



8 November 2007

Chairman Klock, members of the committee for the record my name is Tim Gregori and I am the General Manager/CEO of Southern Montana Electric Generation and Transmission Cooperative (Southern Montana Electric G&T). Southern Montana G&T provides wholesale electric energy and related services to five rural electric distribution cooperatives serving south central Montana and Electric City Power in Great Falls. Electric City Power serves a select number of electricity customers as provided by statute prior to the effective date of HB 25. Mark Lambrecht from PPL Montana was originally scheduled to speak with you today but because of a death in his family Mark has asked that I offer a few comments on behalf of a group of industry representatives that participated in the activities of the Climate Change Advisory Committee (CCAC).

Over the course of the past year we have had the opportunity to serve on the Governor's Climate Change Advisory Committee (CCAC) under the guidance of Richard Oppen, Director of the Montana Department of Environmental Quality (DEQ). Under Director Oppen's capable leadership the CCAC was asked to formulate recommendations on a number of issues related to the control, capture and sequestration of green house gas emissions from a far reaching list of sources. The intent of this group was to reach consensus and articulate in the CCAC's final report recommendations that may assist in the formation of public policy to address this important issue.

As we neared the conclusion of the CCAC process it became clear that there were certain areas under discussion that were so complex and dynamic in nature that any high level agreement (or consensus) reached by the respective parties would require subsequent review and refinement. The number of "moving parts and pieces" of this issue are profound and we believe must be subject to ongoing review for any recommendation to remain timely and fact based. For example, during the early phases of the CCAC dialogue an estimate of the capital cost of future wind generation was reported to be approximately \$1000 per kW of capacity. For obvious reasons the selection of a cost estimate to use for the most popular form of renewable energy – with a minimal carbon footprint – would have far reaching implications in a number of areas in the report. Wind generation is a promising resource that will play an important role in the development of any meaningful integrated power supply options portfolio. However, today the capital cost for this resource is far greater than \$1000 per kW of capacity. As with all forms of generation the cost of the manufactured materials utilized to build wind turbines and associated equipment have seen tremendous upward pressure and the cost of wind generation has been increasing at alarming rates. As a result of uncontrollable market

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forces the cost of a typical wind installation is now approximately \$2500 per kW of capacity – nearly 2.5 times the original estimated cost slated for use in the CCAC report. An increase of this magnitude can have significant implications on any comparative analysis of the cost associated with generation alternatives that have varying carbon footprints.

Another example of recent developments regarding issues discussed by the CCAC that underscores the dynamic nature of the debate on carbon capture and sequestration is the number of Integrated Gasification Combined Cycle generation projects that have been placed on hold or canceled pending a higher level of certainty on the issue of CO₂ emissions limitations. The pervasive level of regulatory uncertainty has had a chilling effect on the willingness of investors to move forward with projects that will rely on carbon based fuels. During the discussions held at the CCAC level there were a number of groups that felt IGCC was “the” answer to base load generation requirements utilizing coal as its primary fuel. What has emerged over the course of the past few weeks is the belief that virtually all coal based generation technologies - including IGCC facilities - must be re-evaluated pending a higher level of legislative certainty.

Based on the aforementioned and other related reasons there are members of the CCAC that believe it necessary to qualify their position on the CCAC report as it approaches final status. This position does not imply that participants who wish to state developing reservations were disingenuous in their efforts to develop a consensus based report – but rather it should be seen as an effort to underscore the dynamic nature of the issues under consideration. Simply put the technological alternatives and perceived solutions to this complex problem need a higher degree of refinement before they can be considered ready for prime time. Seeking a technologically and economically viable solution to this complex problem remains an issue around which we can build consensus, but it is premature to say proven solutions are at hand ready for immediate implementation.

Director Opper and his staff should be commended for their efforts. The process that they conducted over the course of the past year was open, inclusive and offered a forum where the pressing issue of climate change could be reviewed in detail. The draft report that you will see shortly represents a genuine effort to develop guidelines that may aid in the development of policies to address this contemporary issue - but in our view it should be seen as the beginning and not an end in itself. The dynamics of the issue of controlling carbon emissions renders consensus formation somewhat difficult - but given time developing meaningful solutions to this issue will be possible. However, if the process is “rushed” developing a “consensus” based solution will be much more challenging and “haste” may have the adverse effect of polarizing interest groups rendering consensus based policy formation much more difficult.

I would be happy to answer any question you may have at this time.