, to meet increasing demand while reducing our generating fleet-wide average carbon dioxide emissions intensity by more than 10%. And, with our recent wind contract, we expect the emissions intensity in 2016 to show a reduction of more than 20% from

2005. These early actions must be given credit in any greenhouse gas regulation for existing sources.

Our company made prudent decisions to invest in coal and we cannot replace our coal plants without significantly increasing costs to our customer. Proper long-term planning to prevent rate shock to our customers and maintain system reliability is critical. For example, if a greenhouse gas rule requires existing coal plants to be replaced with new generation, customer rates would increase 55%, with the replacement of generation and stranded asset costs. Those costs are reflected on slide 2.

Another way we've looked at these cost impacts is through a \$30 per ton carbon dioxide tax in our generation resource modeling. With a \$30 per ton tax for projected carbon dioxide emissions at our fossil-fired plants in 2014, our North Dakota customers would bear an annual incremental cost of about \$85

million. This would increase customer bills by about a 45%, and is shown on slide 3.

These examples speak to the need for North Dakota state officials to determine what's right for North Dakota, that North Dakota is in the best position to determine the "remaining useful life" of our plants, and that flexibility is key.

Also, the new source greenhouse gas rule just proposed creates a lot of challenges. No coal without carbon capture means no coal – period. Also, the new source rule's limit for gas turbines is so stringent that we may not be able to run them at lower loads to help back up renewables when the wind doesn't blow. The new source rule also effectively limits the electric output of new peaking units to 33%. A utility may have to build three peaking units or purchase one unit that is three times larger than necessary to get the effective capability of just one peaking resource. These units are needed to fill in when

renewables are not available. The increased costs and compromised flexibility doesn't make sense – especially when the EPA states in the rule that the agency “does not anticipate any notable carbon dioxide emission changes” from the rule. So, MDU wonders why the nation is headed on such an aggressive path to regulate greenhouse gases from the electric utility sector.

At a recent Edison Electric Institute meeting, we heard EPA Administrator Gina McCarthy say that the rules for existing plants should not threaten reliability and should not strand assets. We fully agree with these statements. We believe this means that the states should have significant flexibility, that credit should be given for past reductions, and that reliability and cost impact to customers should be minimized. Carbon capture and storage is not the standard for neither new, nor existing sources. And lastly, we believe that the EPA should

rethink the new source rule gas turbine standards since those units need maximum flexibility to fill in the gap when the wind doesn't blow.

Thank you Commissioners and Administrator McGrath, for considering our thoughts on these rules, especially since North Dakota customers rely greatly on affordable and reliable coal for their electricity needs.