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March 19, 2007

The Honorable John D. Dingell
Chairman
Committee on Energy and Commerce
U.S. House of Representatives
Washington, DC 20515

The Honorable Rick Boucher
Chairman
Subcommittee on Energy and Air Quality
Committee on Energy and Commerce
U.S. House of Representatives
Washington, DC 20515

Dear Chairman Dingell and Boucher:

Missouri River Energy Services (MRES) is a not-for-profit, wholesale power supplier to member municipal utilities in Iowa, Minnesota, North Dakota and South Dakota. We are committed to supplying our 60 member communities with reliable and affordable electricity, and ensuring that we do so in an environmentally sensitive manner.

On average, each of MRES' members meet over 45 percent of their power supply with electricity generated at the federal dams on the Missouri River. MRES supplies the balance of their electricity needs, as well as future load growth. Our primary power supply is our 16 percent ownership share in the coal-fired Laramie River Station (LRS) in Wheatland, Wyoming. In addition, MRES owns natural gas-fired peaking plants and wind resources. Our Integrated Resource Plan (IRP) calls for acquisition of an additional 125 megawatts of base-load coal generation – which we intend to meet through an ownership stake in the Big Stone II coal-fired power plant project under development in South Dakota, 30 megawatts of additional natural gas capacity and 125 megawatts of capacity to be met through a combination of additional investments in wind, load management and energy efficiency. We are on a path to comply with our Minnesota members' new obligation to meet a 25 percent renewable requirement by the year 2025, which will result in investments in wind resources beyond that which was originally envisioned in our IRP. As a result, we will now have over 150 megawatts of wind resources by 2025 and just recently signed a long-term power supply contract for 20 megawatts of wind generation as part of that effort.

The Honorable John D. Dingell
The Honorable Rick Boucher
March 19, 2007
Page 2

MRES supports federal action on climate change legislation and believes an appropriately designed “cap-and-trade” program is the preferred policy option. Given the national economic implications, the need for a large and liquid “market” under any cap-and-trade program, and the need for regulatory certainty, Congress must step forward and provide federal preemption so the industry does not face a myriad of potentially inconsistent state or local requirements.

Similarly, MRES believes that any federal legislation must be economy-wide. The utility industry is responsible for 34 percent of the nation’s carbon dioxide emissions and should not be singled out for emissions reductions requirements. Equity and efficiency require an economy-wide climate change program.

MRES has assembled a diverse power supply for its members in order to reduce risk, promote reliability and provide cost-effective service. As Congress fashions a federal climate change program, it is important that policy choices are made that maintain a diverse power supply, meet the needs of consumers for affordable and reliable power, and avoid the temptation to find a “quick fix” by mandating specific technology choices or fuels.

Responses to Questions

- 1. Please outline which issues should be addressed in the Committee’s legislation, how you think they should be resolved, and your recommended timetable for Congressional consideration and enactment. For any policy recommendations, please address the impacts you believe the relevant policy would have on:***
 - (a) Emissions of greenhouse gases and the rate and consequences of climate change; and***
 - (b) The effects on the U.S. economy, consumer prices, and jobs.***

MRES hopes that Congress will set an achievable national reduction target and schedule that will not result in significant economic harm. MRES understands that policy makers want to ensure that we slow, stop, and reverse the growth in greenhouse gas emissions – and we share that goal. It is also important, however, to set a target and schedule that minimizes economic impacts and allows current technologies and second generation technologies to be used. Some technologies appear very promising today, that might not pan out tomorrow – or might be overtaken by technologies or policies still under development. Congress should pursue a diverse portfolio of solutions in its efforts to address the pressing issue of global

climate change. Picking a single technology, or imposing rigid requirements is unlikely to succeed and will certainly raise costs.

2. *One particular policy option that has received a substantial amount of attention and analysis is “cap-and-trade.” Please answer the following questions regarding the potential impact of a cap-and-trade policy:*

(a) Which sectors should be covered? Should some sectors be phased-in over time?

MRES supports a national economy-wide cap-and-trade greenhouse gas emissions regulatory program. All sectors of the economy contribute to the problem, and all sectors must shoulder a proportionate share of the compliance burden.

(b) To what degree should the details be set in statute by Congress or delegated to another entity?

MRES prefers that Congress provide a detailed statutory framework for a cap-and-trade program, recognizing that there will still be an extensive implementation process undertaken by various executive branch agencies.

As noted above, MRES is in the midst of permitting one coal plant and will be building or participating in a number of additional projects – coal, gas and wind. In order to move forward in a prudent manner, we need regulatory certainty that can only be afforded through detailed statutory provisions. In addition, MRES is concerned about meeting multiple greenhouse gas emission requirements at the local, state, and regional levels. MRES would prefer that any federal greenhouse gas reduction program include a provision that preempts state laws.

(c) Should the program’s requirements be imposed upstream or downstream or some combination thereof?

MRES believes the point of regulation should be downstream and that the allocation of allowances should mirror the point of regulation. A downstream cap and trade program applies to all sources of greenhouse gas emissions and requires them to surrender allowances equal to their emissions. MRES believes that a downstream system provides the direct incentive for power plant owners to make operational decisions to reduce greenhouse gas emissions on the current fleet of resources in addition to influencing future resource decisions.

(d) How should allowances be allocated? By whom? What percentage of the allowances, if any, should be auctioned? Should non-emitting sources, such as nuclear plants, be given allowances?

MRES believes that allowances should be distributed for free. Allocations within the electric utility sector should be based on the generating capacity of entities during the base period (and include an allocation for plants under construction at the time of the date of enactment). We believe a generation or “output” based approach properly aligns compliance requirements with historic carbon footprints. In addition, an output-based system promotes diverse resource portfolios, since entities with limited historic carbon emissions will have the allowances needed to make future investments in clean and low emitting generation, while utilities that were predominantly coal dependent will receive an extra incentive to invest in non-carbon emitting sources.

Almost half of our members’ power supply comes from non-carbon emitting hydropower. Given that our members’ contracts for federal power expire in 2020, it is possible that MRES would need to make resource plans to fill this void (and for that reason, any allowance allocated for federal hydropower generation should pass through to the long-term contract holders of that power supply or their designee). Under an emissions-based allocation system, we would not expect to have any emission allowances for roughly half of our members energy needs, thereby drastically reducing our resource options.

MRES would recommend that Congress reject an auction as a means of distributing allowances. First, an auction is ripe for abuse by speculators and other that could manipulate supply or price. Second, it creates winners and losers based on who is willing to pay the most. Third, an auction – even of a limited pool of allowances – will serve to set the market clearing price for all traded allowances. However, if an auction is included in any cap-and-trade climate change program, MRES encourages Congress to sequester the resulting revenues from the General Fund of the U.S. Treasury and focus expenditures from the fund on research, development and deployment of new technologies in energy efficiency, renewables, clean coal technologies, carbon sequestration and transmission.

(e) How should the cap be set (e.g., tons of greenhouse gases emitted, CO2 intensity)?

MRES has not taken a position on the methodology for establishing the cap.

(f) Where should the cap be set for different years?

MRES has not taken a position on this topic.

(g) Which greenhouse gases should be covered?

Just as we support an economy-wide program, we believe that all six major greenhouse gases should be included within any regulatory program as a matter of equity and efficiency.

(h) Should early reductions be credited? If so, which criteria should be used to determine what is an early reduction?

MRES supports the provision of “early action” credits for prior investments in non-carbon emitting resources, as well as investments in energy conservation and efficiency, carbon sequestration and offset actions that can demonstrate a reduction in carbon emissions from what would have otherwise occurred.

(i) Should the program employ a safety valve? If so, at what level?

MRES supports use of cost containment measures to minimize economic disruption and provide for a smooth transition. Imposing a cost cap or safety valve price for carbon (as proposed by the National Commission on Energy Policy) is one potential option, but we would also encourage consideration and use of a broad array of cost containment measures, including expanded use of offsets and “borrowing” from future years.

(j) Should offsets be allowed? If so, what criteria should govern the types of offsets that would be allowed?

MRES supports the use of offsets and believes offsets are critical for minimizing program costs. Offsets are a potentially cost-effective mechanism that can also provide multiple environmental benefits. For instance, in the Upper Midwest region, changes in agricultural practices could lead to sequestering carbon in the soil and also provide reductions in river sedimentation. Just as we encourage a portfolio of options for power supply, we believe Congress should authorize the broadest possible offset program that includes agricultural, forestry, wetland, and industrial offset projects.

(k) If an auction or safety valve is used, what should be done with the revenue from those features?

As noted above, MRES has concerns with an auction of allowances. However, if one is used, we believe the resulting revenue should be targeted for research, development and demonstration of carbon reducing technologies. In addition, MRES would support the use of such funds to finance transmission lines and facilities needed to deliver renewable energy to market.

(l) Are there special features that should be added to encourage technological development?

Use of an output-based allocation system will encourage technological development, as will use of any auction revenues for research and development.

(m) Are there design features that would encourage high-emitting developing countries to agree to limits on their greenhouse gas emissions?

While recognizing the need to encourage such actions in developing countries, MRES has no position on a preferred design feature.

3. How well do you believe existing authorities permitting or compelling voluntary or mandatory actions are functioning? What lessons do you think can be learned from existing voluntary or mandatory programs?

MRES has long supported voluntary action. Our members have participated in aggressive tree planting programs, energy efficiency investments and renewables. For instance, our members have undertaken load management, energy efficiency and conservation efforts which have reduced our load by 57 megawatts annually and provided an annual energy savings of 22,000 megawatt hours. MRES is in the process of developing an ambitious Demand Side Management (DSM) program to be introduced to our members in 2008 that would strive to save an additional 85 megawatts by 2020. We are targeting a savings of an additional 7 megawatts per year starting next year. In addition to load management, we are emphasizing commercial/industrial lighting, residential air conditioning and water heating.

In addition, MRES has recently joined the Plains CO₂ Reduction Partnership (PCOR), which is performing field validation tests that develop monitoring, mitigation and verification protocols, regional sequestration strategies, and other important studies and efforts.

4. How should potential mandatory domestic requirements be integrated with future obligations the United States may assume under the 1992 United Nations Framework Convention on Climate Change? In particular, how should any U.S. domestic regime be timed relative to any international obligations? Should adoption of mandatory domestic requirements be conditioned upon assumption of specific responsibilities by developing nations?

MRES recognizes the global nature of the issue. We do not, however, have specific recommendations.

The Honorable John D. Dingell
The Honorable Rick Boucher
March 19, 2007
Page 7

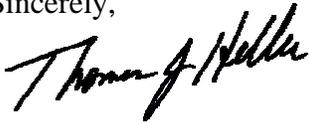
5. *What, if any, steps have your organization's members or its individual members taken to reduce their greenhouse gas emissions? Which of these have been voluntary in nature? If any actions have been taken in response to mandatory requirements, please explain which authority (State, Federal or international) compelled them?*

As noted above, MRES and its members have participated in or implemented a wide variety of programs, including: new investments in wind generation that will total 150 megawatts by 2025, providing "green pricing" to retail consumers, expansive energy efficiency programs that have saved 57 megawatts and will add an additional 85 megawatts by 2020, and aggressive tree planting programs that have earned national recognition.

* * * *

Thank you for this opportunity to share the views of MRES with the Committee. We look forward to working with you toward the development of balanced and effective climate change legislation.

Sincerely,



Thomas J. Heller, PE MBA
Chief Executive Officer